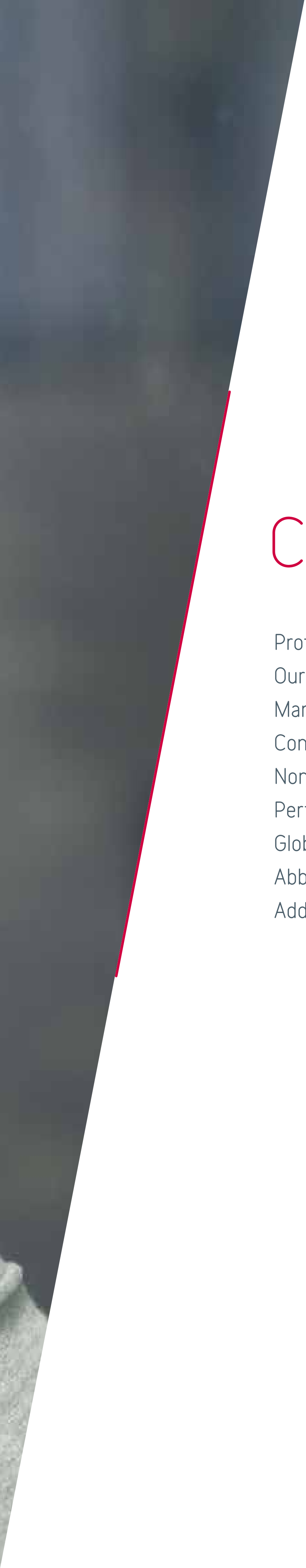
ANNUAL REPORT 2017

Belfius
Bank & Insurance

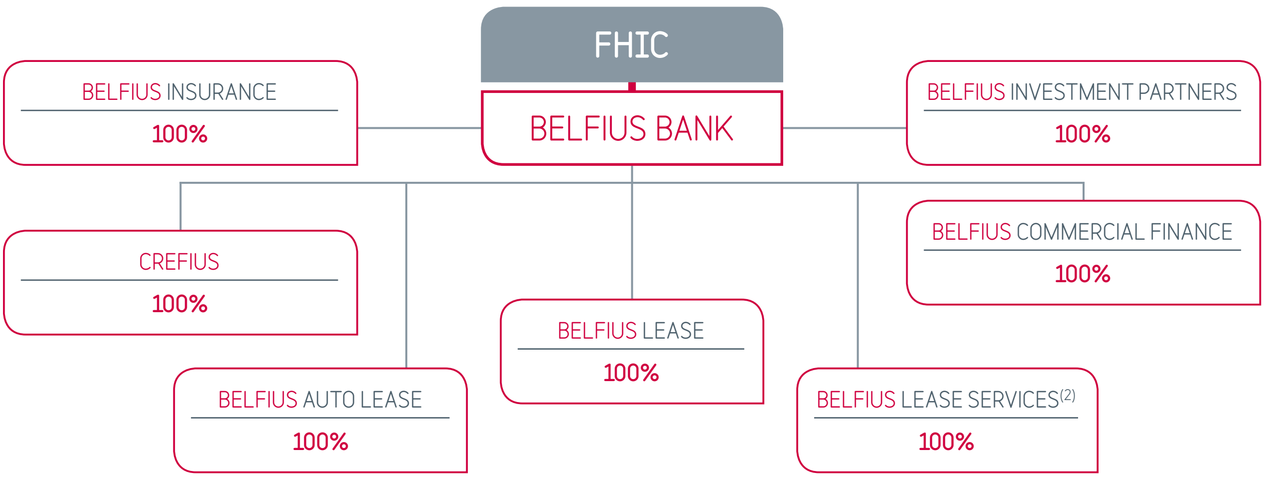


CONTENTS

PROFILE OF BELFIUS

Belfius is a Belgian banking and insurance group wholly owned by the Belgian federal state through the Federal Holding and Investment Company (FHIC). At the end of 2017, total consolidated balance sheet amounted to EUR 168 billion.

Simplified group structure(1)



(1) For more details, see the list of subsidiaries of the consolidated financial statements in this annual report.
(2) Belfius Lease Services operates under the same brand (logo) as Belfius Lease.

OUR MAIN COMMERCIAL SUBSIDIARIES

1. Belfius Insurance

Insurance company marketing life and non-life insurance products, savings products and investments for individuals, the self-employed, liberal professions, companies and the public and social sector. At the end of 2017, total consolidated balance sheet of Belfius Insurance amounted to EUR 22 billion(1).

2. Crefius

Company servicing and managing mortgage loans. At the end of 2017, total balance sheet of Crefius amounted to EUR 42 million(2).

3. Belfius Auto Lease

Company for operational vehicle leasing and car fleet management, maintenance and claims management services. At the end of 2017, total balance sheet of Belfius Auto Lease amounted to EUR 311 million(2).

4. Belfius Lease

Company for financial leasing and renting of professional capital goods. At the end of 2017, total balance sheet of Belfius Lease amounted to EUR 773 million(2).

5. Belfius Lease Services

Financial leasing and renting of professional capital goods to the self-employed, companies and liberal professions. At the end of 2017, total balance sheet of Belfius Lease Services amounted to EUR 1,943 million(2).

6. Belfius Commercial Finance

Company for financing commercial loans to debtors, debtor insolvency risk cover and debt recovery from debtors (factoring). At the end of 2017, total balance sheet of Belfius Commercial Finance amounted to EUR 907 million(2).

7. Belfius Investment Partners

Company for administration and management of funds. At the end of 2017, total balance sheet of Belfius Investment Partners amounted to EUR 144 million(2) and assets under management amounted to EUR 17.7 billion.

OUR STAFF MEMBERS

At the end of 2017, Belfius' operations gave employment to 6,432 staff members, and there were approximately 3,800 persons working in the Bank's and Insurer's independent networks.

OUR ACTIVITIES

Belfius organises its commercial activities into its Retail and Commercial segment and Public and Corporate segments.

1. Retail and Commercial

Belfius Bank offers individuals, self-employed persons, the liberal professions and SMEs a comprehensive range of retail, commercial and private banking and insurance products and services. Belfius Bank serves its approximately 3.5 million customers through its integrated omni-channel distribution network, which includes 671 branches, its modern interaction platform, Belfius Connect, and a large number of automatic self-banking machines. Belfius has also been developing a digital strategy and is now leader in mobile banking in Belgium, with over 1 million active mobile users. Its ambition is to offer all basic banking and insurance products through the mobile, paperless, end-to-end and real-time channels by 2020.

Belfius Insurance, a subsidiary of Belfius Bank, offers insurance products to retail customers through the Belfius Bank branch network, as well as through the tied agent network of DVV insurance. Belfius's bank-insurance model is fully integrated, with insurance expertise at Belfius Bank branches and omni-channel distribution capabilities. Belfius Insurance also offers insurance products through Corona Direct Insurance, the fastest growing full direct insurer in Belgium that is active exclusively via digital and call channels and "affinity partners", which are external parties with which Corona collaborates and which offer Corona insurance products.

2. Public and Corporate

Belfius offers financial services to the Belgian public sector and social organisations (including hospitals, schools, universities and retirement homes). It provides these clients with a wide and integrated range of products and services, including credit lending, treasury management, insurance products, financial markets products and financial IT tools. Belfius's corporate banking activities are focused on large- and medium-sized corporates which have a decision-making centre in Belgium as well as corporates offering services to the public sector.

Belfius Insurance also offers insurance products to public and corporate customers that are tailored to their specific needs, leveraging its deep client and market understanding.

(1) For more details, see the annual report 2017 of Belfius Insurance.
(2) Total IFRS balance sheet before consolidation adjustments.

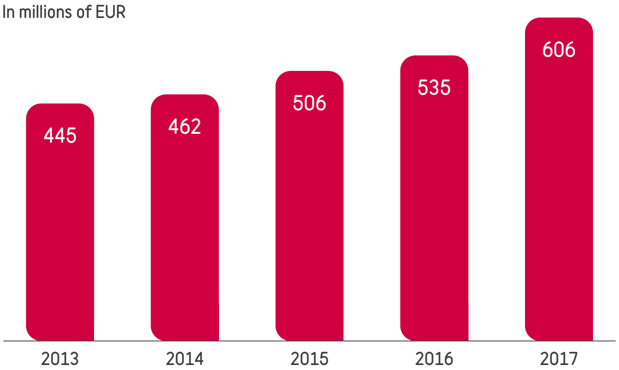
KEY FIGURES

Consolidated statement of income (In millions of EUR)	2013	2014	2015	2016	2017
INCOME	1,834	2,071	2,184	2,259	2,355
EXPENSES	(1,424)	(1,448)	(1,396)	(1,366)	(1,369)
GROSS OPERATING INCOME	410	623	787	893	986
Cost of risk	109	(59)	(93)	(116)	(33)
Impairments on (in)tangible assets	(1)	(5)	(13)	3	9
NET INCOME BEFORE TAX	518	560	682	780	963
Tax expense	(73)	(100)	(176)	(244)	(357)
NET INCOME AFTER TAX	445	460	506	535	606
Non-controlling interests	0	(2)	0	0	0
NET INCOME GROUP SHARE	445	462	506	535	606
of which					
Bank	230	245	290	335	435
Insurance	215	217	216	201	171

Consolidated balance sheet (In millions of EUR)	2013	2014	2015	2016	2017
TOTAL ASSETS	182,777	194,407	176,962	176,721	167,959
of which					
Loans and advances due from banks and central banks	*31,569*	*33,472*	*24,894*	*27,114*	*24,358*
Loans and advances to customers	*87,722*	*87,158*	*87,189*	*89,702*	*90,057*
Investments held to maturity	*0*	*2,835*	*5,017*	*5,393*	*5,442*
Financial assets measured at fair value through profit or loss	*5,512*	*6,100*	*3,223*	*2,986*	*3,240*
Financial assets available for sale	*28,074*	*25,087*	*19,734*	*18,820*	*17,983*
Derivatives	*23,190*	*31,130*	*25,944*	*25,307*	*20,303*
TOTAL LIABILITIES	176,156	186,481	168,302	167,709	158,438
of which					
Due to banks	*29,236*	*21,408*	*11,538*	*12,582*	*11,110*
Customers borrowings and deposits	*61,625*	*66,514*	*68,163*	*74,171*	*76,274*
Financial liabilities measured at fair value through profit or loss	*8,461*	*9,167*	*6,916*	*7,524*	*8,893*
Debt securities and subordinated debts	*28,077*	*29,999*	*28,691*	*25,380*	*23,226*
Derivatives	*28,602*	*38,165*	*30,060*	*29,573*	*21,264*
TOTAL EQUITY	6,621	7,927	8,660	9,012	9,521
of which					
Core shareholders' equity	*7,343*	*7,804*	*8,309*	*8,694*	*9,084*
Gains and losses not recognised in the statement of income	*(738)*	*119*	*350*	*318*	*437*

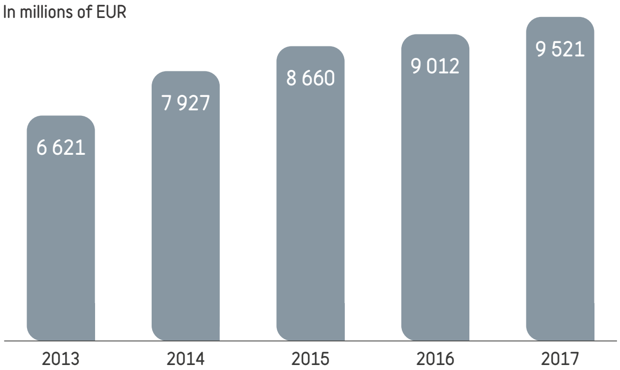
Net income group share

In millions of EUR



Total equity

In millions of EUR



Ratios[1]	2013	2014	2015	2016	2017
Return on equity (ROE)	6.1%	6.0%	6.3%	6.4%	7.0%
Return on assets (ROA)	0.22%	0.24%	0.27%	0.30%	0.35%
Cost-income ratio (C/I ratio)	77.6%	69.9%	63.9%	60.5%	58.1%
Asset quality ratio	2.36%	2.33%	2.29%	2.54%	1.99%
Coverage ratio	53.6%	56.0%	57.1%	54.4%	63.3%
Liquidity Coverage Ratio (LCR)	120%	122%	132%	127%	130%
Net Stable Funding Ratio (NSFR)	N/A	100%	108%	110%	116%

Solvency ratios	2013	2014	2015	2016	2017
CET 1 ratio Phased In[2]	13.8%	14.7%	15.9%	16.6%	16.1%
CET 1 ratio Fully Loaded[2]	11.5%	13.2%	14.9%	16.1%	15.9%
Total capital ratio Phased In[2]	15.1%	16.1%	17.7%	19.4%	18.6%
Total capital ratio Fully Loaded[2]	12.5%	14.3%	16.2%	18.4%	18.1%
Leverage ratio Phased In	N/A	N/A	5.3%	5.4%	5.6%
Leverage ratio Fully Loaded	N/A	N/A	4.9%	5.3%	5.5%
Solvency II – ratio (before dividend)	N/A	N/A	209%[3]	217%	230%
Solvency II – ratio (after dividend)	N/A	N/A	199%[3]	207%	219%

(1) Unaudited.
(2) For the determination of the Common Equity Tier 1 capital under Basel III, the regulatory authority asks Belfius to apply a prudential deconsolidation of Belfius Insurance and to apply a risk weighting of 370% on the participation. This is commonly known as "Danish compromise".
(3) Pro forma.

CSR as a business driver	2015	2016	2017
Total volume of investment funds managed based on sustainable criteria (SRI) under management (in millions of EUR)	1,973	2,193	3,070
Total volume of investments managed based on the Portfolio21 criteria under management (in millions of EUR)	15,487	15,489	15,094

Human capital	2015			2016			2017		
Staff members	Male	Female	Total	Male	Female	Total	Male	Female	Total
TOTAL	3,392	3,209	6,601	3,294	3,135	6,429	3,307	3,125	6,432

RATINGS OF BELFIUS BANK AS AT 31 MARCH 2018

	Stand-alone rating[1]	Long-term rating	Outlook	Short-term rating
Fitch	a-	A-	Stable	F2
Moody's	baa2	A2	Positive	Prime-1
Standard & Poor's	bbb+	A-	Stable	A-2

(1) Intrinsic creditworthness

OUR MISSION AND AMBITION

We aspire and endeavour to make a maximum contribution to the Belgian economy, and to provide optimal service and the ultimate customer experience on the market. In addition to the solid financial and risk profile that we pursue unremittingly through income diversification, operating revenue growth and efficiency, we base our long-term strategy on 6 pillars. We are convinced that we offer the best guarantee for a future-proof business model, solid growth for our profit-earning capacity, as well as sustainable, added value for all our stakeholders.

An integrated bank-insurer

Belfius believes in the added value of an integrated bank-insurance model. In this way, we offer a bespoke customer experience and a solution to the banking and insurance needs of our customers through a single point of contact. For us, an integrated model provides significant leverage for future income diversification and growth, as customer potential can be addressed through branches as well as through digital sales.

Embedded in all segments of the Belgian economy

Belfius is firmly embedded in all segments of the Belgian economy and society. Customers appreciate that we re-invest their savings in loans for the projects of local private individuals, companies and governmental authorities for the benefit of their community. We can draw on our knowledge of the varied needs of individual, private banking or wealth management customers, small or large entrepreneurs, public or social institutions, to capitalize fully on the synergy between customers segments, products and business lines to diversify our risks, increase our revenues and manage our costs.

Customers take centre stage

Our customers always come first. Our strategic focus on customer satisfaction underlies our strong results, the constantly growing customer confidence and a thorough, internal change in corporate culture where costs and investments are consistently weighed on the basis of their real added value for the customer. Belfius believes that this focus provides the best guarantee for added value for all our stakeholders – because keeping the customer even more satisfied means a higher recommendation rate and more room for deep personal customer relations in the long term.

Local decision-making centres close to the customer

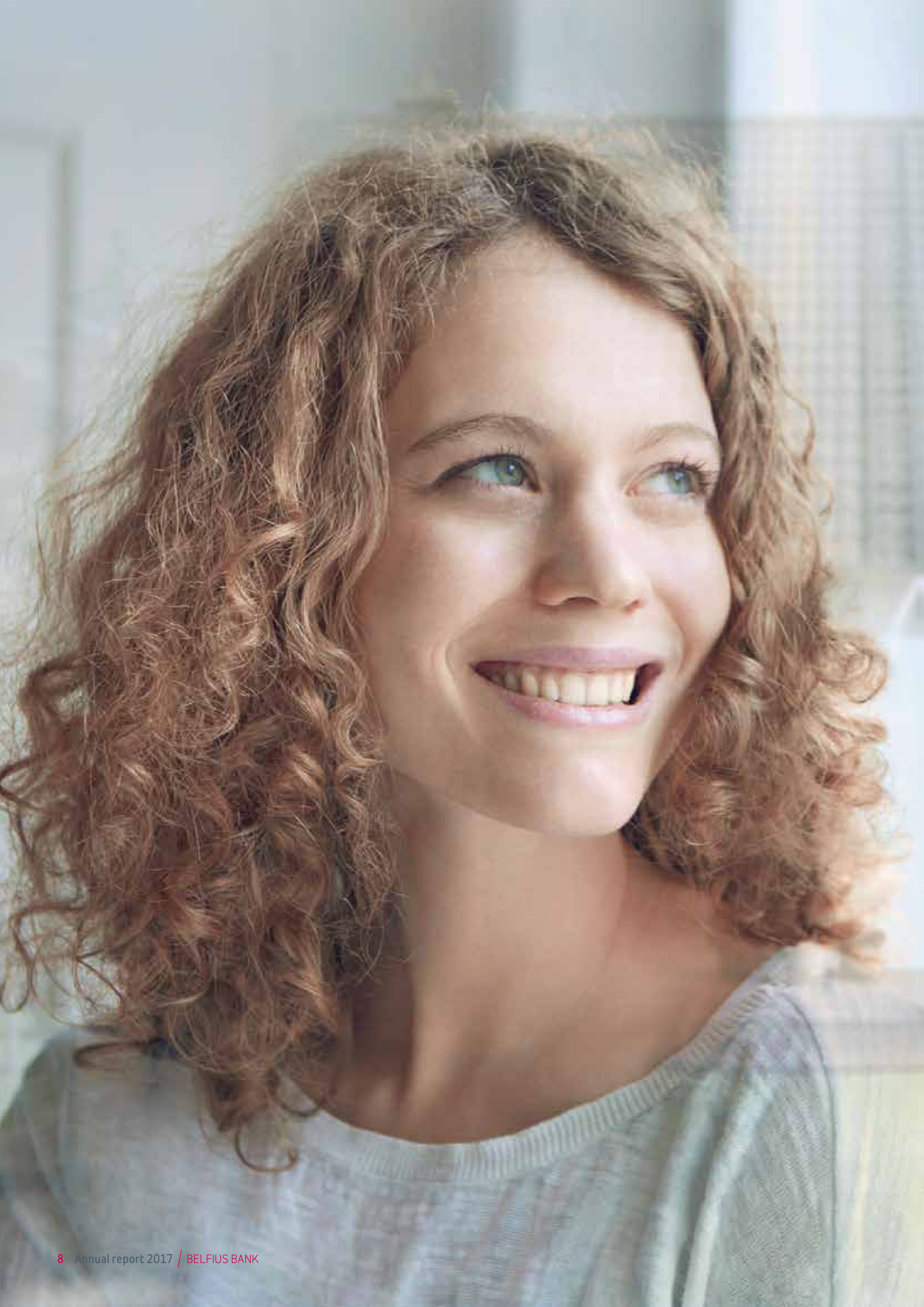
Belfius has local, easily accessible touch points and decision-making centres for an integrated omni-channel distribution strategy. Customers think it is important for decisions to be taken fast and in Belgium, with knowledge of the market in which they invest. And that is precisely why we opt for a combination of quality customer management through decentralized local commercial staff and high performance, user-friendly digital channels – an approach that addresses changing customer needs whilst offering opportunities to deepen and broaden our customer relations.

Digital leadership supported by a strong brand

We are convinced that innovation offers capital opportunities to draw even closer to our customers, their ease of use and satisfaction. Belfius is and wants to remain a pioneer in mobile and digital financial services in Belgium . E2E processes that bolster our operational efficiency even more, and a respectful data management enable us to offer our customers a distinctive human-digital experience and personal, relevant solutions. A strong and trustworthy brand such as Belfius is a guarantee label for a growing group of digital consumers, who buy and sell through various ecosystems.

Socially committed

As a forerunner of a new banking culture, we are keenly aware of the social responsibility that our unique position in the Belgian financial landscape entails. Belfius wants to assume this responsibility in an ethical and sustainable manner through a double social commitment: on the economic front, as a privileged partner of the public and social sector, as a driving force for the Belgian economy and a more sustainable and "smart" society through initiatives such as Smart Belgium; on the social front, by supporting projects with a social and cultural aim, often supported spontaneously by volunteer work on the part of all our employees.



MANAGEMENT REPORT

MESSAGE FROM THE CHAIRMEN

For the sixth consecutive year, Belfius posted increased profits in 2017. Net income after tax for 2017 rose by 13% to EUR 606 million, enabling a dividend of EUR 363 million to be paid for the financial year. This strong performance, achieved against a background of persistent low rates, is the result of an increase in operational income, disciplined cost control and, particularly, of efficient financial and risk management.

Thanks to its pertinent strategy aligned to the long term, its Belgian footing and its financial solidity, Belfius is now among the best-capitalised bank-insurers in Europe. With its distinctive and integrated business model, Belfius achieves solid net results year after year. It also attracts new customers every day, occupies a leading position in the digital domain and is constantly increasing the added value it brings to the Belgian economy.

Outstanding financial results

Consolidated net profit rose by 13% to EUR 606 million. If it hadn't been for the one-off impact of the revaluation of deferred corporate taxes (Deferred Tax Assets) due to new legislation, net profit would have been EUR 711 million (+33%).

The strategic approach adopted by Belfius is focused mainly on developments in operating profit, which was EUR 615 million (+12%). Belfius Bank contributed EUR 400 million (+13%) to this figure and Belfius Insurance EUR 215 million (+9%).

As a result of rising revenues and stable overheads, the cost-income ratio further improved by 2.4%, compared with 2016, to 58.1%. In 2017, financial solidity at Belfius remained at an outstanding level, with a CET 1 ratio (Fully Loaded) of 15.9% for the Belfius Group and a Solvency II ratio of 219% for Belfius Insurance. Total equity capital increased by EUR 0.5 billion to EUR 9.5 billion, virtually tripling the figure since the Belgian government took over the business at the end of 2011.

Increased customer satisfaction results in higher equipment level

The strategic focus on customer satisfaction at Belfius is at the heart of its strong results, as is the growing trust placed each year by customers in Belfius, both as a bank and an insurance company. There has also been an in-depth internal change of culture in which overheads and investments are weighed up in terms of the real added value that they bring the customer. Among others, the increase in satisfaction, coupled with the sale of Non-Life insurance through banking channels, enabled there to be a rise in the average equipment level per Retail customer in 2017, and this contributed to the strengthening of commercial results.

In 2017, Belfius achieved an overall satisfaction score of 95.87%, which exceeded its strategic target of 95% of satisfied customers.

Despite the challenging rates environment, Belfius scored well commercially

Belfius performed well again last year in all of its strategic core areas. For instance, EUR 15.4 billion of new long-term funding (+3%) was returned into the Belgian economy. EUR 7.1 billion (+11%) went to Business and Corporate customers – segments in which Belfius intends to continue growing strongly in the years ahead. Despite the continuous poor demand from the market, EUR 2.1 billion of long-term loans was granted in the public and social sector. On an equally high level as the past two years, EUR 6.2 billion of new long-term finance was issued to Retail customers, including EUR 5.5 billion in mortgages.

Not only did the total volume of Retail customer savings and current accounts grow to EUR 53 billion (+5%), but investments in funds also rose by EUR 2.6 billion in net terms to EUR 26 billion (+11%). The 13% increase in Non-Life premium collection via banking channels, to 189 million EUR , confirmed the relevance of our strategic choice to adopt a stronger banking-insurance model as the driving force of growth and income diversification.

As in previous years, Belfius continued to show the way in mobile solutions. At the end of 2017, our innovative apps for smartphones and tablets had 1,071,000 users (+26%). 41% of new pension savings policies, 31% of new credit cards and 29% of new savings accounts were opened or purchased via direct channels.

Belfius and Corporate Social Responsibility (CSR)

Belfius occupies a unique position in the Belgian financial landscape. Belfius is a 100% Belgian bank-insurer that focuses exclusively on the Belgian socio-economic fabric of private individuals, the self-employed, professionals, SMEs, large corporations, social institutions, government and local authorities.

Belfius is very much aware of the social responsibility that this position brings with it and aims to fulfil its role as a major social and economic provider in Belgium in an ethical, responsible and sustainable manner. As explained in detail in this annual report, Belfius gives shape to this role through its economic and social commitment, its respect for sound governance, care for the environment and long-term relationships with its customers.

In the immediate future, Belfius will continue to further enhance its corporate social responsibility in this and related areas, driven as it is by a range of growing legislative and social challenges in areas such as the sustainability of products and services, transparency, ecological risks and diversity.

The power of a sustainable and pertinent strategy

Making a maximum contribution to the Belgian economy and offering its customers the best service and customer experience on the market are the driving forces behind Belfius's aim to achieve better results, year after year. In addition to the solid financial and risk profile that Belfius aims to achieve through diversifying its revenue streams, growing its operating income and constantly enhancing efficiency, the company's long-term strategy is based on:

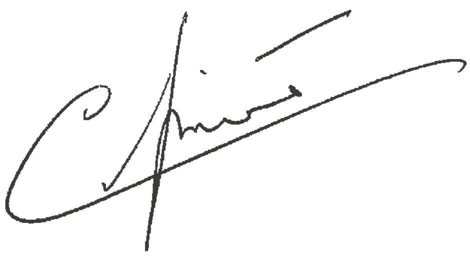
- → An integrated business model that offers one-stop shopping options for all customer banking and insurance needs, providing a major springboard for future income diversification and growth.
- → Close ties in all segments of the Belgian economy, enabling Belfius to reinvest local savings deposits so that it can grant local loans and make full use of the synergy between customer segments, products and business lines in such a way that risks can be diversified, revenues increased and costs kept under control.
- → Dedicated focus on customer satisfaction as the best guarantee for a rising level of recommendations and equipment – and more all-round value for every stakeholder.
- → Local and easily accessible touchpoints and decision-making centres as part of an integrated omnichannel distribution strategy.
- → A distinctive "human-digital" approach to customers in which digital leadership with effective, user-friendly, digital applications and channels are combined evenly with excellent, top-quality relationship management through commercially minded employees.
- → Social engagement, with Belfius setting the pace for a new banking culture and promoting initiatives that contribute to the quality of society.

Belfius is firmly convinced that this long-term strategy offers the best guarantee for a future-proof business model, as well as continued solid growth in operating results and long-term added value for all stakeholders.

The trust and confidence of our shareholder and customers, plus the input of our staff, our independent agents and their employees formed the foundation of our outstanding results in 2017. We would like to extend our particular thanks to them for their hard work.

Brussels, 22 March 2018

Marc Raisière
Chairman of the Management Board
Belfius Bank



Jozef Clijsters
Chairman of the Board of Directors
Belfius Bank

CORPORATE SOCIAL RESPONSIBILITY (CSR)

BELFIUS AND CSR

Belfius occupies a unique position in the Belgian financial landscape: a 100% Belgian bank-insurer whose businesses focus exclusively on the Belgian socio-economic fabric of private individuals, the self-employed, professionals, SMEs, large corporations, social institutions, government and local authorities.

Belfius is very much aware of the high level of social responsibility that this unique position involves and seeks to fulfil its role as a major social and economic player in Belgium in an ethical, responsible and sustainable way. A section elsewhere in this report will delve more deeply into the specific role of Belfius as a responsible employer and its policy on diversity.

1. Dual social commitment

Belfius's social commitment is situated mainly in two areas:

- Economic commitment: as a driving force of the Belgian economy. In addition to our historical role as a finance-provider for the public and social sector, sustainable development is an increasingly important business-driver: non-financial factors play an ever-larger, sometimes even central role in the approach taken by our commercial activities and projects.
- Social dimension: Belfius has a strong tradition in supporting projects with a social aim, targeted at those with fewer opportunities. These projects are often also carried further by volunteer work carried out by all employees, as well as the involvement of the bank's network of branches.

2. CSR and risk management

A whole series of socially responsible aspects are monitored through the management of operating risks and risk to reputation: our attitude to customers, suppliers and other stakeholders, the confidence of investors, legal, fiscal and compliance obligations, the health and safety of staff, the fight against fraud, discrimination and dealing with complaints correctly.

In its management of some products, Belfius also uses tools such as screening and exclusion to ensure that no services are provided to certain controversial companies, countries and sectors.

3. Governance

The CSR unit at Belfius comes under the direction of the CSR manager, as part of the Communication department. At a Management Board level, the Chief Risk Officer deals with CSR-related subjects.

The Union Commission for Corporate Social Responsibility (CSR) is a working group that works as part of social consultation at Belfius Bank. This working group is made up of employee representatives from the three social consultation bodies within the bank. The committee is chaired by the CSR manager and reports to the Occupational Health Committee (OHC).

The CSR committee is a permanent think-tank looking at corporate social responsibility. Its work includes implementing practical programmes aimed at sustainably reducing the ecological footprint of Belfius. For example, employees are made aware of the issues surrounding the restriction of waste, water and energy consumption, the contribution of local (organic) food providers and fairtrade products, as well as campaigns to encourage the use of bicycles for getting to and from work, collecting clothes for the poor and homeless in Brussels in conjunction with the "Solidarité Grands Froids" organisation.

4. Reporting

For the 2017 annual report, Belfius decided to make an additional investment in a substantial report dealing with corporate social responsibility. This report systematically examines the direct and indirect impact Belfius has in operating its business.

As a platform for the report, an internal materiality analysis was conducted, based on a consultation with stakeholders and gauged against the "material" (i.e. the most relevant and essential to be dealt with) topics in the banking and insurance sector, according to the ratings agencies and sector organisations.

5. Compliance with reporting standards

"GRI Standards", an internationally recognised reporting standard for non-financial reporting, was used as a guide through this process. This report has been prepared in accordance with the GRI Standards: Core option.

This report also aims to comply with the requirements of the Belgian Act on the disclosure of non-financial information and information regarding diversity and hence also with the requirements of the similarly named European Directive 2014/95/E.

6. Commitments through membership and partnership

Belfius is a member of and has a representative in the highest policy-making bodies of various financial and business federations, such as Febelfin (Belgian Federation for the Financial sector), Assuralia (Belgian trade association of (re)insurance companies), BVK (Credit Trade Association), BLV (Belgian Leasing Association), BVB (Belgian Association of Banks and Stockbrokers) and B-Hive, an innovative European collaborative platform of banks, insurance companies, governments and fintechs.

Belfius is also a member of The Shift, the Belgian reference network for sustainable development[1]. The Shift brings companies, NGOs and other organisations together to encourage partnerships and hence bring about the transition to a more sustainable society and economy. Belfius has been part of The Shift's change lab on renewal energy and underwrites the Belgian SDG Charter for international development , a federal ministerial initiative in conjunction with this network. The charter is part of the Sustainable Development Goals of the UN, dealing with the role of citizens and the private and public sector in international development cooperation.

Belfius is also a subscriber to the Green Deal Purchasing Circular , a Flemish ministerial initiative dealing with circular[2] purchasing policies. Belfius is the only financial institution that plays the role of both purchaser and facilitator.

Finally, Belfius makes an active contribution to the Task Force Circular Economy at the level of the sector federation Febelfin. This task force was established following a ministerial appeal to the banking and insurance sector to examine its initiatives and review possible funding techniques within the circular economy.

7. Belfius received several awards in 2017

- → On 12 January 2017, for the fourth year in a row, Belfius received the **N°1 Bond Finance House of the Year** award for its strategic role in offering alternative finance solutions on the bonds market.
- → On 16 March 2017, Belfius won the "Learning & Development Award" for its internal Destination Digital e-learning programme.
- → On 18 May 2017, Belfius was presented with the **BeCommerce Award** in the Mobile category from online traders. This is the award for the commercial website with the best mobile interface.
- → On 22 November 2017, Belfius won the **Trends Digital Pioneer Award 2017** in the category for Customer Happiness for its efforts and performance in mobile banking and more specifically for assisting its customers with advice and help via its app.
- → On 20 December 2017, at the European Contact Centre and Customer Service Awards, Belfius Connect won **an award in the category for Most Effective Self-Services Initiative**.
- → Belfius received the **"Mobility Week 2017"** award from the Brussels Region for the dynamic of its awareness campaigns in 2017, as well as for its role as a pioneer in sustainable internal mobility over the past 10 years.

(1) Belgian SDG Charter: http://tiny.cc/SDGcharter
(2) Green Deal Circulair Aankopen: http://tiny.cc/GreenDeal

MATERIALITY ANALYSIS AND DIALOGUE WITH STAKEHOLDERS

1. Materiality analysis

Prior to the CSR report, Belfius conducted a materiality analysis in 2017 to determine which topics should be considered as "material" (i.e. most relevant for Belfius in this context) and hence definitely have to be dealt with in the report. The analysis was conducted by an external consultant.

The materiality analysis is based on a sector-specific analysis carried out by the Belgian industry federation Febelfin in 2012 ("Report about corporate social responsibility of the financial sector 2012"). This report was enhanced with topics from the standard analyses for the financial sector by Sustainalytics (European "sustainability" ratings agency) and SASB (American "sustainability" ratings agency), as well as with topics that emerged as priorities from a survey conducted among the members of the mixed Union Commission for Corporate Social Responsibility within Belfius.

The impact of the topics selected on Belfius itself were determined via internal interviews and a questionnaire completed by representatives from the following departments:

- Corporate departments: Accounting, Customer Data Analytics, Human Resources, Procurement, Risk Management, General Secretary, Tax, Compliance, Customer Care-Complaints Management, Facility Management, CSR Communications.
- Business departments: Retail & Commercial Banking, Public, Social & Corporate Banking, Insurance, Lease, Belfius Investment Partners, Wealth Management.

The results were presented in a materiality matrix to highlight the topics, in addition to those that have a strategic impact for Belfius, which need to be focused on in the reporting process. In addition, the results were also used to define opportunities for improvement and action plans for the future.

This materiality exercise produced a list of topics that are covered extensively in this report and, if not, which merit the appropriate focus in the future. This analysis may be refined further by direct consultation with external stakeholders and will serve as the base for the Belfius CSR policy.

Results of Materiality Analysis

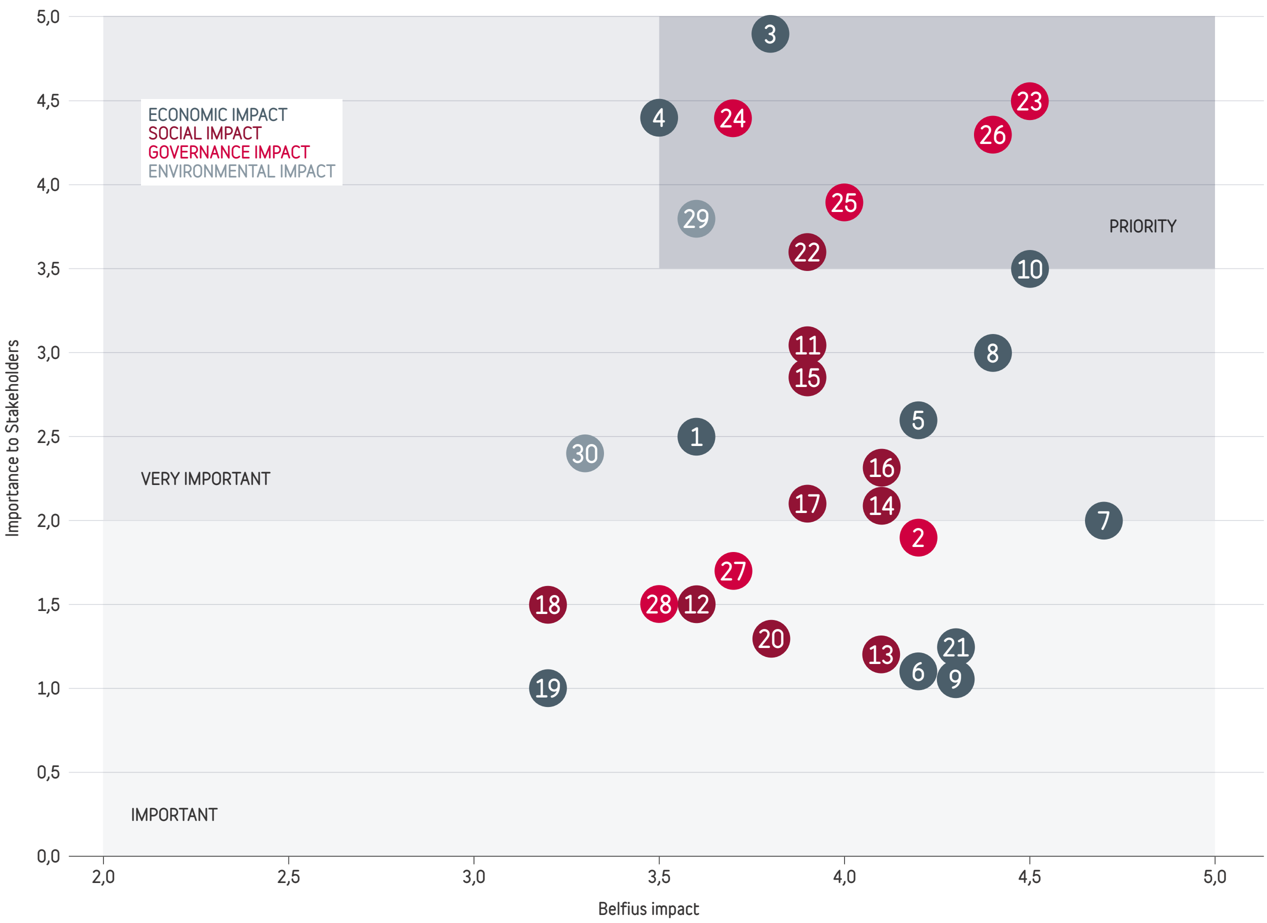
PRIORITY	
3	Products and services with environmental and social benefits
23	Ethics, compliance and integrity
4	Sustainable and responsible investing and lending
26	Fighting corruption, bribery and fraud
29	Restricting indirect impact on the environment and climate (Impact via products and services)
25	Fiscal transparency
24	Transparent policy on remuneration and compensation
22	Financial inclusion, access to banking services for everyone
10	Long-term financial stability
2	Information and IT platform security(1)
6	Digitisation and innovation of products and services(1)
7	Client satisfaction, service quality(1)
9	Reinvesting savings in the real and local economy(1)
13	Employee health, safety and wellbeing at work(1)

VERY IMPORTANT	
1	Comprehensive risk management, including environmental and social risks
8	Transparency to customers: clear and fair communication about products and services
5	Customer privacy and data security
11	Employment conditions of work and social protection
14	Talent development and training in the workplace
15	Diversity and equal opportunities
16	Attracting and retaining talent
17	Employee involvement and commitment
30	Controlling and mitigating the company's direct environmental impact

IMPORTANT	
12	Social dialogue and stakeholder relations
18	Financial literacy
19	Corporate philanthropy
21	Respect for human rights in the workplace and in business relations
27	Responsible, green procurement policy
28	Joining in the public debate on responsible banking, investment and insurance
20	Social commitment(1)

(1) Strategic importance for Belfius.

Materiality Matrix



The topics that were defined as "priority" or "very important" also contribute to the following 8 out of the total of 17 Sustainable Development Goals (SDGs), which is the sustainable agenda until 2030 of the United Nations:

2. Dialogue with stakeholders

To keep itself aware of the needs and expectations of all its stakeholders, Belfius enters into dialogue with them in a systematic, targeted manner. The most important topics covered during this dialogue give Belfius a good view of the expectations and concerns of its stakeholders.

Stakeholder	How do we enter into dialogue?	Main topics of conversation with the stakeholder	Link with material topic from the analysis
Customers	• Via an extensive network of 992 local branches, relationship managers, business bankers, public & social bankers, corporate bankers, private bankers and wealth managers, and via websites, digital channels and Belfius Connect, a direct advice channel that can be accessed both after office hours and on Saturday by telephone, e-mail or chat) • Via an ongoing series of customer satisfaction surveys • Via an annual satisfaction report on belfius.com that also alludes to the added value provided by Belfius for customers and for the community • Through an ongoing management process of suggestions and complaints from customers, integrated into branch applications and with central handling and analysis	• Suggestions and complaints from customers • Sustainable responsible investing • Product transparency • Access to financial services	• Financial inclusion, access to banking services for everyone • Digitisation and innovation of products and services • Customer satisfaction, service quality • Transparency to customers: clear and fair communication about products and services
Employees	• Via an annual assessment of each employee (setting targets, half-yearly and final assessment interview) and an annual questionnaire about employee satisfaction and commitment • Via live information sessions and webinars conducted by senior management, with Q&A • Via the intranet and by organising internal seminars • Via representation in corporate bodies, a network of union representatives, and via a network for psychosocial help from persons of trust and the prevention adviser	• Fair, competitive remuneration • Coaching and career guidance • Training and education • Pleasant, healthy working conditions: new way of organising work to create a more current and open corporate culture • Physical and mental health of employees • Transparency about strategy, policy and results. • CLA on Talent Development as part of the strategy 2020	• Conditions of work and social protection • Talent development and training in the workplace • Employee health, safety and wellbeing in the workplace • Employee involvement and commitment • Diversity and equal opportunities
The community	• Via studies about the public and social sector • Via daily contacts by the public and social bankers with public and social organisations • By creating an ecosystem of government departments, companies and social organisations about specific major social challenges • Via the annual presentation of the "Smart Awards", recognising sustainable projects by governments, companies ans social educational organisations	• Financial health of local authorities • Ageing population • Credit terms • Policy on sustainability • Climate change, the environment, energy • Circular economy • Mobility • Urban development • Health and prevention (safety)	• Reinvesting savings deposits in the real and local economy • Financial inclusion, access to banking services for everyone • Products and services with environmental and social benefits • Indirect impact on the environment and climate (Impact via products and services)

Stakeholder	How do we enter into dialogue?	Main topics of conversation with the stakeholder	Link with material topic from the analysis
Shareholder	• Via periodic consultation and daily operational contacts with the Federal Holding and Investment Company (FPIM or Federale Participatie- en Investeringsmaatschappij).	• Transparency about the company's performance and results • Ad hoc information for answering external questions provided quickly and properly. • Preparation for the (potential) flotation of Belfius on the stock exchange • Risk management	• Long-term financial stability • Fiscal transparency
Sector federations, employer organisations and unions	• Via membership and representation in the management of financial and business federations (Febelfin, Assuralia, BVK, BLV, BVB, BEAMA), employer organisations (Unizo, Voka, VBO), cooperation platforms for innovation, technology (B-Hive) and sustainable development (The Shift) • Via company bodies and the subcommittees linked to them	• Sharing knowledge with sector federations • Putting social responsibility into practice • CLA on Talent Development as part of the strategy 2020 • New way of organising work to create a more current and open corporate culture	• Social dialogue and stakeholder relations • Conditions of work and social protection • Respect for human rights in the workplace and in business relations • Employee health, safety and wellbeing in the workplace • Digitisation and innovation of products and services • Joining in the public debate on responsible banking
Governments and regulators	• Via collaboration in ministerial consultation initiatives on a federal and regional level • The systematic follow-up of regulatory initiatives that have an impact on the financial sector and by responding to public consultations • Via strict compliance with reporting and communication obligations • Via periodic consultation with the regulators and particularly the NBB and FSMA	• Compliance with regulations and statutory obligations • Proper financial reporting. • Green purchasing policy	• Ethics, compliance and integrity • Fighting corruption, bribery and fraud • Long-term financial stability • Comprehensive risk management, including environmental and social risks. • Fiscal transparency • Responsible, green procurement policy
Ratings agencies, analysts, (financial) press, sustainability ratings agencies	• Via press conferences about the bank's results, with associated investor calls • Day-to-day questions and answers via the bank's press spokesperson	• Transparency about how business is conducted, proper financial and non-financial communication	• Long-term financial stability • Fiscal transparency • Transparent policy on remuneration and compensation
Social and civil society organisations, NGOs,	• Via dialogue with various organisations and NGOs and cooperation with surveys (Bankwijzer -Fair Finance Guide, Test-Aankoop/Test-Achats) and assessments (Sustainalytics, Vigeo)	• Communication about corporate social responsibility, ambitions and commitment of Belfius • Exclusion criteria in credit policy and asset management • Ban on food speculation and the related policy	• Mitigating company's direct environmental impact • Indirect impact on the environment and climate (impact via products and services) • Reinvesting savings deposits in the real and local economy • Diversity and equal opportunities • Topics 1, 3, 4, 11, 20, 21, 22, 24, 25, 26, 27, 28,

THE SOCIAL IMPACT OF BELFIUS' ACTIVITIES

1. Social impact of Belfius' business activities

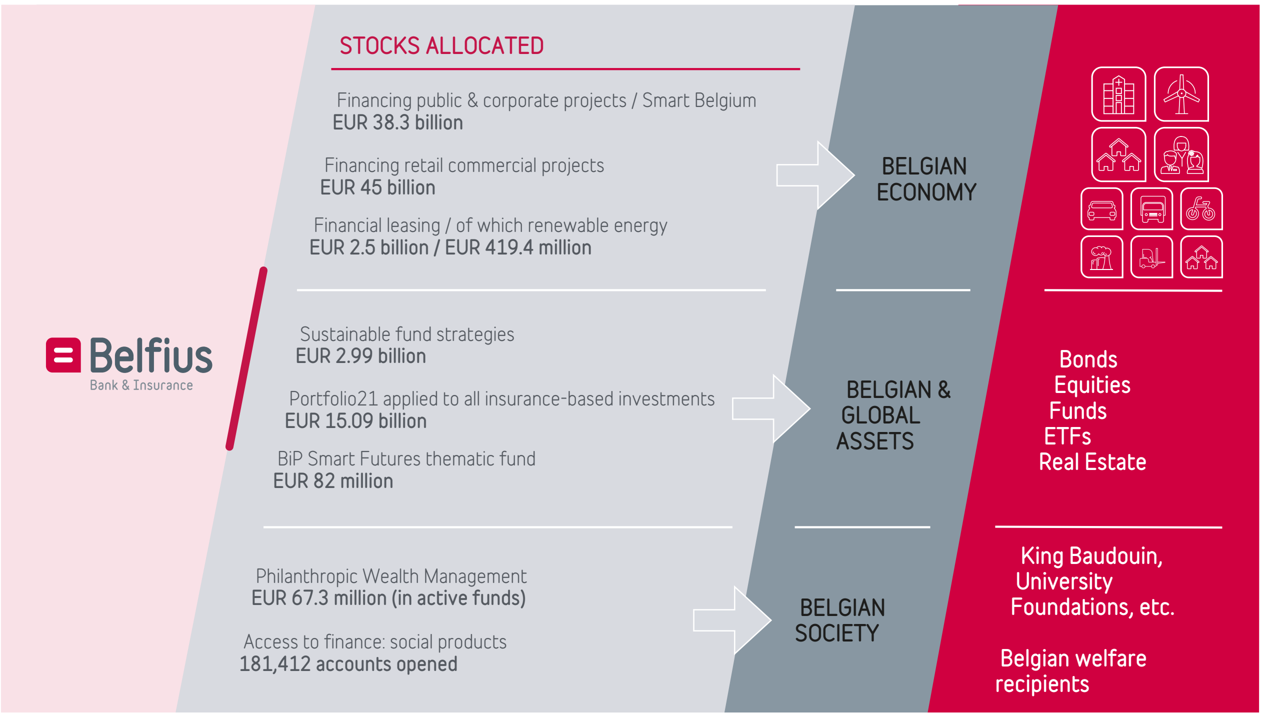
In addition to supporting projects that have a social aim, particularly through various partnerships and via the Belfius Foundation, Belfius also seeks to have a positive impact on society via a whole range of business activities. Wherever applicable at the very least, Belfius makes every effort to avoid or reduce any possibly undesirable effects that its products and services may have on people, the environment and the community.

Expectations in the area of responsible and transparent banking are becoming greater from a range of difference perspectives:

- A number of noteworthy national, European and international legislative or advisory initiatives, already in place or in the final consultation phase, share the same focus in the main:
  The recent Belgian Act on the disclosure of non-financial information and information relating to diversity (in line with European Directive 2014/95/EU of the same name), the recommendations of the EU High-Level Expert Group on Sustainable Finance (HLEG) and the Task Force on Climate-related Financial Disclosures (TCFD), on behalf of the Financial Stability Board (in the context of the G20) and, finally, the Sustainable Development Goals (SDG) of the United Nations.
- Climate warming, renewable energy, electric mobility, diesel emissions, fiscal transparency, etc. are all topics about which public awareness has grown and about which there is lively social debate in large parts of the world.
- The "Circular Economy" is a relatively new economic concept in which the federal and regional governments believe strongly. To bring the circular economy about, these governments are relying on the cooperation and commitment of the banking sector, in particular for the development of specific financing instruments that are designed to make financing business as smooth as it is in the linear economy.
- As far as Belfius itself is concerned, various stakeholders – including customers, each from their own viewpoints and concerns – again asked more questions and expressed their specific expectations in 2017 about the sustainable nature of our products and services.

Against the background of this rapidly changing reality, Belfius fully accepts its responsibility and makes every attempt to live up to the heightened expectations of customers, partners, shareholders and other social players in terms of its own strategy and specific position on the Belgian market.

The way in which Belfius aims to have a positive impact on Belgian society through its individual business activities



2. Social impact via "Smart Belgium"

2.1. Smart Belgium as an ecosystem

Belfius is making every effort to progress down the road towards a "Smart Belgium" in the public and corporate markets. "Smart Belgium" is from now on operating in the innovative form of an "ecosystem" and acting as a strategic framework for these segments of customers.

2.1.1. From conventional financing to Smart Belgium

Belfius has long been the partner and principal finance provider of local authorities and as such, knows all about their expectations and needs – and the challenges facing them. And these challenges have never been so numerous and complex: socially (ageing population, the environment and mobility), digitally (artificial intelligence, Internet of Things, blockchain) and technologically (new waste-processing and energy-production methods, e-care solutions).

Given its historical role in providing funding, Belfius makes the ideal and even logical partner for helping public authorities to deal with these challenges. And Belfius is doing it under the name of "Smart Belgium".

2.1.2. Cross-fertilisation

Through Smart Belgium, Belfius offers a forum for aligning supply and demand, along with smart ideas from local government, the social sector, small businesses and large companies with one another. Based on an ecosystem – in this instance an extensive network of public bodies and businesses – Belfius provides an effective way of bringing companies, government departments and care and educational institutions together to make these ideas and solutions for our social challenges come to fruition. In doing so, Belfius goes a good deal further than just providing financial solutions, placing the focus on 8 areas: the environment, energy, education, mobility, health & prevention, Smart City Services, the circular economy and urban development.

2.2. Belfius' commitment

The approach taken by Belfius in each of these 8 areas is the same in each case: Belfius is committed to playing an active role within this ecosystem of players, in 4 different ways:

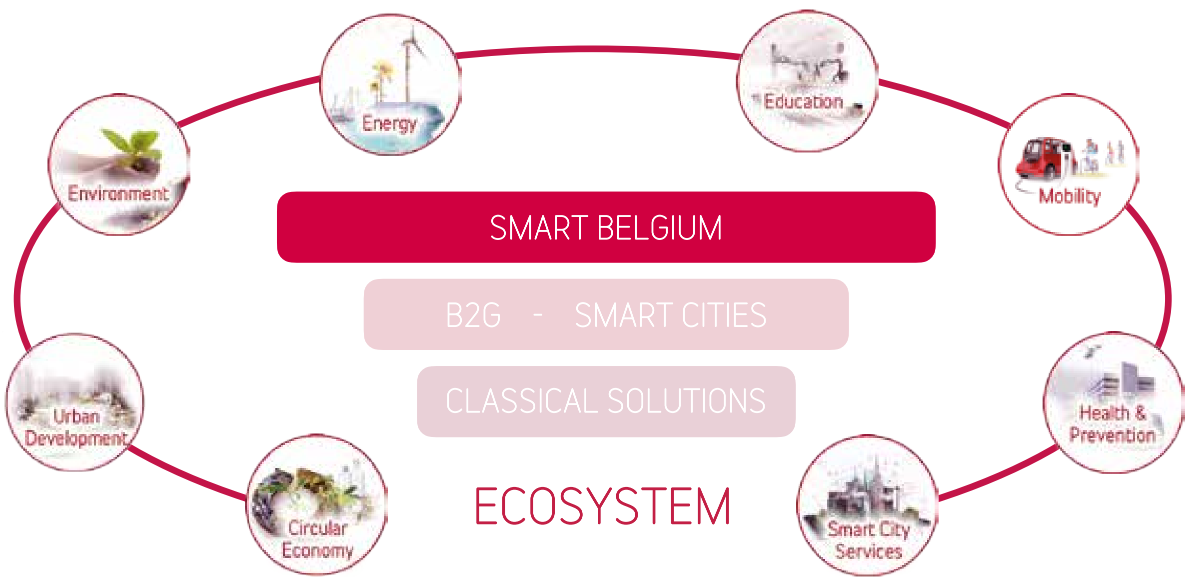
- → Bringing the parties involved together
- → Developing and/or proposing its own innovative solutions, as well as offering consulting services
- → Financing projects (including innovative finance solutions)
- → Communicating and sharing knowledge[1]

2.2.1. Belfius is committed to mobilising all "smart" actors (private citizens, the academic world, companies, smart managers, experts) via partnerships with parties such as:

- → Vlerick Institute: provides scientific support for the ecosystem approach and highlights the social players who can contribute to and benefit from the system.
- → Smart City Institute: is a university institution that is part of HEC ULiège, dedicated to researching sustainable and smart cities, particularly from a management point of view. The Smart City Institute was established via a partnership between the university HEC ULiège, for private partners (including Belfius) and the Walloon Region. [2]
- → Smart Cities Chair 2.0 – VUB-SMIT: is a university chair established by the Vrije Universiteit Brussel and imec-SMIT (Studies in Media Innovation and Technology) aimed at achieving greater knowledge-sharing between experts, public and private stakeholders (Smart City managers, companies, etc.) about how to involve people and how to deal with data, while at the same time respecting privacy. The chair also examines enthralling "use cases" that have a practical social and economic impact on society.

(1) Information is provided about various projects via Smart Belgium Magazine (*http://tiny.cc/SmartBelgiumMagazine*), the Smart Belgium website (*https://smartbelgium.belfius.be/*) and via the @Smart_Belgium Twitter account.
(2) In February 2017, the Smart City Institute published the survey "Will the future of our local areas be defined by the 'smart city attitude'?", a barometer of Belgian cities and municipalities (*http://tiny.cc/SmartCityAttitude*).

Smart Belgium focuses on 8 social challenges



- Vlaanderen Circulair: in June 2017, Belfius signed up to the "Green Deal Circular Purchasing", a call for collaboration made by the Flemish Government to speed up the implementation of circular purchasing in Flanders as a way of contributing to the establishment of a circular economy. By increasing demand for circular products, the market is encouraged to bring more circular solutions to the market.

Belfius is the only bank to take on the dual role of both purchaser and facilitator:

- Purchasers at Belfius have committed to setting up two circular purchasing projects and to complete them between June 2017 and June 2019.
- As a facilitator, Belfius submitted a project with the company Eco-Oh at the end of 2017 offering (in conjunction with Belfius Lease) a hire or lease system for public benches, made from recycled plastic, to a number of local authorities (Mechelen, Tervuren and others).

2.2.2. Belfius also proposes innovative solutions itself and offers consulting services:

- With its Smart Belgium Services, Belfius established its own subsidiary in 2017 in conjunction with Strategy& (part of PwC). The aim is to assist and guide local authorities and businesses in the Smart Belgium ecosystem and to make it easier to co-create sustainable, innovative solutions. The first mission of Smart Belgium Services is to provide strategic advice to bodies such as towns and municipalities, telecom providers and energy suppliers in order to define a Smart strategy and outline a practical action plan. This plan is made up of 4 steps:
  - Smart City Scan: mobilize local stakeholders and give a clear overview of the current situation and the customer's level of ambition
  - A Smart strategy is defined: defining the vision and priority main lines, developing "use cases", setting up pilot projects to test the feasibility of the proposed services, establishing viable commercial models and outlining a process to follow
  - Implementing customised projects: creating prototypes to test solutions on a small scale
  - Implementing the strategy through projects

  The second mission is to build a "Smart Belgium" ecosystem involving all of the players in the development of "Smart Cities" in Belgium: governments, companies, the academic world and private citizens.
- The Studio, a 100% subsidiary and Belfius's digital lab, was founded in 2016. It develops and exports the digital know-how of Belfius. Technology applications are marketed under their own business name:
  - Spencr: a mobile banking platform based on Belfius Direct Mobile, making it possible to offer businesses a mobile banking service.
  - BrightKnight: a "Robotic Process Automation" application that automates certain repetitive administrative tasks.
- In November 2017, Belfius signed an agreement with start-up and scale-up accelerator The Birdhouse through which, from 2018, Belfius will invest significantly in The Birdhouse's start-up programme.

  This support from Belfius consists of granting loans at advantageous rates to the most promising start-ups. In all, there will be a total of 10 million EUR of investment capital available for those start-ups that emerge best from The Birdhouse programme.

  Belfius will also provide financial support to the day-to-day operation of The Birdhouse for the coming 3 years, taking a minority holding in the company behind the accelerator.

  The Birdhouse began its first programme for start-ups in the summer of 2016 and thus far has provided support and guidance to 37 projects selected from 1,250 registered applications, 90% of which have come from Belgian start-ups.
- In Wallonia, Belfius invests in the W.IN.G (Wallonia Innovation and Growth) fund, which in turn invests in innovative digital Walloon start-ups. W.IN.G has been operating for 2 years and during this time the fund has invested in around fifty promising start-ups.
- Through the Olympus app, Belfius Auto Lease gives companies the opportunity to offer their staff a multimodal mobility solution, covering all mobility services, such as public transport, cars and bicycles – all centralised in a single application.

2.2.3. Belfius finances innovative energy-saving projects through specific techniques and programmes:

The **Belfius Energy Efficiency Package** (abbreviated to BEEP) is a good example of what Belfius wants to achieve for the local community through Smart Belgium. Belfius aims to use BEEP to encourage companies, public institutions and social profit organisations to expand their investment in energy efficiency and renewable energy. The bank-insurer also extends the offer to ESCOs, which are energy services companies implementing turnkey energy projects for third parties (companies as well as public institutions) that do not have the resources and expertise themselves to carry out projects of this kind.

Belfius is the only Belgian bank to have an exclusive collaborative arrangement with the European Investment Bank (EIB) as part of the European PF4EE (Private Finance for Energy Efficiency) programme, developing a unique packages with the EIB (reduce their energy needs, switch to alternative energy sources or generate their own energy):

- Finance on favourable terms
- Flexible provision of credit through the EIB's portfolio guarantee
- Partial repayment of the costs for a prior energy audit.

Vendor Leasing is an excellent instrument used by Belfius Lease, the Belfius finance leasing subsidiary, providing solutions for companies based on the principle of the circular economy. Vendor leasing is a lease-based financing technique that enables Belfius customers (manufacturers, importer or distributors of machinery, etc.) to offer their own customers an instalment payment solution, often based on the principle of "pay-as-a-service" or "pay-per-use".

Smart Cities, Climate Action & Circular Economy: after an initial collaborative agreement in 2014 (Smart Cities & Sustainable Development), in which loans of EUR 400 million were released at advantageous rates (EUR 200 million of which provided by Belfius) for 62 local projects on energy-efficiency, urban development and mobility, in 2016 Belfius and the European Investment Bank (EIB) renewed their collaborative agreement with the Smart Cities, Climate Action & Circular Economy programme.

