

Registered No: 04826611

KBC Investments Limited

Report and Financial Statements

31 December 2016

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COMPANIES HOUSE

KBC Investments Limited

Registered No: 04826611

Directors

Theo Speelmans

Filip Gils

Independent Auditors

PricewaterhouseCoopers LLP

7 More London Riverside

London

SE1 2RT

Bankers

HSBC

60 Queen Victoria Street

London

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Solicitors

Linklaters & Alliance

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111 Old Broad Street

London

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Strategic report

The directors present their strategic report for KBC Investments Limited (the "Company") for the year ended 31 December 2016.

Business Review

The Company, a direct subsidiary of KBC Bank NV, was created to act as a proprietary trading vehicle. As a consequence of the market turmoil in recent years, the Company has taken continued steps to reduce the level of risk to which it is exposed.

The Company principally trades derivatives products. The main risks faced by the Company relate largely to its equity derivatives business. Conditions within the equity market, more specifically equity price, volatility and dividend movements, pose the principal risk with regards the future uncertainty faced by the Company. Conditions within the credit market, more specifically credit spread movements and defaults pose less of a risk to the Company in the current year. This is the result of the expiry of certain credit derivative positions in the year. Trading is subject to limits that serve to cap exposure by risk factor, by underlying, and by overall portfolio risk. Foreign exchange risk is hedged or partially hedged using foreign currency borrowings or currency option contracts. The credit risk and market risks (interest rate and equity) inherent in the portfolio are managed using clearly defined limits and techniques such as value at risk models.

For the year ended 31 December 2016, the Company recorded a net trading profit of €75,217k (2015: profit of €177,850k). €31,775k (2015: €22,353k) of this net trading profit is attributable to realised and unrealised gains and losses primarily from Credit and Equity Derivatives trading. €43,442k (2015: €155,497k) of the net trading profit is attributable to FX gains that have arisen primarily as a result of the translation of the Company's financial statements into its functional currency. The Company recorded a profit for the financial year of €68,385k (2015: €160,445k). The directors consider both net trading profit and profit for the financial year to be key performance indicators for the Company.

The Company employed an average of 14 employees over the year ended 31 December 2016 (2015: 16).

On 29 March 2017, the UK triggered Article 50 to leave the European Union. The UK government is yet to agree the terms and conditions upon which the UK will leave the European Union, consequently the impact of this decision is not yet clear. There is a broad range of possible outcomes resulting from this vote meaning that uncertainty is expected until formal terms are agreed. Market volatility is consequently expected. The impact of this volatility and uncertainty on the Company is yet to be determined. The directors are monitoring the situation. To date, there have been no matters that warrant adjustment to the financial results as at 31 December 2016.

On behalf of the board



Theo Speelmans

Director

14 September 2017

Directors' report

The financial statements are presented in Euros since the majority of the Company's business has been conducted in this currency.

Going Concern Basis

The Company's directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Accordingly, the directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and, therefore, the financial statements continue to be prepared on the going concern basis.

Financial Risk Management

The Company actively manages risk on its existing portfolio.

Risks are overseen by an independent risk management function and a risk committee which are in turn overseen by the risk management function, committees and audit functions at KBC Bank NV. The Company's existing business activities and control functions have been integrated with those adopted by the parent company. This has further strengthened the overall control environment. An organisational and governance structure has been embedded within the organisation to ensure there is increased oversight of complex businesses. Further discussion of the Company's exposure to risk and the management thereof is provided in note 21.

Liquidity is managed by a dedicated treasury desk which has access to funding lines from KBC Bank NV. The Company has implemented risk-reducing measures to its existing business lines.

Events since the statement of financial position date

The Equity and Credit Derivatives desks transferred to KBC Bank NV London Branch on the 26th May 2017. This transfer accounted for a net balance sheet reduction of €372million. This is a non-adjusting balance sheet event. This is a P&L neutral event.

Dividends

No dividend is proposed or was paid during the year (2015: None).

Directors' report

Directors

The directors who served during the year were:

Theo Speelmans

Filip Gils

Dag Wyntin (Resigned 8 August 2017)

Pierre Deheegher (Resigned 8 August 2017)

Patrick Roppe (Resigned 8 August 2017)

Charitable donations

In the year ended 31 December 2016, the Company made no charitable donations.

Employee involvement

As a Company whose greatest asset is its staff, great emphasis is placed on the involvement of employees. During the year several "town hall" meetings involving all staff have been held to explain current developments within the Company.

Directors' indemnities

The Company has taken out insurance to provide indemnity to its directors against liability in respect of proceedings brought by third parties. The cost of this insurance is borne by the Company. Such qualifying third party indemnity provisions remain in force at the date of approving the directors' report.

Directors' statement as to disclosure of information to auditors

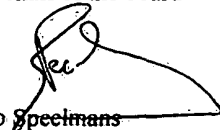
The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries to fellow directors and of the auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the auditors are unaware; and
- Each director has taken all the steps a director ought to have taken to be aware of relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors

A resolution to appoint PricewaterhouseCoopers LLP (PWC) as auditors was put to the members at the Annual General Meeting and this resolution was approved.

On behalf of the board



Theo Speelmans

Director

14 September 2017

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for the period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of KBC Investments Limited

Report on the financial statements

Our opinion

In our opinion, KBC Investments Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Christopher Rowland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 September 2017

Statement of comprehensive income

for the year ended 31 December 2016

		<i>Year ended</i> <i>31-Dec</i> <i>2016</i> <i>€000</i>	<i>Year ended</i> <i>31-Dec</i> <i>2015</i> <i>€000</i>
	<i>Note</i>		
Net trading profit	3	75,217	177,850
Administrative expenses		(15,623)	(18,330)
Operating profit	4	59,594	159,520
Interest receivable and similar income	7	9,391	1,960
Interest payable and similar expenses	8	(600)	(1,035)
Profit before taxation		68,385	160,445
Tax on profit	9	0	0
Profit for the financial year		68,385	160,445
Other comprehensive income			
Profit on available for sale assets		0	0
Total comprehensive income for the year		68,385	160,445
Total comprehensive income for the year attributes to:			
Owners of the parent company		68,385	160,445
		68,385	160,445

The results of the Company derive from continuing operations.

