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**KBL European Private Bankers S.A.**
**43, boulevard Royal**
**L-2955 Luxembourg**

**R.C.S. Luxembourg: B 006.395**

**Consolidated accounts, Report of the independent auditor and Consolidated management report as at 31 December 2016**

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The quantitative tables in the following pages may sometimes show small differences due to the use of concealed decimals. These differences, however, do not in any way affect the true and fair view of the consolidated accounts of the Group. Similarly, the value zero “0” in the following tables indicates the presence of a number after the decimal, while “-” represents the value nil.

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# UNQUALIFIED CERTIFICATION OF THE INDEPENDENT AUDITOR

To the Board of Directors of
KBL European Private Bankers S.A.
Société Anonyme
Luxembourg

**Report on the consolidated accounts**

Following our appointment by the Board of Directors , we have audited the accompanying consolidated financial statements of KBL European Private Bankers S.A., which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended , and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the consolidated accounts*

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

*Responsibility of the "réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KBL European Private Bankers S.A. as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on other legal and regulatory requirements**

The management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, 23 March 2017

## CONSOLIDATED INCOME STATEMENT

| (in EUR thousand) | Notes | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| Net interest income | 4, 36 | 76,614 | 95,591 |
| Dividend income | 5 | 2,043 | 3,683 |
| Net gains / losses on financial instruments measured at fair value through profit or loss | 6 | 25,134 | 26,368 |
| Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss | 7 | 20,106 | 46,365 |
| Net fee and commission income | 8, 36 | 287,182 | 332,718 |
| Other net income (expenses) | 9, 36 | 54,818 | 43,157 |
| **GROSS INCOME** | | **465,898** | **547,881** |
| Operating expenses | 10, 36 | 451,084 | 449,433 |
| Staff expenses | 11, 30, 31 | 274,921 | 288,063 |
| General administrative expenses | 40 | 149,128 | 138,393 |
| Other | 27, 28, 29 | 27,035 | 22,977 |
| Impairment | 12, 21, 22, 27 | 184 | 216 |
| Share of profit of associates | 13, 26 | 1,129 | 611 |
| **PROFIT / (LOSS) BEFORE TAX** | | **16,127** | **99,275** |
| Income tax (expenses) / income | 14 | 10,115 | 17,872 |
| **PROFIT / (LOSS) AFTER TAX** | | **6,012** | **81,403** |
| Attributable to:<br>Non controlling interest | | 5 | 92 |
| **Owners of the parent** | | **6,016** | **81,311** |

The notes refer to the ‘Notes to the consolidated accounts’.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| **(in EUR thousand)** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| **PROFIT / (LOSS) AFTER TAX** | **6,012** | **81,403** |
| | | |
| **OTHER COMPREHENSIVE INCOME** | **6,722** | **-23,599** |
| **Items that may be reclassified subsequently to profit or loss** | **15,556** | **-35,962** |
| Available for sale financial assets | 137 | 37,469 |
| *Revaluation at fair value* | *19,043* | *21,982* |
| *Net realised gains / losses on sales* | *22,070* | *29,293* |
| *Impairment* | | |
| *Income tax (expenses) / income* | *2,890* | *13,806* |
| Cash flow hedges | 4,136 | 2,386 |
| *Effective portion of changes in fair value* | | *3,371* |
| *Reclassification to income statement (net realised gains / losses on financial assets and liabilities not measured at fair value through profit or loss)* | *5,843* | |
| *Income tax (expenses) / income* | *1,707* | *985* |
| Exchange differences on translation of foreign operations | 11,557 | 3,893 |
| | | |
| **Items that will not be reclassified to profit or loss** | **-8,834** | **12,363** |
| Remeasurements of defined benefit pension plans | 8,834 | 12,363 |
| *Remeasurements (gross)* | *9,410* | *3,025* |
| *Income tax (expense)/income on remeasurements* | *576* | *122* |
| *Changes in scope of consolidation* | | 9,215 |
| | | |
| **TOTAL COMPREHENSIVE INCOME** | **12,734** | **57,804** |
| Attributable to non controlling interest | 5 | 112 |
| **Attributable to owners of the parent** | **12,738** | **57,692** |

## CONSOLIDATED BALANCE SHEET

| ASSETS (in EUR million) | Notes | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| Cash, cash balances at central banks and other demand deposits | 18, 36, 38 | 1,619 | 697 |
| Financial assets | 15, 16, 17, 18, 19, 20, 36, 38 | 8,830 | 9,817 |
| Held for trading | 23 | 554 | 714 |
| At fair value through profit or loss | | 194 | 0 |
| Available for sale financial assets | 21 | 4,797 | 4,054 |
| Loans and receivables | 22 | 3,271 | 5,032 |
| Hedging derivatives | 23 | 14 | 17 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 5 | 7 |
| Tax assets | 25, 38 | 9 | 11 |
| Current tax assets | | 3 | 1 |
| Deferred tax assets | | 6 | 10 |
| Investments in associates | 26 | 13 | 12 |
| Investment properties | 28 | 3 | 5 |
| Property and equipment | 28 | 92 | 124 |
| Goodwill and other intangible assets | 27 | 292 | 289 |
| Other assets | 24, 38 | 126 | 112 |
| **TOTAL ASSETS** | | **10,989** | **11,074** |

| EQUITY AND LIABILITIES (in EUR million) | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| Financial liabilities | 15, 17, 18, 36 | 9,561 | 9,807 |
| Held for trading | 23 | 235 | 261 |
| At fair value through profit or loss | | | |
| At amortised cost | | 9,169 | 9,363 |
| Hedging derivatives | 23 | 156 | 184 |
| Tax liabilities | 25 | 6 | 8 |
| Current tax liabilities | | 1 | 4 |
| Deferred tax liabilities | | 4 | 4 |
| Provisions | 29, 31 | 100 | 96 |
| Other liabilities | 30 | 226 | 235 |
| **TOTAL LIABILITIES** | | **9,893** | **10,146** |
| **TOTAL EQUITY** | | **1,096** | **929** |
| *Equity attributable to the owners of the parent* | 32 | *1,096* | *928* |
| *Non controlling interest* | | *0* | *0* |
| *Out of which Common Equity Tier 1 instruments issued* | | *708* | *508* |
| **TOTAL EQUITY AND LIABILITIES** | | **10,989** | **11,074** |

The notes refer to the ‘Notes to the consolidated accounts’.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| *(in EUR million)* **2016** | Issued and paid up share capital | Share premium | Treasury shares | Conso lidated reserves | Revaluation reserve (AFS) | Cash flow hedge reserve | Remeasu rement of defined benefit pension plans | Currency translation differences | Profit/ Loss | **Equity, group share** | Non controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 01/01/2016** | **187.2** | **321.3** | **-0.1** | **316.5** | **50.4** | **-4.1** | **-28.5** | **4.4** | **81.3** | **928.4** | **0.2** | **928.6** |
| Capital increase (note 32) | 34.1 | 165.9 | | | | | | | | **200.0** | | **200.0** |
| Reduction of the share capital (note 32) | 0.0 | 0.0 | 0.1 | 0.0 | | | | | | **0.1** | | **0.1** |
| Transfer of previous year result to the reserves | | | | 81.3 | | | | | 81.3 | **-** | | **-** |
| Dividends and profit sharing | | | | 45.0 | | | | | | **-45.0** | | **-45.0** |
| Total comprehensive income for the year | | | | | 0.1 | 4.1 | 8.8 | 11.6 | 6.0 | **12.7** | 0.0 | **12.7** |
| Changes in scope of consolidation | | | | | | | | | | **-** | | **-** |
| Other | | | | 3.4 | | | 3.4 | | **-** | **-** | 0.2 | **-0.2** |
| **Balance as at 31/12/2016** | **221.2** | **487.2** | **-** | **349.3** | **50.3** | **-** | **-33.8** | **16.0** | **6.0** | **1,096.2** | **0.0** | **1,096.3** |

| *(in EUR million)* **2015** | Issued and paid up share capital | Share premium | Treasury shares | Conso lidated reserves | Revaluation reserve (AFS) | Cash flow hedge reserve | Remeasu rement of defined benefit pension plans | Currency translation differences | Profit/ Loss | **Equity, group share** | Non controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 01/01/2015** | **187.2** | **321.3** | **-0.1** | **325.9** | **87.9** | **-1.7** | **-40.8** | **0.6** | **66.9** | **947.0** | **0.1** | **947.1** |
| Net movements on treasury shares | | | | | | | | | **-** | **-** | | **-** |
| Transfer of previous year result to the reserves | | | | 66.9 | | | | | 66.9 | **-** | | **-** |
| Dividends and profit sharing | | | | 67.1 | | | | | | **-67.1** | | **-67.1** |
| Total comprehensive income for the year | | | | | 37.5 | 2.4 | 3,1 | 3.9 | 81.3 | **48.5** | 0.1 | **48.6** |
| Changes in scope of consolidation | | | | 9.3 | | | 9,2 | | | **0.0** | 0.0 | **-0.1** |
| Other | | | | | | | | | **-** | **-** | | **-** |
| **Balance as at 31/12/2015** | **187.2** | **321.3** | **-0.1** | **316.5** | **50.4** | **-4.1** | **-28.5** | **4.4** | **81.3** | **928.4** | **0.2** | **928.6** |

## CONSOLIDATED CASH FLOW STATEMENT

| (in EUR million) | Notes | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| Profit / (loss) before tax | | 16.1 | 99.3 |
| Adjustments for: | | 21.2 | 24.0 |
| *Impairment on securities, amortisation and depreciation on property and equipment, intangible assets and investment properties* | *10, 12* | 24.2 | 22.1 |
| *Profit/loss on the disposal of investments* | *9* | 51.3 | 40.7 |
| *Change in impairment for losses on loans and advances* | *12* | 0.0 | 0.2 |
| *Change in gross technical provisions insurance* | | | 1.7 |
| *Change in the reinsurers' share in the technical provisions* | | | 0.5 |
| *Change in gross earned premiums* | | | 0.1 |
| *Change in other provisions* | *10* | 2.6 | 0.9 |
| *Unrealised foreign currency gains and losses and valuation differences* | | 4.4 | 7.6 |
| *Income from associates* | *13* | 1.1 | 0.6 |
| **Cash flows from operating activities, before tax and changes in operating assets and liabilities** | | **-5.1** | **75.3** |
| Changes in operating assets (1) | | 56.6 | 260.0 |
| Changes in operating liabilities (2) | | 132.2 | 71.8 |
| Income taxes | | 6.6 | 9.6 |
| **NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES** | | **-200.5** | **253.9** |
| Purchase of subsidiaries | | 186.1 | 9.7 |
| Proceeds from sale of subsidiaries | | | 43.0 |
| Purchase of investment properties | 28 | 0.0 | 0.0 |
| Proceeds from sale of investment properties | 9, 28 | | 0.0 |
| Purchase of intangible assets | 27 | 2.0 | 56.7 |
| Proceeds from sale of intangible assets | 27 | 0.0 | 0.1 |
| Purchase of property and equipment | 28 | 4.7 | 7.3 |
| Proceeds from sale of property and equipment | 9, 28 | 82.6 | 61.8 |
| **NET CASH FROM / (USED IN) INVESTING ACTIVITIES** | | **-110.3** | **31.1** |
| Share capital increase | 32 | 200.0 | |
| Purchase/sale of treasury shares | | 0.0 | |
| Issue/repayment of loans | 15 | 1.8 | 2.3 |
| Issue /repayment of subordinated debts | 15 | 213.2 | 15.2 |
| Dividends paid and profit sharing | | 45.0 | 67.1 |
| **NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES** | | **-60.1** | **-84.6** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (3)** | | **-370.9** | **200.4** |
| **CASH AND CASH EQUIVALENTS AS AT 01/01** | | **2,346.7** | **2,146.3** |
| Net increase/decrease in cash and cash equivalents | | 370.9 | 200.4 |
| Net foreign exchange difference | | | |
| **CASH AND CASH EQUIVALENTS AS AT 31/12** | | **1,975.8** | **2,346.7** |
| **ADDITIONAL INFORMATION** | | | |
| Interest paid during the year | | 76.5 | 85.2 |
| Interest received during the year | | 135.4 | 162.0 |
| Dividends received (including equity method) | 5 | 2.0 | 3.7 |
| **COMPONENTS OF CASH AND CASH EQUIVALENTS** | | **1,975.8** | **2,346.7** |
| Cash and balances with central banks (including legal reserve with the central bank) | | 1,250.4 | 302.4 |
| Loans and advances to banks repayable on demand | | 1,375.0 | 2,496.5 |
| Deposits from banks repayable on demand | | 649.6 | 452.2 |
| Of which: not available (4) | | 43.1 | 44.7 |

1. Including loans and advances to banks and customers, securities, derivatives and other assets.
2. Including deposits from banks and customers, bonds issued, derivatives and other liabilities.
3. Cash includes cash and deposits payable on demand; cash equivalents are short term investments that are very liquid, easily convertible into a known cash amount and subject to a negligible risk of a change in value.
4. Cash and cash equivalents not available for the Group mainly comprise of the legal reserve held with the Luxembourg Central Bank and the 'margin' accounts held with clearing houses (futures markets, etc.).

The notes refer to the 'Notes to the consolidated accounts'.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## Note 1 – General

KBL European Private Bankers Group (hereinafter "KBL *epb* group" or the "Group") is an international network of banks and financial companies, specialised in private banking. In support of, and complementary to this activity, KBL *epb* group is also developing several niche activities specific to its various markets.

The business purpose of KBL *epb* group is to carry out all banking and credit activities. In addition, KBL *epb* group is allowed to carry out all commercial, industrial or other operations, including real estate transactions, in order to achieve its main business purpose, either directly or through shareholdings, or in any other manner, these provisions to be understood in the widest manner possible. KBL *epb* group may carry out any activity which contributes in any way whatsoever to the achievement of its business purpose. The Group's main activities are described in "Note 3a - Operating segments by business segment".

KBL *epb* group is headed by KBL European Private Bankers S.A. (hereinafter "KBL *epb*" or the "Bank"), a public limited liability company (société anonyme) in Luxembourg and having its registered office at:

43, boulevard Royal
L-2955 Luxembourg

Since July 2012, KBL *epb* group is 99.9% owned by Precision Capital S.A., a Luxembourg-based company governed by Luxembourg law representing the interests of a group of Qatari private investors. The registered office of Precision Capital S.A. is located at 15, boulevard Roosevelt, L- 2450 Luxembourg.

The Bank's consolidated accounts are consolidated in the Precision Capital's consolidated accounts. Precision Capital's annual consolidated accounts and management report are available at its head office. Precision Capital's consolidated accounts are consolidated in the Pioneer Holding S.A.'s consolidated accounts. The registered office of Pioneer Holding S.A. is located at 15, boulevard Roosevelt, L- 2450 Luxembourg.

**The Roberts Partnership**
Brown Shipley & Co acquired The Roberts Partnership, a UK-based financial planning and wealth management firm, on 1 November 2016. The Roberts Partnership became a subsidiary of Brown Shipley and will join its Manchester office.

**Insinger de Beaufort**
On 31 December 2016, KBL *epb* acquired the shares of Insinger de Beaufort (IdB), a Dutch private bank founded in 1779. As of 1 January 2017, IdB became a 100% subsidiary of KBL *epb*.

Thus, Insinger de Beaufort is not included in the KBL *epb* group consolidated accounts as at 31 December 2016. However, an overview of the solo accounts of IdB and an estimation of this acquisition on the consolidated solvency ratio are presented in the notes of the 2016 consolidated accounts (please refer to Note 44 – Events after the balance sheet date) and in the key consolidated figures of the 2016 Annual Report.

Subject to approval by the relevant regulatory authorities and other stakeholders, KBL *epb* intends to merge Insinger de Beaufort and Theodoor Gillissen in mid-2017.

**Note 2a – Statement of compliance**

The consolidated accounts presented in this report were approved by the Board of Directors of KBL *epb* on 23 March 2017.

The Group consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The consolidated accounts provide comparative information in respect of the previous financial year.

In preparing the consolidated accounts under IFRS, the Board of Directors is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the annual accounts.

**Note 2b – Changes in accounting policies since the previous annual publication that may impact KBL epb**

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective for the Bank as of 1 January 2016 (for the avoidance of doubt, only the new standards, amendments to standards and IFRIC which may have an effect on the Bank's annual accounts are mentioned below):

- *IAS 1 Disclosure Initiative*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss;
- the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.

- *IFRS 10, IFRS 12 and IAS 28*

The first set of amendments address three issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements.*

The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. This means that the fact the subsidiary has not been consolidated into the parent investment entity does not prevent the subsidiary that is also a parent from applying the consolidation exemption.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments to IFRS 10 and IAS 28 provide helpful clarifications that will assist preparers in applying the standards more consistently. However, it may still be difficult to identify investment entities in practice when they are part of a multi-layered group structure.

- *IAS 27 - Equity Method in Separate Financial Statements*

The amendments to IAS 27 Separate Financial Statements allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost;
- In accordance with IFRS 9 (or IAS 39), or
- Using the equity method.

The entity must apply the same accounting for each category of investment. A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

The amendments eliminate a GAAP difference for countries where regulations require entities to present separate financial statements using the equity method to account for investments in subsidiaries, associates and joint ventures.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

  Changes in methods of disposal

  - Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

- *Equity Method in Separate Financial Statements – Amendments to IAS 27*

  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments has not affected the Bank’s annual accounts.

KBL epb has also decided not to early adopt the standards, amendments to standards and interpretations of the IFRIC which have been published but are not applicable for the year ending 31 December 2016. KBL epb will adopt these standards on the date of their effective application and when they will be approved by the European Union.

- *IFRS 15 – Revenue from Contracts with Customers*

  *IFRS 15* was issued in May 2014 and subsequently amended in April 2016. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

  The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

  The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

  In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. The amendments:

  - clarify when a promised good or service is distinct within the context of the contract;

  - clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators;

  - clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licenses over time or at a point in time;

  - clarify the scope of the exception for sales-based and usage-based royalties related to licenses of IP (the royalty constraint) when there are other promised goods or services in the contract;

  - add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition.

  The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. Entities are required to apply these amendments retrospectively. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

- *IAS 7 Disclosure Initiative – Amendments to IAS 7*

  The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt.
  The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. This amendment is effective for annual periods beginning on or after1 January 2017.

- *Annual Improvements to IFRS – 2012-2014 Cycle*

  The annual improvement process amends seven standards. However, no amendment is expected to significantly affect the Bank financial position and performance. Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2012-2014 annual improvements cycle:

  - *IFRS 1 First-time Adoption of International Financial Reporting Standards- Deletion of short-term exemptions for first-time adopters*

    - Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose;

- The amendment is effective from 1 January 2018.

- *IFRS 7 Financial Instruments: Disclosures*

  Servicing contracts

  - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. This amendment has not affected the Bank's annual accounts.

  Offsetting disclosures to condensed interim financial statements

  - The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendments must be applied retrospectively.

- *IAS 19 Employee Benefits Discount rate: regional market issue*

  The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively. This amendment has not affected the Bank's annual accounts.

- *IAS 34 Interim Financial Reporting -Disclosure of information 'elsewhere in the interim financial report*

  - The amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report);

  - The other information within the interim financial report must be available to users on the same terms and at the same time as the interim financial statements.

  The amendment must be applied retrospectively.

- *IAS 28 Investments in Associates and Joint Ventures- Clarification that measuring investees at fair value through profit or loss is an investment-by investment choice*

The amendments clarifies that:

  - An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss;

  - If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. Early application is permitted and must be disclosed

- *IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12*

    - The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

    - The amendments are effective from 1 January 2017 and must be applied retrospectively.

- *IFRS 9 – Financial Instruments*

The Group intends to use the exemptions from full retrospective application for the classification and measurement requirements of the new standards, including impairments, and elects to not restate comparative information.

Also as an accounting policy choice, the Group has elected under IFRS 9 to continue to apply the hedge accounting requirements as defined per IAS 39.

**APPROACH FOR CLASSIFICATION OF FINANCIAL ASSETS - BUSINESS MODEL**

For debt instruments currently classified as Available For Sale (AFS), the assessment of business model is performed at portfolios level because this best reflects the way the business is managed and information provided to the management. Some changes in portfolios are scheduled to occur in the first quarter of 2017, therefore, the assessment of business models will be based on these new portfolios. This assessment will take into consideration various information for each portfolio such as: the stated objectives and policies for the portfolio, the expectations about future sales activity, the basis for management decision making, the risk parameters under which the portfolios are managed to meet their objectives, the performance evaluation and reporting to the Group management.

While the Group has to undertake the detailed assessment of the debt instruments currently classified as AFS financial assets, it appears that some of these instruments will meet the conditions for amortized cost as they are:

- held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amounts outstanding.

The quantitative impact of such a reclassification is under assessment throughout the Group.

Loans and advances, which are mainly composed of loans to private client, reverse repos, advances are held under a Business model to collect contractual cash flows and therefore should remain as amortized costs unless not meeting SPPI criteria.

The Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if criteria are met on an instrument by instrument basis;

- the Group may designate irrevocably a debt investment that meets the amortized cost or fair value through other comprehensive income (FVOCI) criteria as measured at fair value through profit and loss (FVPL) if doing so eliminates significantly or reduces an accounting mismatch.

There is no impact expected for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the group does not have any such liabilities at the moment.

## IMPAIRMENT

### Implementation & Group deployment

The IFRS 9 project is piloted by a central project management team supported by local teams. Updated policies, processes and methodologies are devised at Group level and their implementation is deployed centrally. Dedicated Steering and Implementation Committees have been set up to ensure a successful implementation.

Further to the implementation, the processes of measurement of Expected Credit Losses (ECL) calculation and processes relating to models management will be performed centrally after the transition date, using data communicated by each Group entity.

### Scope

The Group will recognize loss allowances for the ECL on the financial assets that are not measured at FVPL. The principal contributors to the Group aggregate ECL provisions comprise:

- positions in ALM debt instruments;

- loans to private clients (mortgage, Lombard and mixed) and

- loan commitments and financial guarantee contracts issued.

### Definition of credit risk and how the credit risk is mitigated by the Group

Credit risk designates the risk of financial losses ensuing from the failure of a counterparty to discharge an obligation, due to the deterioration of its credit quality or its default. The assessment, monitoring, and mitigation of such a risk is performed by applying Group Policies and procedures as described in Note 39. These provide the framework for managing credit risk in order to comply with the Group's Risk Appetite Statement and are to be applied to each entity within the Group as the minimum standard to be complied with.

In line with its risk appetite statement, the Group only engages in contractual relationships with counterparties showing evidence of good creditworthiness (*e.g.*, investment-grade debt securities). Loans to private clients are granted as part of the private banking relationship. The Group Credit policy is to take collateral in form of mortgage or securities in order to provide additional security, with procedures relating to acceptance and value monitoring of such collateral.

The Group Credit Risk Control team is currently updating the policies and procedures in order to align them with the new normative requirements brought by IFRS 9).

**Approaches for Credit risk assessment under IFRS 9**

IFRS 9 introduces new requirements for the monitoring and follow-up of credit risk with a new three-stage approach that qualifies the evolution of the level of credit risk associated with an exposure, relative to that at the origination of the exposure. The existing credit risk assessment procedures are currently being updated to comply with the norm requirements (definition of staging criteria, incorporation of forward-looking information).

A blend of quantitative and qualitative elements and factors will underlie the Group credit risk assessment approach, with the definition of primary and secondary drivers to stage transitions, as well as backstop criteria, depending on the type of products, characteristics of the financial instruments and of the borrower.

For debt securities, we expect to use the low credit risk exemption for investment-grade investments, supplemented by the monitoring of dedicated variables (corporate action, days past due, market variables, etc.) as backstop. For other debt securities positions, the evolution of credit risk will be performed through a comparison of the term structure of default at the purchase and the reporting dates.

For loans granted to private clients, an extensive recourse to expert judgement will be made to assess credit risk. These experts will analyze the clients' credit worthiness, on the basis of several quantitative and qualitative factors (*e.g.*, days past due, counterparty net wealth, behavioral change, collateral parameters, etc.).

Incorporation of forward-looking information in the credit risk assessment will be based on forecasts by a dedicated committee of economists and market analysts, where relevant. This committee will issue several market scenarios and their likelihood of occurrence, to capture the inherent nonlinearities on market evolutions.

Due to the nature of the activity of private banking, the forward-looking information components will be included in the credit risk assessment on a case-by-case basis, blended with expert judgement, and will be reflected in the expectations of collateral valuation for the computation of the ECL.

The Group considers using the low credit risk expedient for a number of exposures, from the date of transition and onwards.

**Expected credit loss**

The expected credit loss (ECL) is the estimate average credit losses that can be incurred as a result of possible defaults of a counterparty. It is given by the present value of the net cash flow shortfall for such a credit event. Computation of ECL and processes relating to models management will be performed centrally by Group Risk Control, with support of information provided by each entity.

Three main factors that will drive the ECL measurement will be:

(i) the probability of default
(ii) the exposure at default and
(iii) the loss given the occurrence of a default.

The models for debt securities and loans will use 3 scenarios (a base scenario, a pessimistic and an optimistic one) to incorporate forward-looking information as assessed by a dedicated committee of experts at the Group level. Exposures will be handled on an individual basis with model parameters adapted to the segment level, where segments should be understood as subsets of portfolios sharing homogenous risk characteristics.

The methodologies will rely on the postulate of default occurrences along the remaining lifetime of the exposures, on the basis of which, cash flow shortfalls will be estimated and weighted by the default probability conditional on survival up to the occurrence of default. For debt securities, point-in-time term structures of default probability will be used, with a curve per rating and issuer sector pair, combined to a flat recovery rate. For loans, ECL estimations will be based on historical term structures of default probabilities whereas estimates of the loss given default will rely on forward-looking valuation scenarios of the loan collaterals.

**Expected impacts**

With the most notable exception of its ALM portfolios, which are mainly comprised of unsecured bonds, the Group limits its exposure to credit risk by engaging into secured relationships with its counterparties. The main contributions to the Group overall ECL balance are therefore expected to be related to the ALM portfolios and the loanbook portfolios, according to forecast collateral valuations scenarios.

## Note 2c – Significant accounting policies

### *a. Consolidation criteria*

All entities controlled – either exclusively or jointly – by KBL *epb*, or over which KBL *epb* has a significant influence are included in the scope of consolidation.

KBL *epb* controls an entity when KBL *epb* is exposed, or has rights, to variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. KBL *epb* has power over an entity when it has existing rights that give it the current ability to direct relevant activities of the entity, i.e. those activities that significantly affect the entity's returns.
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation (i.e. a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for liabilities, relating to the arrangement) or a joint venture (i.e. a joint arrangement whereby the parties sharing joint control have rights to the net assets of the arrangement).
Significant influence is the power to participate in the financial and operating policy decisions of an investee without being exclusive control or joint control.

Entities exclusively controlled by KBL *epb*, either directly or indirectly, are consolidated using the full consolidation method.
For a joint operation, KBL *epb* recognizes its share of assets, liabilities, income and expense according to the terms of the joint arrangement.
Joint ventures and investments in associates (that is, where KBL *epb* has significant influence) are accounted for using the equity method.

An entity is included in the scope of consolidation from the date of acquisition, being the date on which KBL *epb* obtains control or significant influence over that entity and continues to be included until this control or influence ceases.

The scope of consolidation however excludes those investments which are controlled by KBL *epb* or over which KBL *epb* has significant influence, but which are regarded as insignificant, i.e. for which the materiality thresholds are not exceeded. Those thresholds relate to the following criteria: share in the Group equity, share in the Group profit and in the Group total balance sheet (increased by the off-balance sheet rights and commitments addressed in the computation of solvency ratios).

Finally, an internal Group policy has been set up to address the issue of interests in collective investment funds and more specifically in those funds which have a legal personality (e.g. a SICAV in Luxembourg) and for which power over the relevant activities (i.e. usually the selection and the management of the investments) is in fine in the hands of the shareholders (which have the power to appoint and revoke the Board of Directors which in turn can appoint and revoke the Investment Manager).
In order to address the specificities of the shareholding (usually highly fragmented) of this type of vehicles, the Group Management has defined the following thresholds to be considered when analysing whether the Group has power over the fund:

- power is assumed to be held if the Group holds (directly and indirectly through its subsidiaries) the majority of the voting rights ;
- power is assumed not to be held if the Group holds (directly and indirectly through its subsidiaries) less than 20% of the voting rights.

Should the Group hold a stake between 20% and the majority of the voting rights, other facts and circumstances have to be considered. This approach merely acknowledges that for this type of vehicles exhibiting largely scattered shareholding, 'de facto' control may be established even with a relatively low ownership.

### b. Foreign currency translation

KBL *epb's* consolidated accounts are presented in EUR, which is also the functional currency of the Group.

KBL *epb* maintains a multi-currency accounting system under which any transaction is registered in its original foreign currency.

In preparing the annual accounts of all the consolidated entities which present their accounts in EUR, assets and liabilities in foreign currencies are translated into EUR according to the following principles:

- monetary items denominated in foreign currencies are converted at the closing rate prevailing at the reporting date; differences arising from such conversion are recorded in the income statement;
- non-monetary items in foreign currencies measured in terms of historical cost are translated using the historical exchange rate prevailing at the date of the transaction;
- non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rate at the date when the fair value is determined and translation differences are reported together with changes in fair value.

Income and expense items denominated in foreign currencies are recognised in the income statement using exchange rates that approximate the rates at the dates of the transactions (e.g. average monthly exchange rates).

Foreign subsidiaries balance sheets denominated in foreign currencies are translated into EUR using the closing rate prevailing at the reporting date (with the exception of the capital, reserves and goodwill, which are translated using historical rates).

Foreign subsidiaries income statements denominated in foreign currencies are translated at the average exchange rate for the financial year.
These principles are applicable to the KBL *epb* subsidiaries in the United Kingdom and in Switzerland (till the sale of the entity in last quarter 2015, see Note 1).

***Annual average exchange rates in 2016***

| | 1 EUR = ... CUR | Variation versus average 2015 |
|---|---|---|
| GBP | 0.817753 | +12.63% |

***Exchange rate as at 31/12/2016***

| | 1 EUR = ... CUR | Variation versus 31/12/2015 |
|---|---|---|
| GBP | 0.853567 | +16.30% |

Exchange differences resulting from the procedures applied to translate balance sheets and income statements of foreign subsidiaries denominated in foreign currencies into EUR are recognised as a separate item in equity.

### c. Financial assets and liabilities

General principles of recognition and derecognition of financial instruments

A financial instrument is recognised in the balance sheet when and only when the Group becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when and only when the contractual rights to receive cash flows from the asset have expired or the Group transfers the financial asset.

A financial liability is derecognised when and only when the contractual liability is settled, cancelled or expires.

Regular way purchases and sales of financial assets are recognised on the payment date, which is the date on which the asset is delivered. Any variation in the fair value of the asset to be received during the period from the transaction date to the payment date is recognised in the same way as for the asset acquired. In other words, the change in value is not recognised for assets recognised at cost or at amortised cost; it is recognised in the income statement for assets classified as financial assets at fair value through profit or loss and in equity for those classified as available-for-sale.

In the case of sales, the assets at fair value are measured at their sale price during the period between the transaction date and the payment date.

Pursuant to the provisions of IAS 39 on derecognition, the Group keeps securities lent in its securities portfolio but securities borrowed are not recorded on the balance sheet.

Similarly, the securities transferred through repurchase agreements are kept in the securities portfolio but those under reverse repurchase agreements are not recorded on the balance sheet.

<u>Definition of IAS 39 categories of financial assets and financial liabilities</u>

All financial assets and liabilities – including derivatives – must be measured on the balance sheet according to their IAS 39 category. Each category is subject to specific measurement rules.

The IAS 39 categories are the following:

- *Held-to-maturity assets* are all non-derivative financial assets with fixed maturities and fixed or determinable payments that KBL *epb* group intends and is able to hold to maturity. The Group's management has decided not to class financial instruments in this category.

- *Loans and receivables* are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- Financial assets at fair value through profit or loss include held-for-trading assets and any other financial assets initially designated at fair value through profit or loss. Held-for-trading assets are those acquired principally for the purpose of selling them in the near term and those which are part of a portfolio with indications of recent short-term profit-taking. All derivative assets are considered as being held for trading unless designated as effective hedging instruments. Other assets initially designated at fair value through profit or loss (frequently referred to as 'the fair value option') are valued in the same way as held-for-trading assets, even if there is no intention of short-term profit taking.
  The 'fair value option' may be used when a contract contains one or more embedded derivatives under certain conditions or when its application produces more pertinent information:
  - either because a group of financial assets/liabilities is managed on a fair value basis and its performance measured on a fair value basis, following a documented investment or risk management strategy;
  - or because the application of this option reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

  This option is mainly used by the Group for contracts with one or more embedded derivatives, as an alternative to hedge accounting (aligning the valuation of the hedged instrument with that of the hedging instrument) and, for insurance subsidiaries, to mirror the valuation of unit-linked financial liabilities.

- *Available-for-sale financial assets* are all non-derivative financial assets which do not fall into one of the above categories.

- *Financial liabilities at fair value through profit or loss* encompass *held-for-trading liabilities* and *financial liabilities initially designated at fair value through profit or loss*.

- *Held-for-trading liabilities* are liabilities held mainly with the intention of repurchasing them in the near term. All derivative liabilities are considered as being held for trading unless designated as effective hedging instruments.
  *Financial liabilities initially designated at fair value through profit or loss* are those liabilities accounted for under the 'fair value option'. This category is currently only used for unit-linked financial liabilities of insurance subsidiaries.

- *Other financial liabilities* are all other financial instruments not at fair value through profit or loss.

- *Hedging derivatives* are the derivatives designated in hedging relationships for which hedge accounting is applied.

Evaluation of financial instruments

Financial assets and liabilities are initially recognised at fair value and are then measured in accordance with the principles governing the IAS 39 category in which they are placed.

- **General principles**

*Loans and receivables* with a fixed maturity are measured at amortised cost using the effective interest rate (hereinafter "EIR") method, that is the rate that precisely discounts the future cash inflows or outflows to obtain the carrying amount. Instruments without a fixed maturity are measured at cost.

The *available-for-sale financial assets* are measured at fair value with changes in fair value recognised in equity ('Revaluation reserve (available-for-sale financial instruments)') until the sale or impairment of these instruments. In the latter cases, the cumulative result of the revaluation is transferred from equity to the income statement of the period.

The *financial assets and liabilities at fair value through profit or loss* are measured at fair value with changes in fair value recognised in the income statement.

*Other financial liabilities* are measured at amortised cost. The difference between the amount made available and the nominal amount is recognised in the income statement (net interest income) *prorata temporis*, on an actuarial basis using the EIR method.

- **Determination of fair value**

IFRS 13 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 participant at the measurement date (i.e. an exit price).

When available, published price quotations (unadjusted) on active markets are used to determine the fair value of financial assets or liabilities.