This new agreement is for an additional low-rate line of credit of EUR 400 million , with Belfius again providing EUR 200 million . The money is to be used to finance smart, sustainable projects created by local authorities and intermunicipal companies, only this time funds will also be available for non-profit organisations in education and healthcare.

The programme also now goes beyond energy-efficiency, mobility and inner-city development to include water (distribution network, sewers and drains, runoff, water treatment), waste (selective collection, sorting, biological treatment and sludge treatment, energy production) and e-government (including Open Data). In analysing and assessing projects, specific attention is paid to their added value for the circular economy and climate protection.

Total number and total project amount of projects funded in the EIB's Smart Cities & Sustainable Development (Smart 1.0) and Smart Cities, Climate Action & Circular Economy (Smart 2.0) programmes.

	Total at 31/12/2016 - Smart 1.0	Total at 31/12/2017 - Smart 2.0
Total project amount in EUR	481,450,589[(1)]	518,166,920[(2)]
NUMBER OF PROJECTS	62	76

(1) of which EIB line of credit for EUR 200,943,052
(2) of which EIB line of credit for EUR 250,190,948 (including part of Smart 3.0 line of credit). The remaining part of the project amounts funded via long-term loans by Belfius, advances on subsidies, loan amounts yet to be drawn down, short-term loans and cash loans granted by Belfius (for use of own resources).

InnovFin SME Guarantee: in 2015, Belfius became the first Belgian bank to sign an InnovFin SME Guarantee agreement with the European Investment Fund (EIF). This gives innovative SMEs and small mid-caps easier access to finance in the context of InnovFin - EU Finance for Innovators. The line of credit is supported by the European Commission as part of Horizon 2020, the EU's framework programme for Research and Development. Through the agreement, Belfius is able to lend to innovative companies or projects in Belgium until August 2018 with an EIF guarantee.

2.2.4. Belfius offers access to research and information, while encouraging the sharing of knowledge

Smart Belgium Awards: on 29 September 2017, Belfius launched the second edition of its Smart Belgium Awards: 233 entries were received for 5 Awards recognising the best projects by companies, start-ups, local authorities, PSACs, intermunicipal companies, schools, research bodies, care institutions, etc. providing smart ways of tackling social challenges.

The winners were announced at the Smart Belgium Event on 21 March 2018, attended by all the nominees, as well as many professionals and specialists from the academic world, business and local government.

The winners of the Smart Belgium Awards 2017:

1. Smart City Award < 30,000 inhabitants: The borough of Bonheiden (When children encourage their parents to leave their car in the garage)
2. Smart City Award ≥ 30,000 inhabitants: The intermunicipal company Hennuyère IDEA (Solar energy and geothermal heat to dry out sludge from water treatment stations)
3. Smart Company Award < EUR 10 million turnover: BeeOdiversity (Bees transformed into drones to protect nature)
4. Smart Company Award ≥ EUR 10 million turnover: Glutton Cleaning Machines (An electric sweeper that vacuums so that towns and cities can breathe easy)
5. Smart Care Award: Mariasteen (An intelligent projection system that enables disabled individuals to develop in their job)

+ the Audience Prize:
Mariënstede (A unique cash-box that enables disabled individuals to work totally independently)

Newsletters: Belfius keeps professionals and other interested parties informed through four periodic electronic publications: Belfius Contact (for the public and the social profit sector), studies by Belfius (financial analysis of parties involved in the public and social sector), a Corporate newsletter and B2Gnews.

Studies by Belfius Research: Belfius has built up a long-established tradition of in-depth study work. Belfius Research researches local finances and analyses social profit and socioeconomic challenges.

Belfius is pleased to share these studies with the target groups in question:

- For over 20 years Belfius has been publishing a sector analysis of general hospitals in Belgium: MAHA study 2017 (*http://tiny.cc/MAHAfr*).
- Belfius conducts an annual general analysis of the finances of local authorities (municipalities, PSACs, police zones, assistance areas, etc.), for each region: Study of local finances – Budget 2017 (*https://www.belfius.be/publicsocial/NL/Expertise/Studies/LokaleFinancien/LocalFinance/index.aspx*).
- Belfius Research regularly published theme-based analyses on specific and topical subjects such as the impact of the ageing population on government finances (June 2017) (*https://www.belfius.be/common/nl/multimedia/mmdownloadablefile/public-social/expertise/themaanalyses/ta_vergrijzing_2017.pdf*).

3. Sustainable and responsible investing

3.1. Higher customer expectations

Savers or investors choose their investment product mainly based on its possible yield and term. This is combined with the extent to which their capital and possible profit are guaranteed. With this in mind, Belfius always defines the investor portrait in advance.

Today, however, increasing numbers of investors want to have a better view of what their money is being used for. To find out about the broader impact of their investments, personal, corporate and institutional investors and other stakeholders are asking questions about non-financial criteria in the make-up of their portfolio. These questions relate in particular to the environment, social issues (such as working conditions, human rights) and sound governance: to sum up, criteria about corporate social responsibility or "ESG criteria".

What does ESG stand for?

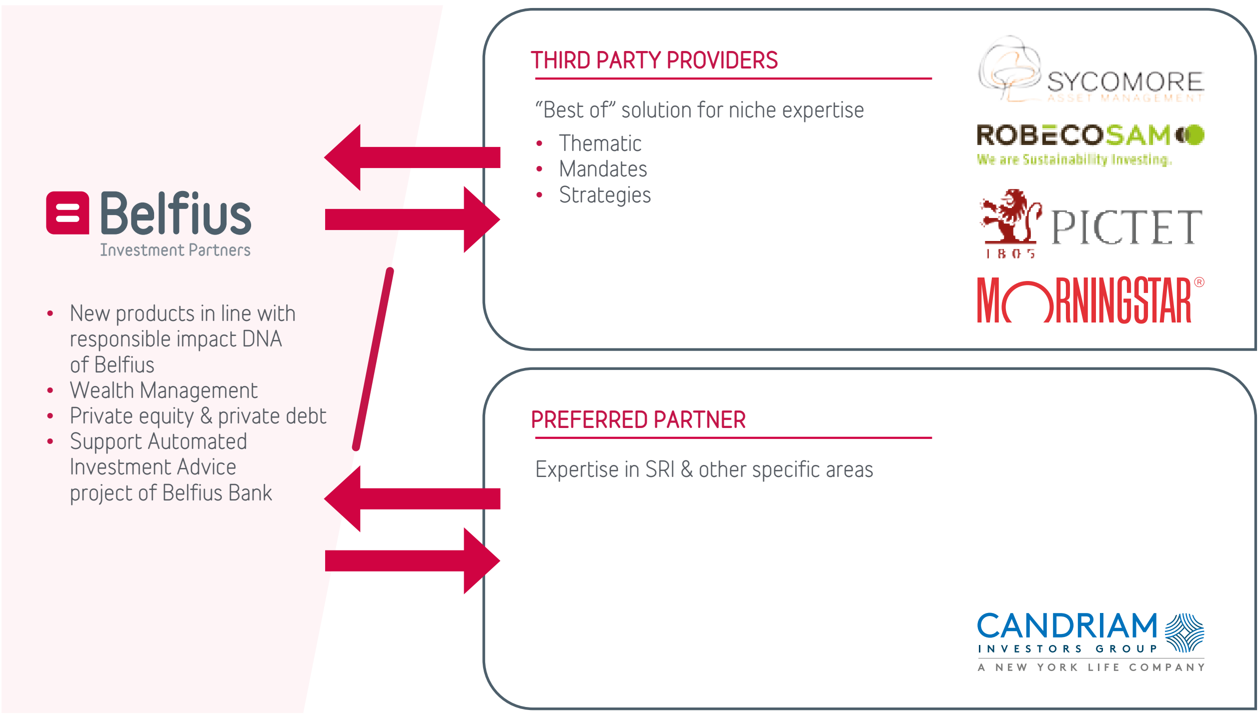
- **Ecological criteria** measure how well a company cares for the environment and its surroundings (consumption of energy, animal welfare, etc.).
- **Social criteria** measure how a company deals with its employees, suppliers and customers, and with society (working conditions, child labour, etc.).
- **Governance criteria** measure a company's policy (transparency of the accounts, conflicts of interest, etc.).

In other words, investors want the way their investments are managed to fit in with their own personal beliefs about sustainable development, as well as their corporate values or their social vision. They are also relying on Belfius to keep them informed about these issues, to advise them and provide them with the guarantees they expect with regard to the destination and use made of their savings, investments or liquid assets.

3.2. Fund management by BIP and Candriam

Since 2016, with Belfius IP (Belfius Investment Partners NV), Belfius has had its own subsidiary for the management and administration of investment funds. In 2016, Belfius IP launched its own range of funds in order to further expand the investment offering for Belfius customers, in line with its DNA and strategic themes. Belfius IP also took over the financial and administrative management of a number of funds from Candriam in 2016.

In 2017, the Belfius offering was again extended with a sustainable theme-based fund (Belfius Multi Manager Smart Future (see below)). This created a thematic link between Smart Belgium and Smart Future.



As a consequence, Belfius IP has a dual role:

- the full management of its own funds, sometimes in collaboration with Candriam or other partners;
- the financial management of a number of funds taken over from Candriam. Belfius IP continues to use Candriam for its investment management, reporting and customer follow-up.

As of 31 December 2017, Belfius IP managed a total of EUR 17.7 billion for Belfius customers.

Candriam Asset Management has for many years been the preferred provider of investment funds for Belfius, as well as acting as Belfius's preferred external partner in that area. Candriam launched its first "SRI funds" in 1996, making it a pioneer in sustainable investment funds. Candriam is one of Europe's leading providers in this sector and in 2017 strengthened its SRI team further with the particular aim of engaging in dialogue more frequently with companies on ESG issues.

Candriam manages a total of EUR 45 billion for Belfius customers, of which EUR 16.1 billion is on behalf of Belfius IP.

3.3. Sustainable investing at Belfius

Belfius aims to meet customer expectations in terms of sustainable investing and strengthened its policy in this area in the autumn of 2017. A fully-fledged, transparent and segmented offering of sustainable investing was launched by Belfius, backed by an information campaign entitled "Sustainable Investing at Belfius" and involving various methods of sustainable management, depending on the type of investment[(1)].

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- Belfius customers who invest in a savings account, term account or savings bond know that their money flows back into the local community in the form of loans to the local economy, local authorities, schools, retirement homes, hospitals and cultural centres[(2)].
- For investment funds and investment insurance, various levels of screening and specific strategies for sustainable investing are applied, some in collaboration with external partners.

The approach taken to sustainable investing by Belfius, its subsidiaries (Belfius Insurance and Belfius IP) and external partner Candriam ranges from basic screening for exclusions required under the law, to thematic funds and a "Best-in-class" approach. The latter means that some shares or bonds in companies or countries that score well on environmental aspects, social issues or good governance – or ideally a combination of the three – may be included in the portfolio, while others are not.

1. **Basic screening: legal exclusion criteria**

2. **Strategies for sustainable investing:**
   - Extensive screening:
     - Exclusion of certain sectors on account of Belfius policy guidelines
     - Exclusion of certain sectors, of controversial activities and standards-based exclusion by Candriam
     - Exclusion of certain companies and countries based on Portfolio21
   - Best-in-class approach by Candriam
   - Thematic approach by Belfius Investment Partners (Belfius IP)

3.3.1. Basic screening: legal exclusion criteria

Investments in controversial weapons are forbidden by the Belgian Mahoux Act, dating from 2007. Companies involved in similar business areas are excluded from all investment products. The application of this legislation within Belfius is detailed in the "Belfius policy on weapons" (*http://tiny.cc/Armes*).

The total amount invested by funds at Belfius that is subject to the statutory exclusion criteria is EUR 19.78 billion, an increase of 21.86% since 2015.

3.3.2. Strategies for sustainable investing

Belfius goes beyond the requirements of the law and uses various strategies for the management of its investment funds and insurance, applying various levels of exclusion criteria. Three increasing fine filters are used for sustainable investing:

3.3.2.1. Extensive screening

- Belfius uses a number of its own policy guidelines for the defence industry and in relation to agricultural commodities[(3)].
  - Exclusion of the defence industry (via Portfolio21)
  - Policy on agricultural commodities
- In the composition of a number of investment funds in the Belfius offering, Candriam Asset Management, Belfius's preferred external partner for the management of investment funds, uses a list of specific sectors and controversial activities[(4)] that are excluded from the portfolio.
  Certain countries with oppressive regimes are also excluded, prompted by the United Nations Global Compact (UNGC), which is the leading international standard for corporate social responsibility. This relates to 7 subfunds in the Candriam Equities L fund and the thematic Belfius Equities Robotics & Innovative Technology fund[(4)].

(1) More information at *https://smartinvesting.belfius.be/fr*
(2) Have a look at a close-up on our achievements: *http://tiny.cc/Realisations*.
(3) For more information about Belfius policy guidelines: Exclusion of the defence industry (via Portfolio21): *http://tiny.cc/DefenceFR*. Policy on agricultural commodities: *https://www.belfius.com/FR/engagement-societal/nouvelle-culture-bancaire/responsabilite-societale/index.aspx*
(4) For more information details about Candriam's policy on controversial activities : *http://tiny.cc/CandriamESGfr*.

→ Exclusion criteria through Portfolio21:
Belfius Insurance invests its reserves in line with Portfolio21, an overall investment strategy with strict exclusion criteria. Portfolio21 also applies to Branch 21 investment insurance in the Belfius range.
Portfolio21 seeks to contribute towards sustainable development by adding non-financial criteria transparently to the management process of investment portfolios. Portfolio21 criteria are based on the following two principles:
- Human rights in the workplace: the ILO (International Labour Organisation)
The focus here lies on the fight against child labour and forced labour, basic rights on the workfloor, encouraging the freedom of association and non-discrimination, as defined in the **ILO's eight basic conventions**. Countries and companies that have not signed the conventions listed below are immediately excluded.

The ILO's 8 basic conventions

- Forced Labour Convention, 1930
- Freedom of Association and Protection of the Right to Organise Convention, 1948
- Right to Organise and Collective Bargaining Convention, 1949
- Equal Remuneration Convention, 1951
- Abolition of Forced Labour Convention, 1957
- Discrimination (Employment and Occupation) Convention, 1958
- Minimum Age Convention, 1973
- Worst Forms of Child Labour Convention, 1999

- Environment and climate change: the Norwegian Pension Fund
The Norwegian Pension Fund is the largest sovereign fund in the world. The fund adheres to strict rules on ethics, including in relation to environmental standards. If the pension fund excludes a company from its investments on account of a major environmental impact the company has had, Belfius Insurance also excludes the same company from its investments. In terms of environmental standards, the pension fund analyses the severity of the environmental damage, whether or not it is reversible and its long-term effects on human health. The fund also investigates to see whether the company has breached legislation or standards, whether it took preventative measures and, if not, whether or not it is committed to doing so in the future. The seriousness of the damage and the causal link with the company's activity are assessed on a case-by-case basis.
From a tangible point of view, it refers to the loss of species and space (biodiversity), climate change, large concentrations of toxic substances and radioactive matter, water and soil pollution.
The Norwegian Pension Fund takes account of **six international conventions** (see table below) on pollution, hazardous waste, protecting biodiversity, the ozone layer and natural heritage.
Since 2015, companies have also been excluded that derive more than 30% of their revenue from coal-powered energy production.

- The UN Treaty on Biological Diversity (1992),
- The UNESCO World Heritage Convention (1972),
- The Geneva Treaty on Long-Range Transboundary Air Pollution (1979),
- The UN Vienna Convention for the Protection of the Ozone Layer (1985),
- The UN Stockholm Convention on Persistent Organic Pollutants (2001),
- The EU Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (1989).

3.3.3.2. Best-in-class – investment funds

Candriam Asset Management, our preferred partner for the management of investment funds, has an extensive range of "Sustainable" funds or "SRI funds" (SRI = Sustainable & Responsible Investing). Candriam uses the "Best-in-Class" method for screening companies and selecting them (or not) when deciding on the composition of these funds:

→ Investments are made only in companies and countries with the best ESG score, in other words those which perform best in the area of sustainable development in their sector or region.
→ Only companies that adhere to the principles of the United Nations Global Compact are included in the portfolio. These principles are based along 4 main lines: human rights, labour law, the environment and the fight against corruption. Companies that breach these principles are excluded. Companies that operate in controversial sectors or activities are also excluded.
→ This approach is combined with an active dialogue with the companies, their employees, customers, suppliers and investors to ensure that ESG criteria are adhered to even more closely.

So it is all about companies that have sustainable criteria embedded in their policies and they way in which they conduct their business.

The Belfius offering, managed in line with the 'Best-in-Class' principle, includes:

- 11 "Candriam Sustainable" funds and 3 "Candriam SRI" funds, issued and managed by Candriam.
- Belfius Life Values, a Branch 23 insurance product with 5 underlying bond and share funds, managed in line with the criteria set out above.
- Belfius Select Portfolio Sustainable, a contract discretionary asset management fund that invests exclusively in companies and governments that not only score well in terms of their financial prospects, but also in the area of corporate social responsibility. Assets are selected based on ESG criteria.

3.3.3.3. Thematic funds

Belfius's own fund management company, Belfius Investment Partners launched a thematic fund in September 2017 that invests in companies that focus specifically on clearly defined social or environmental issues:

Belfius Multi Manager Smart Future is a fund of funds in euro, in which the underlying assets are invested in thematic funds, which in turn invest exclusively in companies that actively offer solutions for worldwide social and ecological challenges. This means that the fund invests indirectly in companies that are linked to ESG themes. These companies not only have a corporate social dimension, but also operate a competitive business model.

The focus here is on these 5 main themes:

- water shortages and sustainable forest management
- sustainable energy and clean technology
- food supply and quality
- security and protection of data and people
- human wellbeing.

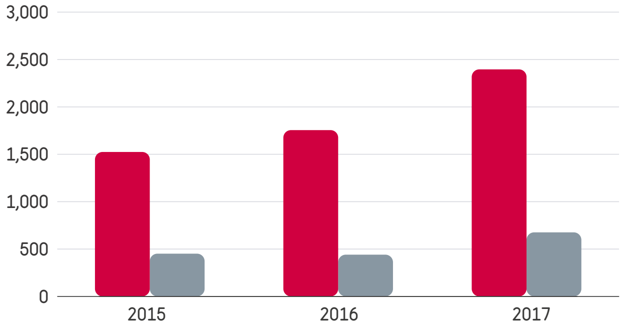
Belfius IP selects the underlying thematic funds in conjunction with outside partners, RobecoSAM, Pictet and Sycomore (human capital), in order to guarantee the sustainable nature of these funds and with the assistance of the Morningstar Sustainability Rating.

3.4. Development of sustainable managed funds

Both the total deposit of funds screened on level 2.a. (extensive) and the deposit of funds screened on levels 2.b. + 2.c. (Best-in-class + thematic) have grown over the past 2 years.

Sustainable investment strategies applied in Belfius Asset Management 2015-2017

(In millions of EUR)

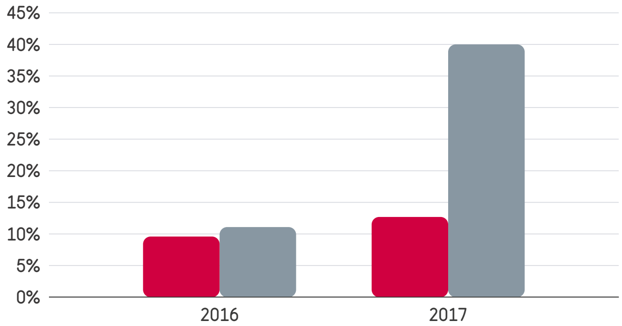


Sustainable strategy 2.a "Extended exclusions" : Weapons/Activities in oppressive regimes/Norms based or only norms based
Sustainable strategy 2.b "Best-in-class" (Candriam) + 2.c Sustainable thematics-based (Belfius)

While the total volume of managed funds rose by 12.7% in 2017, the total volume of sustainable managed funds rose by 40%. In 2016, the figures were 9.6% and 11.1% respectively.

Year-on-Year increase in Belfius sustainable investment funds vs. total assets under management (AUM) - 2016-2017

(In %)

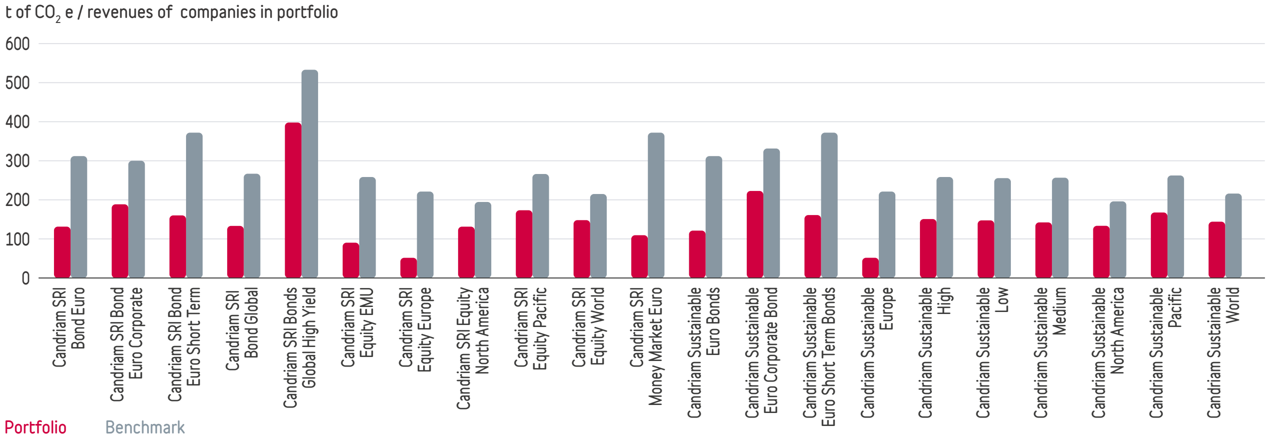


Increase in Belfius Total AUM
Increase in Sustainable Investments

3.5. Carbon footprint

Since the Paris COP21 climate conference in 2015, the issue of CO_2 or the carbon footprint has received a great deal of attention in the management of investment portfolios. Candriam has calculated and published the carbon footprint of its Best-in-class funds since the Montreal Carbon Pledge[1].

Carbon footprint intensity of Candriam Best-in-class SRI Funds marketed by Belfius in 2017[2]



Absolute carbon footprint[2]

	2015	2016	2017
Absolute carbon footprint of Candriam Best-In-Class (SRI) funds sold by Belfius (t CO_2 e)	79,432	34,592	38,813

Weighted average carbon footprint[3]

	2015		2016		2017	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Carbon footprint of the Belfius portfolio in Candriam Best-In-Class (SRI) funds (t CO_2 e /m EUR earnings of the companies included in the funds)	182,9	228,6	142,2	240,4	120,7	254,0

Source: website of Candriam, on the following pages:
www.candriam.be/en/professional/market-insights/assets-class/sri/montreal-carbon-pledge-candriam-discloses-its-carbon-footprint2/
www.candriam.com/en/professional/market-insights/assets-class/sri/montreal-carbon-pledge-candriam-discloses-its-carbon-footprint/
www.candriam.com/en/professional/market-insights/highlighted/montreal-carbon-pledgecarbon-footprint-disclosure-by-candriam/

The increased purchase volume of Candrium Best-in-Class funds by Belfius customers (+35% in 2017 compared with 2016) is the reason for the 12% rise in absolute carbon emissions (GHG protocol scopes 1 and 2) linked to the share of Belfius in the total portfolio. On the other hand, the weighted average carbon footprint (measured as the CO_2 equivalent in tons per unit of income of the companies in the portfolio) shows a steady decline over the past three years amounting to 52% in 2017 compared with 2015.

4. Credit policy as a socio-economic driver

4.1. Direct flow of funds back into the Belgian economy and community

As a 100% Belgian bank and insurance company, Belfius is the only Belgian financial institution that redirects virtually all of the deposits received from its customers back into the Belgian economy and community.

(1) For more information about the Montreal Carbon Pledge: *http://tiny.cc/MontrealEN*.
(2) Calculation of CO_2 footprint provided by Trucost to Candriam. Methodology details: *https://www.candriam.com/en/professional/market-insights/highlighted/montreal-carbonpledgecarbon-footprint-disclosure-by-candriam/carbon-footprint-method-used-bycandriam*
(3) All data is based on calculations by Trucost, on behalf of Candriam.

Total deposits received from customers amount to EUR 86 billion .

- Of that number, EUR 27.4 billion has been used for long-term financing to the public and social sector, a strand of the business that is part of the DNA of Belfius. As the market leader in these sectors, Belfius contributes to the financing of new schools, hospitals, swimming pools, cycle paths, sports centres and other forms of public infrastructure.
- EUR 23.3 billion has been used for long-term loans to locally based self-employed people, SMEs and large companies. In this way, the savings and investments of our customers help businesses to grow, creating local wellbeing and employment.
- EUR 30.6 billion has been lent in the form of housing loans, enabling Belgian families to carry out their housing and home projects.

4.2. Opting for renewable energy

In the area of investing in the energy production sector, the focus at Belfius lies on granting loans, leases and project financing for renewable energy, rather than on coal-fired and other fossil-based sources of energy. Belfius does not provide finance to any businesses related with the production or extraction of oil, coal or gas. Belfius will only finance and support fossil fuel companies in their projects to switch to and develop new, renewable energy technologies and applications.

In recent years, Belfius has again demonstrated this commitment in projects such as the refinancing of the Belwind and Northwind offshore wind-farms, as well as the further expansion of Belgium's largest onshore wind turbine facility at the port of Antwerp.

In a word, Belfius plays its economic role in the energy production sector in a nuanced but particularly forward-looking way. In doing so, Belfius aims to take responsibility in the transition process towards new, sustainable energy systems in a low-carbon society.

The way the Belfius credit portfolio in this sector is composed reflects this policy:

- As of 31 December 2017, the total amount invested by Belfius in renewable energy was EUR 1.2 billion . This investment involves project finance and loans through Belfius Bank and its subsidiary, Belfius Lease, for biomass projects, solar energy (PV installations), onshore and offshore wind energy and combined heat and power systems. These projects generate added value on two levels: together, they provide sufficient renewable energy each year to meet the power needs of approximately 1.7 million Belgian families and in doing so, they avoid the emission of some 2.3 million tons of CO_2 per year.
- At the end of 2017, out of our historical balance of outstanding loans for non-renewable energy, only EUR 3 million was still unpaid. The full amount will have been settled by 2020.
- This means that in terms of energy production, funding is 99% for renewable energy, whereas new production for financing projects is 100% for renewable energy.

4.3. Providing credit responsibly

As a member of the Professional Credit Association (UPC-BVK), Belfius subscribes to the Association's code of conduct and undertakes to assess applications for mortgages and consumer loans responsibly.

This involves preventing repayment problems and an excessive burden of debt by conducting a conscientious risk prevention policy and by anticipating possible payment arrears.

Customers with repayment difficulties are offered proactive mediation if necessary so that a solution can be reached that is achievable on both sides.

Belfius has also taken the necessary steps to apply the new SME Funding Act of 21 December 2017 in all its facets within the periods set.

4.4. Decision-making close to the customer

With the exception of applications for the public and social sector, decisions on loans are taken as close to the customer as is feasible: if possible by the account manager or credit specialist at the local branch or regional office or, if necessary, at head office. The delegation powers and decision-making criteria have been adjusted accordingly.

This method provides the best overview of all the relevant – financial and other – factors, so that a faster and more appropriate answer can be given to the credit applicant.

Local analyst checks financial parameters and transfers info to credit committee → **Regional** credit committee decides go/no-go, supported by analyst's documentation → Decision is escalated to **national** credit committee for exceptional cases

4.5. Financial and non-financial factors in the analysis

With credit to private individuals and businesses, our analysts and account managers follow the Credit Acceptance Guidelines, which requires Belfius to have sufficient knowledge of the credit applicant and for the analyst to ascertain the applicant's creditworthiness and profile beforehand, not only financially, but also in areas with an ethical or social impact. The decision to report an ethical or social risk on the part of the party applying for credit lies with the analyst.

5. Portfolio21: the sustainability label of Belfius Insurance

5.1. Sustainable investment management via Portfolio21

Portfolio21[1] is the sustainable project on investment management that Belfius Insurance has set up with Candriam and the independent screening bureau, Vigeo[2]. The project is aimed at encouraging sustainable development by also using non-financial criteria – such as respect for human rights, working conditions and damage to the environment – in a transparent manner when managing its own investment portfolio. The basic principle is also based on respecting (international) norms and standards, such as:

- the conventions of the ILO (International Labour Organisation), which are also included in the Global Compact of the United Nations. With issuers (both companies or countries) of shares or bonds that are accused of not respecting human rights in the workplace, as set out in ILO standards, a dialogue will be entered into aimed at improving the way they deal with basic employee rights. The result of this dialogue will then determine whether or not the share or bond is included or retained in the portfolio.
- the norms of the Norwegian Pension Fund: Portfolio21 does not invest in companies that cause serious damage to the environment by breaching environmental standards. As such, the recommendations of the Board of Ethics of the Norwegian Pension Fund are followed, which in turn are based on a number of international environmental conventions and the UN Global Compact.

Portfolio21 is the result of research in which Belfius Insurance, Candriam and Vigeo have pooled their specific know-how and knowledge of sustainable investment management.

5.2. Method of working

Belfius Insurance manages its investment portfolio in conjunction with Candriam Asset Management, which is responsible for the "personal data" segment and investment advisory support.

- Candriam gives Vigeo the task for each new investment of verifying whether the criteria of Portfolio21 are complied with.
- Every asset value in the investment universe (equivalent to approximately 700 names) is given a status: "Accepted", "Watch-list" of "Not accepted", depending on the question of whether the company or country meets the criteria of Portfolio21.
- Portfolio21 enables companies whose trading practices may not comply with international standards to be encouraged to move in the right direction. For this reason, Vigeo enters into dialogue each year on behalf of Belfius Insurance with 15 to 20 companies from the investment universe.
- The status of these companies is then decided on by an independent Technical Committee, which takes the outcome of the dialogue into account.

Each year, an external auditor checks to see that the Belfius Insurance portfolio meets the conditions of Portfolio21, issuing an annual certificate accordingly.

5.3. Impact on customers

The Belfius Insurance investment portfolio largely constitutes the reserves that the company retains so that it can meet its contractual obligations for paying out lump sums, annuities and claims to customers. These reserves are made up of the insurance premiums paid by customers, in both the segments for "Life insurance" and for "Non-Life insurance".

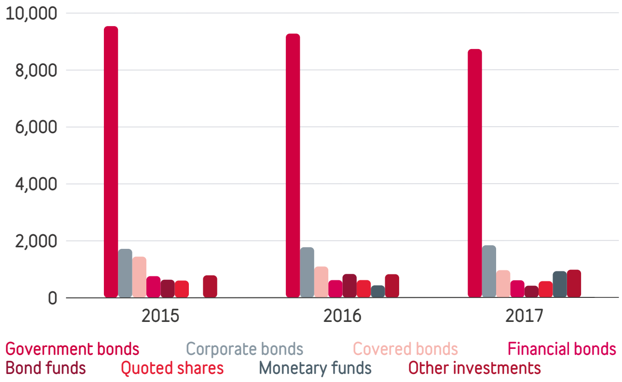
The portfolio contains various sub-portfolios based on product groups. On the one side there are all the damage insurance policies (car, fire, accident, liability, miscellaneous), while on the other hand there are pension and life insurance policies (including investment policies, with the exception of Branch 23), both in the short term and the long term. The ethical/sustainability criteria of Portfolio21 apply to the investment policy of all sub-portfolios and for all customer segments.

5.4. Portfolio with a strong Belgian flavour

As of 31 December 2017, the investment portfolio of Belfius Insurance (excluding buildings, mortgages and cash) amounted to approximately EUR 15 billion. Of that, the greatest amount (EUR 8.7 billion or 57.89%) was invested in government bonds. The part listed on the stock exchange (shares and property) represented EUR 1 billion, or 7.22% of the portfolio.

Belfius Insurance investment portfolio allocated through Portfolio21 screening

(In millions of EUR)

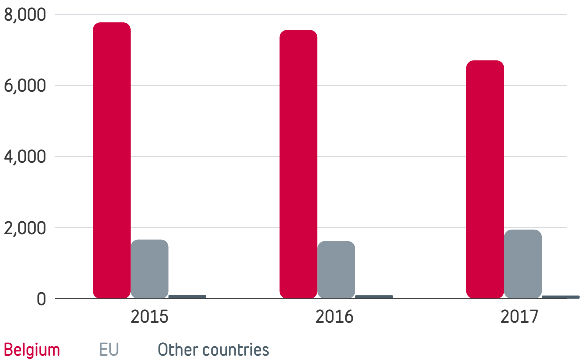


(1) *www.portfolio21.info*
(2) *http://www.vigeo.com/csr-rating-agency*

The investment portfolio has a strong Belgian flavour: out of the total in government bonds, EUR 6.7 billion , or 76.74%, is invested in Belgian government bonds. Within the class of shares listed on the stock exchange, EUR 539 million is also invested in Belgian company shares, making 49.52% of the total mainly skewed towards Belgium.

Distribution of government bonds invested through Portfolio21 screening

(In millions of EUR)



5.5. Specific insurance solutions for older customers

In 2017, trends with a major social impact, such as pensions and the issue of ageing were given special attention with the refining of our product range, both in the segment for "Life insurance" and "Non-Life insurance":

- → Belfius Invest Target Income provides a supplement to the statutory pension, combined with a specific dependency policy and inheritance/succession solution.
- → Belfius Home & Family provides additional cover for grandchildren in the care of grandparents and cover for a second residence, targeted mainly at seniors.
- → Drive for Life car insurance from DVV offers the over-60s a mobility guarantee, as the result of which their mandatory third-party car insurance is never cancelled.

6. Leasing opts strategically for green, circular and digital

Belfius Lease is the Belfius subsidiary for financial leasing and renting of professional equipment for the self-employed, companies and professionals.

At the end of December 2017, Belfius Lease managed a portfolio of 34,727 active contracts representing EUR 2,554 billion . The company operates in four sectors:

- → movable property (production machines, equipment for all sectors, IT equipment, vehicles)
- → real estate
- → green/renewable energy
- → vendor leasing.

6.1. Definite choice for renewable energy

Belfius Lease has opted strategically for financing via the leasing of installations to produce renewable energy.

Apart from leasing contracts for wind turbines and combined heat and power systems (in total EUR 13 million), at the end of 2017 there were 533 active contracts for solar panels, representing a total investment of EUR 406,499,785 . At a price per kWp (kilowatt peak) of EUR 1,200, this represents production of 338,750 kWp. The electricity consumption of a family corresponds with approximately 4 kWp per year. This means that via the various installations, Belfius Lease produces enough power to meet the total annual electricity needs of 84,687 families.

Example: TerraNova

"55,000 solar panels, green power for more than 4,000 families and a purpose for the surrounding land."

TerraNova Solar is a partnership between private companies, the Intermunicipal Finance Company for investments in East and West Flanders and the East Flanders Provincial Development Company, which focuses on operating a solar panel park with an output capacity of 16,500 kWp.

Belfius Lease has offered a specific leasing package with a quarterly and seasonal repayment plan.
The aim of the project was to give the gypsum dump at Rieme and Zelzate a new purpose by:

- Purifying the acidic water of the basin
- The decontamination of the former factory site to make way for new industrial activities
- The sustainable processing of dredging mud
- The planting of 3 hectares of woodland
- The largest park of solar panels in the Benelux, with an output capacity of 16,500 kWp.
- The establishment of the Zonneberg cooperative to give local residents the opportunity of investing in the "green refashioning" of the gypsum mountain.

6.2. Vendor leasing and the circular economy

Vendor leasing is a leasing-based financing technique that enables Belfius customers (manufacturers, importers or distributors of machines, etc.) to offer their own customers a solution for using the goods in return for a periodic payment. This technique is particularly suitable for applications in the context of the circular economy.

Belfius Lease buys the equipment from the customer and then leases it back to them. In turn, the customer leases the equipment to the user based on the principle of "pay-as-a-service" or "pay-per-use", an important concept in the circular economy: the end-user pays to use an item, not to own it.

In 2017, Belfius Lease and Belfius Auto Lease also took an active part in various ministerial action plans, including the "Task Force Circular Economy" and the "Green Deal Circular purchases" designed to boost funding initiatives relating to the circular economy.

6.3. In steps with new trends in the car market

Out of a total of 13,324 personal cars under financial lease via Belfius Lease, electric, hybrid and natural gas vehicles already represent 4.5% of the total number, for a total value of EUR 40.9 million.

6.4. Belfius Auto Lease as a "mobility provider"

Belfius Auto Lease is the Belfius subsidiary for the operational leasing of cars.

However, in 2017 Belfius Auto Lease was positioned more as a provider of mobility rather than cars, which fits with the Smart Belgium strategy with its sustainable vision for mobility.

The Olympus app is a first example of this new vision. With the app, a business is able to offer its employees, with or without a company car, a flexible and environmentally friendly mobility solution. Employees are able to opt for the train, bus, tram, metro, bicycle or car-share for all or part of their journey. They can also book a Cambio car or rent a hire car for a short period. Invoicing is central and the employer receives a single, clearly laid out invoice.

E-Fleet is a second example, based on the same multimodal principle. Except in this case an electric car can be combined with the Olympus app and the car-driver is provided with public or private recharging options, including a practical invoicing system.

7. Philanthropy via Wealth Management

Through its "Philanthropy Belfius" investment offering, Belfius provides customers with a specific framework, either during their lifetime or after their death, to include a good cause as a structural component of their asset management and/or succession planning.

In doing so, the customer's capital is brought into a registered fund under the watchful eye of a "provider". This is an organisation which, in line with the wishes of the principal, guarantees a carefully considered payment to one or more benefiting good causes. If it is within his lifetime, the customer can also take up a role in managing the fund.

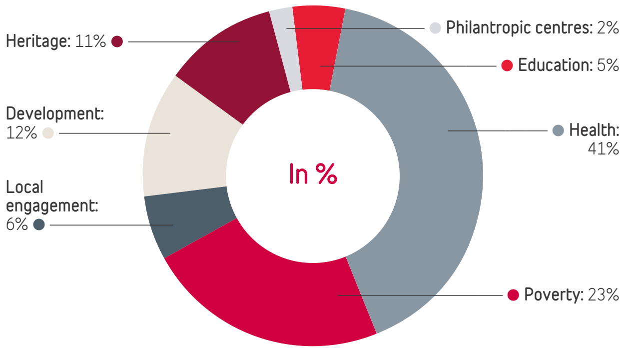
Belfius is the largest provider of funds with a philanthropic goal. These funds cover a wide range of philanthropic themes, such as scientific research, poverty, nature and the environment, cultural and social projects.

Thus far, more than 900 funds have been created, in close collaboration with the following organisations:

- King Baudouin Foundation
- Pelicano Foundation
- Vrije Universiteit Brussel
- Université Libre de Bruxelles
- Royal Veterinary Society Antwerp
- Anti-Cancer Fund
- Breast International Group
- University of Liège.

A large proportion of these funds are not activated until the customer has died. In 2017, there were 113 active funds totalling EUR 67.3 million. Of these, 3 to 5% is paid out each year to the selected organisations. For example, in 2017 approximately EUR 2.7 million went to good causes from the estates of Belgian citizens.

Thematic allocation of philanthropic wealth management funds in 2017



8. Access to banking services via social products

For people living in precarious circumstances, it is essential for them to be able to access banking services, such as securing payment traffic via a bank account with a payment card.

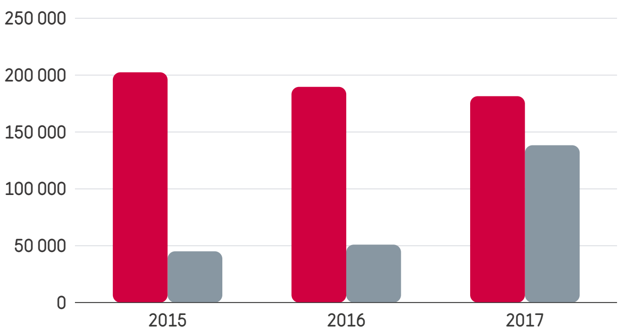
For this reason, working with the CPAS organisation (public welfare centres), Belfius has created a number of specific banking products for people with financial difficulties. No other European bank offers this facility.

- The Social Assistance Account and Drawdown Account are accounts designed specially to allow CPASs to pay social benefits to private individuals, also enabling them to make small purchases.
- The Budget Management/Debt Management Account is an account with which individuals whose budget is being managed or who are in debt mediation are able to use the budget allocated to them for their day-to-day spending.

- The Reinstatement Rental Guarantee is an account that helps people in precarious circumstances to rent a home.
- The Residential Guarantee Account: an account designed to provide a residential guarantee for retirement home residents who are unable to pay for it themselves
- The System I Account is an account for retirement homes that are required to manage the assets of their residents, fully or in part.
- The Prepaid Card is a payment card that gives CPASs a simple and secure way of issuing recurrent payments to people who do not have a bank account.
- The Belfius EasyCard is a reloadable alternative to the prepaid card. The card is used mainly for refugees.

Movements in the number of social accounts and cards in conjunction with CPASs

Total number of cards and accounts of persons on Welfare



The fall in the number of social accounts in recent years is due to the fact that social benefits are increasingly being paid directly into an ordinary bank account. There are also stricter banking regulations. Once the payment period has expired, the social account also has to be stopped and replaced by an ordinary bank account. As a result, since 2015 the CPASs have been obliged to close lots of social accounts and replace them.

SOUND ETHICAL FOUNDATIONS

1. Respect for the opinion of customers

The customer is at the centre of our strategy at Belfius. Building a long-term relationship with customers and partners based on respect is just as important as optimising operating efficiency or financial performance. The basic assumptions here are engagement, authenticity, entrepreneurship, customer-focus and transparency.

1.1. Customer satisfaction rising in all segments

Belfius uses the same method to measure the satisfaction of retail customers (RCB) and Public, Social & Corporate customers (PCB).

In 2017, 469,964 RCB customers were invited to take part in a satisfaction survey by e-mail, letter or telephone. 62,991 actually responded, giving an average satisfaction score of 94.8%.

4,778 PCB customers were also asked to participate. 565 customers responded, giving an average satisfaction score of 98.01%.

Overall for 2017, Belfius achieved a satisfaction score of 95.87%, which for the second consecutive year exceeded the target of 95% satisfied customers. RCB represented 2/3 in this overall score, and PCB 1/3.

Movements in customer satisfaction

(In %)	2015	2016	2017
Global	94.7%	95.3%	95.9%
RCB	93.7%	94.4%	94.8%
PCB	96.5%	96.9%	98.0%

1.2. Codes of conduct

In additional to internal policy guidelines, Belfius also subscribed to the following codes of conduct:

- Febelfin code of conduct: This code of conduct is an initiative by Febelfin, the Belgian federation for the financial sector. By signing the code, Belfius undertakes to adhere to the values of the sector in its day-to-day dealings with customers.
- BeCommerce: Belfius abides by the Code of Conduct of BeCommerce, the Belgian association of companies operating in online distance sales – and hence all forms of e-commerce. Through this code, BeCommerce aims to offer consumers a reliable and secure way of shopping online.

1.3. Complaints management

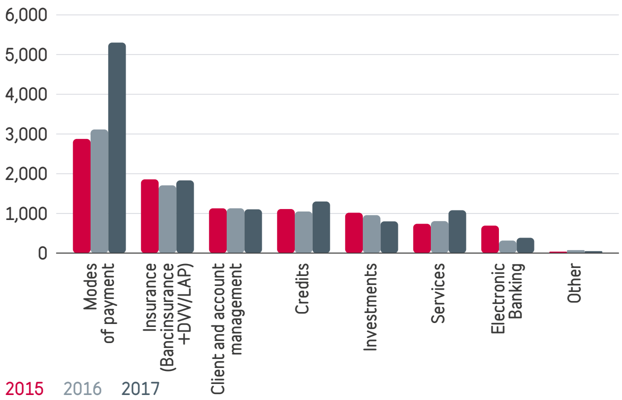
Belfius focuses on customer satisfaction and therefore also pays a great deal of attention to complaints and the way they are resolved for its customers. Belfius uses a complaints management system that makes it possible to process and analyse complaints automatically. This system is incorporated into branch applications. Complaints are dealt with impartially according to a step-by-step plan(1). While the process is pending, the customers involved continue, of course, to be serviced as before.

(1) For more information about the step-by-step plan for complaints, please see: *http://tiny.cc/Plaintes*.

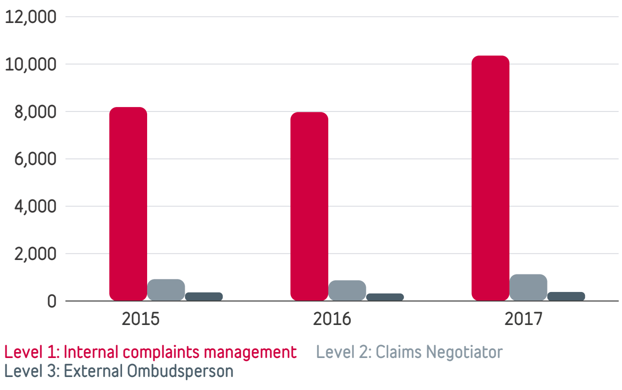
What does the process look like?

1. Customers wishing to report a problem are recommended to contact their branch or banker, because they are best placed to find a possible resolution. This report is not defined as a complaint in instances where the problem is resolved at this moment.
2. If the customer is unable or does not wish to visit the branch, or their contact person cannot resolve the problem, the customer can lodge a complaint with the Complaints Management department, which will try to find a solution.
3. If the customer does not agree with the proposed solution, they can contact the Negotiator Claims at Belfius Bank in writing.
4. If there is no resolution at this level, the case can be submitted to the Ombudsman for the Financial sector or the Insurance Ombudsman.

Closed complaints by topics 2015-2017 (units)



Closed complaints according to level of management 2015-2017 (units)



1.4. Complaints relating to 2 specific topics:

Complaints are recorded centrally and stored by topic. From the materiality analysis, "Human Rights" and "Privacy" were two topics that emerged (i.e. considered by stakeholders to be the most relevant). Reporting on complaints management shows that the number of complaints relating to these two topics is small compared with the total number of complaints:

- Human rights: In 2017, Belfius dealt with 10 complaints on human rights. The causes were: racism, discrimination, unfriendliness, disrespectful conduct, access for customers with poor eyesight, access for customers with restricted mobility.
- Privacy: in 2017, Belfius dealt with 58 complaints on this topic. Reasons stated by customers: lack of discretion (passing on information to third parties), lack of privacy in the services offered to the customer, correspondence sent to the wrong addressee or with an unsealed envelope, Privacy Act not respected.

2. Data privacy

2.1. Respect for privacy and customer satisfaction

Customer satisfaction is essential for Belfius and the use of customer data undoubtedly assists the provision of a more (pro)active offering of relevant products, services and tailored information that needs to be considered in the light of respecting customer privacy. The balanced vision applied by Belfius is totally in line with the General Data Protection Regulation (GDPR) that applies from 25 May 2018.

2.2. New regulations

The General Data Protection Regulation (GDPR) comes into effect on 25 May 2018. The GDPR introduces a number of new aspects compared with the old European directive dating from 1995. By and large, the GDPR grants natural persons – such as Belfius customers – more rights, while imposing more obligations on the parties processing the data – including Belfius and its partners/suppliers. All rules will now be the same for the various EU member states.

2.3. Belfius has long put privacy first

Respect for privacy is a commitment that Belfius had enshrined in its Privacy Charter(1) well before there was any notion of the GDPR.

The Charter is based on the following principles:

1. Offering greater value for the customer: the use of customer data is a firm part of the way Belfius views customer satisfaction. Customer data is used to provide a relevant offering of products, services or information.
2. Respect for Privacy: in the context of these offerings, the customer's privacy is respected unconditionally.
3. Transparency: Belfius tells customers clearly how their privacy is protected and how it takes account of their preferences. Since 12 December 2017 customers have also been able to change their preferences using all channels – and hence also via the Belfius Tablet and Belfius Mobile app.
4. Authenticity: customer date is not sold to third parties.
5. Security: Belfius closely monitors to ensure that everyone complies with the Charter.

2.4. Data Privacy on the workfloor

Belfius guarantees the highest level of security in terms of customer data. To be able to continue offering this guarantee, the commitment of all employees is crucial.

(1) For more information about the Belfius Privacy Charter, please visit: *http://tiny.cc/PrivacyFR*.

2.4.1. Everyone's business

Data privacy is everyone's business – not just the staff who process customer data on a daily basis. It is true to say that anyone may come into contact, one way or another, with customer data on a daily basis.

Now that the GDPR comes into effect on 25 May 2018, respecting customer privacy also becomes more of the responsibility of every member of staff. For this reason, Belfius focuses on the privacy of both customers and employees, as well as – by extension – anyone who comes into contact with Belfius (prospects, visitors, employees of partners, suppliers, etc.).

To put this commitment into practice, Belfius has instituted 6 work-streams:

1. How do we adjust the way Belfius is organised, how do we ensure Privacy in new processes and projects?
2. What does Belfius do with personal data, how are our activities documented?
3. How can Belfius protect data even better?
4. Who does Belfius work with regard to the data of natural persons (private individuals)?
5. How does Belfius interpret the rights of natural persons?
6. How does Belfius communicate about this internally and externally?

2.4.2. Data Protection Officer

The new post of Data Protection Officer (DPO) has been created at Belfius. The DPO is the bank's point of contact with the Privacy Commission, or the future Data Protection Authority, which is the Belgian supervisory body.

2.4.3. Complaints about data privacy

Precisely because Belfius pays a great deal of attention to the protection of customer data, investigates potential risks, creates awareness among its staff and sets guidelines about the use of customer data, Belfius receives only a very few (and declining) number of complaints about breaches of data privacy. In 2017, there were 58 such complaints. Reasons indicated by customers: lack of discretion (passing on information to third parties), lack of privacy in the services offered to the customer, correspondence sent to the wrong addressee or with an unsealed envelope, Privacy Act not respected.

Transactional data

Belfius has introduced a policy on the use of transactional data for commercial purposes. This policy states that the use of transactional data must always be submitted to a policy panel, which decides whether such use complies both with the law and Belfius's views in the matter. The panel takes account of: the interests of the customer, the interests of the bank and the extent to which the customer's privacy is "accessed". This latter point is determined by a tool so that objectivity can be guaranteed.

3 Honest banking and the fight against fraud

3.1. Honest banking

An honest attitude on the part of all Belfius employees is essential for retaining the trust of all internal and external stakeholders in Belfius.

3.1.1. Compliance policy

Belfius complies strictly with all laws and regulations. It also respects the rules and practices normally applied within the financial sector.

Values such as integrity, loyalty, transparency, professionalism and mutual respect characterise the relationship between Belfius and its staff, customers and partners, as well as relations between employees.

Belfius's overall compliance policy is set out in a Compliance Charter and an Integrity Policy. In line with the Belgian regulators governing the compliance function, these documents contain a number of policy guidelines dealing with specific risk situations relating to compliance.

3.1.2. The Belfius Code of Ethics

In addition to the Febelfin code of ethics, Belfius also uses its own Code of Ethics and Proper Conduct, which applies to all Belfius employees.

This Code tells staff about the ethical and conduct-related principles and statutory or regulatory conduct standards that apply to them when they are doing their job. It also provides a benchmark for their attitude to and relations with co-workers, customers, government departments and other external parties.

The topics covered include: ethics, dealing with customers, discretion, data privacy, conflicts of interest, respect for the rules and undertakings of Belfius, money laundering and whistleblowing.

Breaches of the Code are investigated by the Audit department and then assessed by (senior) management. The head of the HR department takes the final decision.

3.1.3. Information and training

In order to encourage the awareness and vigilance of staff, all policy wording dealing with ethics and proper conduct is published on the intranet. Employees can also attend e-learning classes and ad-hoc training sessions on specific themes and/or for specific target groups.

3.2. The fight against fraud

3.2.1. Policy and internal checks in relation to fraud

An overall fraud policy has been drawn up for Belfius in conjunction with the Audit and Compliance departments.

This policy has been specifically developed to define the internal audit framework within Belfius to help identify and prevent fraud and to take the necessary corrective measures.

Management of the bank's fraud risk is the responsibility of the Chief Risk Officer (CRO), who reports periodically to the Management Board. However, each of the three lines of defence (levels of responsibility) remains responsible for the areas allocated to them and must ensure compliance within the framework of the guidelines.

A report on fraud management is presented to the Management Board and the Audit Committee each year. Any corrective measures required are taken based on this report.

3.2.2. Policy on tax evasion

Belfius employees and the branches are required to adhere to a stringent policy on tax evasion (also see "Tax transparency"), which is based on four principles:

- → All statutory and regulatory tax obligations must be strictly complied with.
- → Not working, directly or indirectly, with customers who come to our bank in order to avoid their tax obligations.
- → Restricting ourselves to providing objective, correct and impartial information.
- → Ensuring that there is total transparency and traceability in all operations and transactions.

3.2.3. Anti-money laundering policy

The issue of money laundering and the fight against the financing of terrorism are burning topics currently. Given the worldwide impact of these issues, numerous international legislative and/or regulatory initiatives have been put in place on which Belgian law in the matter is also based. The area in which Belfius is conducting its fight against money laundering and the financing of terrorism is set out in the "Anti-Money Laundering Policy" (http://tiny.cc/AMLbelfius).

3.2.4. Customer acceptance policy

The policy on customer acceptance is also specified in the Anti-Money Laundering Policy. Certain exclusion criteria apply in this area based on a relevant link with certain countries and sectors. The Country Watchlist is a constantly updated list of excluded countries, based on EU embargos, US sanctions, designation by FATF (Financial Action Task Force on Money Laundering) or under the catch-all heading of "tax haven".

3.2.5. Zero tolerance and the whistleblowing process

Belfius applies a zero-tolerance policy on fraud. Failure to report fraud is considered as tacit complicity.

An internal reporting system (whistleblowing) gives all employees and managers the opportunity to report possible fraud. This reporting system acts as a supplementary system that may only be used when there are no other reporting options, or if those options are not effective, suitable or seem to be deficient. The system goes well beyond just cases of fraud.

- → Broken down by standard category of incidents over the last three years, total losses due to internal fraud amount to 8% of all operational risk incidents.
- → In 2017, no corruption-related incidents were recorded.
- → No cases of whistleblowing have been recorded in the past three years.

4. Tax transparency

4.1. Belfius fiscal policy

As a locally-based relationship bank and insurance company, and as it says in our mission statement, Belfius seeks to communicate transparently about tax matters to all its stakeholders:

- → Belfius wishes to be a responsible taxpayer that takes account of the interests of all the parties involved: employees, customers, shareholders, government and the community.
- → Belfius will comply strictly with all of the fiscal laws and procedures to which the bank is subject and will refrain from any collaboration involving fraud.
- → Belfius will deduct any taxes and withholding levies owed by the customer and pay them to the taxman, as required by law. It will also provide information to national or foreign tax authorities while respecting the privacy of its customers.
- → Belfius seeks to organise its activities in a tax-efficient manner, as required by sound governance, in such a way that every activity must be underpinned with valid business considerations, as well as be relevant and transparent in terms of content.
- → Belfius does not wish to be established in tax havens, as dealt with in Belgian legislation.

This mission statement has been translated into a series of objectives, guidelines and responsibilities that are described in detail in the Fiscal Policy memo of the Belfius Group(1), underwritten by the management boards of all Belfius entities.

Organisationally speaking, tax matters come under the Tax Department, headed by the CFO. This means that the company's tax expertise is centralised and hence consistent management is guaranteed.

4.2. OECD rules

Belfius complies with all current OECD rules on Base Erosion and Profit Shifting (BEPS) that have been incorporated into Belgian law, as well as into the legislation of other judicial areas where Belfius entities are located.

"BEPS" is an OECD action plan regarding tax evasion by the use of loopholes in and differences between tax rules in order to shift profits artificially to low-tax or no-tax locations without having a business worthy of the name in that location. To combat this, the plan contains a series of OECD measures that are grouped into 15 action points.

In particular with regard to the statutory provisions on transfer pricing (action point 13), Belfius scrupulously respects all required reporting.

(1) For more information about the Fiscal Policy memo of the Belfius Group: *http://tiny.cc/TaxF*

4.3. Foreign subsidiaries: Luxembourg and Ireland

Belfius focuses exclusively on the Belgian market for its commercial business activities, although it retains entities in Luxembourg and Ireland for specific activities:

- In Luxembourg, Belfius Financing Company SA issues specific debt securities to external investors. It has been decided for technical and operating reasons to issue these in Luxembourg. This is in total transparency to the Belgian tax authorities and after receipt of a positive ruling in Belgium. Belfius Insurance Finance manages a portfolio of shares and bonds.
- Belfius Ireland and Belfius Bank, Dublin branch, both established in Ireland, hold a historical portfolio of long-term bonds. The presence of Belfius in Ireland is a remnant from the past and can in no way be seen as tax optimisation; both entities are structurally lossmaking at the present time.

4.4. Belfius as a taxpayer

Consolidated IFRS figures

(in thousands of EUR)	2015	2016	2017
TOTAL CASH TAXES AND CONTRIBUTIONS	(492,314)	(494,043)	(603,375)
Current taxes(1)	(58,635)	(53,788)	(157,071)
Sector levies(2)	(205,106)	(220,215)	(217,513)
Social sec. employer	(130,719)	(119,377)	(112,474)
Non-deduct VAT	(53,691)	(61,567)	(70,649)
Other indirect taxes	(44,163)	(39,096)	(45,668)

(1) cfr. Note 7.16. to the consolidated financial statements in the annual report of Belfius Bank.
(2) cfr. Note 7.9. to the consolidated financial statements in the annual report of Belfius Bank.

Consolidated IFRS figures

(in thousands of EUR)	Net income before tax: tax base (a)(1)	Tax on current year result (b)	Effective tax rate (b)/(a)
2015	673,656	197,886	29,4%
2016	774,505	262,884	33,9%
2017	958,334	388,242	40,5%(2)

(1) Net income before tax excl. Income and losses from companies accounted for by the equity method.
(2) Following the Belgian corporate tax reform all deferred tax assets and liabilities were restated to the lower tax rate, resulting in a one-off cost in P&L of 106 Mio €. When excluding the impact of the restatement, the effective corporate tax rate would be 29%.

For more details: see Note 7.16 to the consolidated profit-and-loss account in the Belfius annual report.

WORKING WITH THE COMMUNITY IN THE LONG TERM

Belfius not only invests in the Belgian economy, but also has a strong tradition in supporting projects of a social nature. Our corporate social responsibility fits fully within our strategy in this area. Each year, Belfius staff are actively involved with various good causes and other initiatives.

In line with its strategy, Belfius opts for meaningful Belgian long-term partnerships with organisations working on behalf of the underprivileged.

1. Projects for good causes

1.1. Viva For Life

Belfius has been the main sponsor for Viva For Life (an initiative of RTBF Television) since 2016 and as such supports various organisations in Wallonia and Brussels combating child poverty. To raise money for these causes, Belfius organised events such as:

- Stairs for Life: a race up the stairs of the 31 floors of the Belfius Tower in Brussels for this good cause, involving 600 participants.
- Christmas bauble sale: the Belfius branch network sold 37,824 Viva For Life Christmas baubles.
- A tour through various towns and cities, with the support of local Belfius branches

Evolution in proceeds 2015-2017

(in EUR)	2015	2016	2017
Amount from Belfius(1)	226,721	350,941	376,555
TOTAL RAISED(1) VIVA FOR LIFE	3,028,755	3,452,310	4,115,330

(1) The "Amount from Belfius" is the amount that Belfius raised through all programmes, while the total raised is the amount raised by Viva For Life for the whole of Wallonia and Brussels.

1.2. Red Nose Day

Belfius supports Red Nose Day in conjunction with Medialaan and Q-Music. Red Nose Day is a programme that seeks to obtain attention for young people with psychological issues. The money raised in 2016 enabled 5 OverKop houses to be opened and for an OverKop platform to be placed online. OverKop houses are places where youngsters with psychological problems can go without waiting and without being labelled, so that they can find someone quickly if they need to. The OverKop platform is a website that young people can visit. This is important, because the digital world is often their first port of call for information.