Statement of changes in equity

for the year ended 31 December 2016

	<i>Called Up Share Capital</i> €000	<i>Accumulated losses</i> €000	<i>Other Reserves</i> €000	<i>Total shareholders' funds</i> €000
At 1 January 2015	948,194	(950,202)	1,338,916	1,336,908
Profit for the financial year	0	160,445	0	160,445
At 31 December 2015	<u>948,194</u>	<u>(789,757)</u>	<u>1,338,916</u>	<u>1,497,353</u>
Profit for the financial year	0	68,385	0	68,385
At 31 December 2016	<u>948,194</u>	<u>(721,372)</u>	<u>1,338,916</u>	<u>1,565,738</u>

Statement of financial position

at 31 December 2016

	Note	2016 €000	2015 €000
Fixed assets			
Intangible assets	11	362	824
Tangible assets	10	37	150
Investments	12	347	347
Total fixed assets		<u>746</u>	<u>1,321</u>
Current assets			
Financial assets held for trading	15	702,407	710,743
Financial assets designated at fair value through profit or loss	15	37	42
Debtors: amounts due within one year	13	2,541,332	3,022,361
Cash at bank and in hand	15	41,584	13,926
		<u>3,285,360</u>	<u>3,747,072</u>
Creditors: amounts falling due within one year	14	<u>(1,720,368)</u>	<u>(2,251,040)</u>
Net current assets		<u>1,564,992</u>	<u>1,496,032</u>
Net assets		<u>1,565,738</u>	<u>1,497,353</u>
Capital and reserves			
Called up share capital	18, 23	948,194	948,194
Accumulated losses	23	(721,372)	(789,757)
Other reserves	23	1,338,916	1,338,916
Total shareholders' funds		<u>1,565,738</u>	<u>1,497,353</u>

Signed on behalf of the Board



Theo Speelmans

Director

14 September 2017

Notes to the financial statements

at 31 December 2016

1. Accounting policies

Statement of Compliance

KBC Investments Limited is a private limited company, incorporated in England.

The Company's financial statements have been prepared in compliance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council for the year ended 31 December 2016.

Basis of preparation and change in accounting policy

The financial statements have been approved by the board and prepared under the historical cost convention, except for financial assets or financial liabilities held for trading or available for sale that have been measured at fair value, and in accordance with applicable accounting standards, as defined in section 464 of the Companies Act 2006. The financial statements are prepared in Euros which is the functional currency of the Company and rounded to the nearest €'000.

Basis of consolidation

Having considered the Companies Act 2006 section 400, the Company is a wholly owned subsidiary of KBC Bank NV, a company established under the law of a European Economic Area state, thereby making it exempt from the requirement to prepare group financial statements.

Both KBC Financial Products (Cayman Islands) Limited and KBC Investments Cayman Islands V Limited are 100% held subsidiaries, all profit and loss generated by the entities is transferred to the Company via approved transfer pricing agreements. Therefore, the profit and loss is fully taxable in the United Kingdom.

KBC Diversified Fund is a segregated portfolio of KBC AIM Master Fund spc. This is an offshore feeder fund, incorporated in the Cayman Islands, in which the Company has a 100% holding.

111 OBS (General Partner) Limited is a 100% held subsidiary. The entity is the General Partner of the 111 OBS Limited Partnership, the purpose of the Partnership was to carry on the business of investing in commercial property. The company was liquidated on 11th September 2016.

Judgement and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. However the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the accounting policies management has made the following judgement which has the most significant effect on the amounts recognised in the financial statements:

- 1) Where there is no active market for a financial instrument, fair value is determined using the valuation techniques outlined in note 17. These valuation techniques could require judgement.
- 2) Litigation matters. The Company believes it has substantial and credible defences to the action mentioned in note 20. The representation of a contingent liability requires judgment.

Foreign currency translation

Assets and liabilities have been translated into the functional currency using the exchange rate at the balance sheet date. Non-monetary items are translated at the date of transition at their historical cost. Income and expenses are translated applying monthly average rates for the period. Resulting exchange differences are recognised in the statement of comprehensive income and shareholders' equity.

Notes to the financial statements

at 31 December 2016

1. Accounting policies (continued)

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument.

Inputs used in pricing models are generally market observable or can be derived from market observable data. If market observable data is not available, a degree of judgement is required in establishing fair values.

Financial instruments — initial recognition and subsequent measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Derivatives are recognised on a trade date basis.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading, are recorded in the balance sheet at fair value. Changes in fair value are recognised in 'Net trading profit'. Interest income or expense is recorded in 'Net trading profit' or 'Interest Income' / 'Interest Expense' respectively, according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies equities, debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, money market and other credit derivative instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account in 'Net trading profit'.

Impairment of available-for-sale financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to

Notes to the financial statements

at 31 December 2016

1. Accounting policies (continued)

be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For available-for-sale financial investments, the Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account is removed from equity and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the profit and loss account; increases in their fair value after impairment are recognised directly in equity.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Notes to the financial statements

at 31 December 2016

1. Accounting policies (continued)

Securities borrowed are not recognised on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading profit'.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value, including any directly attributable transaction costs. Subsequently, loans and receivables are measured at amortised cost and are subject to impairment testing. Amortised cost is calculated using the effective interest method. Gains and losses are recognised in the profit and loss account.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Net trading profit

Net trading profit includes:

(a) Net trading income/(expense) on the purchase and sale of marketable securities after commissions paid and direct trading related expenses, including all gains and losses from changes in fair value, recorded on the trade date of the related transaction.