If such quotations are not available fair value can be determined or derived:
- from quoted prices for similar assets or liabilities in active markets and/or from quoted prices for identical assets or liabilities in markets that are not active.
- by using a valuation technique.

When valuation techniques are used to estimate fair value, those techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted financial methodologies used for pricing financial instruments.
Such techniques encompass discounted cash flow analysis (e.g. for the valuation of interest rate swaps or forward foreign exchange transactions) and option pricing models.
Inputs used in those models (yield curves, exchange rates, volatilities…) are often readily observable on the markets. When measuring fair value, the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

- **Impairment**

Available-for-sale financial assets and loans and receivables are also subject to impairment tests and impairment losses are recognised if evidence of impairment exists on the balance sheet date.

- *Available-for-sale financial assets*

For listed shares, an impairment is recognised if the market value is less than 70% of the purchase value or if the market price of the share is less than the acquisition price over one year.
For debt and other equity instruments, the impairment amount is measured from the recoverable value.

Impairment losses are always recognised in the income statement. Impairment reversals are recognised in the income statement for debt instruments and in other comprehensive income (available-for-sale revaluation reserve) for listed shares and other equity instruments.

- *Loans and receivables*

The amount of the impairment loss is the excess of the carrying amount over the recoverable amount of the asset. The Group firstly evaluates if there is an impairment loss for each individually significant loan or receivable or for each group of loans or receivables not individually significant. If the Group considers that there is no evidence of an impairment loss for a given loan or receivable, individually significant or not, it includes it in a group of financial assets presenting the same credit risk characteristics and examines the possibility of an impairment loss on a collective basis. The assets evaluated individually and for which an impairment loss is recognised are not examined collectively.

- **Embedded derivatives**

Derivatives embedded in financial instruments that are not measured at fair value through profit or loss are separated from the financial instrument and measured at fair value through profit or loss if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

In practice, financial assets with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative from the hybrid (combined) instrument, since the entire financial instrument is measured at fair value, with changes in fair value being recognised in the income statement.

- **Hedge accounting**

The Group makes little use of macro-hedge accounting. It is used to hedge a mortgage portfolio in one of the Group's subsidiary.
It does however apply micro-hedge accounting when all the following conditions are met: the hedging relationship must be designated at inception and formally documented, the hedge is expected to be highly effective and it must be possible to reliably measure the effectiveness of the hedge, forecast transactions (for cash flow hedges) must be highly probable and the hedge is measured on an ongoing basis and is determined actually to have been highly effective throughout the periods covered by the consolidated accounts for which the hedge was designated.

Fair value hedge accounting is used by the Group to cover the exposure of a financial instrument (e.g. loans, available-for-sale bonds and some issued debt securities) to changes in fair value attributable to changes in interest rates or exchange rates. In this case those derivatives designated as hedging instruments (mainly interest rate swaps and cross-currency interest rate swaps) are measured at fair value with changes in fair value recognised in the income statement. Furthermore, the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged element and is also recognised in the income statement. If the hedged item is an available-for-sale asset already measured at fair value under other IFRS requirements, applying hedge accounting leads to splitting the change in the instrument fair value between the portion addressed by the hedging relationship, recognised in the income statement, and the portion that relates to unhedged risks, recognised in the revaluation reserve in equity.

Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, and for debt instruments, the cumulative change to the carrying amount of the hedged instrument (relating to hedged risks) is transferred to the income statement *prorata temporis* until the instrument expires.

Cash flow hedge accounting is used by the Group to recognise hedges of the exposure to variability in cash flows of highly probable forecast transactions. In this case:

- highly probable forecast transactions are anticipated sales of financial instruments recognised within assets (hedges may relate both to debt and equity instruments);
- hedging instruments are forward sales;
- main hedged risk is interest rate risk.

As at 31/12/2016 there are no hedging operations designated as cash flow hedge.

Hedging instruments are measured at fair value with changes in fair value recognized as follows: the portion of the gain or loss that is determined to be an effective hedge is recognised in other comprehensive income; the ineffective portion is recognised in the income statement.
Hedge accounting is to be discontinued if the hedge accounting criteria are no longer met. In this case, the hedging instruments is to be treated as held-for-trading instruments and measured accordingly.

Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. Translation differences (taking into account deferred taxes) on the financing are recorded in equity, along with translation differences on the net investment.

***d. Goodwill, badwill and other intangible assets***

Goodwill arising in a business combination is defined as any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired and contingent liabilities recorded at the date of acquisition.

Goodwill arising in a business combination is not amortised but is tested for impairment at least on an annual basis.

An impairment loss is recognised if the carrying amount of the goodwill exceeds its recoverable amount. The recoverable amount may be estimated using various methods such as a Dividend Discount Model, percentage of assets under management or a price/earnings ratio multiple. Impairment losses on goodwill cannot be reversed.
Badwill (negative goodwill) is the excess of KBL *epb*'s interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate at the date of acquisition over the acquisition cost. Where negative goodwill exists after re-examination and re-estimation of the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate, it is immediately recognised as a profit in the income statement.

The purchase of a portfolio of customers generally includes the transfer of the client assets under management to the Group and the recruitment of all or part of the account officers in charge of client relationships.
This type of intangible assets is amortized on a straight-line basis over its estimated useful life, typically 15 years.

When the recognition criteria are met and when the amounts are not immaterial, software is recognised as an intangible asset.

Internal and external expenses incurred during the development phase of internally generated strategic software are initially recognised in assets at cost. These assets are subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.
Amortisation is calculated using the straight-line method over the estimated useful life.
Research expenses for these projects and all expenses that relate to non-strategic projects are recognised directly in the income statement.

***e. Property and equipment***

Property and equipment are initially recognised at cost.

Property and equipment the use of which is limited in time are depreciated using the straight-line method over their estimated useful lives.

Overview of average depreciation rates

| *Type of investment* | *Depreciation rate* |
|---|---|
| Land | Non depreciable |
| Buildings | 2%-3% |
| Technical installations | 5%-10% |
| Furniture | 25% |
| IT hardware | 25% |
| Vehicles | 25% |
| Works of art | Non depreciable |

An impairment loss must be recognised if the carrying value exceeds the recoverable value (which is the greater of the asset's value in use and its fair value less costs of disposal).

When property or equipment is sold, the realised gains or losses are recognised in the income statement. If property or equipment is destroyed, the carrying amount to be written off is immediately recognised in the income statement.

### *f. Investment properties*

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is recognised only when it is probable that future economic benefits associated with the investment property will flow to KBL *epb* group and if its cost can be measured reliably.

Investment property is measured at cost less any accumulated depreciation and impairment. It is depreciated using the straight-line method over its estimated useful live (average rate: 2% - 3%).

### *g. Pensions*

In addition to the general and legally prescribed retirement plans, KBL *epb* group maintains a certain number of complementary systems in the form of both defined contribution and defined benefit pension plans. Defined benefit plans are those under which the Group has a legal or constructive obligation to pay further contributions if the pension fund does not hold sufficient assets to pay all employee benefits for the current and past periods.

Defined contribution plans are those under which the Group has no further legal or constructive liability beyond the amount it pays into the fund.

In the case of defined benefit pension plans, the pension cost in the income statement and the liability on the balance sheet are calculated in accordance with IAS 19 (as revised in 2011), based on the Projected Unit Credit Method, which sees each period of service as giving rise to an additional unit of benefit entitlement. The calculations are made each year by independent actuaries.

The components of the defined benefit cost are recognized according to the following principles:

(i) Service cost and net interest on the net defined benefit liability / asset are recognized in the income statement;

(ii) Remeasurements of the net defined benefit liability / asset are recognized in other comprehensive income. Remeasurements include:
- actuarial gains and losses stemming from the remeasurement of the defined benefit obligation;
- the return of plan assets after deducting the portion included in net interest as determined in (i); and
- any change in the effect of the asset ceiling – also excluding any amount included in net interest as determined in (i).

Remeasurements recognized in other comprehensive income are not reclassified to the income statement in subsequent periods.

In the case of defined contribution plans, the contributions payable are expensed when the employees render the corresponding service which generally coincides with the year in which the contributions are actually paid.

### *h. Tax assets and liabilities*

These balance sheet headings include both current and deferred tax assets and liabilities.

Current tax is the amount expected to be paid or recovered, using the tax rates which have been enacted or substantively enacted at the balance sheet date.

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 valued using the tax rates in effect for the periods when the assets are realised or the liabilities settled, on the basis of the tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for the carryforward of all unused tax losses and unused tax credits and for all deductible temporary differences between the carrying value of the assets and liabilities and their tax base, to the extent that it is probable that future taxable profit will be available against which these losses, tax credits and deductible temporary differences can be utilised.

Where required by IAS 12, tax assets and liabilities are offset.

### *i. Provisions*

A provision is recognised when and only when the following three conditions are met:

- the Group has a present obligation (at the reporting date) as a result of a past event;
- it is more likely than not that an outflow of resources embodying economic benefits will be required to settle this obligation; and
- the amount of the obligation can be estimated reliably.

### *j. Financial guarantees*

Financial guarantees contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount initially recognised less, when appropriate, cumulative amortisation and (ii) the Group's best estimate of the expenditure required to settle the present obligation at the reporting date.

### *k. Equity*

Equity is the residual interest in the assets of the KBL *epb* group after all its liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the provisions of IAS 32.

The acquisition cost of KBL *epb* treasury shares that have been or are being purchased is deducted from equity. Gains and losses realised on sale or cancellation of treasury shares are recognised directly in equity.

The revaluation reserve for available-for-sale financial assets is included in equity until any impairment or sale. In such a case, the gains and losses are transferred to the income statement of the period.

The "defined benefit remeasurement reserve" relating to the recognition of certain pension costs is also included in equity. This reserve will however never be subsequently recycled into the income statement.

As regards to cash flow hedges and hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

### l. Revenue

KBL *epb* group recognises revenue relating to ordinary activities if and only if the following conditions are met:

- it is probable that the economic benefits associated with the transaction will flow to the KBL *epb* group, and
- the amount of revenue can be measured reliably.

The specific conditions below must also be met before recognising the related revenue:

*Net interest income*

Interest is recognised *prorata temporis* using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

All interests paid and received on financial instruments, including held-for-trading derivatives, are recorded under the heading "Net interest income" except interest on held-for-trading derivative instruments, which are presented under the heading "Net gains/losses on financial instruments measured at fair value through profit or loss" in the income statement.

*Dividends*

Dividends are recognised when the right of the shareholder to receive the payment is established. They are presented under the heading "Dividend income" in the income statement irrespective of the IFRS category of the related assets.

*Rendering of services*

Revenue from services is recognised by reference to the stage of completion at the balance sheet date. According to this method, the revenue is recognised in the periods when the services are provided.

*Gross premiums, insurance*

For single premium business, revenue is recognised on the date on which the policy is effective.

### m. Reclassifications of prior year figures

Where necessary, certain prior year figures in the Notes to the consolidated accounts have been reclassified to conform with changes to the current year's presentation for comparative purposes.

**Note 3a – Segment reporting by business segment**

KBL *epb* group distinguishes between the following primary segments:

The **'PRIVATE BANKING'** segment includes the wealth management activities provided to private clients by KBL epb group, as well as the management of investment funds, mainly distributed to private clients. This segment includes all major subsidiaries of KBL epb group (KBL Monaco Private Bankers, KBL Richelieu Banque Privée S.A., Puilaetco Dewaay Private Bankers S.A., Theodoor Gilissen Bankiers N.V., Brown Shipley & Co Limited, Merck Finck & Co and KBL Switzerland Ltd (sold in October 2015) and the private banking activities of KBL epb (incl. branch in Spain) and Kredietrust Luxembourg S.A.. Vitis Life SA Insurance (sold in October 2015) is also part of this segment.

The **'INSTITUTIONAL AND PROFESSIONAL SERVICES'** segment includes services provided to institutional clients. This segment includes custodian bank and fund domiciliation and administration activities, paying agent activities, central securities depository Clearstream / Euroclear, as well as intermediation and portfolio management services for KBL epb institutional clients.

The **'OWN ACCOUNT & GROUP ITEMS ACTIVITIES'** segment includes support activity provided by KBL epb to the network of subsidiaries, acting in its capacity as parent company, and all other elements not directly linked to the previous three segments, including reallocation of excess equity, net of the cost of financing of the holdings, and extraordinary elements not directly linked to other business segments. "Own Account" includes activities such as bullions, bond and structured products own account, ALM free capital portfolio revenues, etc. (not directly private client-related).

The various profit or loss items include inter-segment transfers, calculated on an arm's length or cost recovery basis.

The net result of each subsidiary included in the scope of consolidation is allocated to the various sectors after taking into account consolidation restatements, after removing non-controlling interests and before removing intercompanies operations.

| Income statement<br>In EUR million | PRIVATE BANKING | | INSTITUTIONAL AND PROFESSIONAL SERVICES | | OWN ACCOUNT AND GROUP ITEMS | | TOTAL GROUP | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Net interest income | 44.6 | 57.1 | 13.6 | 18.0 | 18.4 | 20.5 | 76.6 | 95.6 |
| Dividend income | 1.2 | 2.3 | 0.4 | 0.6 | 0.4 | 0.7 | 2.0 | 3.7 |
| Net gains/losses on financial instruments measured at fair value through profit or loss | 13.2 | 14.9 | 9.6 | 7.5 | 2.4 | 3.9 | 25.1 | 26.4 |
| Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss | 8.6 | 11.1 | 6.3 | 6.5 | 5.2 | 28.8 | 20.1 | 46.4 |
| Net fee and commission income | 247.7 | 289.7 | 29.7 | 31.8 | 9.8 | 11.2 | 287.2 | 332.7 |
| Other net income | 0.2 | 40.3 | | 0.0 | 54.7 | 2.8 | 54.8 | 43.2 |
| **GROSS INCOME** | **315.5** | **415.5** | **59.7** | **64.5** | **90.8** | **67.9** | **465.9** | **547.9** |
| Operating expenses | 322.9 | 332.6 | 28.6 | 35.6 | 99.6 | 81.2 | 451.1 | 449.4 |
| Impairment | 0.0 | 3.2 | 0.2 | 0.0 | 0.4 | 3.0 | 0.2 | 0.2 |
| Share of profit of associates | | | 1.1 | 0.6 | | | 1.1 | 0.6 |
| **PROFIT / (LOSS) BEFORE TAX** | **-7.4** | **86.2** | **32.0** | **29.5** | **-8.4** | **-16.3** | **16.1** | **99.3** |
| Income tax (expense) / income | 5.8 | 11.4 | | | 4.3 | 6.5 | 10.1 | 17.9 |
| **PROFIT / (LOSS) AFTER TAX** | **-13.2** | **74.8** | **32.0** | **29.5** | **-12.8** | **-22.8** | **6.0** | **81.4** |
| Attributable to non controlling interest | | | | | 0.0 | 0.1 | 0.0 | 0.1 |
| Attributable to the owners of the parent | 13.2 | 74.8 | 32.0 | 29.5 | 12.8 | 22.9 | 6.0 | 81.3 |

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated accounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

**Note 3b – Operating segments by geographic sector**

KBL *epb* group distinguishes between the secondary segments "DOMESTIC", including the activities recognised in Member State where the Bank is located, and "NON DOMESTIC", covering the activities of the other companies included in the scope of consolidation.

| (in EUR million) | Domestic | | Non Domestic | | KBL *epb* group | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Gross income | 221 | 239 | 245 | 309 | 466 | 548 |
| Total assets | 7,109 | 7,373 | 3,880 | 3,701 | 10,989 | 11,074 |
| Total liabilities (excluding equity) | 5,344 | 5,806 | 4,549 | 4,340 | 9,893 | 10,146 |

## Note 4 – Net interest income

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Breakdown by portfolio** | | |
| **Interest income** | **285,425** | **311,619** |
| Available for sale financial assets | 75,750 | 90,640 |
| Loans and receivables | 38,753 | 46,841 |
| Interest income on liabilities at amortised cost (1) | 4,583 | |
| Other | 5 | 2 |
| *Sub total of interest income from financial assets not measured at fair value through profit or loss* | *119,091* | *137,483* |
| Financial assets held for trading | 150,074 | 149,607 |
| Net interest on hedging derivatives | 16,260 | 24,529 |
| **Interest expense** | **-208,811** | **-216,028** |
| Financial liabilities at amortised cost | 10,645 | 26,363 |
| Interest expense on assets at amortised cost (1) | 6,622 | |
| Other | 23 | 30 |
| *Sub total of interest expense on financial liabilities not measured at fair value through profit or loss* | *17,290* | *26,393* |
| Financial liabilities held for trading | 132,283 | 130,825 |
| Net interest on hedging derivatives | 58,882 | 58,810 |
| Interest expense on assets measured at fair value through profit or loss (1) | 355 | |
| **Total** | **76,614** | **95,591** |

(1) Negative interests disclosed in “Interest income on liabilities” and “Interest expense on assets” are applicable as from 31/12/2016.

## Note 5 – Dividend income

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Available for sale equity instruments | 1,997 | 3,237 |
| Equity instruments held for trading | 44 | 445 |
| Equity instruments at fair value through profit or loss | 2 | 1 |
| **Total** | **2,043** | **3,683** |

## Note 6 – Net gains/losses on financial instruments measured at fair value through profit or loss

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Held for trading | 11,831 | 13,662 |
| Other financial instruments at fair value | 1,640 | 996 |
| Exchange differences | 10,572 | 12,021 |
| Fair value adjustments in hedge accounting | 1,092 | 312 |
| *Micro hedging* | 1,190 | 300 |
| *Fair value of hedged items* | *2,178* | *10,246* |
| *Fair value of hedging items* | *988* | *10,545* |
| *Macro hedging* | 98 | 12 |
| *Fair value of hedged items* | *2,114* | *2,788* |
| *Fair value of hedging items* | *2,017* | *2,776* |
| **Total** | **25,134** | **26,368** |

## Note 7 – Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Available-for-sale financial assets** | **20,106** | **46,365** |
| Equity instruments | 2,523 | 46,228 |
| Debt instruments | 17,583 | 137 |
| **Loans and receivables** | **-** | **0** |
| **Financial liabilities measured at amortised cost** | **-** | **-** |
| **Other** | **-** | **-** |
| **Total** | **20,106** | **46,365** |

## Note 8 – Net fee and commission income

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Fee and commission income** | **343,077** | **397,393** |
| Asset management | 261,057 | 286,905 |
| Securities transactions | 68,192 | 87,092 |
| Other | 13,828 | 23,396 |
| **Fee and commission expense** | **-55,895** | **-64,675** |
| Asset management | 41,941 | 45,579 |
| Securities transactions | 8,857 | 12,153 |
| Other | 5,097 | 6,943 |
| **Total** | **287,182** | **332,718** |

## Note 9 – Other net income

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Total** | **54,818** | **43,157** |
| of which: | | |
| Net proceed from the sale of building located in London | 20,935 | |
| Net proceed from the sale of building located in Luxembourg | 15,063 | |
| Net proceed from the sale of building located in Monaco | 14,705 | |
| Net proceed from the sale of building located in Geneva | | 36,051 |
| Net proceed from the sale of building located in Lugano | | 1,684 |
| Net proceed from the sale of building located in Lausanne | | 2,581 |
| Net proceeds from precious metals transactions | 982 | 1,501 |
| Retrocession fees from Merck Finck related to credit files | 752 | |
| Sales of work of art | 679 | 402 |
| Compensation payment after court settlement (Merck Finck) | | 2,937 |

## Note 10 – Operating expenses

Operating expenses include staff costs, amortisation and depreciation of investment properties, amortisation and depreciation of property and equipment and intangible assets, changes in provisions and general administrative expenses.

General administrative expenses include in particular repair and maintenance expenses, advertising expenses, rent, professional duties, IT costs and various (non-income) taxes.

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Staff expenses | 274,921 | 288,063 |
| General administrative expenses | 149,128 | 138,393 |
| Depreciation and amortisation of property and equipment, intangible assets and investment properties | 24,410 | 22,084 |
| Net provision allowances | 2,625 | 893 |
| **Total** | **-451,084** | **-449,433** |

## Note 11 – Staff

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Total average number of people employed (in full-time equivalents - FTE)** | **2,035** | **2,119** |
| **Breakdown by business segment** (1) | | |
| Private Banking | 1,544 | 1,633 |
| Institutional and professional Services | 196 | 204 |
| Own Account & Group Items | 295 | 282 |
| **Total** | **2,035** | **2,119** |

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Geographic breakdown** | | |
| Domestic | 833 | 875 |
| Non Domestic | 1,202 | 1,244 |
| **Total** | **2,035** | **2,119** |

(1) The breakdown of people employed, which does not include the pre retirement FTE, has been made on the same basis as for drawing up Note 3a on operating segments.

## Note 12 – Impairment

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| (Impairment)/reversal of impairment of: | | |
| Loans and receivables | 0 | 233 |
| Available for sale financial assets | 413 | 6 |
| Goodwill and other intangible assets | 64 | 10 |
| Other | 165 | |
| **Total** | **184** | **216** |

### Impairment of loans and receivables

More detailed information on impairment is provided in Note 39.

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Breakdown by type** | | |
| (Impairment)/reversal of impairment: | | |
| Specific impairment on loans and receivables | 41 | 239 |
| Portfolio based impairments | 41 | 471 |
| **Total** | **0** | **233** |
| **Geographic breakdown** | | |
| Domestic | 57 | 3,254 |
| Non domestic | 57 | 3,487 |
| **Total** | **0** | **233** |

See also Note 22 – Impairment of loans and receivables

### Impairment of available-for-sale financial assets

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| (Impairment)/reversal of impairment of: | | |
| Debt instruments | 580 | 6 |
| Equity instruments | 167 | |
| **Total** | **413** | **-6** |

### Impairment of goodwill

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Goodwill arising in a business combination | | |
| Purchased portfolio of customers | 64 | 10 |
| **Total** | **-64** | **-10** |

**Impairment of Other**

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Tangible fixed assets | 165 | |
| **Total** | **-165** | **-** |

The values of goodwill and purchased portfolios of customers in the Group's consolidated accounts are subject to an impairment test which is performed at least annually in the course of the fourth quarter. Recoverable values are primarily measured from a Dividend Discount Model ("DDM") valuation method which, in practice, represents an estimation of fair value less costs of disposal (the related fair value estimates correspond to "level 3" fair values under the fair value hierarchy described in IFRS 13). Other cross-check methods such as the "Net asset value + multiple of Assets under management" might be used to corroborate the results of the DDM method.

**DDM methodology**

Future dividends input in the DDM model are estimated according to the following methodology:
- for the period covering the next three years, dividends are based on the three-year Business plan presented by the subsidiaries and approved by the Group Executive Committee;
- for the period beyond the third year, a terminal value is calculated based on a long term ("LT") growth rate of dividends.

**Key assumptions**

Key assumptions used in the DDM are the following:
- the Discount rate;
- the LT growth rate.

The Discount rate used in the DDM calculations is determined from the Group current cost of capital as estimated from the Capital Asset Pricing Model ("CAPM").
The CAPM estimates the cost of capital as the sum of the current risk free rate and an equity premium, the latter being adjusted to reflect current market expectations of the return required for the specific asset (Beta factor).

Inputs used in the model are adjusted to reflect current market situation and relies as much as possible on relevant observable data:
- risk free rates are measured from current long dated (10 years) government bond yields in the country where the participation operates;
- the Beta factor is directly derived from current observable market data for a selection of listed peers;
- consistently with generally accepted market methodologies used in business valuations, the standard Equity Risk premium is estimated from historical data on a country-by-country basis (source Duff & Phelps).

LT growth rates used in the DDM have been aligned on "Real GDP Growth rates" (i.e. excluding the inflation component) as published in the European Commission Eurostat database (2018 forecasts by country).

**Impairment tests performed**

Impairment tests performed as at 31 December 2016 did not reveal any losses to be recognized in the 2016 consolidated accounts. Key assumptions and valuation results of the main subsidiaries addressed in the tests are disclosed in the following tables.
For each subsidiary, estimated recoverable value exceeds current carrying amount.

- **Puilaetco Dewaay Private Bankers**

  - Key assumptions

| Discount rate (measured on a post-tax basis) | LT Growth rate |
|---|---|
| 8.3% (2015: 8.5%) | 1.5% (2015: 1.6%) |

  - Recoverable value (in EUR million)

| Net carrying value of assets before 2016 impairment test | Current estimated recoverable value at year end | Impairment loss recognized in the 2016 income statement | Net carrying value of assets after 2016 impairment test |
|---|---|---|---|
| 188.9 | 202.6 | - | 188.9 |

- **Banque Puilaetco Dewaay Luxembourg**

  - Key assumptions

| Discount rate (measured on a post-tax basis) | LT Growth rate |
|---|---|
| 8.3% (2015: 8.5%) | 3.6% (2015: 2.9%) |

  - Recoverable amount (in EUR million)

| Net carrying value of assets before 2016 impairment test | Current estimated recoverable value at year end | Impairment loss recognized in the 2016 income statement | Net carrying value of assets after 2016 impairment test |
|---|---|---|---|
| 38.4 | 44.8 | - | 38.4 |

- **Theodoor Gilissen Bankiers**

  - Key assumptions

| Discount rate (measured on a post-tax basis) | LT Growth rate |
|---|---|
| 7.8% (2015: 8.1%) | 1.8% (2015: 2.7%) |

  - Recoverable amount (in EUR million)

| Net carrying value of assets(1) before 2016 impairment test | Current estimated recoverable value at year end | Impairment loss recognized in the 2016 income statement | Net carrying value of assets after 2016 impairment test |
|---|---|---|---|
| 27.4 | 67.8 | - | 27.4 |

(1) Goodwill arising in a business combination + purchased portfolio of customers.

- **Brown Shipley**

  - Key assumptions

| Discount rate (measured on a post-tax basis) | LT Growth rate |
|---|---|
| 7.6% (2015: 8.4%) | 1.2% (2015: 2.3%) |

  - Recoverable amount (in EUR million)

| Net carrying value of assets[(1)] before 2016 impairment test | Current estimated recoverable value at year end | Impairment loss recognized in the 2016 income statement | Net carrying value of assets after 2016 impairment test |
|---|---|---|---|
| 30.1 | 32.5 | - | 30.1 |

[(1)] Goodwill arising in a business combination + purchased portfolio of customers.

## Note 13 – Share of profit of associates

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| European Fund Administration S.A. and EFA Partners S.A. | 1,129 | 611 |
| **Total** | **1,129** | **611** |

## Note 14 – Income tax (expenses) / income

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Breakdown by type** | | |
| Current tax | 5,259 | 13,685 |
| Deferred tax | 4,856 | 4,187 |
| **Total** | **-10,115** | **-17,872** |

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Breakdown by major components:** | | |
| Result before tax | 16,127 | 99,275 |
| Luxembourg income tax rate | 26.01% | 29.22% |
| **Income tax calculated at the Luxembourg income tax rate** | **-4,195** | **-29,008** |
| Plus/minus tax effects attributable to: | | |
| Differences in tax rates, Luxembourg    abroad | 4,224 | 20,777 |
| Tax free income | 13,709 | 30,603 |
| Other non deductible expenses | 1,956 | 3,380 |
| Adjustments related to prior years | 184 | 581 |
| Adjustments to opening balance due to tax rate change | 1,747 | 55 |
| Unused tax losses and tax credits | 11,918 | 2,387 |
| Other | 32 | 2,938 |
| **Income tax adjustments** | **-5,921** | **11,136** |
| **Total** | **-10,115** | **-17,872** |

Details of tax assets and liabilities are given in Note 25.

## Note 15 – Classification of financial instruments: breakdown by portfolio and by product

- Financial instruments are classified into several categories ("portfolios"). Details of these various categories and the valuation rules linked to them are given in Note 2c, point c, dealing with financial assets and liabilities (IAS 39).
- The balance sheet analyses below have been conducted at the dirty price.

**CARRYING AMOUNT**
**(in EUR million)**

**31/12/2016**

| ASSETS | Held-for-trading (HFT) assets | Financial instruments at fair value (FIFV) through profit or loss | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | Hedging derivatives | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to credit institutions** | **-** | **-** | **-** | **1,133** | **-** | **1,133** |
| **Loans and advances other than with credit institutions** | **-** | **-** | **-** | **2,051** | | **2,051** |
| Consumer credits | | | | 11 | | **11** |
| Mortgage loans | | | | 815 | | **815** |
| Term loans | | | | 716 | | **716** |
| Current accounts | | | | 433 | | **433** |
| Other | | | | 75 | | **75** |
| **Equity instruments** | **2** | **0** | **328** | **-** | **-** | **330** |
| **Debt instruments** | **283** | **194** | **4,469** | **88** | | **5,034** |
| Government bodies | 134 | 194 | 2,720 | | | **3,049** |
| Credit institutions | 47 | | 786 | 88 | | **921** |
| Corporates | 101 | | 963 | | | **1,064** |
| **Financial derivatives** | **269** | **-** | **-** | **-** | **14** | **282** |
| **Total** | **554** | **194** | **4,797** | **3,271** | **14** | **8,830** |
| Of which reverse repos | | | | 953 | | **953** |

**CARRYING AMOUNT**
**(in EUR million)**

**31/12/2015**

| ASSETS | Held-for-trading (HFT) assets | Financial instruments at fair value (FIFV) through profit or loss | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | Hedging derivatives | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to credit institutions** | **-** | **-** | **-** | **2,253** | **-** | **2,253** |
| **Loans and advances other than with credit institutions** | | | | **2,726** | | **2,726** |
| Consumer credits | | | | 16 | | 16 |
| Mortgage loans | | | | 820 | | 820 |
| Term loans | | | | 1,319 | | 1,319 |
| Current accounts | | | | 468 | | 468 |
| Other | | | | 103 | | 103 |
| **Equity instruments** | **2** | **0** | **137** | **-** | **-** | **139** |
| **Debt instruments** | **482** | **-** | **3,918** | **53** | **-** | **4,453** |
| Government bodies | 364 | | 1,793 | | | **2,156** |
| Credit institutions | 67 | | 1,039 | 53 | | **1,159** |
| Corporates | 51 | | 1,086 | | | **1,138** |
| **Financial derivatives** | **230** | **-** | **-** | **-** | **17** | **247** |
| **Total** | **714** | **0** | **4,054** | **5,032** | **17** | **9,817** |
| Of which reverse repos | | | | 2,605 | | **2,605** |

**CARRYING AMOUNT**
**(in EUR million)**

**31/12/2016**

| LIABILITIES | Held-for-trading (HFT) liabilities | Financial liabilities at fair value (FIFV) through profit or loss | Hedging derivatives | Financial liabilities at amortised cost | Total |
|---|---|---|---|---|---|
| **Deposits from credit institutions** | **-** | **-** | **-** | **1,094** | **1,094** |
| **Deposits from other than credit institutions** | **-** | **-** | **-** | **8,015** | **8,015** |
| Current accounts/demand deposits | | | | 6,965 | **6,965** |
| Time deposits | | | | 985 | **985** |
| Other deposits | | | | 65 | **65** |
| **Debt certificates** | **-** | **-** | **-** | **60** | **60** |
| Deposits certificates | | | | 0 | **0** |
| Customer savings bonds | | | | 0 | **0** |
| Debt certificates | | | | 54 | **54** |
| Non convertible bonds | | | | 2 | **2** |
| Non convertible subordinated liabilities | | | | 3 | **3** |
| **Financial derivatives** | **234** | **-** | **156** | **-** | **391** |
| **Short sales** | **1** | **-** | **-** | **-** | **1** |
| Equity instruments | 0 | | | | **0** |
| Debt instruments | 1 | | | | **1** |
| **Total** | **235** | **-** | **156** | **9,169** | **9,561** |
| Of which repos | | | | 531 | **531** |

**CARRYING AMOUNT**
**(in EUR million)**

**31/12/2015**

| LIABILITIES | Held-for-trading (HFT) liabilities | Financial liabilities at fair value (FIFV) through profit or loss | Hedging derivatives | Financial liabilities at amortised cost | Total |
|---|---|---|---|---|---|
| **Deposits from credit institutions** | **-** | **-** | **-** | **901** | **901** |
| **Deposits from other than credit institutions** | **-** | **-** | **-** | **8,187** | **8,187** |
| Current accounts/demand deposits | | | | 7,193 | 7,193 |
| Time deposits | | | | 928 | 928 |
| Other deposits | | | | 65 | 65 |
| **Debt certificates** | **-** | **-** | **-** | **275** | **275** |
| Deposits certificates | | | | 0 | 0 |
| Customer savings bonds | | | | 0 | 0 |
| Debt certificates | | | | 57 | 57 |
| Non convertible bonds | | | | 1 | 1 |
| Non convertible subordinated liabilities | | | | 216 | 216 |
| **Financial derivatives** | **260** | **-** | **184** | **-** | **443** |
| **Short sales** | **1** | **-** | **-** | **-** | **1** |
| Equity instruments | | | | | |
| Debt instruments | 1 | | | | 1 |
| **Total** | **261** | **-** | **184** | **9,363** | **9,807** |
| Of which repos | | | | 409 | **409** |

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying amounts and fair values of the financial assets and liabilities not measured at fair value. Loans and advances to credit institutions have a short term maturity (mainly less than 3 months) and loans and advances to other than credit institutions mainly carries a variable interest rate justifying that carrying amounts and fair value of financial assets are considered to be equal.