Evolution in proceeds 2015-2017

(in EUR)	2015	2016	2017
TOTAL RAISED RODE NEUZEN	3 858,814	4,103 677	N.a.(1)

(1) There was no programme in 2017.

1.3. Special Olympics

Through our partnership with Special Olympics Belgium (since 2014), we shine a spotlight on people with learning difficulties and promote their integration into Belgian society through sport.

In 2017, Belfius became a "silver sponsor" of the Special Olympics for three years. In addition to the financial support, Belfius also encouraged its employees to work as volunteers on the 35th edition of the Games.

2. Belfius and art

Belfius has been sharing its passion for art with the public for 8 years. Each year at the Belfius Art Gallery on the 32nd floor of the Belfius Tower, the Belfius head office in Brussels, there is a thematic exhibition of some 60 artworks from the Belfius collection, which with 4,300 masterpieces is the largest private art collection in the country. To enable as many people as possible to enjoy this treasure trove of art, Belfius opens the gallery to the general public twice a month and by appointment. A virtual 360° visit of the exhibits is also possible via belfius.com/art. Working with the non-profit organisations, Audioscenic and Culturama, we also provide guided tours for visitors with poor eyesight, who are able to enjoy the collection via an audio description.

Our support for Belgian art can also be seen from the loans we make of pieces from the collection to Belgian museums. We also purchase works by young Belgian talent and take part in events such as Art Brussels.

3. The private Belfius Foundation

The Belfius Foundation coordinates the solidarity patronage programmes supported by Belfius. Belfius Foundation is legally independent from Belfius Bank and has its own Board of Directors and website (www.belfius-foundation.be). In 2017, Belfius Foundation had a budget of EUR 215,000. The Foundation uses this money to support non-profit social projects. In 2017, the Foundation focused mainly on two initiatives:

3.1. Colour Your Hospital

Belfius Foundation organised the 6th edition of its Colour Your Hospital competition: a contest in which all hospitals throughout the country can enter projects aimed at improving the quality of life of their patients. Last year, an independent jury selected 24 winners from 101 entries. Between them, they share a Foundation budget of EUR 150,000 to carry out their projects.

3.2. Helping Hands

This initiative (7th edition) is focused on Belfius employees who work as volunteers for a Belgian solidarity association. An independent panel of judges selected 10 projects (out of a total of 35 entries), each of which received EUR 5,000 for its project. The 10 projects selected all support vulnerable target groups, such as people with poor eyesight, or children who have been placed in care by the courts.

BELFIUS' DIRECT IMPACT ON THE ENVIRONMENT

The focus in this section is placed on those elements that have the greatest impact on the environment and the climate: the amount of energy consumed by our buildings and for staff travel, our consumption of paper, the way we sort waste and our carbon footprint.

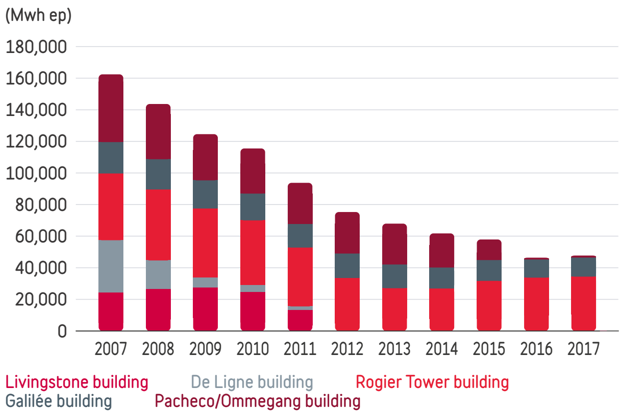
1. Sustainability in the buildings and mobility at Belfius

1.1. Energy-savings and hence less CO_2

Since well before the Millennium, Belfius has paid particular attention to the energy efficiency of its buildings. In 2007, it was decided to make a 50% reduction in the primary energy consumption of the company's central buildings in Brussels within five years. In-depth energy audits were conducted on those premises and this was then extended to the bank's regional offices, as well as some branches.

Optimising workspaces (interior landscape, workstations for 70% of workers, homeworking), combined with staff cuts in previous years, has made it possible to achieve a significant reduction in the number of buildings required. This has been supported by staff awareness campaigns, enabling our primary energy consumption (MWh gas + MWh electricity x 2.5) to be reduced by 70.6% in 10 years. Over the past 6 years, overall energy consumption has been reduced by 36.6%, while consumption per FTE (full-time equivalent) has fallen by 14%.

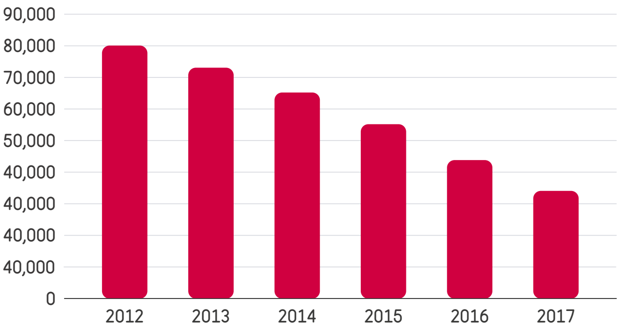
Changes in the consumption of primary energy at the central offices in Brussels



It should be noted that Belfius has been using nothing but "green" electricity since 2008, guaranteed by emissions certificates. A new contract was signed with Engie (formerly Electrabel) in 2016 and runs until 2021, for the supply of offshore wind power (produced by Seanergy). Belfius continues to invest in centralised energy management tools. Leaving the Galilée building in 2018 and the rise in homeworking are two other factors that should help Belfius to reduce its consumption of electricity in the years to come.

Water consumption in our central offices has fallen by 57.4% in 6 years. The figure per FTE is down by 11.6%, also in 6 years.

Water consumption at head office in Brussels (m^3)



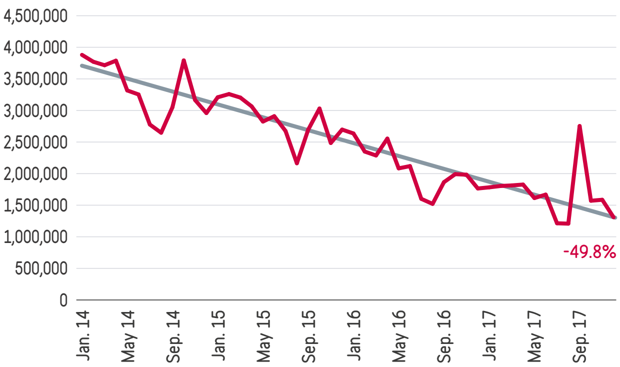
The Belfius group is also encouraging homeworking more and more, which is also playing a role in reducing our water consumption and improving our energy efficiency.

1.2. Less and less paper

Apart from energy, paper is the main resource consumed by Belfius, with almost 1,000 tons used each year, of which 95% is FSC(1) labelled. On a like-for-like basis, paper consumption has fallen by 49.7% in 3 years.

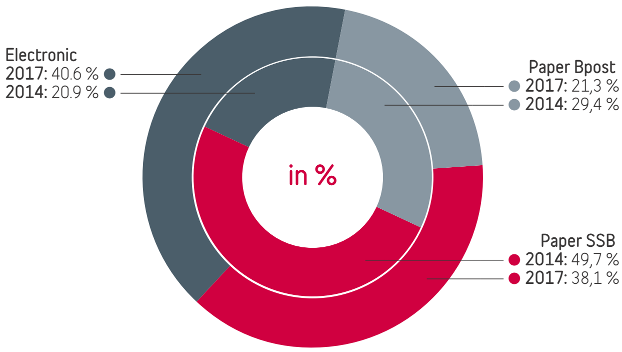
Belfius implemented its "stream digital paperless" plan in 2014, with the aim of achieving a 50% reduction in the use of paper by the end of 2017. In terms of paper used by staff for printing and photocopies, the actual reduction was 49.8%. The widespread use of portable devices, the removal of staff cupboards (see below) and a 30% reduction in the number of printers should help us to further reduce the volume of pages printed in the years ahead.

Objective: bringing down number of A4 pages printed by 50% in 3 years



Belfius has also made a huge effort to reduce the printing of customer account statements by encouraging their digitisation. By 2017, the proportion of statements printed and sent out to customers by post had fallen by 42% in 3 years and now represents just 21% of account statements. 38% of statements are printed out by customers in-branch (down 39% in 3 years). Meanwhile, the number of unprinted electronic statements (for fully electronic accounts) has risen by 55% in 3 years and now represents 41% of all account statements.

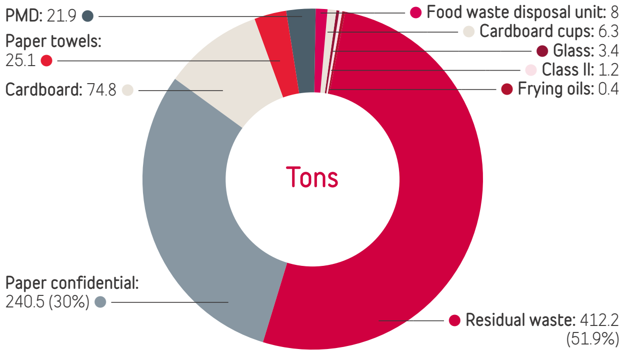
Evolution of printing statements of account, from 2014 (inner circle) until 2017 (outer circle)



1.3. Major clear-out created a short-term spike in some waste

In 2017, Belfius removed individual staff cupboards as part of its digitisation (paperless) programme. This move prompted a short-term spike in the quantity of some waste at head office, compared with the previous year: residual waste (+20%) and paper for recycling (+39%). The sharp reduction in waste (-36%) recorded at head office between 2012 and 2016 may have been slowed by this clear-out, but there has still been a reduction of 26% in 5 years.

Breakdown of waste produced at the Brussels head office in 2017 (in metric tons)



The challenge for the future consists of reducing the volume of residual waste (not sorted) and paper for recycling, while at the same time increasing the proportion of PMT and paper cups for recycling. Belfius runs regular internal campaigns to raise staff awareness of sorting waste correctly.

While the weight of waste per FTE (full-time equivalent) per year at the central office in Brussels fell from 190 kg in 2012 to 154 kg in 2016, the removal of staff cupboards in 2017 caused the figure to rise temporarily to 191 kg in that year. This indicator should drop below the 150 kg per employee mark again in 2019, as should the volume of paper waste, to below 150 tons per year.

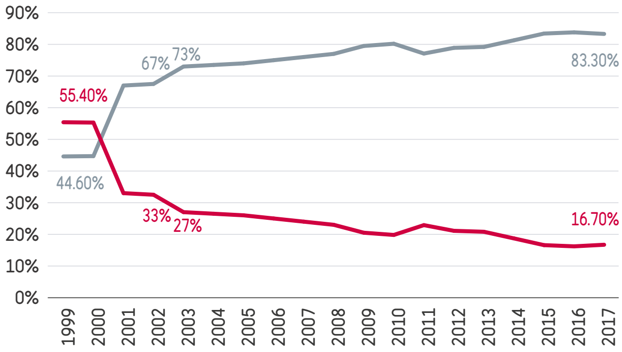
(1) FSC: Forest Stewardship Council.

1.5. Sustainable commuting remains one of our strengths at Belfius

In 2000, Belfius introduced an ambitious Mobility Plan encouraging the collective use of public transport and bicycles for travelling to and from work. At the same time, the solo use of cars was discouraged, with bank staff travelling to work in Brussels alone by car being required to pay for their parking.

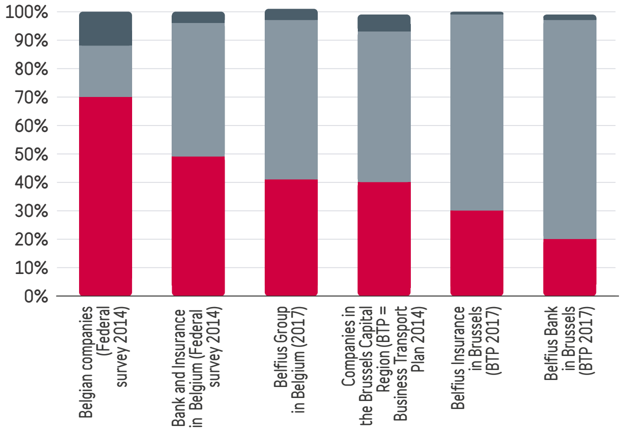
As a result, 78.7% of bank staff in Brussels (located in the Rogier Tower) now come to work each day by public transport. Just 16.7% travel alone to work by car, compared with 16.2% in 2016. 2.2% ride to the office in Brussels by bicycle, although 6.1% use a bike each day to travel to a station to come into the city by train.

Evolution of staff travelling alone by car from their home address to the Belfius Bank Brussels head office



At Belfius Bank in Brussels, the proportion of people travelling to work alone by car has fallen by 70% in 17 years, remaining steady at under 17% for the past two years.

Comparison of main mobility modes for commuter traffic in Belgium and in Brussels



When the Belfius group is compared to the average for the Bank & Insurance sector and to the average for Belgian companies, Belfius scores very creditably, with 56% of staff using public transport.

Finally there is homeworking, which is increasing all the time and which has a very positive effect on mobility. The 120 974 homeworking days recorded at Belfius Bank in 2017 were equivalent to 605 employees (9.4% of staff) who would otherwise have been in the daily traffic jams or on packed rush-hour trains. This trend is likely to increase significantly in the years to come.

2 The Belfius Group's carbon footprint

Our carbon footprint measures the greenhouse gas emissions linked to our company's products and services. It enables us to measure our dependence on fossil fuels.

	2015		2016		2017	
	Consol.	T CO_2e	Consol.	T CO_2e	Consol.	T CO_2e
SCOPE 1						
Gas (MWh)						
central offices	8,983	1,779	7,881	1,560	8,942	1,771
regional offices	1,837	364	1,681	333	1,547	306
subsidiary buildings	1,481	293	1,404	278	1,296	257
salaried branches	NA	NA	NA	NA	NA	NA
Heating oil (10^3.litres)						
4 salaried branches	13	35	13	38	11	31
Crefius Wépion	24	67	18	50	17	48
Vehicles owned (10^3.km)	44,234	6,148	49,299	6,570	53,337	6,925
TOTAL SCOPE 1		8,686		8,829		9,336

	2015		2016		2017	
	Consol.	T CO_2e	Consol.	T CO_2e	Consol.	T CO_2e
SCOPE 2 Emissions according to market-based method(1)						
Electricity consumed (MWh)(1)						
central offices	20,157	0	15,514	0	16,137	0
regional offices	1,337	0	1,367	0	1,456	0
subsidiary buildings	2,015	0	1,803	0	1,937	0
salaried branches	NA	0	NA	0	NA	0
TOTAL SCOPE 2		**0**		**0**		**0**
SCOPE 3						
Water (10^3.m^3)						
central offices	57	19	43	15	34	12
regional offices	4	1	5	2	5	2
subsidiary buildings	7	2	8	3	5	2
salaried branches	NA	NA	NA	NA	NA	NA
Waste (in tons)						
central offices residual	364	96	344	90	412	108
paper	181	21	173	20	241	28
cardboard	35	4	98	11	75	9
PMT	18	5	23	6	22	6
Home-work-home travel (10^3 km)	86,139	6,067	83,401	5,844	84,202	5,886
Business travel by private vehicle (10^3 km)	1,347	249	1,064	194	940	168
Business travel by public transport (10^3 km)	504	21	481	20	450	19
International business travel by train (10^3 km)	NA	NA	NA	NA	377	3
International business travel by air (10^3.miles)	NA	NA	361	89	488	116
TOTAL SCOPE 3		**6,486**		**6,294**		**6,358**
TOTAL EMISSIONS		**15,171**		**15,122**		**15,694**

(1) the CO_2e emissions calculated for electricity according to the location-based method amounts to 3,886.6 CO_2e T. NA (Not Available): a solution is being examined for these figures to be available for 2018.

The "Scope 1" figures cover the direct emissions associated with heating using primary energy sources (gas, heating oil) and the fuel consumed by company service vehicles and company cars, including Flex cars(1) financed partly by staff.

It is the increase in the number of Flex vehicles (leasing) that has caused the rise in the number of kilometres driven and hence in direct energy consumption (scope 1).

Note that emissions associated with commuting have been reduced (and placed in Scope 3), but it has not been possible to reduce the proportion of personal travel. Hence all this travel is considered to be business travel, which causes an over-assessment of the actual emissions associated with the operation of the company.

Finally, for gas, it should be noted that the consumption of our "salaried branches" is missing, which represented 45% of overall group consumption in 2012.

A proportional extra 45 % gas consumption for 2017 would increase CO_2 emissions by 1,910 metric tonnes, bringing the Belgian group's total emissions at 17,604 metric tonnes.

"Scope 2" shows the emissions associated with the production of the electricity that we use. As electricity consumption at Belfius has been entirely offset since 2008 by 100% renewable energy origin certificates (offshore wind power), CO_2 emissions are considered to be zero. These emissions would otherwise be 3,887 tons if the electricity was not considered to be of renewable origin.

In "Scope 3", which shows the other indirect emissions, the vast majority (93%) are caused by travelling to and from work, then by business travel (5%), waste (2%) and mains water.

The Mobility Plan, which has significantly reduced journeys in individual cars, has prevented the emission of approximately 100 000 tons of CO_2 in 17 years.

At the present time, the plan makes it possible to prevent around 6 000 tons of CO_2 per year, which is the equivalent of Scope 3 and equates to cutting in half emissions linked to travelling to and from work. These emissions rose a little in 2017 due to an increase in the number of staff. Emissions associated with business travel within Belgium are down. "Scope 3" emissions and total emissions are fairly stable, if the unavailable data is taken into account.

(1) cfr. cafetaria plan.

HUMAN RESOURCES

Customer satisfaction is a central tenet at Belfius, which is why HR aims in the first instance to be a fully-fledged partner in the development of every employee and every team in order to meet the needs of customers as much as possible.

In doing so, Belfius focuses on 6 main lines:

1. Further grow the new company culture.
2. Encouraging engagement through empowerment.
3. Investing in new talent.
4. Investing in "Learning & Development".
5. Rotating people and talent internally & externally.
6. Further developing a policy of wellbeing.

1. Further grow the new company culture

1.1. Values and company culture

The 6 values of Belfius provide the framework in which a new company culture is being fostered and encouraged. These 6 values are:

→ Customer-focus: using satisfied customers as the yardstick for everything we undertake.
→ Transparency: internal and external openness as the platform for a bank-insurer claiming to implement a new banking culture.
→ Engagement: taking full responsibility for the future of Belfius and our society.
→ Challenging: both between ourselves and on the market we challenge ourselves to bring the strategy we have chosen to fruition.
→ Sense of enterprise: we dare to go down new paths, push back boundaries, have an eye for opportunities that we also focus on to make come true.
→ Authenticity: we do things more honestly and differently from others, we respect individual particularities and find differences enriching

HR has put these aims into practice by:

→ Actively driving the business forward by being customer-focused on all levels.
→ Focusing on business needs.
→ Encouraging people to take responsibility for themselves.

1.2. Satisfaction and engagement

Happy and engaged employees are the cornerstone of any successful organisation. The annual engagement barometer shows that Belfius scores highly both on employee satisfaction and engagement.

Table 1. "Satisfaction indicator" scores from the Engagement Survey (Belfius Bank and Belfius Insurance)(1)

	2015	2016	2017
Belfius Bank	92.5%	94.9%	92.8%
Belfius Insurance	91.0%	93.5%	93.8%

Table 2. "Engagement Indicator" scores from the Engagement Survey (Belfius Bank and Belfius Insurance)(1)

	2015	2016	2017
Belfius Bank	81.5%	86.7%	85.7%
Belfius Insurance	83.3%	85.2%	86.2%

1.3. Highlights

Belfius employees become involved each year in a number of good causes, such as Red Nose Day, Viva For Life and Special Olympics.

2. Stimulating engagement through empowerment

2.1. Trust and "empowerment"

Belfius employees are committed, take responsibility and have faith in the challenges of the future. These challenges not only require technological adjustments, but also changes in terms of flexibility and availability.

From this perspective, Belfius has developed a new work organisation that fits better with the needs and challenges of the future, with the changing needs of customers and with the expectations of staff in terms of a better work-life balance.

HR has put these aims into practice by:

- Developing a transparent organisation model.
- Challenging each other to reach an even higher level.
- Increasing resilience.
- Striving with passion to achieve goals.

One of the aspects that demands a new interpretation from management is the fact that the new way of working encourages more telework. This requires a new way of management.

2.3. Highlights

2.3.1. New work organisation at Belfius Bank

In 2017, the unions and management of Belfius Bank reached an agreement about a revamped work organisation for employees in order to meet the expectations of customers and staff, today and tomorrow. At the end of 2017, a large group of employees was given the choice of switching to a more flexible work organisation. 72% of the more than 2,800 employees involved effectively elected for this new work organisation. Employees who wish to do so, will also be able to move to the new work organisation after the end of 2017, which is based on the following principles:

- Asking for, but also giving new forms of flexibility and availability. Belfius wants to have a balanced work organisation that meets the flexible needs of customers, while at the same time giving employees the ability to adjust their work-life balance.
- The gradual introduction of a revamped work organisation giving employees sufficient time to adjust so that they can feel comfortable about new ways of working on their own and with others.
- A harmonised work organisation in which each employee can participate on an equal footing and disputes from the past are settled fairly.

This new work organisation is the foundation of a more up-to-date and open business culture. It will ensure that Belfius is ready for today's major challenges in the areas of accessibility, attractiveness and mobility.

3. Investing in new talent

3.1. Opportunities for growth

Belfius intends to start investing in tomorrow's solutions today. In doing so, it is constantly looking for and investing in new talent that will enable the business, as a bank and insurance company, to anticipate and to meet the changing needs of its customers.

- As is the case for many companies, natural attrition and the need to find new employee profiles are also becoming an increasingly major challenge for Belfius, too. Belfius goes looking for new talent and especially for highly diverse employee profiles. This search is taking the practical form of a more active recruitment policy than in previous years. It also means greater visibility on social media and the introduction of a new recruitment website (*https://www.belfius.be/retail/nl/jobs.aspx*) for potential candidates, as well as more presence at "milk-round" events staged at universities, colleges and business schools.

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.

2.2. Telework

Table 3. Changes in "Teleworking" at Belfius Bank and Belfius Insurance. NB: No figures are available for 2015(1)

	% of employees doing telework		Average number of days of telework per employee who does telework		% of teleworking out of total "productive time"	
	2016	2017	2016	2017	2016	2017
Belfius Bank	79.6%	78.4%	1.9	2.4	10.6%	12.7%
Belfius Insurance	68.2%	68.9%	3.8	4.0	18.6%	19.8%

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.

- As an employer, Belfius offers a wide range of jobs, both centrally and locally, providing extensive job opportunities to potential candidates. In terms of "ongoing learning", Belfius has everything it needs in-house to offer a great career to talented individuals wishing to develop themselves and /or looking to take a new direction.
- It is vital for Belfius to position itself more actively on the Belgian jobs market in the near future so that it can enhance its image as an attractive employer and further its search for new talent.

HR has put these aims into practice by:

- Actively positioning Belfius in the employment market.
- Offering a wide array of jobs in a range of different areas.
- Pursuing diversity in our recruitment policy.
- Emphasising authenticity as a point to attract future employees.

3.2. Arrivals and departures[1]

In 2017, Belfius Bank and Belfius Insurance advertised 640 open-ended internal and external vacancies, which was significantly more than in previous years (see "Table 4"). As one of the ways of attracting new talent, Belfius played host to 53 work experience trainees. This was a slight rise compared with previous years and one striking feature was the greater representation of women, which rose from 37.5% in 2016 to 52.8% in 2017 (see "Table" 5). The same trend can be seen from the arrival of new talent: in 2017, women joined the employee population aged 29 or younger, compared with 45 men. The number of new recruits is also rising steadily: 217 in 2017, compared with 186 in 2016 and 91 in 2015 (see "Table 6"). In absolute figures, the number of departures fell slightly in recent years. Most departures were employees in the 60+ age bracket taking retirement (see "Table 7"). In the years ahead, this number will increase rapidly, both in absolute figures and proportionately. Continuing to invest in new, young talent will be a cornerstone of our HR strategy more than ever in the future. In 2015, both at Belfius Bank and at Belfius Insurance, natural attrition was just under 6.5%. For Belfius Bank, this figure continues to fall slightly, while for Belfius Insurance, natural attrition rose. This rise in natural attrition in 2017 at Belfius Insurance, was due mainly to the integration of Belfius Insurance employees into Belfius Bank (see "Table 8").

Table 4. Number of internal and external vacancies at Belfius Bank and Belfius Insurance, excl. temporary vacancies

	2015[1]	2016	2017
# vacancies	328	487	640

(1) The figures for 2015 exclude Belfius Insurance.

Table 5. Number of work experience trainees at Belfius Bank and Belfius Insurance (from school)

	2015[1]	2016	2017	Grand Total
Male	22	30	25	77
Female	11	18	28	57
TOTAL	33	48	53	134

(1) The figures for 2015 exclude Belfius Insurance.

Table 6. Movements in the number of "arrivals" per age group in the consolidated Belfius group, excl. transfers between[1]

Year	Age group	Male	Female	Total
2015	20-29	25	17	42
	30-39	16	13	29
	40-49	7	6	13
	50-59	7		7
2015 TOTAL		55	36	91
2016	<20		1	1
	20-29	42	50	92
	30-39	30	26	56
	40-49	21	9	30
	50-59	5	2	7
2016 TOTAL		98	88	186
2017	20-29	45	50	95
	30-39	46	19	65
	40-49	27	17	44
	50-59	8	5	13
2017 TOTAL		126	91	217
GRAND TOTAL		279	215	494

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.

Table 7. Movements in the number of "departures" per age group in the consolidated Belfius group, excl. transfers between entities[(1)]

Year	Age group	Male	Female	Total
2015	20-29	10	14	24
	30-39	22	27	49
	40-49	30	21	51
	50-59	37	34	71
	60 en +	88	78	166
2015 TOTAL		**187**	**174**	**361**
2016	20-29	16	14	30
	30-39	25	28	53
	40-49	32	21	53
	50-59	27	39	66
	60 en +	84	63	147
2016 TOTAL		**184**	**165**	**349**
2017	20-29	20	21	41
	30-39	23	18	41
	40-49	14	24	38
	50-59	28	30	58
	60 en +	105	45	150
2017 TOTAL		**190**	**138**	**328**
TOTAL		**561**	**477**	**1.038**

Table 8. Movements in churn in Belfius Bank en Belfius Insurance, i.e. "Number of departures in year N / (# headcounts at 31/12 for year N-1 + # headcounts at 31/12 for year N)/2"[(1)]

	2015	2016	2017
Belfius Bank	6.45%	5.81%	5.26%
Belfius Insurance	6.47%	6.61%	12.41%

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.

3.3. Gender Diversity[(1)]

The diversity policy at Belfius has been activated more since 2015, with new indicators introduced and monitored on a regular basis. This has resulted in a more balanced 'gender mix' among (younger) new recruits (see above). However, Belfius also has aspirations on other levels with regard to diversity. The proportion of female managers has risen slightly since 2015 in the management population, from 27.7% in 2015 to 29.7% in 2017. In recent years, the ratio between men and women in the Senior Management population has remained fairly stable. In 2015, 27 Senior Managers were women (25.7%), in 2017, 30 Senior Managers were women (26.7%). The effect of certain measures will only fully be felt over time, which does not take away the fact that (gender) diversity will continue to be an increasing priority over the coming years.

3.4. Highlights

3.4.1. Belfius Together

Through the "Belfius Together" project, a fundamental step was taken in 2017 to align Belfius Bank and Belfius Insurance more strongly strategically and from an organisational point of view. This growth project enables us to work more closely together in many areas: creating growth opportunities for the customer, for staff and for Belfius, and to become a "bank-insurer" in the full sense of the word.

3.4.2. Diversity

In terms of gender, Belfius aims to support greater male-female diversity. The gender balance in Boards of Directors is laid down by law[(2)]. Belfius aims to extend this balance to include senior management and then on to all levels within the organisation. This topic is monitored annually in the Diversity Steering Committee, which has been created for this and other purposes.

Focus on the fact that there are several generations of employees working in the company was put into practice in 2017 with the launch of the "Bridge Builders" programme. The aim of this initiative, as the name suggests, is to build bridges between the various generations by having young and more experienced employees work together for two days on particular subjects.

The third cornerstone concerns the diversity of styles and personalities. Belfius is convinced that teams made up of people with different personalities, talents and backgrounds perform better. With this in mind, Belfius offers a range of training courses, such as "Discover Your Colours" and "Emotionally Intelligent Communication" in which participants not only get to know themselves better, but they also learn to communicate and work with colleagues and customers, taking each other's personality into account.

3.4.3. "Young Professionals" (YoPro)

Two programmes give young people at Belfius a prominent place and a voice: "Belfius Young Community" (BYC) and, more recently, Belfius Young Professionals. Each year Belfius recruits around 20 Young Professionals. These are young people who have just graduated or who have already gained some business experience. In 3 to 4 periods of 6 months, they work together on strategic projects in various departments. On completion, they are able to work in a permanent position.

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.
(2) As for 1 january 2019, at least one third of the members of the Board of Directors appointed by the Belgian State or by a company controlled by the Belgian State are expected to be of a different gender than the other members.

Table 9. Gender breakdown among members of the Board of Directors of Belfius Bank

2015			2016			2017		
# directors	Of whom women	% female	# directors	Of whom women	% female	# directors	Of whom women	% female
16	3	19%	14	2	14%	15	3	20%

4. Investing in "Learning & Development"

4.1. Continuous development

Because the proactive management of skills is important, Belfius is constantly investing in the development of employees, and their additional training should the content of their job change.

- The continuous development of employees is a cornerstone of the role of Belfius as a company in offering the resources for talented individuals to tackle current and future challenges.
- As such, Belfius acknowledges the importance of "lifelong learning", because this is the best guarantee of employees giving themselves the opportunity to adjust to the changing needs of the business and customers.
- Employees are considered to be in control of their own career. Having said that, Belfius gives them both the opportunities and the means to invest in themselves.

HR has put these aims into practice by:

- Proactively identifying talents in the organisation.
- Offering a wide "Learning" range (conventional training courses, e-learning, on-the-job training, external training courses, seminars, development programmes, etc.).
- Providing a permanent range of development opportunities (E-Lab).
- Guiding and redirecting staff via the Mobility Centre.

4.2. Learning & Development

Table 10. Movements in the average number of days' training per full-time equivalent (Belfius Bank and Belfius Insurance). NB: these figures include the number of training courses actually registered in our systems, as well as alternative forms of training, such as "on-the-job courses"(1)

	2015	2016	2017
Belfius Bank	3.77	4.75	4.42
Belfius Insurance	4.27	4.39	5.29

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.

4.3. Highlights

4.3.1. Collective Labour Agreement on Talent Development at Belfius Bank

Our Strategy 2020 provides a robust answer to the equally robust challenges facing Belfius and, by extension, the whole banking sector. Belfius has not opted to go down the path of mass redundancies. Instead, it has made the conscious decision to invest in its own talent, making clear arrangements on redirection and retraining over a period of up to 9 months. Belfius firmly believes that we have the talent, the strength and most of the skills we need in-house.

4.3.2. Mobility Centre

Through the Mobility Centre, HR has set itself the priority of guiding employees returning to work after a long absence, or if their job has been scrapped, in their search for a new role.

Belfius opts for maximum internal mobility in preference to recruiting from the outside. The aim of the Mobility Centre is to redirect as many employees as it can towards new positions by supporting them in internal job applications. A professional internal and external team helps provide guidance and guarantees objectivity, impartiality and proper expertise.

4.3.3. Leadership @ Belfius

In June 2015 the leadership model was launched to enable a change in culture to thrive through stronger leadership. Since then the 6 leadership roles(1) have been highlighted, with speakers, team methods and tips about how each role can be changed in practice.

The aim in 2017 was to establish leadership even more firmly in our day-to-day tasks and to apply it in practical terms as part of Belfius' strategic projects (Belfius Way of Working, Belfius Together and Strategy 2020). This is also the departure point for 2018. The overarching concept is "Building Bridges" between various groups of people.

4.3.4. Belfius Bridge Builders

Bridge Builders aims to "build bridges" between older and younger employees, between Belfius Bank and Belfius Insurance, between Belfius and the outside world, etc. The Bridge Builders sessions always focus on 2 specific roles within the leadership model, with the participants using exchanges with external organisations to find innovative ideas that can be also implemented within Belfius.

4.3.5. Growth Mindset

Growth Mindset is a three-year programme that stimulates our organisation substantively and mentally to innovate better and deal with future challenges. In 2017 expeditions were undertaken to South Korea, Japan, China and the Baltic states. The best ideas were then developed at Belfius based on the principles of Design Thinking at a "bootcamp", where co-workers with complementary profiles worked together. After this, they were implemented virally across the whole organisation.

4.3.6. Destination Digital & Digital Speed-Dating

The "Destination Digital" training programme offers all Belfius staff a unique opportunity to familiarise themselves with the digital applications used at Belfius in an enjoyable, fun way. The app has been specially designed to take our employees on a journey through various "digital" topics, inviting them to become more closely acquainted with all the capabilities our apps have to offer. A number of initiatives were also developed in the area of Digital Dating, helping staff to find out more about the digital world.

4.3.7. Revamped E-Lab learning platform

The learning platform was revamped in 2017. This platform is available for all employees, but has been specially developed for staff in the bank branches and administrative departments who wish to supplement their knowledge of new products or legal issues.

(1) The 6 leadership roles are: Communicator, Challenger, Talent Manager, Team Player, Accountability, Empowerment.

Thanks to our online training courses, employees are able to get to work right away. The platform can also be accessed on mobile devices.

5. Rotating people and talent is essential

5.1. People, the backbone of the company

Belfius is firmly convinced that people form the backbone of the company and that they are the foundation on which the company's success is built.

- Belfius has grown into the bank and insurance company it is today thanks to the unconditional effort and input of its many talented employees. It is the task of HR to nurture and grow this talent by rotating them between departments. This rotation has a positive impact on the resilience and "future-proofing" of our staff.
- Belfius is convinced that rotating talent needs to go beyond company boundaries so that we can achieve our aims and ambitions by exchanging knowledge and experience with our customers and partners, as well as with the academic world, students and associations.

HR put these aims into effect in 2017 by:

- Acting as a point of contact on HR matters for every employee.
- Positioning HR as an active partner for the business.
- Bringing employees together, with HR as the catalyst.
- Facilitating the way talents and challenges are brought together.

5.2. Workforce evolution

Since the Plan 2013-2016(1) was introduced, the number of employees working in the group declined steadily, before stabilising from 2016. In 2017, Belfius had 6,432 employees (3,125 women and 3,307 men), of whom 98.2% were employed on open-ended contracts (see "Table 11"). In 83.8% of cases, employees were working full-time, which was virtually identical to the situation in previous years (2016: 83.9%, 2015: 83.7%) (see "Table 12"). The age pyramid shows the distribution of the number of employees per age category (see "Table 13").

(1) CLA dated 10 July 2013 regarding a framework for internal mobility, measures for early retirement, measures for reducing working hours and employment guarantees in the context of the Belfius Plan.

Table 11. Movements in the number of active employees in the consolidated Belfius group (headcount)(1)

Type of contract	2015			2016			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Permanent contract	3,329	3,153	6,482	3,232	3,074	6,306	3,249	3,066	6,315
Fixed-term contract	63	56	119	62	61	123	58	59	117
TOTAL	3,392	3,209	6,601	3,294	3,135	6,429	3,307	3,125	6,432

Table 12. Movements in the number of active employees working full-time / part-time in the consolidated Belfius group (headcount)(1)

Work regime	2015			2016			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Permanent contract	3,310	2,217	5,527	3,202	2,193	5,395	3,209	2,184	5,393
Fixed-term contract	82	992	1,074	92	942	1,034	98	941	1,039
TOTAL	3,392	3,209	6,601	3,294	3,135	6,429	3,307	3,125	6,432

Table 13. Movements in the number of active employees per age category in the consolidated Belfius group Belfius (headcount)(1)

	2015			2016			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
20y-29y	193	174	367	194	202	396	207	209	416
30y-39y	518	634	1,152	468	572	1,040	453	521	974
40y-49y	1,083	1,234	2,317	1,045	1,173	2,218	1,029	1,114	2,143
50y-59y	1,448	1,127	2,575	1,416	1,136	2,552	1,422	1,231	2,653
60+	150	40	190	171	52	223	196	50	246
TOTAL	3,392	3,209	6,601	3,294	3,135	6,429	3,307	3,125	6,432

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.

5.3. Highlights

5.3.1. CEO meets students

In the summer of 2017, Belfius Bank CEO Marc Raisière kicked off a roadshow at the HEC ULiège. These roadshows will take him to colleges and universities across the whole country. The events will help explain the role of Belfius and some final-year students will be given the opportunity to gain work experience within the Belfius organisation. This is not a large-scale recruitment campaign, but a win-win situation in which some final-year students can get to know the Belfius corporate culture, while Belfius takes a close-up look at potential talent so that we may be able to offer strong individuals a job in the future.

5.3.2. Belfius Young Community (BYC)

BYC was created in May 2014 by and for young Belfius employees (under the age of 36). The community currently has about a thousand members. BYC has a number of objectives: to bring young employees into contact with each other; to support their sense of involvement and engagement; and also to provide recurrent feedback to management to ensure an ongoing focus on the long-term future.

5.3.3. Hackathon

Originally, a hackathon is a gathering of IT developers who, usually in team, tackle a set of projects aiming at testing an idea and developing a prototype application in a few hours.

IT employees met in March 2017 with colleagues of the Business Lines and external participants for 44 hours to test a number of innovative business concepts and create application prototypes related to the theme of digital financial services. 42 people from a range of different backgrounds were involved in this first hackathon event. The teams were able to call on ten mentors in the form of experienced Belfius employees specialising in various areas, such as IT, communication, finance and innovation.

After the Hackathon, 3 winning projects were selected: Billy (an application which scans periodic payments and direct debits and which uses this information o propose similar offers on the internet), CanEye (an application helping parents to facilitate the purchases of their youngsters) and BComfy (a smart and interconnected payment terminal for elderly). Because of the success of this first edition, a second edition already has been foreseen in April 2018.

5.3.4. The Birdhouse

Belfius has been the lead partner of The Birdhouse since 2015. The Birdhouse supports selected young financial and insurance entrepreneurs. These start-ups are also able to draw on our business development expertise. This partnership provides an attractive supplement to the expert advice that our 500 Business Banking specialists provide all over the country. The Birdhouse is an intensive accelerator programme for young entrepreneurs. 30 experienced mentors assist and guide them for 6 months, with the aim of achieving growth in the long term. 16 new start-ups and scale-ups have embarked on their growth process with the support and expertise of Belfius. Belfius further increased its cooperation with The Birdhouse even further in 2017.

6. Further development of a policy on wellbeing

6.1. A modern & attractive employer

As a modern and attractive employer, Belfius has invested a great deal in recent years in innovative working conditions for its employees.

HR put these aims into practice in 2017 by:

- Actively using HR data in taking strategic decisions.
- Providing an organisation model that is in line with changing needs.
- Creating a competitive and innovative framework in terms of remuneration.
- Actively examining the impact of artificial intelligence.

6.2. A structured well-being policy

Belfius aims to work proactively in favour of the overall wellbeing of its employees. One of the initiatives introduced and which will be implemented in 2018 relates to a structured well-being policy for employees. This initiative will be in two parts:

- The implementation of a "wellbeing tool" that each employee will be able to use at specific times. Based on a detailed questionnaire (focusing on the work-related and personal context of the employee), it proactively identifies 'welfare risks' via a personal report. It also uses an individual barometer to identify areas of professional and personal resilience while providing tips and practical tools for taking action.
- The introduction of an Employee Assistance Programme (EAP). The EAP makes it possible for employees to have access to a "coach" at any time of the day, if required with total anonymity. This enables employees experiencing difficulties (for professional or personal reasons) to receive proactive support.

6.3. Absenteeism and parental leave(1)

Absenteeism at Belfius fell slightly from 4.15% in 2016 to 4.12% in 2017.

The number of employees taking parental leave fell from 206 in 2015 and 181 in 2016 to 164 in 2017.

6.4. Highlights

6.4.1. Belfius Way of Working (BeWoW)

Belfius is a modern, attractive employer. Belfius has an image with its customers as an innovative, digital bank, something that it also wants to be internally via projects such as BeWoW.

The revamped work environment creates a balance between the physical elements (workplace), digital elements (hardware and software) and behavioural elements (organisation structure, culture, leadership and empowerment).

(1) All of the figures relating to staff are for the "active" headcount (unless stated otherwise), i.e. excluding employees taking early retirement, on long-term sick leave, full-time time credits, on secondment.

6.4.2. Belfius Workout & The Village

A fitness space has been set up in the Belfius Tower where all staff can come to exercise, de-stress and recharge their batteries.

"The Village", for its part, has grown in the space of just a few months to become the meeting place par excellence in the Belfius Tower, where people can eat, meet workmates for a chat, have meetings, organize presentations and small events or work individually on one of the login points.

6.4.3. Talentforce 21

Research by Acerta[(1)] shows that the impact of artificial intelligence will manifest itself over the next three to five years, mainly in industry (42%), followed by the banking and insurance sector (38%) and the services sector (35%). For this reason, a strategic exercise operating proactively under the name of Talentforce 21 has been set in motion to examine the impacts on HR of robotisation and digitisation (sourcing, skilling, sizing).

This will enable HR to develop further along 3 main lines:

→ To develop a programme to bring these new skills in-house (training, recruitment).
→ To introduce processes for retraining existing staff whose skills will no longer be required
→ To provide guidance to employees who may not be "retrainable".

(1) "Robotisation and digitalisation: 8 out of 10 employers expect net job losses despite extra recruitment" - Press release Acerta, 31 August 2017.

FINANCIAL RESULTS

PRELIMINARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Changes to the scope of consolidation

Note that only changes with a material impact have been reported (i.e. an impact of more than 1% of balance sheet total and/or P&L).

The real estate company Immo Activity was purchased end 2016 and is fully consolidated since January 2017.

Belfius Insurance sold its investments in "Aviabel", an associate evaluated through the equity method, in the first half of 2017, classified in "Non current assets (disposal group) held for sale and discontinued operations" per year-end 2016, to the American insurance company Axis Capital, realizing EUR 8.9 million capital gain on the sale.

While Belfius Insurance has a long term vision on managing its real estate portfolio, it responds whenever possible on market opportunities. Such an opportunity arose on "Pole Star" and "North Light" whereby Belfius Insurance sold its 60% stake in both companies in the second half of 2017 to South Korean investors, realizing EUR 58 million capital gain on the sales. Both companies were joint ventures evaluated through the equity method.

Finally, Belfius Insurance liquidated its investments in the fully-consolidated funds: "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds" in the course of the second half of 2017. The decision was taken after a re-assessment of the investment framework, and it was determined that the volatility of these funds no longer fits Belfius Insurance's new investment framework.

2. Fundamentals of the consolidated financial statements

The consolidated financial statements of Belfius are prepared on a going concern basis in accordance with the International Financial Reporting standards as adopted by the EU.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

As at 31 December 2017, the balance sheet total amounted to EUR 168.0 billion, a decrease of EUR 8.8 billion or 5.0% compared to 31 December 2016. The balance sheet is composed of EUR 148.5 billion for the banking group (compared to EUR 156.8 billion end 2016) and EUR 19.5 billion for the insurance group (compared to EUR 19.9 billion end 2016). Note that these amounts represent the contribution of the banking or insurance group to the consolidation scope and do not reflect their respective stand alone balance sheet totals.

Synoptic Consolidated balance sheet

(In millions of EUR)	31/12/16	Contribution Bank into group(1)	Contribution Insurance into group(1)	31/12/17	Contribution Bank into group(1)	Contribution Insurance into group(1)	Evolution 2016/2017
TOTAL ASSETS	176,721	156,775	19,946	167,959	148,476	19,483	-8,762
of which							
Loans and advances due from banks and central banks	27,114	26,929	185	24,358	24,238	120	-2,756
Loans and advances to customers	89,702	84,318	5,385	90,057	85,121	4,936	+355
Investments held to maturity	5,393	5,393	0	5,442	5,442	0	+49
Financial assets available for sale	18,820	5,255	13,565	17,983	4,673	13,309	-837
Derivatives	25,307	25,307	0	20,303	20,303	0	-5,004
Non current assets (disposal groups) held for sale and discontinued operations	29	21	8	19	19	0	-10
TOTAL LIABILITIES	167,709	148,571	19,138	158,438	139,776	18,662	-9,271
of which							
Due to banks	12,582	12,506	76	11,110	11,078	32	-1,472
Customers borrowings and deposits	74,171	74,171	0	76,274	76,274	0	+2,103
Debt securities	23,981	23,981	0	22,027	22,027	0	-1,954
Derivatives	29,573	29,562	10	21,264	21,264	0	-8,308
Subordinated debts	1,399	1,399	0	1,199	1,199	0	-200
TOTAL EQUITY	9,012	8,205	807	9,521	8,700	821	+510
of which							
Core shareholders' equity	8,694	8,706	(13)	9,084	9,046	38	+391
Gains and losses not recognised in the statement of income	318	(502)	820	437	(346)	783	+119

(1) Information based on non-audited figures.

The decrease of the balance sheet total primarily results from the decrease in the fair value of derivatives and related cash collateral as a result of the slight increase of interest rates compared to year-end 2016 and of additional offsetting due to additional clearing with LCH (more specifically London Clearing House or "LCH"). In particular, following a global trend towards market standardisation of derivative contracts, Belfius decided, and successfully managed, to restructure certain derivative contracts by eliminating certain optionalities. During the process, Belfius was able to transform these collateral contracts into contracts that can be cleared with a central clearing house and decided to clear part of these derivatives through LCH. As the IFRS offsetting requirements were met, the presentation of the collateral as well as derivatives amounts on balance sheet decreased. The total LCH offsetting amounted to EUR 8.7 billion end 2017, compared to EUR 7.8 billion end 2016.

1. Assets

Loans and advances due from banks and central banks decreased with 10.2% or EUR 2.8 billion, to EUR 24.4 billion as at 31 December 2017, mainly due to decrease

- in cash collateral paid of EUR 4.0 billion following higher interest rates compared to year-end 2016 and the additional clearing of derivatives with LCH resulting in additional netting on the balance sheet, and
- in reverse repurchase agreements of EUR 3.1 billion.

This decrease was partially offset by an increase in cash deposits with central banks for EUR 5.1 billion.

End December 2017, **loans and advances to customers** amounted to EUR 90.1 billion. This increase of EUR 0.4 billion, or 0.4%, compared to previous year, is essentially explained by

- an increase in commercial assets for EUR 2.5 billion (mainly mortgage loans and term loans) in line with our strategy to support all constituents of the Belgian market, as well as
- an increase in reverse repurchase agreements of EUR 0.4 billion.

The increase was almost entirely offset by a decrease in cash collateral paid for EUR 1.1 billion and a decrease in bond positions for EUR 1.3 billion.

In the context of managing the global credit quality of its loan portfolio, Belfius has opted to sell some loans that are fully or significantly impaired. Belfius accomplished the last part of its former active tactical derisking program by selling the remaining US RMBS bonds in the former Side portfolio (as from 01/01/2017 merged into Group Center).

A decrease of specific impairments can be noted, a.o. due to the sale of the impaired US RMBS bonds.

The coverage ratio, indicating the ability to absorb potential losses from non-performing loans with specific impairment provisions, increased from 54.38% to 63.29%

Investments held to maturity remained stable and amounted to EUR 5.4 billion at the end of December 2017. The slight increase is due to purchases of some high quality bonds (ABS) (with an AA/AAA rating) for purposes of the ALM Liquidity bond portfolio.

Financial assets available for sale decreased by EUR 0.8 billion to EUR 18.0 billion as at 31 December 2017. The "financial assets available for sale" portfolio is mainly situated in the insurance group for EUR 13.3 billion (compared to EUR 13.6 billion end 2016). For the banking group, the portfolio amounted to EUR 4.7 billion (compared to EUR 5.3 billion at the end of 2016).

The decrease in the overall portfolio is mainly linked to bonds that came to maturity, as well as negative mark-to-market movements due to the higher interest rate compared to year-end 2016. Also, some rebalancing of the portfolio can be noted following the liquidation of Belfius Insurance's participation in the consolidated funds "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds" which was partially reinvested in liquid investment funds.

The positive fair value of **derivatives** decreased by EUR 5.0 billion to EUR 20.3 billion (-19.8% compared to the end of 2016) following higher interest rates compared to end 2016 and the additional clearing of derivatives with LCH resulting in an additional netting on the balance sheet. Note that the total LCH offsetting amounted to EUR 8.7 billion end 2017, compared to EUR 7.8 billion end 2016.

Non-current assets (disposal group) held for sale and discontinued operations remained stable and amounted to EUR 19 million. Note that certain funds have been reclassified from "financial assets available for sale" on 30 June 2017 and have been sold in the second half of 2017.

2. Liabilities

Liabilities due to banks decreased with EUR 1.5 billion to EUR 11.1 billion as at 31 December 2017, mainly stemming from a decrease in

- → cash collateral received by EUR 1.7 billion following higher interest rates compared to year-end 2016 and the additional clearing of derivatives with LCH resulting in an additional netting on the balance sheet,
- → repurchase agreements by EUR 0.2 billion and
- → other deposits from banks and central banks by EUR 0.3 billion.

The decrease is partially offset by an increase in the outstanding targeted longer-term refinancing operations (TLTRO II) funding by EUR 1 billion. These TLTRO's are designed to further enhance the functioning of the monetary policy transmission mechanism by supporting bank lending to the real economy. In view of continuing to take on its role of financing the real economy, Belfius drew an additional EUR 1.0 billion, end March 2017, resulting in a total participation of EUR 4.0 billion.

End December 2017, **customer borrowings and deposits** amounted to EUR 76.3 billion, up with EUR 2.1 billion compared to end 2016, entirely due to the growth of sight and saving accounts.

Debt securities decreased with EUR 2.0 billion to EUR 22.0 billion as at 31 December 2017. The decrease is mainly related to covered bonds that came to maturity for EUR 1.3 billion as well as some other long-term debt securities. Note that the decrease of the long-term debt securities is partially offset by the issue of NPS bonds (non-preferred senior bonds), increasing Belfius' loss absorption capacity, that contribute to the Minimum Requirement for own funds and Eligible Liabilities (MREL) with a face value of EUR 1.2 billion.

The negative fair value of **derivatives** decreased by EUR 8.3 billion to EUR 21.3 billion (-28.1% compared to the end of 2016) following the higher interest rates compared to end 2016 and the additional clearing of derivatives with LCH resulting in an additional netting. Note that the total LCH offsetting amounted to EUR 8.7 billion end 2017, compared to EUR 7.8 billion end 2016.

Subordinated debts decreased by EUR 0.2 billion to EUR 1.2 billion due to a EUR 175 million subordinated bond that came to maturity in the first half of 2017 and the early repayment of two subordinated bonds of EUR 20 million each, partially compensated by the Tier 2 issue (private placement) of EUR 50 million in the first half of 2017.

3. Equity

End December 2017, **total equity** amounted to EUR 9.5 billion, against EUR 9.0 billion as of 31 December 2016. The EUR 510 million increase is explained by the profit for the period of EUR 606 million, to be decreased with the dividend paid in May 2017 relative to the accounting year 2016 of EUR 140 million, and an interim dividend over 2017 result paid in the second half of 2017 for EUR 75 million, and to be increased with the increase in "gains and losses not recognised in the statement of income" of EUR 119 million.

The **core shareholders' equity** rose with EUR 391 million to EUR 9.1 billion due to the net income for the year 2017 of EUR 606 million, again partially offset by the full year 2016 dividend of EUR 140 million and an interim dividend on 2017 result of EUR 75 million.

Gains and losses not recognised in the statement of income increased by EUR 119 million to EUR 437 million at 31 December 2017 from EUR 318 million at year-end 2016. The "available-for-sale reserve" of the banking group amounted to EUR -444 million (an improvement of EUR 110 million) and of the insurance group EUR 782 million (an increase by EUR 4 million). The increase of the total "available-for-sale reserve" is mainly related to improved credit spreads and a decrease of the negative adjustment of shadow accounting at Belfius Insurance following the slight improvement of the interest rates compared to 2016 and lower outstandings in branch 21 life insurance products.

The "remeasurement of the defined benefit plans" increased by EUR 26 million due to a slightly higher discount rate compared to year-end 2016 following higher interest rates, and the favorable return on the pension plan assets.

Note that the Belgian corporate income tax reform, enacted before year-end 2017, had a positive impact on the "gains and losses not recognized in the statement of income" of EUR 67 million due to the reassessment of the related Deferred Taxes.

ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

1. Net income group share

In 2017, Belfius recorded a **net income group share** of EUR 606 million, against EUR 535 million in 2016, up 13.1%.

The bank's contribution to the consolidated net income 2017 amounted to EUR 435 million (compared to EUR 367 million in 2016) and the insurance group's contribution to EUR 171 million (compared to EUR 168 million in 2016). Note that in 2016, after adjustment for an intragroup transaction, the net contribution of the insurance group amounted to EUR 201 million and EUR 335 million for Belfius Bank. More in particular, in 2016, Belfius Insurance has bought back, before maturity, its Tier 2 subordinated debt issued end 2011 which was subscribed by Belfius Bank, and this at a fair value above book value, as yields for subordinated debt came down since then. At the same time, Belfius Insurance reissued (and Belfius Bank subscribed) new Tier 2 subordinated debts and in that way extended the maturity profile of its outstanding subordinated debt and increased somewhat its total outstanding Tier 2, as such improving its total capital mix.

In a challenging interest rate environment, Belfius continues to realize very good performances. The excellent result reflects the continued successful implementation of our bank-insurance model and the strong growth of commercial volumes despite significant deferred tax reassessment (EUR -106 million) due to the decrease of the corporate income tax rate as from 2018 onwards. The result also benefitted from efficient financial management and strict cost containment, despite important investments in innovation and strategic priorities like digitalization. Higher income (+4%) and stable costs lead to a cost to income ratio that further improves to 58.1%, compared to 60.5% at year-end 2016.

2. Income

In 2017, **total income** amounted to EUR 2,355 million, up 4.2% or EUR 95 million more than in 2016.

Net interest income increased with EUR 8 million to EUR 1,951 million mainly following higher commercial activity volumes, strict pricing management, efficient interest rate hedging and benign financial markets (leading to decreasing wholesale funding costs), despite the continuing low interest rate environment. In addition, the net interest income was furthermore positively impacted

Synoptic Consolidated statement of income

(In millions of EUR)	2016	*Contribution Bank into group(1)*	*Contribution Insurance into group(1)*	2017	*Contribution Bank into group(1)*	*Contribution Insurance into group(1)*	Evolution 2016/2017
INCOME	*2,259*	*1,826*	*434*	*2,355*	*1,861*	*494*	+4.2%
of which							
Net interest income	1,943	*1,407*	*536*	1,951	*1,482*	*470*	+0.4%
Net income from financial instruments at fair value through profit and loss	17	*16*	*1*	46	*46*	*0*	+173.5%
Net income on investments and liabilities	116	*44*	*72*	174	*21*	*153*	+50.3%
Net fee and commission income	507	*497*	*10*	553	*534*	*19*	+8.9%
Other income and expense	(162)	*(163)*	*0*	(238)	*(233)*	*(6)*	+46.5%
EXPENSES	*(1,366)*	*(1,157)*	*(210)*	*(1,369)*	*(1,133)*	*(236)*	+0.2%
GROSS OPERATING INCOME	893	*669*	*224*	986	*728*	*258*	+10.4%
Impairments of financial instruments and provisions for credit commitments	(116)	*(118)*	*2*	(33)	*(33)*	*0*	-71.5%
Impairments on (in)tangible assets	3	*3*	*0*	9	*9*	*0*	+278.4%
NET INCOME BEFORE TAX	780	*553*	*226*	963	*704*	*258*	+23.5%
Tax (expense) income	(244)	*(187)*	*(58)*	(357)	*(270)*	*(87)*	+46.2%
Attributable to non-controlling interests	0	*0*	*0*	0	*0*	*0*	-12.3%
NET INCOME GROUP SHARE	535	*367*	*168*	606	*435*	*171*	+13.1%
NET INCOME GROUP SHARE AFTER THE ADJUSTMENT OF THE BUY BACK OF SUBORDINATED DEBTS	535	*335*	*201*	606	*435*	*171*	+13.1%

(1) Information based on non-audited figures.

(EUR 21 million) by the volume discount of 40 bps on TLTRO II applied interest rates[1] and by the reversal of the accrued but finally unpaid negative interests which had been accrued since OIS turned negative. More specifically, Belfius applied a floor on the interest rate remuneration on collateral (i.e. negative interests are not applied), but accrued nevertheless these interests. Seeing that, following the agreements on the standardisation of the CSA agreements, these interests were no longer due, Belfius was able to reverse the accrual.

Net income from financial instruments at fair value through profit and loss has increased from EUR 47 million in 2016 to EUR 240 million in 2017, a.o. explained by an improvement of the markets which resulted in a positive evolution in fair value adjustments. In addition, Belfius was able to respond efficiently to the global trend towards standardisation of derivative contracts. As a result, Belfius was able to conclude agreements on certain optionalities in collateral contracts of derivatives which had a positive impact on the results. Following these agreements, Belfius recorded a global net impact of EUR 75 million following the contractual adjustments with these counterparties. This positive impact was partially offset by the impact of methodological refinements on ALM management of loans, by including more credit contingencies on expected cash-flows, amounting to EUR -174 million.

Net income on investments and liabilities increased by EUR 58 million to EUR 174 million in 2017. The increase is mainly attributable to Belfius Insurance following the sale of Aviabel, North Light and Pole Star for a total amount of EUR 67 million, as well as some capital gains on divestments in bond, funds and equities. A material part of these capital gains were reserved in the technical provision for future discretionary participation features. Furthermore, Belfius Bank realized an accounting gain on the sale of bonds included in the last part of its former active tactical derisking program.

Net fee and commission income increased with EUR 45 million, or 8.9%, to EUR 553 million. The increase in commissions mainly stems from increased client investments in off-balance sheet products as well as improved and less volatile equity markets.

Other income and expense deteriorated by EUR 76 million to EUR -238 million. The decrease in other income is linked to one-off elements in 2016 mainly related to the sale of an important real estate project. Note that Belfius has recognized EUR -217 million in P&L in 2017 as sector levies, as well as a cumulative stock of EUR 17 million irrevocable payment commitment in off-balance sheet for its contribution to the Single Resolution Fund (compared to EUR 10 million in 2016). Other expense increased following the recognition of a provision for potential settlements of ongoing disputes with third parties.

3. Expenses

Despite the important investments in digitalization and innovation, Belfius continues to operate within strict cost control. In 2017, **total expenses** remained stable and amounted to EUR 1,369 million, a slight increase of EUR 3 million or 0.2% compared to 2016. A decrease can be observed in staff expenses (for EUR 18 million) and network costs (for EUR 23 million), also following an increased activation level of commissions on production of loans and as such treated through the effective interest rate. However, these decreases are offset by an increase in general expenses for EUR 32 million mainly following higher professional fees as well as marketing costs. In addition, an increase of the depreciations and amortisations for EUR 11 million can be noted, in line with the digitalization and innovation investment program.

4. Gross operating income

As a result, **gross operating income** increased significantly to EUR 986 million in 2017, up EUR 93 million or 10.4% compared to 2016. The banking group contributed EUR 728 million compared to EUR 669 million at year-end 2017) and the insurance group EUR 258 million (compared to EUR 224 million in 2016).

The consolidated cost-income ratio improved from 60.5% in 2016 to 58.1% in 2017.