(b) Fee and commission income/(expense) from asset management services and transactions executed on behalf of other group companies or by other group companies on the Company's behalf. Fees earned for the provision of services over a period of time are accrued over that period. Commissions earned for execution of transactions are recognised on trade date.

Interest and similar income and expense

Interest income and expense are recognised on an accruals basis, at an effective rate of interest.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Pensions

Defined contribution scheme

The Company operates a defined contribution pension scheme on behalf of its employees and directors. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Fixed assets and Depreciation

Tangible/Intangible fixed assets are stated at cost less accumulated depreciation/amortisation. Office equipment and computer software are written off on a straight line basis over a five year period. Computer hardware and associated software are written off on a straight line basis over a three year period. Customised software is written off on a straight line basis over a five year period.

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to the recoverable

Notes to the financial statements

at 31 December 2016

1. Accounting policies (continued)

amount. The useful lives and residual values are reviewed annually, and where adjustments are required these are made prospectively.

A fixed asset item is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the period of derecognition.

Provision

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

Investment in subsidiary undertaking

The investments in KBC Financial Products (Cayman Islands) Limited, KBC Investments Cayman Islands V Limited, KBC Diversified Fund and 111 OBS (General Partner) Limited (the subsidiaries) are valued on a historical cost basis.

Share-based payment transactions

Phantom stocks

Key Identified Staff (KIS) of the Company receive part of their variable remuneration in the form of Phantom stocks, which are settled in cash.

The cost of Phantom stocks recognised is linked to the value of the share price of KBC Group NV. The total amount of annual Phantom stock is paid over four years, with 50% being paid in the first year and the rest spread equally over the next three years. The average price of the KBC share during the first three months of the year is used to calculate the number of Phantom stocks to which each KIS is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions upon which the instruments were granted.

The cost of cash-settled transactions is measured at fair value. This fair value is expensed in 'Staff expenses' over the period until vesting with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement in 'Staff expenses'.

Exemptions

The Company meets the definition of a qualifying entity under FRS 102 and has consequently taken advantage of the following exemptions:

- The requirement to present a statement of cash flows and related notes;
- The requirement to report transactions between wholly owned subsidiary undertakings;
- The requirement to report remuneration of key management personnel;
- The requirement to disclose additional information pertaining to share based payments; and
- The requirement to disclose a reconciliation of the number of shares outstanding at the beginning and end of the period within the statement of financial position.

Notes to the financial statements

at 31 December 2016

2. Segmental Analysis

The results of the Company originate principally from business conducted from the United Kingdom. The net assets of the Company relate principally to its business in the United Kingdom.

The net trading profit is attributable to the following revenue streams:

	2016 €000	2015 €000
Principal transactions	31,775	22,353
FX	43,442	155,497
	<u>75,217</u>	<u>177,850</u>

Principal transactions include realised and unrealised gains and losses, primarily from Credit and Equity Derivatives trading. Trading profit is primarily attributable to business generated within the European market, this being where the core markets of the parent company are based. The FX P&L has arisen primarily as a result of the translation of the Company's financial statements into its functional currency.

3. Net trading profit

Net trading profit can be analysed as follows:

	2016 €000	2015 €000
Trading profit	23,387	23,891
FX gains	43,442	155,497
Commissions receivable/(payable) from group undertakings	8,388	(1,538)
	<u>75,217</u>	<u>177,850</u>

Net trading profit includes net gains/losses on financial assets and liabilities classified as held for trading together with related expenses.

Notes to the financial statements

at 31 December 2016

4. Operating profit

Operating profit is stated after charging:

	2016	2015
	€000	€000
Rental expense for land and buildings	554	599
Operating foreign exchange charge	266	238
Depreciation and amortisation	596	627
Service charges from affiliated companies	13,592	15,985

5. Auditors' remuneration

	2016	2015
	€000	€000
Auditors' remuneration	615	833
Other fees to auditors	0	48
	615	881

6. Staff costs

	2016	2015
	€000	€000
Wages and salaries	2,747	3,318
Social security costs	496	649
Other pension costs (note 19)	360	482
Other personnel related costs	487	976
	4,090	5,425

Notes to the financial statements

at 31 December 2016

6. Staff costs (continued)

The average monthly number of employees was 14 over the year ended 31 December 2016 (2015: 16).

	2016 Number	2015 Number
Front Office	9	10
Ancillary Services	5	6
	<u>14</u>	<u>16</u>

Phantom stocks

Key identified staff in the business are granted Phantom stocks which are settled in cash. These will vest over a specified number of years in which employees must remain in service. The fair value of the Phantom stocks is measured at the reporting date using the most recent quarterly average share price, taking into account the terms and conditions upon which the instruments were granted.

Staff costs included directors' remuneration as set out below. Directors' emoluments are partly paid by KBC Bank NV.

(a) Directors' remuneration

The remuneration of the directors for qualifying services was as follows:

	2016 €000	2015 €000
Emoluments	168	209
Cash-settled equity based bonus	25	23
Company contributions to money purchase pension scheme	1	1
Company contributions to defined benefit pension scheme	7	5
	<u>201</u>	<u>238</u>

(b) Directors' pensions

The number of directors who were members of pension schemes during the year was 5 (2015: 5).