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| **(in EUR million)** | **31/12/2016** | **31/12/2015** | **31/12/2016** | **31/12/2015** |
| **ASSETS** | | | | |
| Loans and advances to credit institutions | 1,133 | 2,253 | 1,133 | 2,253 |
| Loans and advances to other than credit institutions | 2,051 | 2,726 | 2,051 | 2,726 |
| Consumer credits | 11 | 16 | 11 | 16 |
| Mortgage loans | 815 | 820 | 815 | 820 |
| Term loans | 716 | 1,319 | 716 | 1,319 |
| Current accounts | 433 | 468 | 433 | 468 |
| Other | 75 | 103 | 75 | 103 |
| Debt instruments | 88 | 53 | 88 | 54 |
| **LIABILITIES** | | | | |
| Deposits from credit institutions | 1,094 | 901 | 1,094 | 901 |
| Deposits from other than credit institutions | 8,015 | 8,187 | 8,015 | 8,186 |
| Current accounts/demand deposits | 6,965 | 7,193 | 6,965 | 7,193 |
| Time deposits | 985 | 928 | 985 | 928 |
| Other deposits | 65 | 65 | 65 | 65 |
| Debt certificates | 60 | 275 | 60 | 275 |
| Deposit certificates | 0 | 0 | 0 | 0 |
| Customer savings bonds | 0 | 0 | 0 | 0 |
| Debt certificates | 54 | 57 | 54 | 57 |
| Non convertible bonds | 2 | 1 | 2 | 1 |
| Non convertible subordinated liabilities | 3 | 216 | 3 | 216 |

## Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) price in active market for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

**31/12/2016**

| (in EUR million) | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Held-for-trading** | **28** | **524** | **2** | **554** |
| Equity instruments | 0 | 1 | 0 | 2 |
| Debt instruments | 4 | 277 | 1 | 283 |
| Derivatives | 24 | 245 | | 269 |
| **At fair value through profit or loss** | **-** | **194** | **-** | **194** |
| **Available-for-sale financial assets** | **159** | **4,419** | **47** | **4,625** |
| Equity instruments (excluding instruments at cost) | 46 | 65 | 46 | 156 |
| Debt instruments | 113 | 4,355 | 2 | 4,469 |
| **Hedging derivatives** | **-** | **14** | **-** | **14** |
| **LIABILITIES** | | | | |
| **Held-for-trading** | **24** | **211** | **0** | **235** |
| Equity instruments | 0 | | 0 | 0 |
| Debt instruments | 0 | 1 | | 1 |
| Derivatives | 24 | 210 | | 234 |
| **At fair value through profit or loss** | **-** | **-** | **-** | **-** |
| **Hedging derivatives** | **-** | **156** | **-** | **156** |

**31/12/2015**

| (in EUR million) | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Held-for-trading** | **172** | **541** | **2** | **714** |
| Equity instruments | 0 | 1 | 0 | 2 |
| Debt instruments | 93 | 388 | 1 | 482 |
| Derivatives | 79 | 152 | | 230 |
| **At fair value through profit or loss** | | **0** | | **0** |
| **Available-for-sale financial assets** | **3,077** | **924** | **50** | **4,050** |
| Equity instruments (excluding instruments at cost) | 22 | 65 | 46 | 133 |
| Debt instruments | 3,054 | 859 | 4 | 3,918 |
| **Hedging derivatives** | | **17** | | **17** |
| **LIABILITIES** | | | | |
| **Held-for-trading** | **80** | **181** | | **261** |
| Equity instruments | | | | |
| Debt instruments | 1 | 0 | | 1 |
| Derivatives | 79 | 181 | | 260 |
| **At fair value through profit or loss** | | | | |
| **Hedging derivatives** | | **184** | | **184** |

## Transfers between the level 1 and level 2 categories

**In EUR million**
**31/12/2016**

| ASSETS | From Level 1 to Level 2 | From Level 2 to Level 1 |
|---|---|---|
| **Held-for-trading** | **13** | **-** |
| Equity instruments | 0 | |
| Debt instruments | 13 | |
| **Available-for-sale financial assets** | **2,002** | **-** |
| Equity instruments (excluding instruments at cost) | | |
| Debt instruments | 2,002 | |
| **LIABILITIES** | | |
| **Held-for-trading** | **0** | **-** |
| Equity instruments | | |
| Debt instruments | 0 | |

**In EUR million**
**31/12/2015**

| ASSETS | From Level 1 to Level 2 | From Level 2 to Level 1 |
|---|---|---|
| **Held-for-trading** | **4** | **4** |
| Equity instruments | 0 | 0 |
| Debt instruments | 4 | 4 |
| **Available-for-sale financial assets** | **284** | **242** |
| Equity instruments (excluding instruments at cost) | | |
| Debt instruments | 284 | 242 |
| **LIABILITIES** | | |
| **Held-for-trading** | **0** | |
| Equity instruments | | |
| Debt instruments | 0 | |

All transfers between categories (i.e. those between level 1 and level 2 detailed in the above tables and those into or out of level 3 detailed in the tables dedicated to the Level 3 fair value measurements here below) are the result of the internal Fair Value Hierarchy process run by the Bank (since 2015). The most significant change concern a large range of debt instruments (bonds) that have been reclassified from Level 1 to level 2, because market indicators used in the process to validate the fair value are considered as “observable inputs” vs “executable inputs”. In substance, observable data may not be regarded as representative of an active market, and thus Level 2 is relevant to qualify those securities as at 31 December 2016.

All transfers disclosed are deemed to have occurred at the end of the reporting period. Transfers are thus measured at the closing fair values of the related items.

### Level 3 items measured at fair value

| (in EUR million) | Financial instruments measured at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|
| **Balance as at 01/01/2016** | **2** | **50** | **52** |
| Total profit / loss for the year | 0 | 2 | 2 |
| - recognised in the income statement | 0 | | 0 |
| - recognised in other components of comprehensive income | | 2 | 2 |
| Purchases / Capital increases | 0 | 2 | 2 |
| Sales / Capital decreases | | 6 | 6 |
| Transfers into / out of level 3 | 0 | | 0 |
| **Balance as at 31/12/2016** | **2** | **47** | **49** |
| Total gains / losses recognised in the income statement, that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period | 0 | 2 | 2 |

| (in EUR million) | Financial instruments measured at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|
| **Balance as at 01/01/2015** | **1** | **46** | **47** |
| Total profit / loss for the year | 0 | 5 | 5 |
| - recognised in the income statement | 0 | | 0 |
| - recognised in other components of comprehensive income | | 5 | 5 |
| Purchases / Capital increases | 0 | 0 | 0 |
| Sales / Capital decreases | 0 | 1 | 1 |
| Transfers into / out of level 3 | 1 | 0 | 1 |
| **Balance as at 31/12/2015** | **2** | **50** | **52** |
| Total gains / losses recognised in the income statement, that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period | 0 | 4 | 4 |

Level 3 positions mainly include investments in Private Equity structures, holdings in unlisted equity instruments and other participating interests. Most significant positions – which are all available-for-sale financial assets – are further commented here below.

Private Equity holdings include two main positions whose global fair value recognized in the statement of financial position at year end amounts to EUR 25.2 million.

The first one (EUR 19.3 million) consists in shares held in a sub-fund (SIF / SICAV) whose investment objective is to build a balanced portfolio of properties in order to derive benefits from changes in the demand for and supply of wood products and biomass. The fund currently owns forests and a farm in Eastern Europe.
The fund net asset value (NAV) is measured on a yearly basis and published in audited financial statements. The valuation of the underlying assets of the fund (i.e. the biological and tangible assets) is performed by two independent appraisers appointed by the Board of Directors of the fund (in accordance with the Private Placement Memorandum).

Methodologies used by the appraisers to fair value the underlying assets range from 'market comparison' approaches (where fair value is derived from most recent valuations / transactions observed on similar assets in the same area, adjusted for the main differences identified between the proxy asset and the target asset to be fair valued) to pure 'income approaches' (DCF method). The DCF computation is based on the latest business plan prepared by the fund managers and on assumptions which include, among others, the discounting rate used, inflation rates, exit yield, sales growth targets, crop productivity levels and costs.

DCF Model is based on several assumptions among which (i) expectations that the biomass market will gradually reach maturity over the coming years and (ii) the liberalization of the gas market to take place in the area where the entity operates and which should lead to significant increase of gas prices. Agriculture crop yields are also expected to record a gradual increase in productivity levels, following expected improvement of the soil quality through intensive sub-soiling and plowing activities. Energy crop yields have been estimated based on technical studies. Discount rates used by the appraiser to compute the DCF valuation are based on a weighted average cost of capital set at 8.0% for the forests and 8.2% for the farm activities.
For the key assumptions of timber price, biomass price, food and energy crops productivity and discounting rates that have significant impact on fair value of forest properties and farm activities, sensitivity analyses were performed.
Those analyses led to fund NAV per share estimates which ranged from EUR 88.7 to EUR 107.53.

The market comparison approach led to a range of NAV valuation from EUR 99.40 to EUR 101.30.
These valuations are lower compared to the previous year due to the impact of the drop in energy prices on the international markets.

KBL epb group management decided to adjust the value of this investment to EUR 98.1 per share which is the mid value of the DCF valuation range disclosed in the audited annual report of the company.

The second investment (EUR 5.4 mios) is a structure with a fixed maturity (2022) whose investment policy is to develop a portfolio of retail parks throughout Europe (+/- 50% in Western Europe and +/- 50% in Eastern Europe). Once these assets being fully operational, they are sold to long term investors and proceeds are returned to shareholders.
Up to now, 2 retail parks have already been sold with substantial capital gains. These realizations, along with the excess cash flows generated by the existing portfolio, have already lead to a return of 40% of the invested amount since inception of the company in 2012.
The majority of the parks currently held by the company are operational, generate revenues. Some are still under development.
Latest information received from the company indicates that business performance is strong in terms of net operating cash-flows.
Again, the consistency of the independent appraiser estimates performed during the first quarter 2016 (for the portfolio currently held by the company) has been confirmed by the sale of a major park held in Belgium, which was disposed in June 2016 at a price slightly above the latest fair valuation received.
Net cash-inflows generated by the company, both in the ordinary course of business and from the net proceeds received in the above sale transaction have been returned to investors in September 2016.
After reviewing those business developments, the Group management decided to adjust the fair valuation of its interest in the company to reflect the latest official external valuation (March 2016) adjusted by the subsequent capital calls (October capital call of EUR 1.99 /share) and distributions (September distribution of EUR 0.93/share). This led to a fair value per share of EUR 8.13 at year end.

Other participating interests mainly include two holdings for a global fair value of EUR 18.9 million.

The first one (EUR 11.5 million) relates to an interest in a company offering securities settlement services. The valuation of EUR 797.00 by share is based on the price achieved in the context of a share buy-back program proceeded by the company end of 2015.

The other position is a participating interest in a stock exchange (EUR 7.4 million). For this holding, the Group retained the valuation performed by an independent valuer appointed by the company.
Valuation estimates were computed using two different approaches: a discounted cash flow approach (DCF) and P/E multiples.

The DCF model notably includes a weighted average cost of capital of 6.06%, a long term growth rate of 1%, a liquidity discount of 15% as well as a minority discount of 15%. P/E multiples have been computed from average peers P/E ratios of 18.7 (actual 2015) and 17.4 (forecast 2016). Average fair value stemming from both models was then estimated to be EUR 1,974 per share; this figure has been used to fair value the position in the Group financial statements as of 31 December 2016.
The appraisal report also included a sensitivity analysis under various scenarios and for both models. Under that analysis, computed fair values ranged from EUR 1,263 to EUR 2,927 per share.

**Note 16 – Available-for-sale financial assets and Loans and receivables: breakdown by portfolio and quality**

| (in EUR million) | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | TOTAL |
|---|---|---|---|
| **31/12/2016** | | | |
| Unimpaired assets | 4,791 | 3,263 | **8,054** |
| Impaired assets | 11 | 23 | **34** |
| Impairment | 5 | 15 | **-20** |
| **Total** | **4,797** | **3,271** | **8,069** |

| (in EUR million) | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | TOTAL |
|---|---|---|---|
| **31/12/2015** | | | |
| Unimpaired assets | 4,047 | 5,021 | **9,068** |
| Impaired assets | 14 | 39 | **53** |
| Impairment | 7 | 28 | **-35** |
| **Total** | **4,054** | **5,032** | **9,086** |

## Note 17 – Financial assets and liabilities: breakdown by portfolio and residual maturity

| (in EUR million) | Held-for-trading (HFT) assets | Financial instruments at fair value (FIFV) through profit or loss | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | Hedging derivatives | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **31/12/2016** | | | | | | |
| Less than or equal to 1 year | 444 | 194 | 1,345 | 2,064 | 2 | **4,050** |
| More than 1 but less than or equal to 5 years | 86 | | 2,291 | 835 | 6 | **3,217** |
| More than 5 years | 21 | | 833 | 372 | 6 | **1,232** |
| Indefinite period | 2 | 0 | 328 | | | **330** |
| **Total** | **554** | **194** | **4,797** | **3,271** | **14** | **8,830** |
| **31/12/2015** | | | | | | |
| Less than or equal to 1 year | 566 | | 752 | 3,804 | 14 | **5,137** |
| More than 1 but less than or equal to 5 years | 65 | | 2,568 | 830 | 3 | **3,466** |
| More than 5 years | 81 | | 597 | 397 | 0 | **1,076** |
| Indefinite period | 2 | 0 | 137 | | | **139** |
| **Total** | **714** | **0** | **4,054** | **5,032** | **17** | **9,817** |

| (in EUR million) | Held-for-trading (HFT) liabilities | Financial instruments at fair value (FIFV) through profit or loss | Liabilities at amortised cost | Hedging derivatives | Total |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| **31/12/2016** | | | | | |
| Less than or equal to 1 year | 223 | | 9,157 | 7 | **9,387** |
| More than 1 but less than or equal to 5 years | 10 | | 12 | 84 | **106** |
| More than 5 years | 2 | | 0 | 65 | **68** |
| Indefinite period | 0 | | 0 | | **0** |
| **Total** | **235** | **-** | **9,169** | **156** | **9,561** |
| **31/12/2015** | | | | | |
| Less than or equal to 1 year | 202 | | 9,300 | 14 | **9,516** |
| More than 1 but less than or equal to 5 years | 5 | | 62 | 107 | **173** |
| More than 5 years | 54 | | 0 | 63 | **117** |
| Indefinite period | 0 | | 0 | | **0** |
| **Total** | **261** | **-** | **9,363** | **184** | **9,807** |

## Note 18 – Offsetting of financial assets and liabilities

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet position when, and only when the Group:

- currently has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Group currently has no legally enforceable right which satisfies the above conditions. It follows that all amounts presented on the face of the balance sheet are gross amounts.

The Group however frequently enters into Master Netting Agreements (“MNA”) with its counterparties to manage the credit risks associated primarily with (i) repurchase and reverse repurchase transactions, (ii) securities borrowing / lending and (iii) over-the-counter derivatives.
These arrangements may also be supplemented by collateral agreements.

Offsetting rights provided for by such MNA are generally conditional upon the occurrence of some specific future events (typically the events of default, insolvency or bankruptcy of the counterparty). They are thus not current, which prevents the Group from setting the related assets and liabilities off on the balance sheet.
Similarly, the rights of set off relating to the cash and other financial instrument collateral are also conditional upon the default of the counterparty.

The financial impact of the MNA potential offsetting opportunities are disclosed in the following tables. Only Global Master Repurchase Agreements (GMRA) for repurchase agreements and International Swaps and Derivatives Association Master Agreement (ISDA) for over-the-counter derivatives have been considered.
The effect of Master Netting Agreements relating to securities lending and borrowing has not been reported because, as underlined in the Group’s significant accounting policies (cf. Note 2c), those transactions are not recognized on the balance sheet (i.e. securities lent are not derecognized from the balance sheet and securities borrowed are not recognized within assets). Notes 19 and 20 give additional information on those activities and on the related financial collateral received / pledged.

| **ASSETS (in EUR million)** | | **Impact of Master Netting Agreements** | | |
|---|---|---|---|---|
| **31/12/2016** | Gross amounts of financial assets presented on the balance sheet | Netting potential / financial liabilities | Financial collateral received (securities and cash) | Net amount |
| Cash, cash balances at central banks and other demand deposits | 1,619 | | | 1,619 |
| Financial assets | | | | |
| Hedging and trading derivatives | 282 | 166 | 63 | 53 |
| Held for trading assets (excluding derivatives) | 285 | | | 285 |
| Assets designated at fair value through profit or loss | 194 | | | 194 |
| Available for sale financial assets | 4,797 | | | 4,797 |
| Loans and receivables | 3,271 | | 950 | 2,322 |
| **Total** | **10,449** | **-166** | **-1,013** | **9,270** |

| LIABILITIES (in EUR million) | | Impact of Master Netting Agreements | | |
|---|---|---|---|---|
| 31/12/2016 | Gross amounts of financial liabilities presented on the balance sheet | Netting potential / financial assets | Financial collateral pledged (securities and cash) | Net amount |
| Financial liabilities | | | | |
| Hedging and trading derivatives | 391 | 166 | 154 | 70 |
| Held for trading liabilities (excluding derivatives) | 1 | | | 1 |
| Liabilities designated at fair value through profit or loss | | | | |
| Liabilities measured at amortized cost | 9,169 | | 526 | 8,643 |
| **Total** | **9,561** | **-166** | **-681** | **8,714** |

| ASSETS (in EUR million) | | Impact of Master Netting Agreements | | |
|---|---|---|---|---|
| 31/12/2015 | Gross amounts of financial assets presented on the balance sheet | Netting potential / financial liabilities | Financial collateral received (securities and cash) | Net amount |
| Cash, cash balances at central banks and other demand deposits | 697 | | | 697 |
| Financial assets | | | | |
| Hedging and trading derivatives | 247 | 124 | 25 | 98 |
| Held for trading assets (excluding derivatives) | 484 | | | 484 |
| Assets designated at fair value through profit or loss | 0 | | | 0 |
| Available for sale financial assets | 4,054 | | | 4,054 |
| Loans and receivables | 5,032 | 330 | 2,297 | 2,405 |
| **Total** | **10,514** | **-455** | **-2,322** | **7,738** |

| LIABILITIES (in EUR million) | | Impact of Master Netting Agreements | | |
|---|---|---|---|---|
| 31/12/2015 | Gross amounts of financial liabilities presented on the balance sheet | Netting potential / financial assets | Financial collateral pledged (securities and cash) | Net amount |
| Financial liabilities | | | | |
| Hedging and trading derivatives | 443 | 124 | 200 | 119 |
| Held for trading liabilities (excluding derivatives) | 1 | | | 1 |
| Liabilities designated at fair value through profit or loss | | | | |
| Liabilities measured at amortized cost | 9,363 | 330 | 65 | 8,968 |
| **Total** | **9,807** | **-455** | **-265** | **9,088** |

## Note 19 – Securities lending and securities given in guarantee

The Group regularly carries out transactions in which the assets transferred do not qualify for derecognition under IAS 39. The related securities are generally transferred under full ownership and the counterpart is thus able to re-use them in other operations.
This mainly concerns the following operations:

- repurchase agreements ("repo");
- securities lending; and
- securities given as collateral (in particular for securities borrowing or to guarantee credit lines received).

These transactions can be broken down as follows:

| **In EUR million 31/12/2016** | **Repo (**)** | **Securities lending** | | **Collateral given for securities borrowing (***)** | **Other** |
|---|---|---|---|---|---|
| | **Debt instruments** | **Debt instruments** | **Equity instruments** | **Debt instruments** | **Debt instruments** |
| Held for trading financial assets | 0 | 1 | | 32 | 69 |
| Financial instruments at fair value through profit or loss | | | | 4 | |
| Available for sale financial assets | 317 | 73 | | 193 | 362 |
| **Total financial assets not derecognised** | **317** | **74** | **-** | **228** | **431** |
| Other (*) | 227 | 54 | | 26 | 11 |
| **Total** | **544** | **129** | **-** | **255** | **442** |

| **In EUR million 31/12/2015** | **Repo (**)** | **Securities lending** | | **Collateral given for securities borrowing (***)** | **Other** |
|---|---|---|---|---|---|
| | **Debt instruments** | **Debt instruments** | **Equity instruments** | **Debt instruments** | **Debt instruments** |
| Held for trading financial assets | | 2 | | | |
| Financial instruments at fair value through profit or loss | | | | | |
| Available for sale financial assets | 297 | 83 | | 140 | 635 |
| **Total financial assets not derecognised** | **297** | **85** | **-** | **140** | **635** |
| Other (*) | 98 | 160 | | 138 | |
| **Total** | **395** | **245** | **-** | **278** | **635** |

*(*) The item 'Other' relates to securities borrowed or received as collateral for other operations.*
*(**)The carrying amount of debts associated with repo operations is available in Note 15.*
*(***) Fair value of securities borrowed: EUR 103 million at 31/12/2016 (EUR 230 million at 31/12/2015).*

## Note 20 – Securities received in guarantee

The Group mainly receives securities as collateral in relation to its reverse repurchase agreement operations and securities lending.
These securities are generally transferred under full ownership and the Group is able to re-use them in other operations.

The fair value of these guarantees can be broken down as follows:

| (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Reverse repurchase agreements | 945 | 2,635 |
| Collateral received in securities lending | 124 | 221 |
| **Total** | **1,070** | **2,857** |
| *Of which, transferred to:* | | |
| *Repurchase agreements* | 180 | 20 |
| *Securities lent* | | 4 |
| *Collateral given for securities borrowing* | 26 | 138 |
| *Other* | 11 | |
| **Total** | **217** | **162** |

## Note 21 – Impairment of available-for-sale financial assets

| Changes (in EUR million) | Debt instruments | Equity instruments |
|---|---|---|
| **Balance as at 01/01/2016** | **6** | **1** |
| Changes affecting the income statement | 1 | 0 |
| Allowances | 0 | 0 |
| Reversals | 1 | |
| Changes not affecting the income statement | 2 | 0 |
| Securities sold/matured | 2 | |
| Change in the scope of consolidation | | |
| Other | 0 | 0 |
| **Balance as at 31/12/2016** | **4** | **1** |

| Changes (in EUR million) | Debt instruments | Equity instruments |
|---|---|---|
| **Balance as at 01/01/2015** | **6** | **2** |
| Changes affecting the income statement | 0 | 0 |
| Allowances | | |
| Reversals | 0 | 0 |
| Changes not affecting the income statement | 0 | 1 |
| Securities sold/matured | 0 | 0 |
| Change in the scope of consolidation | 0 | 1 |
| Other | 0 | 0 |
| **Balance as at 31/12/2015** | **6** | **1** |

## Note 22 – Impairment of loans and receivables

| (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Total** | **15** | **28** |
| **Breakdown by type** | **15** | **28** |
| Specific impairments of loans and receivables | 13 | 26 |
| Portfolio based impairment | 2 | 2 |
| **Breakdown by counterparty** | **15** | **28** |
| Loans and advances to credit institutions | | |
| Loans and advances to other than credit institutions | 15 | 28 |
| **Geographic breakdown** | **15** | **28** |
| Domestic | 5 | 9 |
| Non Domestic | 10 | 19 |

| Changes (in EUR million) | Specific impairments of loans and receivables | Portfolio-based impairment | Total |
|---|---|---|---|
| **Balance as at 01/01/2016** | **26** | **2** | **28** |
| Changes affecting the income statement | 0 | 0 | 0 |
| Allowances | 1 | 0 | 1 |
| Reversals | 1 | 0 | 1 |
| Changes not affecting the income statement | 13 | | 13 |
| Use of provision | 13 | | 13 |
| Change in the scope of consolidation | | | |
| Other / Change impact | 0 | | 0 |
| **Balance as at 31/12/2016** | **13** | **2** | **15** |

| Changes (in EUR million) | Specific impairments of loans and receivables | Portfolio-based impairment | Total |
|---|---|---|---|
| **Balance as at 01/01/2015** | **34** | **3** | **37** |
| Changes affecting the income statement | 0 | 0 | 0 |
| Allowances | 4 | 0 | 4 |
| Reversals | 4 | 1 | 4 |
| Changes not affecting the income statement | 9 | | 9 |
| Use of provision | 5 | | 5 |
| Change in the scope of consolidation | 1 | | 1 |
| Other / Change impact | 3 | | 3 |
| **Balance as at 31/12/2015** | **26** | **2** | **28** |

## Note 23 – Derivatives

The notional value of the foreign exchange contracts represents the nominal to be delivered.

**Held for Trading**

| (in EUR million) | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Fair value | | Notional value | Fair value | | Notional value |
| | Assets | Liabilities | | Assets | Liabilities | |
| **Total** | **269** | **234** | **30,553** | **230** | **260** | **31,238** |
| **Interest rate** | **6** | **11** | **17,726** | **16** | **18** | **16,161** |
| OTC options | 0 | 0 | 31 | | | 23 |
| OTC other | 6 | 11 | 17,593 | 16 | 18 | 16,095 |
| Organized market options | 0 | 0 | 41 | | | |
| Organized market other | 0 | 0 | 62 | 0 | 0 | 43 |
| **Equity** | **25** | **25** | **784** | **82** | **82** | **1,484** |
| OTC options | 2 | 1 | 43 | 2 | 2 | 28 |
| OTC other | 2 | 2 | 23 | 2 | 2 | 23 |
| Organized market options | 21 | 21 | 577 | 78 | 78 | 1,383 |
| Organized market other | 1 | 1 | 142 | 0 | 0 | 51 |
| **Foreign exchange and gold** | **235** | **196** | **12,008** | **132** | **159** | **13,583** |
| OTC options | | | | 0 | 0 | 41 |
| OTC other | 235 | 196 | 11,970 | 132 | 159 | 13,513 |
| Organized market options | | | | 0 | 0 | 14 |
| Organized market other | 0 | 0 | 38 | 0 | 0 | 16 |
| **Commodity** | **-** | **-** | **-** | **0** | **0** | **1** |
| **Other** | **2** | **2** | **35** | **0** | **0** | **9** |

**Hedging** [(1)]

| (in EUR million) | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Fair value | | Notional value | Fair value | | Notional value |
| | Assets | Liabilities | | Assets | Liabilities | |
| **Total** | **14** | **156** | **1,850** | **17** | **184** | **2,313** |
| **Fair value hedges** | **14** | **156** | **1,850** | **16** | **177** | **1,892** |
| **Interest rate** | **9** | **97** | **1,471** | **13** | **136** | **1,660** |
| OTC options | 0 | | 6 | 0 | | 6 |
| OTC other | 9 | 97 | 1,464 | 13 | 136 | 1,654 |
| Organized market options | | | | | | |
| Organized market other | | | | | | |
| **Foreign exchange and gold** | **4** | **59** | **379** | **3** | **41** | **232** |
| OTC options | | | | | | |
| OTC other | 4 | 59 | 379 | 3 | 41 | 232 |
| Organized market options | | | | | | |
| Organized market other | | | | | | |
| **Cash flow hedges** | **-** | **-** | **-** | **1** | **6** | **421** |
| **Interest rate** | **-** | **-** | **-** | **-** | **6** | **399** |
| OTC options | | | | | | |
| OTC other | | | | | 6 | 399 |
| Organized market options | | | | | | |
| Organized market other | | | | | | |
| **Equity** | **-** | **-** | **-** | **1** | **-** | **23** |
| OTC options | | | | | | |
| OTC other | | | | 1 | | 23 |
| Organized market options | | | | | | |
| Organized market other | | | | | | |

(1) All hedging derivatives are designated in fair value hedging relationships except forward sales (interest rate contracts) which exclusively relate to cash flow hedge relationships. Hedged cash flows of these 2015 cash flow hedge relationships affect the income statement in early 2016.

## Note 24 – Other assets

The heading 'Other assets' covers various short-term receivables such as dividends and coupons that clients bring to KBL *epb* group to be cashed and the value of which has already been paid and precious metals assets.

## Note 25 – Tax assets and liabilities

| (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Current tax assets** | **3** | **1** |
| **Deferred tax assets** | **6** | **10** |
| Employee benefits | 2 | 1 |
| Losses carried forward | 34 | 36 |
| Tangible and intangible assets | 1 | 1 |
| Provisions | 18 | 21 |
| Financial instruments at fair value through profit or loss | | 2 |
| Available for sale financial instruments | 12 | 14 |
| Other | | 6 |
| **TAX ASSETS** | **9** | **11** |
| Tax losses and tax credits not capitalised (1) | 112 | 129 |

(1) Tax losses and tax credits not capitalised mainly concern tax losses of Group companies, which are not recognised because of uncertainty about future taxable profits.

| (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Current tax liabilities** | **1** | **4** |
| **Deferred tax liabilities** | **4** | **4** |
| Employee benefits | | 0 |
| Losses carried forward | | |
| Tangible and intangible assets | 1 | 1 |
| Provisions | 0 | |
| Financial instruments at fair value through profit or loss | | |
| Available for sale financial instruments | 4 | 4 |
| Other | 0 | 0 |
| **TAX LIABILITIES** | **6** | **8** |

Changes in deferred tax assets and liabilities are not equal to the deferred tax charge/income recognised in the income statement during the year. This is mainly due to the deferred tax linked to the recognition in the revaluation reserve of fair value changes in unimpaired available-for-sale financial instruments.

## Note 26 – Investments in associates

Associates are companies over which the KBL *epb* group has a significant influence, either directly or indirectly, without having full or joint control.

| (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Total** | **13** | **12** |
| | | |
| **Overview of investments in associates (including goodwill)** | | |
| European Fund Administration S.A. and EFA Partners S.A. | 13 | 12 |
| **Goodwill in associates** | | |
| Gross amount | | |
| Cumulative impairment | | |

| Changes | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Opening balance** | **12** | **12** |
| Share of profit for the year | 0 | 0 |
| Dividends paid | | |
| Changes in scope | | |
| **Ending balance** | **13** | **12** |

| Summary financial information (in EUR thousand) | Total asset | Total liabilities excluding equity | Net result |
|---|---|---|---|
| **31/12/2016** (provisional figures) | | | |
| European Fund Administration S.A. | 38,102 | 11,836 | 2,237 |
| EFA Partners S.A. | 2,396 | 12 | 316 |

## Note 27 – Goodwill and other intangible assets

| Changes (in EUR million) | Goodwill arising in a business combination | Purchased Portfolio of customers | Software developed in-house | Software purchased | Other | Total |
|---|---|---|---|---|---|---|
| **Balance as at 01/01/2016** | **215** | **59** | **7** | **6** | **1** | **289** |
| Acquisitions | 16 | | 2 | 2 | 0 | **19** |
| Disposals | | 1 | 0 | 0 | 0 | **-1** |
| Amortisation | | 4 | 7 | 3 | 0 | **-14** |
| Impairment | | 0 | | | | **0** |
| Allowances | | 0 | | | | **0** |
| Reversals | | | | | | **-** |
| Changes in scope | | | | | | **-** |
| Other | | | | 0 | 0 | **0** |
| **Balance as at 31/12/2016** | **231** | **54** | **2** | **6** | **0** | **292** |
| Of which cumulative amortisation and impairment | 117 | 88 | 5 | 28 | 1 | 239 |
| **Balance as at 01/01/2015** | **206** | **8** | **10** | **7** | **0** | **231** |
| Acquisitions | | 54 | 2 | 2 | 0 | **59** |
| Disposals | | | 0 | | | **0** |
| Amortisation | | 3 | 3 | 3 | 0 | **-10** |
| Impairment | | 0 | | | | **0** |
| Allowances | | 0 | | | | **0** |
| Reversals | | | | | | **-** |
| Changes in scope | 10 | | 1 | 0 | | **9** |
| Other | 0 | 0 | | 0 | 1 | **1** |
| **Balance as at 31/12/2015** | **215** | **59** | **7** | **6** | **1** | **289** |
| Of which cumulative amortisation and impairment | 117 | 83 | 14 | 26 | 9 | 249 |

## Note 28 – Property and equipment and investment properties

| (in EUR million) | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| **Property and equipment** | | **92** | **124** |
| **Investment properties** | | | |
| Carrying amount | | 3 | 5 |
| Fair value | | 6 | 10 |
| **Investment properties** | **Rental income** | **1** | **1** |

Investment properties' fair values disclosed supra are based on valuations obtained from independent valuers who hold a recognized and relevant professional qualification and have recent experience in the location and category of the investment properties being valued.
The estimates are primarily derived from recent transactions and other local market data observable in the areas where the properties are held. Related fair values are thus to be classified within the level 2 category under the IFRS 13 fair value hierarchy.

| Changes (in EUR million) | Land and buildings | IT equipment | Other equipment | Total property and equipment | Investment properties |
|---|---|---|---|---|---|
| **Balance as at 01/01/2016** | **102** | **5** | **17** | **124** | **5** |
| Acquisitions | 2 | 2 | 1 | **5** | 0 |
| Disposals | 31 | 0 | 0 | **-31** | |
| Depreciation | 6 | 2 | 2 | **-10** | 0 |
| Impairment | | 0 | 0 | **0** | |
| Allowances | | 0 | 0 | **0** | |
| Reversals | | | | **-** | |
| Translation differences | 0 | 0 | 0 | **0** | |
| Changes in scope | 3 | 0 | 0 | **3** | |
| Other | 0 | 0 | 2 | **2** | 2 |
| **Balance as at 31/12/2016** | **71** | **5** | **16** | **92** | **3** |
| Of which cumulative depreciation and impairment | 70 | 13 | 27 | 111 | 2 |

| Changes (in EUR million) | Land and buildings | IT equipment | Other equipment | Total property and equipment | Investment properties |
|---|---|---|---|---|---|
| **Balance as at 01/01/2015** | **123** | **6** | **21** | **150** | **23** |
| Acquisitions | 3 | 3 | 2 | **7** | 0 |
| Disposals | 18 | 0 | 3 | **-21** | 0 |
| Depreciation | 6 | 3 | 3 | **-11** | 0 |
| Impairment | | | | **-** | |
| Allowances | | | | **-** | |
| Reversals | | | | **-** | |
| Translation differences | 2 | 0 | 0 | **2** | |
| Changes in scope | | 1 | 1 | **-1** | 18 |
| Other | 2 | 1 | 0 | **-3** | |
| **Balance as at 31/12/2015** | **102** | **5** | **17** | **124** | **5** |
| Of which cumulative depreciation and impairment | 97 | 24 | 36 | 157 | 5 |

## Note 29 – Provisions

| Changes (in EUR million) | Pensions & other post employment defined benefit obligation | Other long term employee benefits | Specific impairment for credit commitments | Pending legal disputes | Other provisions | Total |
|---|---|---|---|---|---|---|
| **Balance as at 01/01/2016** | **76** | **6** | **0** | **13** | **1** | **96** |
| Changes affecting the income statement | 1 | 1 | | 2 | 1 | **5** |
| Allowances | 3 | 1 | | 3 | 1 | **9** |
| Reversals | 2 | 0 | | 1 | 0 | **-3** |
| Other changes | 4 | 0 | 0 | 3 | 0 | **0** |
| **Balance as at 31/12/2016** | **81** | **7** | **0** | **11** | **1** | **100** |

| Changes (in EUR million) | Pensions & other post employment defined benefit obligation | Other long term employee benefits | Specific impairment for credit commitments | Pending legal disputes | Other provisions | Total |
|---|---|---|---|---|---|---|
| **Balance as at 01/01/2015** | **91** | **5** | **0** | **18** | **27** | **141** |
| Changes affecting the income statement | 3 | 1 | 0 | 1 | 0 | **5** |
| Allowances | 3 | 1 | | 3 | 1 | **7** |
| Reversals | 0 | 0 | 0 | 2 | 0 | **-2** |
| Other changes | 18 | 1 | 0 | 6 | 26 | **-51** |
| **Balance as at 31/12/2015** | **76** | **6** | **0** | **13** | **1** | **96** |

Specific impairment for credit commitments: provisions accounted for to cover risk on given guarantees, more precisely on credits for which the Bank acts as sub-participant.

Provisions for pending legal disputes: provisions recorded to cover legal disputes with private and professional counterparties, including lawyers' fees.

Other provisions: other provisions than the above-mentioned provisions.