5. Impairments of financial instruments and provisions for credit commitments

Impairments of financial instruments and provisions for credit commitments decreased with EUR -83 million to EUR -33 million. In the context of managing the global credit quality of its loan portfolio, Belfius has opted to sell some loans that were fully or significantly impaired. Furthermore Belfius accomplished its last part of its former active tactical derisking program by selling the remaining US RMBS bonds in the former Side portfolio (as from 01/01/2017 merged into Group Center). The reversals linked to that resulted in a historic low cost of risk.

6. Impairments on tangible and intangible assets

Impairments on tangible and intangible assets amounted to EUR 9 million compared to EUR 3 million end 2016, mainly resulting from the reversal of an impairment on Belfius headquarter Rogier Tower. The value of the building has increased due to the reassessment of the occupancy rate following the execution of the "Belfius Together" and "Belfius Way of Working" strategy, where Belfius Insurance and Belfius Bank employees working in Brussels (Centre) are sharing more and more the same headquarter. Following continuous investments in digitalization and innovation, Belfius has also reviewed in 2017 the (expected) economic use of its internally developed software and recorded, where necessary, some impairments.

(1) The TLTRO II was designed to allow the banks to obtain long-term funding (4-year maturity) at zero cost, even with the opportunity to obtain a negative rate, one that corresponds to a retroactive discount on the sum to be reimbursed, up to a maximum of 40 bps. This discount would apply only if the banks were to achieve some targets of increased loans to the real economy. The interest rate applicable to each TLTRO-II will be determined based on the lending history of the participant in the period 1 February 2016 to 31 January 2018. Since for Belfius all conditions were fulfilled, the discount was accounted for in 2017.

7. Net income before tax

Net income before tax stood at EUR 963 million, up EUR 183 million or 23.5% compared to 2016. The banking group contributed EUR 704 million (compared to EUR 553 million in 2016) and the insurance group EUR 258 million (compared to EUR 226 million in 2016).

8. Tax expense

Tax expense, including deferred taxes, amounted to EUR 357 million in 2017 compared to EUR 244 million in 2016. This increase is mainly driven by the reassessment of (net) deferred tax assets following the Belgian corporate income tax reform enacted before year-end 2017, whereby the nominal corporate income tax rate will gradually decrease from 33.9% to 25% by 2020. This resulted in an additional tax expense for the banking group of EUR 64 million and EUR 42 million for the insurance group. We refer to infra for a more detailed view on the impacts on Other Comprehensive Income, Net Income and Net Asset Value.

9. Net income group share

As a result, Belfius **net income group share** amounted to EUR 606 million following the Belgian Corporate income tax reform for 2017, compared to EUR 535 million in 2016.

10. Deferred Taxes

The Belgian corporate income tax reform, enacted just before year-end 2017, decides in a gradual decrease, among other measures, of the nominal corporate income tax rate from 33.9% in 2017 to 25% in 2020. This has lead to an increase of the effective tax rate for Belfius by 66bps, from 33.9% in 2016 to 40.5% in 2017; without the Belgian corporate tax reform the effective tax rate would have been 29.5%.

Following IAS 12, tax assets and liabilities are assessed using the rates and laws that have been enacted or are substantively enacted by the balance sheet date. Belfius has therefore performed a reassessment of its deferred taxes, leading to

- → an increase in Other Comprehensive Income by EUR 67 million of which EUR 17 million for the banking group and EUR 49 million for the insurance group, and
- → a negative impact on Belfius' 2017 net results stemming from a reassessment of deferred taxes through P&L, resulting in an additional tax expense for the banking group (EUR 64 million) and the insurance group (EUR 42 million).

Gains and losses not recognised in the statement of income(1) (In thousands of EUR)	31/12/17	*Contribution Bank into group*	*Contribution Insurance into group*
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME BEFORE REASSESSMENT	370,009	*(363,481)*	*733,490*
Impact deferred tax reassessment	66,892	*17,400*	*49,492*
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	436,901	*(346,081)*	*782,982*

Net income attributable to equity holders of the parent(1) (In thousands of EUR)	31/12/17	*Contribution Bank into group*	*Contribution Insurance into group*
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT BEFORE REASSESSMENT	711,422	*498,881*	*212,541*
Impact deferred tax reassessment	(105,920)	*(63,937)*	*(41,983)*
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	605,502	*434,944*	*170,558*

Net asset value(1) (In thousands of EUR)	31/12/17	*Contribution Bank into group*	*Contribution Insurance into group*
NET ASSET VALUE BEFORE REASSESSMENT	9,560,265	*8,746,847*	*813,418*
Impact deferred tax reassessment	(39,028)	*(46,537)*	*7,509*
NET ASSET VALUE	9,521,237	*8,700,310*	*820,927*

(1) Some amounts may not add up due to rounding.

11. Dividend

The Board of Directors of 22 March 2018, has proposed to the General Assembly of 25 April 2018 an ordinary dividend of EUR 363 million in respect of the accounting year 2017, of which EUR 75 million was already paid through an interim dividend in September 2017.

12. Solvency Bank

End 2017, CET 1 ratio Phased In amounted to 16.1%, a decrease of 54 bps compared to end of 2016. To note: with application of grandfathering rules of 2017 (80% in stead of 60%), CET 1 ratio for 2016 would have amounted to 16.4% compared to CET 1 ratio of 16.6% as reported.

The decrease in CET 1 ratio is the result of positive effects in CET 1 capital (+80 bps) offset by negative effects in total risk exposure (-128 bps).

The improvement of the CET 1 capital is mainly the result of the increased net result (according to the prudential scope) even after deduction for foreseeable dividends, as well as the increase of AFS reserves and the decrease in the deduction for securitizations. These positive impacts were however partially offset by the shift in grandfathering rules (-27 bps) on the regulatory own funds calculation. The increase of the regulatory risk exposure is mainly the result of the increasing commercial activity and loans outstanding, the higher risk-weighting of sovereign exposure on Italy and the increased regulatory market risk exposure.

End 2017, regulatory risk exposure (Phased In) of Belfius amounted to EUR 50,620 million, an increase with 8% compared to EUR 46,730 million at the end of 2016.

The regulatory credit risk exposure (Phased In) increased by EUR 3,127 million (8%) to EUR 39,078 million. This evolution is mainly due to the higher risk-weighting of sovereign exposure on Italy (following the downgrades to internal rating BBB-) and an increase of the exposures on SME, corporate and mortgage loans. This increase has been partially compensated by the decrease on derivatives exposures linked to the higher interest rates and the improved balance of market value versus collateral received.

The regulatory market risk exposure also increased by EUR 705 million (+38%) to EUR 1,841 million, mostly as a result of increased S-VaR due to several combined (mainly temporary) effects on interest rate risks. Other important factors concern the inclusion of additional transactions to the internal model value-at-risk, and a slight increase of equity risk.

Regulatory operational risk exposure remained stable.

Tier 1 capital ratio is equal to CET 1 ratio as Belfius did not hold any additional Tier 1 instruments at 31 December 2017. Note that Belfius has issued an inaugural Additional Tier 1 bond of EUR 500 million beginning 2018 (please also refer to the note on "post balance sheet events").

The total capital ratio Phased In amounted to 18.6%, a decrease of 79 bps compared to the end of 2016.

More detailed information is provided in the "Capital management" chapter of this annual report.

12. Solvency Insurer

The Solvency II ratio of Belfius Insurance (before foreseeable dividend) stood at 230% at the end of December 2017, higher than the ratio as of December 2016, thanks to the resilience of the Available Financial Resources in the current market environment, combined with decreasing solvency capital requirements mainly driven by the methodological change in SCR Adjustment for Deferred taxes which is now more aligned with the EU regulator regime. Net of the foreseeable dividend of EUR 120 million, the Solvency II ratio amounts to 219%.

More detailed information is provided in the "Capital management" chapter of this annual report.

SEGMENT REPORTING

Analytically, Belfius splits its activities and accounts in three segments: Retail and Commercial (RC), Public and Corporate (PC) and Group Center (GC); with RC and PC containing the key commercial activities of Belfius.

- **Retail and Commercial (RC)**, managing the commercial relationships with individual customers and with small & medium sized enterprises both at bank and insurance level.
- **Public and Corporate (PC)**, managing the commercial relationships with public sector, social sector and corporate clients both at bank and insurance level.
- **Group Center (GC)**, containing the residual results not allocated to the two commercial segments. This mainly consists of results from Bond and Derivative portfolio management. Note that as from 1 January 2017, Belfius integrated the former Side segment(1) into Group Center.

Belfius

BANK & INSURANCE

RETAIL AND COMMERCIAL | PUBLIC AND CORPORATE | GROUP CENTER

(1) Until end 2016 the Side segment incorporated the Legacy portfolios, inherited from the Dexia-era.

KEY FIGURES OF THE SEGMENT REPORTING (UNAUDITED)

Balance Sheet

	31/12/16 (PF)(1)		
(In billions of EUR)	Assets	Liabilities	Equity
Retail and Commercial (RC)	53.8	77.0	2.2
Public and Corporate (PC)	41.7	26.1	2.0
Group Center (GC)	81.2	64.6	4.8
TOTAL	**176.7**	**167.7**	**9.0**
of which banking group	*156.8*	*148.6*	*8.1*
of which insurance group(2)	*19.9*	*19.1*	*0.9*

(1) Due to the integration of Side into Group Center, the 2016 balance sheet by segment has been restated to allow for comparison with 2017. For the Equity per business line, a new methodology is applied as from 2017 onwards, allocating CET 1 capital equal to 13.5% of the RWA for each business line. Note that till 2016, CET 1 target was set at 10.5% for Franchise, containing the commercial activities, and 13% for Side. Please note that the capital allocation for the insurance activities is based on the Danish Compromise, allocated to each business line in proportion to its contribution to Belfius Insurance Solvency II SCR requirements. Any non allocated capital is reported in Group Center.
(2) Note that the assets and liabilities represent the contribution of the Belfius Insurance group to the consolidated balance sheet.

	31/12/17		
(In billions of EUR)	Assets	Liabilities	Equity
Retail and Commercial (RC)	56.5	77.1	2.3
Public and Corporate (PC)	41.7	26.3	2.2
Group Center (GC)	69.8	55.1	5.0
TOTAL	**168.0**	**158.4**	**9.5**
of which banking group	*148.5*	*139.9*	*8.6*
of which insurance group(1)	*19.5*	*18.6*	*0.9*

(1) Note that the assets and liabilities represent the contribution of the Belfius Insurance group to the consolidated balance sheet.

→ The assets and liabilities allocated to Retail and Commercial (RC) and Public and Corporate (PC) reflect the commercial activities of those business lines. Where RC shows an excess of funding, PC is more asset driven. As a whole, the commercial balance sheet shows a funding excess with a sound 92% loan to deposit ratio at the end of December 2017.

→ The equity allocated to Retail and Commercial and Public and Corporate is the normative regulatory equity, which is derived from the RWA of these business lines multiplied by 13,5% (Belfius' minimal operational CET1 ratio). The target was determined by the minimum CET1 ratio of 10.75% together with a stress buffer of 2.75%.

KEY FIGURES OF THE SEGMENT REPORTING (UNAUDITED)

Statement of income

	31/12/16 (PF)(1)			
(In millions of EUR)	Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	1,716	456	88	2,259
EXPENSES	(1,018)	(210)	(139)	(1,366)
GROSS OPERATING INCOME	698	246	(51)	893
Cost of risk	(41)	(25)	(49)	(116)
Impairments on (in)tangible assets	2	1	0	3
NET INCOME BEFORE TAX	659	221	(100)	780
Tax (expense) income	(200)	(70)	25	(244)
NET INCOME AFTER TAX	459	152	(75)	535
Non-controlling interests	0	0	0	0
NET INCOME GROUP SHARE	459	152	(75)	535
of which banking group(2)	281	151	(97)	335
of which insurance group(2)(3)	178	0	22	201

(1) Due to the integration of Side into Group Center, the income statement by segment has been restated to allow for comparison with 2017. The main changes in analytical results relate to the integration of the new Belgian sector levy 'Single Belgian Bank Levy' (lower cost for Retail and Commercial and Group Center but higher for Public and Corporate) and allocation of the collateral cost to the business lines.
(2) Note that the net contribution in the consolidated Belfius P&L amounts to EUR 168 million for Belfius Insurance and EUR 367 million for Belfius Bank. After adjustment for an intragroup transaction, the net contribution amounts to EUR 201 million for Belfius Insurance and EUR 335 million for Belfius Bank. More in particular, Belfius Insurance has bought back, before maturity, its Tier 2 subordinated debt issued end 2011 which was subscribed by Belfius Bank, and this at a fair value above book value, as yields for subordinated debt came down since then. At the same time, Belfius Insurance reissued (and Belfius Bank subscribed) new Tier 2 subordinated debts and in that way extended the maturity profile of its outstanding subordinated debt and increased somewhat its total outstanding Tier 2, as such improving its total capital mix.
(3) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

	31/12/17			
(In millions of EUR)	Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	1,684	519	151	2,355
EXPENSES	(1,027)	(208)	(134)	(1,369)
GROSS OPERATING INCOME	657	311	17	986
Cost of risk	(40)	(28)	35	(33)
Impairments on (in)tangible assets	(4)	(1)	14	9
NET INCOME BEFORE TAX	614	282	66	963
Tax (expense) income	(171)	(89)	(96)	(357)
NET INCOME AFTER TAX	443	193	(30)	606
Non-controlling interests	0	0	0	0
NET INCOME GROUP SHARE	443	193	(30)	606
of which banking group	252	177	6	435
of which insurance group(1)	191	16	(36)	171

(1) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income. Belfius Insurance presents a net income of EUR 184 million in its consolidated accounts over 2017. The difference with the contribution of the insurer to the Belfius Group of EUR 171 million is mainly related to the realized result on bonds sold or bought by Belfius Insurance to or from other entities of the Belfius group that is adjusted at consolidated level, combined with the correction of the amortizations for buildings sold from Belfius Bank to Belfius Insurance, and a reversal of the impairment on a building owned by Belfius Insurance only accounted for on Belfius Insurance consolidated level (and not on Belfius group level, since never impaired at that level).

RETAIL AND COMMERCIAL (RC)

Business description

Belfius Bank is the number two bank-insurer in Belgium[1] with approximately 3.5 million retail and commercial customers served through 671 branches, Belfius Connect, and a large number of automatic self-banking machines. Belfius Bank is also a leader in the mobile banking space, with over 1 active million mobile users, the highest mobile banking penetration amongst Belgian bank. Belfius Bank offers individuals, self-employed persons, the liberal professions and SMEs a comprehensive range of retail, commercial and private banking and insurance products and services. Its ambition is to offer all basic banking and insurance products through the mobile, paperless, end-to-end and real-time channels by 2020.

Belfius Insurance offers insurance products to retail and commercial customers through the Belfius Bank branch network, as well as through the tied agents network of DVV insurance. It also offers insurance products through Corona Direct Insurance, a direct insurer active via the Internet and "affinity partners", which are external parties with which Corona collaborates and which offer Corona insurance products. Belfius Insurance's business model is increasingly focused on bankassurance, with Belfius Bank branches being the channel with the highest growth. Belfius Insurance has also integrated the Elantis brand, which offers mortgage loans and consumer loans through independent brokers, for the balance sheet of Belfius Insurance, Belfius Bank and a third party bank.

Belfius Insurance is the sixth largest insurer[2] in Belgium, focusing mainly on the retail market.

Customer Segmentation

As part of its Belfius 2020 strategy, Belfius is focused on applying a sub-segmentation of customers across the Retail and Commercial segment. Belfius's customer segments include:

→ **retail**, which comprises individuals with a financial footprint below EUR 100,000;
→ **privilege**, which comprises individuals with a financial footprint between EUR 100,000 and EUR 500,000;
→ **private**, which comprises individuals with a financial footprint between EUR 500,000 and EUR 2.5 million;
→ **wealth management**, which comprises individuals with a financial footprint worth over EUR 2.5 million; and
→ **business**, which comprises self-employed individuals, liberal professions (e.g., lawyers, accountants and doctors) and SMEs with turnover below EUR 10 million.

All Retail and Commercial customers can benefit from convenient digital mobile and internet banking channels and a modern remote-access interaction and service centre, Belfius Connect, which supports Belfius's omni-channel paperless service on core products with call, video, chat and e-mail functions and to interact with customers. Belfius Connect is currently available from 08:00 to 22:00, and is continuing to be developed and expanded in coordination with the increasing use of digital and remote-access channels by customers.

For **retail** customers, Belfius focuses on top quality self-service digital solutions and gives customers access to specialists at key life moments either in branch or remotely. The retail product offering mainly consists of credit cards, current accounts, non-life insurance products (e.g. car, home and family, assistance), consumer and mortgage loans, saving accounts, pension savings and other basic investment products (e.g., mutual funds and Flexinvest Plan).

For **privilege** customers, Belfius provides access to local account managers and regional insurance and credit specialists to help customers identify the best solutions for the build-up, management and preservation of their assets. Products and services include the innovative core investment product Belfius Personal Global Portfolio, and a wide range of banking, insurance and asset management services. On longevity protection and advice, such as accumulation/decumulation and related life insurance products, a new offering is currently in development.

For **private banking** customers, Belfius offers a dedicated local private banker to identify solutions to structure, optimise, manage and protect their assets, including heritage planning. The products and services offering includes discretionary asset management, MyPortfolio[3] – an alternative asset management system, wealth analysis and financial planning, bespoke products, and real-estate, philanthropic and art solutions.

For its **wealth management** customers, Belfius offers its 150 years of experience in wealth management. It initiates contact with these customers through its innovative Wealth Management Hub and Private Houses with Febelfin-certified wealth managers offering a holistic approach to wealth management. Belfius's wealth management offerings are bespoke and include estate planning, family company transmission and a dedicated digital experience that offers access to market research.

Belfius's proposition for **business** customers is targeted at liberal professionals, self-employed individuals, and SMEs, with a "professional-personal" approach at the core of Belfius's commercial approach. The offering focuses on both banking and insurance solutions at every stage of the entrepreneurial (start-up, growth and exit) and personal life-cycles (investment and mortgage loans, investment and pension planning) with specific sectoral experience for medical, accountancy and legal professionals. Products include tailored lines of credit, liquidity management and payment solutions, funding and partnership advice, and a new business pension product.

(1) Market penetration as main bank based on market research GFK Belgium
(2) 2016 data – Assuralia; 2017 data not yet available
(3) See on following pages.

Products

The Retail and Commercial segment provides a full range of banking products and a varied selection of life and non-life insurance products that address the needs of this customer segment.

Payment Products

Payment products are offered in the form of packages of current accounts linked to a debit and credit card, depending on the level of service selected from the introductory, free Belfius Pulse package to the Platinum product. The granting of a credit card is subject to acceptance through a standard risk management process. Customers can also opt for a MasterCard Prepaid, enabling them to make payments within the limit set for their budget, anywhere in the world and also online.

Belfius has specific packages (Business Pack and Business Pack Plus) for business customers. Belfius also offers additional services tailored to their needs such as cash flow management. Given the constant evolution of payment systems in a changing European legislative framework (including the introduction of PSD2), Belfius has invested in new solutions for individual and professional customers. such as Payconiq (together with ING and KBC). Belfius is also a main shareholder of Bancontact, a market leader in local card payments in Belgium, and Isabel, a multi-banking digital channel. Belfius also supports the development of local businesses through a comprehensive offer (POS + E/M Commerce) of means of payment.

All of these products are already very advanced digitally in all mobile and internet channels.

Credit Products

Belfius's main credit product for retail customers is mortgage loans, which are offered at a broad range of fixed or variable interest rates. It also offers consumer loan products, including car loans, personal loans and green loans.

Belfius offers credit products tailored to the needs of business customers, including tax funding, working capital facilities (particularly Belfius Business Cash+) and investment loans.

In 2017 Belfius Bank negotiated a new partnership with the European Investment Fund. The COSME program that was agreed upon focusses on start-ups that are choosing a bank, are looking for investment loans of up to EUR 150,000 and need an additional guarantee in this respect. This programme will last for 3 years and will be available for some 700 to 900 loans for starters from February 2018 onwards

Savings and Investment Products

Savings and investment products fall into two categories: balance sheet products and off-balance sheet products. Balance sheet products include savings accounts, current and term accounts, savings certificates and bonds, both for private and business customers. Off-balance sheet products include discretionary portfolio management, mutual funds, shares and bonds issued by third parties and investment insurance products of Belfius Insurance.

In 2016, Belfius Bank launched a new concept called MyPortfolio, which is a contract that provides access to a series of exclusive funds with innovative digital reporting, where the focus is on interaction between the customer and his/her account manager who guides the customer through the investment process. Belfius has developed different versions of MyPortfolio tailored to its customer segments.

Clients can monitor all of their savings and investment products in real time on their mobile and tablet devices in the Belfius application. Belfius will be MiFID II compliant in its mobile-first omni-channel advice so that Belfius can propose personalised proposals for investing via the smartphone, tablet and personal computer under MiFID II.

Belfius also provides investment products in relation to its insurance products. Belfius distinguishes between Branch 21 (life insurance with a capital guarantee and guaranteed minimum return, to which there may be added a variable profit participation), Branch 23 (life insurance without capital guarantee but with a potentially higher return via investment funds), and Branch 44 (a combination of Branch 21 with a guaranteed minimum return and Branch 23 with a higher potential for growth via investment funds) products.

Insurance Products

Belfius Insurance offers its customers a comprehensive range of life and non-life insurance through Belfius Bank's branch network. It also offers these products through the tied agents network of DVV insurance, as well as through Corona Direct Insurance, a direct insurer active via the Internet and "affinity partners", which are external parties with which Corona collaborates and which offer Corona insurance products.

The product range includes non-life insurance cover: car insurance (third party and comprehensive), third party civil liability insurance, fire insurance, and miscellaneous risks insurance. For non-life insurance products, the most significant products are property insurance and car insurance.

In addition, life insurance such as pension savings, mixed life insurance, savings insurance, guaranteed income cover, death insurance and credit balance insurance linked to mortgage loans are offered. Tax products such as the Private Supplementary Pension for the Self-employed and the individual pension commitment are offered to business customers. The most significant product in terms of gross written premiums is Branch 21, although Branch 23 products, which are less capital intensive, are becoming increasingly important across Belfius's insurance portfolio.

Distribution channels

Belfius has an omni-channel business model aimed at striking the right balance between human interactions and efficient, user friendly digital and remote-access interactions. The digital and remote-access approach is geared towards retail customers, with value-added branch interactions for those customers at key life moments. The account management focus is geared towards privilege, private and business customers, which are also supported by digital and remote-access tools.

Belfius offers its banking and insurance products through its network of 671 branches, its digital channels and its Belfius Connect call centre. It also offers its insurance products through its network of 321 DVV tied insurance agent branches, its direct insurance subsidiary, Corona Direct Insurance, and its Elantis brand.

Branch Network

Belfius Bank serves its customers through 671 branches, of which 512 are exclusive independent agent branches and 159 are own branches. The 671 branches are grouped into 108 organisational "clusters". On average, each cluster operates across 6 branches and has a sales staff of approximately 30 persons.

Local empowerment is a key focus, with decision-making organised as close as possible to the customer. Each branch offers access to specialists in insurance, mortgage loans and consumer finance, a local private banker, a business banker and account management for privilege customers. Propositions may differ across branches in order to take account of regional factors such as competitive dynamics and pricing. Incentives for each branch are tied to its financial and/or commercial results, customer satisfaction and legal and regulatory compliance scores.

Belfius is adjusting its branch footprint so that it will be centred on two major branch concepts, full service branches and advisory branches. It intends to evolve towards approximately 200 full service branches (two per cluster) with extended opening hours offering full service for all customer segments and all products. Belfius is has recently introduced advisory branches, for which customers must make appointments, in order to offer access to account management and product specialists for the private, privilege and business customer segments.

Belfius Bank branches are the most important channel for the distribution of life insurance products, accounting for almost 80 per cent. of life gross written premiums in the year ended 31 December 2017. Belfius Bank branches are also expected to become the most significant channel for non-life insurance going forward.

DVV Tied Agent Network

DVV insurance has been operating for more than 85 years in the Belgian life and non-life insurance markets. Through 321 points of sales, each with exclusive advisers, DVV insurance offers individuals, self-employed and small enterprises a complete range of insurance products and mortgage loans.

The strategy for DVV is focused on improving its profitability and further activating its client base. It also aims to increase its customer base through the acquisition of broker portfolios and through targeting new groups of customers (e.g. the 25-30 year age group).

The DVV tied agent network is currently still the most important channel for the distribution of non-life insurance products.

Corona Direct Insurance

Corona Direct Insurance is Belfius's direct insurance subsidiary. It offers its 200,000 customers insurance products through direct channels (e-commerce, telephone or mailing) or via its "affinity" partners, which are external parties with which Corona collaborates and which distribute Corona insurance products. The insurance products offered by Corona include family, car, home, funeral and other insurance policies. Corona has a full digital E2E standardised product offering at a competitive price, strong customer service and the agility to innovate, including by offering products such as kilometre-linked car insurance. Belfius believes that Corona could attract a strong share of individuals considering switching insurance providers and looking for more convenient ways of dealing with their insurance needs.

Digital

Belfius believes that it has successfully anticipated the digital transformation of the retail banking and insurance model by achieving recognised leadership in mobile banking today and its ambition to build the next generation bank-insurer. The digital transformation has facilitated an increased customer intimacy, satisfaction rate and brand image, as well as the improvement of operational efficiency (in terms of the cost/income ratio), growth in market share and digital cross-selling at a lower marginal production and distribution cost through the millions of digital contacts Belfius has with its customers through the mobile application.

Belfius has a clear "mobile first" strategy and offers all recurring financial services via mobile banking. It also has a clear ambition to offer all basic banking and insurance products on mobile, paperless, end-to-end and in real time by 2020. Belfius has established itself as a leading mobile digital player, offering the most highly rated banking application in Belgium on both the Google Play and Apple Store platforms as at 31 December 2017. It currently has over 1 million mobile users using the Belfius Mobile application 29 times per month on average. These millions of contacts at a high satisfaction rate also are the basis for personalised-data driven digital sales and service proposals of financial, insurance and non-financial products, and thereby realising Belfius's cross-selling strategy at an efficient cost.

Belfius Connect

Belfius has a remote access and service centre, "Belfius Connect". Its role is to offer increased accessibility (8:00-22:00) and to support omni-channel end-to-end paperless sales flows, using different (mostly digital) communication channels (including telephone, mail, chat and video) to interact with customers.

Elantis

Since 2012, Belfius Insurance has integrated the Elantis brand, which offers mortgage loans and consumer loans through independent brokers.

Strategy

In 2015, Belfius launched its Belfius 2020 strategy for Retail and Commercial, which is focused on achieving four ambitions by 2020:

- to progress from customer satisfaction (95% for 2017) to customer recommendation (committed customers who are prepared to recommend Belfius);
- to further develop a differentiated and digitally supported business model, with an ideal balance between qualitative relationship management on the one hand, and efficient, user-friendly direct channels on the other. Two complementary omni-channel approaches are being developed for that purpose:
  - an approach with a digital and remote-access focus geared towards retail customers combined with value-added branch interactions at key life moments for customers; and
  - an approach with account management focus geared towards privilege, private and business customers supported by convenient digital and remote-access tools.
- to increase the dynamic market share in core products to a minimum of 15%; and
- to further implement Belfius's continued focus on processes with value added for Belfius's customers, with a reduction in the cost to income ratio.

In order to achieve these aims, Belfius is implementing several initiatives across Retail and Commercial:

- a more granular sub-segmentation of the customer base with appropriately designed value propositions for each of them;
- an accelerated digital transformation to enable client convenient direct sales of the 10 most important bank and insurance products, supported by in-depth customer knowledge via data analysis, the principle of mobile first and paperless sales transactions supported by digital tools and services for the account manager;
- an innovative distribution strategy with a customer oriented approach which is becoming more omni-channel in every aspect. In the future, branches will concentrate even more on proactive advice for the privilege, private and business customer segments. Information, service and sales for retail customers will increasingly be conducted through digital and remote-access channels. Belfius Connect, a new "remote" advice and sales centre, ensures better commercial accessibility for customers by satisfying their needs form early in the morning to late into the evening; and
- the further development of an all-in property offer (via Belfius Immo, a subsidiary) and the development of Belfius Investment Partners (Belfius IP), a specialised subsidiary that manages investment funds for the purpose of completing the investment products offering of Belfius for Retail and Commercial customers.

Management believes this strategy enables Belfius to continue its revenue diversification and expansion, driven by the momentum in fee and commission income, through increased cross-selling. By more effectively cross-selling its banking and insurance products, resulting in a higher customer equipment rate, Belfius also targets an increased sales productivity and increasing direct sales of value-adding products.

Commercial performance in 2017

The commercial activity remained solid. At 31 December 2017, **total savings and investments** amounted to EUR 105.9 billion, an increase of 3.3% compared with the end of 2016. The organic growth in 2017 remains stable at EUR 2.4 billion. This is an undisputed proof of the ever increasing confidence Belfius is inspiring to its customers. EUR 36.6 billion (+7%) came from the investments of 110,000 Private customers, who called on more than 251 local Private Bankers with a certification. This underlines the position held by Belfius as a first-class private bank. The amount of investments entrusted to Belfius via mandates and service contracts rose by 10% in 2017 to reach EUR 11.2 billion

On-balance sheet deposits totalled EUR 63.6 billion at 31 December 2017, slightly up (+2.6%) from the end of 2016. Customers adopted a rather wait-and-see attitude for deposits because of the historically low interest rates. There was very good growth in the funds deposited in current and savings accounts, which reached EUR 11.6 billion (+12%) and EUR 41.5 billion (+3.7%) respectively. Less capital found its way to long-term fixed rate investments (a drop of 17% for savings certificates and a decrease of 6.4% for bonds issued by Belfius).

Off-balance sheet investments went up by 7.8% compared to the end of 2016, to EUR 31.9 billion, and this thanks to a more pronounced customers' preference for products with potentially higher yields (mutual funds, mandates). Strong net production in asset management and Branch 23 and Branch 44 insurances, supported by the successful development of new products (My Portfolio, Multi-manager funds and Belfius Invest).

Life insurance reserves for investment products amounted to EUR 10.4 billion, down 5.1% compared to the end of 2016. Investments in Branch 21 life insurance guaranteed products decreased because of the low interest rates, but that drop was partially offset by Branch 23 and Branch 44 products.

Retail and Commercial (Unaudited) (In billions of EUR)	31/12/16	31/12/17	Evolution
TOTAL SAVINGS AND INVESTMENTS	102.5	105.9	+3.3%
DEPOSITS	62.0	63.6	+2.6%
Savings accounts	*40.0*	*41.5*	*+3.7%*
Savings certificates	*2.8*	*2.3*	*-17.0%*
Bonds issued by Belfius	*8.4*	*7.8*	*-6.4%*
Current accounts	*10.4*	*11.6*	*+12.0%*
Term accounts	*0.5*	*0.4*	*-19.5%*
OFF-BALANCE SHEET INVESTMENTS	29.6	31.9	+7.8%
LIFE INSURANCE RESERVES(1)	10.9	10.4	-5.1%
Life Branch 21	*8.3*	*7.2*	*-12.8%*
Life Branch 23	*0.8*	*1.1*	*+28.6%*
Life Branch 44	*1.8*	*2.1*	*+16.2%*

(1) Investment products

Total loans to customers rose strongly to EUR 45 billion at 31 December 2017. The increase occurred mainly in mortgage loans (+6.2%) and business loans (+9.3%). Mortgage loans, which account for two thirds of all loans, amounted to EUR 30.6 billion at the end 2017, while consumer loans and business loans stood at EUR 1.5 billion and EUR 12.5 billion respectively.

New long-term loans granted to retail clients during 2017 amounted to EUR 9.6 billion compared to EUR 9.3 billion in 2016. In 2017, the new production of mortgage loans remained stable at EUR 5.5 billion. During the same period, EUR 3.3 billion in new long-term business loans were granted, up 13.4% compared to 2016. In 2017, Belfius assisted 12,466 new start-ups, an increase of 7% on 2016.

Retail and Commercial (Unaudited) (In billions of EUR)	31/12/16	31/12/17	Evolution
TOTAL LOANS TO CUSTOMERS	42.1	45.0	+7.0%
Mortgage loans	*28.8*	*30.6*	*+6.2%*
Consumer loans	*1.4*	*1.5*	*+4.8%*
Business loans	*11.4*	*12.5*	*+9.3%*
Other retail loans	*0.5*	*0.5*	*+4.9%*

The **total insurance production** from customers in the Retail and Commercial segment amounted to EUR 1,692 million in 2017, compared with EUR 1,419 million in 2016, an increase of 19%.

Life insurance production stood at EUR 1,153 million in 2017[1], up 26% compared to 2016[2]. Unit-linked (Branch 23) premiums went up strongly (+52.4%) thanks to growing product suite and customer demand. Traditional Life (Branch 21/26) production progressed solidly (+10.5%) despite the low guaranteed yields.

Non-Life insurance production in 2017 stood at EUR 539 million, up 6.9% compared to 2016, thanks to the bank-insurance strategy and good performance in all other strategic distribution channels (e.g. Corona Direct Insurance, DVV).

Indeed, thanks to the "one-stop-shopping" concept of Belfius, the mortgage loan cross-sell ratio for fire insurance increased from 83% at the end of 2016 to 85% at the end of 2017. The mortgage loan cross-sell ratio for credit balance insurance remained stable at 144% compared to the end of 2016.

Total insurance reserves, in the Retail and Commercial segment amounted to EUR 13.9 billion. Life insurance reserves, dropped since end 2016 by 3.7% to EUR 12.9 billion at the end of 2017 as a result of a context characterised by historically low interest rates. Unit-linked reserves (Branch 23) increased by 18.6%, while traditional guaranteed life reserves (Life Branch 21/26) decreased by 7.9%, demonstrating the life product mix transformation from guaranteed products to unit-linked products. Non-life reserves remained stable at EUR 1 billion.

Retail and Commercial (Unaudited) (In billions of EUR)	31/12/16	31/12/17	Evolution
TOTAL LIFE INSURANCE RESERVES(1)	13.4	12.9	-3.7%
Guaranteed products (Branch 21/26)	*11.2*	*10.4*	*-7.9%*
Unit-Linked (Branch 23)	*2.1*	*2.5*	*+18.6%*

(1) Investment products and insurance products

Belfius continues to set the pace in **mobile banking** in Belgium and further developed its **digitally supported business model**. At the end of 2017, Belfius apps for smartphones and tablets had 1,071,000 users (+26%) and were consulted by customers on average once a day. The extremely high satisfaction figures show that continuous innovation, focused on user-friendliness and utility for the customer is profitable.

Belfius continues to extend the functionalities of its apps. In 2017, 41% of the new pension saving contracts, 31% of the new credit cards and 29% of the new savings accounts were subscribed via direct channels.

(1) of which EUR 782 million gross written premiums and EUR 371 million transfers/renewals;
(2) of which EUR 626 million gross written premiums and EUR 289 million transfers/renewals.

Financial results RC

RC net income after tax decreased from EUR 459 million in 2016 to EUR 443 million in 2017.

In 2017, **total income** amounted to EUR 1,684 million, down 1.8 % compared to end 2016, mainly due to the low interest environment and its impact on the interest margin.

- Net interest income of the bank amounted to EUR 898 million, a decrease of 4.9%, driven by margin pressure on non-maturing deposits and the running impact from the material wave of mortgage prepayments during previous years, partially compensated by the strong volume growth at margins, for loans, still above stock margins on average.
- Net fee and commission of RC bank increased strongly by 8.0% and amounted to EUR 490 million. This increase is driven by the strong organic growth in Private Banking, investment products (mutual funds, Br23 & Br44, structured bonds, MyPortfolio) and non-life bank-insurance cross-selling
- Life insurance contribution amounted to EUR 238 million, down 5.0% compared to 2016. This decrease results mainly from lower income due to the reduction of outstanding (volume effect) in line with strategy. However financial margin remains solid thanks to the good financial management of the investments
- Non-Life insurance contribution increased strongly by 21% and amounted to EUR 175 million. This positive evolution results from the excellent dynamics in Non-Life, especially in the bancassurance business. Note that 2016 results were negatively impacted by the terrorists attacks and natural floods.
- The consolidated other income amounted to EUR -117 million compared to EUR -78 million in 2016, this is a decrease of 50.4% or EUR -39 million. Note that 2016 was positively impacted by a reversal of provisions.

Financiele Resultaten RC (In millions of EUR)	2016	2017
INCOME	1,716	1,684
Net interest income bank	944	898
Net fee and commissions bank	454	490
Life insurance contribution	250	238
Non-life insurance contribution	145	175
Other	(78)	(117)
COSTS	(1,018)	(1,027)
GROSS OPERATING INCOME	698	657
Cost of risk	(41)	(40)
Impairments on (in)tangible assets	2	(4)
NET INCOME BEFORE TAXES	659	614
Taxes	(200)	(171)
NET INCOME AFTER TAXES	459	443
Non controlling interests	0	0
NET INCOME GROUP SHARE	459	443
OPERATIONAL NET INCOME	434	449

Ratios (in %)	2016	2017
Cost-income ratio(1)	59.3%	61.0%
RoNRE(2)	20.7%	19.4%

(1) Expenses relative to income.
(2) Return on Normative regulatory equity (RoNRE) is calculated by Belfius as the annualized net income as a percentage of the average Normative regulatory equity.

Normative regulatory equity & risk exposures (In millions of EUR)	2016	2017
Normative regulatory equity(1)	2,220	2,300
Regulatory risk exposures	16,694	17,476

(1) The Normative regulatory equity of the business line is derived from the regulatory risk exposures of the business line multiplied by 13.5%.

In 2017 **total expenses** amounted to EUR 1,027 million, a increase of EUR 9 million or 0.9 % compared to 2016. The decrease in staff expenses and network costs is offset by an increase in general expenses due to important investments in digitalisation and higher amortizations.

As a result, **gross operating income** decreased to EUR 657 million in 2017, down EUR 41 million or 5.8% compared to 2016.

The **cost of risk** still remains at historically low levels, demonstrating a good credit quality in current benign environment, and amounted to EUR 40 million in 2017.

The **impairments on (in)tangible assets** amounted to EUR 4 million.

Pre-tax income stood at EUR 614 million, down EUR 45 million or 6.8% compared to 2016.

Tax expenses amounted to EUR 171 million in 2017 compared to EUR 200 million in 2016. This decrease is mainly due to lower profit before taxes.

Despite the pressure on net interest income, **total net income** decreases by only 4% and amounts to EUR 443 million in 2017

Excluding non-operational elements, the **operational net income RC** amounts to EUR 449 million in 2017, up 3.5% compared to end 2016. Following non-operational items can be noted, a.o.:

- → 2016: one-off upfront recognition of prepayment penalties on mortgage loans;
- → 2017: one-off (discretionary) profit sharing provisions.

RC cost-income ratio amounted to 61.0%, compared to 59.3% in 2016. The Return on Normative Regulatory Equity (RoNRE) stood at 19.4%.

PUBLIC AND CORPORATE (PC)

Business description

Belfius offers a comprehensive range of banking and insurance products and services to approximately 12,000 public and social institutions and 10,600 corporates. In 2017, it had the market leading position in the public and social sector anchored by its over 150-year involvement in the sector, as well as being the fourth-largest bank for corporates by loans. Belfius has successfully developed its corporate offering, expanding its market share of loans to medium and large-sized corporates from 8.7% in 2013 to 12.2%[1] in 2017. Belfius estimates that it serves approximately 50% of Belgian corporate clients (representing approximately 60% penetration of corporates and mid-corporates and 25% of large Belgian corporates).

Customer segmentation

Belfius offers a comprehensive range of banking and insurance products and services aimed at two complementary groups of customers: entities in the Belgian public and social sectors (Public and Social) and medium and large-sized Belgian corporates (Corporate). The **public and social customer segment**, comprising approximately 12,000 customers, includes local public authorities (e.g. municipalities, provinces, police zones and Public Centers for Social Welfare), supra-local public entities (e.g. intermunicipal companies), regional and federal public institutions, mutualities and trade unions, and entities linked to healthcare (hospitals, retirement homes), education (e.g., universities, schools) and housing, as well as other customers such as foundations, social secretariats and pension funds. In the **corporate customer segment**, Belfius serves approximately 10,600 medium-sized and large corporates, each of which has an annual turnover of over EUR 10 million.

Products

Belfius offers a wide range of products and services to its Public and Corporate customers, including many that are tailored to the needs of specific clients and client groups.

Payment Products

Belfius offers payment products that can be adapted to the diverse needs of its Public and Corporate customers, such as social accounts and prepaid cards, in addition to its standard banking products such as accounts, debit cards, credit cards and cash pooling and a comprehensive offering of means of payment.

To support its corporate customers who also operate abroad, Belfius offers a wide range of products and tailor-made solutions provided by its International Cash Management Team. Outside of Belgium, Belfius works with a strong network of foreign banks, both in Europe and worldwide.

To support its public customers, Belfius offers cashier and cash management services, and is the long-time cashier for all regional Belgian authorities, bar one, and all Belgian municipalities, bar one. In 2017, Belfius renewed its cashier contracts for the regional authorities of Wallonia and Brussels for 5 and 4.5 years, respectively.

Credit Products

Belfius offers its Public and Corporate clients a range of credit products to help finance and grow their operations. These credit products and services include:

- → Tailored Products for Public and Social Customers: Belfius offers its public and social customers professional debt management services, which enable customers to free up resources for new investments, and a specialised range of short- and long-term financing solutions tailored to their specific requirements, whether in the form of credits or long-term bonds.

(1) Estimated figure

- DCM Activities: Belfius is a leader in the DCM business for Belgian institutional customers in the semi-public and corporate sectors, with an 86% participation rate for the public and social customer segment and a 58% participation rate for the Corporate customer segment. For five years in a row, from 2013 to 2017, Belfius was awarded the "No. 1 Bond Finance House of the Year" by Euronext.
- ECM activities: Next to DCM activities, Belfius is also active via her Equity Capital Markets activities in the structuring and placement of capital market transactions for her Belgian corporate clients, such as IPOs, capital increases and private placements of shares. In 2017 Belfius was present in ECM in the syndicate for capital increases of AEDIFICA, VGP and Care Property Invest.
- Leasing Services: Through its wholly owned subsidiaries, Belfius Lease and Belfius Auto Lease, Belfius also offers various financial and operational leasing solutions.
- Real Estate Financing: The real estate department of Belfius has helped build and finance over 1,000 projects in the last 25 years for public and social authorities. Belfius is able to offer to these clients a combination of in-house architects, engineers and project managers specialised in construction and financing.
- Infrastructure Financing: Belfius is a key player in the structuring and financing of large infrastructure investment projects in Belgium, including green energy projects, as well as semi-public real estate and infrastructure projects financed through structured credits, syndicated credits and PPP finance.
- Trade and Export Financing: Through an experienced team of approximately 40 employees, Belfius offers Belgian companies that also operate abroad a full array of products and services in trade and export finance, from documentary credits to buyer credits. The transactions are executed through a wide network of correspondents, giving Belfius a presence in major countries around the world.
- Public Tender Financing: Belfius has developed B2G Flex, an innovative solution for financing public tenders in Belgium. B2G Flex is a flexible financing solution that allows companies to finance their working capital from the day on which they win the tender and evolves throughout the realisation of the contract to meet the necessary funding requirements.Savings and Investment Products

Savings and Investment Products

Belfius offers two categories of savings and investment products to its Public and Corporate segment: on-balance sheet products, such as savings accounts, term accounts, saving certificates and bonds; and off-balance sheet products, such as discretionary portfolio management, mutual funds, bonds issued by third parties and investment insurance products of Belfius Insurance. Dedicated product managers create saving and investment products for Public and Corporate clients that respond to the specific needs of the clients in terms of risk, structure and duration.

Insurance Products

Belfius has put in place a bank-insurance approach so that the banking and insurance needs of public and social clients can be met by leveraging its deep client and market understanding of that segment. Similar to the structure for other products, the distribution model is a hub-and-spoke model, which operates based on collaboration between Belfius Bank and Belfius Insurance. Belfius Insurance offers a variety of life and non-life insurance products suited to the needs of public and social clients. Specific life insurance solutions are offered, especially pension insurance in the first and second pension pillars for civil servants and investment products in Branch 26 (life insurance with a capital guarantee and guaranteed minimum return, to which there may be added a variable profit participation feature). The non-life insurance products include property insurance, workers compensation, health insurance and civil liability insurance for municipalities, community representatives and volunteers.

Specific corporate insurance products are also offered by Belfius Insurance and mainly distributed through specialised third party insurance brokers. The most significant non-life insurance products for corporate customers are property insurance, business interruption insurance, fleet insurance, workers compensation and health insurance, and the most significant life insurance product is group insurance (complementary pension).

Financial Analysis

Belfius conducts annual financial analyses, offering its customers insights into topics such as the development of local, municipal and provincial finances, which include details for each local authority. Bespoke financial analysis is also offered to individual municipalities and hospitals, not only providing clients with insights to their own finances but also benchmarking the client in relation to regional averages or a group of peers. These studies have become key reference management tools for Belfius's public and social customers.

EIB Partnership

Belfius also has an exclusive partnership with the European Investment Bank (the "EIB"). Through this partnership, Belfius has offered local authorities in Belgium loans at preferential rates in the amount of EUR 400 million in the fields of mobility, energy efficiency and urban development. On 5 December 2016, Belfius signed two new agreements with the EIB to stimulate smart investments and combat climate change. The Private Finance For Energy Efficiency agreement includes EUR 75 million to boost companies' investments in energy efficiency in Belgium. The Smart Cities, Climate Action & Circular Economy agreement provides an additional EUR 400 million to support Smart Cities, the fight against global warming, and the circular economy.

Distribution Channels

The commercial network for the public and social business includes 43 relationship managers spread across three regions. The relationship managers are dedicated to specific segments of clients and therefore have significant insight into how their clients function, allowing the managers to find the most appropriate banking and insurance solutions. Belfius Bank branches also offer some more basic banking services to specific Public and Social customers.

The commercial network for the corporate business includes 63 corporate bankers spread across seven regions.

In the Public and Corporate segment, the relationship manager acts as the central point of contact or "hub" in the commercial relationship with the customer. He or she is the sole contact and maintains a relationship of trust with the customer throughout the customer lifecycle. Corporate bankers can also, at any time, call on in-house experts, known as "spokes", for the various product and service lines (e.g. for matters related to investments, loans, insurance, leasing, electronic banking or cash management). This "hub-and-spokes" approach is at the heart of Belfius's Public and Corporate customer service model.

Even though the primary client contact is the relationship manager, Belfius also offers specific digital channels for the Public and Corporate segment. Due to the nature and volume of transactions, desktop platforms are still the most prevalent among clients, and Belfius has recently started updating and rebranding its existing desktop transaction platform, including adding new functionalities to further improve customer convenience and satisfaction. Belfius was also the first bank in Belgium to offer a mobile banking application tailored to the needs of the public and corporate segments (e.g., allowing entities to safely sign transactions without limits on the amounts) and focused on the decisionmakers in the clients's organisations. Belfius plans to continue to enhance its digital offerings to make access easier and more frictionless through its in-house digital banking experts and by enhancing its digital touchpoints.

Strategy

Within the Public and Corporate market, Belfius intends to maintain its position as the leader in the public and social market and to continue its growth strategy in the Belgian corporate market.

Customer satisfaction is one of Belfius's top priorities, with Public and Corporate clients reporting 98 per cent. customer satisfaction in 2017. Belfius has established a focused strategy to maintain this high standard. First, Belfius offers a wide range of classic banking and insurance products meeting all basic financial needs as effectively as possible. In addition to these traditional products, Belfius also looks to add value to its client relationships by leveraging its deep client and market understanding and offering tailor-made products and services to meet the needs of Public, Social and Corporate clients.

In light of the challenges faced by public institutions in Belgium, Belfius continues to pursue its Smart Belgium programme, through which Belfius, together with partners from the public sector, the private sector and academic institutions, has created a forum in which smart solutions for a sustainable society can be developed. Through the Smart Belgium programme, Belfius acts as a financial partner and contact for local governments, inter-municipal authorities, start-ups, businesses, hospitals, schools, rest homes, care centers, academics and citizens, supporting these partners with their smart projects which can fall under eight areas: mobility, the circular economy, the environment, ecosystems, urban development, healthcare, education and energy.

In the corporate sector, Belfius builds on mutual trust and respect in order to develop sustainable and long-term client relationships. This aspiration for client intimacy means that Belfius does not focus on only selling products, but also on advising, servicing and consulting with clients. To realise these objectives Belfius took a series of actions over the past few years, including:

- Partnering with subsidy consultants in order to help clients with their applications for potential government subsidies;
- Connecting wealth management and corporate banking to create a two-way flow between private and professional aspects of the client-bank relationship;
- Developing employee benefit products with a focus on mobility solutions (e.g., car leases), wage improvements (e.g., warrants and bonuses) and risk protection (e.g., hospitalisation, group insurance and collective pension plans)
- Supporting international trade and mitigating related risks through trade finance (e.g., documentary credits, warranties and standby letters of credit), international payment solutions and cash pooling; and
- Assisting clients with working capital management through the development of sound strategies and in-depth analyses of inventory management, credit management, and cash and treasury management.

Belfius is of the opinion that its local proximity to corporate customers and accessible decentralised decision centers provides a key competitive advantage over Belgian banking subsidiaries of international banks, enabling it to respond to customer needs quickly.

To further build its service offering towards corporate clients and to replicate in equity capital markets the success achieved in debt capital markets, Belfius entered into a strategic partnership with Kepler Cheuvreux in 2017. The partnership will create a new equity franchise with a strong local presence in Belgium, offering clients services in equity capital markets transactions, equity research, institutional sales and brokerage. This partnership is expected to further deepen Belfius's integrated customer offering and provide access to key corporate customer insight.

Belfius is of the opinion that the successful implementation of its Public and Corporate strategy will continue and enhance the segment's solid growth since 2015, enabling Belfius to reach a (loan) market share above 15 per cent. in the Belgian corporate sector, evidencing its place as one of the major corporate sector servicing banks in Belgium.

Commercial performance in 2017

At 31 December 2017, **total savings and investments** stood at EUR 32.1 billion, an increase of 1.3% compared with the end of 2016. **On-balance sheet deposits** increased by EUR 0.3 billion (+1.3%), to EUR 23.2 billion. The **off-balance sheet investments** registered an increase of 1.6% to reach EUR 8.3 billion. **Life insurance reserves for investment** products amounted to EUR 0.6 billion.

Public and Corporate (Unaudited) (In billions of EUR)	31/12/16	31/12/17	Evolution
TOTAL SAVINGS AND INVESTMENTS	31.7	32.1	+1.3%
Deposits	22.9	23.2	+1.3%
Off-balance sheet investments	8.2	8.3	+1.6%
Life insurance reserves(1)	0.6	0.6	-3.8%

(1) Investment products

Total outstanding loans remained stable at EUR 38.3 billion. Outstanding loans in Public and Social banking decreased mainly due to lower demand, increased competition on the Public and Social Sector market, and the structural shift to more alternative financing sources through (Debt) capital markets. Belfius's intensified commercial strategy towards Belgian corporates results in an increase of 13.8% (compared to December 2016) of outstanding loans to EUR 10.8 billion as of 31 December 2017. Off-balance sheet commitments increased with 4.2% to EUR 20.9 billion.

Public and Corporate (Unaudited) (In billions of EUR)	31/12/16	31/12/17	Evolution
OUTSTANDING LOANS	38.3	38.3	-0.1%
Public and Social	28.8	27.4	-4.8%
Corporate	9.5	10.8	+13.8%
OFF-BALANCE SHEET COMMITMENTS	20.1	20.9	+4.2%

Belfius granted EUR 5.9 billion (+3%) of new long-term loans in the Belgian economy for Corporate customers and the Public sector. Long-term loan production for Corporate customers increased by 12% to EUR 3.8 billion. Belfius is thus one of the four largest Belgian banks in the Corporate Sector, with an estimated market share in terms of assets up from 9% to 12.2% between the end of 2015 and the end of 2017. This increase is a.o. the result of our growth ambition in this segment and a pertinent and clear positioning as a "Business to Government" market specialist.

Despite poor market demand in 2017, Belfius still granted EUR 2.1 billion in new long-term funding to the Public sector. The bank is and remains uncontested market leader, and replies to every funding tender from Public sector entities, at sustainable pricing terms. It manages the treasury of practically all local authorities and was attributed 73% of tendered loan files(1) in 2017. Moreover, in December, Belfius was once again chosen as the exclusive cashier of the Brussels-Capital Region, a role the bank has played without interruption since 1991.

Belfius also confirmed its position as leader in Debt Capital Markets (DCM) issues for (semi-)Public and Corporate customers by taking part in 86% and 58% respectively of available mandates on the Belgian market. In 2017, the bank issued EUR 5.4 billion in innovative means of funding in the form of short-term issues (average outstanding on Commercial Papers) and long-term issues (Medium Term Notes and Bonds).For the fifth consecutive year, Euronext crowned Belfius "No. 1 Bond Finance House of the Year". This prestigious award again confirms the strategic role played by the bank in bond issues for Belgian issuers.

With regard to **insurance activities**, the Public and Corporate segment recorded solid underwriting volumes, in particular for life insurance products.

Non-life insurance production amounted to EUR 135 million, up 1.7% compared to 2016.

Gross production in the life segment amounted to EUR 273 million, an increase of 4.3%, and this despite the historically low interest environment.

Public and Corporate (Unaudited) (In billions of EUR)	31/12/16	31/12/17	Evolution
TOTAL PREMIUMS RECEIVED	395	406	+2.8%
Life	*262*	*273*	*+4.2%*
Non-life	*133*	*135*	*+1.7%*

Financial results PC

PC net income after tax rose from EUR 152 million in 2016 to EUR 193 million in 2017, up 27.2 % thanks to continued solid commercial dynamics, as well as the benign financial markets in 2017 which resulted in a positive evolution in fair value adjustments.

In 2017, **total income** amounted to EUR 519 million, up 13.9 % or EUR 63 million more than in 2016.

- Net interest income of the bank amounted to EUR 361 million, up 4.5% compared to 2016, mainly thanks to a strict pricing discipline, higher volumes and a solid contribution from Financial Management Services (like loan structurings) compensating for pressure on interest margin especially on non-maturing deposits
- Net fee and commission income of PC bank remained stable in 2017 and amounted to EUR 47 million.
- Income from Life insurance contribution amounted to EUR 31 million, down 11.1% compared to 2016. This decrease results from higher discretionary participation features provisions to provide for potential future profit sharing following realized capital gains on sold equities.
- Non-life insurance contribution increases from EUR 4 million in 2016 to EUR 26 million in 2017. This increase is explained by pruning strategy, revised acceptance & pricing guidelines as well by good weather conditions and fewer large claims in 2017.

(1) Number of files

Financiële Resultaten PC (In millions of EUR)	2016	2017
INCOME	456	519
Net interest income bank	*346*	*361*
Net fee and commissions bank	*47*	*47*
Life insurance contribution	*35*	*31*
Non-life insurance contribution	*4*	*26*
Other	*25*	*54*
COSTS	(210)	(208)
GROSS OPERATING INCOME	246	311
Cost of risk	(25)	(28)
Impairments on (in)tangible assets	1	(1)
NET INCOME BEFORE TAXES	221	282
Taxes	(70)	(89)
NET INCOME AFTER TAXES	152	193
Non controlling interests	0	0
NET INCOME GROUP SHARE	152	193
OPERATIONAL NET INCOME	142	195

Ratios (in %)	2016	2017
Cost-income ratio(1)	46.0%	40.0%
RoNRE(2)	7.5%	8.8%

(1) Expenses relative to income.
(2) Return on Normative regulatory equity (RoNRE) is calculated by Belfius as the annualized net income as a percentage of the average Normative regulatory equity.

Normative regulatory equity & regulatory risk exposures (In millions of EUR)	2016	2017
Normative regulatory equity(1)	2,021	2,235
Regulatory risk exposures	15,225	16,805

(1) The Normative regulatory equity of the business line is derived from the regulatory risk exposures of the business line multiplied by 13.5%.

- The consolidated other income amounted to EUR 54 million, up 119% or EUR 29 million. This is mainly stemming from positive fair value adjustments in benign 2017 financial markets whereas the more volatile financial markets of 2016 lead to negative fair value adjustments. Note that 2016 was on the other hand positively impacted by a reversal of provisions as well as by higher realized gains on real estate projects.

In 2017, **total expenses** amounted to EUR 208 million, down 1.0% compared to 2016. This decrease is the result of continued strict cost control.

As a result, the **gross operating income** increased to EUR 311 million in 2017, up EUR 65 million or 26.5% compared to 2016.

The **cost of risk** amounted to EUR 28 million in 2017. This historically low level continues to demonstrate the good credit quality of the PC franchise in current benign environment.

The **impairments on (in)tangible assets** amounted to EUR 1 million.

Pre-tax income stood at EUR 282 million, up EUR 61 million or 27.6% compared to 2016.

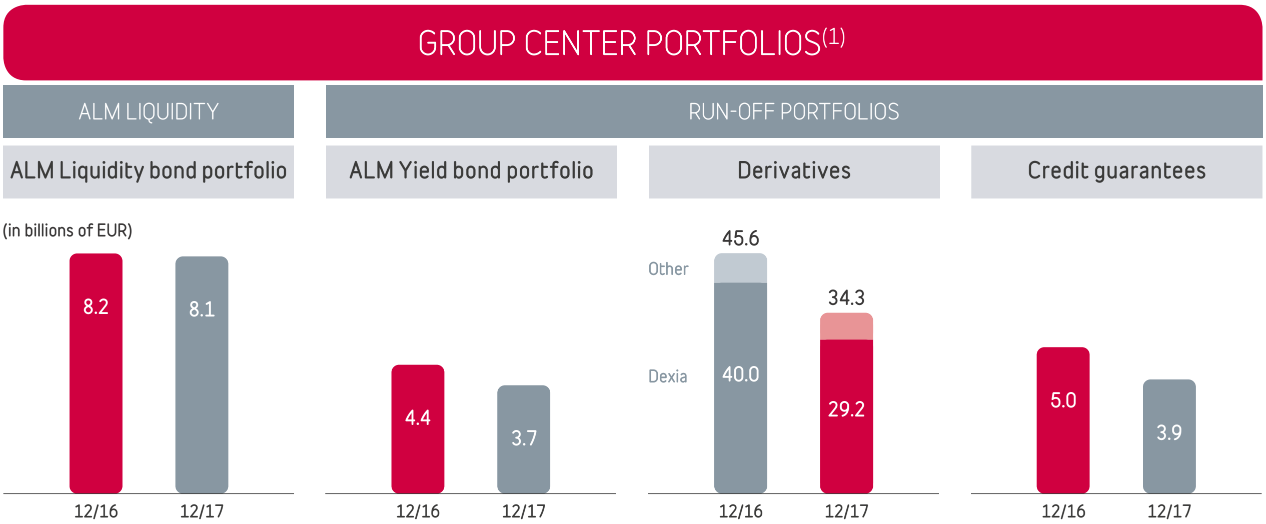
Tax expenses amounted to EUR 89 million in 2017 compared to EUR 70 million in 2016.

As a result, Belfius' PC **net income group share** amounted to EUR 193 million in 2017, compared to EUR 152 million in the same period of last year.

Excluding non-operational elements, the **operational net income PC** amounts to EUR 195 million in 2017, up 38% compared to 2016. Following non-operational items can be noted, a.o.:

- 2016: release of some provisions for commercial contract settlements;
- 2017: one-off (discretionary) profit sharing provisions.

The PC cost-income ratio improved strongly to 40% in 2017. The Return on Normative Regulatory Equity (RoNRE) stood at 8.8%.



(1) Nominal amount.

GROUP CENTER (GC)

Since the separation from Dexia Group end 2011, and until end 2016, Belfius presented its financial accounts in two segments:

- Franchise i.e. Belfius' core business lines; and
- Side i.e. Belfius' non core assets and exposures inherited from the Dexia era. Since end 2011, Belfius actively executed a tactical de-risking program with respect to its Side portfolios, resulting in a strong decrease of outstanding volumes and a positive evolution of the portfolios' key risk indicators. Thanks to these continued efforts, the risk profile of Side was brought in line with the targeted risk profile. Hence, as from 1 January 2017 onwards, Belfius integrated the remainder of Side into Franchise (i.e. in Group Center) and no longer separates its financial reporting into the segments Franchise and Side.