Notes to the financial statements

at 31 December 2016

6. Staff costs (continued)

(c) Highest paid director

The above amounts for remuneration include the following in respect of the Company's highest paid director:

	2016 €000	2015 €000
Emoluments	120	121
Cash-settled equity based bonus	14	14
Company contributions to defined benefit pension scheme	2	2
	<u>136</u>	<u>137</u>

7. Interest receivable and similar income

Interest income comprises:

	2016 €000	2015 €000
Interest receivable on loan and receivables instruments	3,292	1,910
Other interest receivable	6,099	50
	<u>9,391</u>	<u>1,960</u>

8. Interest payable and similar expenses

Interest expense comprises:

	2016 €000	2015 €000
Interest payable to group undertakings	<u>600</u>	<u>1,035</u>

Notes to the financial statements

at 31 December 2016

9. Tax on profit

(a) Analysis of tax charge in the year

The taxation charge is based on the profit for the year:

	2016 €000	2015 €000
UK Corporation tax		
On profit for the year	0	0
Adjustment in respect of prior periods	0	0
Total tax charge for the year	<u>0</u>	<u>0</u>

(b) Factors affecting the tax charge for the year

The tax assessed in the year differs from the standard rate of corporation tax in the UK.

The differences are explained below:

	2016 €000	2015 €000
Profit on ordinary activities before taxation	68,385	160,445
Corporation tax charge at standard rate of 20% (2015: 20.25%)	<u>(13,677)</u>	<u>(32,490)</u>
Effects of:		
Deferred tax not recognised - brought forward tax losses utilised	13,721	32,586
Provisions	75	31
Adjustment in respect of prior periods	0	0
Other sundry adjustments	(119)	(127)
Total tax credit for the year (note 9(a))	<u>0</u>	<u>0</u>

Notes to the financial statements

at 31 December 2016

9. Tax on profit (continued)

9 (c) Deferred tax assets

No deferred tax asset has been recognised due to uncertainty over its recoverability. The unrecognised deferred tax asset comprises:

	<i>Gross</i>	<i>2016</i>
	<i>€000</i>	<i>€000</i>
Losses	673,844	114,553
Unpaid bonus	1,879	319
Capital allowances in excess of depreciation	2,865	487
Total unrecognised DT assets		<u>115,359</u>

Reductions in the UK corporation tax rate were substantively enacted in October 2015. The UK corporation tax main rate will be reduced from the current level of 20% to 19% from 1 April 2017. The Finance Act 2016 provided for a further reduction to the corporation tax rate to 17% from 1 April 2020. Accordingly, the unrecognised deferred tax in respect of the gross timing differences disclosed above would be calculated at a rate of 17% as this is the enacted rate that the timing differences would be expected to unwind at.

Notes to the financial statements

at 31 December 2016

10. Tangible assets

	<i>Equipment</i>
	€000
Cost	
At 1 January 2016	660
Additions	21
Disposals	(286)
At 31 December 2016	395
Accumulated Depreciation	
At 1 January 2016	(510)
Charge for the year	(134)
Disposals	286
At 31 December 2016	(358)
Net book value	
At 31 December 2015	150
At 31 December 2016	37

Notes to the financial statements

at 31 December 2016

11. Intangible fixed assets

	<i>Computer software</i>
	<i>€000</i>
Cost	
At 1 January 2016	1,855
Additions	0
Disposals	0
At 31 December 2016	1,855
Accumulated Amortisation	
At 1 January 2016	(1,031)
Charge for the year	(462)
Disposals	0
At 31 December 2016	(1,493)
Net book value	
At 31 December 2015	824
At 31 December 2016	362

12. Fixed Asset Investments

	<i>2016</i>	<i>2015</i>
	<i>€000</i>	<i>€000</i>
Investments in subsidiary undertakings	347	347

Details of the investments in subsidiary undertakings are as follows:

- A 100% holding in the share capital of KBC Diversified Fund, which is an offshore feeder fund, incorporated in the Cayman Islands, in which KBC Investment Limited holds 2 Ordinary Shares of \$1,215 each.
- A 100% holding in the share capital of KBC Investments Cayman Islands V Limited, incorporated in the Cayman Islands, in which KBC Investments Limited holds 10,000 Ordinary Shares of \$0.01 each.
- A 100% holding in the share capital of KBC Financial Products (Cayman Islands) Limited, incorporated in the Cayman Islands, in which KBC Investments Limited holds 100 Ordinary Shares of \$3,723 each.
- A 100% holding in the share capital of 111 OBS (General Partner) Limited, which is incorporated in the United Kingdom, in which KBC Investments Limited held 12,817 Ordinary Shares of £1 each. The company was liquidated on 11th September 2016.

Notes to the financial statements

at 31 December 2016

13. Debtors

	2016	2015
	€000	€000
Financial Assets		
Trade debtors	4,248	14,995
Bonds	57,436	99,272
Cash collateral placed	218,444	207,495
Trade debtors – affiliates	2,236,796	2,697,954
Amounts due from group undertakings	22,279	1,347
Other debtors	2,082	1,289
	<u>2,541,285</u>	<u>3,022,352</u>
Non-Financial Assets		
Prepayments & Accrued Income	47	9
	<u>2,541,332</u>	<u>3,022,361</u>

14. Creditors: amounts falling due within one year

	2016	2015
	€000	€000
Financial Liabilities		
Bank overdraft	168	0
Trade creditors	27,631	1,573
Cash collateral received	37,266	50,534
Trade creditors – affiliates	1,242,135	1,792,192
Financial liabilities held for trading	408,250	401,957
Amounts owed to group undertakings	1,549	213
	<u>1,716,999</u>	<u>2,246,469</u>
Non -Financial Liabilities		
Taxation and social security	114	12
Accruals and deferred income	3,255	4,559
	<u>1,720,368</u>	<u>2,251,040</u>

There is an obligation to return cash collateral received in its original form. Collateral can be transferred if transactions are terminated for various reasons such as default or bankruptcy. Collateral received relates to Over-The-Counter (OTC) derivatives, which is recognised by the Company on the balance sheet.