For most of the provisions recorded, no reasonable estimate can be made of when they will be used. The main litigation case is the following:

### Madoff litigation

In December 2008, Bernard L. Madoff's massive Ponzi scheme was discovered. Bernard L. Madoff Investment Securities LLC ("BLMIS") and its "feeder funds" were put into liquidation.
The liquidator of BLMIS considers that certain investors in BLMIS knew or should have known that BLMIS was fraudulent. The liquidator therefore launched a claim to recover payments made by BLMIS to these investors (so called "claw-back actions"). As the liquidator started claw-back actions against the feeder funds, the liquidators of these funds have in their turn started similar proceedings against KBL *epb* and other defendants before the New York Courts and the BVI Courts. The BVI Courts rejected the liquidators' restitution claim against KBL *epb* and other defendants judging that they acted in good faith. The liquidators appealed this judgement of the BVI court before the Privy Council in London. The Privy Council rejected the liquidators' appeal on 16 April 2014. As for the second proceedings before the BVI courts (i.e. proceedings to have the authority of the liquidators removed), parties are awaiting judgment in this matter. Finally, proceedings before the New York Court are still pending and KBL *epb* as well as the other defendants will now try to dismiss these proceedings.

As in this case the risks are remote, provisions have only be made for the legal costs.

**Note 30 – Other liabilities**

The heading ‘Other liabilities’ in particular covers various items payable in the short term such as coupons and redeemable securities as paying agent.

**Note 31 – Retirement benefit obligations**

KBL epb group operates a number of defined benefit plans for its employees. The most material plans are in Germany, United Kingdom and Luxembourg. It also operates defined contribution plans in some countries.

**Luxembourg**
The Group operated a number of defined benefit plans in Luxembourg comprising employer-funded and employee-funded plans. The employer-funded plans provided retirement benefits linked to service and final salary. Investment earnings applied to employee contributions were subject to a minimum guaranteed return. The plans were funded via insurance arrangement with a third party to which the company pays regular premiums.

**Plan settlements**

In 2016 the vested right of several active and former employees in specific defined benefit plans in Luxembourg were  converted into new defined contribution schemes.

A global settlement gain of EUR 2 million recognized in the income statement in 2016 arose from the difference between the present value of the defined benefit obligation settled (as determined on the date of settlement), and the settlement price (including any plan assets transferred and any payments made directly by the Group in connection with the settlement).

**Germany**
KBL *epb* group operates defined benefit plans in Germany which provide retirement, death and disability benefits. Some of these plans are closed to new entrants. Those plans with active membership mostly provide fixed amount pension promises. The plans are mostly unfunded but one plan is partly financed via a support fund, which invests in a single property.

**Netherlands**
As of 2 December 2016, it was determined the main pension schemes, that was accounted for as a defined benefit plan under IAS19, meets the definition of a defined contribution plan. This determination was based on the economic substance of the plan. From 2 December 2016, the Group has no legal or constructive obligation to pay contributions for the plan and no segregated asset depot is held at the insurance company where the assets backing the obligations are held. Therefore the plan is accounted for as a defined contribution plan as of 2 December 2016. The change in accounting treatment has resulted in a plan settlement and net asset settlement has taken place in 2016, resulting in a transfer of the prior recorded Other Comprehensive Income balance within Equity.

**Other plans**
The Group also has various retirement plans in France and the UK. Most of these plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts or insurance vehicles. The benefits provided, the approach to funding and the legal basis of the plans reflect their local environments.

| DEFINED BENEFIT PLANS<br>In EUR million | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Defined benefit plan obligations** | | |
| Value of obligations as at 01/01 | **155** | **229** |
| Current service cost | 2 | 2 |
| Interest cost | 3 | 4 |
| Past service cost and losses arising from settlements | 1 | |
| Actuarial (gains)/losses | 16 | 13 |
| stemming from changes in demographic assumptions | 0 | 1 |
| stemming from changes in financial assumptions | 18 | 10 |
| experience adjustments | 2 | 2 |
| Benefits paid | 15 | 8 |
| Out of which: amounts paid in respect of settlements | 8 | |
| Plan participant contributions | 0 | 0 |
| Currency adjustment | 3 | 1 |
| Business combinations and disposals | | 59 |
| Other | 33 | |
| Value of obligations as at 31/12 | **125** | **155** |
| **Fair value of plan assets** | | |
| Fair value of assets as at 01/01 | **86** | **139** |
| Actual return on plan assets | 7 | 0 |
| Interest income | 2 | 2 |
| Return on plan assets (excluding interest income) | 5 | 2 |
| Employer contributions | 2 | 1 |
| Plan participant contributions | 0 | 0 |
| Benefits paid | 10 | 5 |
| Out of which: amounts paid in respect of settlements | 7 | |
| Currency adjustment | 3 | 1 |
| Business combinations and disposals | | 50 |
| Other | 38 | |
| Fair value of assets as at 31/12 | **44** | **86** |

Plan assets do not include any investment in transferable securities issued by the Group (2015: EUR 0.2 million). A property is partially used by the Group for administrative purposes. The fair value of the portion of the property held for own use, as estimated at year end, is EUR 0.5 million (2015: EUR 0.5 million).

| | | |
|---|---|---|
| **Effect of the asset ceiling** | | |
| Effect of the asset ceiling as at 01/01 | **-6** | **-1** |
| Interest on the effect of asset ceiling | 0 | 0 |
| Change in the effect of asset ceiling | 1 | 5 |
| Other | 5 | |
| Effect of the asset ceiling as at 31/12 | **0** | **-6** |
| **Funded status** | | |
| Plan assets in excess of defined benefit obligations | 80 | 69 |
| Unrecognised assets | 0 | 6 |
| Unfunded accrued / prepaid pension cost | **-80** | **-75** |

| In EUR million | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Changes in net defined benefit pension liability or asset** | | |
| Unfunded accrued / prepaid pension cost as at 01/01 | **-75** | **-91** |
| Net periodic pension cost recognized in the income statement | 2 | 3 |
| Remeasurements recognized in OCI (excl. change in tax provision) | 9 | 6 |
| Employer contributions | 2 | 1 |
| Pension payments by employer | 4 | 3 |
| Out of which: amounts paid in respect of settlements | | 0 |
| Currency adjustment | 0 | 0 |
| Business combinations and disposals | 0 | 9 |
| Unfunded accrued / prepaid pension cost as at 31/12 | **-80** | **-75** |
| | | |
| **Changes in the tax provision relating to current deficits on external plans** | | |
| Recognized provision as at 01/01 | **0** | **0** |
| Change in the provision recognized through OCI | 0 | 0 |
| Pension payments by employer | 0 | 0 |
| Gains and losses arising from settlements | 0 | |
| Recognized provision as at 31/12 | **0** | **0** |
| | | |
| **Changes in the remeasurement reserve in equity** | | |
| Recognized reserve as at 01/01 | **-30** | **-43** |
| Remeasurement recognized in OCI | 9 | 6 |
| Transfers | 4 | 6 |
| Recognized reserve as at 31/12 | **-35** | **-30** |
| | | |
| **AMOUNTS RECOGNIZED IN COMPREHENSIVE INCOME** | | |
| **Amounts recognised in the income statement** | | |
| Current service cost | 2 | 2 |
| Net interest on the defined benefit liability/asset | 2 | 2 |
| Past service cost | | |
| Gains and losses arising from settlements | 2 | |
| Other | | |
| **Net pension cost recognized in the income statement** | **-1** | **-3** |
| | | |
| **Amounts recognized in other comprehensive income** | | |
| Actuarial gains/losses on the defined benefit obligation | 16 | 13 |
| Actual return on plan assets (excluding amounts included in interest income) | 5 | 2 |
| Change in the effect of the asset ceiling | 1 | 5 |
| Change in the tax provision | 0 | 0 |
| Currency adjustment | 0 | 0 |
| **Total other comprehensive income** | **-9** | **6** |
| | | |
| **Actual return on plan assets** | **8.39%** | **0.09%** |
| | | |
| **Breakdown of plan assets** | **100%** | **100%** |
| Fixed income | | |
| Quoted market price in an active market | 54% | 77% |
| Unquoted | | |
| Equities | | |
| Quoted market price in an active market | 13% | 8% |
| Unquoted | | |
| Alternatives | | |
| Quoted market price in an active market | 8% | 0% |
| Unquoted | | |
| Cash | 2% | 4% |
| Real estate | 11% | 6% |
| Other | 12% | 5% |

| In EUR million | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Significant actuarial assumptions used:** | | |
| Defined benefit obligation<br>The rate used to discount the post employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds with similar maturities than the pension commitments. | | |
| Discount rate | 0.34% to 2.70% | 1.21% to 3.70% |
| DBO sensitivity to changes in discount rate | | |
| Scenario DR  1% | +20 | +27 |
| Scenario DR +1% | 15 | 21 |
| Expected rate of salary increase (including inflation) | 1.50% to 3.00% | 1.50% to 3.00% |
| Scenario SR  1% | 0 | 2 |
| Scenario SR +1% | 0 | +3 |
| **Maturity profile of the DBO** | | |
| Weighted average duration of the DBO (in years) | **14** | **16** |
| **Expected contributions for next year** | **1** | **1** |

| **Defined contribution plans**<br>**In EUR million** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Amount recorded in the income statement | 11 | 8 |

## Note 32 – Equity attributable to the owners of the parent

As of 31 December 2016, the subscribed and paid-up capital is EUR 221.2 million (31 December 2015: EUR 187.2 million), represented by 23,794,431 ordinary shares without par value (2015: 20,132,547) and by 4,336 non-voting preference shares without par value (2015: 4,041).

The 2016 evolution in equity is due to the following events:

- The Extraordinary General Meeting held on 21 July 2016 resolved
    - (i) to reduce the share capital by EUR 7,632 by cancelling 821 shares in accordance with the law of 28 July 2014 regarding the immobilisation of bearer shares, modifying the law of 10 August 1915 as amended;
    - (ii) to rectify a minor discrepancy deriving from the number of shares held in treasury by KBL, i.e. 495 treasury shares, should actually have been converted and allocated as preference shares held by other shareholders. The number of shares mentioned are rectified via a netting of 495 shares operated by a reduction of ordinary shares and an increase of preference shares. This adjustment does not affect the total number of shares of the Bank.

- The Board of Directors held on 15 December 2016 approved the increase of the share capital by EUR 34,053,266.77 by subscription of 3,663,000 new ordinary shares by Precision Capital S.A..

Holders of preference shares are entitled to receive an initial dividend of EUR 0.25 per share, as established in the Bank's articles of incorporation, and are therefore guaranteed a minimum annual return. If there are no profits, this dividend entitlement is carried forward to subsequent periods. Any profits remaining once this first dividend has been paid are shared out between all shareholders, whether they hold ordinary or preference shares, in such a way that both categories of shareholders ultimately receive an identical dividend. The Bank is not indebted towards preference shareholders.

Article 35 of the Bank's articles of incorporation specifies that the net liquidation profit, after the charges payment, will be used to firstly refund the non-voting preference shareholders. The remaining balance will be allocated on equal basis to ordinary shareholders.

In accordance with the Luxembourg law on limited companies, at least 5% of the profit of the year has to be allocated to the legal reserve. This allocation ceases to be mandatory as soon as the legal reserve amounts to 10% of the capital.

As at 31 December 2016, the legal reserve is EUR 18.7 million (31 December 2015: EUR 18.7 million) representing 10% of the paid-up capital, the free reserves amounts to EUR 504.5 million (31 December 2015: EUR 504.1 million), the AGDL reserve amounts to EUR 1.7 million (31 December 2015: EUR 2.2 million), and the reserve for the reduction of wealth tax is nil (31 December 2015: nil). The retained earnings amounts to EUR 41.8 million (31 December 2015: nil).

| In number of shares | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Total number of shares issued** | **23,798,767** | **20,136,588** |
| Ordinary shares | 23,794,431 | 20,132,547 |
| Preference shares | 4,336 | 4,041 |
| Of which: shares entitling the holder to a dividend payment | 23,798,767 | 20,135,744 |
| Of which: treasury shares, | | 844 |
| Of which: shares representing equity under IFRS | 23,798,767 | 20,135,744 |

| Changes | Ordinary shares | Preference shares | Total |
|---|---|---|---|
| **Balance as at 01/01/2016** | **20,132,547** | **4,041** | **20,136,588** |
| - Reduction of the share capital (Law of 28 July 2014 regarding the immobilisation of bearer shares modifying the law of 10 August 1915 as amended) | 621 | 200 | 821 |
| - Minor discrepancy netting | 495 | 495 | |
| - Capital increase | 3,663,000 | | 3,663,000 |
| **Balance as at 31/12/2016** | **23,794,431** | **4,336** | **23,798,767** |

## Note 33 – Result allocation proposal

At its meeting on 23 March 2017, the Board of Directors proposes to allocate the 2016 net result of EUR 28,732,355 as follows:

- allocation of EUR 3,405,327 to the legal reserve in order to reach 10% of the paid-up capital after the 2016 share capital increase

- allocation of EUR 25,327,028 to the retained earnings.

On 26 April 2017, this affectation will be submitted for the approval of the Annual General Meeting.

## Note 34 – Loans commitments, financial guarantees and other commitments

| (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Confirmed credits, unused | 612 | 608 |
| Financial guarantees | 35 | 32 |
| Other commitments (securities issuance facilities, spot transaction settlement, etc.) | 30 | 15 |
| **Total** | **678** | **655** |

## Note 35 – Assets under management and custody

Total assets under management related to clients in the private banking sector (including frozen and low yielding assets) as at 31 December 2016 amount to EUR 50.8 billion (2015: EUR 48.7 billion).

Total assets under custody (investment funds and institutional) as at 31 December 2016 amount to EUR 18.7 billion (2015: EUR 40.4 billion).

## Note 36 – Related party transactions

'Related parties' refers to the parent company of KBL *epb,* its subsidiaries and key management personnel. Transactions with related parties are carried out under conditions equivalent to those applicable to transactions subject to conditions of normal competition.

| **In EUR million** | | **31/12/2016** | **31/12/2015** |
|---|---|---|---|
| **Cash, cash balances at central banks and other demand deposits** | | **0** | **0** |
| *of which financial assets* | *with Pioneer Holding*[1] | | |
| | *with Precision Capital* | | |
| | *with Banque Internationale à Luxembourg* | 0 | 0 |
| | *with Associates* | | |
| **Financial assets** | | **0** | **68** |
| *of which financial assets* | *with Pioneer Holding*[1] | *0* | *2* |
| | *with Precision Capital* | | *3* |
| | *with Banque Internationale à Luxembourg* | *0* | *63* |
| | *with Associates* | | |
| Held for trading | | 0 | 0 |
| At fair value through profit or loss | | | |
| Available for sale financial assets | | | 2 |
| Loans and receivables | | 0 | 66 |
| Hedging derivatives | | | |
| **Financial liabilities** | | **153** | **433** |
| *of which financial liabilities* | *with Pioneer Holding*[1] | *136* | *343* |
| | *with Precision Capital* | *13* | *76* |
| | *with Banque Internationale à Luxembourg* | *0* | *8* |
| | *with Associates* | *3* | *6* |
| Held for trading | | | 0 |
| At amortised cost | | 153 | 426 |
| Hedging derivatives | | | |
| **Income statement** | | **-13** | **-14** |
| *of which income statement* | *with Pioneer Holding*[1] | *0* | *1* |
| | *with Precision Capital* | *1* | *0* |
| | *with Banque Internationale à Luxembourg* | *1* | *0* |
| | *with Associates* | *13* | *15* |
| Net interest income | | 0 | 0 |
| Dividend income | | 0 | 0 |
| Net fee and commission income | | 13 | 14 |
| Other net income / (charges) | | 0 | |
| Operating expenses | | 1 | 0 |

(1) "Pioneer Holding" amounts include transactions with the ultimate beneficial owner as a private client

| WITH KEY MANAGEMENT PERSONNEL<br>In EUR million | 31/12/2016 | | 31/12/2015 | |
|---|---|---|---|---|
| | Amount | Number of persons | Amount | Number of persons |
| Amount of remuneration to key management personnel of KBL *epb* group on the basis of their activity, including the amounts paid to former key management personnel | 44 | 216 | 42 | 210 |
| Credit facilities and guarantees granted | 11 | 48 | 9 | 58 |
| Loans outstanding | 12 | 34 | 10 | 38 |
| Guarantees outstanding | 0 | 3 | 0 | 6 |
| Pension commitments | 55 | 33 | 51 | 40 |
| Expenses for defined contribution plans | 3 | 129 | 3 | 119 |

## Note 37 – Solvency

The table below gives the solvency ratios calculated in the framework of the EU Parliament & Council, Capital Requirement Regulation (CRR 2013/575).

| In EUR million | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Regulatory capital** | **651** | **534** |
| **Tier 1 capital** | **650** | **527** |
| Capital, share premium, reserves and retained earnings | 1,072 | 827 |
| Eligible Result | 6 | 25 |
| Accumulated other comprehensive income/loss on remeasurement of defined benefit pension plans | 34 | 28 |
| Intangible assets and goodwill | 292 | 289 |
| Treasury shares | | 0 |
| Defined benefit pension fund assets | 0 | 0 |
| Deferred tax assets | 4 | 7 |
| Asset Value Adjustment | 1 | |
| Significant investments in relevant entities | 96 | |
| **Tier 2 capital** | **1** | **7** |
| Preference shares | 0 | 0 |
| Subordinated liabilities | 1 | 7 |
| **Risk weighted assets** | **3,799** | **3,826** |
| Credit risk | 2,730 | 2,738 |
| Market risk | 340 | 299 |
| Credit value adjustment | 14 | 15 |
| Operational risk | 716 | 774 |
| **Solvency ratios** | | |
| **Basic solvency ratio (Tier 1 ratio)** | **17.11%** | **13.78%** |
| **Solvency ratio (CAD ratio)** | **17.14%** | **13.97%** |

The estimated solvency ratios as at 31 December 2016 including Bank Insinger de Beaufort (see Note 1) is presented in Note 44 – Events after the balance sheet date.

**Note 38 – Maximum credit risk exposure and collateral received to mitigate the risk**

| (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Assets** | **10,584** | **10,638** |
| **Balances at central banks and other demand deposits** | 1,614 | 691 |
| Financial assets | 8,830 | 9,817 |
| Held for trading | 554 | 714 |
| At fair value through profit or loss | 194 | 0 |
| Available for sale financial assets | 4,797 | 4,054 |
| Loans and receivables | 3,271 | 5,032 |
| Hedging derivatives | 14 | 17 |
| Tax assets | 9 | 11 |
| Other assets | 131 | 119 |
| **Off-balance sheet items** | **678** | **655** |
| Loans commitments | 612 | 608 |
| Financial guarantees | 35 | 32 |
| Other commitments (securities issuance facilities, spot transaction settlement, etc.) | 30 | 15 |
| **Securities lending** | **129** | **245** |
| **Maximum credit risk exposure** | **11,390** | **11,539** |

For the instruments carried at fair value, the amounts disclosed above represent the current credit risk exposure and not the maximum credit risk that could apply as a consequence of future changes in the estimates made.

| Collateral and guarantee received to mitigate the maximum exposure to credit risk (in EUR million) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Mortgage loans collateralized by immovable property** | **543** | **500** |
| Residential | 435 | 405 |
| Commercial | 108 | 95 |
| **Other collateralized loans** | **2,033** | **3,761** |
| Cash | 216 | 199 |
| Rest (including securities received in reverse repo operations) | 1,817 | 3,561 |
| **Financial guarantees received** | **200** | **194** |
| **Collateral and guarantee received to mitigate the maximum exposure to** | **2,776** | **4,455** |

The amount and type of collateral required depend on the type of business considered and the Group's assessment of the debtor's credit risk.

The main types of collateral received are as follows:

- Cash;
- Securities (in particular for reverse repo operations and securities lending); and
- Other personal and/or collateral guarantees (mortgages).

These guarantees are monitored on a regular basis to ensure their market value remains adequate as regards the assets they are intended to cover. If a guarantee is noted to be insufficient, margin calls are made in accordance with the agreements signed with the various counterparties concerned.

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risks exposures, in accordance with Part IV, article 400 of the EU No 575/2013, the risks to which the Bank is exposed towards Banque Internationale à Luxembourg and KBL *epb*'s subsidiaries. This exemption is not eligible towards Precision Capital. The exposures on related parties are disclosed in Note 36.

**Note 39 – Risk management**

This note aims to disclose the '*nature and risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks*', as required by IFRS 7. The information is presented by risk type as proposed by the standards.

1. Credit risk

1.1. Qualitative information

*1.1.1. Origin of credit risk*

The credit risks arising from financial instruments mainly originate from:

- lending to private clients (mainly Lombard loans and Mortgage loans). Risk in this activity is largely mitigated by a strong collateral policy, implying limited unsecured exposures;
- positions in ALM portfolios;
- uncommitted lines covering the trading activity and counterparty exposures with banks (forex, money markets, swaps, reverse repo, securities lending, derivatives, etc.);
- the granting of uncommitted lines to clients of the Institutional & Professional Services (IPS) Function in Luxembourg (mainly UCI), to cover temporary overdrafts;
- the acceptance of securities used as collateral in securities lending and repo transactions.

*1.1.2. Credit allocation decision making process / governance*

In Luxembourg, as in subsidiaries, all lending/investment decisions and decisions to grant uncommitted lines are the responsibility of the Executive Committee or one of the other competent bodies designated under the delegation of authority based on specific criteria. This delegation of powers always requires the involvement of at least two people from different entities, to ensure that there is no risk of conflict of interest.

A credit authority grid within the credit policy defines the limits for credit decisions within each of the subsidiaries of the group. Any credit proposal exceeding the defined limits has to be submitted to the Group Credit Committee ("GCC") for consideration, with further escalation to the Executive Committee and/or Board Risk Committee for final decision on those credits which are above the limits of the GCC.

Each new credit proposal submitted to the Group Credit Committee/Executive Committee is accompanied by an opinion issued by Group Credit Risk Control, based on an analysis of the financial situation and creditworthiness of the borrower and of the structure of collateral.

Internal processes ensure the identification of related counterparties, in order to monitor concentration risk on debtors/group of debtors. Group structures are moreover permanently updated by Group Credit Risk Control.

*1.1.3. Credit policy*

The credit policy defines the framework within which loan activities to customers are managed in the KBL epb group. It is reviewed/updated on an annual basis. The last version was validated by the Board Risk Committee[(1)] ("BRC") in early 2016.

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[(1)] The Board Risk Committee or BRC is a sub Committee of the Board of Directors dedicated to risk issues

*1.1.4. Measurement/monitoring of credit risk*

Credit risk related to lending activities, investment portfolios or trading activities has to remain within the general framework set in the Risk Appetite Statement validated by the Board Risk Committee. Therefore, specific indicators are reported to the ALCO on a monthly basis and quarterly to the BRC. Special attention is set on concentration risk, being on single issuers, single banking counterparties or countries.

Group Credit Risk Control has its own system for country and concentration limits, approved by the Executive Committee and by the Board Risk Committee. This system allows the definition of limits adapted to the size of the Group and to its risk appetite.

At a regulatory level, KBL *epb* group uses the standardised Basel III methodology to calculate credit risk.

<u>1.1.4.1. Loans</u>

In terms of the day-to-day monitoring of lending transactions, the loan administration systems automatically monitor the loans and guarantees schedule, which allows any overdraft or collateral shortfall to be detected and the appropriate corrective actions to be taken swiftly.

On a quarterly basis, a global consolidated reporting of all lending exposures is performed, detailing the portfolio by loan type, customers type, countries, maturities and performing status. It also presents information on the effective loan-to-values for the collateralized exposures.

The files for which a specific monitoring is requested are included in the Watchlist which is discussed monthly in the Group Credit Committee.

<u>1.1.4.2. Investment portfolios</u>

Investment proposals in the portfolios of any entity of KBL *epb* group are submitted by the Group ALM Function. All proposals within the Group have to respect the concentration limits, defined by issuer type (Sovereigns, Corporates and Banks), as well as the concerned country limits. The Group Credit Risk Control department checks the availability under those limits before any investment and may advise against any investment based on its own credit risk assessment, supported by comments provided by the international rating agencies and analysis of the published financial statements.

Group Credit Risk Control automatically monitors debtors' ratings, as reported by rating agencies, and informs the entities concerned accordingly. Various types of standard or specific reports are also drawn up in order to monitor any deterioration in the quality of the portfolio.

Any overdraft of issuer concentration limits, due to rating downgrades, is communicated monthly to the ALCO, and quarterly to the BRC.

<u>1.1.4.3. Interbank transactions</u>

The set-up and monitoring of interbank limits, which are mainly concentrated in the Luxembourg Dealing Room, is a major activity of Group Credit Risk Control. It covers:

- The maintenance of maximum limits, in line with principles validated by the BRC.

  This system defines interbank limits which are commensurate with the size of the Bank and its risk appetite. It fully integrates the Large Exposures regulation. Loans outstanding are allocated to lines according to a standard "marked-to-market + add on" approach.
  Their update is triggered by changes in one of the influencing factors (ratings, tier 1 capital...);
- The set-up of operational limits (that can only be smaller than maximum limits) that are necessary to adequately allocate interbank sub-limits across the different products (Money Market, Repo, Securities Lending,…) is processed in accordance with the different desks.
  The monitoring of exposures and their compliance with operational limits is monitored on a daily basis by the Group Credit Risk Control department.

1.1.4.4. Collateral monitoring

The management and supervision of collateral received for secured transactions, in addition to contract management, is handled by a dedicated entity of the Function ‘Operations’. Specific guidelines, validated by the Executive Committee, set rules on concentration by counterparties and by securities accepted as collateral, as well as risk correlation limits (correlation between the counterparty and the collateral). The respect of these rules is monitored on a daily basis by the Group Credit Risk Control department.

1.1.4.5. Country limits

The framework for the definition and monitoring of country limits covers all types of country risks (in particular that of contagion) and not only the risk of transferability.

Lines are allocated to the Bank and its subsidiaries for credit activities, bonds investments and trading room activities (for Luxembourg) as and when required. As for counterparty risk, the respect of the set country limits is monitored on a daily basis.

1.1.4.6. Concentration monitoring

As mentioned here above, issuer concentration limits are defined per individual or group of counterparts. These limits are assigned to sovereigns, banks and corporates, using a methodology derived from the country limit framework and consider additional financial criteria. Issuer concentration limits are divided into sub-limits which preserve diversification both in terms of maturity and products.

The issuer concentration limits are updated and monitored by Group Credit Risk Control. Exception reports are escalated to the Group ALCO.

## 1.2. Quantitative information

### *1.2.1. Breakdown of credit risk exposures*

The distribution of the credit risk exposures (available-for-sale (AFS) financial assets and Loans and Receivables (L&R)) by products is as follows:

| **In EUR million<br>AFS<br>31/12/2016** | **Amortised cost (before impairment)** | | | **Fair value (after impairment)** | | |
|---|---|---|---|---|---|---|
| | **NPL/Impaired** | **Standard** | **Total** | **NPL/Impaired** | **Standard** | **Total** |
| Bank bonds | | 754.0 | **754.0** | | 785.6 | **785.6** |
| Corporate bonds | 3.6 | 915.0 | **918.6** | 1.6 | 961.9 | **963.4** |
| Asset backed securities | | | **-** | | | **-** |
| Government bonds | | 2,593.1 | **2,593.1** | | 2,720.4 | **2,720.4** |
| **Sub-total** | **3.6** | **4,262.1** | **4,265.7** | **1.6** | **4,467.9** | **4,469.4** |
| Other (Equity instruments, funds…) | | | | | | |
| **TOTAL** | | | | | | **4,797.2** |

| **In EUR million<br>AFS<br>31/12/2015** | **Amortised cost (before impairment)** | | | **Fair value (after impairment)** | | |
|---|---|---|---|---|---|---|
| | **NPL/Impaired** | **Standard** | **Total** | **NPL/Impaired** | **Standard** | **Total** |
| Bank bonds | | 980.3 | **980.3** | | 1,035.1 | **1,035.1** |
| Corporate bonds | 8.1 | 1,037.3 | **1,045.4** | 4.2 | 1,086.0 | **1,090.1** |
| Asset backed securities | | | **-** | | | **-** |
| Government bonds | | 1,663.8 | **1,663.8** | | 1,792.6 | **1,792.6** |
| **Sub-total** | **8.1** | **3,681.4** | **3,689.5** | **4.2** | **3,913.6** | **3,917.8** |
| Other (Equity instruments, funds…) | | | | | | **136.7** |
| **TOTAL** | | | | | | **4,054.5** |

| **In EUR million<br>Loans and receivables<br>31/12/2016** | **NPL/Impaired** | **Standard** | **Total** |
|---|---|---|---|
| Banks and other financial institutions | | 1,220.3 | 1,220.3 |
| Customers | 24.0 | 2,027.1 | 2,051.1 |
| **Sub-total** | 24.0 | 3,247.4 | **3,271.4** |
| Other L&R and Intercompanies | | | |
| **TOTAL** | | | **3,271.4** |

| **In EUR million<br>Loans and receivables<br>31/12/2015** | **NPL/Impaired** | **Standard** | **Total** |
|---|---|---|---|
| Banks and other financial institutions | | 2,252.9 | 2,252.9 |
| Customers | 29.4 | 2,696.3 | 2,725.7 |
| **Sub-total** | **29.4** | **4,949.2** | **4,978.6** |
| Other L&R and Intercompanies | | | |
| **TOTAL** | | | **4,978.6** |

*1.2.2. Specific loan impairment*

For the parent company in Luxembourg, which constitutes the largest portion of global exposures, the valuation of potential losses and the adjustment of specific impairments are carried out quarterly by Group Credit Risk Control. The Group Credit Committee decides on any adjustment for the first three quarters of the year, while it is the responsibility of the Executive Committee for the fourth quarter.

Subsidiaries submit their proposals for impairments during the quarterly consolidation.

Below are listed specific impairments established in respect of non performing loans and available-for-sale financial assets (debt instruments) as at 31 December 2015 and 2016:

| **In EUR million**<br>**31/12/2016** | **< 30 days** | **30-60 days** | **60-90 days** | **90-180 days** | **6-12 months** | **>12 months** | **other impaired (1)** | **TOTAL** |
|---|---|---|---|---|---|---|---|---|
| AFS gross | | | | | | | 3.6 | 3.6 |
| Impairment | | | | | | | 2.0 | 2.0 |
| AFS net | | | | | | | 1.6 | 1.6 |
| L&R gross | 0.2 | | | 0.1 | 0.0 | 23.2 | 13.1 | 36.6 |
| Impairment | 0.0 | | | | | 8.4 | 4.2 | 12.6 |
| L&R net | 0.2 | | | 0.1 | 0.0 | 14.8 | 8.9 | 24.0 |
| Total gross | 0.2 | | | 0.1 | 0.0 | 23.2 | 16.7 | 40.2 |
| Impairment | 0.0 | | | | | 8.4 | 6.2 | 14.6 |
| Total net | 0.2 | | | 0.1 | 0.0 | 14.8 | 10.5 | 25.6 |

(1) The related assets are impaired but not because of delays in payments.

| **In EUR million**<br>**31/12/2015** | **< 30 days** | **30-60 days** | **60-90 days** | **90-180 days** | **6-12 months** | **>12 months** | **other impaired (1)** | **TOTAL** |
|---|---|---|---|---|---|---|---|---|
| AFS gross | | | | | | | 8.1 | 8.1 |
| Impairment | | | | | | | 4.0 | 4.0 |
| AFS net | | | | | | | 4.2 | 4.2 |
| L&R gross | | | | 0.1 | 4.0 | 33.6 | 17.3 | 55.0 |
| Impairment | | | | | 2.4 | 16.6 | 6.7 | 25.7 |
| L&R net | | | | 0.1 | 1.6 | 17.1 | 10.6 | 29.4 |
| Total gross | | | | 0.1 | 4.0 | 33.6 | 25.5 | 63.2 |
| Impairment | | | | | 2.4 | 16.6 | 10.7 | 29.7 |
| Total net | | | | 0.1 | 1.6 | 17.1 | 14.8 | 33.5 |

(1) The related assets are impaired but not because of delays in payments.

Main variations on non performing L&R clients gross are linked to (i) the repayment of a client loan (EUR 5.7 mln), partially through proceeds of collateral sale and by utilisation of impairment; (ii) the write-off of 9 legacy loans by utilisation of the impairment (EUR 9.2 mln); (iii) the full repayment of a non performing mortgage (EUR 1.5 mln) through external refinancing.

Main variations on AFS gross are linked to the exercise of put options embedded in two perpetual bonds.

The loan/loss ratio is as follows:

| **Loan/Loss ratio (*)** | **2016** | **2015** |
|---|---|---|
| L&R from customers | 1bps | 1bps |
| AFS financial assets | <0% | 0bps |

(*) The loan/loss ratio is defined as the net variation of specific and general impairments on the average loan portfolio over the year.

*1.2.3. Concentration of risks*

1.2.3.1. By rating[1]

**In EUR million**

| Rating 31/12/2016 | AFS | | | L&R-Banks and other financial institutions | | | |
|---|---|---|---|---|---|---|---|
| | *NPL / Impaired* | *Standard* | *Total* | *Other L&R* | *Reverse Repo* | *Commercial Paper* | *Total* |
| AAA | | 420.3 | 420.3 | | | | |
| AA+ | | 166.6 | 166.6 | | | | |
| AA | | 634.8 | 634.8 | | | | |
| AA | | 315.4 | 315.4 | 41.5 | | | 41.5 |
| A+ | | 503.3 | 503.3 | 13.5 | | | 13.5 |
| A | | 366.8 | 366.8 | 88.6 | 0.5 | 54.8 | 143.9 |
| A | | 473.1 | 473.1 | 11.1 | 0.1 | 23.5 | 34.7 |
| BBB+ | | 412.0 | 412.0 | 6.6 | | | 6.6 |
| BBB | 1.6 | 695.6 | 697.2 | | | | |
| BBB | | 388.7 | 388.7 | | 951.0 | | 951.0 |
| BB+ | | 35.0 | 35.0 | | | | |
| BB | | 25.6 | 25.6 | | | | |
| BB | | 9.9 | 9.9 | | | | |
| B+ | | 5.2 | 5.2 | | | | |
| B | | 5.8 | 5.8 | | | | |
| B | | | | | | | |
| CCC | | | | | | | |
| Not rated | | 9.8 | 9.8 | 19.7 | | 9.4 | 29.1 |
| **Total** | **1.6** | **4,467.9** | **4,469.4** | **181.0** | **951.7** | **87.6** | **1,220.3** |

**In EUR million**

| Rating 31/12/2015 | AFS | | | L&R-Banks and other financial institutions | | | |
|---|---|---|---|---|---|---|---|
| | *NPL / Impaired* | *Standard* | *Total* | *Other L&R* | *Reverse Repo* | *Commercial Paper* | *Total* |
| AAA | | 618.4 | 618.4 | | | | |
| AA+ | | 266.6 | 266.6 | | | | |
| AA | | 612.0 | 612.0 | | | | |
| AA | | 395.9 | 395.9 | 23.8 | | | 23.8 |
| A+ | 1.8 | 259.1 | 260.9 | 17.6 | 480.6 | | 498.2 |
| A | 0.9 | 357.0 | 357.8 | 164.3 | 414.5 | | 578.8 |
| A | | 624.3 | 624.3 | 2.2 | 273.8 | | 276.0 |
| BBB+ | | 434.3 | 434.3 | 0.2 | 507.3 | | 507.5 |
| BBB | 1.6 | 235.7 | 237.2 | | 159.5 | | 159.5 |
| BBB | | 63.9 | 63.9 | | | | |
| BB+ | | 14.5 | 14.5 | | | | |
| BB | | 14.7 | 14.7 | | | | |
| BB | | | | | | | |
| B+ | | | | | | | |
| B | | | | | | | |
| B | | | | | | | |
| CCC | | | | | | | |
| Not rated | | 17.4 | 17.4 | 27.4 | 181.7 | | 209.2 |
| **Total** | **4.2** | **3,913.6** | **3,917.8** | **235.5** | **2,017.4** | **-** | **2,252.9** |

[1] The information on rating is not available as such for Loans and Receivables to customers.