From 1 January 2017, Group Center operates through two sub-segments.

- Run-off portfolios which are mainly comprised of
  - a portfolio of bonds issued by international issuers, especially active in the public and regulated utilities sector (which includes the UK inflation-linked bonds), covered bonds and ABS/RMBS , the so-called ALM Yield bond portfolio
  - a portfolio of credit guarantees, comprising credit default swaps and financial guarantees written on underlying bonds issued by international issuers, and partially hedged by Belfius with monoline insurers (mostly Assured Guaranty), and
  - a portfolio of derivatives with Dexia entities as counterparty and with other foreign counterparties
- ALM liquidity and rate management and other group Center activities, composed of liquidity and rate management of Belfius (including its ALM Liquidity bond portfolio, derivatives used for ALM management and the management of central assets) and other activities not allocated to commercial activities, such as corporate and financial market support services (e.g., Treasury), the management of two former specific loan files inherited from the Dexia era (loans to Gemeentelijke Holding/Holding Communal and Arco entities), and the Group Center of Belfius Insurance.

These portfolios and activities are further described below:

ALM Yield bond portfolio

The ALM Yield bond portfolio of Belfius Bank is used to manage excess liquidity (after optimal commercial use in the business lines) and consists mainly of high quality bonds of international issuers.

At the end of December 2017, the ALM Yield bond portfolio stood at EUR 3.7 billion1[1], down 17% compared to December 2016. This decrease results mainly from the sale of US RMBS (conditionally US government guaranteed reverse mortgages) for which a specific impairment was taken in 2016, the natural amortization of the portfolio as well as foreign exchange impacts. End of December 2017, the portfolio was composed of corporates (70%), sovereign and public sector (12%), asset-backed securities (11%), and financial institutions (7%). 80% of the corporate bonds, mainly composed of long-term inflation linked bonds, are issued by highly-regulated UK utilities and infrastructure companies such as water and electricity distribution companies. These bonds are of satisfactory credit quality, and the majority of these bonds are covered with an issuer credit protection by a credit insurer (monoline insurer) that is independent from the bond issuer.

At the end of December 2017, the ALM Yield bond portfolio has an average life of 20.8 years. Following the sale of the above mentioned US RMBS the average rating has increased from of A- in 2016 to A in 2017. 95% of the portfolio is investment grade (IG), versus 93% in 2016 .

Derivatives with Dexia-entities and foreign counterparties

During the period it was part of the Dexia Group, former Dexia Bank Belgium (now Belfius Bank) was Dexia Group's "competence center" for derivatives (mainly interest rate swaps): this meant that all

(1) Nominal amount.

Dexia entities were able to cover their market risks with derivatives with Dexia Bank Belgium, mainly under standard contractual terms related to cash collateral. Former Dexia Bank Belgium systematically rehedged these derivative positions externally, as a result of which these derivatives broadly appear twice in Belfius accounts: once in relation to Dexia-entities and once for hedging. The remaining outstanding notional amount of derivatives with Dexia-entities and non collateralized interest rate derivatives with international non financial counterparties decreased further with EUR 11.3 billion (or -25%) and amounted to EUR 34.3 billion(1) at the end of December 2017, of which EUR 29.2 billion with Dexia entities. The fair value of those Dexia derivatives amounts to EUR 4.9 billion.

At the end of December 2017, the average rating of the portfolio remains at A- and the average residual life of the portfolio stood at 14.4 years(2)

Credit guarantees

At the end of December 2017, the credit guarantees portfolio amounted to EUR 3.9 billion(1), down EUR 1.1 billion, or -21%, compared to December 2016, mainly due to amortizations. It relates essentially to Financial Guarantees, and Credit Default Swaps issued on corporate/public issuer bonds (84%), ABS (13%) and covered bonds (3%). The good credit quality of the underlying reference bond portfolio, additional protection against credit risk incorporated in the bond itself and the protections purchased by Belfius mainly from various monoline insurers (US reinsurance companies, essentially Assured Guaranty) result in a portfolio that is 100% investment grade (IG) in terms of credit risk profile.This portfolio also contains Total Return Swaps for an amount of EUR 0.4 billion(1).

At the end of December 2017, the average rating of the portfolio remained at A- and the average residual life of the portfolio stood at 10.3 years.

ALM Liquidity bond portfolio

The ALM Liquidity bond portfolio is part of Belfius Bank's total LCR liquidity buffer and is a well diversified, high credit and liquidity quality portfolio.

At the end of December 2017, the ALM Liquidity bond portfolio stood at EUR 8.1 billion(1) , down 2% compared to December 2016, mainly due to the natural amortization of the portfolio. End of December 2017, the portfolio was composed of sovereign and public sector (70%), covered bonds (22%), asset-backed securities (5%) and corporates (3%). The Italian government bonds in the ALM Liquidity bond portfolio amounted to EUR 2.2 billion as of 31 December 2017. In January 2018, EUR 0.8 billion thereof has been sold, reducing the Italian government bonds in this portfolio by one third to EUR 1.5 billion.

At the end of December 2017, the ALM Liquidity bond portfolio has an average life of 9.0 years, and an average rating of BBB+ (100% of the portfolio being investment grade (IG)). In 2017, the average rating has been reduced from A to BBB+, following the internal downgrade of the sovereign rating of Italy.

Other Group Center activities

The other activities allocated to Group Center include:

- the interest rate and liquidity transformation activity performed within ALM, after internal transfer pricing with commercial business lines, including the use of derivatives for global ALM management;
- the management of two legacy loan files inherited from the Dexia era, i.e. the investment loans to two groups in liquidation, namely Gemeentelijke Holding/Holding Communal and some Arco entities;
- the results from hedging solutions implemented for clients (so-called financial markets client flow management activities);
- the results of treasury activities (money market); and
- the results including revenues and costs on assets and liabilities not allocated to a specific business line.

The Group Center of Belfius Insurance is also fully allocated to these other Group Center activities. The Belfius Insurance Group Center contains income from assets not allocated to a specific business line, the cost of Belfius Insurance's subordinated debt, the results of certain of its subsidiaries and costs that are not allocated to a specific business line.

Financial results GC

GC net income after tax stood at EUR -30 million in 2017, compared to EUR -75 million in 2016.

In 2017, **total income** amounted to EUR 151 million, that is EUR 63 million more than in 2016. This strong increase results from:

- the absence of de-risking losses in 2017 (EUR -16 million in 2016) following the end of the active tactical de-risking programme end 2016;
- further solid balance sheet management, and more specifically: excellent ALM management in current low interest rate environment, and lower funding cost of collateral in benign liquidity markets;
- improvements of the markets which resulted in a positive evolution in fair value adjustments; and
- the global trend towards standardisation of derivatives contracts;
- these positive elements were partly compensated by the sale of our former Insurance subsidiary "International Wealth Insurer" (IWI), sold in August 2016, that still generated EUR 9 million income in 2016.

In 2017 **total expenses** decreased from EUR 139 million in 2016 to EUR 134 million in 2017, mainly as a result of the continued strict cost control.

The **gross operating income** improved significantly from EUR -51 million in 2016 to compared to EUR 17 million in 2017.

(1) Nominal amount
(2) Calculated on EAD

Financiële Resultaten GC (In millions of EUR)	2016	2017
INCOME	88	151
of which		
Net interest income bank	*117*	*222*
Other	*(29)*	*(71)*
COSTS	(139)	(134)
GROSS OPERATING INCOME	(51)	17
Cost of risk	(49)	35
Impairments on (in)tangible assets	0	14
NET INCOME BEFORE TAXES	(100)	66
Taxes	25	(96)
NET INCOME AFTER TAXES	(75)	(30)
Non controlling interests	0	0
NET INCOME GROUP SHARE	(75)	(30)
OPERATIONAL NET INCOME	(26)	(29)

The **cost of risk** stood at EUR +35 million, mainly related to reversals on provisions on the last part of derisking, a.o. the sale of conditionally US government guaranteed reverse mortgages (part of fomer Side) that were downgraded to non-performing in 2016 and for which a specific impairment charge was booked in 2016, that resulted in a net book value below the sale price achieved in 2017.

The **impairments on (in)tangible assets** amounted to EUR +14 million, mainly resulting from the reversal of an impairment on Belfius headquarter in Rogier Tower. The value of the building has increased due to the reassessment of the occupancy rate following the execution of the "Belfius Together" and "Belfius Way of Working" strategy, where Belfius Insurance and Belfius Bank employees working in Brussels (Center) are sharing more and more the same headquarter.

Pre-tax income stood at EUR 66 million in 2017 compared to EUR -100 million in 2016.

Taxes amounted to EUR -96 million in 2017 compared to EUR +25 million in 2016. This increase is mainly driven by the reassessment of the net deferred tax assets following the Belgian Tax Reform enacted before year-end 2017 leading to a (net) DTA reassessment of EUR -106 million.

As a result, Belfius' GC **net income group share** amounted to EUR -30 million in 2017, compared to EUR -75 million in 2016.

Excluding non-operational elements, the **operational net income GC** remained stable and stood at EUR -29 million in 2017.

CAPITAL MANAGEMENT

CAPITAL MANAGEMENT AT THE BANK

1. Prudential supervision

1.1 Minimum Requirement

Belfius Bank reports on its solvency position on consolidated level and on statutory level in line with CRR/CRD IV regulations (pillar 1) and has to comply with the regulatory solvency ratios as described in CRD IV (pillar 2).

As a result of the annual "Supervisory Review and Evaluation Process" (SREP) finalized by the ECB at the end of 2016, Belfius must comply for 2017 with a minimum CET 1 ratio Phased In of 9%, which is composed of:

- a Pillar 1 minimum of 4.5%;
- a Pillar 2 Requirement (P2R) of 2.25%;
- a capital conservation buffer (CCB) of 1.25%; and
- a buffer for (other) domestic systemically important institutions (O-SII buffer) of 1% (imposed by the National Bank of Belgium).

Belfius has to respect the full combined buffer requirements (capital conservation buffer, countercyclical capital buffer, buffer for systemically important institutions and systemic risk buffer) and the Pillar 2 buffer requirements. Note that the ECB has also notified Belfius of a Pillar 2 Guidance (P2G) of 1% CET 1 ratio for 2017.

At the end of 2017, the Phased In CET 1 ratio of Belfius stood at 16.1%, well above the abovementioned 2017 applicable CET 1 capital requirement.

As a result of the annual "Supervisory Review and Evaluation Process" (SREP) finalized by the ECB at the end of 2017, Belfius must comply for 2018 with a minimum CET 1 ratio Phased In of 10.125%, which is composed of:

- a Pillar 1 minimum of 4.5%,
- a Pillar 2 Requirement (P2R) of 2.25%,
- a capital conservation buffer (CCB) of 1.875% and
- a O-SII buffer of 1,5%.

Belfius has to respect the full combined buffer requirements and the Pillar 2 buffer requirements. Note that the ECB has also notified Belfius of a Pillar 2 Guidance (P2G) of 1% CET 1 ratio for 2018.

On top of these regulatory requirements Belfius has set, under current market conditions and applying the current legislation, a minimum CET 1 ratio of 13.5%, on consolidated and statutory level. This ratio has as a purpose to safeguard the capacity of Belfius to pay a dividend and to decide independently a dividend policy under financial stress situations. Moreover Belfius works currently with a CET 1 ratio target that lies 2% higher than this minimum operational level to take into account unforeseen elements. Belfius wishes to manage her solvability in normal and stable circumstances in line with this target ratio, unless the buffer as mentioned above (partially or completely) has been used and on the condition that the legislations for consolidated and statutory solvency ratios do not change substantially.

1.2 Applied methodology

In line with CRR/CRD IV regulations part X, Belfius is authorised to apply transitory measures in the calculation of its regulatory own funds with limited impact on the regulatory risk exposure. The Belgian application of these measures is described in the Royal Decree of 10 April 2014 (published on 15 May 2014) and is referenced as the "phased in" calculation. The measures impacting the CET 1 capital end on 31 December 2017.

Without transitory measures on CET 1 capital, on regulatory own funds and on regulatory risk exposure the calculation is referenced as "fully loaded".

The regulator has authorised Belfius to apply article 49 of the CRR IV and hence to include the capital instruments of Belfius Insurance subscribed by Belfius Bank in the total regulatory risk exposure by applying a weighting of 370% (the so-called "Danish Compromise").

In addition to the CRR/CRD IV regulations, Belfius is considered as a financial conglomerate with significant banking and insurance activities and has to comply with the Financial Conglomerate Directive (FICO 2002/87/EC). For this purpose, specific reporting requirements with financial statements, regulatory capital, risk concentration and leverage ratio are sent to the regulator. These calculations and reportings are done on the consolidated position of the Banking and insurance group.

At the end of 2017, Belfius also complies with all requirements requested from a financial conglomerate point of view.

Comparison of accounting core shareholders' equity (consolidated financial statements) and the base for the regulatory core own funds

(In millions of EUR)	31/12/16	31/12/17
ACCOUNTING CORE SHAREHOLDERS' EQUITY	8,694	9,085
Transformation of the insurance group into a third party exposure	0	(46)
Starting point for the regulatory core own funds	8,694	9,039

2. Regulatory own funds on consolidated level

As indicated above, for regulatory reporting purposes, Belfius Insurance group is not consolidated and hence its assets and liabilities are treated as third party exposures. As a result, core shareholders' equity and the consolidated net income reported in the consolidated financial statements differ from that reported in the regulatory reporting used for the regulatory core own funds.

At the end of 2017, the starting point for the regulatory core own funds amounted to EUR 9,039 million, an increase of EUR 345 million stemming from the net result of EUR 560 million for 2017 offset by the dividend of EUR 140 million over the full year result of 2016 paid in April 2017 and the interim dividend paid in September 2017 of EUR 75 million over the full year 2017. Note that the net income (EUR 560 million) differs from the consolidated net income (EUR 606 million) due to the "prudential" consolidation scope, as described above.

The scope change adjustments can be detailed as follows:

(In millions of EUR)	31/12/16	31/12/17
CONSOLIDATED NET INCOME	535	606
Elimination of Belfius Insurance	(168)	(171)
Scope changes:		
dividend (Belfius Insurance)	120	120
other	11	5
REGULATORY NET INCOME	498	560

In the regulatory own funds calculations using the CRR/CRD IV regulations, the "phased in" calculation includes all the transitional measures. Note that the transitional measures on CET 1 capital are applicable till 31 December 2017, while the transitional measures on Tier 2 capital are applicable till 31 December 2021.

Regulatory own funds

(In millions of EUR)	31/12/16	31/12/17
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL) PHASED IN	7,767	8,141
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL) FULLY LOADED(1)	7,516	8,037
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,694	9,039
DEDUCTION OF FORESEEABLE DIVIDEND	(140)	(288)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	(215)	(221)
Remeasurement defined benefit plans	86	112
Remeasurement available-for-sale reserve on securities and frozen fair value adjustments of reclassified financial assets	(546)	(437)
Other reserves	(34)	(14)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	34	14
Transitional measures	246	104
DEDUCTIONS AND PRUDENTIAL FILTERS	(573)	(389)
Deferred tax assets on losses carried forward	(13)	0
Investments in securitisation positions	(234)	(23)
Changes in the value of own credit standing	(9)	(4)
Value adjustments due to the requirements for regulatory prudent valuation	(120)	(99)
Intangible fixed assets	(96)	(127)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses for IRB portfolios	(2)	(2)
Defined Benefit Pension Plan assets	0	(12)
Payment Commitments IPC(2)	0	(17)
Transitional measures	5	0
TIER 2 CAPITAL PHASED IN	1,309	1,288
TIER 2 CAPITAL FULLY LOADED(1)	1,101	1,097
Tier 2 capital instruments	928	939
Excess of provisions over expected losses for IRB portfolios	152	138
General credit risk adjustments SA (standard approach)	22	20
Transitional measures	207	191
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) PHASED IN	9,076	9,429
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) FULLY LOADED(1)	8,618	9,134

(1) excluding the lines "transitional measures"
(2) new SREP 2017 guidance, not yet applicable in 2016

CET 1 capital (Phased In) amounted to EUR 8,141 million, compared with EUR 7,767 million at the end of 2016. The increase in CET 1 capital of EUR 374 million results mainly from the inclusion of the regulatory net profit as well as from the improvement of the deductions and prudential filters, and this despite the higher foreseeable dividend and the decrease of the "gains and losses not recognized in the statement of income".

An estimated dividend of EUR 363 million over the full year profit of 2017 (of which EUR 75 million was paid out as interim dividend in September 2017) has been deducted, compared to EUR 215 million for 2016 (of which EUR 75 million paid out as interim dividend in September 2016).

In addition, a decrease of the "gains and losses not recognised in the statement of income" can be noted following the shift in grandfathering (transitional measures from 60% towards 80%) though partially offset by the improvement of the AFS reserve.

The improvement of the deductions and prudential filters is mainly due to the sale of a large part of the remaining US RMBS bonds in the former Side portfolio (since 1 January 2017 merged into Group Center).

Without the transitional measures the CET 1 capital (Fully Loaded) amounted to EUR 8,037 million, compared to EUR 7,516 million at the end of 2016.

Tier 1 capital is equal to the CET 1 capital given that the Bank did not hold any additional Tier 1 capital as at the end of 2017. Note that Belfius has issued an inaugural Additional Tier 1 bond of EUR 500 million beginning 2018, please also refer to the note on "post balance sheet events".

Tier 2 capital decreased from EUR 1,309 million to EUR 1,288 million. This decrease is mainly related to

- the currency rate impacts (GBP and JPY) on Tier 2 instruments for EUR -57 million, and
- a smaller excess of provisions over expected losses (EUR -14 million);
- note that the decrease is partially offset by the Tier 2 issue (private placement) of EUR 50 million in the first half of 2017.

Please also note that The Governing Council of the European Central Bank (ECB) has decided to grant Belfius permission to reduce its own funds in the amount of EUR 191 million (value on 31 December 2017) through the call of three Tier 2 callable instruments in the first half year of 2018 and that Belfius has issued for EUR 200 million of Fixed Rate Tier 2 subordinated notes in the first quarter of 2018, please refer to the note on "post balance sheet events".

Without the transitional measures, the Tier 2 capital (Fully Loaded) amounted to EUR 1,097 million, compared with EUR 1,101 million at the end of 2016.

End 2017, the total regulatory own funds amounted to EUR 9,429 million, compared to EUR 9,076 million end of 2016.

Without the transitional measures the regulatory rwn runds (Fully Loaded) amounted to EUR 9,134 million, compared to EUR 8,618 million at the end of 2016.

3. Regulatory risk exposure on consolidated level

The regulatory risk exposure (Phased In) includes risk-weighted exposures for credit risk, market risk and operational risk. Each of the underlying risks is detailed in the section on Risk Management in this report. Risk-weighted exposure also stems from the Danish Compromise, whereby the capital instruments issued by Belfius Insurance and held by Belfius Bank are included in the regulatory risk exposure via a weighting of 370%. The transitory measures for the calculation of the regulatory own funds have a small impact on the credit risk component of the regulatory risk exposure, mainly for the deferred taxes from temporary differences.

End 2017, regulatory risk exposure (Phased In) of Belfius amounted to EUR 50,620 million, an increase with EUR 3,890 million compared to EUR 46,730 million at the end of 2016.

The regulatory credit risk exposure (Phased In) increased by EUR 3,127 million to EUR 39,078 million. This evolution is mainly due to the higher risk-weighting of sovereign exposure on Italy (following the downgrades to internal rating BBB-) and an increase of the exposures on SME, corporate and mortgage loans. This increase has been partially compensated by the decrease on derivatives exposures linked to the higher interest rates and the improved balance of market value versus collateral received.

The regulatory market risk exposure increased by EUR 705 million to EUR 1,841 million, mostly as a result of an increased S-VaR due to several combined (mainly temporary) effects on interest rate risks. Other important factors concern the inclusion of additional transactions into the internal model value-at-risk and a slight increase of equity risk.

Regulatory operational risk exposure remained stable.
The regulatory risk exposure for Danish Compromise remained stable at EUR 6,769 million.

4. Solvency ratios for Belfius Bank on consolidated level

End 2017, CET 1 ratio Phased In amounted to 16.1%, a decrease of 54 bps compared to end of 2016. With application of grandfathering rules of 2017 (80% in stead of 60%), CET 1 ratio for 2016 would have amounted to 16.4% compared to CET 1 ratio of 16.6% as reported.

The decrease in CET 1 ratio is the result of positive effects in CET 1 capital (+80 bps) offset by negative effects in total risk exposure (-128 bps). We refer to the comments above for further information.

(In millions of EUR)	31/12/16	31/12/17	Evolution
Regulatory credit risk exposure	35,955	39,073	3,118
Regulatory market risk exposure	1,136	1,841	705
Regulatory operational risk exposure	2,915	2,932	18
Danish Compromise	6,728	6,769	40
Transitional measures	(4)	5	9
REGULATORY RISK EXPOSURE PHASED IN	**46,730**	**50,620**	**3,890**
REGULATORY RISK EXPOSURE FULLY LOADED(1)	**46,734**	**50,615**	**3,881**

(1) Excluding the line "transitional measures".

(In %)	31/12/16	01/01/17(PF)(1)	31/12/17
CRR/CRD IV (PHASED IN)			
Common Equity Tier 1 ratio (CET 1-ratio)	16.6%	16.4%	16.1%
Tier 1-capital ratio (T1-ratio)	16.6%	16.4%	16.1%
TOTAL CAPITAL RATIO	19.4%	19.2%	18.6%
CRR/CRD IV (FULLY LOADED)(2)			
Common Equity Tier 1 ratio (CET 1-ratio)	16.1%		15.9%
Tier 1-capital ratio (T1-ratio)	16.1%		15.9%
TOTAL CAPITAL RATIO	18.4%		18.1%

(1) impact of the shift in grandfathering rules from 60% (applicable in 2016) to 80% (applicable in 2017).
(2) Excluding the line "transitional measures".

Tier 1 capital ratio is equal to CET 1 ratio as Belfius did not hold any additional Tier 1 instruments at 31 December 2017. Note that Belfius has issued an inaugural Additional Tier 1 bond of EUR 500 million beginning 2018, we also refer to the note on "post balance sheet events".

The total capital ratio Phased In amounted to 18.6%, a decrease of 80 bps compared to the end of 2016.

At the end of 2017, the CET 1 ratio Fully Loaded stood at 15.9%, compared to 16.1% at the end of 2016. Total capital ratio Fully Loaded decreased from 18.4% to 18.1%.

Applying the "Danish Compromise" compared to the deduction method for capital instruments of Belfius Insurance (equity deducted from CET 1 capital and subordinated debt instruments deducted from Tier 2 capital) has the following impacts. Using the deduction method, Phased In results in an increase of 15 bps on the CET 1 ratio and a decrease of 35 bps on the total capital ratio. Using the deduction method, Fully Loaded results in an increase of 11 bps on the CET 1 ratio and a decrease of 42 bps on the total capital ratio.

5. Solvency ratios for Belfius Bank on statutory level

End 2017, CET 1 ratio Phased In and Fully Loaded on Belfius Bank statutory level before inclusion of the statutory net result amount to 15.3%. If the statutory net result of EUR 793 million, after deduction of dividends for EUR 363 million, is included, the CET 1 ratio (Phased in and Fully Loaded) amounts to 16.1%.

6. Leverage ratios for Belfius Bank on consolidated level

In December 2010, the Basel Committee on Banking Supervision (BCBS) published guidelines for calculating the leverage ratio as a non-risk based ratio which primarily intends to restrict the size of the Bank balance sheet and consequently the use of excessive leverage.

The leverage ratio is defined as the Tier 1 capital (the numerator) divided by the exposure measure (the denominator), computed as balance sheet assets after certain restatements on derivatives, securities financing transactions, off-balance-sheet items and prudential adjustments deducted from the numerator.

While public disclosure is required since 2015, the leverage requirement will become a binding requirement when the CRR 2, published on 23 November 2016 and currently under discussion at EU level, will become applicable. The draft CRR 2 currently integrates the leverage ratio in the Pillar I requirement and sets the level of minimum requirement at 3%.

In order to be consistent with the calculation of the regulatory Tier 1 capital (numerator), the calculation of the leverage exposure (denominator) is based on the prudential consolidation perimeter, i.e. for Belfius without consolidation of the Belfius Insurance group.

(In millions of EUR)(1)	31/12/16	31/12/17
TIER 1 CAPITAL (PHASED IN)	7,767	8,141
TIER 1 CAPITAL (FULLY LOADED)(2)	7,516	8,037
Total assets	176,721	167,959
Deconsolidation of Belfius Insurance	(19,377)	(19,098)
Adjustment for derivatives	(30,003)	(21,670)
Adjustment for securities financing transactions exposures	1,810	3,729
Adjustment for prudential corrections in calculation of Tier 1 capital	(443)	(268)
Off-balance sheet exposures	14,381	14,959
LEVERAGE RATIO EXPOSURE	143,088	145,611
LEVERAGE RATIO (PHASED IN)	5,4%	5,6%
LEVERAGE RATIO (FULLY LOADED)(2)	5,3%	5,5%

(1) unaudited
(2) excluding the transitional measures for regulatory capital

Note that, since the regulatory Tier 1 capital can be calculated with transitional measures (Phased In) or without transitional measures (Fully Loaded), two calculations exist for the leverage ratio. These transitional measures have no impact on the leverage ratio exposure.

End 2017, the Belfius leverage ratio (Phased-In) based on the current CRR/CRD IV legislation - stood at 5.6%, the leverage ratio (Fully Loaded) stood at 5.5%.

7. Impact of IFRS 9 on solvency ratios on consolidated level

The implementation of IFRS 9 as of 1 January 2018, has an impact on Belfius' solvency ratios. The impacts of the first time application of IFRS 9 are recognized in retained earnings and OCI which impacts the regulatory capital. Other impact can also be noted on risk exposures due to impacts on balance sheet exposure amounts from reclassifications.

We refer to the transition tables in chapter Notes to the consolidated statements of the annual report for a full description of the different impacts. Note that the transition tables refer to the consolidated impact of IFRS 9 for Belfius Group, whereas the solvency ratios are calculated at a prudential scope. The prudential scope excludes the insurance group and is treated as a third party exposure.

We can detail the reconciliation table between consolidated own funds on 1 January 2018 towards regulatory own funds on 1 January 2018 as follows:

Comparison of accounting core shareholders' equity (consolidated financial statements) and the base for the regulatory core own funds

(In millions of EUR)	
ACCOUNTING CORE SHAREHOLDERS' EQUITY 31/12/17	9,085
Impact IFRS 9 – First Time Adjustments	(281)
ACCOUNTING CORE SHAREHOLDERS' EQUITY 1/1/18	8,804
Transformation of the insurance group into a third party exposure	(46)
Elimination FTA adjustments Belfius Insurance	(15)
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,743

This leads to the following regulatory own funds (fully loaded):

Regulatory own funds

(In millions of EUR)	31/12/17	01/01/18
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL) FULLY LOADED	8,037	8,262
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	9,039	8,743
DEDUCTION OF FORESEEABLE DIVIDEND	(288)	(288)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	(325)	195
Remeasurement defined benefit plans	112	112
Remeasurement available-for-sale reserve on securities and frozen fair value adjustments of reclassified financial assets	(437)	83
Other reserves	(14)	(19)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	14	19
DEDUCTIONS AND PRUDENTIAL FILTERS	(389)	(388)
Deferred tax assets on losses carried forward	0	0
Investments in securitisation positions	(23)	(23)
Changes in the value of own credit standing	(4)	(4)
Value adjustments due to the requirements for regulatory prudent valuation	(99)	(98)
Intangible fixed assets	(127)	(127)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses for IRB portfolios	(2)	(2)
Defined Benefit Pension Plan assets	(12)	(12)
Payment Commitments IPC	(17)	(17)
TIER 2 CAPITAL FULLY LOADED	1,097	1,097
Tier 2 capital instruments	939	939
Excess of provisions over expected losses for IRB portfolios	138	138
General credit risk adjustments SA (standard approach)	20	20
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) FULLY LOADED	9,134	9,360

The impacts mainly relate to the reversal of the available-for-sale reserve and the frozen available-for-sale reserve as Belfius has opted for a "hold to collect" business model for the majority of debt instruments.

The impact on regulatory risk exposures is twofold:

- an increase on the portfolio hedge and
- a decrease following lower exposures after reclassification and remeasurement on certain assets.

This increase of regulatory risk exposure was partially offset by lower exposures on certain assets. As the majority of the debt instruments are held in a "hold to collect" business model, the exposure on which RWA is calculated decreased as the fair value revaluation is no longer taken into account.

The impacts can be summarized as follows:

(In millions of EUR)	31/12/17	01/01/18
Regulatory credit risk exposure	39,073	39,463
Regulatory market risk exposure	1,841	1,841
Regulatory operational risk exposure	2,932	2,932
Danish Compromise	6,769	6,828
REGULATORY RISK EXPOSURE FULLY LOADED	50,615	51,065

(In %)	31/12/17	01/01/18	delta
CRR/CRD IV (FULLY LOADED)			
Common Equity Tier 1 ratio (CET 1 ratio)	15.9%	16.2%	30 bps
Tier 1-capital ratio (T1 ratio)	15.9%	16.2%	30 bps
TOTAL CAPITAL RATIO	18.1%	18.3%	30 bps

8. Impact CRR2 and finalisation of the Basel III package by Basel Committee

The Basel Committee on Banking Supervision announced on 7 December 2017 its revised capital standards. The agreement aims at ensuring:

- sufficient robustness and risk-sensitivity of the standardized approaches;
- a restored confidence in internal models by a reduction of model risks (risk underestimation) and a reduction of the undue variability of model outcomes among banks;
- the finalization of the design and calibration of the leverage ratio and output floor.

This package also referred as "finalization of Basel III" includes:

- a revision of the standardized approaches for credit and operational risks, and for credit valuation risk;
- additional constraints in the use of internal models;
- an aggregate floor based on 72.5% of standardized risk weighted assets for banks using internal models;
- a surcharge in the leverage ratio for the largest institutions.

These revised capital standards would become applicable from 1 January 2022 onwards, at the exception of the output floor for which a phasing period has been foreseen, at 50% in 2022 and increasing gradually up to 72.5% in 2027.

As of 31 March 2018, the transposition into European law of the international rules with regard to "Risk Reduction Measures" agreed over the last years is not yet finalized. This Risk Reduction Measures package (BRRD 2 – SRMR 2 – CRR 2 – CRD 5) foresees among others:

- a binding leverage ratio, including a surcharge for the Banks considered as G-SIBs and O-SII;
- a binding NSFR ratio;
- a new method for the measurement of counterparty credit risk (SA-CCR);
- a broader application of the SME supporting factor and a similar measure for social enterprises, green assets or investment in infrastructure;
- a revision of the market risk framework (Fundamental Review of the Trading Book);
- an enhanced framework for the interest rate risk in the Banking book;
- a revision of the treatment of large exposures;
- a comprehensive framework covering Minimum Requirement for own funds and Eligible Liabilities (MREL) including Pillar 1 and Pillar 2 requirements as well as sanctions to MREL breaches and links with the bail-in rules;
- a phasing-in of the impact on capital of the IFRS 9 expected credit losses;
- ...

In the context of these non finalized frameworks, Belfius has estimated the potential impacts of the Basel III finalization package on its solvency based on the tests of the final agreement. Based on current assessments, Belfius expects a moderate impact and considers that its solvency will be sufficiently robust in normal market circumstances to successfully comply with the provisions of this new regulatory landscape in 2022. This estimate is still subject to uncertainties related among others to

- the transposition of the international agreements in EU legal framework (including use of national discretions foreseen in the international agreement);
- the possibility of the macro prudential authority (for Belfius the NBB) to mitigate positive impacts of different measures foreseen in the final Basel agreement (e.g. lower LGD floor for mortgage loans) and;
- the risk profile and the structure of the balance sheet and off-balance sheet at the time of the entry into force of the finalization of the revised standards (2022).

CAPITAL MANAGEMENT IN BELFIUS INSURANCE

1. Prudential supervision

Belfius Insurance reports to its regulator, the NBB. Amongst others a quarterly report concerning its solvency margin and liquidity is required, both at a consolidated and at a statutory level.

As part of prudential supervision over systemic insurers, highly detailed information is also provided to the NBB about the company's strategy, its ALM policy and the sufficiency of its technical provisions.

2. Regulatory own funds

Solvency II, introduced on 1 January 2016, aims to implement requirements which better reflect the risks that Belfius Insurance faces and looks for a supervisory system that is consistent across all EU-Member States, in order to better protect our clients and to restore the confidence in the financial sector.

The own funds of Belfius Insurance are determined according to the valuation and eligibility principles defined in the Solvency II regulation, Directive 2009/38/EU.

The regulatory own funds of Belfius Insurance amounted to EUR 2,469 million at the end of December 2017. It was composed for 85% of the highest quality capital Tier 1. Tier 2 capital equalled EUR 358 million and consisted mainly of two subordinated loans granted by Belfius Bank. Compared to December 2016, the regulatory own funds of Belfius Insurance remains relatively stable, even after the payment of the foreseen dividend of EUR 120 million.

Available Financial Ressources (AFR)

(in millions of EUR)	31/12/16	31/12/17
AFR	2,501	2,469
TIER 1	2,140	2,110
IFRS Equity	2,147	2,173
Foreseeable dividend	(120)	(120)
Valuation difference (after tax)	(58)	(113)
Subordinated debt	170	170
TIER 2	361	358
Subordinated debt	350	347
Others	11	11

3. Solvency requirement

The Solvency II Capital Requirement (SCR) is calculated based on the consolidated asset and liability portfolio of Belfius Insurance, Corona and those investment entities that are fully consolidated for Solvency II purposes.

The SCR for Belfius Insurance is determined using the "Standard Formula" as defined in the Solvency II regulation, taking into account a volatility adjustment and making use of the transitional measure for equities and it includes the application of the restriction on the use of Loss Absorbing Capacity of Deferred Taxes as prescribed by the NBB.

Belfius Insurance's required capital amounted to EUR 1,128 million at the end of December 2017, lower compared to the end of 2016.

The decrease is driven by the new LAC DT regulation specified by the NBB (towards more EU harmonization) partially compensated by the effect of the new lower company tax rate.

Market Risk is the main contributor to the required capital due to the spread and equity risk. The SCR linked to the interest rate risk is rather limited thanks to the practice of a limited global duration mismatch between the assets and liabilities of Belfius Insurance.

Solvency Capital Requirement (SCR)

(in millions of EUR)	31/12/16	31/12/17
SOLVENCY CAPITAL REQUIREMENT	1,207	1,128
Market risk	1,097	1,111
Credit Risk	209	157
Insurance Risk	545	603
Operational Risk	100	97
Diversification	(483)	(491)
Loss absorbing capacity of technical provisions and deferred taxes	(261)	(350)

4. Solvency ratios at Belfius Insurance

The Solvency II ratio of Belfius Insurance stood at 230% at the end of December 2017, before foreseeable dividend, higher than the ratio as of December 2016, thanks to the resilience of own funds in the current market environment combined with decreasing solvency capital requirements driven by the SCR Adjustment in Deferred Taxes. Taking into account a foreseeable dividend of EUR 120 million, the Solvency II ratio is at 219% end of December 2017.

Solvency II-ratio

(In %)	31/12/16	31/12/17
Solvency II ratio (before dividend)	217%	230%
Solvency II ratio (after dividend)	207%	219%

In addition to the establishment of a complete risk framework, the Solvency II regulations also require a self- assessment in which, taking the business plan into account, the future capital buffers are highlighted and a number of sensitivities are implemented. It shows from this analysis that Belfius Insurance possesses the capital margins required to absorb shocks, as stated in the risk appetite approved by the Board of Directors.

	Shock	Solvency II ratio
Basis scenario (after dividend)		219%
Stress scenario		
Interest rate	-25 bps	215%
Equity	-30%	213%
Credit spread	+50 bps	177%

For example, a 0.25% fall in the interest level (compared with the level at the end of 2017) would have an impact of -4% on the Solvency II ratio. A stock market shock of -30% on share prices would have an impact of -6% and a 0.50% rise in the credit spreads across the whole bond and credit portfolio would result in an impact of -42%.

CAPITAL ADEQUACY

As required by Pillar 2 of the Basel regulation, Belfius disposes of an internal mechanism for the quarterly monitoring of main risk appetite and capital adequacy ratios. This quarterly reporting is completed with a monthly monitoring addressing some of the key risk appetite and capital adequacy ratios.

1. Economic capital

The economic capital is defined as the potential deviation of Belfius' economic value from its expected economic value, and this within a given interval of confidence and time horizon. The confidence threshold (99.94%) chosen for scenarios involving losses in value corresponds to the Bank's targeted senior unsecured debt rating at a horizon of one year (A-rating for 2017).

The economic capital quantification process is organised in three phases: identifying the risks (definition and cartography, reviewed on an annual basis, in collaboration with the various business lines), measuring the risks (mainly on the basis of statistical methods and/or scenarios) and aggregating the risks based on an inter-risk correlation matrix.

Most risks are capitalised based on measuring the unexpected loss. However, if alternative management techniques (limits, other buffers than capital, governance) are considered more appropriate to cover them, some risks are not capitalised.

The economic capital is central in the context of Belfius' risk appetite and is also complementary to Stress Tests framework for Internal Capital Adequacy Assessment Process (ICAAP) purposes.

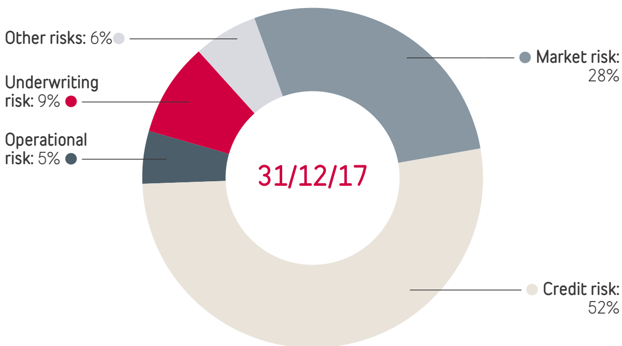
2. Economic capital adequacy

The Management Board, which also acts as the Risk Appetite Committee (RAC), is responsible for managing the capital level and allocation process and has authority in all matters relating to economic capital. The RAC analyses among others the various models involved in calculating the economic capital and also monitors the (regulatory and economic) ratios, limits and triggers.

Belfius economic capital was EUR 5,792 million at the end of 2017 (against EUR 5,683 million at the end of 2016).

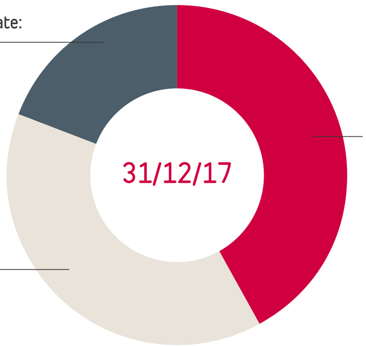
In 2017, the ranking between the main categories of risks remained the same as in 2016: credit risk represented approximately 52% of the economic capital and was the main contributor; market risk (inter alia including interest rate risk, foreign-exchange rate risk, spread risk and equity risk) was 28%, underwriting risk 9%, operational risk 5% and other risks (prepayment, funding,...) 6%.

Breakdown of economic capital by type of risk



By business line, the economic capital was allocated as follows: Retail and Commercial (RC) and Public and Corporate (PC) represented 39% and 19% respectively of Belfius' economic capital; the balance was made up of 42% allocated to the Group Center (mainly for the Belfius' general balance sheet management in terms of interest and funding risks, including the bonds investment portfolios and for the portfolios of derivatives and credit guarantees).

Breakdown of economic capital by business line



NORMATIVE REGULATORY EQUITY

The total normative regulatory equity is derived from the starting point of the regulatory core own funds adjusted for the deduction of foreseeable dividend without any other prudential filter or deduction and amounts to EUR 8,751 million end 2017 compared to EUR 8,554 million end 2016.

The normative regulatory equity allocated to RC and PC is the amount derived from the regulatory risk exposures of these business lines (including their allocated part of the amount of the "Danish Compromise") multiplied by 13.5% (Belfius minimum operational CET 1 ratio). The delta with the total normative regulatory equity is allocated to Group Center.

(in millions of EUR)	31/12/16	31/12/17
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,694	9,039
Deduction of foreseeable dividend	(140)	(288)
TOTAL NORMATIVE REGULATORY EQUITY	8,554	8,751
of which allocated to		
Retail and Commercial Banking	2,220	2,300
Public and Corporate Banking	2,021	2,235
Group Center	4,313	4,216

RISK MANAGEMENT

INTRODUCTION

Belfius' activities are exposed to a number of risks such as - but not exclusively - credit risks, market risks, liquidity risk, operational risk, insurance risk, changes in regulations as well as the macro-economic environment in general, that may have a negative impact on asset values or could generate additional costs beyond anticipated levels.

Risk management governance and data are more in detail described in Belfius' risk report which is available at www.belfius.com.

1. Macroeconomic environment in 2017

The economic environment in 2017 differed quite sharply from that of 2016. Whereas the economy disappointed and was in essence marked by negative shocks last year, in 2017 the economy was mainly characterized by stronger than expected growth and no negative surprises.

The international environment in which Belgium operated was positive and conducive to a return to growth. The world economy recovered with a growth rate revised substantially upward thanks in particular to an economic rebound in the US, China and Japan. The outcome of the elections in France and the Netherlands dissipated fears of growing EUR scepticism, thereby restoring confidence in European integration. Finally, the unchanged purchasing policy of the European Central Bank kept long-term interest rates at low levels, so investments were not held back.

This positive climate was reflected in a high level of confidence among consumers and producers and strong domestic demand in Belgium. Consumer spending was also up, driven by the strongly improving situation on the labour market and an increase in real income. The strong increase in the gross operating surplus and the strong international prospects fuelled corporate investments. Economic growth in Belgium is expected to rise from 1.2% in 2016 to 1.7% in 2017.

The government's financial situation improved also in the course of 2017. The debt to GDP ratio, which still stood at 105.7% in 2016, is expected to drop by 2 percentage points in 2017 owing to a positive primary balance, but also higher economic growth than the interest rate payable on government debt.

The improvement of the Belgian economy was however less pronounced than that of most other countries in the EUR group. This can be explained by three partially structural factors:

- → The Belgian economy has registered the strongest growth of all eurocountries since the year 2000. It has therefore also suffered less from the financial crisis, so the recovery was naturally less strong than in other eurocountries.
- → The growth of the real wage bill is less strong owing to wage moderation, a higher Belgian inflation and lower employment rate. The increase in consumption expenditure by households is therefore somewhat lower than in other euro zone member states.
- → Public consumption grew more moderately due to the higher debt position of the Belgian government.

2. Ratings

Between 1 january 2017 and 31 march 2018, rating agencies took the following decisions:

- → In March 2017, Moody's upgraded Belfius' stand-alone Baseline Credit Assessment (BCA) to baa2 and its LT-rating to A2. The ST-rating has been upgraded from Prime-2 to Prime-1. The outlook has changed from stable to positive;
- → In October 2017, S&P replaced the transitional notch with a notch for ALAC support as they believe Belfius will sustain its current capitalization and bail-in-able debt levels, hence affirming Belfius' ratings;
- → In December 2017, Fitch affirmed Belfius' rating.

Ratings of Belfius Bank as at 31 March 2018

	Stand-alone rating[1]	Long-term rating	Outlook	Short-term rating
Fitch	a-	A-	Stable	F2
Moody's	baa2	A2	Positive	Prime-1
Standard & Poor's	bbb+	A-	Stable	A-2

(1) Intrinsic creditworthness

GOVERNANCE

In line with Art. 194 of the "Banking Law", Belfius is managing risks based on a group-wide (Belfius Bank + Belfius Insurance) coordinated and integrated risk management framework. The overall objective is to have a risk management coordination, ensuring consistency while respecting the entities' specificities, responsibilities and legal/regulatory obligations. The main pillars of this risk management are an appropriate risk governance structure, risk monitoring and decision taking process.

At the level of the Risk departments of Belfius Bank and Belfius Insurance, the CRO's, assisted by their Risk Executive Committees (Risk ExCom), ensure adequate integration and coherence regarding methodologies, tools and risk management.

In terms of the risk governance structure, Belfius implements:

- similar Committee governance and decision taking process: Board of Directors, Risk Committee (Belfius Bank) - Risk & Underwriting Committee (Belfius Insurance), Risk ExComs Belfius Bank - Belfius Insurance,…;
- presence of Belfius Bank Board of Directors' members in Belfius Insurance Committees assuring enhanced coherence;
- common Belfius Bank Risk Committee/Belfius Insurance Risk & Underwriting Committee can be organised.

Both entities have a similar risk policies & guidelines framework and approach:

- risk policies with focus on risk drivers, governance and decision making process;
- risk policies decided at Management Board level (with formal approval of Belfius Insurance Board of Directors);
- steered by Risk department;
- target is implementing best practices: mutual exchange & implementations.

Both entities use similar and/or common tools ensuring consistency and enabling coherence as well as an integrated management of risks and internal controls:

- Risk Appetite Framework: defined and validated group-wide by Belfius Bank and cascading down to subsidiaries;
- Risk Management & Control executed through the "Senior Management Report on the Assessment of the Internal Control";
- ICAAP & Recovery Plan (Belfius Bank) and ORSA (Own Risk and Solvency Assessment; Belfius Insurance).

More information regarding the risk governance of Belfius Insurance can be found in the annual report of Belfius Insurance.

1. Risk Committees

A performant risk governance structure is considered as a central cornerstone to sound risk management. A robust risk committee set-up incorporates effective communication and reporting lines and a clear delineation of responsibilities and competences. Such a set-up ensures a two-way process of risk management instructions and feedback enabling senior management to execute its management and supervisory obligations.

1.1. Risk Committees on a strategic level operating within the Management Board

Three risk committees have been set up within the Management Board of Belfius Bank, prepared by the Risk department and meeting 3 to 4 times a year:

- **the Risk Policy Committee (RPC)** surveys the definition and the implementation of the Bank's principal risk management and measurement policies, processes and methodologies, and supervises their validation status. Its prime responsibility is to provide a risk governance that is commensurate with the risk appetite and strategy ("Risk Appetite Framework or RAF") of the Bank compliant with regulatory requirements and is in line with best practices;
- **the Risk Appetite Committee (RAC)** surveys Belfius' risk appetite, capital adequacy and capital allocation. It manages the economic capital and stress test framework, ensures the adequacy of this framework against the nature and complexity of the risk and business composition and supervises its practical implementation;
- **the Regulatory Steering Committee** surveys the Finance and Risk regulatory reform status's of Belfius Bank.

In addition to these three risk committees, two functional areas also report to the Management Board without a separate committee being set up for them. These two areas deal with credit-related topics and non-financial risks.

1.2. Risk Committees on tactical/operational level

The Management Board delegates certain decisions to a tactical/operational level. The details of this delegation are set out in the applicable committee charters. For matters that fall outside the jurisdiction, of this delegation, the tactical/operational level provides information or puts forward opinions to the Management Board, which then decides.

The committees that are part of the tactical/operational level are committees on which the Risk department generally participates alongside business divisions. Risk committees which are steered by the Risk department focus mainly on risk appetite and methodology. Risk/Business committees which are steered jointly by the Risk department/Business focus mainly on guidelines, transactions and risks on counterparty risks. The Risk department has a veto right in many of these committees, as well as the right to bring files for decision to a higher governance level.

2. Risk appetite

Risk appetite is the level of risk that an institution is prepared to take given the expectations of the main stakeholders (shareholders, creditors, regulators, rating agencies, customers, employees, …), in order to achieve its strategic and financial objectives. This risk appetite is above all defined by the Board of Directors, on proposals from the Management Board. The Risk Department prepares the Management Board's proposals and the Board of Directors' decisions, and also sets the rules and the framework for implementation of those rules.

Based on a holistic approach, risk appetite is a central reference point:

→ for guiding strategy and planning;
→ for framing performance in terms of growth and value creation;
→ for facilitating day-to-day operating and commercial decisions.

The Bank's risk appetite consists of a series of quantitative elements (target Key Risk Indicators or KRI) and qualitative elements (statements) that are designed to express the risk levels and types that are not acceptable, that are tolerated and targeted in order to achieve business strategy. The quantitative framework is based on a mix of accounting ratios (gearing), regulatory ratios (solvency, liquidity) and economic ratios (economic capital, Earnings at Risk). The different metrics cover a wide range of risks (credit risks, solvency, liquidity, marker risks, operational risks, concentration risks, …).

Limits have been defined on each of these ratios with different zones, which lead to different governance and measures in case of breach. They are validated each year by the competent bodies. The Risk and Finance departments are responsible for monitoring these ratios, and if there are discrepancies, for proposing measures to the Management Board to ensure the limits are met.

3. Stress tests

Stress tests are designed to measure the Bank's sensitivity, in terms of losses, additional weighted risks, liquidity needs or equity capital requirements that could impact Belfius in scenarios featuring significant unexpected shocks on the financial markets and/or in the own financial situation of Belfius.

Belfius performed an internal stress testing programme with its financial Plan 2018-2022. The Bank developed a set of alternative and severe macroeconomic scenarios designed to anticipate the Bank's main weaknesses and to simulate how Belfius might be affected under these circumstances. These different stress tests measure the potential deviations from the "base case" Financial Plan and from Risk Appetite targets set by the management in terms of solvency, liquidity and profitability. These stress tests were submitted to the Management Board as well as to the Board of Directors.

4. Recovery Plan

An update of Belfius Recovery Plan has been submitted to the ECB during the second half of 2017. This plan provides a set of recovery measures that would be taken to restore the Bank's long-term viability in the event of a significant deterioration of its financial situation due to severe general macroeconomic and/or idiosyncratic stress situations.

5. Resolution

Resolution is defined as the restructuring of a bank within the Single Resolution Mechanism (SRM) issued by the Single Resolution Board (SRB) through the use of resolution tools. The objective of the SRB is therefore to ensure an orderly resolution of failing banks with minimum impact on the real economy and on public finances of the participating Member States and beyond.

Belfius, being considered as significant financial institution in Belgium, has to ensure that all necessary information will be provided to the SRB, responsible for preparing a resolution plan that would be available in case of a severe crisis leading to an hypothetical failure of the Bank.
Belfius resolution therefore consists of the application of identified resolution tool(s) to the Bank which best achieve resolution objectives.

CREDIT RISK

1. Methodology

For the management of its credit risks, Belfius uses an Advanced Internal Rating Based approach. This means that Belfius makes use of internal models for defining the key risk parameters Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF – the conversion of an available credit line in an expected amount draw down) for off-balance sheet commitments. Regarding the CCF parameter, Belfius makes a distinction between retail and non retail counterparties: an advanced model is applied for retail counterparties, while non-retail counterparties use the regulatory values.

The previously announced Targeted Review of Internal Models (TRIM) moved in 2017 from a global information collection exercise to a more in depth analysis of several models (mainly related to mortgage loans, other models being reviewed in a later phase). Together with the new definition of default and the new guidelines regarding PD and LGD models, it demonstrates the growing attention of supervisory bodies for models used to calculate the bank's solvency ratios.

The internal models' lifecycle can be divided into three blocks: the development and approval of the internal model, the monitoring of its use and the maintenance of the model. The Model Manager is key in the process of the development and the maintenance of the model and he/she consults frequently with commercial business lines and credit departments. Next to that, several control functions are effective within the organisation: Validation, Rating Committee, Quality Control and Internal Audit.

1.1. The main stages in the development of a model

- → Defining the area of application of the rating model, i.e. for what population/target audience of counterparties the model will be used.
- → Gathering all of the relevant quantitative and qualitative information with regard to the target audience (financial data, economic, regulatory and institutional context, information about the number of defaults, etc.).
- → Defining, developing and extensively testing the criteria that will be used in the model and will lead to an internal rating.
- → Validating, implementing and documenting the model, whether or not linked to an IT development project. Formal validation of the model is carried out by "Validation", an autonomous direction within the Risk department which provides an independent and objective report on the models.

1.2. The main control mechanisms

In accordance with good governance and the demands of the regulator, various control mechanisms are in place regarding the operational use of models, their intrinsic performance and the entire process for management of the model lifecycle.

- → Independent Quality Control on the rating models, defined in accordance with the statutory guidelines, ensures appropriate use of the ratings models, operational efficiency and the existence of an audit trail in the rating process.
- → Back testing consists of seeing whether, based on historical data, the model is still in line with historical statistics.
- → Stress tests are performed to see how portfolios and models react under unexpected and/or extreme circumstances.
- → Internal Audit carries out a regular general check to ensure that all guidelines and instructions are being followed and to see whether all of the parties involved are assuming their responsibilities correctly (Have sufficient tests been carried out? Has the model been adequately validated internally? Is there sufficient quality control? Are the mandatory annual back tests being carried out? etc.).

1.3. Maintenance of the model

- → There may be a number of different elements that could lead to an update of a model. These are mainly:
  - the results of the annual back testing and stress tests;
  - the feedback/observations from the other control mechanisms (Quality Control, Rating Committees, Internal Audit);
  - changes to the regulatory framework.
- → Launching a revision results in a process very similar to the one used to develop a model: (re)viewing the parameters, testing, a new internal validation of the adjusted model and possibly a validation by the ECB depending on the materiality of the revision.

2. Credit limits and credit committees

The robustness of the credit acceptance process is one of the main pillars of risk management at Belfius. It relies on a large range of directives, delegation rules and other governance instruments, aimed at strictly controlling credit risks, such as those established in the Risk Appetite Framework.

Belfius Bank has defined credit limits and delegations of competences for various types of credit risks which are monitored every day, reported to governance bodies every quarter and on top of that assessed each year by the Risk Committee and the Board of Directors.

Credit limits represent the maximum risk level acceptable on individual counterparties and/or economic groups and thus reflect the Bank's risk appetite in its individual customer relations. Credit limits are set on the basis of the customer's risk profile, the focus being mainly (but not exclusively) on their internal rating. In addition to individual credit limits, Belfius Bank also uses a number of portfolio guidelines. In 2017, the counterparty and portfolio limits were reviewed in order to remain aligned with the business strategy and the characteristics of the credit portfolios concerned. The adjustments were mainly related to the investment strategy of Belfius Insurance and to Corporate Banking.

The credit decision processes within Belfius Bank consist of three different types:

- automated decisions where the Bank compares the customer's credit application with a series of technical risk and commercial parameters;
- delegated decisions, i.e. decisions taken by staff to whom, intuitu personae and based on the certification of their risk competencies, decision-taking powers have been delegated;
- the regular process of the credit committees.

When granting credits to individuals (essentially mortgage loans), to self-employed and to small enterprises, standardised and automated processes are mainly used, in which the results from the scoring and/or rating models play an important role.

When granting credits to medium-sized and large enterprises as well as Public and Social customers, an individualised approach is implemented. Credit analysts examine the file autonomously and define the customer's internal rating. Then a credit committee takes a decision on the basis of various factors such as solvency, the customer relationship, the customer's prospects, the credit application and the collateral. In the analysis process, credit applications are carefully examined and only accepted if the perspective of continuity and the borrower's repayment capacity are demonstrated. To support the credit decision process, a RAROC (Risk Adjusted Return on Capital) measures the expected profitability of the credit transaction or even of the full relationship with the customer, and compares it with a required RAROC level (target rate). As such, the RAROC is an instrument for differentiating the risks and for guiding the risk-return combinations in an optimal way.

Belfius Bank has further intensified its strategy of being close to its customers. This approach provides a significant added value to our customers, regardless of the segment in which they operate. Credit and risk committees are regionalised and the delegation of decision-making powers to the regional commercial and credit teams is continued, strengthening the principle of decision-by-proximity. This resulted in a greater involvement of the various teams in the decision-making process, as well as stronger monitoring of the use of the delegated powers mentioned above.

The Bank monitors the evolution of the solvency of its borrowers throughout the whole credit lifecycle. The different portfolios of the Retail and Commercial Business for which risk management relies on a portfolio approach are reviewed periodically. Customer ratings, using an individualised approach, are also updated periodically, in line with the Bank's choice to apply AIRB (Advanced Internal Rating Based) models. The economic review process of credit applications guarantees that any signs of risk can be detected in time and subsequently monitored and/or addressed. This review process is organised, according to the Credit Review Guideline, in an annual cycle, with in-depth analyses for customers with important credit exposures and/or significant (positive or negative) evolutions in their risk profile.

3. Fundamentals of credit risk in 2017

3.1. Banking activities in Retail and Commercial

Belgium experienced a robust economic growth throughout 2017, especially during the first half of the year. This growth was driven by an even stronger growth of the world economy and the increase of investments. As a result, job creation peaked. Against this background, lending to the Retail and Commercial business line remained at a high level, and this based on a stable lending policy in general, albeit adjusted for some elements (see further).

Demand for consumer credit remained stable in 2017. The criteria used for granting consumer loans remained generally unchanged from the preceding years and in line with the "Responsible Lending" charter of the Belgian Financial Sector Federation (Febelfin). 2017 was the first year during which customers could apply for a consumer loan via mobile platforms, by using the Belfius App. Throughout 2017, approximately 10% of the consumer loan applications were introduced via mobile channels. The rules for evaluating mobile loan requests remained basically the same as for loans requested through traditional channels. Belfius remains however very vigilant on the risk profile of mobile loan requests, both in terms of credit risk and fraud risk.

The production of mortgage loans was very sustained throughout 2017, and remained at almost the same level as in 2016. The early repayment wave (and the consecutive internal financing) which characterised 2015 and 2016, faded out in 2017. Nevertheless, Belfius' portfolio of mortgage loans substantially grew over 2017, due to the increased financing of new real estate projects, i.e. property acquisitions or constructions. The share of loans with a higher LTV combined with a longer maturity in the portfolio slightly increased, because of the evolution of the product mix (higher proportion of loans to younger borrowers for a first home acquisition). Notwithstanding this evolution, the overall credit quality of the mortgage portfolio remained excellent and even slightly improved (as illustrated by the average probability of default).

The historical low risk level of the mortgage portfolio is also reflected by the cost of risk that remains at a very low level. The Risk Department continued its reinforced monitoring of the potential higher risk segments of mortgage loans (combinations of longer repayment terms, higher loan-to-value financing ratios and higher debt service costs vs. income ratios, as well as buy-to-let transactions). The Bank took measures to keep production in these niches within strict limits. This approach is in line with the concerns expressed by the National Bank of Belgium with regard to the evolution of the Belgian residential real estate and mortgage market.

Belfius has more than 275,000 self-employed workers, professionals and SMEs as customers. Each one of them can rely on the personal service of a business banker. Belfius Bank's approach to have lending decisions for business loans taken by local teams working close to the customer was further intensified in 2017. This strategy contributes to a better customer service while numerous tests and realised statistics indicate that the risk remains under control. The continuous fine-tuning of the decision-making logic and the enhanced and quickly reactive monitoring on deteriorating risk profiles is bearing fruit. Through the new "Go4Credits" project, Belfius enhanced further in 2017 the efficiency of its credit approval process for the Commercial Business line.

The overall profitability and strength of Belgian SMEs remained good, although the latter are more and more confronted with a changing consumer pattern (e.g. e-commerce). In 2017, according to Graydon 10,831 companies were forced to cease business, which was 7.6% more than the number in 2016. The number of bankruptcies increased most in the Brussels-Capital Region with 34.3%. The increase in the Walloon Region remained limited to 7.2%, while Flanders showed a decrease of 1.9%. At the sectoral level, the hotel and catering industry suffered 2,149 bankruptcies (+8.1%). More bankruptcies were also pronounced in sectors as construction, business services, transport and car dealers. As a result, 21,297 jobs were put at risk, which is 2.8% more than a year before. Overall, the cost of business loans at Belfius Bank remained at a good risk/return level and within the target levels. Belfius therefore intends to keep supporting the production of business loans, also in relation to start-ups. At the same time, the Risk department continues the improvement of the process of early warning indicators in order to keep permanently the risks in this market segment well under control.