Notes to the financial statements

at 31 December 2016

15. Financial assets and financial liabilities

Set out below is an analysis of the Company's financial instruments that are carried in the financial statements. The table does not include non-financial assets and non-financial liabilities.

	Note	2016 €000	2015 €000
Financial assets			
Financial assets held for trading			
Notes		7	7
Quoted equities		412,973	394,050
Shares in hedge funds		11	11
Derivative financial instruments	16	289,416	316,675
		702,407	710,743
Financial assets designated at fair value through profit and loss			
Shares in hedge funds		37	42
Loans and Receivables			
Trade debtors	13	4,248	14,995
Bonds	13	57,436	99,272
Cash collateral placed	13	218,444	207,495
Trade debtors – affiliates	13	2,236,796	2,697,954
Amounts due from group undertakings	13	22,279	1,347
Other debtors	13	2,082	1,289
		2,541,285	3,022,352
Cash at bank and in hand			
		41,584	13,926
		<u>3,285,313</u>	<u>3,747,063</u>
Financial liabilities			
Financial liabilities held for trading			
Quoted Equities		31,395	52,202
Derivative financial instruments	16	376,855	349,755
	14	408,250	401,957
Financial liabilities measured at amortised cost			
Bank overdraft	14	168	0
Trade creditors	14	27,631	1,573
Cash collateral received	14	37,266	50,534
Trade creditors – affiliates	14	1,242,135	1,792,192
Amounts owed to group undertakings	14	1,549	213
		1,308,749	1,844,512
		<u>1,716,999</u>	<u>2,246,469</u>

Notes to the financial statements

at 31 December 2016

16. Derivative financial instruments

	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
	2016	2016	2015	2015
	€000	€000	€000	€000
Derivatives held-for trading				
Credit default swaps	48	48	1,128	1,148
Equity swaps and options	97,112	210,540	130,255	204,004
Interest rate swaps	37,265	56,628	38,580	61,955
Forward exchange contracts	0	0	3,193	3,193
Exchange traded options	154,991	109,639	143,519	79,455
	<u>289,416</u>	<u>376,855</u>	<u>316,675</u>	<u>349,755</u>

Notes to the financial statements

at 31 December 2016

17. Fair value hierarchy

	2016 Level 1 €000	2016 Level 2 €000	2016 Level 3 €000	2016 Total €000
Financial assets				
Derivative financial instruments				
Credit default swaps	0	48	0	48
Equity swaps and options	0	97,112	0	97,112
Interest rate swaps	0	37,265	0	37,265
Forward exchange contracts	0	0	0	0
Exchange traded options	0	154,991	0	154,991
	0	289,416	0	289,416
Other Financial Assets Held For Trading				
Notes	0	0	7	7
Quoted equities and mutual fund equities	236,052	176,920	0	412,972
Shares in hedge funds	0	0	11	11
	236,052	176,920	18	412,990
Financial assets designated at fair value through profit and loss				
Shares in hedge funds	0	0	37	37
	236,052	466,336	55	702,443
Financial liabilities				
Financial liabilities held for trading				
Credit default swaps	0	48	0	48
Equity swaps and options	0	210,540	0	210,540
Interest rate swaps	0	56,628	0	56,628
Forward exchange contracts	0	0	0	0
Exchange traded options	0	109,639	0	109,639
	0	376,855	0	376,855
Financial liabilities held for trading				
Quoted Equities	31,395	0	0	31,395
	31,395	376,855	0	408,250

Notes to the financial statements

at 31 December 2016

17. Fair value hierarchy (continued)

	2015 Level 1 €000	2015 Level 2 €000	2015 Level 3 €000	2015 Total €000
Financial assets				
Derivative financial instruments				
Credit default swaps	0	1,128	0	1,128
Equity swaps and options	0	130,255	0	130,255
Interest rate swaps	0	38,580	0	38,580
Forward exchange contracts	0	3,193	0	3,193
Exchange traded options	0	143,519	0	143,519
	0	316,675	0	316,675
Other Financial Assets Held For Trading				
Notes	0	0	7	7
Quoted equities and mutual fund equities	242,497	151,553	0	394,050
Shares in hedge funds	0	0	11	11
	242,497	151,553	18	394,068
Financial assets designated at fair value through profit and loss				
Shares in hedge funds	0	0	42	42
	242,497	468,228	60	710,785
Financial liabilities				
Financial liabilities held for trading				
Credit default swaps	0	1,148	0	1,148
Equity swaps and options	0	204,004	0	204,004
Interest rate swaps	0	61,955	0	61,955
Forward exchange contracts	0	3,193	0	3,193
Exchange traded options	0	79,455	0	79,455
	0	349,755	0	349,755
Financial liabilities held for trading				
Quoted Equities	52,202	0	0	52,202
	52,202	349,755	0	401,957

Notes to the financial statements

at 31 December 2016

17. Fair value hierarchy (continued)

The fair values of the assets and liabilities held at fair value through profit and loss at the balance sheet date are determined using quoted prices. Where quoted prices are not available for derivatives the fair value of derivatives is based upon the valuation techniques explained in the table below:

<i>Level</i>	<i>Instrument type</i>	<i>Product</i>	<i>Valuation technique</i>
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures and exchange traded stocks	Mark-to-market (quoted prices in active markets)
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX forwards, dividend swaps	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates and (CC)IRS)
		European & American stock options, European & American FX options, forward starting options and exchange traded options	Option pricing model based on observable inputs (e.g., volatilities)
		Credit default swaps (CDS)	CDS model based on credit spreads
	Exotic derivatives	Digital stock options, Asian stock options, barrier stock options, FX Asian options, outperformance options, auto-callable options	Option pricing model based on unobservable inputs (e.g., correlation)
	Credit-linked instruments	Credit default swaps (CDS)	Valuation model based on correlation of probability of default of underlying assets
Level 3	Illiquid credit linked instruments	Floating rate note	Valuation model based on correlation of probability of default of underlying assets
	Illiquid equity/options	Shares in hedge funds, options on shares in hedge fund	Third-party pricing to which discount is applied to reflect uncertainty, where prices cannot be corroborated due to a lack of available/reliable alternative market data

Notes to the financial statements

at 31 December 2016

18. Called up share capital

	2016	2016	2015	2015
	No.	€	No.	€
<i>Authorised</i>				
Ordinary shares of US\$1 each	1,305,000,000	948,194,434	1,305,000,000	948,194,434
Ordinary shares of £1	100	120	100	120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of US\$1 each	1,305,000,000	948,194,434	1,305,000,000	948,194,434
Ordinary shares of £1	100	120	100	120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>1,305,000,100</u>	<u>948,194,554</u>	<u>1,305,000,100</u>	<u>948,194,554</u>

19. Pension Arrangements

Defined contribution scheme

The Company contributes to a defined contribution scheme on behalf of its employees and directors. The pension cost charged for the year was €360k (2015: €482k).

20. Commitments and contingent liabilities

Claw back claim

KBC Investments Limited ("KBCI") is a defendant in an action pending before the United States Bankruptcy Court for the Southern District of New York brought by the Trustee appointed for the liquidation of Bernard L. Madoff Investment Securities LLC ("BLMIS"). This action, known generally as a "claw-back claim", is similar to those brought by the BLMIS Trustee against numerous other persons, and seeks recovery of amounts allegedly received by KBCI from BLMIS or indirectly through "feeder funds" related to BLMIS in which KBCI held interests. The amount sought to be recovered in this action approximates \$110 million. KBCI believes it has substantial and credible defences to this action and is defending itself vigorously.

Other Litigation

The Company is also party to various other legal proceedings, the ultimate resolution of which is not expected to have a material adverse impact on the financial position of the Company.

Notes to the financial statements

at 31 December 2016

21. Financial Risk Management - Objectives and Policies

1. Introduction

Risk is inherent in the Company's activities but it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is important to the Company's on-going business and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

This section presents information about the Company's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments.

Risk management structure

The Company's risk exposures are managed and controlled centrally by the Risk Management function of the KBC Financial Products Group ("KBCFP"), a collection of subsidiaries of KBC Bank NV whose trading and risk are managed on a centralised basis. In turn, KBCFP's Risk Management function is an integral part of the Group Risk function (Risk Markets division) of parent company KBC Bank NV.

Measurement and Reporting Systems

The Company uses risk management systems and policies that operate at the group level. Risks are measured using a method which reflects both the expected profits and losses likely to arise in normal circumstances and unexpected profits and losses, which are an estimate of the ultimate actual performance based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. Stress scenarios also monitor exposures that would arise in the event of extreme market movements.

Risk limits are used for monitoring and controlling exposures and are set both at the KBCFP level and for trading desks. These limits reflect the business strategy and market environment of the group and the level of risk that is acceptable to the Company. Risks are closely monitored on a daily basis by the dedicated Risk Function of Risk Markets. Risk information (market risks, aggregate credit exposure, VaR and stress testing) is reported to business management and subject to oversight by the Group Markets Committee (GMC) which meets on a monthly basis but with bi-weekly reporting to senior management.

Specifically tailored risk reports are prepared and distributed in order to ensure that every business division in the Company has access to extensive, necessary and up-to-date information.

The risk management function of KBCFP's business lines is fully integrated with its parent company KBC Bank NV.

The business of the Company will remain subject to a range of market risk and credit risk limits as determined in the KBC Financial Products limit framework. Furthermore the Risk Markets teams of KBC Bank NV will continue to carry out their standard tasks for the Company including the identification and measurement of risks.

Risk Mitigation

As part of its overall risk management, the Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, volatility risk and exposures arising from forecast transactions. The Company actively uses collateral to reduce its credit/counterparty risks.

Notes to the financial statements

at 31 December 2016

21. Financial Risk Management – Objectives and Policies

1. Introduction(continued)

Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

Limits are set in order to avoid risk concentrations. Credit concentration across the group is managed centrally at KBC Bank NV.

2. Credit Risk

Credit risk is the risk of non-payment arising from the counterparty's insolvency or lack of willingness to pay or perform ("counterparty"), or by events or measures taken by the political or monetary authorities of a particular country ("country risk").

The Risk Committee (GMC) and Risk Management administer and oversee credit risk exposure, subject to oversight from the KBC Bank NV's Credit Risk Management Department and Committees.

KBCFP quantifies and monitors its sole, main type of credit risk, being Counterparty Risk. All counterparty credit exposures arising from the Company's business activities are captured within counterparty risk limits.

Counterparty risk is measured for Over-the-Counter ("OTC") derivatives using the CEM method (with internal add-ons). The calculation of Credit Value Adjustments ("CVA") and Debit Value Adjustments ("DVA") is based on an internally developed method which incorporates market-implied default probabilities from the actual credit spreads to a maximum extent possible, in line with IFRS guidelines. Risk Management and/or the Group Credit Risk Directorate (GCRD) of KBC Bank NV, based in Belgium, as appropriate will perform annual or more frequent credit reviews for all existing credit lines. In addition to periodic reviews, counterparties may be subject to ad-hoc reviews as and when necessary.