### 1.2.3.2. Government bonds by country

| In EUR million 31/12/2016 | Available-for-sale financial assets | | | | | Held-for-trading assets | |
|---|---|---|---|---|---|---|---|
| | Nominal | Carrying amount | Available-for-sale reserve | Impairment | Related hedging derivatives | Nominal | Carrying amount |
| **Austria** | **50.8** | **54.9** | **2.7** | **-** | **-** | **-** | **-** |
| Maturing in 2017 | 11.6 | 12.0 | 0.3 | | | | |
| Maturing in 2018 or 2019 | 30.8 | 33.1 | 1.4 | | | | |
| Maturing in 2020 or 2021 | 6.2 | 7.2 | 1.0 | | | | |
| Maturing in 2022 and later | 2.2 | 2.6 | 0.1 | | | | |
| **Canada** | **80.4** | **89.0** | **1.9** | **-** | **-5.0** | **-** | **-** |
| Maturing in 2017 | | | | | | | |
| Maturing in 2018 or 2019 | 11.3 | 12.0 | 0.2 | | | | |
| Maturing in 2020 or 2021 | 19.1 | 21.1 | 0.8 | | | | |
| Maturing in 2022 and later | 50.0 | 55.9 | 0.9 | | 5.0 | | |
| **Czech republic** | **126.5** | **152.2** | **2.6** | **-** | **-20.7** | **-** | **-** |
| Maturing in 2017 | 37.0 | 37.5 | 0.1 | | 0.4 | | |
| Maturing in 2018 or 2019 | 5.0 | 5.4 | 0.1 | | | | |
| Maturing in 2020 or 2021 | 10.0 | 11.5 | 0.1 | | | | |
| Maturing in 2022 and later | 74.5 | 97.8 | 2.2 | | 20.3 | | |
| **France** | **133.5** | **142.9** | **3.9** | **-** | **-** | **0.3** | **0.4** |
| Maturing in 2017 | 24.6 | 24.9 | 0.1 | | | | |
| Maturing in 2018 or 2019 | 38.2 | 41.4 | 1.6 | | | 0.1 | 0.1 |
| Maturing in 2020 or 2021 | 54.3 | 58.3 | 1.8 | | | 0.2 | 0.3 |
| Maturing in 2022 and later | 16.4 | 18.2 | 0.4 | | | 0.0 | 0.0 |
| **Germany** | **53.4** | **57.3** | **1.9** | **-** | **-** | **-** | **-** |
| Maturing in 2017 | 25.3 | 25.7 | 0.2 | | | | |
| Maturing in 2018 or 2019 | 7.7 | 8.1 | 0.2 | | | | |
| Maturing in 2020 or 2021 | 13.4 | 14.7 | 0.7 | | | | |
| Maturing in 2022 and later | 7.1 | 8.8 | 0.8 | | | | |
| **Ireland** | **131.9** | **157.4** | **3.9** | **-** | **-2.4** | **0.0** | **0.0** |
| Maturing in 2017 | | | | | | | |
| Maturing in 2018 or 2019 | 19.3 | 22.4 | 0.4 | | 2.4 | | |
| Maturing in 2020 or 2021 | 52.1 | 62.9 | 2.4 | | | | |
| Maturing in 2022 and later | 60.5 | 72.1 | 1.1 | | | 0.0 | 0.0 |
| **Italy** | **381.0** | **388.2** | **0.9** | **-** | **-2.3** | **-** | **-** |
| Maturing in 2017 | 285.0 | 285.4 | 0.1 | | | | |
| Maturing in 2018 or 2019 | 50.7 | 54.1 | 0.6 | | 2.0 | | |
| Maturing in 2020 or 2021 | 45.3 | 48.7 | 0.2 | | 0.2 | | |
| Maturing in 2022 and later | | | | | | | |
| **Japan** | **42.3** | **46.7** | **1.6** | **-** | **-2.8** | **64.2** | **64.3** |
| Maturing in 2017 | | | | | | 64.2 | 64.3 |
| Maturing in 2018 or 2019 | | | | | | | |
| Maturing in 2020 or 2021 | 17.9 | 19.7 | 0.7 | | 1.2 | | |
| Maturing in 2022 and later | 24.4 | 27.0 | 0.9 | | 1.7 | | |
| **South Korea** | **40.9** | **43.3** | **0.2** | **-** | **-2.0** | **-** | **-** |
| Maturing in 2017 | 10.9 | 11.0 | 0.0 | | 0.1 | | |
| Maturing in 2018 or 2019 | 5.1 | 5.2 | 0.1 | | | | |
| Maturing in 2020 or 2021 | 7.8 | 8.3 | 0.0 | | 0.2 | | |
| Maturing in 2022 and later | 17.1 | 18.8 | 0.1 | | 1.7 | | |
| **Lithuania** | **57.0** | **64.3** | **0.3** | **-** | **-6.1** | **-** | **-** |
| Maturing in 2017 | | | | | | | |
| Maturing in 2018 or 2019 | 7.0 | 7.4 | 0.0 | | | | |
| Maturing in 2020 or 2021 | 50.0 | 57.0 | 0.3 | | 6.1 | | |
| Maturing in 2022 and later | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Luxembourg** | **32.2** | **36.3** | **0.7** | **-** | **-** | **0.1** | **0.1** |
| Maturing in 2017 | | | | | | | |
| Maturing in 2018 or 2019 | | | | | | | |
| Maturing in 2020 or 2021 | 32.2 | 36.3 | 0.7 | | | | |
| Maturing in 2022 and later | | | | | | 0.1 | 0.1 |
| **The Netherlands** | **95.4** | **103.5** | **3.5** | **-** | **-3.2** | **-** | **-** |
| Maturing in 2017 | 36.7 | 37.4 | 0.3 | | | | |
| Maturing in 2018 or 2019 | 18.1 | 19.2 | 0.8 | | | | |
| Maturing in 2020 or 2021 | | | | | | | |
| Maturing in 2022 and later | 40.7 | 46.9 | 2.4 | | 3.2 | | |
| **Qatar** | **178.6** | **181.5** | **0.3** | **-** | **-1.1** | **-** | **-** |
| Maturing in 2017 | | | | | | | |
| Maturing in 2018 or 2019 | 14.7 | 16.1 | 0.0 | | 0.9 | | |
| Maturing in 2020 or 2021 | 74.8 | 76.1 | 0.1 | | 0.5 | | |
| Maturing in 2022 and later | 89.1 | 89.3 | 0.4 | | 0.2 | | |
| **Poland** | **157.0** | **171.7** | **1.0** | **-** | **-10.5** | **-** | **-** |
| Maturing in 2018 or 2019 | 46.4 | 50.9 | 0.5 | | 3.4 | | |
| Maturing in 2020 or 2021 | 58.4 | 64.0 | 0.2 | | 2.7 | | |
| Maturing in 2022 and later | 52.1 | 56.8 | 0.3 | | 4.4 | | |
| **Portugal** | **35.0** | **35.0** | **0.0** | **-** | **-** | **-** | **-** |
| Maturing in 2017 | 35.0 | 35.0 | 0.0 | | | | |
| **Saudi Arabia** | **44.6** | **43.3** | **-0.2** | **-** | **1.0** | **-** | **-** |
| Maturing in 2017 | | | | | | | |
| Maturing in 2018 or 2019 | | | | | | | |
| Maturing in 2020 or 2021 | 44.6 | 43.3 | 0.2 | | 1.0 | | |
| Maturing in 2022 and later | | | | | | | |
| **Slovakia** | **46.2** | **50.9** | **0.8** | **-** | **-3.7** | **-** | **-** |
| Maturing in 2017 | 6.1 | 6.1 | 0.0 | | | | |
| Maturing in 2018 or 2019 | | | | | | | |
| Maturing in 2020 or 2021 | 21.2 | 24.3 | 0.7 | | 2.2 | | |
| Maturing in 2022 and later | 19.0 | 20.6 | 0.1 | | 1.5 | | |
| **Slovenia** | **35.7** | **39.9** | **1.2** | **-** | **-1.8** | **2.4** | **2.8** |
| Maturing in 2017 | | | | | | | |
| Maturing in 2018 or 2019 | 15.7 | 17.3 | 0.6 | | 0.8 | | |
| Maturing in 2020 or 2021 | 20.0 | 22.6 | 0.5 | | 1.0 | 2.4 | 2.8 |
| **Spain** | **451.0** | **464.8** | **1.9** | **-** | **-0.6** | **65.0** | **65.1** |
| Maturing in 2017 | 322.5 | 323.3 | 0.3 | | 0.0 | 65.0 | 65.1 |
| Maturing in 2018 or 2019 | 51.1 | 55.4 | 0.9 | | 0.6 | | |
| Maturing in 2020 or 2021 | 77.4 | 86.1 | 0.8 | | | | |
| **Supranational** | **120.4** | **126.2** | **2.9** | **-** | **-2.3** | **0.0** | **0.0** |
| Maturing in 2017 | 41.1 | 41.8 | 0.3 | | 0.3 | | |
| Maturing in 2018 or 2019 | 42.6 | 45.7 | 0.9 | | 2.0 | | |
| Maturing in 2020 or 2021 | 26.5 | 28.2 | 1.6 | | | 0.0 | 0.0 |
| Maturing in 2022 and later | 10.2 | 10.6 | 0.1 | | | | |
| **United Arab Emirates** | **137.0** | **139.3** | **0.6** | **-** | **-0.8** | **-** | **-** |
| Maturing in 2018 or 2019 | 8.1 | 8.9 | 0.0 | | | | |
| Maturing in 2020 or 2021 | 50.3 | 51.7 | 0.1 | | 1.3 | | |
| Maturing in 2022 and later | 78.6 | 78.7 | 0.6 | | 0.4 | | |
| **Rest** | **96.8** | **103.8** | **2.3** | **-** | **-0.0** | **1.8** | **1.7** |
| Maturing in 2017 | 13.3 | 13.6 | 0.1 | | | | |
| Maturing in 2018 or 2019 | 23.2 | 24.7 | 0.5 | | | | |
| Maturing in 2020 or 2021 | 57.2 | 62.0 | 1.1 | | 0.0 | 1.8 | 1.7 |
| Maturing in 2022 and later | 3.1 | 3.6 | 0.6 | | | | |
| **TOTAL** | **2,527.3** | **2,692.3** | **34.9** | **-** | **-64.4** | **133.9** | **134.4** |

| In EUR million 31/12/2015 | Nominal | Carrying amount | Available-for-sale reserve | Impairment | Related hedging derivatives | Nominal | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Austria** | **109.5** | **121.5** | **7.2** | **-** | **-** | **-** | **-** |
| Maturing in 2016 | | | | | | | |
| Maturing in 2017 or 2018 | 62.2 | 67.3 | 3.3 | | | | |
| Maturing in 2019 or 2020 | 45.2 | 51.7 | 3.5 | | | | |
| Maturing in 2021 and later | 2.1 | 2.5 | 0.5 | | | | |
| **Belgium** | **139.1** | **148.3** | **4.2** | **-** | **-0.9** | **-** | **-** |
| Maturing in 2016 | 69.4 | 71.0 | 0.3 | | 0.9 | | |
| Maturing in 2017 or 2018 | 36.0 | 39.2 | 1.0 | | | | |
| Maturing in 2019 or 2020 | 29.7 | 33.4 | 2.2 | | | | |
| Maturing in 2021 and later | 4.1 | 4.7 | 0.6 | | | | |
| **Canada** | **75.1** | **81.7** | **1.3** | **-** | **-3.8** | **-** | **-** |
| Maturing in 2016 | | | | | | | |
| Maturing in 2017 or 2018 | | | | | | | |
| Maturing in 2019 or 2020 | 25.1 | 27.4 | 0.8 | | | | |
| Maturing in 2021 and later | 50.0 | 54.3 | 0.5 | | 3.8 | | |
| **Czech republic** | **25,0** | **29.2** | **0.6** | **-** | **-3.3** | **-** | **-** |
| Maturing in 2016 | | | | | | | |
| Maturing in 2017 or 2018 | 5.0 | 5.6 | 0.2 | | | | |
| Maturing in 2019 or 2020 | | | | | | | |
| Maturing in 2021 and later | 20.0 | 23.6 | 0.4 | | 3.3 | | |
| **France** | **122.1** | **132.9** | **4.5** | **-** | **-** | **0.9** | **1.1** |
| Maturing in 2016 | 10.9 | 11.1 | 0.0 | | | | |
| Maturing in 2017 or 2018 | 64.3 | 69.5 | 2.7 | | | | |
| Maturing in 2019 or 2020 | 18.8 | 20.2 | 0.5 | | | 1.0 | 1.1 |
| Maturing in 2021 and later | 28.0 | 32.1 | 1.2 | | | 0.0 | 0.0 |
| **Germany** | **70.7** | **75.6** | **2.5** | **-** | **-** | **-** | **-** |
| Maturing in 2016 | 22.2 | 22.6 | 0.1 | | | | |
| Maturing in 2017 or 2018 | 30.9 | 32.9 | 1.1 | | | | |
| Maturing in 2019 or 2020 | 9.4 | 10.0 | 0.5 | | | | |
| Maturing in 2021 and later | 8.1 | 10.1 | 1.0 | | | | |
| **Ireland** | **117.8** | **138.5** | **5.5** | **-** | **-3.1** | **0.0** | **0.0** |
| Maturing in 2016 | 5.0 | 5.1 | 0.0 | | | | |
| Maturing in 2017 or 2018 | 45.7 | 51.3 | 4.1 | | | | |
| Maturing in 2019 or 2020 | 67.1 | 82.2 | 1.4 | | 3.1 | 0.0 | 0.0 |
| Maturing in 2021 and later | | | | | | 0.0 | 0.0 |
| **Italy** | **102.2** | **110.9** | **4.5** | **-** | **-2.9** | **225.0** | **225.0** |
| Maturing in 2016 | 2.2 | 2.2 | 0.0 | | | 225.0 | 225.0 |
| Maturing in 2017 or 2018 | 80.0 | 87.1 | 4.3 | | 1.7 | | |
| Maturing in 2019 or 2020 | 20.0 | 21.6 | 0.2 | | 1.2 | | |
| Maturing in 2021 and later | | | | | | | |
| **Japan** | **22.9** | **25.5** | **1.0** | **-** | **-1.5** | **-** | **-** |
| Maturing in 2016 | | | | | | | |
| Maturing in 2017 or 2018 | | | | | | | |
| Maturing in 2019 or 2020 | | | | | | | |
| Maturing in 2021 and later | 22.9 | 25.5 | 1.0 | | 1.5 | | |
| **Lithuania** | **55.4** | **65.0** | **0.3** | **-** | **-7.9** | **-** | **-** |
| Maturing in 2016 | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Maturing in 2017 or 2018 | 7.0 | 7.7 | 0.1 | | | | |
| Maturing in 2019 or 2020 | 48.4 | 57.3 | 0.2 | | 7.9 | | |
| Maturing in 2021 and later | | | | | | | |
| **Luxembourg** | **52,2** | **60.0** | **1.1** | **-** | **-6.5** | **-** | **-** |
| Maturing in 2016 | | | | | | | |
| Maturing in 2017 or 2018 | | | | | | | |
| Maturing in 2019 or 2020 | 52.2 | 60.0 | 1.1 | | 6.5 | | |
| Maturing in 2021 and later | | | | | | | |
| **The Netherlands** | **80,8** | **88.1** | **3.9** | **-** | **-1.4** | **-** | **-** |
| Maturing in 2016 | 2.4 | 2.4 | 0.0 | | | | |
| Maturing in 2017 or 2018 | 37.3 | 40.0 | 1.3 | | | | |
| Maturing in 2019 or 2020 | 10.4 | 11.1 | 0.6 | | | | |
| Maturing in 2021 and later | 30.7 | 34.6 | 1.9 | | 1.4 | | |
| **Qatar** | **50.5** | **56.3** | **-0.1** | **-** | **-4.6** | **-** | **-** |
| Maturing in 2016 | | | | | | | |
| Maturing in 2017 or 2018 | | | | | | | |
| Maturing in 2019 or 2020 | 37.7 | 42.2 | 0.0 | | 3.3 | | |
| Maturing in 2021 and later | 12.9 | 14.1 | 0.2 | | 1.4 | | |
| **Poland** | **104.2** | **115.2** | **0.4** | **-** | **-8.0** | **-** | **-** |
| Maturing in 2016 | 11.1 | 11.1 | 0.0 | | | | |
| Maturing in 2017 or 2018 | 10.9 | 12.4 | 0.2 | | 1.3 | | |
| Maturing in 2019 or 2020 | 44.6 | 50.8 | 0.1 | | 3.5 | | |
| Maturing in 2021 and later | 37.6 | 40.8 | 0.1 | | 3.2 | | |
| **Slovakia** | **56.1** | **62.1** | **1.0** | **-** | **-4.5** | **-** | **-** |
| Maturing in 2016 | 10.5 | 10.5 | 0.0 | | 0.0 | | |
| Maturing in 2017 or 2018 | 6.1 | 6.3 | 0.1 | | | | |
| Maturing in 2019 or 2020 | 21.2 | 24.8 | 0.8 | | 2.6 | | |
| Maturing in 2021 and later | 18.4 | 20.4 | 0.1 | | 1.9 | | |
| **Spain** | **85.5** | **95.6** | **0.5** | **-** | **-1.3** | **110.0** | **111.8** |
| Maturing in 2016 | 4.4 | 4.4 | 0.0 | | | 110.0 | 111.8 |
| Maturing in 2017 or 2018 | 21.1 | 22.5 | 0.2 | | 1.3 | | |
| Maturing in 2019 or 2020 | 60.0 | 68.7 | 0.3 | | | | |
| Maturing in 2021 and later | | | | | | | |
| **Supranational** | **215,9** | **226.7** | **6.1** | **-** | **-3.3** | **0.2** | **0.2** |
| Maturing in 2016 | 86.6 | 88.3 | 1.6 | | | | |
| Maturing in 2017 or 2018 | 50.6 | 52.4 | 0.9 | | 0.6 | 0.2 | 0.2 |
| Maturing in 2019 or 2020 | 69.0 | 75.4 | 3.0 | | 2.7 | 0.0 | 0.1 |
| Maturing in 2021 and later | 9.7 | 10.6 | 0.6 | | | 0.0 | 0.0 |
| **Rest** | **120.1** | **131.2** | **0.8** | **-** | **-2.2** | **25.0** | **25.0** |
| Maturing in 2016 | 33.7 | 34.1 | 0.0 | | | 25.0 | 25.0 |
| Maturing in 2017 or 2018 | 4.6 | 4.9 | 0.0 | | | | |
| Maturing in 2019 or 2020 | 79.6 | 89.6 | 0.6 | | 2.2 | | |
| Maturing in 2021 and later | 2.2 | 2.6 | 0.1 | | | 0.0 | 0.0 |
| **TOTAL** | **1,605.0** | **1,764.2** | **45.3** | **-** | **-55.2** | **361.2** | **363.1** |

1.2.3.3. Country Risk Management

The breakdown of Available-for-sale financial assets and Loans and receivables per countries is as follows:

| In EUR million | AFS | | | L&R-Banks | | | | L&R-Customers |
|---|---|---|---|---|---|---|---|---|
| Country<br>31/12/2016 | NPL/ Impaired | Standard | Total | Other L&R Banks | Reverse repo | Commercial Paper | Total | Total (1) |
| France | 1.6 | 484.5 | 486.1 | 44.8 | 551.2 | | 596.0 | 305.6 |
| Italy | | 410.7 | 410.7 | | 400.4 | | 400.4 | 2.1 |
| Spain | | 568.8 | 568.8 | | | | 0.0 | 117.7 |
| United Kingdom | | 152.7 | 152.7 | 34.1 | 0.1 | 87.6 | 121.8 | 244.4 |
| Netherlands | | 225.3 | 225.3 | 33.9 | | | 33.9 | 250.3 |
| Belgium | | 64.2 | 64.2 | 26.2 | | | 26.2 | 414.9 |
| Luxembourg | | 37.0 | 37.0 | 10.5 | 0.0 | | 10.5 | 311.8 |
| Germany | | 146.2 | 146.2 | 6.7 | | | 6.7 | 170.6 |
| Supranationals | | 318.9 | 318.9 | | | | | |
| Qatar | | 260.7 | 260.7 | | | | | |
| United Arab Emirates | | 219.6 | 219.6 | | | | | 4.1 |
| Poland | | 179.4 | 179.4 | | | | | 0.0 |
| Ireland | | 159.7 | 159.7 | | | | | 0.1 |
| Czech Republic | | 157.8 | 157.8 | | | | | |
| United States of America | | 143.2 | 143.2 | | | | | |
| Monaco | | 0.0 | 0.0 | | | | | 114.5 |
| Canada | | 109.3 | 109.3 | | | | | 0.0 |
| Sweden | | 75.2 | 75.2 | 3.9 | | | 3.9 | 0.0 |
| South Korea | | 72.4 | 72.4 | | | | | |
| Austria | | 66.4 | 66.4 | | | | | 0.5 |
| Lithuania | | 66.1 | 66.1 | | | | | |
| Japan | | 62.9 | 62.9 | | | | | |
| Switzerland | | 17.4 | 17.4 | 3.8 | | | 3.8 | 41.6 |
| Finland | | 46.6 | 46.6 | 13.9 | | | 13.9 | |
| Slovakia | | 51.9 | 51.9 | | | | | |
| Denmark | | 45.9 | 45.9 | 1.6 | | | 1.6 | 3.4 |
| Norway | | 44.0 | 44.0 | | | | | 0.0 |
| Saudi Arabia | | 43.5 | 43.5 | | | | | |
| China | | 41.8 | 41.8 | | | | | 0.1 |
| Slovenia | | 41.2 | 41.2 | | | | | |
| Portugal | | 35.0 | 35.0 | | | | | 2.2 |
| Mexico | | 28.9 | 28.9 | | | | | 0.0 |
| Hong Kong | | 24.1 | 24.1 | | | | | 2.1 |
| Seychelles | | | | | | | | 23.0 |
| Brazil | | 21.5 | 21.5 | | | | | 0.2 |
| Israel | | 11.6 | 11.6 | | | | | 0.1 |
| Croatia | | 10.5 | 10.5 | | | | | 0.2 |
| Others (below EUR 10 million) | | 23.1 | 23.1 | 1.6 | | | 1.6 | 41.8 |
| **Total** | **1.6** | **4,467.9** | **4,469.4** | **181.0** | **951.7** | **87.6** | **1,220.3** | **2,051.1** |

(1) Out of which reverse repos: EUR 1.0 million

| In EUR million Country 31/12/2015 | AFS | | | L&R-Banks | | | | L&R-Clients |
|---|---|---|---|---|---|---|---|---|
| | NPL/ Impaired | Standard | Total | Other L&R Banks | Reverse repo | Commercal Paper | Total | Total |
| France | 1.6 | 449.9 | 451.5 | 38.6 | 920.7 | - | 959.3 | 303.8 |
| United Kingdom | - | 248.4 | 248.4 | 38.6 | 133.7 | - | 172.3 | 659.9[1] |
| Germany | - | 180.6 | 180.6 | 2.2 | 120.3 | - | 122.5 | 425.9[2] |
| Spain | - | 183.6 | 183.6 | - | 400.2 | - | 400.2 | 131.9 |
| Belgium | - | 200.9 | 200.9 | 44.4 | - | - | 44.4 | 467.0 |
| Supranationals | - | 564.8 | 564.8 | - | - | - | - | - |
| Netherlands | - | 240.6 | 240.6 | 6.3 | 0.1 | - | 6.4 | 271.0 |
| Luxembourg | - | 61.1 | 61.1 | 14.8 | 181.7 | - | 196.5 | 246.6 |
| Italy | - | 157.1 | 157.1 | - | 260.6 | - | 260.6 | 0.0 |
| United States of America | 2.6 | 160.4 | 163.0 | 14.7 | - | - | 14.7 | 0.2 |
| Ireland | - | 139.9 | 139.9 | - | - | - | - | 0.5 |
| Austria | - | 136.6 | 136.6 | - | - | - | - | 0.5 |
| United Arab Emirates | - | 127.3 | 127.3 | - | - | - | - | 2.2 |
| Poland | - | 122.3 | 122.3 | - | - | - | - | - |
| Qatar | - | 111.6 | 111.6 | - | - | - | - | - |
| Canada | - | 102.0 | 102.0 | - | - | - | - | 0.3 |
| Monaco | - | - | | - | - | - | - | 97.9 |
| Sweden | - | 76.1 | 76.1 | - | - | - | - | 0.0 |
| Switzerland | - | 16.7 | 16.7 | 8.8 | - | - | 8.8 | 45.9 |
| South Korea | - | 67.1 | 67.1 | - | - | - | - | - |
| Lithuania | - | 66.7 | 66.7 | - | - | - | - | - |
| Slovakia | - | 63.3 | 63.3 | - | - | - | - | - |
| Finland | - | 50.8 | 50.8 | 9.1 | - | - | 9.1 | - |
| Norway | - | 57.7 | 57.7 | - | - | - | - | 0.0 |
| Denmark | - | 49.2 | 49.2 | 2.6 | - | - | 2.6 | 3.6 |
| China | - | 2.8 | 2.8 | 50.5 | - | - | 50.5 | 0.1 |
| Hong Kong | - | 42.5 | 42.5 | - | - | - | - | 1.0 |
| Slovenia | - | 41.9 | 41.9 | - | - | - | - | - |
| Mexico | - | 40.9 | 40.9 | - | - | - | - | - |
| Czech Republic | - | 40.8 | 40.8 | - | - | - | - | - |
| Japan | - | 40.4 | 40.4 | - | - | - | - | - |
| Brazil | - | 22.7 | 22.7 | - | - | - | - | 0.4 |
| Seychelles | - | - | | - | - | - | - | 23.0 |
| Israel | - | 11.6 | 11.6 | - | - | - | - | - |
| Croatia | - | 10.0 | 10.0 | - | - | - | - | 0.2 |
| Isle of Man | - | - | | - | - | - | - | 10.0 |
| Other (below EUR 10 million) | - | 25.0 | 25.0 | 1.9 | - | - | 1.9 | 33.4 |
| **Total** | **4.2** | **3,913.6** | **3,917.8** | **232.4** | **2,017.4** | **-** | **2,249.8** | **2,725.7** |

(1) Out of which reverse repos: EUR 297.2 million
(2) Out of which reverse repos: EUR 290.0 million

## 2. Market Risk: Trading Risk

### 2.1. Qualitative information

#### *2.1.1. Origin of trading risk*

KBL *epb* group being Private Banking oriented, its trading activity mainly aims to support the core business activities. The trading positions reflect the necessary intermediation of the Head Office‘s Dealing Room, supporting client flows of the Group in terms of debt instruments, equity instruments, structured products, forex and deposits. Most of the instruments used by the Dealing Room are plain vanilla.

#### *2.1.2. Trading risk policy*

The risks incurred therefore are mainly short-term interest rate risk (treasury in the currencies of clients), medium/long-term interest rate risk (bond trading, particularly in EUR), price volatility risk (trading in structured products sold to private clients) and forex risk (spot and forward exchange rates in the liquid currency pairs used by clients)). Forex risk is the only trading activity for which subsidiaries are allowed to carry some residual positions relating to their customers’ flows.

#### *2.1.3. Trading decision making process / governance*

Trading activities are concentrated in Luxembourg. According to the Risk Appetite Statement, the primary limits are granted by the Board Risk Committee.

#### *2.1.4. Measurement and monitoring of trading risk*

The system of primary limits in place at KBL *epb* is based on:

- nominal amounts for the Forex and Structured Products activities,
- 10 bpv, Historical Value at Risk (HVaR) and stressed HVaR limits for activities subject to interest rate risk (Treasury and Bond Desks).

These primary limits are supplemented by a structure of secondary limits allowing a more detailed analysis of the trading risks. Those secondary limits consist in concentration limits by currency and by time bucket as well as in limits by issue and issuer, based on their rating or on their market liquidity.

The whole limit framework is complemented with a diversified HVaR covering all activities and a 30 days rolling Stop Loss trigger set per trading desk.

#### *2.1.5. Concentration Risk*

Issuer concentration risk is strictly governed by conservative limits restricting the trading in non-investment grade debts and in illiquid equities, which leads to a well diversified trading portfolio.

As at 31 December 2016, the trading activity was diversified on 102 Corporate and Financial issuers with an average outstanding of +/- EUR 0.5 million, and a maximum exposure of EUR 2.88 millions on Goldman Sachs Group.

The evolution of exposures related to each activity compared with their respective limits (primary and secondary), as well as the economic results and highlights, are reported daily to the Heads of Global Markets and of the Group Risk Control Function. They are also weekly reported to the KBL *epb* Executive Committee, on a monthly basis to the ALCO and on a quarterly basis to the Group Board Risk Committee.

2.2. Quantitative information

As at 31 December 2015 and 2016, the usage of limits in the Trading activities is as follows (KBL epb group):

| In EUR million | | Limit | Oustanding 31/12/2015 | Maximum observed in 2016 | Average observed in 2016 | Oustanding 31/12/2016 |
|---|---|---|---|---|---|---|
| **Treasury** | **[10bpv][(1)]** | **2.5** | 0.9 | 2.3 | 1.4 | 1.5 |
| | **[HVaR][(2)]** | **3** | 1.5 | 2.7 | 1.9 | 1.9 |
| **Bond** | **[10bpv][(1)]** | **0.8** | 0.1 | 0.3 | 0.1 | 0.1 |
| | **[HVaR][(2)]** | **1** | 0.4 | 0.9 | 0.4 | 0.4 |

*[(1)] BPV 10 bps oustanding corresponds to the sum in abs value of the BPV 10 bps in each currency*

*[(2)] HVaR corresponds to a 99% historical 10 days loss over the last 250 trading days.*

| In EUR million | Limit in Nominal Amount *(3)* | Oustanding 31/12/2015 | Maximum observed in 2016 | Average observed in 2016 | Oustanding 31/12/2016 |
|---|---|---|---|---|---|
| **Forex (bullions included)** | **20.0** | 2.9 | 6.1 | 2.9 | 2.3 |
| **Structured Product** | **110.0** | 50.2 | 132.2 | 63.1 | 72.1 |

Outstanding in each activity remained below the authorised limits over the year 2016, except for 1 occasional case: 1 day overrun by EUR 22.2 mln of the structured products limit, which was consecutive to the pre-booking of a purchase order for the client of a subsidiary.

The HVaR observed as at end of year 2016 for trading risk amounted to EUR 2.6 mln, well below the limit of EUR 10 mln.

3. Market Risk : ALM Risk

3.1. Qualitative information

*3.1.1. Origin of ALM risks*

The core activities of a private bank entail little ALM risks[(2)] compared to a retail bank: most of the client assets under management are securities or funds which are off-balance sheet items inducing no ALM risks. Most short-term client cash deposits offer variable rates linked with money market rates and the same applies to Lombard/mortgage loans to customers. When fixed rates are granted for loans, hedging swaps are contracted.

As a consequence, ALM risks are mainly entailed by security portfolios set up within the frame of the ALM policy being:

- portfolio of high grade bonds dedicated to the reinvestment of the free capital, and of the most stable part of fixed rate sight deposits and savings accounts;
- portfolios dedicated to the reinvestment of other stable liquidities, looking for the right balance between interest rate risk, credit spread risk and return.

[(2)] The ALM risk is defined as the market risks induced by the balance sheet, except the trading activity

The ALM equity risk is induced by an investment portfolio invested in direct lines of equities or in UCI shares. The portfolio held in KBL *epb* (Luxembourg) is managed along Group ALCO's guidelines. Some equities portfolios exist in the subsidiaries, in order to meet specific needs (pension obligations in Merck Finck & Co a.o.). Transactions in these portfolios are performed after validation of the local management and of Group ALM.

KBL *epb* group is not exposed to any ALM forex risk as no active foreign exchange exposure is taken (assets are funded in their respective currencies).

### *3.1.2. ALM decision making process/governance*

The ultimate responsibility for the ALM activity of KBL *epb* group is held by the monthly Group ALCO Committee, which is an Executive Committee extended to the representatives of the Group ALM & Treasury Function, of the Group Risk Control Function, of Global Markets, of Finance, in addition to the Chief Investment Officer.

The ALCO validates a.o. strategies in terms of management of the gap between resources and utilisations, in terms of Return on Equity enhancement, management of the structural liquidity and mitigation of the related risks.

Those strategies are proposed by the Group ALM & Treasury Function which has the responsibility for the preparation of the ALCO meetings, a.o for the topics which are submitted to its decisions. The Function is also in charge of the day-to-day implementation of the ALCO decisions. When they have a Group dimension, it has to ensure their implementation within the limits of the governance constraints in place.

Under this structure, the Group Risk Control Function endorses a role of second level control entity, issuing opinions on the proposals and monitoring the risks related to the ALM activity on a recurring basis.

### *3.1.3. ALM policy*

A document entitled *'Investment Policy and ALM framework*' describes a.o. the ALM objectives, governance and constraints (credit risk, liquidity,…). It is in line with the Risk Appetite Statement expressed by the Board of Directors (see below).

### *3.1.4. Measurement and monitoring of ALM risks*

The Risk Appetite Statement, at least reviewed on a yearly basis, expresses the Board of Directors' risk appetite for ALM interest rate risk, credit spread risk and equity risk, mainly through limits on Value at Risk indicators, sensitivity measures and global outstanding at KBL *epb* group level.

Regarding the interest rate risk, the following limits apply:

- the regulatory 200 bpv (basis point value) limit for all banking book positions. While the regulatory limit amounts to 20% of own funds, the BRC limit has been fixed at 18%; the 200 bpv sensitivity equals 12.3% of own funds as at 31 December 2016 (31 December 2015: 11.7%);
- The Interest Rate Value at Risk 99% - 1 year, which amounts to EUR 39 mln as at 31 December 2016 (31 December 2015: EUR 33 mln). The related Risk Appetite limit has been set for KBL epb Group to EUR 150 mln for KBL *epb* group.
- To be noted that in 2016, two additional limits have been implemented at Group level, taking into account the sensitivity of the bank's interest margin to interest rates changes, in order to address new standards issued by the Basel Committee on Banking Supervision (BCBS):
  (i) an interest earning at risk indicator consecutive to a parallel shift of the interest rate curve by 200 bpv, which amounts to EUR -5.5 mln (as at end of 2016) at consolidated level, for a Risk Appetite limit of EUR -60 mln

(ii) an interest earning at risk indicator reflecting the outcome of the worst case scenario (between parallel shifts by 100 bpv, 200 bpv, or scenarios of up, down, steepening, flattening movements) of the interest rate curve, which amounts to EUR -24.8 mln (as at end of 2016) for a Risk Appetite limit of EUR -60 mln.