3.2. Banking activities in Public and Corporate

In 2017, Belfius kept providing the public and social sector, as well as mid & large companies, with an extensive and integrated range of dedicated products and services. It strengthened its partnership with the customers from the public and social sector by continuing to invest in having an in-depth knowledge of their needs and continuing to be able as such to offer them new and tailored solutions to fund their operations, manage their finances and meet their insurance requirements. The strategy to also become the reference partner for corporates that service this public and social sector (Business-to-Government) was further implemented.

The Public Sector loans portfolio maintained its very low risk profile. Since 2012, local authorities have nearly stabilized their global expenditures, as a result of a decrease of interest charges (-6.6% per year) and capital expenditures (-6.0% per year), which both compensated the rise of their current expenditures (+1.2% per year). The evolution of these current expenditures remained as well under control, partly because of the low inflation and because of the decline in the number of local public servants. The investments of local authorities amounted to EUR 3 billion in 2016, compared to EUR 4 billion in 2012, a decline with almost 30%. This historically low level of investments worsened the already existing underinvestment for the whole Belgian public sector. During the same period, local authorities managed to improve their balance of payments with on average 2.5% per year. This balance even became positive in 2015 and 2016. In parallel, partly as a result of the moderate investment dynamics, the debt level of local authorities fell below the threshold of EUR 24 billion, which represents 5.13% of the total public debt in Belgium. 2017 generally confirmed these tendencies: expenditures well kept under control, restraint investment dynamics and fiscal receipts somewhat under pressure. Aside from the current budgetary limits, some other structural reforms will weigh on the finances of municipalities in the coming years, such as the ongoing pension reform for their statutory staff, the contribution of local authorities to remedying Belgian public finance, the consequences of the tax shift (approved in 2016 by the Federal government) which gradually erodes the taxable basis of the municipal additional taxation, the challenges of the ageing population and finally the increasing costs of social aid and security. All these challenges brought about a lot of movement in the local landscape, especially in Flanders. Many activities of municipalities or provinces, in particular related to the management of public real estate and infrastructure (with respect to public utilities), have been transferred to autonomous companies. Public centres for social welfare increasingly create mutual associations, with the intention of developing closer collaboration around welfare and care. In many places, the activities of the municipality and the public centre for social welfare have been partially merged. This spontaneous trend precedes the already planned full integration of both. Meanwhile, there were also a lot of mergers between police zones looking for a scale-up, and the first mergers between municipalities have been announced.

From a risk management point of view, the hospital sector remains a focus of attention. The potential developments in the area of hospital funding are closely monitored. The indebtedness of Belgian hospitals has increased importantly the past 5 years. The operating profit of the sector - after a stabilization in 2015 – deteriorated again for the second consecutive year. As a consequence, some hospitals display a structural shortfall in repayment capacity. According to our studies, the Belgian hospital sector seems somewhat underfunded and an overcapacity regarding beds and infrastructure prevails. The Minister of Public Health has drafted the general outlines of a plan to address these challenges.

Belfius' corporate business is focused on Belgian companies with a turnover in excess of EUR 10 million. With 10,600 customers, Belfius is positioned as a challenger in this segment, but the growth strategy launched in 2015 was successfully pursued in 2017. Belfius has taken the necessary measures to ensure that this growth strategy goes hand in hand with a good creditworthiness and acceptable risk concentrations. The credit profile of the corporate lending remained fairly stable during 2017, which also meant that the cost of risk remained at an acceptable level and within the limits set. Real GDP growth in Belgium accelerated in 2017 to 1.7%, supported by low interest rates and a declining unemployment. The wage restraint, the 2015 index jump and the tax shift have made especially our bigger and exporting companies more competitive. The announced reduction of the corporation tax can give them a further boost. As a result, the general recovery of profitability of Belgian corporates - already started in 2014 – continued in 2017. However, the difficult government formation in Germany, the constitutional crisis in Catalonia and the Brexit file may create difficulties. The planned Brexit could especially. weight on Belgium's economic expansion; 8.8% of Belgian exports are directed to the UK, representing 7.7% of GDP, the largest share (as a projection of national output) amongst EU countries. A follow-up of global Brexit risks and impacts at portfolio level was put in place, but did not reveal critical problems.

Belfius monitors sector risks in a proactive way and defined specific measures with regard to a limited number of more vulnerable sectors. In the shipping industry, Belfius Bank continued to focus exclusively, as it has done in previous years, on shipping companies and other shipping-related businesses that have a commercial relationship with the Bank and a clear link with the Belgian economy. Connections with companies that do not meet these criteria were further reduced. One year after excess capacity caused the sector's worst-ever crisis (e.g. in August 2016, the Korean based Hanjin shipping, the world's 7th largest shipping company, filed for bankruptcy), the market is more and more dominated by players with big ships. The growing use of mammoth ships is key in view of a possible turnaround. Companies who own them are able to deploy fewer vessels and move more cargo on one single journey. However, in general, market conditions remained difficult in 2017. Freight rates generally still remained below historical levels. The excess of shipping capacity kept putting pressure on freight rates, as new entrants expanded and old vessels still remained.

Real estate financing, related to both residential and commercial real estate, is an important business activity within Belfius. Also on industry level, the Bank's lending activity in the real estate sector continues to increase considerably. The evolution of real estate financing over the last years is to be evaluated in the context of the following factors: the sustaining low interest rate environment, the fact that Belgian banks have a large deposit base and are confronted with a search for yield, the gross debt ratio of Belgian households that has increased and has recently slightly exceeded the average EURarea ratio. This combination of elements induces a concern at NBB level about an overevaluation of the Belgian (residential) property and about the threat of strong volume growth with potentially lower credit standards, lower margins and low provisioning levels. Belfius is aware of these potential pitfalls and has traditionally applied strict origination and acceptation criteria (LTV, maturity, collateral valuation) on new transactions and a solid monitoring of projects, in both residential and commercial real estate financing. Belfius real estate credit exposure is considered as being correctly diversified in terms of underlying asset types, individual name concentration and geographical spread.

Finally, it is worth mentioning that Belfius further intensified its portfolio management in the course of 2017, in the first place through the gradual sale of higher risk exposures and/or exposures that are no longer considered as being core business (e.g. shipping-related business without a commercial relationship), but also by developing risk hedging and risk sharing programs.

3.3. Insurance

The management of the credit risk of Belfius Insurance is the responsibility of Belfius Insurance risk management team, albeit in collaboration with the credit risk teams of Belfius Bank and aligned with the risk management guidelines that are applicable for the whole Belfius group. As such, this implies that credit limits are defined on a consolidated basis and that transfers of limits between the Bank and Insurance are permitted, on the condition that both parties agree. The CROs of Belfius Bank and Belfius Insurance coordinate the requests among each other.

3.4. Financial Markets

The mission of Financial Markets is of course aligned with the mission of Belfius Bank, to serve its clients and the Belgian economy with essential financial services. Next to this general objective, Financial Markets operates as a competence and service centre with regard to Belfius. In such a context, the risk and return generated by Financial Markets are reallocated to the business lines Retail and Commercial and Public and Corporate. As such, Financial markets complete the business lines' offering towards clients in order to ensure a long term relationship and ensure a quick and efficient time to market for new products. Innovative Financial Markets also contribute to the liquidity profile of the Bank through the management of Short Term and Long Term wholesale funding and to the management of the investment portfolios: both the ALM LCR and Yield portfolios (run-off management of the portfolio inherited from the past).

Credit risks in relation to Financial Markets activities are monitored by the Credit Risk Limit Framework which is part of the Risk Appetite Framework. Counterparty and country limits are monitored by FM Risk Management in order to limit risk concentrations.

In 2017, Belfius finalized the 2012-2016 derisking program and fine-tuned the risk profile of the Bank with respect to its ex-legacy portfolios with a.o the execution of the Riverview sale; this resulted again in a strong decrease of outstanding amounts and Regulatory Risk Exposure (RWA) and a positive evolution of the portfolios' Key Risk Indicators.

Hence, Belfius considers that the management of the yield fit with Franchise characteristics. However, a close monitoring is put in place and further opportunistic derisking is monitored by the Portfolio Investment Committee on a frequent basis.

UK inflation linked corporate portfolio and Italian Sovereign remain our most important concentrations, are of satisfactory credit quality and are closely monitored. The Board of Directors has agreed to reduce its exposition on Italian bonds in 2018.

Beside that, the credit risk of financial markets have remained fairly stable after the consequences of the Brexit. Risks arising from the electoral cycle in a context of continued success of anti-establishment movements had very limited impact on profitability and negligible impact on liquidity and capital.

Again, the money market activity has been influenced by the persisting low interest rate environment, the volatility of collateral and the challenging yield environment for the reinvestment of the liquidity buffer.

3.5. The risk management process concerning Forbearance, Watchlist, Default and Impairments

The detection of changing credit risks by means of an efficient and performant process and the constitution or not of impairments is a major pillar of efficient credit risk management. Belfius frames this process in a coherent set of risk policies and guidelines, risk committees and operational procedures.

The Watchlist guideline defines those internal and external indicators which reveal an increased credit risk, and which might give rise to more intensive monitoring of the credit file concerned. Files placed under higher surveillance are submitted each quarter (or more frequently if necessary) to a Risk Committee which, if necessary, decides on the appropriate risk measures.

The European Banking Authority's Forbearance guidelines - designed to enable the analysis of the quality of credit portfolios and hence also the risk profile of all European banks in a more proactive and consistent way - are already since 2014 transposed into a Belfius guideline and integrated into the Bank's risk and financial reporting. In practical terms, forbearance boils down to the granting of concessions to borrowers in financial difficulties. These concessions may take the form of modifications to the loan contract or some refinancing. Specific criteria are established for each business segment. These provide a practical interpretation of the concepts of "financial difficulties" and "concession". When granting a concession, the Bank is always led by a number of mainly business-related and economic factors. The fact that concessions are made is one of the watchlist indicators at Belfius.

At the end of 2017, an amount of EUR 652 million of loans at Belfius complied with the forbearance definition, of which EUR 34 million related to Belfius Insurance, compared with respectively EUR 647 million and EUR 37 million in 2016. Appropriate specific or collective impairments were recorded in relation to this volume of forborne loans via the usual risk processes.

When a counterparty's solvency is weakening, early warning indicators may be activated which will take the counterparty concerned into our internal risk systems towards a default status. Depending on the seriousness of the indicators, which show the degree of probability of the counterparty's default, Belfius puts the counterparty in D1 or D2 status. These indicators are described in the Default guidelines. The Default committee within the Risk department, is competent to define the default status of a counterparty. 2017 showed an increased attention of the ECB for non-performing loans. In a European perspective, the NPL-ratio's of Belfius' different asset classes.

Once a counterparty is classified in default, an assessment is made, as a fundamental element of the risk management process, of the need to make a specific impairment of the credit file(s) with the counterparty. This assessment examines whether and to what extent the guarantees Belfius holds are sufficient to reimburse the credit risk exposure, in the various scenarios possible (from business continuity to active recovery). The Impairment committees make this assessment and, if necessary, decide to make a specific impairment.

For the credit portfolios of the Retail and Commercial Business, where risk management relies on a portfolio approach, the same principles are valid, but applied in a less granular and more automated manner.

Moreover, Belfius also implements collective impairments to recognise impairments for credit risks which are latent in the credit portfolios (but have not yet reached default status) and which are essentially defined from a watchlist perspective. Collective impairments are also constituted to account for incurred but not yet reported credit risks which might emerge in certain well-described subportfolios, as a result of circumstances or developments specific to them.

4. Exposure to credit risk

The definition of Maximum Credit Risk Exposure "MCRE" is determined as follows:

- for balance sheet assets (except for derivatives): the gross carrying amounts (before impairment);
- for derivatives: the fair value of derivatives increased with the potential future exposure (calculated under the current exposure method or add-on);
- for reverse repurchase agreements: the carrying amount as well as the excess collateral provided for repurchase agreements;
- for off-balance sheet commitments: either the undrawn part of liquidity facilities or the maximum commitment of Belfius for guarantees granted to third parties (including financial guarantees given).

Breakdown of credit risk by counterparty

	31/12/16	31/12/17	Of which	
(FEAD, in EUR billion)			*Bank*	*Insurer*
Central governments	20.3	24.8	17.8	7.0
of which government bonds	*13.4*	*12.9*	*6.1*	*6.8*
Public sector entities	50.3	47.4	45.4	2.0
Corporate	27.5	29.5	28.1	1.4
Monoline insurers	4.2	3.5	3.5	0.0
ABS/MBS	1.4	1.0	0.9	0.1
Project Finance	2.1	2.0	2.0	0.0
Individuals, self-employed and SMEs	42.3	45.2	41.7	3.5
Financial institutions	23.6	19.7	18.0	1.6
Other	0.7	0.7	0.3	0.5
TOTAL	172.4	173.8	157.7	16.1

Belfius credit risks are of course based on a consolidation scope that includes its fully consolidated subsidiaries, Belfius Insurance included.

As at 31 December 2017, the total credit risk exposure, within Belfius reached EUR 173.8 billion, an increase of EUR 1.4 billion or 0.8% compared to the end of 2016.

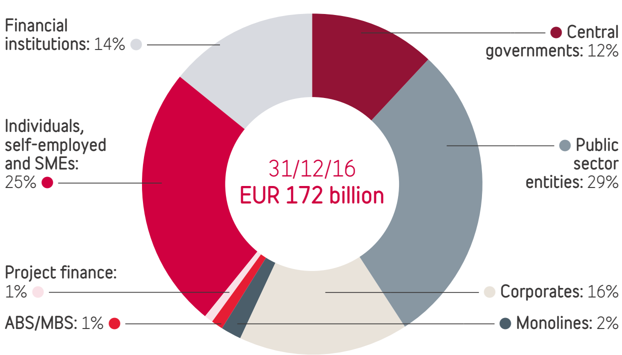
At bank level the credit risk exposure slightly increased with 1.4% to EUR 157.7 billion. At the level of Belfius Insurance, the credit risk exposure went down by 4.8% to EUR 16.1 billion at the end of 2017.

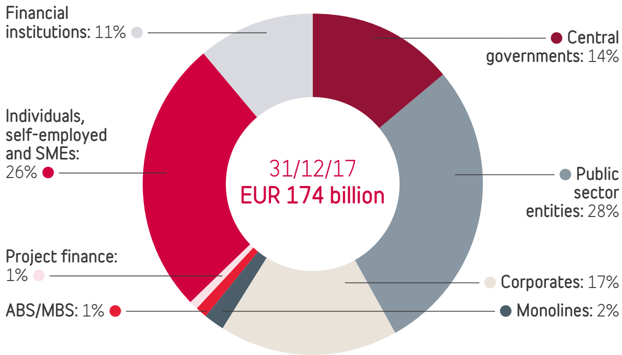
The credit risk exposure on public sector entities and institutions that receive guarantees of these public sector entities (28% of the total) and on individuals, self-employed and SMEs (26% of the total) constitute the two main categories. The decrease of the credit risk exposure on public sector entities by EUR 2.9 billion was almost fully offset by an increase of EUR 2.9 billion of the credit risk exposure on individuals, self-employed and SMEs due to increasing commercial activities. The expansion of Belfius' corporate activities is also reflected in higher credit risk exposure (+ EUR 2.0 billion) for this segment leading to an increase of its relative proportion from 16% by the end of 2016 to 17% by the end of 2017.

The relative proportion of the segment central governments went up from 12% end 2016 to 14% end 2017. This growth is a direct consequence of Belfius' increasing excess liquidities posted at the National Bank of Belgium. Inside this segment, the credit risk on government bonds decreased by 4% from EUR 13.4 billion at the end of 2016 to EUR 12.9 billion at the end of 2017. More than half (59%) of the government bonds portfolio is invested in Belgian government bonds. While at bank level the Belgian government bonds represents 37% of the total government bond portfolio, the relative proportion at Belfius Insurance stood at 73%.

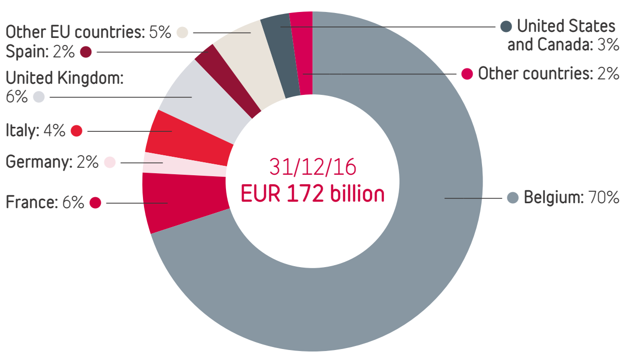
The credit risk exposure on financial institutions further decreased in 2017 by EUR 3.9 billion and stood at 11% at the end of 2017 against 14% at the end of 2016. The credit risk on monoline insurers on bonds issued by issuers principally active in infrastructure and public utilities projects is predominantly an indirect risk arising from credit guarantees written by Belfius Bank and reinsured with monoline insurers. During 2017 the relative proportion of the monoline insurers went down from 2.4% at the end of 2016 to 2% at the end of 2017.

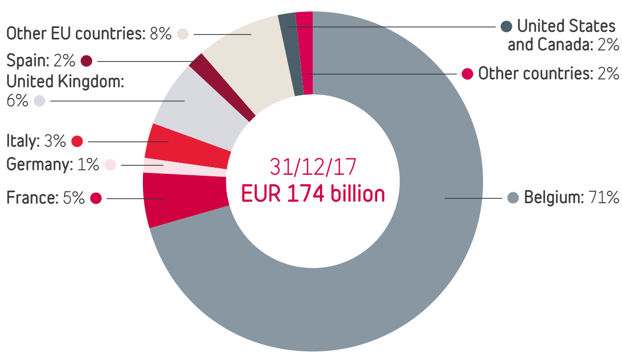
Breakdown of credit risk by counterparty



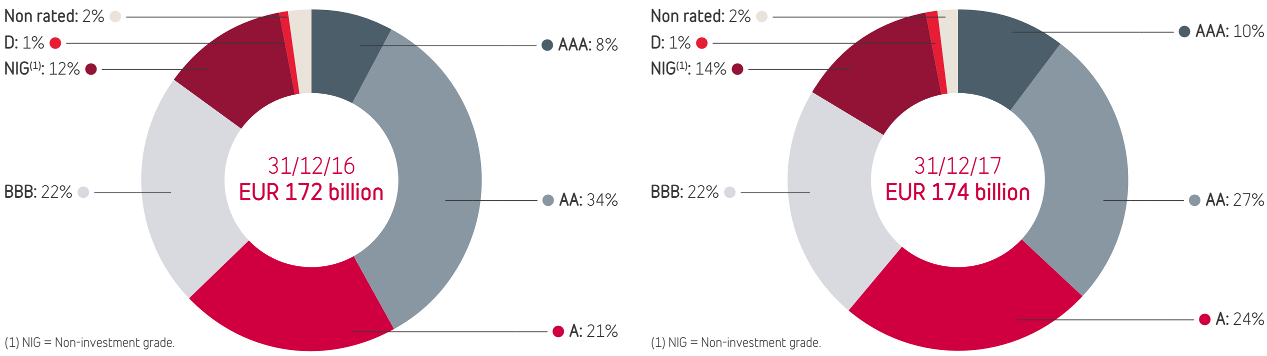


Breakdown of credit risk by geographical region





Breakdown of credit risk by rating



Belfius' positions are mainly concentrated in the European Union: 96% or EUR 151.2 billion at bank level and 98% or EUR 15.9 billion for Belfius Insurance. 71% of the total credit risk exposure is on counterparties categorised in Belgium country exposures, 6% in the United Kingdom, 5% in France, 3% in Italy and 2% in Spain and in the United States and Canada.

The credit risk exposure to counterparties in the United Kingdom amounted to EUR 11.3 billion. About half of this credit risk exposure concerns bonds, of which close to two-third are inflation-linked, issued by utilities and infrastructure companies in the United Kingdom that operate in regulated sectors such as water, gas and electricity distribution. These bonds are of satisfactory credit quality (100% investment grade), and moreover the majority of the outstanding bonds are covered with a credit protection issued by a credit insurer that is independent from the bond issuer. The remainder concerns the bond portfolio of Belfius Insurance, a short-term credit portfolio for treasury management of Belfius Bank and receivables on clearing houses. The credit risks on those portfolios are also of satisfactory credit quality.

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The credit risk exposure of Belfius counterparties in Italy at the end of 2017 amounted to EUR 5.6 billion, of which EUR 3.7 billion of Italian government bonds. Following some sales in the first weeks of 2018, the outstanding amount of Italian government bonds has been reduced to EUR 2.6 billions by the end of January 2018.

At the end of December 2017, 83% of the total credit risk exposure had an internal credit rating investment grade (IG).

5. Asset quality

At the end of 2017, the amount of impaired loans and advances to customers was EUR 1,822 million, which is a decrease of 22% compared to last year. This decrease results mainly from the sale of a US RMBS (conditionally US government guaranteed reverse mortgages) for which a specific impairment was taken in 2016.

Hence, in 2017, the specific impairments on loans and advances to customers decreased with 9%. As a consequence, the asset quality ratio improved from 2.54% at the end of 2016 top 1.99% at the end of 2017. During the same period, the coverage ratio increased from 54.4% to 63.3%

In 2017, collective impairments on loans and advances to customers decreased by EUR 18 million to EUR 310 million.

Asset quality(1)

(In millions of EUR, except where indicated)	31/12/16	31/12/17
Gross outstanding loans and advances to customers	91,292	91,520
Impaired loans and advances to customers	2,320	1,822
Specific impairments on loans and advances to customers	1,262	1,153
Asset quality ratio(2)	2,54%	1,99%
Coverage ratio(3)	54,4%	63,3%
Collective impairments on loans and advances to customers	328	310

(1) Belfius Insurance included.
(2) The ratio between impaired loans and advances to customers and the gross outstanding loans and advances to customers.
(3) The ratio between the specific impairments and impaired loans and advances to customers.

MARKET RISK

1. Overiew

1.1. Market Risk Definition

Overall, market risk can be understood as the potential adverse change in the value of a portfolio of financial instruments due to movements in market price levels, to changes of the instrument's liquidity, to changes in volatility levels for market prices or changes in the correlations between the levels of market prices.

Management of market risk within Belfius is focused on all Financial Markets activities of the Bank and encompasses interest rate risk, spread risk and associated credit risk/liquidity risk, foreign-exchange risk, equity risk (or price risk), inflation risk and commodity price risk.

Market risk of Belfius Insurance is separately managed by its ALCo's. Belfius Insurance's strategic ALCo makes strategic decisions affecting the balance sheets of the insurance companies and their financial profitability taking into consideration the risk appetite pre-defined with the Belfius Bank and Insurance group (i.e. directional ALM position in interest rate risks, equity and real estate risks, volatility and correlation risks).

1.2. Risk types

The sources of market risk are changes in the levels of:

- interest rates;
- credit spreads (specific interest rate risk) and liquidity;
- inflation;
- foreign-exchange rates;
- equity prices;
- commodity prices;

and their related risk factors like volatility or correlation for example.

Interest rate risk may be understood as the variation of the value of assets or liabilities of the Bank following changes in interest rates quoted on the markets. It is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset and other derivatives whose values are linked to market interest rates.

Credit spread and liquidity risks are the risks that the value of a certain portfolio can change as the result of movements in credit spreads even if the credit quality (rating) remains the same. The spread of a position is that single spread that has to be added to the whole zero-coupon curve (swap) in order to obtain discount factors that lead to a present value of expected cash flows equal to the current fair value of the position.

Foreign-exchange risk is the potential risk that movements in exchange rates may adversely affect the value of a financial instrument or portfolio. Despite exchange rates being a distinct market risk factor, the valuation of foreign-exchange instruments generally requires knowledge of the behaviour of both spot exchange rates and interest rates.

Equity price risk is the potential risk for adverse changes in the value of an institution's equity-related holdings. Price risks associated with equities are often classified into two categories: general (or non diversifiable) equity risk and specific (or diversifiable) equity risk.

Commodity price risk is the potential risk for adverse changes in the value of an institution's commodity-related holdings. Price risks associated with commodities differ considerably from other market risk factors since most commodities are traded on markets in which the concentration of supply can magnify price volatility. Belfius only has some commodity price risk on CO_2 certificates holdings.

2. Non Financial Markets activities

2.1. Policy on asset & liability management

Managing structural exposure to market risks (including interest rate risk, equity risk, real estate risk and foreign exchange risk) is also known as Asset & Liability Management (ALM). The structural exposure at Belfius results from the imbalance between its assets and liabilities in terms of volumes, durations and interest rate sensitivity.

Belfius' Board of Directors has the ultimate responsibility for setting the strategic risk tolerance, including the risk tolerance for market risks in non financial markets activities. The Management Board of Belfius Bank and Belfius Insurance have the ultimate responsibility for managing the interest rate risks of Belfius within the above set risk tolerance and within the regulatory framework.

The real operational responsibility of the effective asset & liability management (ALM) is delegated to the Asset & Liability Committee (ALCo). The ALCo manages interest rate risk, foreign exchange risk, and liquidity risk of the Bank's respectively insurer's balance sheet within a framework of normative limits and reports to the Management Board. Important files at a strategic level are submitted for final decision to the Management Board, that has the final authority before any practical implementation.

The ALCo of the Bank is responsible for guiding and monitoring balance sheet and off-balance sheet commitments and, doing so, places an emphasis on:

- the creation of a stable income flow;
- the maintenance of economic value;
- the insurance of robust and sustainable funding.

The ALCo meets regularly, chaired by the Chief Financial Officer (CFO), with meetings attended by the Chief Risk Officer (CRO) and members of the Management Board responsible for commercial business lines (or their mandatees).

The ALCo of Belfius Insurance plays the same role for the insurance company pursuing the same objectives but with a focus on the economic value and solvency according to the Solvency II regulation. The risk indicators are calculated based on a harmonised risk method for Belfius, supplemented by factors specific to Belfius Insurance relating to their risk management.

2.2. Interest rate risk

2.2.1. Interest rate risk of the Banking activities

In respect to the interest rate risk, Belfius Bank pursues a prudent risk management of its interest rate positions in the Banking book within a well defined internal and regulatory limit framework, with a clear focus on generating stable earnings and preserving the economic value of the balance sheet and this in a macro-hedging approach, thoughtfully considering natural hedges available in the Bank balance sheet.

The management of non-maturing deposits (such as sight and savings accounts) and non-interest-bearing products use portfolio replication techniques. The underlying hypotheses concerning expected duration, rate-fixing period and tariff evolution are subject to constant monitoring and, if necessary, they are adjusted by the ALCo. Implicit interest rate options like prepayment risk are integrated through behavioural models.

Interest rate risk has two forms: economic value volatility and earnings volatility. The measurement of both of these forms is complementary in understanding the complete scope of interest rate risk in the Banking book.

Banks' ALM objective is to protect the net interest income for downward pressures in current historically low interest rate environment, while respecting the limits on variation of economic value.

Economic value indicators capture the long-term effect of the interest rate changes on the economic value of the Bank. Interest rate sensitivity of economic value measures the net change in the ALM balance sheet's economic value if interest rates move by 10 bps across the entire curve. The long-term sensitivity of the ALM perimeter was EUR -34 million per 10 bps at 31 December 2017 (compared to EUR -16 million per 10 bps at 31 December 2016), excluding interest positions of Belfius Insurance and of the pension funds of Belfius Bank.

Earnings at Risk indicators capture the more shorter term effect of the interest rate changes on the earnings of the Bank. Therefore, indirectly through profitability, interest rate changes can also have a shorter term solvency effect. A 50 bps increase of interest rates has an estimated positive impact on net interest income (before tax) of EUR +37 million of the next book year and an estimated cumulative effect of EUR +111 million over a three year period, whereas a 35 bps decrease would lead to an estimated negative impact of EUR -29 million of the next book year and an estimated cumulative effect of EUR -141 million over a three year period.

Besides directional interest rate risk also curvature risk, due to steepening or flattening of the interest rate curve, is followed up within a normative framework by the ALCo. The same goes for basis spread risk between Euribor and Eonia and cross-currency spread risk.

The low interest rate environment puts considerable pressure on the Bank's standard transformation model. On the one hand, the interest paid to depositors remains close to zero or is even legally prohibited to go below 11 bps while the interest received on commercial loans is constantly lowered following markets rates and competitive pressures. On the other hand, customers continued to refinance and prepay their mortgages. Furthermore, the negative interest rate policy of the ECB increases the collateral cost for derivative contracts used to hedge the Bank's exposure to interest rate risk.

2.2.2. Interest rate risk for the insurance activities

For Belfius Insurance, the ALM objective is to limit the volatility of the P&L and the economic value of the company induced by potential changes in the interest rates. The long-term sensitivity of the Net Asset Value of Belfius Insurance to interest rates was EUR 17 million per 10 bps as of 31 December 2017 (against EUR 13 million per 10 bps as of 31 December 2016). The earnings have a low sensitivity to interest rates for the next years, thanks to good matching in terms of duration.

2.2.3. Aggregate interest rate risk for the Belfius group

The figures below show the impact on the Belfius group Net Asset Value and the Earnings at Risk for the next book year of a parallel upward shift of the yield curve of 10, resp. 50 bps.

(In millions of EUR)	31/12/16	31/12/17
Belfius Bank		
Sensitivity (+10 bps)	-16	-34
Earnings at risk (+50 bps)	+38	+37
Belfius Insurance		
Sensitivity (+10 bps)	+13	+17
Earnings at risk (+50 bps)	+3	+3

2.3. Credit spread risk

The credit spread risk of the non financial market activities is dealt with in the "Credit risk" section.

The sovereign and credit portfolio is managed by the investment departments under supervision of the respective ALCo's of Belfius Bank and Belfius Insurance. Its management is carried out according to a risk framework monitored by the risk department. The framework provides risk guidance for the investments. It sets risk appetite and operational limits for ensuring the credit quality of the credit portfolio within the well defined limits and a sound diversification (e.g. among industry sectors or countries). Sensitivity analysis and stress testing are regularly performed.

At Belfius Insurance, the credit spread risk has been fully integrated in the ALM and Market Risk Management. Indeed, moving toward Solvency II, the credit spread risk became more than before a key driver of the solvency position of the insurance company both for the net asset value's sensitivity and for the capital requirement.

2.4. Equity risk

The major part of Belfius' equity risk stems from the insurance perimeter, given that the equity portfolio of the Bank is very small.

The equity risk is also a key contributor to the net asset value's sensitivity and the capital requirement of the insurance company.

The equity portfolio is managed by a dedicated Investment team under supervision of the ALCo. The investments are again framed by risk guidance and operational limits according to the risk appetite of Belfius Insurance.

Among other risk measures, a VaR calculation is also used to assess the portfolio's sensitivity to negative movements of equity and real estate prices. Market risk management tools include Earnings at Risk and stress test measurements that provide an indication of the potential accounting loss under different scenarios and the solvency ratio's resilience.

The table below shows the price sensitivity of Belfius' equities portfolio to a downward shock of 30%:

(In millions of EUR)	31/12/16	31/12/17
Belfius Insurance		
Market value - quoted shares & assimilated	611	584
Market value - quoted real estate	457	502
Shock 30% (negative)	(320)	(337)
VaR (99%, 10 days)	84	36

2.5. Real estate risk

Besides investing in Real Estate Investment Trusts (REITs), Belfius invests also in direct property. The property investments are made of deals offering long-term stable returns mostly on the Belgian market. As such, these property investments must be viewed as a way of optimising the risk/return of the investment portfolio. Within Belfius, they are mostly held by the insurance company and allocated to its long-term life insurance business.

The table below shows the price sensitivity of Belfius Insurance real estate risk to a downward shock of 15%:

(In thousands of EUR)	31/12/16	31/12/17
Belfius Insurance		
Market value	708,701	592,835
Shock 15% (negative)	(102,400)	(88,925)

2.6. Foreign exchange risk

Although Belfius uses the EUR as its reporting currency, part of its assets, liabilities, income and expenses are also generated in other currencies. The elements of the profit & loss accounts which are generated in foreign currencies are systematically and on an ongoing basis converted in EUR, resulting in only limited net FX positions[1].

2.7. Pension funds

Specific reports on the pension funds are submitted to the investment committees of those funds as a result of the delegation given by the ALCo. These investments committees analyse the impacts of the funds' position on interest rate, inflation and equity risk.

(1) For more information, please refer to note 9.7 in the disclosures.

3. Financial Markets activities

Financial Markets activities encompass client-oriented activities and hedge activities at Belfius Bank. No Financial Markets activities are undertaken at Belfius Insurance. For their needs in Financial Markets products, they turn to Belfius Bank or other banks.

3.1. Market Risk Governance

With the purpose of effectively managing the market risks Belfius Bank is facing, FM Risk Management has identified the following cornerstones as key pillars of the risk management of the risks Belfius Bank is confronted with for its Financial Market (FM) activities:

- → An efficient organisation fostering an accurate identification, analysis and reporting of the different risks Belfius Bank is bearing, as well as a continued training of people in order to remain up to date with the latest evolutions in theories, regulatory issues, metrics or market changes.
- → A robust limit framework with differentiated limits by activity or risk factor that is to be respected by all parties involved in market activities. On top of the VaR limits or P&L triggers, several other metrics have been identified as key controlling tools in the risk management process:
  - limits on notional amounts;
  - limits on maturities;
  - limits on type of products;
  - limits on sensitivities (known as "Greeks": delta, etc.);
  - back testing;
  - stress tests.
- → Finally, this framework is regularly submitted for revision to the FM Risk Committee in order to be commensurated to the risk appetite defined by the Board of Directors of Belfius Bank.

3.2. Market Risk Measures

The Value-at-Risk (VaR) concept is used as the principal metric for management of the market risk Belfius Bank is facing. The VaR measures the maximum loss in Net Present Value (NPV) the Bank might be facing in historical market conditions over a period of 10 days with a confidence interval of 99%. The following risks are monitored at Belfius using a VaR computation:

- → The interest rate and foreign-exchange rate risk: this category of risk is monitored via a historical VaR based on an internal model approved by the National Bank of Belgium.
  The historical simulation approach consists of managing the portfolio through a time series of historical asset yields. These revaluations generate a distribution of portfolio values (yield histogram) on the basis of which a VaR (% percentile) may be calculated.
  The main advantages of this type of VaR are its simplicity and the fact that it does not assume a normal but a historical distribution of asset yields (distributions may be non-normal and the behaviour of the observations may be non-linear);
- → The general and specific equity risks are measured on the basis of a historical VaR with full valuation based on 300 scenarios;
- → The spread risk and the inflation risk are measured via a historical approach, applying 300 observed variations on the sensitivities.

Since the end of 2011, Belfius also computes a Stressed Value-at-Risk (SVaR) on top of its regular VaR, which also enters into the computation of weighted risks for Market Risk. This SVaR measure consists of calculating a historical VaR on 250 consecutive business days observation period which generates the largest negative variations of Net Present Value in the Bank's current portfolio of financial instruments.

3.3. Market Risk Exposure

To remain in line with the risk appetite adopted by Belfius, the Financial Markets VaR limit was reduced from EUR 65 million in 2011 to EUR 41 million in 2013 and to EUR 32 million since 2014. The overall average VaR of Financial Markets activities decreased at EUR 17.7 million in 2017 vs EUR 21.7 million in 2016. End 2017, the VaR level was EUR 18.4 million.

Value-at-Risk by activity

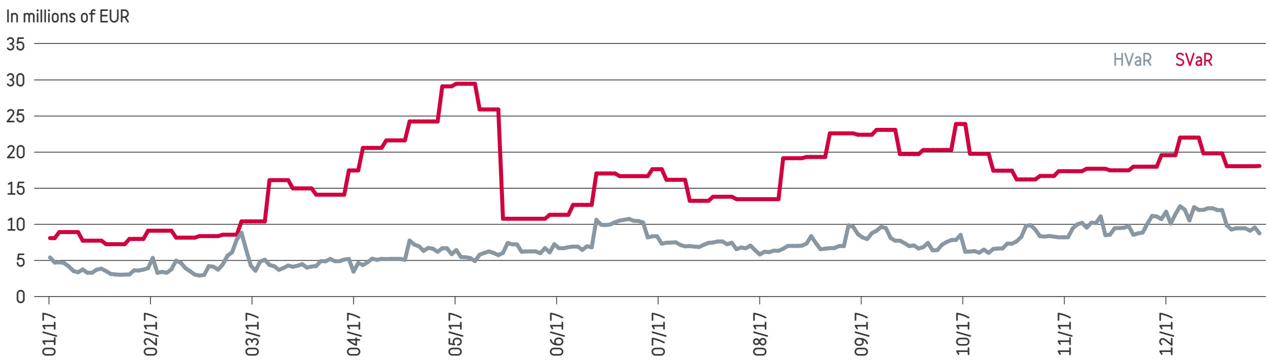
VaR[1] (99% 10 days) (In millions of EUR)	2016				2017			
	IR[2] & FX[3]	Equity	Spread	Other risks[4]	IR[2] & FX[3]	Equity	Spread	Other risks[4]
By activity								
Average	11.3	3.1	6.4	0.9	8.1	4.3	3.8	1.5
EOY	12.1	2.5	6.9	1.2	8.9	5.8	2.7	1.1
Maximum	19.1	5.1	7.9	1.2	13.0	6.3	7.1	2.1
Minimum	6.1	1.8	4.2	0.6	4.4	2.3	2.1	1.1
Global								
Average	21.7				17.7			
EOY	22.7				18.4			
Maximum	31.1				24.1			
Minimum	14.1				13.2			
Limit	32.0				32.0			

(1) The Value at Risk (VaR): is a measure of the potential change in market value with a probability of 99% and over a periode of 10 days.
(2) IR: interest rate risk.
(3) FX: forex risk.
(4) Inflation and CO_2 risk.

Evolution of global VaR in 2017

The regulatory capital is calculated by using both the VaR and the Stressed VaR. In 2017, the Internal Model VaR amounted to EUR 6.9 million in average vs EUR 16.5 million for the SVaR. Following graph shows the evolution of HVaR and SVaR in 2017.

Evolution of HVaR and SVaR (Internal Model) in 2017



The Internal Model HVaR shows a slight and steady increase during 2017 from EUR 5.6 million to EUR 8.7 million mainly due to the incorporation of basis curves in August 2017.

The Internal Model SVaR shows a highly volatile evolution during 2017. Up to May 2017, the SVaR increased from EUR 8 million to almost EUR 30 million. This increase was mainly caused by the next two elements:

- → Extension of Internal Model scope;
- → Review of historical data series of USD curves.

The other market risks are treated under the Basel Standardised approach.

3.4. Stress tests – Market risk

Although the VaR is a very useful risk management tool for controlling day-to-day loss-risk exposures, it does not withstand fully the test of abnormal market movements, and it does not always give a total accurate picture of market exposure. Stress tests reveal sometimes better such information by gauging Belfius' vulnerability of the market positions to exceptional events and hence by providing additional information about market risks alongside the information embedded in the VaR. These risks include those associated with extreme price movements and those associated with scenarios not reflected in recent history or implied by the parameters used to compute the VaR. Consequently, Belfius Bank uses stress tests in addition to the VaR approach.

The stress testing framework applied to Financial Market activities of Belfius Bank can be described as follows:

- → Sensitivity tests are run on the following risk factors: interest rates, foreign-exchange risk, volatilities, credit spreads, correlation, IR basis (difference between the Eonia rate and the Euribor 3-month rate) and dividends/share prices.
- → Historical scenarios, which consist of simulations mirroring simultaneous significant historical market movements on several risk factors. More specifically, the following scenarios are applied:
  - equity crash of 1987;
  - monetary crisis of 1992;
  - market movements of 2001;
  - financial crisis of 2008.
- → Combined scenario where shocks on interest rates and credit spreads are simultaneously applied.

3.5. Back Testing

The aim of back testing is to test the accuracy and the mathematical soundness of the internal market risk measurement methodologies by comparing the calculated market risk figures with the volatility of the actual results. Back testing is a prerequisite for Belfius Bank since we use internal models to calculate own regulatory capital requirement for market risks.

The result of the back test is the number of actual market losses greater than their corresponding VaR figures (i.e. "the number of exceptions"). According to this number, the regulators among others will also decide on the multiplier to be applied for determining the regulatory capital requirement for market risks.

Currently, two types of back testing are processed at Belfius Bank:

- → Hypothetical back testing compares the hypothetical results, of the portfolio's end- of-day value and, assuming unchanged positions, its value at the end of the subsequent day. This result is therefore without any provisions adjustments and other non-involved risk factors. The holding period is one day. In 2017, there was no exception to the hypothetical back testing.
- → Real back testing compares the portfolio's end-of-day value and its actual value at the end of the subsequent day excluding fees, commissions, and net interest income. In 2017, only one exception was observed in the real back testing on 31 May 2017. This was mainly due to a very severe shift in the GBP-BOR-OIS basis.

LIQUIDITY RISK

1. Liquidity risk at Belfius Bank

1.1. Liquidity management framework

Belfius Bank manages its liquidity with a view to comply with internal and regulatory liquidity ratios. In addition, limits are defined for the balance sheet amount that can be funded over the short term and on the interbank market. These limits are integrated in the Risk Appetite Framework (RAF) approved by the Board of Directors and reported on a quarterly basis. Available liquidity reserves also play a key role regarding liquidity: at any time, Belfius Bank ensures it has sufficient quality assets to cover any temporary liquidity shortfalls, both in normal markets and under stress scenarios. Belfius Bank defined specific guidelines for the management of LCR eligible bonds and non LCR eligible bonds, both approved by the Management Board. All this is laid down in the liquidity guideline, approved by the ALCo.

Asset and Liability Management (ALM), a division situated within the scope of the Chief Financial Officer (CFO), is the front-line manager for the liquidity requirements of Belfius Bank. It identifies, analyses and reports on current and future liquidity positions and risks, and defines and coordinates funding plans and actions under the operational responsibility of the CFO and under the general responsibility of the Management Board. The CFO also bears final operational responsibility for managing the interest rate risk contained in the Banking balance sheet via the ALM department and the ALCo, meaning that total bank balance sheet management lies within its operational responsibility.

ALM organises a weekly Liquidity Management Committee (LMC), in presence of the Risk department, the Treasury department of the Financial Markets and representatives of the commercial business lines. This committee coordinates the implementation of the funding plan validated by ALCo

ALM monitors the funding plan to guarantee Belfius Bank will continue to comply with its internal and regulatory liquidity ratios.

ALM reports on a daily basis to the CFO and CRO and on a monthly basis to the Board of Directors about the Bank's liquidity situation.

Second-line controls for monitoring the liquidity risk are performed by the Risk department, which ensures that the reports published are accurate, challenges the retained hypothesis and models, realises simulation over stress situations and oversees compliance with limits, as laid down in the Liquidity Guidelines.

A monthly Asset Encumbrance Committee, mandated by the LMC, takes care of all aspects relating to asset encumbrance:

- Analysis of the potential regulatory and economic impacts of asset encumbrance;
- Coordination of all projects that impact asset encumbrance;
- Optimisation of the asset allocation.

1.2. Exposure to liquidity risk

The liquidity risk at Belfius Bank is mainly stemming from:

- the variability of the amounts of commercial funding collected from Retail and Private customers, small, medium-sized and large companies, public and similar customers and the way these funds are allocated to customers through all type of loans;
- the volatility of the collateral that is to be deposited at counterparties as part of the CSA framework for derivatives and repo transactions (so called cash & securities collateral);
- the value of the liquid reserves by virtue of which Belfius Bank can collect funding on the repo market and/or from the ECB;
- the capacity to obtain interbank and institutional funding.

1.3. Liquidity Risk Management

Strategies, scope and processes of liquidity risk management

The Liquidity report covers Belfius Bank on a consolidated level, i.e. the Bank with its subsidiaries and branches, incl. companies for securitization, excluding Belfius Insurance.

The strategy of the liquidity risk management is described in the Liquidity Risk Management Guidelines and in the RAF.

Monitoring is done through internal and regulatory liquidity Key Risk Indicators (KRI), with respective internal limits set up in the RAF. The liquidity KRI are reported on a regular basis and any exceeding of the limit is reported to the LMC. Respect of those KRI is also tested under stress scenarios.

In addition, a series of Early Warnings indicators are monitored daily to identify as soon as possible liquidity tension on the markets.

In addition to the regulatory indicators, liquidity risk management focusses on:

- **Internal liquidity ratio**: a new ratio approved by the ALCo in 2017. This daily ratio measures if Belfius Bank can survive a severe crisis for a minimum period of 3 months without recovery options (excluding repos on liquidity buffer and a limited amount of ECB funding).
- **Funding Gap**: a daily follow up of the maximum funding gap limits by currency and by maturity bucket.
- **Funding Plan and stress testing**: development of a strategic Funding Plan with the projection of the funding sources and requirements over the next 5 years giving a projection of the liquidity reserves, LCR ratio, NSFR ratio and Asset Encumbrance ratio. A severe stress scenario, combining Belfius specific and market specific events is applied on this Funding Plan: all RAF limits on liquidity KRI have to be respected.
- **Collateral management**: daily monitoring of collateral position and collateral needs of the Bank and their respective impact on liquidity and asset encumbrance.
- **Intraday liquidity risk**: in order to meet payment and settlement obligations on a timely basis under both normal and stressed conditions Belfius must have a sufficient buffer for operational and stressed outflows. The intraday liquidity is managed by the Treasury desk and controls are performed by Operations and Risk Management with a monthly reporting of these tests to the LMC.
- **Contingency Funding Plan (CFP)**: through a daily dashboard Belfius Bank created an adequate early warning system to detect market specific or Belfius specific liquidity events. A set of recovery measures is defined and regularly tested in the market with realistic amounts of funding, time to market and pricing. The CFP is consistent with the crisis management organization of Belfius Bank and has a clear decision process about responsibilities and organization of an ad-hoc LMC to decide to activate the recovery measures.
- **Recovery Plan (RP)**: in the RP a number of stress scenarios are defined that could bring the BankBank near to failure. Recovery measures that can be launched to avoid this failure are tested in various scenarios.

Belfius Bank developed the Liquidity Risk Management Guidelines and the RAF limits in order to remain sufficiently liquid in stress situations, without resorting to recovery actions which would generate significant costs or which would interfere with the core banking business of Belfius Bank.

1.4. Consolidation of the liquidity profile

During 2017, Belfius consolidated its diversified liquidity profile by:

- maintaining a funding surplus within the commercial balance sheet;
- continuing to obtain diversified long-term funding from institutional investors by issuing, amongst others, two first successful issuances of Non Preferred Senior bonds (NPS) anticipating the future final MREL objectives.;

- issuance of a retained RMBS (Penates VI);
- collecting short and medium-term (CP/CD/EMTN) deposits from institutional investors.

In March 2017, Belfius Bank increased its participation to the ECB TLTRO funding programme with EUR 1.0 billion, amounting to EUR 4.0 billion end 2017 with a purpose to finance investment needs of SMEs, social sector and retail clients (mortgage loans excluded).

The Liquidity Coverage Ratio (LCR), introduced within the framework of the Basel III reforms, has become a pillar I requirement for European banks on 1 October 2015 (at a level of 60%). Belfius Bank closed the year 2017 with a LCR of 130% (yearly average of 132%). The LCR of the Bank has remained above 100% during the whole year 2017.

The Net Stable Funding Ratio (NSFR), based on our current interpretation of current Basel III rules, stood at 116% at year-end 2017.

1.5. Minimum requirement for own funds and eligible liabilities

It is expected that a formal Minimum Requirement for own funds and Eligible Liabilities (MREL) level will be given to Belfius by SRB in 2018. At this stage, no formal MREL target has been communicated to Belfius. Based on the recent disclosures on MREL published by SRB on 20 December 2017, Belfius' mechanical target would potentially amount to 27.25% of risk exposures (in Fully Loaded format). See table below.

This target is surrounded by uncertainties as the European Commission published a revised legislative proposal related to MREL requirements on 23 November 2016 (BRRD). This proposal is still under negotiation at the European level at the time of the finalization of this Report.

As of today the SRB has not yet fully clarified which unsecured long term funding will be MREL-eligible. If (part of) our unsecured funding would no longer be MREL eligible, this can be rolled, at maturity during the coming years, into MREL-eligible instruments.

1.6. Liquidity reserves

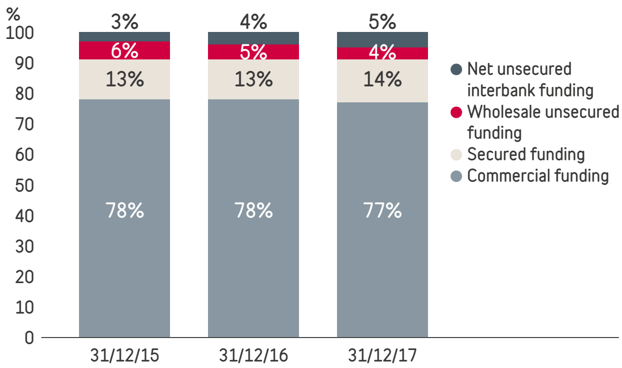
At the end of 2017, Belfius Bank had quickly mobilisable liquidity reserves of EUR 34.3 billion. These reserves consisted of EUR 9.6 billion in cash, EUR 12.7 billion in ECB eligible bonds (of which EUR 8.2 billion are CCP-eligible[(1)]), EUR 10.1 billion in other assets also eligible at the ECB and EUR 1.8 billion in other liquid bonds.

Note that during 2017 Belfius placed a public Residential Mortgage Backed Security, Penates VI for a total of EUR 6.0 billion. Penates IV was called and these transactions had a positive impact on the liquidity Buffer of over EUR 3.6 billion.

These liquidity reserves represent 4.7 times the Bank's institutional funding outstanding end 2017 and having a remaining maturity of less than one year.

1.7. Funding diversification at Belfius Bank

Evolution of main funding sources[(2)]



Belfius Bank has a historical stable volume of commercial funding that comes from its RC and PC customers. Seeing the reduction of wholesale funding, this source of funding represents an increasing part of total funding of Belfius Bank. RC and PC funding equals EUR 86.7 billion of which EUR 63.8 billion is from RC. The increase of EUR 1.6 billion commercial funding compared to 2016 is used to finance the increase of commercial loans.
The loan-to-deposit ratio, which indicates the proportion between assets and liabilities of the commercial balance sheet, was 92% at the end of 2017.

Belfius Bank also receives medium-to-long-term wholesale funding, including EUR 7.2 billion from covered bonds (EUR 4.9 billion backed by mortgage loans and EUR 2.3 billion by public sector loans), Asset Backed Securities (ABS) issued for EUR 0.5 billion and EUR 4.0 billion in TLTRO funding from ECB as at 31 December 2017.

Note that during 2017 Belfius Bank issued its first Non Preferred Senior Bonds after Belgian law was voted. These Non Preferred Senior Bonds of EUR 1.25 billion have enabled Belfius to further contribute to the new expected regulatory requirement of MREL.

		For Belfius
Loss Absorption Amount	(Pillar 1 + Pillar 2 requirement) + Combined Buffer (CBR)	8% + 2.25% + 4%
+ Recapitalisation Amount	+ (Pillar 1 + Pillar 2 requirement)	8% + 2.25%
+ Market Confidence Buffer	+ CBR -1.25%	4% - 1.25%
= MREL requirement		= 27.25%

(1) CCP= Central Counterparties.
(2) Relative tot he balance sheet of Belfius Bank excluding collateral, mark-to-market of derivatives and capital.

The remainder of the Bank's funding requirements comes from institutional short-term deposits (Treasury) mainly obtained through placement of Certificates of Deposit and Commercial Paper.

Next to that, Belfius Bank also has a historical bond portfolio, including an ALM portfolio for liquidity management purposes, with highly liquid assets.

As a result of derivative contracts to cover interest rate risk of its activities, Belfius Bank has an outstanding position in derivatives for which collateral must be posted and is being received (cash & securities collateral). Against the background of historical low interest rates, in net terms, Belfius Bank posts more collateral than it receives.

1.8 Encumbered assets

According to Belfius current interpretation of the EBA guideline on the matter, the encumbered assets at Belfius Bank level amount to EUR 31.1 billion end 2017 and represent 20.4% of total bank balance sheet and collateral received under securities format, which amounts to EUR 152.5 billion (EUR 148.9 billion assets and EUR 3.6 billion collateral received). This represents a decrease of the encumbrance ratio of 2.1% compared to end 2016.

Belfius is active on the covered bond market since the set-up of the first covered bond programme in 2012. End 2017, the total amount issued was EUR 7.2 billion. An amount of EUR 1.25 billion matured during the last quarter of the year and has not been rolled. End 2017, the assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amount to EUR 9.1 billion (decrease of EUR 1.5 billion compared to end 2016).

The Bank is also collecting funding through repo markets for a limited amount and other collateralised deposits. End 2017, the total amount of assets used as collateral for this activity amounts to EUR 5.6 billion, of which EUR 4.4 billion linked to the ECB funding. It is worth mentioning that, during the first quarter 2017, the volume of assets encumbered for the ECB funding increased with EUR 1.1 billion. The TLTRO II funding increased with EUR 1.0 billion to 4.0 billion during the first quarter of the year.

Since 2017 in the context of the management of its liquidity buffer, Belfius is also active in securities lending transactions under agreed Global Master Securities Lending Agreements (GMSLA). This activity generates EUR 1.6 billion of encumbered assets.

The balance of encumbered assets is mainly linked to collateral pledged (gross of collateral received) for the derivatives exposures for EUR 13.6 billion (decrease of EUR 5 billion compared to end 2016), under the form of cash or securities. A significant part of collateral pledged is financed through collateral received from other counterparties with whom the Bank concluded derivatives in the opposite direction.

Regarding the "Other assets" (unencumbered) on balance sheet, they are mainly composed of assets not available for encumbrance such as derivatives value, fair value revaluation of portfolio hedge and tax assets.

2. Liquidity risk at Belfius Insurance

As an insurance company, Belfius Insurance bears mainly insurance liabilities at relatively long term that are largely stable and predictable. Consequently, funding requirement is quite limited. The premiums paid by policyholders are placed in long-term investments in order to guarantee the insured capital and committed interests at the contract's maturity date. Several regulatory and internal liquidity indicators demonstrate that Belfius Insurance constantly holds enough liquid assets to cover its commitments on the liability side of the balance sheet.

In order to ensure that all short-term liquidity requirements can be met, Belfius Insurance has embedded liquidity management in its day-to-day activities through:

- investment guidelines that limit investments in illiquid assets;
- Asset Liability Management, ensuring that investment decisions take into account the specific features of the liabilities;
- policies and procedures that are put in place to assess the liquidity of new investments;
- follow up of the short-term treasury needs.

In addition, Belfius Insurance also holds a significant amount of unencumbered assets that are eligible at the ECB. More specific, the company invests at least 40% of its bond portfolio in government bonds eligible for repos in the context of its liquidity management.

The Investment department is responsible for Belfius Insurance's liquidity and cash-flow management. Therefore, it uses long-term projections of the cash-flows of assets and liabilities. These cash flows are simulated under both normal and stressed situations. Projections of cash-flow requirements for next twelve months are also used.

OPERATIONAL RISK

1. Policy

Regarding operational risks, Belfius' policy requires various operational risks and controls to be regularly identified, in order to check compliance of the operational risk level by activity.
Specific attention is also paid to more new types of operational risk, such as cyber risk, conduct risk, sourcing risk, cloud risk, privacy risk, reputation risk, …

The Operational Risk Framework will be updated in 2018 in order to move towards Non Financial Risk.

2. Risk Appetite

The operational risk Risk Appetite contains 9 qualitative statements. They cover the following: NPAP, RCSA, fraud, operational incidents, business continuity, information security, risk culture, insurance policies and physical security (new since this year).

Two new quantitative operational risk appetite indicators have been validated and added this year as well: an "operational loss" indicator and a "composite indicator" of 8 different operational risk indicators, covering the 3 Operational Risk domains: Operational Risk Monitoring, Business Continuity & Crisis Management and Information Risk Management.

3. Measuring and managing risk

Managing operational risk is based on the following elements:

3.1. Decentralised responsibility

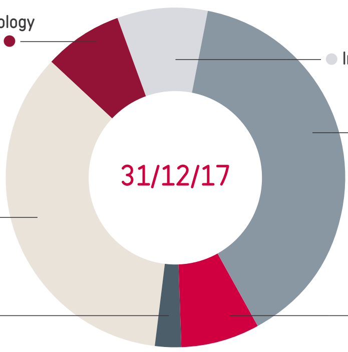
Each of the Bank's line management organisations has the primary responsibility for monitoring the operational risk in its individual sphere of activity (first line of defence). It establishes the way its activities are organised, including the checks that need to be implemented to limit operational risk. It also defines the corrective measures required to counter significant incidents or when major risks have been identified. Operational Risk Management ensures the regular monitoring of operational risks and incidents and establishes a quarterly report for all activities (second line of defence). This process allows the internal control system to be improved on an ongoing basis and ensures that the main risks are effectively managed.

3.2. Gathering data about operational risks

The systematic collection and control of data on operational incidents is one of the main requirements of the Basel Committee regarding operational risk management, whatever the approach adopted for capital calculation ("Standardised Approach" or "Advanced Measurement Approach") may be.

The reporting mechanisms ensure that the responsible parties are notified quickly if incidents occur. Major incidents are also reported to the CRO/Management Board, and these reports always include an action plan for avoiding or limiting risks in the future. This is developed under the responsibility of the relevant line management.

Breakdown of potential net losses by standard category of incidents over the past three years at Belfius Bank



For the period 2015-2017, Belfius Bank's average annual potential net losses stemming from operational incidents amounted to EUR 4.7 million.

The main areas of operational losses were essentially due to incidents associated with external fraud and incidents in relation to execution, delivery and process management. Other categories remain limited in number and amount.

The most important part of the financial impact resulting from operational incidents comes from the Bank's Retail business.

For Belfius Insurance and Belfius Investment Partners the establishment of an overview of the operational incidents is also crucial to achieve a better understanding of the operational risk associated with each activity. This constitutes a relevant source of information for management (for example, the annual loss). The major operational incidents are investigated thoroughly and are subject to a specific action plan and appropriate follow-up.

3.3. Risk and Control Self-Assessment

Another important task of operational risk management is the analysis of the overall main potential risks for Belfius, performed at Belfius Bank, Belfius Insurance and Belfius Investment Partners. This is achieved through bottom-up Risk and Control Self-Assessment exercises held in all departments and subsidiaries at Belfius. These exercises may result in additional action plans being developed to limit the potential risks further. They provide an excellent overview of the main risk areas in the various businesses and the results are reported to management throughout the whole organisation. These Risk and Control Self-Assessments are conducted annually and form the basis for the yearly reports submitted to the respective Boards of Directors regarding the assessment of internal control. Belfius Bank submits the senior management report on the assessment of the internal control also to its regulator.

3.4. Information Security

Belfius' Risk Appetite, approved by the Board of Directors, includes a qualitative statement explicitly related to Information Security stipulating Belfius wants to meet the highest standards with regards to information security.

3.4.1. Governance and Strategy

In order to guarantee the information security within Belfius, the Information Security Steering (ISS) ensures a well governed and coordinated information security strategy whereby an adequate system of "prevention", "detection", "protection" and "reaction" is put in place, in line with regulatory requirements towards information security.

The ISS is chaired by the Chief Risk Officer (CRO)/Chief Operations officer (COO) of Belfius Bank. The quorum requires the presence of CRO or COO. Belfius Insurance also participates in the ISS.

The information security strategy has 4 major ambitions:

- Aware: work "risk based" and ensure that identified internal & external risks are in line with the defined risk appetite; managing risks in line with the risk appetite allows Belfius to tailor the Information Security risk posture to fully support the overall business strategy. By applying the risk-based principle Belfius ensures that investments are only done in those areas where they are needed and defendable.
- Mature: become more mature and by making information security measurable and by benchmarking performance against industry standards. A solid basic security level acts as an enabler for secure innovations within the Bank.
- Compliant: comply with regulatory requirements by being compliant with internal as well as regulatory requirements, processes and procedures are executed in a predictable way. Furthermore, it will avoid potential regulatory penalties resulting from non-compliances.
- Resilient: ensure Business Continuity & Disaster Recovery. By focusing on availability, business disruptions can be avoided and assurance can be given that key business processes can be adequately restored in case of calamities.