Lines that have not been used for longer than a year can be removed and only be re-established following a successful new credit application.

The Company seeks, wherever possible, to enter into ISDA Master and CSA agreements with OTC derivative counterparties. The agreements serve to mitigate the Company's exposure to credit loss.

Regulatory capital requirements are calculated based on the IRB-F approach using CEM as exposure model.

The Company's maximum exposure to credit risk at the balance sheet date is disclosed below based on the carrying amount of the financial assets the Company believes are subject to credit risk. Cash collateral is held on financial assets designated at fair value through profit and loss. The exercise of collateral will lead to a significant reduction in the potential loss in the value of the corresponding financial asset in the event of a counterparty or issuer failing to perform its contractual commitment.

Notes to the financial statements

at 31 December 2016

21. Financial Risk Management – Objectives and Policies

2. Credit Risk (continued)

	Maximum Exposure to Credit Risk 2016 €000	Maximum Exposure to Credit Risk 2015 €000
Financial instruments	134,432	173,163
Bonds	57,436	99,272
Cash collateral placed	218,444	207,495
Amounts due from group undertakings	22,279	1,347
Trade debtors	4,248	14,995
Trade debtors-affiliates	2,236,796	2,697,954
Other debtors	2,082	1,289
Cash at bank and in hand	41,584	13,926
	<u>2,717,301</u>	<u>3,209,441</u>

The credit quality of financial assets which are subject to credit risk, that are neither part due nor impaired, is summarised below. The credit ratings are determined by the Company's internally determined public rating agency equivalents. The unrated balance represents the pool of counterparties which individually do not generate material credit risk for the Company.

Credit Rating	Maximum Exposure to Credit Risk 2016 €000	Maximum Exposure to Credit Risk 2015 €000
AAA	4,616	29,862
AA+	3,009	17,771
AA	0	234
AA-	26,704	25,156
A+	43,863	45,065
A	2,615,914	3,049,311
A-	7,478	22,965
BBB+	7,018	11,338
BBB	6,675	6,272
D	7	0
WR	0	7
Not rated	2,017	1,460
	<u>2,717,301</u>	<u>3,209,441</u>

Notes to the financial statements

at 31 December 2016

21. Financial Risk Management – Objectives and Policies (continued)

2. Credit Risk (continued)

Credit Concentration

Other than counterparty risk and exposures to KBC group companies, there are no significant credit concentrations in the Company, as counterparty credit risk concentrations have been dealt with by risk mitigation and provisioning.

3. Liquidity Risk and Funding Management

Liquidity risk is the risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an on-going basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments. KBCFP operates under liquidity limits set by KBC Bank NV and within these limits it relies on KBC Bank NV for funding and liquidity.

The table below shows the Company's financial liabilities by contractual maturity remaining. Derivative contracts and other financial instruments are presented at their fair values. These fair values are not significantly different to the undiscounted cash flow values. All other amounts represent undiscounted cash flows payable by the Company arising from its financial liabilities.

	On Demand	Less than 1 Year	1-5 Years	Later than 5 Years	Total
	2016 €000	2016 €000	2016 €000	2016 €000	2016 €000
Financial liabilities held for trading					
Quoted Equities	0	0	0	31,395	31,395
Derivative financial instruments	0	50,579	184,500	141,776	376,855
Financial liabilities measured at amortised cost					
Bank overdraft	168	0	0	0	168
Trade creditors	27,631	0	0	0	27,631
Cash collateral received	37,266	0	0	0	37,266
Trade creditors – affiliates	0	1,242,135	0		1,242,135
Amounts owed to group undertakings	1,549	0	0	0	1,549
Total exposure to liquidity risk	66,613	1,292,714	184,500	173,171	1,716,998

Notes to the financial statements

at 31 December 2016

21. Financial Risk Management – Objectives and Policies (continued)

3. Liquidity Risk and Funding Management (continued)

	On Demand	Less than 1 Year	1-5 Years	Later than 5 Years	Total
	2015 €000	2015 €000	2015 €000	2015 €000	2015 €000
Financial liabilities held for trading					
Quoted Equities	0	0	0	52,202	52,202
Derivative financial instruments	0	36,031	201,488	112,236	349,755
Financial liabilities measured at amortised cost					
Bank overdraft	0	0	0	0	0
Trade creditors	1,573	0	0	0	1,573
Cash collateral received	50,534	0	0	0	50,534
Trade creditors – affiliates	0	814,449	977,742	0	1,792,191
Amounts owed to group undertakings	213	0	0	0	213
Total exposure to liquidity risk	52,320	850,480	1,179,230	164,438	2,246,468

Notes to the financial statements

at 31 December 2016

21. Financial Risk Management – Objectives and Policies (continued)

4. Market Risk

Trading

Market risk is the risk of loss arising from the impact of market changes on the market value of a portfolio. KBCFP bases its management of market risk on the limits and sub-limits defined by the GMC and KBC Bank NV Executive Committee. The Risk Committee is entitled to set and revise sub-limits on business lines or legal entities to help it manage these limits.

Risk Management oversees all trading related activities of the Company, including market risk, credit risk, documentation and data integrity from time of trade, through front and back office system to the settlement area.

Risk Management seeks to promote “informed risk taking”. This means that large losses should not occur due to risks whose existence and magnitude were not understood by the GMC. It requires Risk Management to understand, monitor and quantify the market and credit risks being run by the Company; communicate these to the Risk Committee; verify that the profit and loss and risk numbers being reported are sound; be aware of weaknesses in systems, trade flow and profit and loss processes and ensure that risks of existing and new products are being properly captured.