Regarding the equity (price) risk, the Risk Appetite is expressed in terms of maximum Value at Risk, stop losses and maximum size for listed equities and for alternative equity investments for the whole Group.

The Equity Value at Risk 99% - 1 year amounts to EUR 51 million as at 31 December 2016 (EUR 35 million as at 31 December 2015) for a Risk Appetite limit of EUR 150 million for KBL *epb* group.

## 3.2. Quantitative information

### *3.2.1. Interest rate*

The sensitivity of the economic value of the balance sheet to interest rates (impact of a parallel increase by 1% of the interest risk curve) is as follows for KBL *epb* group:

| **In EUR million**<br>**100 bpv as at 31/12/2016** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 year and 3 years** | **Between 3 years and 5 years** | **More than 5 years** | **Total 100 bpv** | **Carrying amount** |
|---|---|---|---|---|---|---|---|
| **Financial assets** | **-6** | **-4** | **-22** | **-47** | **-60** | **-138** | **8,830** |
| Held for trading | 0 | 0 | | | | **-0** | 554 |
| Designated at fair value through profit or loss | 0 | | | | | **-0** | 194 |
| Available for sale financial assets | 0 | 3 | 19 | 45 | 51 | **-118** | 4,797 |
| Loans and receivables | 1 | 1 | 2 | 2 | 9 | **-15** | 3,271 |
| Hedging derivatives | 4 | 0 | 0 | | | **-4** | 14 |
| **Financial liabilities** | **5** | **3** | **14** | **27** | **48** | **96** | **9,561** |
| Held for trading | 0 | 0 | 2 | 1 | 4 | **7** | 235 |
| Designated at fair value through profit or loss | | | | | | **-** | |
| Measured at amortised cost (excluding deposits from CB) | 5 | 1 | 6 | 4 | 6 | **22** | 9,166 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | | **0** | 3 |
| Hedging derivatives | 0 | 1 | 7 | 21 | 39 | **68** | 156 |
| **Gap** | **-1** | **-2** | **-8** | **-20** | **-11** | **-41** | |

| In EUR million<br><br>100 bpv as at 31/12/2015 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total 100 bpv | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Financial assets** | **-4** | **-3** | **-21** | **-42** | **-41** | **-112** | **9,817** |
| Held for trading | 0 | 0 | | | | **-0** | 714 |
| Designated at fair value through profit or loss | 0 | | | | | **-0** | 0 |
| Available for sale financial assets | 0 | 2 | 18 | 38 | 33 | **-92** | 4,054 |
| Loans and receivables | 1 | 1 | 2 | 3 | 8 | **-16** | 5,032 |
| Hedging derivatives | 3 | 0 | 1 | 0 | | **-4** | 17 |
| **Financial liabilities** | **4** | **2** | **14** | **25** | **35** | **80** | **9,807** |
| Held for trading | 0 | 0 | 2 | 2 | 2 | **6** | 261 |
| Designated at fair value through profit or loss | | | | | | **-** | |
| Measured at amortised cost (excluding deposits from CB) | 4 | 1 | 5 | 4 | 6 | **20** | 9,146 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | | **0** | 216 |
| Hedging derivatives | 0 | 1 | 7 | 18 | 27 | **54** | 184 |
| Other liabilities (Vitis Life Br 21) | | | | | | **-** | |
| **Gap** | **-0** | **-1** | **-7** | **-17** | **-7** | **32** | |

The sensitivity of the interest margin of KBL *epb* group to the interest rates (impact of a parallel increase by 1 % of the interest rate risk curve) is as follows:

| In EUR million<br><br>Sensitivity 100 bpv Shift 31/12/2016 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total impact |
|---|---|---|---|---|---|---|
| Financial assets | 4.0 | 3.9 | 10.9 | 11.9 | 8.8 | **-39.6** |
| Financial liabilities | 5.0 | 2.7 | 6.9 | 6.6 | 7.3 | **28.5** |
| **Net impact** | **1.0** | **-1.3** | **-4.0** | **-5.4** | **-1.4** | **-11.1** |

| In EUR million<br><br>Sensitivity 100 bpv Shift 31/12/2015 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total Impact |
|---|---|---|---|---|---|---|
| Financial assets | 4.2 | 4.6 | 14.7 | 11.3 | 6.1 | **-41.0** |
| Financial liabilities | 4.9 | 2.7 | 8.8 | 6.1 | 5.5 | **27.9** |
| **Net Impact** | **0.6** | **-1.9** | **-5.9** | **-5.2** | **-0.6** | **-13.0** |

*3.2.2. Equity Risk*

3.2.2.1. Sensitivity of equity risk

Regarding the equity risk, the impact of a decrease of 25 % on both the income statement (impairment) and the equity AFS revaluation reserve (excluding Equity instruments at cost) is as follows for KBL *epb* group:

| **In EUR thousand**<br>**31/12/2016** | **Current situation (1)** | ***Impact of a markets' decrease of 25%*** | **Stock after decrease** |
|---|---|---|---|
| **Marked-to-Market value** | 157,330 | *39,333* | 117,998 |
| **Gain/Loss** | 14,041 | *39,333* | 25,292 |
| Equity impact (AFS reserve) | 14,041 | *38,381* | 24,341 |
| Income statement impact (impairment) | | *951* | 951 |

(1) Some Equity instruments classified as available for sale financial assets are not covered here.

| **In EUR thousand**<br>**31/12/2015** | **Current situation (1)** | ***Impact of a markets' decrease of 25%*** | **Stock after decrease** |
|---|---|---|---|
| **Marked-to-Market value** | 136,660 | *34,165* | 102,495 |
| **Gain/Loss** | 14,488 | *34,165* | 19,677 |
| Equity impact (AFS reserve) | 14,488 | *33,149* | 18,662 |
| Income statement impact (impairment) | | *1,016* | 1,016 |

(1) Some Equity instruments classified as available for sale financial assets are not covered here.

The global ALM equity exposure increased in 2016, mainly due to the additional investment of EUR 20 mn in trackers decided by the Group ALCO Committee.

3.2.2.2. Concentration of equity risk

The decision to increase/decrease the proportion of equity in the ALM portfolio is taken at the ALCO level (within the limits agreed by the BRC) taking into consideration macro and fundamental analysis as well as convictions from the Group Asset Allocation Committee. Such analysis also influences the relative weights of Europe, USA and Emerging Markets. Within the various regions, an adequate sectorial diversification is looked for. Concentration limits are expressed in absolute amounts and in percentage of daily volume traded.

Next to this strategic investment policy, the Bank also acts as seed investor when new home investment funds are launched.

Following the principles presented above, the breakdown of the whole Equity portfolio of KBL *epb* group (direct lines and Funds) per nature and per region shows a prominent pan-European part as at end of December 2016:

| In EUR million | | |
|---|---|---|
| **REGION / NATURE** | **31/12/2016** | |
| **Europe** (Equity Funds + direct lines) | 48.3 | 44% |
| **Europe** (Diversified Funds) | 6.1 | 6% |
| **Europe** (Fixed Income Funds) | 1.5 | 1% |
| **World** (Equity Funds + direct lines) | | |
| **World** (Diversified Funds) | 54.3 | 49% |
| **World** (Fixed Income Funds) | 0.0 | 0% |
| **United States** (Equity Funds + direct lines) | | |
| **United States** (Fixed Income Funds) | 0.0 | 0% |
| **Asia** (Equity Funds + direct lines) | | |
| **TOTAL** | **110.2** | **100%** |
| Other Equities | 47.1 | |
| **Total Equities portfolios** | **157.3** | |

There are no direct lines in listed equities in total Equity portfolio as at 31 December 2016, in line with Group ALCO decisions.

Furthermore, as at 31 December 2016, the individual exposures entailing equity risk do not exceed EUR 25 mln per Fund and EUR 20 mln per direct line for non listed equities (with historical positions being the most significant).

## 4. Liquidity risk

### 4.1. Qualitative information

#### *4.1.1. Origin of liquidity risk*

The Bank as a Group has a large and stable funding base due to the natural accumulation of deposits from its two core businesses: Private Banking and Institutional & Professional Services (IPS), which on the other hand consume relatively little liquidity. The overall funding gap is structurally and globally positive and KBL *epb* group is a net lender recycling structural liquidity positions in the interbank market.

#### *4.1.2. Liquidity decision making process/governance*

Like for Assets and Liabilities Management, the Group ALCO Committee has the final responsibility for the Liquidity Management of KBL *epb* group. The Group ALM Function proposes strategies – with the approval of the local Management/ALCO Committee - for the management of long term liquidity (putting, a.o. a strong emphasis on ECB eligible as well as Basel III eligible bonds), while the short term liquidity management is delegated to the Treasurer within strict limits (see trading risk above).

The Group Risk Control Function acts as a second level control entity, issuing opinions on investment proposals and monitoring liquidity risk on a daily basis (through a set of indicators briefly described in section 4.1.4).

#### *4.1.3. Liquidity policy*

The current policy applied by KBL *epb* group is to centralise the placement of all liquidity surpluses at the Head Office level. However, when local regulatory constraints exist (large exposures regime, liquidity constraints), the subsidiaries' liquidity is collateralized or is reinvested in local ALM portfolios under the supervision of both Group ALM and Group Risk Control.
At the Head Office, the stable part of global funding is reinvested in ALM portfolios following a conservative strategy (a.o. respecting minimum European Central Bank/Basel III eligibility and rating criteria) and the unstable part of global funding is replaced in the short-term interbank market, largely through reverse repo transactions.

*4.1.4. Measurement and monitoring of liquidity risk*

The Board Risk Committee has expressed its Risk Appetite in terms of liquidity risk, by imposing limits for each entity of the Group on the Basel III ratios (LCR and NSFR), and on the Liquidity Excess resulting from internal stress tests. The latter are run on a quarterly basis with the aim to assess the ability of KBL *epb* group to survive a severe liquidity crisis during a 3-month time period without affecting its business model.

As the excess liquidity throughout the Group is centralised at KBL *epb*'s Treasury Department (under regulatory constraints), KBL *epb*'s operational liquidity situation is daily monitored by Group Market Risk Control through operational liquidity indicators and reported to the Group Treasurer. Main operational indicators are:

- a contractual liquidity gap of up to five days, as if the activity was to be continued (no stress test). This report is also sent to the BCL;
- the stock of available liquid assets;
- a daily estimate of the Basel III Liquidity Coverage Ratio, which stood at 105.0% for KBL *epb* as at 31 December 2016 (for a regulatory limit of 80% as at 01/01/2017). The ratio stood at 113.3 % for KBL *epb* group;
- the value of quantitative indicators, which can potentially trigger the Liquidity Contingency Plan (the Plan consists in various actions depending on the gravity - minor, major - of the liquidity crisis).

As far as structural indicators are concerned, the 'Private Banking customers Loan-to-Deposit ratio (LTD) is computed on a monthly basis for KBL *epb* group. As at 31st December 2016, it stood at 33.3%, confirming the excellent liquidity situation of the Group as natural deposit collector.

In addition, liquidity stress tests are run on a quarterly basis with the aim to assess the ability of KBL *epb* group to survive a severe liquidity crisis during a 3-month time period without affecting its business model.

## 4.2. Quantitative information

### *4.2.1. Maturity analysis of liquid stock*

The maturity analysis of financial assets held for managing liquidity risk (unencumbered marketable assets) is as follows:

| **In EUR million**<br>**Marketable assets**<br>**31/12/2016** | **Stock of available assets** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 year and 3 years** | **Between 3 years and 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|
| **Initial stock of available assets** | | **5,208.4** | **4,283.7** | **3,039.6** | **1,978.1** | **755.7** |
| CB eligible | 3,689.1 | 717.6 | 1,020.0 | 778.2 | 781.3 | 452.2 |
| Marketable securities | 1,519.3 | 207.0 | 224.2 | 283.3 | 441.0 | 340.2 |
| Total | 5,208.4 | 924.6 | 1,244.2 | 1,061.5 | 1,222.3 | 792.5 |
| **Residual stock of available assets** | **5,208.4** | **4,283.7** | **3,039.6** | **1,978.1** | **755.7** | **-36.7** |

| **In EUR million**<br>**Marketable assets**<br>**31/12/2015** | **Stock of available assets** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 year and 3 years** | **Between 3 years and 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|
| **Initial stock of available assets** | | **6,408.9** | **4,030.0** | **3,167.7** | **1,807.5** | **741.5** |
| CB eligible | 4,897.0 | 1,897.6 | 743.9 | 1,003.4 | 828.3 | 424.3 |
| Marketable securities | 1,511.8 | 481.2 | 118.4 | 356.8 | 237.8 | 223.8 |
| Total | 6,408.9 | 2,378.8 | 862.3 | 1,360.2 | 1,066.1 | 648.0 |
| **Residual stock of available assets** | **6,408.9** | **4,030.0** | **3,167.7** | **1,807.5** | **741.5** | **93.4** |

*4.2.2. Maturity analysis of financial assets and liabilities*

The analysis by remaining contractual maturity for financial assets and liabilities is as follows:

**In EUR million**

| 31/12/2016 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Undeter-mined | Total |
|---|---|---|---|---|---|---|---|
| **Cash and balances with central banks and other demand deposits** | **1,619** | **-** | **-** | **-** | **-** | **-** | **1,619** |
| **Financial assets** | **2,514** | **1,536** | **1,524** | **1,693** | **1,232** | **330** | **8,830** |
| Held for trading | 277 | 167 | 54 | 32 | 21 | 2 | **554** |
| Designated at fair value through profit or loss | 159 | 35 | | | | 0 | **194** |
| Available for sale financial assets | 275 | 1,071 | 1,048 | 1,242 | 833 | 328 | **4,797** |
| Loans and receivables | 1,803 | 262 | 420 | 415 | 372 | | **3,271** |
| Hedging derivatives | 1 | 2 | 2 | 4 | 6 | | **14** |
| **Other assets** | **-** | **-** | **-** | **-** | **-** | **540** | **540** |
| **TOTAL ASSETS** | **4,133** | **1,536** | **1,524** | **1,693** | **1,232** | **870** | **10,989** |
| **Deposits from central banks** | **0** | **-** | **-** | **-** | **-** | **-** | **0** |
| **Financial liabilities** | **9,190** | **197** | **56** | **50** | **68** | **0** | **9,561** |
| Held for trading | 205 | 18 | 4 | 6 | 2 | 0 | **235** |
| Designated at fair value through profit or loss | | | | | | | **-** |
| Measured at amortised cost (excluding subordinated liabilities) | 8,982 | 174 | 9 | 1 | 0 | 0 | **9,166** |
| Subordinated liabilities | 0 | 0 | 2 | 0 | | | **3** |
| Hedging derivatives | 2 | 5 | 41 | 43 | 65 | | **156** |
| **Other liabilities** | **-** | **-** | **-** | **-** | **-** | **332** | **332** |
| Provisions | | | | | | 100 | 100 |
| Other liabilities | | | | | | 232 | 232 |
| **Shareholders' equity** | | | | | | 1,096 | **1,096** |
| **TOTAL LIABILITIES** | **9,190** | **197** | **56** | **50** | **68** | **1,428** | **10,989** |
| **GAP** | **-5,056** | **1,339** | **1,468** | **1,643** | **1,165** | **-558** | |

<u>Of which derivatives:</u>

| | Cashflows by bucket | | | | | | |
|---|---|---|---|---|---|---|---|
| **31/12/2016** | **Less than 3 months EUR thousands** | **Between 3 months and 1 year EUR thousands** | **Between 1 year and 3 years EUR thousands** | **Between 3 years and 5 years EUR thousands** | **More than 5 years EUR thousands** | **Total EUR thousands** | **Carrying amount EUR million** |
| **Inflows** | **6,615** | **5,246** | **140** | **110** | **135** | **12,246** | **282** |
| Interest rate | | | 34 | 19 | 22 | **75** | **16** |
| Equity | | | 0.0 | 0.0 | | **0.1** | **25** |
| Currency | 6,615 | 5,246 | 106 | 91 | 113 | **12,170** | **240** |
| Other | | | | | | **-** | **2** |
| **Outflows** | **-6,635** | **-5,166** | **-219** | **-149** | **-154** | **-12,322** | **391** |
| Interest rate | | | 94 | 51 | 36 | **-180** | **109** |
| Equity | | | 0.0 | 0.0 | | **-0.1** | **25** |
| Currency | 6,635 | 5,166 | 125 | 98 | 119 | **-12,142** | **255** |
| Other | | | | | | **-** | **2** |
| **Gap - Derivatives** | **-20** | **81** | **-79** | **-38** | **-19** | **-76** | |

| In EUR million<br>31/12/2015 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Undetermined | Total |
|---|---|---|---|---|---|---|---|
| **Cash and balances with central banks and other demand deposits** | **697** | **-** | **-** | **-** | **-** | **-** | **697** |
| **Financial assets** | **4,041** | **1,096** | **1,919** | **1,547** | **1,075** | **139** | **9,817** |
| Held for trading | 176 | 390 | 43 | 22 | 81 | 2 | **714** |
| Designated at fair value through profit or loss | | | | | | 0 | **0** |
| Available for sale financial assets | 218 | 535 | 1,434 | 1,134 | 597 | 137 | **4,054** |
| Loans and receivables | 3,635 | 170 | 440 | 390 | 397 | 0 | **5,032** |
| Hedging derivatives | 13 | 1 | 2 | 1 | 0 | | **17** |
| **Other assets** | | | | | | 560 | **560** |
| **TOTAL ASSETS** | **4,738** | **1,096** | **1,919** | **1,547** | **1,075** | **699** | **11,074** |
| **Deposits from central banks** | **0** | **-** | **-** | **-** | **-** | **-** | **0** |
| **Financial liabilities** | **9,381** | **135** | **93** | **81** | **117** | **0** | **9,807** |
| Held for trading | 179 | 23 | 3 | 2 | 54 | 0 | **261** |
| Designated at fair value through profit or loss | | | | | | | **-** |
| Measured at amortised cost (excluding subordinated liabilities) | 8,980 | 107 | 52 | 7 | 0 | | **9,146** |
| Subordinated liabilities | 213 | 0 | 2 | 1 | | | **216** |
| Hedging derivatives | 9 | 5 | 36 | 71 | 63 | | **184** |
| **Other liabilities** | **-** | **-** | **-** | **-** | **-** | **339** | **339** |
| Provisions | | | | | | 96 | **96** |
| Other liabilities | | | | | | 243 | **243** |
| **Shareholders' equity** | **-** | **-** | **-** | **-** | **-** | **929** | **929** |
| **TOTAL LIABILITIES** | **9,381** | **135** | **93** | **81** | **117** | **1268** | **11,074** |
| **GAP** | **-4,643** | **960** | **1,827** | **1,466** | **958** | **-569** | |

Of which derivatives:

| 31/12/2015 | Less than 3 months EUR thousands | Between 3 months and 1 year EUR thousands | Between 1 year and 3 years EUR thousands | Between 3 years and 5 years EUR thousands | More than 5 years EUR thousands | Total EUR thousands | Carrying amount EUR million |
|---|---|---|---|---|---|---|---|
| **Inflows** | **4,931** | **2,984** | **43** | **63** | **73** | **8,094** | **247** |
| Interest rate | 26 | 22 | 31 | 21 | 12 | **113** | **29** |
| Equity | 0.0 | 0.1 | 0.1 | 0.0 | | **0.2** | **82** |
| Currency | 4,905 | 2,962 | 12 | 42 | 61 | **7,981** | **135** |
| Other | | | | | | **-** | **-** |
| **Outflows** | **-4,976** | **-2,950** | **-91** | **-92** | **-84** | **-8,194** | **443** |
| Interest rate | 32 | 44 | 68 | 40 | 17 | **-201** | **155** |
| Equity | 0.0 | 0.1 | 0.1 | 0.0 | | **-0.2** | **82** |
| Currency | 4,944 | 2,907 | 23 | 52 | 67 | **-7,993** | **200** |
| Other | | | | | | **-** | **7** |
| **Gap - Derivatives** | **-45** | **34** | **-48** | **-29** | **-11** | **-100** | |

*4.2.3. Concentration risk*

The concentration risk the Bank is facing in terms of liquidity is twofold:

- potential concentration in assets in which the excess liquidity is reinvested: this risk is monitored according to the credit risk limit system (as described above);
- potential concentration in funding sources: this risk is monitored through 2 indicators that are quarterly reported to the BRC :

  . relative weight of the top 20 private client deposits for KBL *epb* group,

  . list of all significant counterparties in terms of funding sources (>1% of total liabilities, according to Basel III definition).

## Note 40 – Audit fees

| (in EUR thousand) | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Standard audit services | 1,983 | 1,964 |
| Audit related services | 140 | 550 |
| Other services | | 56 |
| **Total** | **2,123** | **2,570** |

## Note 41 – Information country by country

The following table shows consolidated information distributed by European Members and third countries. It is worth to note that KBL and its subsidiaries haven't received any public subsidies.

**31/12/2016 (in EUR million)**

| Country | Location | Turnover (Gross income) | Full-time equivalents (1) | Profit or loss before tax | Tax on profit or loss |
|---|---|---|---|---|---|
| **BELGIUM** | Brussels | 48 | 236 | 9 | 3 |
| **FRANCE** | Paris | 22 | 117 | 15 | 1 |
| **GERMANY** | Munich | 46 | 307 | 18 | 0 |
| **LUXEMBOURG** | Luxembourg | 216 | 792 | 19 | 5 |
| **THE NETHERLANDS** | Amsterdam | 41 | 192 | 1 | 0 |
| **SPAIN** | Madrid | 5 | 41 | 2 | |
| **SWITZERLAND** | Geneva | | | | |
| **UNITED KINGDOM** | London | 64 | 308 | 10 | 2 |
| **MONACO** | Monaco | 25 | 42 | 15 | 0 |

**31/12/2015 (in EUR million)**

| Country | Location | Turnover (Gross income) | Full-time equivalents (1) | Profit or loss before tax | Tax on profit or loss |
|---|---|---|---|---|---|
| **BELGIUM** | Brussels | 55 | 213 | 19 | 5 |
| **FRANCE** | Paris | 28 | 125 | 3 | 0 |
| **GERMANY** | Munich | 54 | 309 | 2 | 1 |
| **LUXEMBOURG** | Luxembourg | 234 | 834 | 38 | 8 |
| **THE NETHERLANDS** | Amsterdam | 45 | 192 | 10 | 2 |
| **SPAIN** | Madrid | 5 | 41 | 3 | 0 |
| **SWITZERLAND** | Geneva | 54 | 78 | 32 | 1 |
| **UNITED KINGDOM** | London | 64 | 283 | 9 | 2 |
| **MONACO** | Monaco | 10 | 46 | 0 | 0 |

(1) number of employees on a full time equivalent basis.

## Note 42 – List of significant subsidiaries and associates

| COMPANY | COUNTRY | CAPITAL HELD | SECTOR |
|---|---|---|---|
| KBL European Private Bankers S.A. | Luxembourg | 100.00% | Bank |
| **FULLY CONSOLIDATED SUBSIDIARIES (global method)** | | | |
| Banque Puilaetco Dewaay Luxembourg S.A. | Luxembourg | 100.00% | Bank |
| Brown, Shipley & Co. Limited | United Kingdom | 100.00% | Bank |
| The Roberts Partnership | United Kingdom | 100.00% | Other financial |
| Cawood Smithie & Co Limited | United Kingdom | 100.00% | Other financial |
| Fairmount Pension Trustee Limited | United Kingdom | 100.00% | Other financial |
| Fairmount Trustee Services Ltd | United Kingdom | 100.00% | Other financial |
| Slark Trustee Company Ltd | United Kingdom | 100.00% | Other financial |
| White Rose Nominees Ltd | United Kingdom | 100.00% | Other financial |
| Hampton Dean Holdings Limited | United Kingdom | 100.00% | Other financial |
| Hampton Dean Limited | United Kingdom | 100.00% | Other financial |
| KBL Immo S.A. | Luxembourg | 100.00% | Real estate |
| Rocher Ltd | Isle of Man | 100.00% | Real estate |
| S.C.I. KBL Immo III | Monaco | 100.00% | Real estate |
| Plateau Real Estate LTD | Isle of Man | 100.00% | Real estate |
| SCI KBL Immo II | Monaco | 100.00% | Real estate |
| KBL Monaco Private Bankers | Monaco | 100.00% | Bank |
| S.C.I. KBL Immo I | Monaco | 100.00% | Real estate |
| KBL Monaco Conseil et Courtage en Assurance | Monaco | 100.00% | Insurance |
| Merck Finck & Co. | Germany | 100.00% | Holding |
| Modernisierungsgesellschaft Lübecker Str. 28/29 Gbr | Germany | 79.06% | Real estate |
| Merck Finck Pension Universal Funds | Germany | 100.00% | Management (Funds, Pensions, Portfolios) |
| KBL Richelieu Banque Privée S.A. | France | 100.00% | Bank |
| KBL Richelieu Gestion | France | 100.00% | Management (Funds, Pensions, Portfolio) |
| KBLR Courtage | France | 100.00% | Management (Funds, Pensions, Portfolio) |
| KBLR INVEST 4 | France | 100.00% | Management (Funds, Pensions, Portfolio) |
| Kredietrust Luxembourg S.A. | Luxembourg | 100.00% | Management (Funds, Pensions, Portfolios) |
| Puilaetco Dewaay Private Bankers S.A. | Belgium | 100.00% | Bank |
| Theodoor Gilissen Bankiers N.V. | The Netherlands | 100.00% | Bank |
| TG Fund Management B.V. | The Netherlands | 100.00% | Management (Funds, Pensions, Portfolios) |
| Theodoor Gilissen Trust B.V. | The Netherlands | 100.00% | Management (Funds, Pensions, Portfolios) |
| Wereldeffect B.V. | The Netherlands | 100.00% | Management (Funds, Pensions, Portfolios) |
| Stichting Stroeve Global Custody | The Netherlands | 100.00% | Management (Funds, Pensions, Portfolios) |
| Stichting Theodoor Gilissen Global custody | The Netherlands | 100.00% | Management (Funds, Pensions, Portfolios) |
| Theodoor Gilissen Global Custody N.V. | The Netherlands | 100.00% | Custodian |
| KBL Espana Asset Management | Spain | 100.00% | Management (Funds, Pensions, Portfolios) |
| **ASSOCIATES** | | | |
| EFA Partners S.A. (1) | Luxembourg | 52.70% | Holding |
| European Fund Administration S.A. (1) | Luxembourg | 48.58% | Fund administration |
| **NON-CONSOLIDATED COMPANIES** | | | |
| KBL European Private Bankers S.A. | | | |
| Forest Value Investment Management S.A. | Luxembourg | 25.60% | |
| Merck Finck & Co. | | | |
| Steubag G. Betriebsw. & Bankendienst. GmbH | Germany | 100.00% | |

(1) Despite the ownership percentage, KBL *epb* does not exercise control or joint control over EFA Partners S.A. or European Fund Administration S.A.. These two companies are thus considered as associates over which KBL *epb* exercises a significant influence and are equity reported.

## Note 43 – Main changes in the scope of consolidation

| COMPANY | COUNTRY | CAPITAL HELD | SECTOR |
|---|---|---|---|
| **EXIT FROM SCOPE OF CONSOLIDATION** | | | |
| KBL European Private Bankers S.A. | | | |
| Horacio sarl | Luxembourg | 100.00% | Real Estate |
| KBL Informatique G.I.E. | Luxembourg | 100.00% | IT |
| KBL Richelieu Banque Privée S.A. | | | |
| S.E.V. | France | 100.00% | Other Commercial |
| KBLR INVEST 2 | France | 100.00% | Management (Funds, Pensions, Portfolios) |
| KBLR INVEST 3 | France | 100.00% | Management (Funds, Pensions, Portfolios) |
| **MERGE IN SCOPE OF CONSOLIDATION** | | | |
| KBL Beteiligungs A.G. *with Merck Finck & Co* | Germany | 100.00% | Holding |
| Merck Finck & Co. *with Merck Finck Treuhand A.G.* | Germany | 100.00% | Bank |
| Merck Finck Treuhand A.G. | Germany | 100.00% | Non financial corporation |
| **ENTRY IN SCOPE OF CONSOLIDATION** | | | |
| Brown, Shipley & Co. Limited | | | |
| The Roberts Partnership | United Kingdom | 100.00% | Other financial |
| KBL European Private Bankers S.A. | | | |
| KBL Espana Asset Management | Spain | 100.00% | Management (Funds, Pensions, Portfolios) |

## Note 44 – Events after the balance sheet date

On 31 December 2016, KBL *epb* acquired the shares of Bank Insinger de Beaufort (IdB), a Dutch private bank founded in 1779. As of 1 January 2017, IdB became a 100% subsidiary of KBL *epb*.

Thus, Insinger de Beaufort is not included in the KBL *epb* group consolidated accounts as at 31 December 2016. Subject to approval by the relevant regulatory authorities and other stakeholders, KBL *epb* intends to merge Insinger de Beaufort and Theodoor Gillissen in mid-2017.

Please find hereafter an overview of the solo accounts of IdB and an estimation of this acquisition on the consolidated solvency ratio of KBL epb group:

**Aggregated view of the solo accounts**

| ASSETS (in EUR million) | 31/12/2016 |
|---|---|
| Cash, cash balances at central banks and other demand deposits | 279 |
| Financial assets | 1,076 |
| Held for trading | 0 |
| Available for sale financial assets | 43 |
| Loans and receivables | 960 |
| Held to maturity investments | 72 |
| Tax assets | 7 |
| Property and equipment | 2 |
| Goodwill and other intangible assets | 84 |
| Other assets | 16 |
| **TOTAL ASSETS** | **1,464** |

| EQUITY AND LIABILITIES (in EUR million) | 31/12/2016 |
|---|---|
| Financial liabilities | 1,289 |
| Held for trading | 2 |
| At amortised cost | 1,287 |
| Tax liabilities | 2 |
| Provisions | 0 |
| Other liabilities | 22 |
| **TOTAL LIABILITIES** | **1,314** |
| **TOTAL EQUITY** | **150** |
| **TOTAL EQUITY AND LIABILITIES** | **1,464** |

**Estimated solvency ratios of KBL Group including Bank Insinger de Beaufort within the scope of consolidation as at 31 December 2016**

| In EUR million | 31/12/2016 ESTIMATED | 31/12/2016 REALITY(1) |
|---|---|---|
| **Regulatory capital** | **623** | **651** |
| Tier 1 capital | 623 | 650 |
| Tier 2 capital | 1 | 1 |
| **Risk weighted assets** | **3,889** | **3,799** |
| **Solvency ratios** | | |
| **Basic solvency ratio (Tier 1 ratio)** | **16.00%** | **17.11%** |
| **Solvency ratio (CAD ratio)** | **16.03%** | **17.14%** |

(1) Please refer to note 37.

There was, after the closing date, no other significant event requiring an update of the provided information or adjustments in the annual accounts as of 31 December 2016.

KBL EUROPEAN PRIVATE BANKERS

PWM The Banker GLOBAL PRIVATE BANKING AWARDS 2016
BEST PRIVATE BANK IN LUXEMBOURG

AMSTERDAM
BRUSSELS
LONDON
LUXEMBOURG
MADRID
MONACO
MUNICH
PARIS

2016 ANNUAL REPORT

# THE EUROPEAN PRIVATE BANKING GROUP

## GUIDING PRINCIPLES

### MISSION

TO PRESERVE AND GROW EACH
CLIENT'S WEALTH ACROSS GENERATIONS

### VISION

TO BE RECOGNIZED AS A TRUSTED PARTNER
AND LEADING PRIVATE BANK EVERYWHERE WE OPERATE


### VALUES

INTEGRITY, COMMITMENT AND EXCELLENCE

# EUROPEAN NETWORK

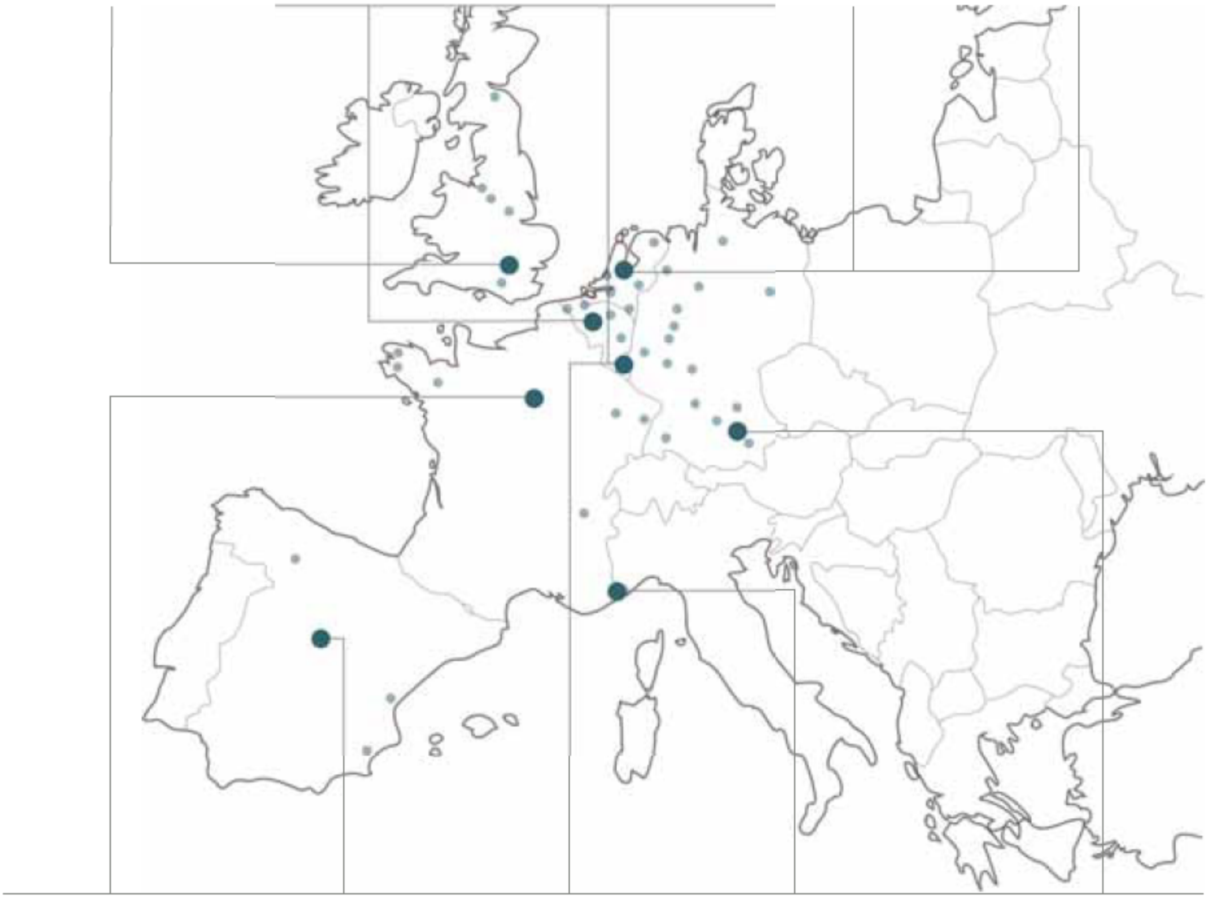
BROWN SHIPLEY
Founders Court, Lothbury
London EC2R 7HE
United Kingdom
www.brownshipley.com

PUILAETCO DEWAAY
Herrmann Debrouxlaan 46
B-1160 Brussels
Belgium
www.pldw.be

KBL EUROPEAN PRIVATE BANKERS
43, boulevard Royal
L-2955 Luxembourg
Luxembourg
www.kbl.lu

THEODOOR GILISSEN
Keizersgracht 617
1017 DS Amsterdam
The Netherlands
www.gilissen.nl

INSINGER DE BEAUFORT
Herengracht 537
1017 BV Amsterdam
The Netherlands
www.insinger.com



KBL RICHELIEU
22, boulevard Malesherbes
F-75008 Paris
France
www.kblrichelieu.com

KBL ESPAÑA
57, Calle Serrano
E-28006 Madrid
Spain
www.kbl-bank.es

Puilaetco Dewaay PRIVATE BANKERS
2, boulevard E. Servais
L-2355 Luxembourg
Luxembourg
www.puilaetco.lu

KBL MONACO PRIVATE BANKERS
8, avenue de Grande-Bretagne
MC-98005 Monaco
Monaco
www.kblmonaco.com

MERCK FINCK PRIVATBANKIERS
Pacellistrasse 16
D-80333 Munich
Germany
www.merckfinck.de

# CONTENTS

# WELCOME FROM THE GROUP CEO

Thank you for your interest in KBL European Private Bankers, a pan-European private banking group headquartered in Luxembourg.