These ambitions are monitored on a monthly basis by the ISS through:

- a regularly updated information security road map which is compliant with regulations and in line with Belfius' risk appetite;
- a periodic dash boarding of information security;
- an incident and threat analysis;
- an approval and follow-up of information security projects.

The policy relating to securing information and its associated guidelines, norms and practices are aimed at safeguarding the information assets(1) of Belfius.

Belfius outsources its ICT infrastructure to IS4F, a subsidiary of IBM. The formalization of what Belfius expects from IS4F with regard to information security is defined in the Information Security Controls (ISEC) document.

3.4.2. Main evolutions of Information Security projects

For information security, Belfius follows a risk-based approach. This means that based upon risk assessments decisions are made on where improvements are most needed to effectively realize the stated ambitions and to align the actual risk posture with the risk appetite. This approach is used by the individual teams to define priorities and areas that need improvement whilst adhering to a defence in depth principle.

The high-level priorities and goals are translated in concrete projects. To effectively face cyber attacks that become ever so complex, Belfius focusses on projects that increase the capabilities of 3 types of controls: technology, process and people.

Large security projects are grouped together in a security roadmap which typically spans the course of two years. The current security roadmap which is now coming to an end (2016-2017) was defined in 2015 and encompassed multiple individual projects which are grouped together in three main streams:

- Avoid: implement controls that further decrease the impact or the likelihood of an attack;
- Trace: improve resilience of systems and humans to detect and prevent attacks better and faster;
- Act: embed security mechanisms in the environment helping to stop attacks.

Of course, the ever-evolving security threat landscape requires organizations to be resilient and anticipate on existing and future threats. A new security roadmap (2018-2019) has been approved by the Board of Directors which will focus on:

- Boost the Cyber Immune System: provide or improve tools and education to repel cyber security threats;
- Assume Compromise: detect, observe and respond to advanced cyber attacks;
- Disappearing Perimeter: protect a continuously changing interconnected environment.

Belfius frequently performs internal and independent tests to provide assurance about all aspects of the security organization. Such tests help in determining the effectiveness of existing controls, identifying new risks, checking compliance with regulatory requirements or measuring the maturity of security related processes. If deemed necessary, actions plans are established to grade up the level of information security.

A cyber security insurance was underwritten in 2015 and is renewed ever since on a yearly basis.

In the area of the information security, the 2017 certification process of the existing accesses by information owners and functional responsible, based on "the need to know need to have" principle and ensuring that employees at all times have proper access to their required information, is finalized.

3.4.3. Data Leakage Program

In 2016, Belfius started up a specific program to increase the protection level of information and data (Data Leakage Program), which continued in 2017. Until now the focus was on Governance and the building and testing of the platform. As from 2018 a phased roll-out will be started up supporting the protection of Privacy Data.

The New Product Approval Policy integrates a specific Cloud Risk Assessment (CRA). Depending upon the result of this risk assessment the ISS is informed or decides on the implementation of the possible cloud solutions.

(1) Information or data that is value to the company and that needs to be protected accordingly.

3.4.4. Security awareness

In order to enhance the skills and the awareness with regard to information security of the staff members of Belfius, awareness- and formation initiatives are set up regularly. The security governance ensures the coordination of the different processes and initiatives through a security awareness working group. A foreseen E-Learning module will be made compulsory for all present and new internal and external colleagues from Belfius Bank and Belfius Insurance, able to connect to the Belfius' network. The E-Learning will as such as well be part of the intake-process for new colleagues.

3.4.5. Data privacy

With respect to the protection of personal data, the project management has been assigned to Risk. The project management aligns the GDPR implementation with the existing Data Governance and data protection projects into a holistic program for Belfius Group in order to obtain an integrated and sustainable data management. The GDPR or General Data Protection Regulation entered into force in May 2016 and will become applicable as of 25 May 2018. It has a significant impact on the entire organization and customer relationship management of Belfius Bank & Insurances.
The project is organized in workstreams: Vision & strategy; Data register; IT & Security; Third Party; Data Subject Rights; Communication.

3.5. Business continuity

The policy on business continuity (BC) requires the various departments to analyse the business impact on critical activities, to develop recovery plans and to provide the necessary documentation, as well as to ensure that the plans regarding business continuity are tested and if necessary adjusted at least once a year on the occasion of the yearly evacuation exercises of the two main buildings. Based on regular reporting, the Management Board approves the strategies, any residual risks and action plans aimed at achieving further improvements if need be.

Belfius Insurance and Belfius Investment Partners are fully in line with Belfius Bank concerning business continuity.

Following events in 2017 are noteworthy:

- on the occasion of the yearly evacuation exercise of the main buildings, the BC Plan were successfully deployed and all KPI's are compliant with regulations; unlike 2016 (terror attacks in Brussels in March) no crisis triggered Belfius to deploy the BC Plan;
- the threat analysis has been updated as the threats have evolved and may be more disruptive and persistent in time. Accordingly, sensitization and preventive measures have been taken to lower further the likelihood or to decrease the impact (e.g. by creating additional stress scenarios);
- update and further formalization of the overall governance where appropriate; the technical supports and communication tools have been professionalized;
- update of the Business Impact Analysis and the relocation strategies due to the digitization strategy, the development of new products and services and due to different internal reorganization projects;
- expansion of "Dual Office": gradually all systemic activities will be executed on at least two geographical distinct locations so that in the event of a major disruption on one place, these activities are simply continued in the other place without any disruption to the clients;
- all action plans are being executed according to plan in order to fully comply in time with new regulation and laws on Business Continuity & Security (e.g. the law on "Sécurité et protection des infrastructures critiques" of 1 July 2011 and the circular NBB-2015-32);
- finally, on the occasion of each BCP deployment, "lessons-learned" and action plans to improve the resilience of Belfius have been drawn-up .

3.6. Managing insurance policies

The possible financial impact of Belfius' operational risks are also mitigated by taking out insurance policies, principally covering professional liability, fraud, theft and interruption of business. This is standard practice in the financial services' industry.

3.7. New Product Approval Policy

The process of developing a "product, activity, process or system" involves a number of steps that must be completed before the new product can be introduced to the market. The policy establishes the overall process and the accountability of the parties involved in this process. Therefore, it defines the governance and describes the new product approval process.

The objectives of the process are the following:

- ensure that the development of a "product, activity, process or system" fits within the strategy of Belfius;
- ensure the risk acceptance (in function of the risk tolerance/appetite);
- ensure that necessary resources are available;
- ensure customer satisfaction;
- avoid unknown or unwanted risks in the future.

3.8. Fraud policy

In collaboration with Audit and Compliance, a global fraud policy was formally established at Belfius Bank. This has been materialised in a Directive concerning Fraud Policy. This Directive specifies the governance and shapes the framework of internal control aimed at preventing and detecting fraud as well as taking the necessary corrective measures.

Fraud management is the responsibility of the CRO, member of the Management Board. A fraud consultation body coordinates fraud policy and consists of participants from Audit, Compliance and ORM.

Nevertheless, each line of defence remains responsible for the assigned areas and must ensure compliance with the framework of internal control.

Each year, a fraud report is submitted to the Management Board and Audit Committee from which any corrective measures, if required, are taken.

3.9. Calculating regulatory capital requirements

To calculate its regulatory capital in the light of its operational risk management, Belfius Bank uses the Basel standardised approach.

This calculation consists of applying a percentage (called the Beta factor, between 12% and 18%) to the gross income calculated for each of the eight business lines defined by the Basel Committee (Corporate Finance, Commercial Banking, Retail Banking, Trading and Sales, Asset Management, Agency Services, Retail Brokerage, Payment and Settlement).

Profit consists mainly of the operating profit from the underlying businesses, including net interest and commission income. Income from the insurance business is not included because Belfius Insurance is considered prudentially as a third-party (under the Danish Compromise).

The total regulatory capital for each business line is then aggregated to calculate the total capital requirements for operational risk in the form of an average over the past three years, a calculation that is updated annually.

INSURANCE RISK

1. Definition

Belfius Insurance, as a part of Belfius, takes up risk through the insurance contracts that it underwrites. The risks within the underwriting risk category are associated with both the exposure covered by the specific line of insurance (Life and Non-Life) and the specific processes associated with insurance business (claims processing, premium collection, pricing, selection, etc.).

The risks that apply to all lines of the insurance business can be globally categorised as follows.

- Life underwriting risk: is the risk arising from the underwriting of life insurance contracts. It is split up into:
  - Mortality risk, which is the risk that occurs when mortality increases. It applies to all undertakings for which the pay-outs are expected to increase when there is a rise in mortality.
  - Longevity risk is the opposite of the mortality risk. It applies to policies for which a fall in mortality would result in an increase in the expected payouts (e.g. pension policies). Improvements in medical treatments that prolong life without restoring the ability to work could cause these risks to materialise at a greater frequency than currently observed.
  - Morbidity or disability risk relates to the risk of loss or disadvantageous movements in expected benefits caused by changes in the level, nature, trend or volatility of the degree of disability.
  - Lapse risk for Life is described as the risk of loss or increase in pay-out caused to a difference between the effective exercise rate of the contractual options by the policyholder and the expected exercise rate. The term "options" should be viewed in the broad sense of the word: this submodule contains options in relation to redemption, cancellation or premium reduction, as well as the expansion of the guarantees. For some policies, exercise may be at the benefit of the insurance company, while for others it may result in a loss. As a result, this submodule features two scenarios: one in which the options are exercised more frequently than expected and another where they are exercised less frequently.
  - The risk relating to management costs corresponds with the risk that those management costs are higher than expected or that they subdue to higher inflation than expected.
  - Revision risk only applies for the annuities whose amounts may be valued negatively for the insurer as the result of a change in the statutory environment or in the policyholder's health situation.
  - Catastrophe risk is restricted to policies where an immediate and dramatic rise in mortality would result in an increase in benefits.
- Non-Life underwriting risk: is the specific insurance risk arising from Non-Life insurance contracts.Uncertainty about the results of the insurer's underwriting could be defined as:
  - Premium risk which is the risk where the amount of premiums received is not sufficient to pay claims that occur during the coverage period to which the premiums relate to.
  - Reserve risk is the risk of loss or unfavourable change in the value of the insurance undertakings arising from changes in the frequency and severity of the insured events, as well as in the date and amount of the claims to be paid.
  - Catastrophe risk is the risk arising from unpredictable events including, but not limited to, windstorms, coastal inundation, floods, severe winter weather, and other weather-related events, pandemics, large-scale fires, industrial explosions, earthquakes and other man-made disasters such as civil unrest and terrorist attacks,that is not covered by the premiums or reserves.

2. Managing the insurance risk

The Risk & Underwriting Committee gives recommendations about strategy in the area of underwriting and reserves for the insurance companies within Belfius Insurance and the resulting policy, in particular with regard to the following points:

- types and characteristics of the insurance business that Belfius Insurance is willing to manage;
- selection criteria for the risks that match the risk appetite;
- the way in which the actual underwriting is monitored;
- the managing between, on the one hand, the insurance premiums collected and, on the other, the claims to be paid out when costs are borne;
- identification of the risks arising from the undertakings of Belfius Insurance, including the implicit options and the capital that is guaranteed by the insurance products;
- making provisions for claims.

The overall strategy is developed by each concerned entity and followed up by the local persons in charge.

Reinsurance is one of the methods used to limit the insurance risk. The main objective of reinsurance is to reduce volatility in capital requirements and profits, and to diminish the uncertainty associated with the risk in the insurer's valuation.

The drivers of reinsurance are:

- Capacity: reinsurance gives insurers greater flexibility in terms of scope, type of risk and business volume that they can safely accept. This enables insurers to embark on new business or to expand their activities for a short period.
- Stability: structured reinsurance programmes enable insurers to stabilise their operating income.
- Protection: reinsurance provides protection against cumulative financial losses caused by a succession of events (such as poor weather) or against significant financial losses arising from a single event.
- Funding: reinsurance can be an alternative to a capital increase.
- Expertise: reinsurers assist insurers in their area of expertise. The qualified staff of reinsurance companies offer their services, for instance in establishing a new business.

3. Sensitivities

Belfius Insurance evaluates the effect of sensitivities on available economic capital. The technical reserves are expressed in market value.

Given the low market rates, the value of the technical reserves is higher than the redemption value, which results in a negative impact on capital in the event of a reduction in the redemption rate. The sensitivity to the redemption rate decreases in 2017, given a decrease in the volume of branch 21.

The insured capital on death is higher than the fair value of technical reserves, which results in a positive impact on available financial resources if there is a decrease in mortality rates.

In non-life, lower administrative costs lead to a higher result, while an increase of claims leads to a lower result.

Underwriting risk Life: scenario that corresponds to[1]

	Impact on available financial resources before taxes	
(In millions of EUR)	31/12/16	31/12/17
An increase of 15% in mortality	(34.7)	(34.7)
An increase of 10% in costs +1% inflation	(101.0)	(126.4)
A decrease of 10% in the redemption rate	(23.5)	(20.6)

(1) Impact for Belfius Insurance SA (= Belins solo), branch 23 included.

Underwriting risk Non-Life: scenario that corresponds to[1]

	Impact on income before taxes	
(In millions of EUR)	31/12/16	31/12/17
A decrease of 10% in administrative costs	6.6	9.0
An increase of 5% in claims made	(18.4)	(18.3)

(1) Impact for Belfius Insurance SA (= Belins solo) and Corona SA.

4. Development of claims

The claims triangle is the usual method for expressing the settlement of claims stretched out over a number of years. Inter alia it enables actuaries to assess the appropriateness of the technical provisions. In Non-Life insurance, between the event and closing date of a claim, the insurer can in general not determine the exact amount on total cost of the claim. During this period, the insurer establishes a reserve that equals to the estimated amount of future payments for the claim.

Given the reserve is only an estimate, there is a risk that the amount effectively paid is higher. To assess that risk, it is necessary to study the variation of two amounts:

- the total of payments made prior to that date;
- the reserve established on that date for future payments.

The sum of these two components is called the total incurred claims cost.

The table below shows the evolution for Belfius Insurance SA and Corona SA since 2007 of the sum at the end of each year, of the total incurred claims cost per year of occurrence.

Claims development (excluding reinsurance and internal costs)

(In thousands of EUR)	Year of occurrence										
Year of settlement	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Estimation at the end of the year of occurrence	266,081	284,441	331,831	376,927	368,410	366,403	365,798	415,445	389,632	427,822	417,069
1 year later	253,679	286,182	315,094	377,982	365,547	350,517	324,524	392,976	361,479	402,910	
2 years later	240,004	276,197	302,958	376,143	355,306	334,313	312,883	381,044	353,512		
3 years later	231,754	266,868	302,314	370,819	350,249	329,882	306,454	374,836			
4 years later	228,986	267,226	300,159	370,924	352,804	328,046	303,051				
5 years later	231,760	266,805	299,236	363,378	350,780	323,899					
6 years later	229,487	267,520	296,773	360,537	351,335						
7 years later	227,465	267,249	293,969	357,875							
8 years later	225,761	264,048	293,741								
9 years later	225,140	264,340									
10 years later	224,495										

(In thousands of EUR)											
Actual estimation	224,495	264,340	293,741	357,875	351,335	323,899	303,051	374,836	353,512	402,910	417,069
Cumulative payments	(204,198)	(226,612)	(266,578)	(298,037)	(295,393)	(267,644)	(246,070)	(304,318)	(256,894)	(261,142)	(164,308)
Actual provisions	20,298	37,728	27,163	59,839	55,941	56,255	56,981	70,518	96,618	141,768	252,760

(In thousands of EUR)	
Provisions (after 2007)	875,869
Provisions (before 2007)	129,427
Internal costs	42,515
Accepted deals	27,377
TOTAL	**1,075,189**(1)

(1) Claims reserves 31 December 2017 - note 6.5.2.

CORPORATE GOVERNANCE

COMPOSITION OF THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS OF BELFIUS BANK

1. Management Board

1.1. Composition

On 31 December 2017, the Management Board of Belfius Bank consisted of six members, namely:

Chairman	Marc Raisière
Members	Dirk Gyselinck
	Eric Hermann
	Olivier Onclin
	Dirk Vanderschrick
	Johan Vankelecom

On 26 April 2017, the directorship of Mr Marc Raisière was renewed by the Ordinary General Meeting of Shareholders for a period of 4 years to end at the close of the Ordinary General Meeting of Shareholders in 2021.

The renewal of the directorship of Mr Dirk Gyselinck for a period of 4 years will be submitted to the Ordinary General Meeting of Shareholders of 2018.

1.2. Remit

The Board of Directors has delegated all of its management powers to the Management Board set up from among its members. The members of the Management Board form a college. Such delegation of its powers does not extend to the determination of the general policy of the Bank, or to any other powers that are reserved pursuant to the Companies Code or to the Banking Law to the Board of Directors.

As a result, the Management Board is responsible for the effective management of the Bank, directing and coordinating the activities of the various business lines and support departments within the framework of the objectives and general policy set by the Board of Directors.

The Management Board ensures that the Bank's business activities are in line with the strategy, risk management and general policy set by the Board of Directors. It passes on relevant information to the Board of Directors to enable it to take informed decisions. It formulates proposals and advices to the Board of Directors with a view to define or improve the Bank's general policy and strategy.

The members of the Management Board have to carry out their duties in complete objectivity and independence.

Under the supervision of the Board of Directors, the Management Board takes the necessary measures to ensure that the Bank has a robust structure suited to the Bank's organisation, including supervisory measures, with a view to guaranteeing the effective and prudent management of the Bank in accordance with the Banking Law.

In principle, the Management Board meets once per week.

2. Board of Directors

2.1. Composition

As at 31 December 2017, the Board of Directors consisted of fifteen members, six of whom were members of the Management Board (cf. table on the following page).

BOARD OF DIRECTORS OF BELFIUS BANK (Financial year 2017)	MAIN FUNCTION	NON-EXECUTIVE DIRECTOR	MEMBER OF THE MANAGEMENT BOARD	INDEPENDENT DIRECTOR	AUDIT COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE	RISK COMMITTEE	MEDIATION COMMITTEE
Jozef Clijsters	Chairman of the Board of Directors of Belfius Bank SA	★				■	■		★
Marc Raisière	Chairman of the Management Board of Belfius Bank SA		★						
Dirk Gyselinck	Member of the Management Board of Belfius Bank SA Responsible for Public and Corporate Banking, Financial Markets, Wealth Management		■						
Eric Hermann	Member of the Management Board of Belfius Bank SA Chief Risk Officer		■						
Olivier Onclin	Member of the Management Board of Belfius Bank SA Chief Operating Officer, responsible for Operations, IT, Purchasing & Facility Management		■						
Dirk Vanderschrick	Member of the Management Board of Belfius Bank SA Responsible for Retail and Commercial Banking		■						
Johan Vankelecom	Member of the Management Board of Belfius Bank SA Chief Financial Officer, Responsible for Finance Reporting, Research, Liquidity & Capital Management, Finance Corporate Advisory & Participations, Asset & Liability Management, Legal and Tax		■						
Paul Bodart	Professor in Financial Markets at the Solvay Business School	■		■	■				
Jean-Pierre Delwart	Chairman of the Board of Directors of Solvac	■		■					■
Carine Doutrelepont	Lawyer and Full Professor at the Université Libre de Bruxelles	■		■		■	■		
Georges Hübner	Full Professor at the HEC Liège, Liège University and Associate Professor at the University of Maastricht, School of Business & Economics	■		■	★			■	
Diane Rosen	Financial Director of BAM Belgium SA	■ (1)		■ (1)				■ (2)	
Chris Sunt	Lawyer	■		■ (3)	■			■	
Lutgart Van den Berghe	Executive Director at Guberna and extraordinary professor at the Vlerick Business School	■		■		★	★		
Rudi Vander Vennet	Full Professor in Financial Economics and Banking at the University of Ghent and lecturer Banking and Insurance at Solvay Business School (ULB).	■		■				★	

★ Chairman

(1) From 27 July 2017.
(2) From 30 August 2017.
(3) From 1 May 2017.

During 2017, the ordinary general meeting of shareholders of 26 April 2017 appointed Mr Chris Sunt as independent director with effect as of 1 May 2017.

The ordinary general meeting of shareholders of 26 April 2017 also appointed Mrs Els Blaton and Mrs Diane Rosen directors and independent directors respectively for a period of maximum 4 years, i.e. until the end of the ordinary general meeting of shareholders of 2021, subject to the approval of the supervisory authority, which was granted on 27 July 2017. Mrs Diane Rosen was also appointed member of the Risk Committee with effect as of 30 August 2017.

Mrs Els Blaton resigned from her mandate as director with effect as of 15 November 2017 in order to become member of the Management Board of Belfius Insurance.

The Board of Directors consists of professionals from a variety of industries, including the financial sector and has the expertise and experience required associated with the Bank's various operating businesses.

2.2. Remit

The Board of Directors defines and supervises the strategy and objectives of the Bank as well as the risk management, including the level of risk appetite, on proposal or recommendation of the Management Board.

The Board of Directors is actively involved in the context of this responsibility for general policy, in particular with regard to supervision of the risk policy, organisation and financial stability of the Bank and its governance, including the definition of the Bank's objectives and values.

The Board of Directors also approves the Bank's Governance Memorandum.

In 2017, the Board of Directors met 17 times.

RELATIONSHIP BETWEEN THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Management of the credit institution's activities comes under the sole jurisdiction of the Management Board. Such management takes place without any outside intervention and is carried out within the framework of the general policy laid down by the Board of Directors.

ADVISORY COMMITTEES ESTABLISHED BY THE BOARD OF DIRECTORS

The Board of Directors established various advisory committees to assist in its task, i.e. a Nomination Committee, a Remuneration Committee, an Audit Committee and a Risk Committee. These committees are exclusively composed of non-executive directors. At least one member of each advisory committee (and the majority of the members for the audit committee) is independent within the meaning of Article 526ter of the Companies Code. The members of these advisory committees sit at a maximum on three of these committees. A Mediation Committee has also been created within the Belfius Group.

1. Nomination Committee

The Nomination Committee plays an advisory role and prepares decisions of the Board of Directors of Belfius Bank in relation to appointments. It also ensures the application of provisions concerning corporate governance. With a view to efficiency and consistency regarding group policy, this committee also prepares decisions of the Board of Directors of Belfius Insurance, Corona and Belfius Investment Partners in this regard.

1.1. Composition

1.1.1. General aspects

As at 31 December 2017, the Nomination Committee for Belfius Bank consisted of the following members:

Chairwoman	**Lutgart Van den Berghe**
Members	**Jozef Clijsters** Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
	Carine Doutrelepont
	Johan Tack Director of Belfius Insurance, invited as representative of Belfius Insurance

1.1.2. Independence and expertise

All the members of the Nomination Committee are non-executive directors.

Baroness Lutgart Van den Berghe, Doctor of Economics, is managing director at Guberna and extraordinary professor at the Vlerick Business School and at the University of Ghent. She is also member of the Koninklijke Vlaamse Academie van België voor Wetenschappen en Kunsten.

Mr Jozef Clijsters, Master in Applied Economics, is Chairman of the Board of Directors of Belfius Bank and of Belfius Insurance.

Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and extraordinary professor at the Université Libre de Bruxelles. She is also member of the Académie Royale des Sciences, des Lettres et des Beaux-Arts de Belgique.

Mr Johan Tack, Master in Economics, is currently Director and advisor in the banking and insurance sector. Johan Tack is invited to the meetings of the Nomination Committee as representative of Belfius Insurance.

At least one member of the Nomination Committee (in this case, Mr Jozef Clijsters) must sit on the Board of Directors of Belfius Insurance.

Two of the three members of the Nomination Committee are independent directors within the meaning of Article 526ter of the Companies Code.

Two members have professional experience in the financial sector.

One of the members also sat on the Nomination and Remuneration Committee of a listed company.

All the members have professional experience as executive director and additional professional experience as non-executive directors in various sectors of activity.

Consequently, the members of the Nomination Committee have the required skills, on the basis of their education and professional experience, to give a competent and independent judgement on the composition and operation of the Bank's management bodies, in particular on the individual and collective skills of their members and their integrity, reputation, independence of spirit and availability.

1.2. Remit

The Nomination Committee:

- → identifies and recommends, for the approval of the General Meeting of Shareholders or of the Board of Directors as the case may be, candidates suited to filling vacancies on the Board of Directors, evaluates the balance of knowledge, skills, diversity and experience within the Board of Directors, prepares a description of the roles and capabilities for a particular appointment and assesses the time commitment expected;
  the Nomination Committee also decides on a target for the representation of the underrepresented gender within the Board of Directors and prepares a policy on how to increase the number of underrepresented gender in order to meet that target;
- → periodically, and at least annually, assesses the structure, size, composition and performance of the Board of Directors and makes recommendations to it with regard to any changes;
- → periodically, and at least annually, assesses the knowledge, skills, experience, degree of involvement and in particular the attendance of members of the Board of Directors and advisory committees, both individually and collectively, and reports to the Board of Directors accordingly;
- → periodically reviews the policies of the Board of Directors for selection and appointment of members of the Management Board, and makes recommendations to the Board of Directors;
- → prepares proposals for the appointment or mandate renewal as the case may be of directors, members of the Management Board, the Chairman of the Board of Directors and the Chairman of the Management Board;
- → assesses the aptitude of a director or a candidate director to meet the criteria set forth for being considered as an independent director;
- → examines questions relating to problems with the succession of directors and members of the Management Board;
- → establishes a general and specific profile for directors and members of the Management Board;
- → ensures the application of provisions with regard to corporate governance;
- → prepares proposals for amendments to the internal rules of the Board of Directors and the Management Board;
- → assesses the governance memorandum and if necessary proposes amendments;
- → checks compliance of corporate values;
- → at least annually discusses and analyses the quantitative statement and qualitative analysis of communications regarding stress, burn-out and inappropriate behaviour at work and actions taken to remedy situations.

In performing its duties, the Nomination Committee ensures that decision-taking within the Board of Directors is not dominated by one person or a small group of persons, in a way which might be prejudicial to the interests of the Bank as a whole.

The Nomination Committee may use any types of resources that it considers to be appropriate to the performance of its task, including external advice, and receives appropriate funding to that end.

In 2017, the Nomination Committee met 5 times.

1.3. Recruitment policy

1.3.1. Requirements associated with the position of director/member of the Management Board

Each director/member of the Management Board must, on his or her appointment and for the entire term of his or her mandate, have the expertise and professional integrity required to perform his or her tasks. In this framework a position profile has been established by the Bank. Moreover, the Bank periodically makes an assessment of the aptitude of directors, members of the Management Board and members of the advisory committees.

In accordance with the applicable regulation, every director must, without being prompted to do so, notify the Bank about elements that may have an impact on his or her required expertise and professional integrity to exercise his or her function as a director.

1.3.2. Procedure for appointment/renewal of mandate

1.3.2.1. Directors

Directors are appointed by the General Meeting of Shareholders (or by the Board of Directors if a director is co-opted) on a proposal from the Board of Directors, after obtaining the opinion of the Nomination Committee. The appointment or renewal of the mandate of a director must be approved in advance by the regulator (ECB & NBB).

The Nomination Committee prepares proposals for appointments, co-opting or renewal of the mandate of directors.

On the renewal of a director's mandate, the Nomination Committee will make an assessment of his or her participation within the Board of Directors and ensure that there are no new elements liable unfavourably to impact the aptitude of the director to perform a new mandate. The Nomination Committee will also make sure, based on a competence matrix, that the Board of Directors has sufficient competencies within its ranks to be able to realise the strategy and to deal with future challenges. The Committee will then send an opinion to the Board of Directors.

On a first appointment or mandate renewal, the Chairman of the Board of Directors and the Nomination Committee will ensure that the Board of Directors and the General Meeting of Shareholders have sufficient information with regard to the candidate director to be able to assess whether the latter has the expertise and professional integrity required to perform these tasks.

1.3.2.2. Members of the Management Board

The Chairman and members of the Management Board are appointed by the Board of Directors from among the directors who have acquired professional experience in the banking and financial sector, on presentation by the Management Board, after obtaining the opinion of the Nomination Committee and the approval of the regulator (ECB & NBB).

As for the Chairman of the Management Board, his or her appointment will be on presentation by the Management Board, after consultation with the Chairman of the Board of Directors.

1.4. Diversity policy

A diverse Board of Directors includes differences in background, language, gender, age, professional skills relevant for Belfius. These differences are considered in determining the optimum composition of the Board of Directors and when possible should be balanced appropriately.

The Nomination Committee reviews and assesses Board of Directors composition on behalf of the Board of Directors and recommends the appointment of new directors. In reviewing Board of Directors composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background on the Board of Directors.

In identifying suitable candidates for appointment to the Board of Directors, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board of Directors.

The Nomination Committee also conducts the annual review of Board of Directors effectiveness. As part of the annual performance evaluation of the effectiveness of the Board of Directors, Advisory Committees and individual directors, the Nomination Committee will consider the balance of skills, experience, independence and knowledge of Belfius Bank on the Board of Directors and the diversity representation of the Board of Directors.

Furthermore, at its meeting on 25 August 2015, the Nomination Committee set a target to be achieved with regard to gender representation on the Board of Directors and established a policy aimed at increasing the number of members of the currently under-represented gender in order to achieve that target.

In accordance with legal requirements (Article 518bis of the Companies Code) the Nomination Committee has set a target of achieving and maintaining a minimum of one-third representation of the other sex on the Board of Directors (Management Board included) as of 1 January 2019. For the application hereof, the required minimum number of members of the other sex will be rounded off to the nearest whole number.

Should the number of directors of the other sex be smaller than one third, the next ordinary general meeting will compose a Board of Directors that will meet this requirement.

The Nomination Committee discusses annually the evolution towards the objective for achieving diversity on the Board of Directors and make recommendations to the Board of Directors for adoption.

As at 31 December 2017, the Board of Directors and the Management Board were composed as represented in the table below.

Board of Directors	Number of members	15
	Ratio of men to women	80%/20%
	Independent directors	8
	Main degree qualifications (several people may have more than one degree)	Economics/Business Administration/Finance/Law/ Engineering/Mathematics/Actuarial Sciences
Management Board	Number of members	6
	Ratio of men to women	100 %/0 %
	Main degree qualifications (several people may have more than one degree)	Engineering (commercial, civil)/Economics/ Business Administration/Finance/Mathematics/ Actuarial Sciences

2. Remuneration Committee

The Remuneration Committee plays an advisory role and prepares decisions of the Board of Directors of Belfius Bank regarding remuneration. With a view to efficiency and consistency regarding group policy, this committee also prepares decisions of the Board of Directors of Belfius Insurance, Corona and Belfius Investment Partners in this regard.

2.1. Composition

2.1.1. General aspects

As at 31 December 2017, the Remuneration Committee for Belfius Bank consisted of the following members:

Chairwoman	Lutgart Van den Berghe
Members	Jozef Clijsters Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
	Carine Doutrelepont
	Johan Tack Director of Belfius Insurance, invited as representative of Belfius Insurance

2.1.2. Independence and expertise

All the members of the Remuneration Committee are non-executive directors.

Baroness Lutgart Van den Berghe, Doctor of Economics, is managing director at Guberna and extraordinary professor at the Vlerick Business School and at the University of Ghent. She is also member of the Koninklijke Vlaamse Academie van België voor Wetenschappen en Kunsten.

Mr Jozef Clijsters, Master in Applied Economics, is Chairman of the Board of Directors of Belfius Bank and Belfius Insurance.

Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and extraordinary professor at the Université Libre de Bruxelles. She is also member of the Académie Royale des Sciences, des Lettres et des Beaux-Arts de Belgique.

Mr Johan Tack, Master in Economics, is currently Director and advisor in the banking and insurance sector. Mr Johan Tack is invited to the meetings of the Remuneration Committee as representative of Belfius Insurance.

At least one member of the Remuneration Committee (in this case, Mr Jozef Clijsters) must sit on the Board of Directors of Belfius Insurance.

Two of the three members of the Remuneration Committee are independent directors within the meaning of Article 526ter of the Companies Code.

Two members have professional experience in the financial sector.

One of the members also sat on the Nomination and Remuneration Committee of a listed company.

All the members have professional experience as executive directors and additional professional experience as non-executive directors in various sectors of activity.

Consequently, the members of the Remuneration Committee have the required skills, on the basis of their education and professional experience, to give a competent and independent judgement on remuneration policies and practices and on the incentives created for managing risks, capital and liquidity of the Bank.

2.1.3. Collaboration and interaction with other advisory committees of the Board of Directors

In order to perform its tasks correctly (cf. also infra), in 2017 the Remuneration Committee interacted regularly with the Risk Committee and the Audit Committee.

The Risk Committee ensures that the Belfius group's risk management, capital requirements and liquidity position, as well as the probability and the spread in time of profit is correctly taken into consideration in decisions relating to remuneration policy.

Within Belfius Bank, this is reflected by the formulation of an opinion on a global "Risk Gateway" (cf. § 2.3.1.3) and by the establishment and assessment of Key Risk Indicators on an annual basis. Their preparation is undertaken by the Risks divisions, in collaboration with the Human Resources division.

The Audit Committee contributes to the establishment of objectives for the independent control function of the Auditor General.

The audit department at Belfius Bank will provide an independent and regular analysis of the remuneration policy and its practical implementation. In 2017 such a follow-up study was realized. The results of this study are also presented to the remuneration committee. The audit that took place in 2017 did not raise any particular comments.

2.2. Remit

The Remuneration Committee prepares the decisions of the Board of Directors by inter alia:

- developing the remuneration policy, as well as making practical remuneration proposals for the chairman, the non-executive members of the Board of Directors and the members of the advisory committees under the Board of Directors. The Board of Directors submits these remuneration proposals to the Ordinary General Meeting of Shareholders for approval;
- developing the remuneration policy, as well as making practical proposals for the remuneration of the chairman of the Management Board and, on his proposal, for the remuneration of the members of the Management Board; The Board of Directors then determines the remuneration of the chairman and the members of the Management Board;

- providing advice on the proposals made by the chairman of the Management Board of Belfius Bank in relation to the severance remuneration for members of the Belfius Bank Management Board. On the proposal of the Remuneration Committee, the Board of Directors of Belfius Bank determines the severance remuneration of the chairman and members of the Belfius Bank Management Board;
- advising the Board of Directors in relation to the remuneration policy for employees whose activity has a material impact on the risk profile of Belfius Bank (known as "Identified Staff") and in relation to the compliance of the allocation of remuneration to Identified Staff with regard to the remuneration policy put in place for such people;
- preparing the remuneration report approved by the Board of Directors and published in the annual report;
- periodically checking to ensure that the remuneration programmes are achieving their objective and are in line with applicable conditions;
- annually assessing the performance and objectives of the members of the Management Board;
- providing an opinion of the elaboration of a global "Risk Gateway" in consultation with the Risk Committee, containing various levers applied at various points in the performance management cycle, with an impact on determination of the variable remuneration.

The Remuneration Committee exercises direct supervision over the determination of objectives and remuneration of the individuals responsible for the independent control functions (Chief Risk Officer, General Auditor and Compliance Officer).

In 2017, the Remuneration Committee met 9 times.

2.3. Remuneration

2.3.1. Introduction

2.3.1.1. Decision-taking powers

The Board of Directors decides on the remuneration of the members of the Management Board at Belfius Bank based on the advice of the Remuneration Committee and the chairman of the Management Board.

The Management Board sets the remuneration of the senior managers who may have a material impact on the risk profile of Belfius Bank, subject to the nature or level of the positions in question and/or their remuneration, within the framework of the remuneration policy. The Remuneration Committee gives advice regarding this policy and takes note of the individual information.

2.3.1.2. Remuneration policy

The remuneration policy of Belfius Bank and its subsidiaries was developed by Human Resources and the Legal Department and submitted for advice to the Remuneration Committee. The Risk Committee was also involved in developing the remuneration policy.

The remuneration policy includes on the one hand general principles applicable to all Belfius Bank employees. On the other hand, taking the principle of proportionality agreed in advance with the NBB into account, it includes specific provisions exclusively applicable to the members of the Management Board and to employees whose activity has a material impact on the risk profile of Belfius Bank (i.e. "Identified Staff"), given the nature or level of the positions themselves and/or their remuneration.

When annually updating the list of Identified Staff, Belfius Bank takes account of European Directives. The Remuneration Committee and the Risk Committee are also informed of the result of such update.

2.3.1.3. Strategy guidelines approved by the Board of Directors in accordance with regulations

Fixed remuneration forms an appreciable part of total remuneration and is designed to reward the performance of employees, taking into account their experience, education and qualifications, their duties, responsibility and the level of their position.

Limiting the portion of remuneration related to performance is intended to discourage excessive risk taking. For 2017, the proportion between fixed and variable remuneration is 30% for members of the Management Board and 25% for senior management, if performance is normal. Exceptional performance can never result in that percentage being more than 50% .

The envelope for performance-related remuneration (performances in 2017) is determined in relation to the evolution of operating results.

The policy also includes a risk gateway, which is a mechanism (ex-ante) involving the total budget for the variable remuneration of senior management being reduced in the case of a material deterioration of solvency ratios (CET 1/RWA) or liquidity ratios (LCR) under the levels fixed in the risk framework.

The performance-related remuneration is paid individually depending on the available envelope, collective results and the achievement of individual objectives.

For performances in 2017, key risk indicators (KRI) have been included in the objectives of members of the Management Board and employees whose activity has a material impact on the risk profile of Belfius Bank. The aim is to take proper account of the different types of (current and future) risks at each point in the assessment cycle: an insufficient score on one or more of such risk indicators has a negative impact on the variable remuneration.

The establishment, monitoring and assessment of these risk indicators are coordinated by the Chief Risk Officer (CRO) and submitted to the Remuneration Committee and the Risk Committee. Where appropriate, the CRO will confer with the General Auditor and the Compliance Officer and will also consult regularly with the Human Resources division.

Belfius Bank may also reduce performance-related remuneration, or even drop it to zero, in the event of poor (collective or individual) performances, taking account of the level of seniority of the employee and/or the legal basis on which that performance-related remuneration is founded.

At the end of 2015, a policy in relation to deferred variable remuneration ("deferral") was established for employees whose activity has a material impact on the risk profile of Belfius Bank. This proposal was formulated by the Human Resources division, in collaboration with the Capital & Liquidity Management, Legal and Risk divisions. This policy has been retained for the 2017 year.

In practical terms, for employees whose activity has a material impact on the risk profile of Belfius Bank, to the extent that their performance-related remuneration exceeds the amount agreed in advance with the NBB, 50% of the remuneration will be deferred over a period of 5 years (60% if the performance-related remuneration would be higher then EUR 200,000) for members of the Management Board and their direct reports and 3 years for the others. In addition, 50% of the total variable remuneration will be paid by a financial instrument which reflects the financial health of the business. The terms of this policy are integrated in the Belfius group's remuneration policy.

The risk gateway (see above) will also be applied at the end of the first quarter in order to determine whether the deferred variable remuneration payable in that year can also effectively be paid.

If appropriate, variable remuneration may be subject to an ex-post risk adjustment via a malus or clawback.

2.3.2. Remuneration of members of the Management Board

2.3.2.1. Fixed and performance-related remuneration

The remuneration of members of the Bank's Management Board consists of a fixed part and a performance-related part.

The fixed and performance-related remuneration of members of the Management Board constitutes a whole from which are deducted any attendance fees or directors' fees paid to a member of the Management Board by a third-party company for which the member performs a mandate on behalf of Belfius Bank.

The remuneration of the Management Board is approved by the Board of Directors. The chairman and members of the Management Board do not participate in the discussions, or make decisions in this regard.

When a member of the Management Board has several mandates in the Belfius Group, part of the remuneration can be re-invoiced internally, in which case only the part at the expense of Belfius Bank will be included in the figures.

2.3.2.2. Remuneration for 2017

Remuneration of the chairman of the Management Board

Fixed remuneration

The fixed remuneration of the chairman of the Management Board amounts to EUR 575,000.

In addition, the premium for his group insurance amounted to EUR 99,980 and for other insurance policies (mainly insurance against death and disability) EUR 35,368.

The other benefits (mainly reimbursement of expenses and company car costs) in 2017 amounted to EUR 9,255.

Performance-related remuneration

The Board of Directors decided to grant to the chairman of the Management Board a performance-related remuneration of EUR 190,423 for 2017. The acquisition of this amount is spread over 7 years, provided certain conditions are met. Half of the total (deferred) performance-related remuneration is awarded in cash and the other half in a financial instrument.

An initial payment of this performance-related remuneration for 2017 (EUR 47,606) will be made at the beginning of 2018.

The acquisition of the balance of this performance-related remuneration for 2017 will be spread over the coming 6 years.

The payment of the deferred performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

An amount of EUR 78,181, linked to the performance in 2015 and 2016 will be paid to the chairman of the Management Board at the beginning of 2018 (the second and third payments of the performance-related remuneration based on the performance in 2015 and 2016).

On the basis of the performance-related remuneration of 2015, 2016 and 2017, provided certain conditions are met in the coming 6 years, the chairman of the Management Board may receive a deferred performance-related remuneration as follows: EUR 95,585 in 2019; EUR 57,500 in 2020; EUR 57,500 in 2021; EUR 48,202 in 2022; EUR 28,972 in 2023; and EUR 9,522 in 2024.

It is worth reiterating that every payment of (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

Remuneration of the other members of the Management Board

Fixed remuneration

The fixed remuneration of the members of the Management Board (divided among 5 persons) amounts to EUR 1,660,000.

In addition, the (aggregated) premium for their group insurance amounted to EUR 277,271 (divided among the 5 members) and for other insurance policies (mainly insurance against death and disability) to EUR 112,007 (divided among the 5 members).

The other benefits (mainly reimbursement of expenses and company car costs) in 2017 (divided among the 5 members) amounted to EUR 57,736.

Performance-related remuneration
The Board of Directors decided to grant to the members of the Management Board a performance-related remuneration totalling EUR 569,130. Half of the respective total (deferred) performance-related remuneration for each member of the Management Board is awarded in cash and the other half in a financial instrument.

The acquisition of this amount is spread over 7 years, provided certain conditions are met.

An initial payment of this performance-related remuneration for 2017 to the members of the Management Board (EUR 142,282 divided among the 5 members) will be made at the beginning of 2018.

The acquisition of the balance of this performance-related remuneration for 2017 will be spread over the coming 6 years.

The payment of the (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

An amount of EUR 233,235, linked to the performance in 2015 and 2016, will be paid at the beginning of 2018 (the second and third payment of the performance-related remuneration based on the performance in 2015 and 2016), divided among the five members of the Management Board.

On the basis of the performance-related remuneration of 2015, 2016 and 2017, provided certain conditions are met in the coming 6 years, the members of the Management Board may receive a deferred performance-related remuneration EUR 284,926 in 2019; EUR 171,100 in 2020; EUR 171,100 in 2021, EUR 143,764 in 2022, EUR 86,676 in 2023, EUR 28,459 in 2024.

It is worth reiterating that every payment of (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

Option plans
Belfius Bank has no option plan. During 2017, no option was granted to members of the Management Board, or exercised by the latter.

In accordance with Article 450 of Regulation no. 575 / 2013, Belfius Bank declares that no remuneration of more than EUR 1 million was allocated to any employee of Belfius Bank in 2017.

In 2017, no exceptional bonus was granted within the context of a recruitment and no severance remuneration was paid to members of the Management Board.

2.3.3. Remuneration of employees whose activity has a material impact on the risk profile of Belfius Bank (excluding the members of the Management Board and the members of the Board of Directors)

Fixed remuneration
The fixed remuneration paid in 2017 to the members of staff concerned (173 members of staff at the end of 2017) was EUR 21,941,346.

Performance-related remuneration for the year 2017
A total amount of EUR 6,001,219 was allocated to the members of staff concerned as performance-related remuneration for the year 2017. The entirety of this amount was paid in 2018 since none of those members of staff received performance-related remuneration for 2017 above the amount agreed in advance with the NBB.

This amount was granted for EUR 5,717,917 in warrants[1] and for EUR 283,302 in cash.

Option plans
Belfius Bank has no option plan. During 2017, no option was granted to employees whose activity has a material impact on the risk profile of Belfius Bank, or exercised by the latter.

Severance remuneration
In 2017, severance remuneration was paid to 1 employee whose activity has a material impact on the risk profile of Belfius Bank.

The total amount of this payment was EUR 374,836.

Severance remuneration was granted, on the following terms:

- Paid in cash: EUR 327,136;
- Paid in financial instruments: EUR 15,900;
- Deferred payment: EUR 31,800.

It is important to reiterate that any payment of deferred severance remuneration is dependent on the annual evaluation of the financial instrument and, if applicable, may be subject to an ex-post risk adjustment via a penalty or clawback clause.

The portion already paid is subject to a clawback clause (see 2.3.1.3 above).

For the year 2017, no individual (referred to in point 2.3.3.) was awarded an exception sign-on bonus.

2.3.4. Remuneration of members of the Board of Directors (non executive directors)

The total remuneration paid to members of the Board of Directors, except the members of the Management Board (non-executive directors) for 2017 was 817,944 EUR for 48 meetings (compared with 683,492.48 EUR in 2016 for 43 meetings). This amount includes the remuneration for their mandate as directors (a fixed amount, which is identical for all members of the Board of Directors, except for the chairman), as well as their fees for attending the Board

(1) Underlying security: Candriam Equities L EUR pe (SICAV) Capitalisation share.

Number of meetings and renumeration per non-executive director for the year 2017[1]

	Mediation Committee (2 meetings)	Board of Directors (17 meetings)	Risk Committee (9 meetings)	Audit Committee (9 meetings)	Appointments Committee (4 meetings)	Renumeration Committee (7 meetings)	Total renumeration
Doutrelepont Carine		15			4	6	66,600
Delwart Jean-Pierre	2	15					51,300
Clijsters Jozef	2[2]	17[2]			4	7	240,300
Hübner Georges		17	8	9[2]			96,300
Van den Berghe Lutgart		17			4[2]	7[2]	90,000
Sunt Chris		16	8	8			76,500
Bodart Paul		16		9			65,700
Vander Vennet Rudi		17	9[2]				81,000
Blaton Els		6					18,294
Rosen Diane		10	2				31,950
							817,944

(1) In 2017, 4 days of training were also organized for the non-executive directors, for which no payment was made.
(2) Chairmen.

meetings and the various advisory committees (a fixed amount for each meeting attended, varying for the members of the meeting, on the one hand, and for the chairman, on the other).

The Board of Directors will propose to the 2018 ordinary general meeting that the remuneration paid for directors' mandates and the fees for attending meetings be brought back to the fees that applied prior to 1 July 2013. All of the conditions for doing so (including the financial and economic health of the company, core equity, etc.) have clearly and structurally been fulfilled.

The non executive directors do not receive a performance-related remuneration or options.

The chairman of the board has a company car at his disposal.

The chairman and the members of the Management Board do not receive any indemnity for attending the meetings of the Board of Directors.

3. Audit Committee

3.1. Composition

3.1.1. General aspects

As at 31 December 2017, the Audit Committee for Belfius Bank consisted of the following members:

Chairman	Georges Hübner
Members	Paul Bodart
	Chris Sunt

3.1.2. Independence and expertise

The Audit Committee must have at least one independent director with the individual expertise required in accountancy and/or audit. The majority of the members of the Audit Committee members must be independent directors. The chairman of the Committee is appointed by its members. Furthermore, the members of the Audit Committee must have collective expertise in the fields of banking as well as accountancy and audit.

The Audit Committee of Belfius Bank consists of three non-executive directors, all three are independent directors, namely Mr Georges Hübner, Mr. Paul Bodart and Mr. Chris Sunt.

Mr Georges Hübner, who holds a degree in Business Administration and a PhD in Management, is Full Professor in Finance at the HEC Liège, University of Liège and Associate Professor at the University of Maastricht. Inter alia he was a member of the college of experts appointed by Parliament following the financial crisis. He has professional experience in accountancy and audit acquired in his activities in education, expertise and chairmanship of qualifying examination boards for the Certified Auditors Institute (IRE/IBR).

Mr Paul Bodart, an engineer holding the degree of Master of Business Administration, is a Professor at the Solvay Business School. He has professional experience in accounting and audit acquired in particular in the tasks he performs as a member of the Audit Committee of the National Settlement Depository, Russia's central depository, and those he performed as chairman of the Audit Committee and a member of the Risk Committee of Dexia and of Dexia Crédit Local and as a member of the Audit Committee of Euroclear Bank. Moreover, he has considerable experience in the banking and finance sectors, in particular the executive functions (specifically, he was CEO of the Belgian banking subsidiary of the Bank of New York Mellon Group, responsible for group operations in the eurozone).

Mr Chris Sunt holds a law degree. In his capacity as a lawyer specialised in finance law for more than 30 years, he has also acquired relevant experience in accountancy and audit.

Consequently, the Audit Committee has had and has at least one independent director with the individual expertise required in accountancy and/or audit as well as the required collective expertise in the field of banking, accountancy and auditing.

3.2. Tasks and remit

The Audit Committee assists the Board of Directors in its task of carrying out prudential controls and exercising general supervision in a broad sense.

3.2.1. Financial reporting

The Audit Committee monitors the integrity of the financial information provided by the company, in particular by evaluating the accounting standards used including the criteria governing the scope of the consolidation. The Audit Committee's supervision also extends to the follow-up of regular financial information before its submission to the Bank's Board of Directors.

The Audit Committee monitors the process of establishing financial information and makes recommendations or proposals to guarantee its integrity.

3.2.2. Internal audit and risk management

At least once a year the Audit Committee examines the efficiency of the internal audit and risk management systems set up by the Management Board to ensure that the main risks (including the risks linked to compliance with current laws and regulations) are properly identified and managed. To that end the Management Board submits to the Audit Committee a report regarding the assessment of internal control .

During 2017, the Audit Committee took note of the reports on the outstanding legal disputes, the activities of the Compliance department, the activities of Audit and Control, the activities of the Legal department as well as the monitoring activities of the risks (e.g. credit, market, liquidity and operational risks and the risks with regard to the ICT-security).

3.2.3. Functioning of internal audit

The Audit Committee assesses the operational efficiency and independence of the Internal Audit division. The Audit Committee also verifies the extent to which the management responds to the findings of the Audit department and its recommendations. In 2017, the Audit Committee examined and approved the annual business report for 2016, the audit plan for 2017 and also the audit plan 2018, and the half-year business report (1H) for 2017, as well as the half-yearly follow-up reports on the recommendations. The latest version of the Internal Audit Charter was validated in 2018.

3.2.4. Statutory audit

The Audit Committee provides the Board of Directors with information on the results of the legal audit of the statutory and consolidated financial statements as well as explanations as to the manner in which the legal audit of the statutory and consolidated financial statements contributed to the integrity of the financial information and as to the role played by the Audit Committee in that process.

The Audit Committee also monitors the legal audit of the statutory and consolidated financial statements, and this includes monitoring questions asked and recommendations made by the auditor.

In 2017, the Audit Committee reported to the Board of Directors on the statutory and consolidated financial statements of Belfius Bank at 31 December 2016, 31 March 2017, 30 June 2017 and 30 September 2017. After considering the comments received from the management of the Bank and the external auditors, the Audit Committee delivered a favourable opinion to the Board of Directors on the annual financial statements.

3.2.5. External audit function and monitoring of auditor's independence

The Audit Committee satisfies itself that the external auditor(s) carries (carry) out his (their) audits properly.

The Audit Committee monitors the independence of the external auditor(s) and his (their) auditing programme.

The Audit Committee makes a recommendation to the Board of Directors with regard to the appointment or renewal of the mandate of the auditor.

3.3. Functioning

The Audit Committee may demand to see any useful information or supporting evidence and may carry out any inspection it feels is necessary. To that end it calls on the services of the Internal Audit department of Belfius Bank, which reports to the President of the Management Board.

In 2017, the Audit Committee met 9 times.

The Audit Committee of Belfius Bank operates independently of the Audit Committee implemented at Belfius Insurance. The Audit Committee of Belfius Bank held jointly meetings with the Audit Committee of Belfius Insurance twice, in particular when the insurance company's annual financial statements for 2016 and the half-yearly financial statements at 30 June 2017 were presented.

The Audit Committee of Belfius Bank held 5 meetings jointly with the Risk Committee to examine the effective management report on the assessment of the internal control report 2016, the report on the risks linked to the use of valuation models, the follow-up of the implementation of the IT-security strategy, the risk management concerning the implementation of IFRS 9 as of 1 January 2018; as well as the quarterly risk monitoring report.

3.4. Internal Audit

The Internal Audit Charter states the fundamental principles which govern the Internal Audit function at Belfius by describing its objectives, its role, its responsibilities and its overall modes of operation. Additionally, through the Audit Charter the independency of the Internal Audit function has been ensured. The Audit Charter has been approved by the Board of Directors in the beginning of 2018 and is reviewed at least every three years.

Belfius Bank has an internal audit function that meets the international standards on methodology and reporting.

The internal audit function is an independent and objective activity that provides the organisation with reasonable assurance regarding the extent to which its operations are controlled and supervised. As part of its work, the internal audit function provides recommendations for improvements and in doing so creates added value.

This means that the internal audit function helps the organisation to achieve its objectives. It does this by assessing the risk management, internal audit processes and governance processes in a systematic and disciplined manner and by making proposals designed to increase efficiency. This is done mainly by carrying out audit assignments and following up on audit recommendations.

The head of internal audit at Belfius Bank is responsible for internal audit on a group level (Auditor-General). To this end, the head of internal audit at Belfius Insurance has a functional link to the Auditor-General. In this way, the independence of the head of internal audit at Belfius Insurance vis-à-vis his/her governing bodies is combined with the use of uniform audit practices of high quality (audit planning, audit methodology, following up on audit recommendations, etc.) within the Belfius group.

4. Risk Committee

4.1. Composition

4.1.1. General aspects

As at 31 December 2017, the Risk Committee for Belfius Bank consisted of the following members:

Chairman	Rudi Vander Vennet
Members	Georges Hübner
	Diane Rosen
	Chris Sunt

Mrs Diane Rosen has been appointed a member of the Risk Committee as from 30 August 2017.

4.1.2. Independence and remit

The Risk Committee of Belfius Bank consists of four independent directors, namely Mr Rudi Vander Vennet, Mr Georges Hübner, Mrs Diane Rosen and Mr Chris Sunt.

The members of the Risk Committee must individually have the knowledge, skills, experience and aptitudes necessary to enable them to understand the Bank's risk strategy and appetite level.

Mr. Rudi Vander Vennet holds a degree in economics, an advanced master degree in finance and a PhD in economics and is currently full professor of economics and banking at Ghent University and also teaches banking and insurance at Solvay Business School (ULB). He has experience as a board member at various financial institutions, such as ASLK/CGER, NMKN/SNCI, CBHK/OCCH, Credibe and OBK Bank. He is a former member of the stakeholder group of the EBA.

Mr Georges Hübner, who holds a degree in Business Administration and a PhD in Management, is Full Professor in Finance at the HEC Liège, University of Liège and Associate Professor at the University of Maastricht. Inter alia he was a member of the college of experts appointed by Parliament following the financial crisis.

Mrs Diane Rosen holds a degree of Commercial Engineer and has professional experiences in Banking as well as in construction and real estate sectors. She is currently Finance Director of BAM Belgium.

Mr Chris Sunt holds a law degree. In his capacity as a lawyer specialised in finance law for more than 30 years, he has also acquired the relevant risk management experience.

The members of the Risk Committee have the individual expertise and professional experience required to define strategy regarding risk and the level of risk appetite of an institution. They have acquired the specialisation necessary in particular as directors with other institutions and/or in their university training. As a consequence, the Risk Committee has the required individual knowledge and expertise.

4.2. Remit

The Risk Committee has advisory powers and responsibilities with regard to the Board of Directors in the following areas:

- appetite and strategy regarding the Bank's current and future risks, more particularly the effectiveness of the risk management function and the governance structure to support them;
- monitoring implementation of risk appetite and strategy by the Management Board;
- allocating the risk appetite to various categories of risks and defining the extent and limits of risk in order to manage and restrict major risks;
- considering the risks run by the Bank with its customer tariffs.
- assessing activities which expose the Bank to real risks;
- supervising requirements in terms of capital and liquidity, the capital base and the Bank's liquidity situation;
- the guarantee that risks are proportional to the Bank's capital;
- formulating an opinion with regard to major transactions and new proposals for strategy activities that have a significant impact on the Bank's risk appetite;
- obtaining information and analysing management reports as to the extent and nature of the risks facing the Bank;
- monitoring the Internal Capital Adequacy Assessment Process (ICAAP) and the Recovery Plan.

4.3. Functioning

The Risk Committee meets at least once per quarter. It also meets on an ad-hoc basis in relation to specific matters.

In 2017, the Risk Committee met 8 times and held 5 joint meetings with the Audit Committee and 1 joint meeting with the Risk & Underwriting Committee of Belfius Insurance.

The Risk Committee operates independently of the Risk & Underwriting Committee of Belfius Insurance. On the request of the Chairman of the Bank's committee, a joint Risk Committee of Belfius Bank and Belfius Insurance may be held. To promote sound remuneration policy and practices, subject to the tasks of the Nomination Committee and the Remuneration Committee, the Risk Committee examines whether incentives in the remuneration system take proper account of the institution's risk management, equity requirements and liquidity position, as well as the probability and distribution of profit over time.

The Risk Committee and the Audit Committee periodically exchange information in particular concerning the quarterly risk report, the senior management report on the assessment of internal control and the risk analyses performed by the Legal, Compliance and Audit Departments. The aim of this exchange of information is to enable the two committees to perform their tasks properly and to take the form of a joint meeting.

MEDIATION COMMITTEE

In 2014 the Board of Directors decided to establish a Mediation Committee within the Belfius group.

1. Composition

The Mediation Committee is in principle composed of 3 members:

- the Chairman of the Board of Directors of Belfius Bank, who acts as Chairman;
- one independent non-executive director of Belfius Bank;
- one independent non-executive director of Belfius Insurance.

If the Chairman of the Board of Directors of Belfius Insurance is not the Chairman of the Board of Directors of Belfius Bank, the Mediation Committee will have 4 members, including the Chairman of the Board of Directors of Belfius Insurance.

As at 31 December 2017, the Mediation Committee consisted of the following members:

Chairman	**Jozef Clijsters** Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
Members	**Jean-Pierre Delwart** Independent Director Belfius Bank
	Johan Tack Independent Director Belfius Insurance

In 2017 the Mediation Committee met 4 times.

2. Remit

The Mediation Committee is responsible for passing opinions relating to material transactions or operations between, on the one hand, Belfius Bank and its subsidiaries and, on the other hand, Belfius Insurance and its subsidiaries, or between their respective subsidiaries. Such opinions are sent to the Board of Directors of the companies concerned, which will then take a definitive decision on the planned transaction or operation.

INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS REGARDING FINANCIAL STATEMENTS

Belfius Bank applies various internal audit and risk management systems to its financial statements. These audits are carried out at different levels.

The inventory is reconciled with the balances in ACEC/ACSE via the reconciliation tool ACNR on a daily basis. Unreconciled amounts are reported via the monitoring and matching tool INTELLIMATCH. At the end of each month, the balance sheet and off-balance sheet inventory in GEXL is reconciled with the balances in ACEC/ACSE. Unreconciled amounts are reported via an online tool in GEXL. The related accounting Competence Center (back office) within the Operations Department is responsible for analysing the nature of the differences and for initiating corrective actions.

The accounts (Belgian GAAP and IFRS) are closed on a monthly basis. A first level of control is performed by the Accounting Competence Centers that take full responsibility for the general ledger (balance, off balance and statement of income) and the inventory. In respect to Financial Markets activities, FM Risk Management is responsible for the validation of the statement of income and the gains and losses not included in the statement of income. The procedures and control activities are documented by each department involved.