Risk Management is also responsible for communicating risk and limit information to KBC Bank NV, assisting internal and external auditors, and educating staff regarding risk management standards and limits. The Company's limits fall into two categories; primary limits and secondary limits in accordance with the KBC Bank NV's policy. KBCFP uses a historic Value at Risk methodology (“hVaR”) combined with a rigorous stress testing program for measuring market risk. The hVaR metric forms the primary limit. Following several de-risking activities related to the legacy CDO business line, the CDO exposure is limited. As a result, no internal model exposures related to the Comprehensive Risk Measure (CRM) and Incremental Risk Charge (IRC) are still existent. In Q3 2013, the credit derivatives business was also ceased to be captured by the internal model due to the de-risking actions taken (only some remaining cash positions left which are captured under the Standardised Approach). In Q1-2014, the Treasury business line was also moved to the Standardised Approach as a result of the ongoing integration efforts with the parent company.

Risk Management has direct oversight of the trading systems, is responsible for monitoring and reports end of day limit usage/breaks to the Risk Committees (GMC), head traders and the Executive Committee of KBC Bank NV.

Notes to the financial statements

at 31 December 2016

21. Financial Risk Management – Objectives and Policies (continued)

4. Market Risk (continued)

Objectives and limitations of the hVaR methodology

The Historical Value-At-Risk approach uses the actual historical market performance to simulate possible future market evolutions. Past moves in market parameters are transformed into scenarios that are applied to the current market situation and a given portfolio. Corresponding portfolio values are computed and compared with the current portfolio value. The difference between the two (scenario value minus current value) is known as the scenario PnL (profit and loss). The 99th percentile of these scenario PnLs corresponds to the hVaR figure.

The use of hVaR has limitations because it is based on historical data and assumes that future market movements will not deviate from the historical used time series. Even though positions may change throughout the day, the hVaR does not aim to forecast losses due to intraday trading. It represents the risk of the portfolios at the close of each business day and it – albeit in line with regulatory requirements – does not account for the distribution of losses that may occur beyond the 99% confidence level. This will be partly mitigated by the use of Expected Shortfall in the future (FRTB regulation). For details on the methodological choices we refer to the master document on Value-At-Risk modelling, available upon request to Risk Markets.

During 2016, the calculation engine was migrated to the centralised risk system RiskWatch to perform the KBCFP VaR calculations.

The table below illustrates, by major risk category, the hVaR during the financial years ended 30 December 2016 and 31st December 2015. It shows the highest, lowest and average hVaR during the financial year.

	<i>Average</i>	<i>Min</i>	<i>Max</i>	<i>Average</i>	<i>Min</i>	<i>Max</i>
	2016	2016	2016	2015	2015	2015
	€000	€000	€000	€000	€000	€000
FX	855	172	1460	225	87	347
Equity Price	906	559	1294	473	213	836
Equity Volatility	1264	633	2404	1,255	585	1,651
Interest Rates	802	429	1156	889	674	1,157
Diversification	-2,358			-1,535		
	1,469			1,307		

As might be expected for an Equity Derivatives operation, the drivers of the hVaR are mainly the equity and equity volatility component. The interest rate component is due to the effect of interest rates on the various expiry dates of the derivatives held by the Equity Derivatives business. The FX component consists of the unhedged FX exposure due to the currency of the underlying.

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21. Financial Risk Management – Objectives and Policies (continued)

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument and future cash flows will fluctuate as a result of changes in market interest rates. This is monitored by the tracking of the evolution in '(time bucketed) Rho' exposure, compared to the 'Rho' limits. The contribution of the 'IR' factor, which is one of the risk drivers in the hVaR model, is monitored on a daily basis.

Currency Risk

Foreign exchange positions are taken to hedge the foreign exchange risk inherent in daily trading activities.

Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. Equity Price risk is monitored through delta and gamma exposure limits. Equity price risk is included in the internal model as one of the risk drivers.

Equity Volatility Risk

Equity volatility risk is the risk related to the dispersion of equity prices measured by the standard deviation or variance of returns over a certain period. The latter can increase or decrease depending on the state of the economy, company related results, central bank actions. Volatility is predominantly used for pricing derivatives portfolios. The risk derived from this equity volatility is monitored through equity vega exposure limits. Equity volatility risk is included in the internal model as one of the risk drivers.

5. Operational

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Operational risk issues are overseen by the Operations Control Committees.

22. Ultimate parent company

The Company is a subsidiary of KBC Bank NV, a company incorporated in Belgium, and is the smallest group for which consolidated financial statements are prepared.

The Company's ultimate parent undertaking and controlling entity is KBC Group NV, a company incorporated in Belgium. The largest group in which the results of the Company and its subsidiary undertakings are consolidated at 31 December 2016 is that headed by KBC Group NV. The consolidated financial statements available for the public will be those for KBC Group NV, which may be obtained from KBC Group NV, Havenlaan 2, 1080 Brussels, Belgium.

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23. Total Shareholders' funds

The composition of total shareholders' funds is as follows:

Called-up share capital – represents the nominal value of shares that have been issued.

Accumulated losses – includes all current and prior year retained profit and loss.

Other reserves – as part of the commitment by the immediate parent company to provide sufficient funds to the Company to enable the Company to meet its liabilities as and when they fall due, the parent company granted a debt waiver to the Company in 2010.

24. Capital Management

The Company manages capital, comprising shareholders' funds and retained earnings

Sufficient levels of capital are maintained to support the Company's business and to withstand losses due to extreme market conditions.

The Company remains sufficiently capitalised, taking into consideration its balance sheet size and the economic risk inherent in its business.

No changes were made in the objectives, policies or processes for managing capital during the year.