As Europe's only network of boutique private banks, KBL *epb* builds on the heritage and track record of our strong domestic brands present in 50 cities.

Employing some 2,000 staff – including 400 private bankers and 200 investment professionals – our group offers its clients the best service available, complementing our deep local knowledge with cross-border expertise.

The cornerstone of KBL *epb*'s approach is to act as our clients' trusted partner. Striving to be a leading private bank everywhere we operate, our mission is to preserve and grow each client's wealth across generations.

To that end, we harness our team's collective insights to better serve each of our clients, whatever their needs and wherever they are based – providing customized "one-stop-shop" solutions for individuals, entrepreneurs and families, institutions, family offices and external asset managers.

KBL *epb* exemplifies successful organizational change management in the rapidly evolving private banking industry, distinguishing ourselves through client proximity, organizational efficiency and consistency over time, with an offering that combines investment management, financial planning and lending.

With the full support of our shareholder – Precision Capital, a Luxembourg-based bank holding company supervised by the European Central Bank – KBL *epb* is consolidating its position as a model for pure-play private banking in Europe, constantly exploring new ways to expand and strengthen our offering at a challenging time for our industry.

Indeed, 2016 was a year of global market turbulence, including volatile politics, a challenging interest-rate environment and increased regulatory burdens.

As we adapt to evolving market trends, our group's standing as an industry leader continues to be recognized by our peers: In 2016, KBL *epb* was named "Best Private Bank in Luxembourg" at the PWM/The Banker Global Private Banking Awards and again named among the "Outstanding Private Banks in Europe" at the Private Banker International Global Wealth Awards.

External challenges have led to significant consolidation in the financial services sector – enabling our group to profit from such trends through strategic acquisitions. In that regard, KBL *epb* deepened its local presence in 2016 through the acquisition of a leading Dutch private bank, Insinger de Beaufort, and financial planning and UK-based wealth management firm The Roberts Partnership in the UK.

In addition, we have sustained growth through organic and semi-organic initiatives, investing in the skills and development of our staff, recruiting experienced professionals and always focusing on our clients.

We are committed to reinforcing our IT infrastructure and the digital solutions we extend to our clients. Ensuring we are fully equipped to respond to rapidly evolving customer needs has remained a priority. Likewise, KBL *epb* continues to accelerate its investments in the enhancement of the group's product and service offering in an increasingly international environment.

If we can provide further information about our services or how we can put our experience and expertise to work as your trusted partner, please do not hesitate to contact any of our 50 European offices.

Sincerely,

Yves Stein
Group CEO

# DIRECTORS & MANAGEMENT

## BOARD OF DIRECTORS

**JAN MAARTEN DE JONG**
Chairman

**GEORGE NASRA**
Vice Chairman

**ALFRED BOUCKAERT**
Director

**FRANK ERTEL**
Director
Staff Representative

**NICHOLAS HARVEY**
Director

**ANNE RUTH HERKES**
Director

**CHRISTIAN HOELTGEN**
Director
Staff Representative

**MAURICE LAM**
Director

**LAURENT MERTZ**
Director
Staff Representative

**DANIELE MONTENERO**
Director
Staff Representative

**ALAN MORGAN**
Director

**ANNE REULAND**
Director

**MARIE-JEANNE SIEBENBORN**
Director
Staff Representative

**YVES STEIN**
Director

**ALBERT WILDGEN**
Director

## EXECUTIVE COMMITEE

**YVES STEIN**
Group CEO

**YVES PITSAER**
Group CRO & Regulatory Affairs

**CARLO FRIOB**
Group Chief Commercial Officer

**PAUL SCHOLTEN**
Group COO

**RACHEL HAMEN**
Group CFO

## AFFILIATE CEOs

**REGIS BROCHOT**
KBL Richelieu

**IAN SACKFIELD**
Brown Shipley

**JEAN DANCKAERT**
KBL Monaco Private Bankers

**MATTHIAS SCHELLENBERG**
Merck Finck

**OLIVIER DE JAMBLINNE DE MEUX**
Banque Puilaetco Dewaay Luxembourg

**PETER SIERADZKI**
Insinger de Beaufort

**RAFAEL GRAU**
KBL España

**THIERRY SMETS**
Puilaetco Dewaay Private Bankers

**TANJA NAGEL**
Theodoor Gilissen

MANAGEMENT

**SIEGFRIED MARISSENS**
Secretary General

**PHILIPPE AUQUIER**
Group Head of Asset Liability Management & Treasury

**CAROLINE BAKER**
Group Head of Human Resources

**OLIVIER BEGHIN**
Group Head of Wealth Planning & Structuring

**ERIC COLUSSI**
Head of Lending, Luxembourg

**GUILLAUME DE GROOT-HERZOG**
Head of Real Estate & Logistics, Luxembourg

**SERGE D'ORAZIO**
Head of Institutional & Professional Services, Luxembourg

**MARC STANDAERT**
Group Head of Lending

**RAFIK FISCHER**
Group Head of Business Development

**GAËLLE HAAG**
Group Head of Sales & Marketing

**OLIVIER HUBERT**
Group Head of Tax

**SONJA KINN**
Head of Compliance, Luxembourg

**FLORENT LACOMBE**
Group Head of Procurement

**CÉDRIC LEBEGGE**
Group Head of Project Management Office

**FRANÇOIS LENERT**
Group Head of Global Markets

**PHILIPPE MAIRLOT**
Head of Accounting, Luxembourg

**ÉRIC MANSUY**
Group Head of IT

**NICHOLAS NESSON**
Group Head of Corporate Communications

**VINCENT SALZINGER**
Group Head of Compliance

**ANDRE SEREBRIAKOFF**
Head of Legal, Luxembourg

**BERNARD SIMONET**
Head of Human Resources, Luxembourg

**ANTHONY SWINGS**
Group Head of Risk Control

**THIERRY THOUVENOT**
Group Head of Internal Audit

**PHILIPPE VAN DOOREN**
Head of Operations, Luxembourg

**STEFAN VAN GEYT**
Group CIO

**QUENTIN VERCAUTEREN DRUBBEL**
Head of Wealth Management, Luxembourg

Independent auditors responsible for external audit: Ernst & Young S.A.

# 2016 IN REVIEW

## JANUARY

Hampton Dean officially becomes the Brown Shipley Nottingham office following the 2015 acquisition of the IFA firm.

Banque Puilaetco Dewaay Luxembourg implements a new platform developed in partnership with Lombard Odier.

KBL Monaco presents the group's 2016 global investment outlook to clients at the Hôtel Métropole de Monte-Carlo.

KBL Richelieu hosts 100 clients at an event at the Museum of Fine Arts of Lyon.

## FEBRUARY

Theodoor Gilissen celebrates its 135th anniversary. A special BNR newsradio broadcast takes place from Theodoor Gilissen's offices, while a suite is named after the bank's founder at Hotel de L'Europe – the bank's original headquarters.

KBL *epb* hosts 300 clients at the Grand Théâtre de Luxembourg to see the Opera Il Trovatore de Giuseppe Verdi.

## MARCH

Brown Shipley launches My Brown Shipley, an enhanced online client portal and tablet application that provides clients with mobile access to their accounts.

## APRIL

KBL Richelieu organizes a business breakfast for INSEAD Business School graduates with economist and business leader Alain Minc.

KBL *epb* enters into an agreement to acquire Insinger de Beaufort, a leading private bank in the Netherlands. Subsequently, KBL *epb* intends to merge Insinger de Beaufort and Theodoor Gilissen, the group's award-winning Dutch private banking unit.

KBL *epb* announces its 2015 financial results: group net profit reaches €81 million, up 22% from the previous year, while AuMs increase 8% to €49 billion as of December 31, 2015.

KBL España establishes a new asset management subsidiary: KBL España Asset Management SGIIC S.A.

Brown Shipley launches its new wealth management proposition, combining its wealth planning and investment management services into one core offering.

## MAY

Brown Shipley announces the appointment of Guy Healey – a respected finance professional with a track record of success in wealth management – as its new Head of Private Banking.

KBL Richelieu appoints Régis Brochot as its new CEO. He will bring together his private and professional wealth management skills and experience to serve entrepreneurs, managers and their families, from one generation to the next.

Theodoor Gilissen's sustainable funds suite is awarded Morningstar's highest rating.

## JULY

KBL *epb* signs an agreement to establish its Group European Works Council (EWC) to facilitate dialogue with all its social partners across its 50-city network. The body will represent an additional platform for discussion and consultation about transnational initiatives, issues and opportunities.

KBL Richelieu introduces new digital tools through its partnership with Lombard Odier.

## AUGUST

Jérôme Truyens, financial analyst at Puilaetco Dewaay, captains the Belgian field hockey team at the Olympic games in Rio de Janeiro. The Red Lions beat the odds to finish with silver.

## SEPTEMBER

Brown Shipley staff take on the Three Peaks Challenge, raising £12,000 for three local charities.

Paul Scholten is appointed Group Chief Operating Officer. Having held a range of senior positions in Europe, the Middle East and Asia, he brings his vast experience in private banking across the globe to the Group Executive Committee.

Banque Puilaetco Dewaay Luxembourg recruits a team of four experts with experience in private banking and estate & financial planning.

Merck Finck Privatbankiers oHG changes its legal status into a stock corporation (not listed) with the new company name, Merck Finck Privatbankiers AG.

## OCTOBER

Brown Shipley, the group's UK affiliate, signs an agreement to acquire The Roberts Partnership, a UK-based financial planning and wealth management firm.

Puilaetco Dewaay introduces an enhanced logo, modernizing the emblem of two lion heads.

KBL *epb* is named among the "Outstanding Private Banks in Europe" at the 2016 Private Banker International Global Wealth Awards.

KBL *epb* is named the best private bank in Luxembourg at the PWM/The Banker Global Private Banking Awards.

Jolanda van de Kamer is appointed as Chief Operating Officer at Theodoor Gilissen. She has been working in the operational and IT field since 1998 and brings her vast experience in the industry.

## NOVEMBER

Merck Finck earns a "summa cum laude" rating from the Elite Report (for the ninth time in a row), in cooperation with Handelsblatt. The German bank is also rated "outstanding" by Focus-Money and n-tv.

Brown Shipley successfully closes the acquisition of The Robert's Partnership, bringing an additional £500 million in assets under management to KBL *epb*'s UK affiliate.

50 KBL Richelieu clients attend a private viewing of the Fantin-Latour exposition at the Musée de Luxembourg in Paris.

## DECEMBER

KBL *epb* hosts 100 clients at a Luxembourg Art Week preview.

Theodoor Gilissen's Sustainable America Index Fund is recognized as the most profitable Dutch sustainable equity fund in 2016, generating a return of 17.8%.

Hampton Dean's Alex Brandreth (Deputy CIO) and Simon Nicholas (Senior Fund Manager) are both named in *Citywire Wealth Manager*'s Top 100 most influential people in UK fund selection.

KBL *epb* Group CEO Yves Stein and Group COO Paul Scholten join the Theodoor Gilissen Supervisory Board.

Brown Shipley holds its annual flagship client event with its corporate partner, The National Gallery in London, where 60 guests are treated to a private viewing and dinner.

Merck Finck announces the appointment of Matthias Schellenberg as its new CEO.

# KEY CONSOLIDATED FIGURES

| (Consolidated figures as of December 31) | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **RESULTS** (in EUR million) | | | | |
| Net banking income | 540.6 | 539.0 | 547.9 | **465.9** |
| Operating expenses | -425.9 | -438.6 | -449.4 | **-451.1** |
| Impairments | -3.6 | -0.4 | 0.2 | **0.2** |
| Share in results of associated companies | 0.1 | -0.1 | 0.6 | **1.1** |
| Pre-tax profit | 111.2 | 100.0 | 99.3 | **16.1** |
| Income taxes | -26.7 | -32.7 | -17.9 | **-10.1** |
| Net consolidated profit, group share | 84.5 | 66.9 | 81.3 | **6.0** |
| **FINANCIAL RATIOS** (in %) | | | | |
| Core tier one ratio (1) | 13.5 | 13.7 | 13.8 | **16.0** (2) |
| Tier one ratio (1) | 13.5 | 13.7 | 13.8 | **16.0** (2) |
| Solvency ratio (1) | 18.2 | 14.7 | 14.0 | **16.0** (2) |
| Regulatory capital/balance sheet total | 5.6 | 4.9 | 4.8 | **5.9** |
| Loan-to-deposit ratio | 23.8 | 30.0 | 26.2 | **27.2** |
| ROAE | 9.1 | 7.0 | 8.7 | **0.6** |
| ROAA | 0.7 | 0.5 | 0.7 | **0.1** |
| ROA | 0.7 | 0.5 | 0.7 | **0.1** |
| Cost/income ratio | 78.8 | 81.4 | 82.0 | **96.8** |

(1) Basel III regulation is applicable as of 2014, Basel II was applicable from 2008 to 2013 included.

(2) Simulated ratio including Bank Insinger de Beaufort (see note 44 of the Consolidated Accounts).

The complete financial statements of KBL *epb* and KBL Group are available on the internet site of KBL *epb*.
The Pillar III disclosures report will be published in first half of 2017 on the internet site of KBL *epb*.
www.kbl.lu

| (Consolidated figures as of December 31) | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **BALANCE SHEET TOTAL** (in EUR billion) | 12.5 | 12.4 | 11.1 | **11.0** |
| **ASSETS** | | | | |
| Loans and advances to credit institutions | 2.1 | 1.6 | 2.6 | **1.5** |
| Loans and advances to non-credit institutions | 2.3 | 2.4 | 2.7 | **2.1** |
| Equity and debt instruments | 4.1 | 4.6 | 4.6 | **5.4** |
| **LIABILITIES** | | | | |
| Deposits from credit institutions | 1.0 | 1.0 | 0.9 | **1.1** |
| Deposits from non-credit institutions | 7.5 | 7.5 | 8.5 | **8.1** |
| of which, subordinated debt | 0.2 | 0.2 | 0.2 | **0.0** |
| Total equity | 1.0 | 0.9 | 0.9 | **1.1** |
| **AUMs** (in EUR billion) | | | | |
| Assets under management (private banking) | 42.3 | 44.9 | 48.7 | **50.8** |
| Volume impact | -2.0% | +0.6% | +4.2% | **+1.6%** |
| Price impact | +5.3% | +5.4% | +4.2% | **+2.6%** |
| **AUCs** (in EUR billion) | | | | |
| Assets under custody (funds & institutional) | 41.3 | 43.8 | 40.7 | **18.7** |

# CONSOLIDATED MANAGEMENT REPORT

## GENERAL COMMENTS ON THE RESULTS

Net consolidated profit, group share, as of December 31, 2016, was €6.0 million compared to €81.3 million as of December 31, 2015.

This drop was due, in part, to one-off positive results seen in 2015. In addition, core-business income fell, and one-off investments increased in various projects for 2016.

Gross income decreased to €466 million, an €82 million decrease from €548 million in 2015.

It should be noted that in 2015, following the decision to refocus certain business lines, KBL *epb* Group made a gain of more than €86 million on the combined sales of a building in Luxembourg, equities exposed to Europe and two subsidiaries: KBL (Switzerland) and Vitis Life.

In parallel, in 2016, the bank made a gain on the sale of buildings in Luxembourg, Monaco and London for a total of €51 million. Other corporate actions generated an additional €20 million.

Interest margins (-20%) and net commission (-14%) at the end of the year – €77 million and €287 million, respectively – reflect the difficult economic climate and unfavorable stock markets.

Although operating expenses only increased slightly (up to €451 million from €449 million in 2015), the group's cost-cutting was negatively offset by investments in the transformation and IT infrastructure projects in partnership with Lombard Odier.

The group balance sheet total was €11.0 billion as of December 31, 2016, compared to €11.1 billion the previous year. The Bank maintained its loans on a securitized basis and strengthened its fixed-income portfolio, while reducing the volume of its interbank transactions.

On December 31, 2016, KBL *epb* acquired Insinger de Beaufort, a Dutch private bank founded in 1779, which became a wholly-owned subsidiary of the group on January, 1, 2017. Prior to this acquisition, Precision Capital, the parent company, injected €200 million in capital, further strengthening the bank's solvency ratio and equity.

The solvency ratio and the tier-one equity ratio under Basel III stood at 17.14% and 17.11%, respectively, and remain well above the regulatory thresholds imposed by the European Central Bank.

## A SHARED CORPORATE CULTURE

Our corporate culture is founded upon a shared mission, vision and set of values. These convictions are based on group-wide dialogue, driven by leadership discussions and shaped by employee insights across our 50-city network.

That collaborative process has been key to our shared success. Strengthening our corporate culture has provided deeper internal alignment, supported greater focus in our daily actions and instilled a sense of shared purpose in our longer-term journey – helping us achieve our business objectives.

## MISSION

Our mission is clear: to preserve and grow each client's wealth across generations.

Continually adapting to our clients' evolving expectations in an ever-changing world, our long-term approach reflects the asymmetric risk appetite of our clients. Our mission informs every action we take across our 50-city network.

We carry out this mission by providing clients with proximity, agility and personalized service – maintaining close, constant contact, responding quickly to specific needs, and offering tailor-made solutions addressing their unique priorities and long-term goals.

Every day, we put our shared expertise to work for each of our clients, providing customized "one-stop-shop" solutions for individuals, entrepreneurs,

*For detailed figures, please see Consolidated Accounts.*

families, institutions, family offices and external asset managers.

## VISION

We strive to be recognized as a trusted partner and leading private bank everywhere we operate.

With the full support of our shareholder, Precision Capital (which is supervised by the European Central Bank), our group draws upon a cross-border knowledge base that reflects our commitment to partnering with our clients, as well as our strategy to achieve sustained growth through organic and semi-organic initiatives.

As we seek to achieve this ambitious, client-centric goal, five key factors drive us forward: our people, passion, pride, performance and profitability.

## VALUES

Our values are integrity, commitment and excellence, serving as the foundation for how we act and do business, encompassing our core attitudes, beliefs and obligations.

They set standards that shape our actions and inform our vision, guiding us towards our long-term goals.

- **Integrity:** A requirement that all our actions meet or exceed relevant legal and ethical standards and regulations – including by embracing the dual imperatives of transparency and confidentiality

- **Commitment:** An essential quality in our people, who must ensure that each promise we make becomes reality – supported by individual accountability and a broader spirit of interdependence

- **Excellence:** An attitude among all our staff, with an unwavering aspiration to exceed the expectations of our clients and colleagues, founded upon a commitment to making the pursuit of excellence a way of life

“WE STRIVE TO BE RECOGNIZED AS A TRUSTED PARTNER AND LEADING PRIVATE BANK EVERYWHERE WE OPERATE”

## TRAINING & DEVELOPMENT

Training and development are central to further enhancing our client services and improving the overall client experience.

That's why we invest in the skills and development of our people and recruit experienced professional staff.

While such semi-organic and external initiatives are most visible to the outside world, KBL *epb* firmly believes that staff training and development is no less critical. Indeed, all our people – from the mailroom to the boardroom – are contributing to our ability to better serve each individual client.

In that regard, the group continues to make significant investments in training and development under the auspices of KBL *epb* Group University, an umbrella organization and a long-term, group-wide programme aimed at supporting employee development through a combination of classroom instruction, e-learning and one-to-one mentorship.

Across the group's footprint, and especially in Luxembourg, KBL *epb* continues to promote internal mobility, creating opportunities for relevant staff to transfer their knowledge and skills within the organization.

Likewise, we strongly encourage cross-border cooperation, organizing events that bring together staff from multiple markets. Such meetings facilitate the exchange of local experience and insight – and the creation of shared strategies to better serve all our clients, no matter where they are based.

## SOCIAL COMMITMENT

With more than 2,000 employees across 50 European cities, our group has a unique opportunity to make a difference in local communities.

Today, we continue to reinforce our commitment to corporate social responsibility, supporting various worthy causes throughout Europe.

At KBL *epb* we believe in doing well for our clients and doing good in our communities. By contributing resources, time and capital to laudable causes and important ideas, we serve as an agent of positive social change.

Our current CSR commitments reflect the distinctly multi-local identity of our group and include support of organizations such as:

- Autism Foundation in Luxembourg
- St. Gemma's Hospice in the UK
- Goods to Give in Belgium

We further support various staff-nominated causes across the communities we serve. In Belgium and Germany, we support multiple organizations that work with terminally ill, sick, handicapped and deprived children. KBL *epb* also provides ongoing funding for a broad range of non-profit cultural organizations such as the Luxembourg Philharmonic and the Grand Theater of Luxembourg.

"WE BELIEVE IN DOING WELL FOR OUR CLIENTS AND DOING GOOD IN THE COMMUNITIES WE SERVE"

In addition to direct financial support, our group strongly encourages staff to participate in initiatives that benefit local communities. Such staff-supported initiatives include:

- Amsterdam City Swim, a 2km swim through the Amsterdam canals to raise money for the ALS Foundation
- Three Peaks Challenge, a 24-hour race that involves climbing the highest mountains in England, Scotland and Wales to raise awareness and funds for multiple charitable organizations

## GROUP EMPLOYEES

As of December 31, 2016, the KBL *epb* network included 2,141 individual staff, compared with 2,166 at the end of 2015. Of the group's 2,141 employees, some 60% work in subsidiaries outside Luxembourg.

# OUR CORE BUSINESS: PRIVATE BANKING

At KBL *epb*, our core business is private banking – backed by the group's history of excellence, deep local market knowledge, cross-border capabilities and centuries of collective experience.

Our global and personalized approach is founded on our commitment to minimizing risk while maximizing opportunity.

Preserving and growing each client's wealth across generations is at the heart of all of our actions as we aspire to be recognized as a trusted partner and leading private bank everywhere we operate.

Whether by investing in equities, derivatives, fixed-income or structured products, and in-house or third-party funds, we take into account the risk-return potential and tax implications of every investment, in line with each client's specific objectives.

Our experts build long-term client relationships based on mutual understanding and trust. Across our footprint, we seek to grow our core HNWI client base, offering services and products tailored to their needs, while continuing to serve affluent clients through a highly efficient delivery model.

Sustain communication and constant contact with our clients are important to us, especially during times of increased volatility – we provide regular, transparent reporting of the performance of each portfolio.

Already firmly established as European leaders, we continue to invest in supporting the professional development of our 400 experienced private bankers serving at 50 offices. We also selectively recruit highly skilled and motivated relationship managers to ensure the highest level of personalized service.

Moving forward, we will continue to identify further opportunities to grow our private banking operations. In doing so, we will maintain our commitment to client-centricity and, at the same time, favor innovation and diversity.

> OUR CLIENT-CENTRIC APPROACH IS FOUNDED UPON OFFERING PROXIMITY, AGILITY AND PERSONALIZED SERVICE

## CLIENT-CENTRIC APPROACH

Our services – in areas such as Wealth Planning & Structuring and Lending – are direct answers to the needs of the individuals, entrepreneurs and families we serve. Those services are designed to help our clients successfully navigate an evolving and often challenging regulatory environment.

Whether we are managing today's wealth or structuring tomorrow's inheritance, our clients benefit from a suite of open, independent solutions, tailored to their specific needs – backed by our client-centric approach, founded upon offering proximity, agility and personalized service.

# WEALTH MANAGEMENT, LUXEMBOURG

2016 was a period of growth and development for KBL *epb*'s Wealth Management department in Luxembourg.

Continuing to enhance our team and provide customized solutions that reflect the evolving needs of our clients, the year was marked by the introduction of a dedicated Business Development function, responsible for identifying potential (U)HNWI clients.

This team of "hunters" works in close cooperation with those relationship managers focused on maintaining and enhancing client relationships over the long term. Consequently, we now have an even more robust approach to supporting clients across the cycle – ensuring consistency and driving the overall growth of our valued client base.

In response to rapidly evolving client needs, we earlier expanded our portfolio management service offering. A Richelieu Investment Fund mandate was launched, comprised of three strategies, uniting our group's expertise in asset allocation and investment selection.

The introduction of this mandate, supported by close cooperation between our private bankers and portfolio managers, once again led to solid results in 2016, with assets under management rising.

For the last several years, we have been strengthening our professional staff, enhancing our commercial organization and ensuring the excellence of our private banking services – as a result, we succeeded in attracting new capital inflows, up on the previous year.

Finally, after introducing a client satisfaction measurement process in 2015, we have been able to identify and address gaps in client experience, helping our team ensure that we continue to provide the highest level of long-term, personalized service to each client we have the opportunity to serve.

It is thanks to our dedicated specialist teams – focused on providing clients with personalized and integrated solutions to help achieve their ambitions – that KBL *epb* was named the "Best Private Bank in Luxembourg" at the 2016 PWM/The Banker Global Private Banking Awards.

"WE PROVIDE CUSTOMIZED SOLUTIONS THAT REFLECT THE RAPIDLY EVOLVING NEEDS OF OUR CLIENTS"

# GROUP BUSINESS DEVELOPMENT

Services to professional and institutional clients have been a pillar of our business for many years. While the institutional and professional segment in Luxembourg is of course especially substantial – partly due to the country's status as the largest investment fund center in Europe – our reach extends far beyond the fund industry and the borders of the Grand Duchy.

Indeed, services for external asset managers have been successfully developed in certain affiliates outside Luxembourg, where we have been able to profit from the rapid growth of the UCI industry.

Overall, the institutional and professional services segment is vitally important to our long-term success.

The beginning of 2015 saw the creation of a new business line, Group Business Development, whose main responsibility is to develop the international marketing of our services to professional and institutional clients across our 50-city European network.

This business line aims to provide our clients with a range of services that encompass more than just the investment fund industry.

It is also focused on providing wealth management solutions in the wider sense for family offices, foundations, external asset managers and other institutional clients, such as insurance companies and private banking peers.

Our institutional and professional clients benefit from our in-depth knowledge of trading and brokerage: we provide execution services in equities, bonds, money market instruments and Forex, as well as in structured products and precious metals. Our expertise also covers the fields of repurchase agreements and securities lending.

With a mandate to develop this business across our European footprint, the Group Business Development team works closely with colleagues in our affiliates to make the most of the pan-European dimension of our group.

It is worth noting that our Institutional & Professional Services (IPS) business line makes a significant contribution to the group's profitability, with an impressive return on investment.

In a rapidly changing world, when clients are increasingly cost-driven, markets volatile and the overall level of new fund launches lower than in the past, Group Business Development continues to adapt and reinforce its marketing activities with third-party managers and in the field of interbank relationships.

Already a major custodian for small and medium asset managers, our teams are redoubling efforts to attract and retain such clients, continuing to record major new business wins in this dynamic segment whose needs are closely aligned with our own proposition.

Following its promising first year, 2016 has again been a successful year for Group Business Development, which acquired some €2 billion in new assets, largely exceeding its target for the period.

This year, the team will expand its geographic reach and marketing efforts, accelerating the prospection in new and existing target countries, including European markets outside the core.

Ambitious growth targets have been established for the forthcoming years. We remain confident that we will realize these ambitions, which will help us continue to grow our institutional and professional client base with the active engagement of our network.

# INSTITUTIONAL & PROFESSIONAL SERVICES

Launched in 2015 and originating from KBL *epb*'s business line formerly known as "Global Investor Services," Institutional & Professional Services (IPS) is the second pillar of our business in Luxembourg and across our footprint.

IPS exclusively serves existing institutional and professional clients, completing the wealth management value chain by positioning the group as a true "one-stop shop."

Largely centered on our longstanding expertise in global custody, fund administration and fund structuring, the aim of IPS is to ensure – via its highly professional relationship managers and account officers – that the complex needs of institutional and professional clients are satisfied efficiently and to the highest professional standard.

IPS today serves more than 200 institutional and professional clients and around 2,100 structures and portfolios, with assets under custody of more than €21 billion.

> OUR GROUP IS ABLE TO MEET THE COMPLEX NEEDS OF INSTITUTIONAL AND PROFESSIONAL CLIENTS

IPS also proactively promotes among its large client base the services offered by our Group Competence Centers; new business opportunities correspondingly emerged in 2016 with our Wealth Management, Group Lending, Global Markets and Asset Management departments.

To that end, in 2016, CRM teams benefitted from specialist training on the group's full suite of products and services, fostering sales proactivity. As well, internal KPIs have been established to generate and measure leads for Group Competence Centers.

In 2016, from a regulatory point of view – and following the implementation of the Alternative Fund Managers Directive (AIFMD) in 2015 – IPS, in close collaboration with Operations, successfully implemented the UCITS V Directive (the latest version of the directive on undertakings for collective investment in transferable securities) by adapting its depository supervisory functions, operational workflows and IT tools.

Full client support has also been assured for the implementation of additional regulations such as FATCA, EMIR and CRS. Additionally, IPS actively participated in transversal workshops dedicated to the upcoming implementation of MiFID II at the beginning of 2018.

Another large-scale project ongoing since the start of 2016 is the planned migration to a new IT platform. This will require the mobilization of the group's resources (e.g. account mapping, training on new management tools, client workshops, etc.) and also involves the subsequent adaptation of underlying operational procedures. Every effort will be made to ensure that this IT transfer is as flexible and transparent as possible for clients.

# CENTRAL UCI ADMINISTRATION

## LUXEMBOURG, EUROPE'S UNRIVALLED LEADER

On November 30, 2016, the total net assets of collective investment undertakings and specialized investment funds in the Luxembourg financial center amounted to €3.640 trillion compared to €3.506 trillion at the end of 2015, an increase of 3.82%. Increasing by €134 billion in 2016, the financial center's net assets consisted of net insurance units (70%), amounting to €94 billion, and positive developments in financial markets (30%), amounting to €40 billion.

The number of UCI structures remained relatively stable in 2016, rising slightly by 10 units, with sub-funds also increasing by 124 units (+0.88%). As in previous years, it was above all the Specialized Investment Funds (SIF) which attracted new fund promoters to Luxembourg (+2.62%), while in terms of capital, existing UCITS continued to grow (+4%) with the UCI established under Part II of the 2010 Law seeing their volumes fall slightly (-6.5%), dropping by 29 entities (-7.56%) – nevertheless less than in previous years.

Luxembourg remains Europe's unrivalled leader and the world's second-largest investment fund domicile (after the United States), with a total of 3,888 structures and 14,232 sub-funds.

The top three countries of origin of fund promoters remain the same as the previous year (market share in % of total net assets): the United States (20.8%), the United Kingdom (17.2%) and Germany (14.3%), followed closely by Switzerland (13.6%).

Thanks to the promotional support of its professional association (ALFI) and the governmental agency for the development of the financial centre (LFF), Luxembourg has successfully positioned itself as the leader for the cross-border distribution of investment funds, with more than 65% of UCITS distributed internationally domiciled in Luxembourg.

Moreover, a growing number of Asian and Latin American countries recognize UCITS as a stable, high-quality, well-regulated investment product with significant levels of investor protection. As a result, the world's most-renowned fund promoters and managers have chosen Luxembourg as a base to domicile or manage their UCITS, with a clearly defined global distribution strategy.

Capitalizing upon the introduction of the AIFMD, alternative funds continue to grow by offering investment strategies in the broader sense, including non-listed companies, real estate, hedge funds, microfinance, alternative energy and socially responsible investments, etc.

The latest to emerge in this area is the RAIF (Reserved Alternative Investment Fund): a new type of alternative investment fund with the characteristics of specialized investment funds, except for the fact RAIFs are not regulated by the Luxembourg financial supervisory authority (Commission de Surveillance du Secteur Financier), unlike the SICAR and the SIF. It is, however, subject to the AIFMD regulations and supervised by its authorised AIFM. This new vehicle is designed for well-informed, institutional professional investors able to invest a minimum of €125,000.

In terms of regulation, 2016 saw the implementation of the UCITS directive (UCITS V) relating to depositary functions, the remuneration of managers and the introduction of common standards for sanctions within the European Union.

## EVOLUTION OF ASSETS ADMINISTERED BY KTL

In 2016, the net assets of 69 UCI structures totalling 216 sub-fund were estimated to be worth €8.26 billion, a slight decrease compared to 2015 due to the decision of KBL *epb*'s previous shareholder to regroup its whole pan-European fund range with a single service provider.

During the same period, a significant number of new relationships were established with promoters worldwide. In addition, KTL stepped up its business relations with more than 50 existing client promoters.

> LUXEMBOURG IS EUROPE'S LEADING DESTINATION FOR INVESTMENT FUND DOMICILIATION

## EUROPEAN FUND ADMINISTRATION

Since 1998, KTL has subcontracted its fund accounting, registration and transfer functions to a specialist company called European Fund Administration (EFA), of which KBL *epb* is a principal shareholder. At the end of 2016, EFA was managing more than 2,200 sub-funds containing total net assets of €109.3 billion for 190 clients.

Since launch in 2007, EFA Private Equity, the business line handling services for real estate funds and venture capital/private equity, has been offering its specialized services to more than 100 clients. With more than €16.6 billion in assets under management, EFA Private Equity is the main provider of administrative and accounting services for regulated capital investment and real-estate vehicles in Luxembourg.

Finally, within the context of new regulations and requirements introduced by UCITS V and AIFMD, EFA has developed numerous additional services to support various players in fields such as governance, risk management and performance analysis, investment limits, eligibility and the valuation of targeted investments. In the context of FATCA and CRS, EFA also provides compliance and reporting solutions for the investment fund industry.

# GLOBAL MARKETS

2016 was full of political and economic surprises across the globe.

On the economic front, growth and world trade lost steam – essentially due to the rise in commodity prices, especially oil.

Throughout the year, monetary policies diverged sharply between Europe and the US.

The European Central Bank (ECB) eased its policy by once again lowering interest rates in March. Meanwhile, the Federal Reserve tightened in the US with a single hike in December, ultimately hindered by political uncertainty surrounding Brexit and US presidential elections.

These differing policies caused the EUR/USD cross rate to fall over the year from 1.15 to 1.04, its lowest point since 2003. Concurrently, the Bank of England was forced into a rate cut with the aim of reducing the harmful effects of Brexit, which weighed heavily on sterling.

On the political front, between Brexit, the Italian referendum and Austrian elections – to name just a few of the main political highlights – uncertainty reigned supreme throughout 2016.

Brexit in particular led to sharp volatility in the markets, slamming a brake on European growth. In the US, on the other hand, the surprise election of Donald Trump had a favorable effect on the markets, supported by expectations of an economic recovery, rising debt and a better outlook for growth and inflation.

Unexpectedly, risky assets benefited globally from the abundance of cash, purchases by the ECB and relatively low rates. In fact, credit spreads tightened and interest in emerging countries increased.

In such an unpredictable environment, bond markets in 2016 were marked by rate volatility. While the US 10-year rate fell from 2.27% at the end of 2015 to 1.36% in July 2016, it finished at 2.45% by December. In the eurozone, the German Bund 10-year rate dropped to a historic low of -0.19%, while 0.57% was its highest point in the range.

From an investor perspective, the first half of the year was full of uncertainty in regards to risks of deflation and a global slowdown in growth.

Over the course of 2016, the ECB recognized that its monetary policy had reached its limits. Although the bond-buying programme has been extended beyond its original deadline of March 2017, the number of purchases by the central bank has since been reduced by 25%.

The year closed with markets predicting multiple rate hikes by the Fed in 2017.

Against all expectations, and despite myriad political and economic concerns – including the sharp rise in default rates in the US, upcoming Italian elections and rising tensions in the Italian banking sector – credit markets posted an excellent performance. This was essentially due to the ECB's decision of March 10, 2016, to add a corporate sector purchase programme (CSPP).

Comparatively, and despite tensions in 5 and 10-year USD swap rates, dollar indices performed better than the euro, particularly in the high-yield segment.

Our Fixed-Income Trading team remained active in primary and secondary markets, working for KTL, Wealth Management, KBL *epb* affiliates, and Asset and Liability Management (ALM). As a result of the ALM desk being particularly active in terms of the volume and number of transactions, it was given absolute priority this year.

At Global Markets, we completed over 35,000 fixed-income transactions in 2016 on behalf of our private and institutional clients, while also consolidating our position as a buy-side client, keenly monitoring market pricing on around €7 billion of executions.

Although European long rates fell ever lower, global equities ended the year mixed as outperformance for the US meant it closed on historic highs.

Volatility was mixed in 2016: the first half of the year was wildly chaotic, calming down significantly as the months advanced. During the market's erratic phases, Global Markets still managed to issue new structured products. In 2016, our clients focused on equities, which generated 70% of our new issues (including stock-exchange indices and equities).

With more than 15 years experience in capital markets – and numerous connections with international dealing rooms – our team of structurers was able to use recommendations from the bank's macro and micro economic research teams to offer clients the most suitable products.

On the currency front, the US dollar posted its fourth consecutive upward year against a benchmark basket of other major currencies. The dollar index, which measures the evolution of the greenback against six major currencies, rose 3.8% in 2016. It rose more than 7% in the fourth quarter alone and has climbed more than 3.5% since the November 8th election of Donald Trump, which resulted in many traders hoping for a budgetary relaunch plan that would be likely to boost the US currency.

Sterling, however, was the big loser of 2016, tumbling a whopping 16.4% against the dollar (GBP/USD at 1.2200). This was the UK currency's worst performance since 2008 and, of course, was due to the results of the June 23rd referendum decision to leave the European Union.

Other currencies also suffered in 2016: Trump's outspoken ambition to build a wall along the US-Mexico border, coupled with his criticism of certain trade agreements, resulted in a nearly 21% drop for the peso against the dollar (USD/MXN 22.0000). The yuan, meanwhile, fell by 7%, affected by the slowdown in the Chinese economy.

KBL *epb* clients engage principally with Global Markets in EUR/USD, EUR/CHF and EUR/GBP, but we offer a complete suite of spot, forward and swap facilities across all deliverable and non-deliverable currencies, with an aggregate annual volume, across all currency pairs, of close to €38 billion in 2016.

Our fund-execution business remains a key inflection point with our private and institutional clients. In 2016, we handled more than 230,000 trades for a volume of €23 billion across a universe of 10,000 funds managed by 500 transfer agents.

In addition, we manage high volumes in ETF through our care-order service, and trade funds on the Luxembourg Stock Exchange.

As our asset allocation teams constantly adjust their fund recommendations, Global Markets seeks to deliver efficient and accurate execution through enhanced technology and connectivity.

Global Markets was established as a Group Competence Center, tasked with providing an integrated one-stop shop to meet the financial market needs of KBL *epb* clients across all segments: from affluent, HNWI and UHNWI private clients to external asset managers, family offices and institutions.

In line with this, Global Markets offers a Direct Market Access service for HNWI and UHNWI private banking clients.

## PUILAETCO DEWAAY PRIVATE BANKERS

Puilaetco Dewaay Private Bankers, founded in 1868, is headquartered in Brussels with offices in seven other cities in Belgium.

Our 250 highly professional staff provide long-term, holistic wealth management services and open-architecture investment solutions for our HNWI clients, who benefit from a wide range of personalized services, including wealth planning; investment management; credit; fine art collection management; and sustainable investing, through a partnership with Triodos Bank.

2016 was a year of consolidation for Puilaetco Dewaay, following the 2015 integration of the operations of UBS Belgium and BIL Belgique clients, as well as the enhancement of our regulatory processes. This consolidation came at a time when the external environment was particularly challenging, marked by negative interest rates, increased taxation and preparation for the implementation of MiFID II.

We also repositioned the bank, especially in light of digital trends, and refreshed our corporate identity. Our new tagline, "Innovation through tradition," reflects our position as a provider of truly personalized, high-added-value services that has earned a reputation for excellence while embracing the change required by a constantly evolving environment.

Puilaetco Dewaay is a client-focused organization, where nothing is more important than meeting the needs of each individual we have the opportunity to serve.

## THEODOOR GILISSEN

2016 represented a special year for our bank, marking our 135th anniversary.

Reflecting the group's cross-border strategy, our investment teams worked closely with their colleagues across Europe this past year to create a dynamic overall investment strategy and develop unique investment solutions for both advisory and discretionary clients.

In parallel, net inflows and market effects helped our net new assets under management increase throughout the year and surpass €13 billion. This upward trend, in fact, applies to all our business units.

Client satisfaction remained positive, while the number of complaints and claims remained low both in absolute and relative terms for the bank.

Our main milestone last year was the announcement of the intended merger with Insinger de Beaufort. An important boost for the bank's growth strategy, combining two of the Netherlands' most historic private banks will create one of the strongest pure-play private banks in the Dutch market, representing yet another year characterized by growth for Theodoor Gilissen.

With the acquisition of Insinger de Beaufort completed at the end of 2016, the merger is planned to take place mid-2017. Once merged, the two banks will combine their respective asset management expertise, placing them in the perfect position to take full advantage of KBL *epb*'s European private banking network.

## BROWN SHIPLEY

Throughout 2016, Brown Shipley continued to successfully execute its wealth management strategy while simultaneously keeping aligned with KBL *epb* group's mission to preserve and grow each client's wealth across generations.

Central to this is our ability to deliver comprehensive and compelling wealth planning, investment management and banking services that meet our clients' ongoing and developing needs. This approach helped us grow assets under management to over £5 billion by the end of 2016.

Developing our proposition has been a key focus, characterized by the successful November 2016 acquisition of the high-performing financial planning and wealth management firm, The Roberts Partnership. This follows our 2015 acquisition of Hampton Dean, which became the Nottingham offices for Brown Shipley in January 2016.

Our enhanced capability has enabled the launch of a new core client proposition, bringing together our wealth planning and investment management services into a single offering, complemented by our lending services.

We have also continued to invest in technology, replacing our online client portal and deploying a tablet application that delivers an enhanced client experience. Our people have continued to demonstrate our corporate values via their commitment to client service, meeting our regulatory requirements and delivering our CSR programme.

## MERCK FINCK

Munich-headquartered Merck Finck offers a wide spectrum of solutions for our HNWI clients. With 15 offices and more than 300 employees across Germany, we have built strong relationships founded upon mutual trust and 145 years of experience.

Due to recent legal and regulatory requirements, Merck Finck changed its legal status from a general partnership to a stock corporation (Merck Finck Privatebankiers AG), which includes management and supervisory boards. Matthias Schellenberg (CEO since January 1, 2017), Michael Krume (Vice Chairman), Udo Kröger and Joachim Gorny have all recently joined the Management Board.

Inspired by KBL *epb*'s ambition to become a leading European private banking group, Merck Finck is likewise focused on growth.

We see special opportunities to achieve growth in the German market, where many (U)HNWI clients are eager to find a private bank that meets their unique requirements.

Concurrently, we made progress in digitalizing our services, which started with a new approach to our customer communication. An electronic newsletter was introduced that focusses on key investments and other topics. Additionally, we have dipped our toes in the social media waters, creating YouTube and Twitter profiles.

The Merck Finck Foundation enjoyed a year of dynamic development. Its tenth year in operation saw it reach over €10 million in trust capital – a significant benchmark that means it now belongs to the so-called "major foundations" in the German market.

## INSINGER DE BEAUFORT

At Amsterdam-headquartered Insinger de Beaufort – the newest member of the KBL *epb* family – we recognize that our clients require us to set ever-higher standards in wealth management. We call this making the unusual usual.

As a pure-play private bank, we offer a wide range of services in asset management and advice, financial planning and administration. Our client base varies from private individuals and families to foundations and institutional investors.

Our business is characterized by a multi-generational approach with a strong focus on dedicated investment solutions and long-term relationships.

## BANQUE PUILAETCO DEWAAY LUXEMBOURG

2016 was a year of transformation for Banque Puilaetco Dewaay Luxembourg, highlighted by the adoption of a new IT platform developed by TBI (Europe) S.A. (Lombard Odier Group).

The Lombard Odier G2 platform supports both front and back offices, with operational activities now delegated to specialized bodies in TBI (Europe), KBL *epb* and Lombard Odier.

At the same time, Banque Puilaetco Dewaay Luxembourg remains focused on its main objectives: offering its clients professional, high-quality private banking services and growing its client base. To this end, the bank introduced an Estate and Financial Planning department in 2016.

In line with its focus on strengthening its presence in Belgian and international markets, the bank also recruited two experienced private bankers.

Such initiatives demonstrate our commitment to anticipating the evolving needs of our clients, reflected by the fact that assets under management increased by more than 3% in 2016.

## KBL ESPAÑA

Established in 2011, KBL España is headquartered in Madrid with offices in Murcia, Las Palmas, León and Valencia. We offer clients the flexibility of developing a private banking relationship managed from Spain with the ability to domicile assets in the KBL *epb* market of their choice.

2016 marked an increasingly competitive environment in the banking sector, and although it was only our fifth full year of operations, we achieved significant expansion in terms of new clients – volumes increased significantly, reaching record highs in assets under management and total revenues. Having started as a greenfield operation in the very large Spanish market, we consider that there continue to be important opportunities for future growth.

We also established a new asset management subsidiary, KBL España Asset Management SGIIC S.A., in line with changes to the local regulatory environment.

In addition to asset management and tax planning, our range of tailored wealth-management solutions now includes:

- Spanish SICAV; Luxembourg SIF and FCP
- Collective SICAV (with an additional vehicle launched in 2016)
- Unit-linked insurance
- Structured deposits
- Short, medium and long-term financing as an integral part of the private banking service required by HNWI and UHNWI clients in the Spanish market
- Acting as intermediaries for property corporate divestments

Working closely with our colleagues in Luxembourg and across Europe, we continue to identify further opportunities for cross-border collaboration, enhancing our ability to provide clients with deep insight into the Spanish market combined with broader international perspective.

## KBL RICHELIEU

2016 was a year of change at KBL Richelieu, notably the appointment of Régis Brochot as CEO. With 30 years of private banking experience in France, he has instilled a new dynamism in our bank and strengthened our organizational client focus.

Three divisions were created for promotional support:

- Financial Engineering & Distribution, which includes management under mandate, the Transaction Desk (Advisory and Execution only) and professional clients (financial advisers and institutions)
- Engineering, Products and Services, with patrimonial engineering, a Front Credit Officer, life insurance partnerships, Client Quality Services and an Origination Product Offering unit
- Communication & Marketing, whose main mission is to position KBL Richelieu as a recognized wealth management player in France

Regulatory requirements (MiFID II and PRIIPs) have forced all financial players to rethink their organization and product and service offering. Our bank has already begun to adapt to this new environment and to meet the increasingly specialized demands of our clients in a volatile market environment.

The diversification of assets – between several asset classes (transferable securities, real estate, private equity, structured products) and various structures (companies subject to corporate tax, life insurance and endowment policies, equity savings plans, direct portfolios) – means that we can offer our clients an optimized risk/return pairing at the same time as full wealth monitoring and a large range of financing possibilities.

Every day, we put our experience and know-how at the service of our clients, with the aim of becoming their preferred private bank.

## KBL MONACO PRIVATE BANKERS

Founded two decades ago, KBL Monaco Private Bankers provides tailor-made investment solutions for private clients in the Principality of Monaco and the Côte d'Azur, as well as for international clients with interests in this region.

In line with global trends, tax transparency and the exchange of information are now the standard for Monaco as a financial center. Today, KBL Monaco Private Bankers is not only a private bank for Monegasque residents, but also for many high net worth families who have a connection to the Côte d'Azur, often via real estate.

A pure-play private bank focused on preserving and growing the wealth of our clients across generations, our local professionals work closely with KBL *epb* specialists in areas such as investment and wealth planning and structuring to offer our clients outstanding, personalized service.

In this context, we continue to increase our loan business, especially for clients seeking a long-term private banking relationship with our group.

At a time when the Monegasque financial center is consolidating, KBL Monaco Private Bankers remains a truly boutique private bank, very close to its clients. We continue to highlight our services and insights through semi-annual investment conferences for our clients and partners.

As a member of KBL *epb*, we operate based on the core principles of interdependence and, just as important, open architecture.

# NON-CONSOLIDATED MANAGEMENT REPORT

## GENERAL COMMENTS ON THE RESULTS

At the end of 2016, KBL *epb*'s balance sheet totalled €9.0 billion, stable compared to the end of 2015.

The bank maintained its loans on a securitized basis, strengthened its bond portfolio and reduced the volume of its interbank transactions.

On December 31, 2016, KBL *epb* acquired Insinger de Beaufort, a Dutch private bank founded in 1779, which became a wholly-owned subsidiary of the group on January 1, 2017. Before this acquisition, the group's parent company – Precision Capital S.A. – injected €200 million in capital, further strengthening the bank's equity and solvency ratio.

The solvency ratio and the tier-one equity ratio under Basel III stood at 32.46% and 32.44%, respectively, and remain well above the regulatory thresholds imposed by the European Central Bank.

Net interest margins, down by almost 19% compared to the end of 2015, totalled €48.2 million. This decline reflects the complicated economic climate and low interest rates of the last several years.

Net commissions fell 11% to around €61 million (against €69 million at the end of 2015), mainly due to stock-market commissions and fund custody.

Dividend income (€43 million) fell by €27 million, mainly with group companies including Puilaetco Dewaay (-€12 million) and Vitis Life (-€14 million); KBL *epb* sold the latter at the end of 2015.

In 2016, the bank made a gain of €17 million, mainly on the sale of bonds. In 2015, KBL *epb* sold two direct holdings, KBL (Switzerland) to BIL (Suisse) and Vitis Life to Monceau Assurances, which generated €24 million and €11 million, respectively. The bank made further gains of €18 million on the sale of equities exposed to Europe and the US.

Net securities income was €17.4 million as of December 31, 2016, compared to €53.2 million at the end of 2015.

The sale of a building in Luxembourg brought a gain of €15.1 million in 2016 under "other operating income."

Operating expenses rose by 5%, totalling €170 million in 2016 compared to €162 million in 2015. Although the bank continues to keep salary costs under control (down 4%, or €4 million), administrative costs rose by almost 17%, or €10 million. This latter increase is linked to transformation projects and a new IT platform in partnership with Lombard Odier.

As of December 31, 2016, KBL *epb* recorded a net profit of €28.7 million compared to €86.9 million in 2015.

*For detailed figures, please refer to the Annual Accounts.*

# APPENDICES

## APPENDIX 1
## DEPOSIT GUARANTEE

Directive 2014/49/EU and Directive 2014/59/EU

These directives are transposed into Luxembourg law by the law of 18 December 2015.

In Luxemburg, the national deposit guarantee scheme (DGS) is represented by the FGDL ("Fonds de garantie des dépôts Luxembourg," see the website www.fgdl.lu).

The purpose of the FGDL is to protect clients of the member institutions in case that a bank goes bankrupt.

KBL *epb* is a FGDL member. As a member account holders (natural persons and legal entities) in KBL *epb* Luxembourg and in the KBL Spain branch are protected by the FGDL up to maximum of EUR 100,000 per person/account (additional guarantees are in place for temporary deposits, see the FGDL website for details).

In case of failure, FGDL ensures compensation of depositors within 7 days.

In order to be compliant with the legislation, KBL *epb* has since 31 December 2013 implemented a system which is able to produce a Single Customer View (SCV) file including data about all eligible cash depositors along with the customers references. The KBL system is tested twice a year. This set of information is requested by the CSSF in order to facilitate the reimbursement of depositors in case of the bank's failure.

Each year, KBL *epb* Luxembourg pays a contribution to the FGDL for its financing.

In 2016, KBL *epb* Luxembourg paid EUR 498,235 for FGDL (2015: nil) and EUR 1,352,970 for the Luxembourg Resolution Fund FRL (2015: EUR 550,688).

Considering the amount paid for FGDL during the current year, the same amount of EUR 498,235 was transferred back from the unavailable to the available reserves.

As for the investor protection, the Luxembourg investor compensation scheme (SIIL: "Système d'indemnisation des investisseurs Luxembourg") covers investors (natural persons and legal entities) in the scope of the legislation (law of 18 December 2015). The investment transactions made by the same investor are covered up to an amount equivalent to EUR 20,000.

KBL *epb* Luxembourg is a also SIIL member, in the scope eligible investors in KBL *epb* are covered.

# APPENDIX 2
# COMPLIANCE RISK

Compliance is responsible for implementing all measures designed to prevent KBL *epb* from suffering damage or loss, whether financial or otherwise, due to a failure to comply with existing regulations.

The tasks of Group Compliance encompass the identification and management of compliance risks, as well as the implementation of an awareness-raising policy. Its monitoring includes corrective measures, internal reporting, and liaising with the Public Prosecutor and the CSSF in the field of anti-money laundering. It actively supports management bodies in the control and management of these risks.

Its core focus is:

- Investor protection (MiFID, customer complaints, avoidance and management of conflicts of interest, etc.)
- Prevention of market abuse, money laundering and terrorism financing
- Professional ethics (codes of conduct, compliance manual, etc.) and fraud prevention
- Data protection, including banking secrecy
- Third-party adherence to regulatory obligations
- Prevention and management of compliance risks linked to cross-border business

Advice, prevention and control in these various areas of intervention form the core work of Compliance, which also monitors compliance risks and their management across the whole KBL *epb* network through cooperation between local and Luxembourg-based teams.

Furthermore, the Board Compliance & Legal Committee (BCLC) is informed of and regularly monitors the adequacy of Compliance measures. This Committee is delegated by the Board and meets on a quarterly basis.

### 2.1. ADVICE & PREVENTION

Throughout 2016, Compliance continued its advisory and support role for the bank's various business lines. It regularly supported commercial initiatives and the questions that can arise from them. Compliance is also involved in the bank's client acceptance and revision procedure.

It should be noted that Compliance takes part in the validation of the marketing of new products and services to clients. The goal of this process, which incorporates support materials like brochures and term sheets, is to ensure that clients understand products and their risks, and make informed investment decisions.

Compliance is also associated with various regulatory projects. Compliance participates in group-wide high-level assessment analysis and provides workstreams with appropriate regulatory roadmaps, as well as a group regulatory dashboard consolidating all applicable requirements. In addition, Compliance actively participates in the preparatory work for the implementation of MiFID II and PRIIPs regulations in January 2018.

On top of its ongoing monitoring and support of subsidiaries, Compliance Conduct Risk and the Money Laundering Reporting Officer (MLRO) focus on the rollout of the Compliance Awareness programme in each entity across KBL *epb*. This programme is mainly based upon a systematic and structured multi-annual approach with training sessions, depending on the person's level of exposure to Compliance risks. The programme is accompanied by regular information for employees and managers on Compliance risks according to what is topical (internal or external).

In 2016, the Group Compliance Normative Committee gathered a number of local Heads of Compliance to reflect on new group norms and standards, ensuring best practices. This Committee advises the Group Executive Committee.

Compliance continued to strengthen relevant practices across KBL *epb* through forums and regular exchanges with Compliance Officers in our European network. Compliance – as an independent function – adjusted its organization with the objective of further developing group oversight by clearly assigning responsibilities.

**2.2. CONTROL**

Compliance continued to maintain its Control function. Its second-level control framework is part of the bank's general internal control framework. In addition to refining and strengthening certain tests, the Compliance Monitoring entity continued to oversee its Compliance Monitoring Programme (CMP). This tool maps Compliance risks and regularly checks that these risks are under control. If necessary, suggestions for improving the plan are put forward.

The correct execution of these controls by our subsidiaries is monitored from Luxembourg, with support provided as necessary.

Specialized anti-money laundering software (SIRON) is now in place in all KBL *epb* entities. This solution improves the review processes for the group's clients, whether new or existing, both by analyzing client behavior (before and after), and by screening the client database and international lists of persons subject to legal action or restrictive measures.

KBL *epb* is constantly adapting its control procedures and reiterating to staff the ongoing need to protect clients. In the first half of 2016, Compliance finalized the Compliance Risk Assessment launched at the end of 2015. After validation by the Group Executive Committee and the BCLC, this new methodology for evaluating compliance risk was then rolled out in the main entities of the group. The result of this evaluation served as the basis for a reshuffle of the CMP, with a new methodology founded on a more accurate and better-documented risk approach. This generally allows a more efficient allocation of compliance resources.

Group Compliance carries out regular checks in the group's various subsidiaries.

## APPENDIX 3
## RISK MANAGEMENT

**3.1 MISSION & ACHIEVEMENTS**

Our group aims to support the long-term competitiveness of its business through the Utopia project, which consists of the outsourcing of its IT and aspects of its Operations to the Swiss private bank Lombard Odier.

In this context, two major milestones were achieved in 2016: both Puilaetco Dewaay Luxembourg and KBL Richelieu successfully migrated to the new platform on January 1 and July 1, 2016, respectively.

Group Operational Risk Control was closely involved in the process, ensuring that material gaps between past and present control environments were properly identified and addressed.

Significant resources of the Group Risk Control Function were also allocated towards the preparatory work required for the planned migration of KBL *epb* Luxembourg in 2017.

Predominantly driven by regulatory developments (new Supervisory and Evaluation Process – SREP framework), 2015 saw some improvement brought to the Internal Capital Adequacy process (ICAAP). Among others, topics including bank portfolio credit default, business risk and internal stress tests were approached on a more global and consistent level.

Additionally in 2016, the third iteration of the bank's Group Recovery Plan was submitted to the regulator. The document lists and assesses measures that the bank could take to re-establish its financial situation should it seriously deteriorate.

The Recovery Plan was complemented by a systematic approach to select and calibrate the indicators triggering recovery measures, and to precisely quantify the impact of recovery options on all risk parameters.

In the context of the International Financial Reporting Standard (IFRS) 9 – which addresses the accounting of financial instruments in replacement of IAS39 – the implementation of the Expected Credit Loss (ECL) calculation and related KRIs (default probabilities, a.o.) were launched in close collaboration with the Accounting department. Impairment models for bank portfolio and Lombard loans have already been designed, and the full calculation tool is currently being implemented.

The BCBS 239 standards (Basel principles for effective risk data aggregation and risk reporting) do not traditionally apply to KBL *epb* group. However, they constitute key guidelines for the design of a new risk data warehouse that will be the main risk reporting tool for all entities of the group. It will also complement the Lombard Odier reporting solution, which underwent significant developments and testing throughout 2016.

In fact, a new calculation tool was implemented, which aims to dramatically increase the performance of quantitative risk management processes and that allows for the application of more advanced methodologies. In particular, main Value at Risk (VaR) models were redesigned, which includes the Operational VaR.

Similarly, the structured product's pricing tool was replaced in 2016 by a more flexible solution that allowed, among other benefits, the calculation of the Summary Risk Indicator (SRI) for all third-party products.

Regarding liquidity risk, we have now set in place the new Implementing Technical Standards for ALMM (Additional Liquidity Monitoring Metrics) on top of the daily monitoring of the Liquidity Coverage Ratio (LCR) required by the Delegated Act and its monthly reporting regulators. The Net Stable Funding Ratio (NSFR) continues to be quarterly assessed for the group and daily for KBL *epb* headquarters.

During the year, the Contingency Funding Plan (CFP) – formally named Liquidity Contingency Plan – was reviewed and enhanced by the formalization of the escalation process and the definition of a list of recovery options addressing minor and/or severe liquidity crisis situations. New liquidity risk events (used as early warning indicators) were defined and the monitoring of the CFP was aligned with the Group's Recovery Plan.

The fire drill of the CFP was successfully renewed in 2016, testing all operational processes through which the bank would use pre-defined liquidity sources in case of a major liquidity crisis.

Finally, additional risk measures and limits were implemented in terms of Asset Encumbrance, ensuring that sufficient assets remain available to generate additional funding in stressed situations.

New Historical VaR (HVaR) and Stressed HVaR trading risk limits were introduced for the Treasury and Bond trading activities. These new limits complement a set of indicators and limits (i.e. nominal amount, basis point value, concentration limits, credit risk limits and loss triggers) used in the daily monitoring of trading risk exposures.

With regard to the management of Interest Rate Risk in the Banking Book (IRRBB), the risk framework was enhanced in line with EBA guidelines, and new risk measures and limits focusing on interest margin (complementing economic value-based measures) were introduced.

In the context of the Utopia project, the implementation of the WKFS 'Datafoundation' solution for regulatory reporting (Finrep, Corep and LiqRep) was tested.

In relation to credit risk, a further update to the Group Credit Policy – defining the framework within which loan activities for clients are to be managed – was introduced in early 2016.

Organizationally, line-management responsibility for the Lending Management Function was transferred to

Credit Risk Control during the year (see section 3.2).

In terms of operational risk, the main improvements in 2016 were the completion of the first group roll-out of the Risk and Control Self-Assessment process (RCSA) and the creation of a new Operational Risk Committee. This new committee was presented with the results of the RCSA exercise for KBL *epb* Luxembourg, a summary of the operational incidents (per event type and root cause), and an overview of all the KPIs, allowing Group Operational Risk control to efficiently monitor the activity.

### 3.2 STRUCTURE & ORGANIZATION

Risk Control entities fulfill a second line of defense role, the first line being assumed by the entities at the source of risk. In this context, they ensure that each key risk the group may be exposed to is properly identified, measured, monitored and reported.

As of December 31, 2016, Group Risk Control in Luxembourg is organized into six departments with a total of 30.2 Full Time Equivalent employees (FTEs).

The Market Risk Control department, with 2.8 FTEs, is in charge of market risk monitoring (interest rate, equity, currency, real estate, and liquidity risks) for the bank's entire balance sheet, including both ALM and Trading activities. Hence, the department maintains and runs models dedicated to the measurement of risk indicators (i.e. Value at Risk indicators). Regarding liquidity risk, the entity is in charge of the interpretation and implementation of new EU regulatory requirements, in addition to the recurrent control of the liquidity situation of the bank.

Market Risk Control also participates in the local "Asset and Liability Management Committees" (ALCOs) of the varying subsidiaries to ensure that local decisions are taken in compliance with Group ALCO policy.

The Credit Risk Control department, with 5.8 FTEs, is in charge of monitoring credit risk for the group, which arises from the following activities:

- Lombard & mortgage lending to private clients in support of the bank's core private banking activity
- Portfolios of fixed-income investments, in the context of the reinvestment of excess liquidity
- Counterparty risk linked to transactions of Global Markets (management of uncommitted bank lines)
- Committed and uncommitted credit lines granted to investment funds in support of Institutional & Professional Services activity
- Credit risk in the network of sub-custodians

The department also covers the monitoring of country risks, and is involved in defining and complying with criteria for accepting securities taken as collateral.

The Lending Management department, with 7.6 FTEs, has been reporting to the Head of Credit Risk Control since 2016. Lending Management is in charge of:

- The implementation of loans by the parent company (especially the drafting of the loan documentation, as well as the complete setting up of the securities in accordance with the credit decision)
- The risk monitoring of each parent company loan facility during its lifetime
- The secretariat for Luxembourg and Group credit committees

The Operational Risk Control department, with 4.6 FTEs, assumes the following responsibilities:

- Collect operational incidents for the group through the Group Operational Incident Database:
  - Challenge reporting, root cause analysis and mitigating action plan
  - Initiate case studies analysis
- Conduct/review RCSAs
  - Organize (and participate in) workshops with

the business units
  - Challenge key risks/controls
  - Follow action plans

- Draft Common Operational Risk Rules (principle based) and assess compliance across the group
- Steer the insurances' programme for the group
- Act as second line of defense for Business Continuity Management
- Act as member of various committees involving discussions on operational risks (i.e. the new Operational Risk Committee, the New Product & Service Approval Committee, the Group Information Security Committee, the Business Continuity Management Steering Committee)

The Group Risk Advisory department, with 1 FTE, fulfills the following main roles and responsibilities:

- Single point of contact for subsidiaries
- Preparation/challenge of local Board Risk Committees, regularly acting as deputy of the Head of Risk in those committees
- Provide support to group initiatives
- Participate in due diligences
- Participate in transversal projects (e.g. Utopia)

The Risk Modelling & Quantitative Analysis department, with 3.8 FTEs, is in charge of the design and implementation of all risk models (market, credit and operational VaRs, internal stress tests, product scoring, ECL) and provides quantitative support to Group Risk Control, Group ALM, Asset Management, Group Global Markets and subsidiaries. The department is also responsible for risk data management and design, and maintaining an efficient risk database and reporting tool.

The Risk Projects & Reporting department, with 1.8 FTEs, covers transversal risk matters, such as internal and regulatory risk reporting to various stakeholders (i.e. ExCo, Board, regulators) and regulatory watch in addition to some risk-related projects (e.g. suitability, Client Risk Management Framework).

The Process Management department, with 1.8 FTEs, is in charge of the creation and implementation of the transversal procedures of the bank, mainly for the parent company, but also for certain branches/subsidiaries. Located in the Risk Control Function, it can develop synergies with the Operational Risk Control department.

Group Head of Risk Control (1 FTE) completes the Risk Management staff at Luxembourg, and is in charge of the steering of Risk Control in Luxembourg and the coordination of RC activities across the group.

The total number of risk managers in KBL *epb* group is 50.7 FTEs (KBL *epb* Lending Management Department excluded). In light of the non-materiality of certain risks (absence of trading activity; ALM activities tightly framed and controlled by the parent company; limited liquidity risk), the majority of these resources are dedicated to managing and controlling client, credit and operational risks.

In order to increase efficiency at group level, a new set up is currently being tested between Group Risk Control and KBL Monaco. An outsourcing has been put in place for two specific risk functions which are now performed by Group Risk Control staff:

- Head of local Risk Control (performed by Group Risk Advisory +/- 0.2 FTE)
- Local Credit Risk officer (performed by Group Credit Risk Control +/- 0.2 FTE)

# RESULT ALLOCATION PROPOSAL

(All figures in EUR)

| | |
|---|---|
| **2016 net result** | **28,732,355** |
| **At its meeting on 23 March 2017, the Board of Directors proposes to allocate the 2016 net result as follows:** | |
| Allocation to the legal reserve in order to reach 10% of the paid-up capital after the 2016 share capital increase; | 3,405,327 |
| Retained earnings | 25,327,028 |

On 26 April 2017, this affectation will be submitted for approval at the Annual General Meeting.

# COMPOSITION OF THE BOARD OF DIRECTORS

At the Ordinary General Meeting of April, 27, 2016, the mandates of Jan Maarten de Jong, Alan Morgan, George Nasra, André Wildgen and Yves Stein were extended for two years until 2018.

***This report is available in English and French.***

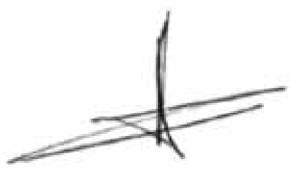
***Only the English version is authentic.***

# DECLARATION ON THE CONFORMITY OF THE 2016 CONSOLIDATED ACCOUNTS

We, Yves Stein, Group Chief Executive Office, and Rachel Hamen, Group Chief Financial Officer, confirm, to the best of our knowledge, that the consolidated accounts, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the consolidated assets, liabilities, financial position and consolidated profit or loss of KBL *epb* group, and that the consolidated management report includes a fair review of the development and performance of the business and the position of KBL *epb* group together with a description of the principal risks and uncertainties that the Group faces.

Luxembourg, March 23, 2017

**YVES STEIN**
Group Chief Executive Officer



**RACHEL HAMEN**
Group Chief Financial Officer

# UNQUALIFIED CERTIFICATION OF THE INDEPENDENT AUDITOR

**TO THE BOARD OF DIRECTORS OF KBL EUROPEAN PRIVATE BANKERS S.A.**
Société Anonyme, Luxembourg

Luxembourg, 23 March 2017

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment by the Board of Directors , we have audited the accompanying consolidated financial statements of KBL European Private Bankers S.A., which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended , and a summary of significant accounting policies and other explanatory information.

***Board of Directors' responsibility for the consolidated financial statements***

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

***Responsibility of the "réviseur d'entreprises agréé"***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KBL European Private Bankers S.A. as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

**Ernst & Young**
Société Anonyme
Cabinet de révision agréé
Jean-Michel Pacaud

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