Corporate Accounting Control performs a second level of control and ensures a functional steering of the closing process, the centralisation and final validation of all relevant accounting data and disclosures for reporting purposes. A risk-based approach is adopted to determine the nature and extent of the control activities. The controls mainly relate to a variance analysis of balances and ratios, sample based testing, review of supporting documentation and reasonability controls. The results of the analytical review are documented in a highlight report, which is subject to management review. The procedures and control activities are documented by each department.

The first and second levels of control provide reasonable assurance on the completeness, accuracy and appropriate presentation of the accounting data, in accordance with the financial and prudential framework.

The main subsidiaries of Belfius Bank apply similar internal audit and risk management systems to its financial statements. From October 2017 on, the preparation of the financial statements of Belfius Insurance and its subsidiaries are outsourced to Belfius Bank in order to further align and optimize the processes. The continuity can be guaranteed as also the resources and competences of Belfius Insurance involved in the preparation and internal audit of the financial statements are transferred to Belfius Bank.

EXTERNAL ACTIVITIES OF DIRECTORS – ARTICLE 62, §2 OF THE LAW OF 25 APRIL 2014 ON THE STATUS AND SUPERVISION OF CREDIT INSTITUTIONS

Under the Regulation by the National Bank of Belgium dated 6 December 2011 on the pursuit of external activities by the executives of regulated companies, Belfius Bank is required to disclose any external appointment held by its directors and senior executives. Belfius Bank has chosen to publish such appointments in its annual report filed with the National Bank of Belgium.

AUDITOR

The task of auditing the financial situation and financial statements of the Bank has been entrusted to Deloitte Reviseurs d'entreprises, SC s.f.d. SCRL, represented by Messrs Bernard De Meulemeester and Bart Dewael.

The mandate of the Auditor, Deloitte Reviseurs d'Entreprises, SC s.f.d SCRL has been renewed at the General Meeting of 26 April 2017 for a period of three years, which takes an end after the Ordinary General Meeting of Shareholders of 2020.

The table below provides an overview of the fees paid to the Auditor for services provided to Belfius Bank and its Belgian companies associated with Belfius Bank or to its foreign subsidiaries during the 2017 financial year.

COMPLIANCE

1. Role

The function of Compliance is to ensure the integrity of the Bank's activities and the management of Compliance risks. The Compliance department ensures that Belfius, its subsidiaries, staff members, suppliers and intermediaries comply with the legislation as well as internal rules and norms applicable to Belfius.

The emphasis is principally placed on the rules relating to the protection of customers' interests, also known as rules of good conduct, such as MiFID for investment services, the protection of privacy and the prevention of conflicts of interests.

On the one hand, Compliance advises and informs management and the commercial and operational divisions of the Bank of the correct and appropriate application of the law and regulations, both within the context of establishing corporate strategy, the development of new activities, distribution channels and processes, and within the framework of specific files or transactions. To that end, it actively monitors the evolution of Belgian and international legislation, in close collaboration with the Legal department.

On the other hand, Compliance organises the independent supervision and control of the correct implementation of procedures and instructions drawn up. As such, it oversees the effectiveness of policy and proposes corrective measures if they are necessary.

2. Organisation

Compliance is organised around a central Compliance department based on 3 pillars: Business Advisors (advisory function), the Compliance Risk Control team (control function) and the anti-money laundering unit. These three teams are supported by a specific unit which frames projects at an IT and an organisational level.

Deloitte (in thousands of EUR)	Services provided in 2017 Audit of financial statements	Other certification	Tax advice	Other services	Total
DELOITTE BEDRIJFSREVISOREN / RÉVISEURS D'ENTREPRISES	**1,906**	**81**		**1,070**	**3,057**
Belfius Bank	1,126	69		1,046	2,241
Subsidiaries (bank perimeter)	278	12		24	314
Belfius Insurance	502	0		0	502
OTHER DELOITTE ENTITIES			**31**	**724**	**755**
Belfius Bank			31	425	456
Subsidiaries (bank perimeter)			0	112	112
Belfius Insurance			0	187	187
TOTAL	**1,906**	**81**	**31**	**1,794**	**3,812**

The central Compliance department may also call on the services of a large network of Compliance Correspondents within the Bank's various divisions, as well as a network of Compliance Managers with the branch network. This network plays an important role, particularly in the introduction of Compliance policy and procedures as well as training and awareness in that regard.

A Compliance Officer accredited by the FSMA is at the head of the Compliance organisation. The Compliance Officer reports directly to the Chairman of the Management Board and to the Audit Committee, and if necessary may directly approach the Chairman of the Board of Directors and the Regulator.

As provided by the regulations, the department also has a Money Laundering Reporting Officer and a Privacy Officer.

The Money Laundering Reporting Officer (MLRO) is head of the anti-money laundering team, which combats money laundering practices. Belfius does all it can not to be involved in laundering money from illegal activities, the organisation of tax fraud, financing terrorism or circumventing international embargos. To underline this commitment, the MLRO has established preventive measures and broadened controls. Proper knowledge of the customer and their identification, verification of the origin of financial flows on accounts and detection of dubious transactions are all vital elements in the prevention of such practices.

In particular, the Privacy Officer ensures that personal data obtained by the Bank in providing its services to its customers are processed and retained with necessary prudence and confidentiality, observing applicable regulations. In the context of the new Global Data Protection Regulation (GDPR), which comes into effect in May 2018, the role of Privacy Officer will be part of the new position of Data Protection Officer (DPO) to be created during 2018 at the level of Operational Risk Management. A smooth transition is planned for this.

The Compliance Officer of Belfius Bank ensures that a coherent and effective Compliance policy is applied within all the subsidiary companies of Belfius Group. Belfius Bank traces out the group policy and defines the Compliance methodology to be used. Each regulated subsidiary company disposes of a Compliance Officer who is responsible for the application of the adapted policy within his/her company. These Compliance officers report functionally to the Compliance Officer of Belfius Bank.

3. Charter – Expanded powers

In order to guarantee the independence of the Compliance function, its mandate, remit, organisation and tasks are formally established in a specific Charter, approved by the Bank's Board of Directors. The Charter also grants Compliance unlimited access to all the information and all the staff members within the Bank, in relation to any analyses or controls it deems necessary.

The Compliance Charter is periodically evaluated and is expanded, where necessary, in function of the evolution of the regulations, the detection of new potential risks, and/or the adjustments of the risk appetite of Belfius Group. In recent years the scope of the Compliance function has thus been expanded to, among other things, the advice and the observance in relation to advertising, the law on market practices and the legislation concerning consumer loans and mortgages. The Charter is applicable to all regulated subsidiary companies of Belfius Group.

GENERAL INFORMATION

SHARE CAPITAL AND ALLOCATION OF PROFIT OF BELFIUS BANK

1. Share capital and evolution of the capital during the financial year 2017

The share capital of Belfius Bank is three billion, four hundred and fifty-eight million, sixty-six thousand, two hundred and twenty-seven EUR s and forty-one cents (EUR 3,458,066,227.41) and is represented by 359,412,616 registered shares. The shareholding of Belfius Bank is as follows: 359,407,616 registered shares are held by the public limited company of public interest Federal Holding and Investment Company (FHIC), in its own name, but on behalf of the Belgian State, and 5,000 registered shares are held by the public limited company Certi-Fed. Certi-Fed is a fully-owned subsidiary of FHIC.

In accordance with the provisions of the law, the extraordinary general meeting of shareholders authorised the Board of Directors on 2 December 2013 to increase the capital of the Bank in one or more stages to a maximum of three billion, four hundred and fifty-eight million, sixty-six thousand, two hundred and twenty-seven EUR s and forty-one cents (EUR 3,458,066,227.41). That authorisation is valid for five years from publication of the resolution of the ordinary general meeting of shareholders in the Appendices to the Belgian Official Gazette, namely 10 January 2014.

No change was made to the share capital of the Bank in 2017.

2. Allocation of profit

The company results for the 2017 financial year recorded a profit of EUR 751,145,246.98. From this profit, an amount of EUR 388,145,246.98 will be allocated to reserves.

3. Annual dividend

The Board of Directors will propose to the ordinary general meeting of shareholders that it distributes a dividend of EUR 363,000,000 to the shareholders.

Belfius has paid an interim dividend of EUR 75,000,000 over the 2017 result in September 2017.

Main amendments to the scope of Belfius Bank on a statutory basis

In 2017, Belfius continued to develop on various fronts to bolster its positioning and strategy:

- → In transferrable securities, Belfius and Kepler Cheuvreux, the leading independent European stockbroker, entered into a strategic partnership to create a new share offer with strong local roots in Belgium. Together, Belfius and Kepler Cheuvreux will propose a first rate offer in Equity Capital Markets (ECM transactions), equity research, institutional sales and brokerage. This strategic alliance of Belfius with Kepler Cheuvreux materialized with the acquisition of a 5.2% stake in Kepler Cheuvreux.
- → In payments, Belfius acquired a stake in Payconiq. Belfius, ING and KBC/CBC plan to provide mobile payments fully through this company, as a practical and secure alternative to payments in cash. Upon the accession of Belfius, the three banks will continue to develop the Payconiq payment solution jointly and add loyalty programmes thereto.
- → In digital technology, Belfius created The Studio, a digital laboratory subsidiary, which will develop technological solutions and sell them to third parties. In concrete terms, two initiatives have been launched, one in mobile banking (Spenc'R), the other in the robotization of administrative tasks (Brightknight). Spenc'R boasts a wide array ranging from account monitoring to the possibility of carrying out operations, via budget management or account aggregation. Brightknight develops robots its customers can use to automate administrative tasks for a more agile, more precise and leaner organization.
- → In the development of its Smart Belgium strategy, Belfius created Smart Belgium Services, in partnership with Strategy&, an entity of PwC. This initiative is in keeping with Smart Cities initiatives already in progress at Belfius since 2014. Smart Belgium Services has two missions. The first consists of helping cities and municipalities chart a Smart strategy and to draw up a concrete action plan to implement that strategy. The second missions is to set up a real "Smart Belgium" ecosystem, bringing together all the stakeholders involved in the development of Smart Cities in Belgium: the public authorities, companies, the academic world and the civil society.
- → In insurance, Belgium acquired all the shares of Qualitass broker. This new subsidiary will enable Belfius to build a privileged relationship with its customers and to provide a complete insurance offer. This means that in the absence of solutions in the "Belfius" insurance product range, agents will be able to call on Qualitass to supplement it.

Belfius Bank has also strengthened the equity capital of its subsidiary Belfius Investment Partners. Created in 2016, this subsidiary is responsible for the administration and management of funds. It is situated between Belfius Bank (distribution) and asset managers, such as Candriam. It completes the Bank's investment offer and generates new revenues by cooperating with several asset managers.

Various operations were carried out regarding real estate or financial investments, including:

- the disposal of its stake in the Maison de la Radio Flagey, a company that manages the Flagey Centre;
- the liquidation of Ondernemerstalent, a company geared to helping students with their entrepreneurial projects, which had become devoid of purpose.

MATERIAL LITIGATION

Belfius (Belfius Bank and its consolidated subsidiaries) is involved as a party in a number of litigations in Belgium, arising in the ordinary course of its business activities, including those where it is acting as an insurer, capital and credit provider, employer, investor and tax payer.

In accordance with IFRS, Belfius makes provisions for such litigations when, in the opinion of its management, after analysis by its company lawyers and external legal advisors as the case may be, it is probable that Belfius will have to make a payment and when the amount of such payment can be reasonably determined.

With respect to certain other litigations against Belfius of which management is aware (and for which, according to the principles outlined above, no provision has been made), management is of the opinion, after due consideration of appropriate advice, that, while it is often not feasible to predict or determine the ultimate outcome of all pending litigations, such litigations are without legal merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss.

The most important cases are listed below, regardless of whether a provision has been made or not. Their description does not deal with elements or evolutions that do not have an impact on the position of Belfius. If the cases listed below were to be successful for the opposite parties, they could eventually result in monetary consequences for Belfius. Such impact remains unquantifiable at this stage.

1. Housing Fund of the Brussels Capital Region

On 9 October 2012, the Housing Fund of the Brussels Capital Region (Woningfonds van het Brussels Hoofdstedelijk Gewest/Fonds du Logement de la Région de Bruxelles-Capitale) summoned Belfius Bank before the Brussels Commercial Court. The Housing Fund subscribed for a total amount of EUR 32,000,000 to 4 treasury notes issued by Municipal Holding (Gemeentelijke Holding/Holding Communal), placed by Belfius acting as dealer under the Municipal Holding commercial paper program, between July and September 2011 (Commercial Paper program). Due to severe financial difficulties encountered by the Municipal Holding, the Housing Fund granted a voluntary waiver to the Municipal Holding on 24 November 2011 and received repayment for EUR 16,000,000. The Municipal Holding entered into liquidation in December 2011. Due to the intervention of Belfius as dealer of the treasury notes, the Housing Fund demands the payment by Belfius Bank of the non-repaid capital. As the loss incurred on this investment is the result of a voluntary waiver of the claim by the Housing Fund, which matches half of the investment, Belfius Bank rejects the demand from the Housing Fund.

On 27 March 2014, the Brussels Commercial Court accepted the claim application by the Housing Fund, but declared it unfounded. The Housing Fund lodged an appeal against this judgement on 3 June 2014.

There was no significant evolution in this claim during 2016 and 2017. The date of the hearings is not yet known.

No provision has been made for this claim.

2. BBTK and ACLVB

On 8 May 2014, two trade unions within Belfius Bank, BBTK and ACLVB, summoned Belfius Bank before the Brussels Labour Court. They demanded the annulment of the collective bargaining agreements (CBA) that Belfius Bank signed in 2013 with two other trade unions of the Bank.

On 8 June 2017, the Labour Court decided in an intermediary judgement that:

- CBA may validly be signed by only 1 trade union, even though they modify older CBA concluded with other (more) trade unions;
- Belfius did not violate the unions' rights to collective bargaining; and
- the final registered CBA "Belfius 2016" (as opposed to the initial version of the CBA Belfius tried to register just before) did however not respect some formalities imposed by the CBA Act and for that reason, they are declared relatively null by the Labour Court.

On 4 July 2017, Belfius has registered the initial version of the CBA with the competent Federal Authority (FOD WASO/SPF ETCS) which contain the abovementioned legal formalities as decided by the Labour Court.

On 8 December 2017 the Labour Court decided in a final judgment that the unions' claims are not admissible. After this judgment, both unions BBTK and ACLVB have confirmed to Belfius that they won't appeal this Labour Court's final judgment. Given the relative nullity of the first registered CBA as stated in the judgment of 8 June 2017, it cannot be fully ruled out that current and/or former employees of Belfius Bank could still individually claim the application of the previous CBA, in new court proceedings. Belfius is of the opinion that the chances of success and consequences for Belfius of such proceedings would not be material, given a.o. the registration of the initial version of the CBA on 4 July 2017.

3. Arco - Cooperative shareholders

Various parties, including Belfius Bank, have been summoned by Arco - Cooperative shareholders in two separate procedures, i.e. one procedure before the Dutch speaking Commercial Court of Brussels and another procedure before the Court of First Instance of Antwerp, Section Turnhout:

- → On 30 September 2014, 737 shareholders from 3 companies of the Arco Group (Arcopar, Arcoplus and Arcofin) initiated proceedings against the Arco entities and Belfius Bank before the Dutch speaking Commercial Court of Brussels (the "Brussels Proceedings"). On 19 December 2014, 1,027 additional shareholders of the Arco entities joined in the Brussels Proceedings. On 15 January 2016, 405 additional shareholders of the Arco entities joined the Brussels Proceedings, resulting in a total of 2,169 plaintiffs. The plaintiffs have requested that the Brussels Court rule, among other things, that
  - the agreements by virtue of which they became shareholders of the relevant Arco entities are null and void,
  - the defendants should, jointly and severally, reimburse the plaintiffs their financial contribution in these entities plus interest and
  - the defendants are liable for certain additional damages to the plaintiffs. The financial contribution of the 2,169 plaintiffs for which reimbursement is sought amounted to approximately EUR 6.5 million (principal amount) as at the date of this Report. The plaintiffs' claims in the Brussels Proceedings are based on allegations of fraud and/or error on the part of the Arco entities and Belfius Bank. In the alternative, the plaintiffs have argued that Belfius Bank breached its general duty of care as a normal and prudent banker. In relation to Belfius Bank, the plaintiffs have referred to certain letters and brochures allegedly containing misleading information issued by the predecessors of Belfius Bank. The Belgian State and the Chairman of the Management Board of the Arco entities are also defendants in the proceedings before the Commercial Court of Brussels. Belfius Bank needs to submit its first legal briefs on 16 August 2018 and the case will normally be pleaded during several pleading sessions in June 2021.
- → Separately from the abovementioned proceedings before the Commercial Court of Brussels, on 24 October 2016, three shareholders in Arcopar initiated court proceedings (the "Turnhout Proceedings") against Belfius Bank before the Court of First Instance of Antwerp, section Turnhout. The plaintiffs in the Turnhout Proceedings request that Belfius Bank is to be held liable to pay an "undetermined provisional amount of 2,100 EUR " per plaintiff plus interest and costs, because they claim that Belfius Bank misled them in subscribing Arcopar-shares. As at the date of this Report, the aggregate amount of the claims of the plaintiffs in the Turnhout Proceedings amounted to approximately EUR 6,300 EUR (principal amount). The plaintiffs base their claims upon promotional material that was distributed by the predecessors of Belfius Bank as well as the Arco entities and the former Belgian Christian collective of workers' associations (ACW). On 27 February 2017, Belfius Bank summoned Arcopar to intervene in the Turnhout Proceedings and to indemnify Belfius Bank for any amount for which it would be held liable towards the plaintiffs. In subsidiary order, the plaintiffs have also filed a claim against Arcopar and Belfius Bank requesting that their subscription of Arcopar shares is to be declared null and void. Belfius Bank needs to submit its final legal briefs on 22 June 2018. The case will normally be pleaded on 22 October 2018.

Furthermore, on 7 February 2018, 2 cooperative shareholders summoned the Belgian State before the court of first instance of Brussels because they state that the Belgian State has made a fault by promising and introducing a guarantee scheme for shareholders of financial cooperative companies (like the Arco cooperative shareholders) which has been considered illicit state aid by the European Commission. These 2 plaintiffs also summoned Belfius Bank on 7 February 2018 to intervene in this procedure, and claim compensation from Belfius Bank because they consider that Belfius Bank erred in the sale of the Arco shares. As of today, groups of Arco-shareholders organized themselves via social media to mobilize other Arco shareholders to become claimant in this procedure. There is not yet a pleading calendar in this case.

No provision has been made for these claims because Belfius Bank is of the opinion that it has sufficient valid arguments to result in these claims being declared inadmissible and/or without merit.

4. Ethias

Belfius is party to a dispute with Ethias, the insurer of some of Belfius' pension plans. Ethias is currently managing one of Belfius' pension plans in a segregated fund, whereby 100% of the financial gains on the underlying assets are allocated to the plan according to a profit sharing agreement validly concluded between the parties. Ethias has claimed a significant increase in management costs which is not provided for in the existing agreements. Following Belfius' refusal to grant this increase, Ethias terminated the profit sharing agreement and threatened to transfer unilaterally the pension plan assets to Ethias' main fund. If that were to occur, the financial gains of the underlying assets would no longer be paid in full to the pension plan, and Belfius would be compelled to evaluate these assets based on Ethias' guaranteed rates (rather than at market value), which would have a negative impact of EUR 83 million on Belfius' other comprehensive income (OCI). In order to prevent this, Belfius summoned Ethias before the Court in Brussels in summary proceedings on 23 December 2016. Separately from the summary proceeding, Belfius also introduced a proceeding on the merit in the commercial court of Brussels on 12 January 2017.

On 18 January 2017, the Court in summary proceedings prohibited the transfer of the assets, subject to a penalty up to EUR 3 million, and ordered Ethias to continue allocating 100% of the financial gains to the segregated fund. Ethias appealed against the judgment before the Brussels Court of Appeal. On 20 June 2017, the Court again ruled against Ethias and maintained the prohibition on the transfer of the plan's assets. However, because summary proceedings do not allow an adjudication on the merit, the Court also ruled that Ethias was no longer required to allocate 100% of the financial gains to the pension plan, awaiting the judgment on the merit.

A first judgment on the merit is currently expected in the course of H1 2019. Based on clear and valid contractual stipulations, Belfius is of the opinion that Ethias may not

- unilaterally increase the management costs
- unilaterally de-segregate the pension plan; and
- terminate the profit sharing agreement.

5. Funding Loss

Belfius Bank is facing some legal actions regarding the issue of indemnities charged for funding losses incurred by the Bank. The latter are charged to professional clients in the case of early repayment of professional credits. These indemnities are calculated in line with the current legal dispositions and the contractual framework of such loans to reflect the financial losses that are actually incurred by the Bank in the case of early repayment of a professional credit. Belfius booked a provision to cover the potential adverse outcome of the active litigation proceedings for which it assesses to have a less strong case.

6. Investigations into "Panama Papers"

These paragraphs are mentioned for completeness only, although the matters below do not comprise a litigation. On 5 December 2017, a police search under the lead of an examining magistrate of Brussels (onderzoeksrechter/juge d'instruction) took place at Belfius Bank's head office in the framework of the Belgian "Panama Papers" Parliamentary Commission. The Bank was investigated as a witness and has not been accused of any wrongdoing. The scope of the investigation is to establish whether there are any violations of anti-money laundering obligations and to investigate the link between Belfius Bank (or its predecessors), and, amongst others, Experta and Dexia Banque International Luxembourg (i.e. former entities of the Dexia group).

To date, Belfius Bank did not receive any further information since the above mentioned police search.

DECLARATION OF TRANSPARENCY

Transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

Pursuant to Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (referred to below as the "Transparency Directive") and to Directive 2007/14/EC of 8 March 2007 laying down detailed rules for the implementation of certain provisions of the Transparency Directive, Belfius Bank SA has chosen Luxembourg as its Home Member State.

The Transparency Directive has been transposed into Luxembourg law by:

- the Luxembourg law of 11 January 2008 relative to transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market;
- the Grand Ducal Regulation of 3 July 2008 officially designating the mechanisms for the central storage of regulated information within the meaning of the law of 11 January 2008; and
- the CSSF Circular No. 08/337 from the Financial Sector Supervisory Commission.

The aforementioned regulation lays down certain requirements regarding information and the publication of data.

Pursuant to article 3.(2) of the Luxembourg law relative to transparency requirements incumbent upon the issuers of securities, the Management Board at Belfius Bank then stated that:

- Belfius Bank has chosen Luxembourg as its Home Member State;
- to the best of its knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and the profit or loss of the issuer and of all the undertakings included in the consolidation;
- to the best of its knowledge, the management report includes a fair review of the development and performance of the business and the position of the issuer and all the undertakings included in the consolidation, together with a description of the principal risks and uncertainties that they face.

Country-by-country reporting

Based on article 6bis of the Royal Decree dated 23 September 1992, regarding the consolidated financial statements of financial institutions, Belfius discloses the following information on a consolidated basis, split by country in which Belfius has an establishment (branch and/or subsidiary).

Countries	Activity	31/12/16				
		Turnover[1] (in thousands of EUR)	Average FTE[2]	Net income before tax (in thousands of EUR)	Tax expense (in thousands of EUR)	Public subsidies received (in thousands of EUR)
BELGIUM	BANK AND INSURANCE	2,402,943	6,346	986,863	(236,760)	0
MEMBER STATE		(143,672)	13	(207,339)	(7,512)	0
Luxembourg	Other financial services and insurance activities	(5,836)	4	(13,359)	(7,673)	0
Ireland	Other financial services and insurance activities	(137,836)	9	(193,980)	161	0
TOTAL		2,259,271	6,359	779,524	(244,272)	0

Countries	Activity	31/12/17				
		Turnover[1] (in thousands of EUR)	Average FTE[2]	Net income before tax (in thousands of EUR)	Tax expense (in thousands of EUR)	Public subsidies received (in thousands of EUR)
BELGIUM	BANK AND INSURANCE	2,286,053	6,264	864,916	(354,698)	0
MEMBER STATE		68,629	14	97,612	(2,309)	0
Luxembourg	Other financial services and insurance activities	11,681	6	10,411	(2,291)	0
Ireland	Other financial services and insurance activities	56,948	8	87,202	(17)	0
TOTAL		2,354,682	6,278	962,528	(357,007)	0

(1) Based on "Income" from the Consolidated statement of income in the Annual report.
(2) Disclosed in the Annual report in the note 7.10 "Staff expense".

CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

CONSOLIDATED BALANCE SHEET

Assets (In thousands of EUR)		Notes	31/12/16	31/12/17
I.	Cash and balances with central banks	5.2.	5,111,050	10,236,669
II.	Loans and advances due from banks	5.3.	22,002,553	14,121,427
III.	Loans and advances to customers	5.4.	89,702,399	90,056,926
IV.	Investments held to maturity	5.5.	5,393,247	5,441,999
V.	Financial assets available for sale	5.6.	18,819,789	17,982,597
VI.	Financial assets measured at fair value through profit or loss	5.7	2,985,979	3,240,298
VII.	Derivatives	5.9.	25,307,222	20,303,034
VIII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	5.9.	4,533,779	3,720,764
IX.	Investments in equity method companies	5.10.	97,044	31,481
X.	Tangible fixed assets	5.11.	1,091,687	1,059,212
XI.	Intangible assets	5.12.	122,541	162,074
XII.	Goodwill	5.13.	103,966	103,966
XIII.	Current tax assets		10,662	20,343
XIV.	Deferred tax assets	5.14.	405,847	235,399
XV.	Other assets	5.15.	1,004,389	1,224,230
XVI.	Non current assets (disposal group) held for sale and discontinued operations	5.16.	28,772	18,782
TOTAL ASSETS			176,720,926	167,959,201

Liabilities (In thousands of EUR)		Notes	31/12/16	31/12/17
I.	Due to banks	6.1.	12,581,830	11,109,893
II.	Customer borrowings and deposits	6.2.	74,171,040	76,274,483
III.	Debt securities	6.3.	23,981,430	22,027,063
IV.	Financial liabilities measured at fair value through profit or loss	6.4.	7,524,251	8,892,710
V.	Technical provisions of insurance companies	6.5.	15,990,324	15,149,692
VI.	Derivatives	5.9.	29,572,521	21,264,032
VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	5.9.	207,474	105,017
VIII.	Provisions and contingent liabilities	6.6.	412,243	425,300
IX.	Subordinated debts	6.7.	1,398,653	1,198,968
X.	Current tax liabilities		60,609	51,351
XI.	Deferred tax liabilities	5.13.	272,877	176,964
XII.	Other liabilities	6.8.	1,535,952	1,762,321
XIII.	Liabilities included in disposal group and discontinued operations		0	0
TOTAL LIABILITIES			167,709,206	158,437,793

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

Equity

(In thousands of EUR)	Notes	31/12/16	31/12/17
XIV. Subscribed capital		3,458,066	3,458,066
XV. Additional paid-in capital		209,232	209,232
XVI. Treasury shares		0	0
XVII. Reserves and retained earnings		4,491,306	4,811,537
XVIII. Net income for the period		535,229	605,502
CORE SHAREHOLDERS' EQUITY		**8,693,833**	**9,084,337**
XIX. Remeasurement available-for-sale reserve on securities		729,864	812,081
XX. Frozen fair value of financial assets reclassified to loans and advances		(498,653)	(474,031)
XXI. Remeasurement defined benefit plan		86,990	112,998
XXII. Discretionary participation features of insurance contracts	6.5.	32,839	0
XXIII. Other reserves		(33,326)	(14,147)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		**317,714**	**436,901**
TOTAL SHAREHOLDERS' EQUITY		**9,011,547**	**9,521,237**
XXIV. Non-controlling interests		173	171
TOTAL EQUITY		**9,011,720**	**9,521,408**
TOTAL LIABILITIES AND EQUITY		**176,720,926**	**167,959,201**

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(In thousands of EUR)		Notes	31/12/16	31/12/17
I.	Interest income	7.1.	3,983,201	3,561,100
II.	Interest expense	7.1.	(2,039,969)	(1,609,627)
III.	Dividend income	7.2.	88,233	73,083
IV.	Net income from equity method companies	7.3.	5,018	4,195
V.	Net income from financial instruments at fair value through profit or loss	7.4.	16,870	46,143
VI.	Net income on investments and liabilities	7.5.	115,710	173,958
VII.	Fee and commission income	7.6.	625,109	721,472
VIII.	Fee and commission expense	7.6.	(117,639)	(168,809)
IX.	Technical result from insurance activities	7.7.	(254,779)	(208,814)
	A. Gross earned premiums(1)		1,386,144	1,451,024
	B. Other technical income and charges(1)		(1,640,923)	(1,659,838)
X.	Other income	7.8.	218,785	141,895
XI.	Other expense	7.9.	(381,267)	(379,913)
INCOME			2,259,271	2,354,682
XII.	Staff expense	7.10.	(580,201)	(562,324)
XIII.	General and administrative expense	7.11.	(447,364)	(479,313)
XIV.	Network costs		(265,994)	(243,300)
XV.	Depreciation and amortisation of fixed assets	7.12.	(72,722)	(83,672)
EXPENSES			(1,366,281)	(1,368,608)
GROSS OPERATING INCOME			892,990	986,074
XVI.	Impairments on loans and advances and provisions for credit commitments	7.13.	(115,969)	(33,013)
XVII.	Impairments on tangible and intangible assets	7.14.	2,502	9,467
XVIII.	Impairments on goodwill	7.15.	0	0
NET INCOME BEFORE TAX			779,524	962,528
XIX.	Current tax (expense) income	7.16.	(56,522)	(191,258)
XX.	Deferred tax (expense) income	7.16.	(187,750)	(165,749)
NET INCOME AFTER TAX			535,251	605,522
XXI.	Discontinued operations (net of tax)		0	0
NET INCOME			535,251	605,522
Attributable to non-controlling interests			23	20
Attributable to equity holders of the parent			535,229	605,502

(1) The presentation of the technical result from insurance activities has been detailed further in 2017 to facilitate the reading of the statement of income.

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

Analysis of the consolidated statement of income

We refer to the chapter "Financial results" of the management report for a detailed description.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands of EUR)	31/12/16 Before-tax amount	31/12/16 Tax (expense) income	31/12/16 Net-of-tax amount	31/12/17 Before-tax amount	31/12/17 Tax (expense) income	31/12/17 Net-of-tax amount
RESULT RECOGNISED IN THE STATEMENT OF INCOME	779,524	(244,272)	535,251	962,528	(357,007)	605,522
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS						
Unrealised result of property revaluation	(2)		(2)	(2)		(2)
Remeasurement defined benefit plan(1)	(49,418)	16,797	(32,621)	18,784	7,223	26,007
TOTAL OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS	(49,421)	16,797	(32,623)	18,782	7,223	26,005
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS						
Unrealised gains (losses) on available-for-sale financial investments and "frozen" fair value amortisation of financial assets reclassified to Loans and Advances(2)	3,899	14,160	18,059	36,604	70,234	106,839
Gains (losses) on cash flow hedges	(4,858)	1,080	(3,778)	21,325	(2,143)	19,182
Other comprehensive income from assets held for sale(3)	(26,453)	8,369	(18,084)	0	0	0
Discretionary participation features of insurance contracts(4)	8,002	(3,950)	4,051	(48,739)	15,900	(32,839)
TOTAL OF OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS(5)	(19,411)	19,659	249	9,190	83,991	93,181
OTHER COMPREHENSIVE INCOME	(68,831)	36,457	(32,375)	27,972	91,214	119,186
TOTAL COMPREHENSIVE INCOME	710,692	(207,816)	502,877	990,500	(265,792)	724,708
Attributable to equity holders of the parent			502,854			724,688
Attributable to non-controlling interests			23			20

(1) An increase is noted following the remeasurement of the defined benefit plans due to a slightly higher discount rate compared to year-end 2016 following the increased interest rates and the favorable return on the pension plan assets.
(2) The increase is mainly related to a decrease in credit spreads and a decrease of the negative adjustment of shadow accounting at Belfius Insurance following a slight increase of the interest rates compared to 2016.
(3) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in the second half of 2016.
(4) As the entire amount of future profit sharing has been recorded through the statement of income in 2017,, there is no reclassification in own funds for 2017.
(5) The significant increase in Other Comprehensive Income is among others driven by the reassessment of the deferred taxes (EUR 67 million) resulting from the Belgian Tax Reform enacted before year-end 2017, mainly impacting the Available For Sale reserve and the remeasurement of the defined benefit plan. Note that the Belgian Tax Reform had a negative impact on the Net Result 2017 of EUR 106 million.

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Core shareholders' equity (In thousands of EUR)	Subscribed capital	Additional paid-in capital	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 31 DECEMBER 2015	3,458,066	209,232	4,135,228	506,076	8,308,602
Movements of the period					
Transfers to reserves	0	0	431,076	(431,076)	0
Dividends[1]	0	0	0	(75,000)	(75,000)
Interim dividends[2]	0	0	(75,000)	0	(75,000)
Other movements	0	0	2	0	2
Net income for the period	0	0	0	535,229	535,229
AS AT 31 DECEMBER 2016	3,458,066	209,232	4,491,306	535,229	8,693,833

(1) Belfius has paid a dividend of EUR 75 million over the 2015 result in May 2016.
(2) Belfius has paid an interim dividend of EUR 75 million over the 2016 result in September 2016.

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

Gains and losses not recognised in the statement of income

(In thousands of EUR)	Unrealised result that may be reclassified subsequently to profit and loss					Unrealised result that will not be reclassified to profit and loss		Total gains and losses not recognised in profit and loss – Group share
	Remeasurement available-for-sale reserve on securities	Frozen fair value of financial assets reclassified to loans and advances	Derivatives – Cash Flow Hedge (CFH)	Other comprehensive income from assets held for sale	Discretionary participation features of insurance contracts[1]	Unrealised result of property revaluation	Remeasurement defined benefit plan	
AS AT 31 DECEMBER 2015	**757,329**	**(544,177)**	**(29,765)**	**18,084**	**28,788**	**219**	**119,611**	**350,089**
Movements of the period								
Net change in fair value through equity – Available-for-sale investments[2]	188,269	0	0	0	7,711	0	0	195,980
Transfers to income of available-for-sale reserve amounts due to impairments	4,181	9,407	0	0	0	0	0	13,588
Transfers to income of available-for-sale reserve amounts due to disposals[3]	(106,290)	17,285	0	0	0	0	0	(89,005)
Amortisation of net fair value on reclassified portfolio in application of IAS 39 amended	0	19,212	0	0	0	0	0	19,212
Net change in fair value through equity – Cash flow hedges	0	0	(3,683)	0	0	0	0	(3,683)
Net change in cash flow hedge reserve due to transfers to income	0	0	(95)	0	0	0	0	(95)
Variation of scope of consolidation[4]	0	0	0	(18,084)	(3,660)	0	0	(21,744)
Transfers to technical provisions of insurance companies[5][6]	(113,625)	(380)	0	0	0	0	0	(114,005)
Provisions booked from/to equity[7]	0	0	0	0	0	0	(32,621)	(32,621)
Transfers	0	0	0	0	0	(2)	0	(2)
AS AT 31 DECEMBER 2016	**729,864**	**(498,653)**	**(33,543)**	**0**	**32,839**	**217**	**86,990**	**317,714**

(1) Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return on insurance contracts (life).
(2) Due to the slight decrease of the interest rate compared to year-end 2015 and the improved credit spreads, the Available-for-sale-reserve increased with EUR 188 million.
(3) Decrease following the sales of bonds and securities can be noted. This is mainly related to continued de-risking at the level of Belfius bank (mainly Spanish covered bonds in the legacy bond portfolio) as well as sales within the Belfius Insurance portfolio (mainly Belgian Government bonds and equity and fund positions) following rebalancing of the portfolio and surrenders.
(4) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in the second half of 2016.
(5) These transfers concern amounts after tax following the application of Shadow Accounting, whereby part of the unrealised profits from financial assets available for sale is used as cover value for the payments of the obligations for insurance contracts and is therefore transferred to the technical reserves for insurance contracts.The shadow loss adjustment has increased due to the lower interest rate compared to year-end 2015 combined with some methodological refinements.
(6) The technical provisions of associates are not included in the consolidated balance sheet.
(7) A decrease can be noted in other comprehensive income with respect to the remeasurement of the defined benefit plan following the lower discount rates compared to year-end 2015 resulting from the decrease in interest rates.

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

Non-controlling interests

(In thousands of EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 31 DECEMBER 2015	1,026	0	1,026
Movements of the period			
Dividends	(20)		(20)
Net income for the period	23		23
Variation of scope of consolidation	(856)		(856)
Other movements			0
AS AT 31 DECEMBER 2016	173	0	173

(In thousands of EUR)	
Core shareholders' equity	8,693,833
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	317,714
Non-controlling interests	173
TOTAL EQUITY AS AT 31 DECEMBER 2016	9,011,720

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

Core shareholders' equity (In thousands of EUR)	Subscribed capital	Additional paid-in capital	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 31 DECEMBER 2016	3,458,066	209,232	4,491,306	535,229	8,693,833
Movements of the period					
Transfers to reserves	0	0	395,229	(395,229)	0
Dividends(1)	0	0	0	(140,000)	(140,000)
Interim dividends(2)	0	0	(75,000)	0	(75,000)
Other movements	0	0	2	0	2
Net income for the period	0	0	0	605,502	605,502
AS AT 31 DECEMBER 2017	3,458,066	209,232	4,811,537	605,502	9,084,337

(1) Belfius has paid a dividend of EUR 140 million over the 2016 result (next to the interim dividend paid in September 2016) in April 2017.
(2) Belfius has paid an interim dividend of EUR 75 million over the 2017 result in September 2017.

In compliance with IAS 1.134 -136, Belfius discloses its objectives, policies and processes for managing capital in the capital management chapter of the management report.

Gains and losses not recognised in the statement of income	Unrealised result that may be reclassified subsequently to profit and loss					Unrealised result that will not be reclassified to profit and loss		Total gains and losses not recognised in profit and loss - Group share
(In thousands of EUR)	Remeasurement available-for-sale reserve on securities	Frozen fair value of financial assets reclassified to loans and advances	Derivatives - Cash Flow Hedge (CFH)	Other comprehensive income from assets held for sale	Discretionary participation features of insurance contracts(1)	Unrealised result of property revaluation	Remeasurement defined benefit plan	
AS AT 31 DECEMBER 2016	729,864	(498,653)	(33,543)	0	32,839	217	86,990	317,714
Movements of the period								
Net change in fair value through equity - Available-for-sale investments(2)	76,534	0	0	0	(32,839)	0	0	43,695
Transfers to income of available-for-sale reserve amounts due to impairments	94	0	0	0	0	0	0	94
Transfers to income of available-for-sale reserve amounts due to disposals(3)	(121,582)	7,128	0	0	0	0	0	(114,454)
Amortisation of net fair value on reclassified portfolio in application of IAS 39 amended	0	17,494	0	0	0	0	0	17,494
Net change in fair value through equity - Cash flow hedges	0	0	19,272	0	0	0	0	19,272
Net change in cash flow hedge reserve due to transfers to income	0	0	(90)	0	0	0	0	(90)
Variation of scope of consolidation	0	0	0	0	0	0	0	0
Transfers to technical provisions of insurance companies(4)(5)	127,171	0	0	0	0	0	0	127,171
Provisions booked from/to equity(6)	0	0	0	0	0	0	26,007	26,007
Transfers	0	0	0	0	0	(2)	0	(2)
AS AT 31 DECEMBER 2017	812,081	(474,031)	(14,361)	0	0	215	112,998	436,901

(1) Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return on insurance contracts (life). The amount at year-end 2017 recorded through equity is equal to zero, as the entire amount of future profit sharing has been recorded through the statement of income.
(2) Due to the decrease in credit spreads and market evolutions on shares partially offset by a slight increase of the interest rates compared to 2016, the Available-for-sale reserve increased with EUR 77 million.
(3) A decrease in Available-For-Sale reserve following sales of bonds and equities mainly at Belfius Insurance.
(4) These transfers concern amounts after tax following the application of Shadow Accounting, whereby part of the unrealised profits from financial assets available for sale is used as cover value for the payments of the obligations for insurance contracts and is therefore transferred to the technical reserves for insurance contracts.The shadow loss adjustment has decreased due to the slightly higher interest rate compared to year-end 2016.
(5) The technical provisions of associates are not included in the consolidated balance sheet.
(6) An increase can be noted following the remeasurement of the defined benefit plans due to a higher discount rate compared to year-end 2016 following slightly higher interest rates and the favorable return on the pension plan assets.

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

Non-controlling interests (In thousands of EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 31 DECEMBER 2016	173	0	173
Movements of the period			
Dividends	(23)		(23)
Net income for the period	20		20
Variation of scope of consolidation			0
Other movements			
AS AT 31 DECEMBER 2017	171	0	171

(In thousands of EUR)	
Core shareholders' equity	9,084,337
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	436,901
Non-controlling interests	171
TOTAL EQUITY AS AT 31 DECEMBER 2017	9,521,408

Equity	31/12/16	31/12/17
BY CATEGORY OF SHARE		
Number of shares issued and fully paid	359,412,616	359,412,616
Number of shares issued and not fully paid	0	0
Earnings per share (EUR)	1,49	1,68
NOMINAL VALUE PER SHARE	no nominal value	no nominal value
Outstanding as at 1 January	359,412,616	359,412,616
Number of shares issued	0	0
Number of shares cancelled	0	0
Outstanding as at 31 December	359,412,616	359,412,616
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital	0	0
Number of treasury shares	0	0
Number of shares reserved for issue under stock options and contracts for the sale of share	0	0

For the explanation of the evolution of regulatory own funds and the solvency of the company, we refer to the chapter "Capital Management" in the management report.

Shared-based payments

There are no option plans with Belfius shares as underlying asset.

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(In thousands of EUR)	31/12/16	31/12/17
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after tax	535,251	605,522
Adjustment for:		
Depreciation, amortisation and other impairment	84,991	91,278
Impairment on bonds, equities, loans and other assets	104,689	(93,620)
Net (gains) or losses on investments	(52,653)	(106,527)
Increase / (decrease) of provisions (mainly insurance provision)	(859,840)	(495,916)
Unrealised (gains) or losses	27,727	193,629
Income from equity method companies	(5,018)	(4,195)
Dividends from equity method companies	3,822	7,626
Deferred taxes	187,750	165,749
Translation adjustments	(13,091)	(53,873)
Changes in operating assets and liabilities(1)	2,722,209	1,190,845
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,735,837	1,500,517
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(167,630)	(147,778)
Sales of fixed assets	153,318	79,208
Acquisitions of unconsolidated equity shares	(391,896)	(209,873)
Sale of unconsolidated equity shares(2)	355,226	354,124
Acquisition of subsidiaries and of business units	(3)	(5,235)
Sale of subsidiaries and of business units(3)	59,810	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	8,826	70,447
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of subordinated debts(4)	500,000	49,626
Repayments of subordinated debts	(4,321)	(215,472)
Dividends paid(5)	(75,020)	(140,023)
Interim dividends paid(6)	(75,000)	(75,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	345,659	(380,870)
NET CASH PROVIDED	3,090,321	1,190,094
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	7,328,610	10,418,931
Cash flow from operating activities	2,735,837	1,500,517
Cash flow from investing activities	8,826	70,447
Cash flow from financing activities	345,659	(380,870)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10,418,931	11,609,025
ADDITIONAL INFORMATION		
Income tax paid (included in line net cash provided (used) by operating activities)	(40,091)	(176,012)
Dividends received (included in line net cash provided (used) by operating activities)	91,272	80,709
Interest received (included in line net cash provided (used) by operating activities)	4,610,090	3,663,805
Interest paid (included in line net cash provided (used) by operating activities)	(2,691,522)	(1,607,916)

(1) Belfius has issued inaugural Non-Preferred Senior bonds increasing its loss absorption capacity, and which contributes to the Minimum Requirement for own funds and Eligible Liabilities (MREL). The first tranche of EUR 750 million was issued on 5 September 2017, with a maturity of 5 years and an annual coupon of 0.75%. The second tranche of EUR 500 million was issued on 19 October 2017, with a maturity of 7 years and an annual coupon of 1.00%. Furthermore, Belfius has liquidated its investments in the following funds: "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds" in the course of the second half of 2017. The decision was taken after a re-assessment of the investment framework, and it was determined that the volatility of these funds did not comply anymore with Belfius Insurance's new investment framework.
(2) Belfius has sold its investments in "Aviabel", "Pole Star" and "North Light" during 2017.
(3) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in the second half of 2016.
(4) Belfius has issued in May 2016 a subordinated bond for EUR 500 million qualifying as additional regulatory Tier 2 capital. It concerns a ten year bullet fixed rate bond at 3.125% with no call nor coupon deferral possibility. We refer to note 6.7.2. for the cash and non-cash movements on the liabilities from financing activities
(5) Belfius has paid a dividend of EUR 140 million over the 2016 result in April 2017.
(6) Belfius has paid an interim dividend of EUR 75 million over the 2017 result in September 2017.

We refer to the chapter "Liquidity" of the management report for a detailed description.

The notes on pages 142 to 277 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II. POST BALANCE SHEET EVENTS

1. Auxipar acquisition

At the end of 2016, an agreement was concluded between Belfius and the liquidators of the Arco companies under liquidation (Arcopar, Arcofin, Arcoplus and Arcosyn) with the objective to advance towards finalisation of the liquidation, in the interest of all stakeholders. This agreement lists a number of actions to finalize towards end of liquidation, including the potential takeover of the Auxipar shares held by the Arco companies by Belfius.

As a result of these actions moving forward, Belfius will acquire part of the Auxipar shares in the short term, resulting in increasing its stake in Auxipar from 39.7 % to 74.99 %. This transaction qualifies as a business combination achieved in stages, which should be accounted for in accordance with the acquisition method under IFRS. More specifically, for business combinations achieved in stages (from equity method to full consolidation), IFRS requires that any previously held interest of an acquirer in an acquiree is adjusted to its fair value as of the acquisition date with any resulting gain (or loss) reported in the consolidated income statement.

2. Additional Tier 1 (AT 1) Securities

On 1 February 2018, Belfius issued EUR 500 million subordinated equity instruments, that qualify as AT1 under CRR/ CRD IV. The AT1 security has been analyzed in respect with IAS 32 and should be considered as an equity instrument. This inaugural AT1 issue was executed in the context of further diversification of funding sources and investor base. Furthermore, the AT1 securities increase the going concern loss absorption capital, and contribute to the expected MREL level, as well as to the leverage ratio of Belfius. In general, this transaction increases Belfius' financial and regulatory flexibility, accessing a new layer of instruments within its capital structure.

The issuance was done in the form of EUR denominated Perpetual AT1 Securities. The securities are callable in year 7 ("First Call Date") and every interest payment date thereafter. A CET1 trigger of 5.125% is applicable on consolidated and statutory level, with a principal temporary write-down loss absorption mechanism. The coupons of the issued AT1 Securities are fully discretionary, semi-annual and non-cumulative. There is also a mandatory cancellation of the coupon upon insufficient distributable items, or when the coupon exceeds the Maximum Distributable Amount (MDA).

3. Changes in issued subordinated debts and activities in the Tier 2 market

The Governing Council of the European Central Bank (ECB) has decided to grant Belfius permission to reduce its own funds in the amount of EUR 191 million (value on 31 December 2017) through the call of three Tier 2 callable instruments issued on 18 November 1997, 25 August 2000 and 21 September 2000. Belfius shall pay back the par amount of 50 million USD on 25 May 2018 (issued on 25 August 2000), and paid back the par amount of 100 million USD on 21 March 2018 (issued on 21 September 2000) and will pay back the par amount of 66 million EUR on 18 May 2018 (issued on 18 November 1997).

Belfius has issued for EUR 200 million of Fixed Rate Tier 2 subordinated notes 10NC5 due 15 March 2028 with the aim to contribute to an optimal capital structure. The Notes are admitted to the Luxembourg Stock Exchange and are rated Baa3 by Moody's.

4. Sale of EUR 1.1 billion exposure value of Italian government bonds (hedged for interest rate risk by swaps)

Belfius has sold part of its Italian government bond and swap package, for a notional amount of EUR 0.8 billion, which were classified in First Time Adoption IFRS 9 under a "hold-to-collect and sell" business model. The sale was in line with Belfius' objective to flexibly manage part of its concentration risk on Italian government bonds. The transaction value for the sale amounts to EUR 1.1 billion, with a positive impact on the net result of Q1 2018 of EUR 21 million (after reversal of related impairment provision and net of tax).

5. Lease agreement building Galilee

On 21 February 2018, Belfius Insurance concluded a lease agreement with the "National institute for disability and invalidity insurance (RIZIV / INAMI)", to whom Belfius Insurance leases its building on Galileelaan 5, 1210 Brussels for a term of 19 years starting on 1 April 2018.

6. Dividend

The Board of Directors of 22 March 2018, has proposed to the General Assembly of 25 April 2018 an ordinary dividend of EUR 363 million in respect of the accounting year 2017, of which EUR 75 million was already paid through an interim dividend in September 2017.

III. ACCOUNTING PRINCIPLES ON A CONSOLIDATED BASIS

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NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The common used abbreviations below are:

- IASB: International Accounting Standards Board
- IFRIC: Interpretation issued by the IFRS Interpretations Committee
- IFRS: International Financial Reporting Standards

In the following text, "Belfius" refers to "Belfius Bank & Insurance".

The financial statements have been approved by the Board of Directors of Belfius Bank on 22 March 2018.

ACCOUNTING POLICIES

1. Basis of accounting

1.1. General

The consolidated financial statements of Belfius have been prepared in accordance with IFRSs as issued by the IASB, including interpretations ("IFRICs") issued by the IFRS Interpretation Committee, as adopted by the European Union up to 31 December 2017 including the conditions applicable to interest-rate portfolio hedging ("carve-out").

The Royal Decree of 5 December 2004 requires Belfius to publish its consolidated financial statements in accordance with IFRSs approved by the European Union as from 31 December 2006.

The consolidated financial statements are prepared on a going-concern basis. They are expressed in thousands of Euro (EUR) unless otherwise stated.

1.2. Accounting estimates and judgements

In preparing the consolidated financial statements, management is required to make estimates, assumptions and judgements that affect the amounts reported. To make these assumptions and estimates, management uses information available at the date of preparation of the financial statements and exercises its judgement. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the financial statements.

Judgement is used principally in, but not limited to, the following areas:

- Classification of financial instruments into the appropriate category "loans and receivables", "held to maturity", "available for sale", "held for trading" and "financial assets measured at fair value through profit or loss" for measurement purposes based on the instrument's characteristics and Belfius' intentions (see section II.6.);
- Determination whether or not there is an active market based on criteria such as volume, actual trade, market liquidity, bid offer spread for financial instruments measured at fair value (see section II.6.11.);
- Determination of fair value for financial instruments measured at fair value by means of valuation techniques (see section II.6.11.);
- Determination whether or not Belfius (jointly) controls an investee or has significant influence over an investee: this control assessment considers all facts and circumstances, such as voting rights, potential voting rights, rights of the investor, type of activity (see section II.3.);
- Identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5) (see section II.15.);
- The appropriateness of designating derivatives as hedging instruments (see section II.6.7.);
- Existence of a present obligation with probable outflows in the context of litigations (see section II.18.);
- Identification of impairment triggers (see section II.6.6.); and
- Classification of a financial instrument or its component parts as a financial liability or equity is based on the economic substance rather than the legal form of the instrument or its component (see section II.6.9.).

These judgements are discussed in the corresponding sections (as referenced above) of the accounting policies.

Estimates are principally made in the following areas:

- Determination of the recoverable amount of impaired financial assets and fair value less costs to sell for non-current assets and disposal groups held for sale (see section II.6.6. and II.15.);
- Determination of the useful life and the residual value of property, equipment, investment property and intangible assets (see section II.11. and II.12.);
- Determination of the market value correction to adjust for market value and model uncertainty (see section II.6.11.);
- Measurement of liabilities for insurance contracts (see section II.9.);
- Testing the adequacy of liabilities for insurance contracts considering model uncertainty, economic and non-economic assumptions (see section II.9);
- The measurement of hedge effectiveness in hedging relations (see section II.6.7.2. and II.6.8.);
- Actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see section II.18. and note 6.7.);
- Estimation of future taxable profit for the recognition and measurement of deferred tax assets (see section II.17.);
- Estimation of the recoverable amount of cash-generating units for goodwill impairment (see section II.13.2.).

2. Changes in accounting policies and applicable standards since the previous annual publication that may impact Belfius

The overview of the texts below is made until the reporting date of 31 December 2017.

2.1. IASB / IFRS and IFRIC texts endorsed by the European Commission and applied as from 1 January 2017

Standards with impact for Belfius

- Amendments to "IAS 12: Recognition of Deferred Tax Assets for Unrealised Loss" clarify how to account for deferred tax assets related to debt instruments measured at fair value. This amendment did not have a significant impact for Belfius.
- Amendments to "IAS 7: Disclosure Initiative" require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendmentis incorporated in note 6.7. Subordinated debts.

Standards not applicable for Belfius (already communicated in the half-yearly report)

Nihil.

2.2. IASB / IFRS and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2017.

Standards under analysis

- Amendments to IFRS 4 (future IFRS 17 Insurance Contracts) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" provide two voluntary options (a temporary exemption from IFRS 9 versus the overlay approach) to mitigate the issues arising for insurers due to the effective date of IFRS 9 falling before that of the upcoming IFRS 17 Insurance Standard. The temporary exemption is available for entities engaged predominantly in insurance activities and defers the application of IFRS 9 until the earlier of the application of the new IFRS 17 Insurance Standard or periods beginning on or after 1 January 2021. In endorsing these amendments to IFRS 4, the European Commission (Commission Regulation EU 2017/1988) has allowed financial conglomerates to elect the temporary deferral of IFRS 9 at the level for their entities operating in the insurance sector. The overlay approach, which is available on an asset-by-asset basis, provides entities with contracts in scope of IFRS 4 the option of applying IFRS 9 in full and to present changes in fair value on qualifying designated financial assets in other comprehensive income instead of profit or loss. Belfius will not apply the temporary exemption nor the overlay approach provided by the amendments to IFRS 4 as endorsed by the European Commission but will apply IFRS 9 in full starting 1 January 2018 also for its insurance companies.

- IFRS 16 "Leases" eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. According to this model, a lessee is required to recognise
  - assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  - depreciate lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and account for those two types of leases differently. IFRS 16 will be effective from 1 January 2019. The materiality analysis is ongoing. At the date of this report, Belfius is of the opinion that this new standard is not expected to have a material impact for Belfius.

2.3. New IFRS, IFRIC and amendments issued during the current year but not yet endorsed by the European Commission

Standards under analysis

Nihil.

Standards with potential impact for Belfius

- Amendment to IFRS 9 "Prepayment Features with Negative Compensation" applies to debt instruments that fail the SPPI test due to a prepayment feature with negative compensation. The amendment allows entities to measure these debt instruments at amortised cost or at fair value through other comprehensive income even when the prepayment option results in the option holder receiving compensation for early prepayment on the condition that the debt instruments satisfy the business model requirement. The amendment is effective from 1 January 2019.
- Amendment to IAS 28 "Long term Interests in Associates and Joint Ventures" clarifies that an entity is required to apply IFRS 9 Financial Instruments, including its impairment requirements, to long-term interests in associates or joint ventures that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendment will be effective from 1 January 2019.
- IFRS Practice Statement 2 "Making Materiality Judgements" provides an overview of the general characteristics of materiality and presents a four-step process when making materiality judgements during the preparation of the financial statements. Its guidance is non-mandatory and is available for immediate use.
- "Annual Improvements to IFRSs 2015-2017 Cycle", contains amendments to four standards: IFRS 3 and IFRS 11 (previously held interest in a joint operation), IAS 23 (borrowing costs eligible for capitalisation) and IAS 12. The amendment to IAS 12 states that income tax consequences of dividends should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated the distributable profit were recognised. Amendment to IAS 12 will be effective from 1 January 2019. The amendment should be applied to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Standards with no impact

Nihil.

Standards not applicable for Belfius

Nihil.

2.4. IFRS 9 "Financial instruments" (Not yet applicable as from 1 January 2017)

The transition from IAS 39 to IFRS 9 has been performed in January 2018 with 1 January 2018 as initial date of application. We refer to the first time adoption transition disclosures with opening balance as of 1 January 2018 included below for a high level review of the financial impact. The transition disclosures use the accounting principles IFRS 9 as mentioned below.

2.4.1. Recognition and initial measurement

At initial recognition, judgement can be required in determining the appropriate classification of the financial instruments. Debt and equity instruments issued by a group entity are classified as a financial liability or as an equity instrument in accordance with the economic substance rather than the legal form of the instrument and the definitions of financial liability and equity instrument.

Regular way purchases of financial assets are recognised on settlement date, which is the date of delivery to Belfius. Financial assets (other than regular way purchases) and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities that are not measured at fair value through profit or loss. Transaction costs for financial assets and liabilities measured at fair value through profit or loss are recognised immediately in profit or loss.

Although the transaction price is the best evidence of fair value for all financial instruments, a day one profit or loss may be applicable.

The day one profit or loss is the difference between:

- the transaction price and the quoted price in an active market for a financial instrument; or
- the transaction price and the fair value determined by using a valuation technique (mark-to-model), if the instrument is not quoted.

If the main parameters of the model are observable, the day one profit or loss will be recognised immediately in the income statement.

If the main parameters are not observable, the day one profit or loss will be amortised over the expected life of the instrument. However, if the data subsequently becomes observable, the remaining portion of day one profit or loss will be recognised in the income statement.

In cases of early termination of the underlying instrument, the remaining portion of day one profit or loss will be recognised in the income statement.

2.4.2. Classification and subsequent measurement of financial assets

2.4.2.1. General

According to IFRS 9, the classification and measurement of financial assets is based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics (referred to as the Solely Payments of Principal and Interest test – SPPI test).

The following business models are available for managing financial assets:

- Hold to collect contractual cash flows;
- Hold to collect contractual cash flows and sell;
- Other, such as trading and management of assets on a fair value basis.

IFRS 9 introduces the following categories for the measurement of debt instruments. The methods for the measurements are:

- Fair value through other comprehensive income (FVTOCI) – financial assets will be classified into this category if the assets meet the Solely Payments of Principal and Interest test (SPPI test) and it is management's intent to hold the assets to collect contractual cash flows and to sell the assets
- Amortised cost – financial assets will be classified into this category if the assets meet the SPPI test and it is management's intent to only hold the assets to collect contractual cash flows
- Fair value through profit or loss – financial assets that do not fall within the two categories above will be measured at fair value through profit or loss.

Debt instruments that meet the amortised cost or FVTOCI criteria can be irrevocably designated at fair value through profit or loss if it eliminates, or significantly reduces, an accounting mismatch in profit or loss.

Investments in equity instruments are normally classified at fair value through profit or loss. However, IFRS 9 allows an entity to make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, with the only exception being dividend income, which will still be accounted for in profit or loss.

The cash flow characteristics test (or SPPI - Solely Payment of Principal and Interest test)

The cash flow characteristics test assesses whether contractual cash flows are solely payments of principal and interest on the principal outstanding, consistent with a basic lending arrangement. For contractually linked instruments a "look-through" approach is applied to determine whether the SPPI criterion is met for the tranches of the instrument taken into consideration the contractual terms of the tranche and the characteristics of the underlying pool as well as the exposure to credit risk.

Principal is the fair value of the financial asset at initial recognition and may change over the life of the financial asset (in case of repayments of principal). Interest is the consideration for the time value of money, the credit risk and may also include consideration for other basic lending risks and costs (such as liquidity risk and administration costs) as well as a profit margin.

In making this assessment, Belfius takes into account:

- Contingent events that would change the amount or timing of the cash flows (by assessing the cash flows arising before and after the change in cash flows);
- Terms that may adjust the contractual coupon rate including variable rate features (whether or not variations can be regarded as compensation for credit risk);
- Prepayment and extension features (by assessing amount of prepayment and cash flows during the extension period); and
- Terms that limit the entity's claims to cash flows from specified assets (such as non recourse features).

Business model

The business models are determined by the Board of Directors for homogenous portfolios and reflect how the financial assets are managed together to achieve a particular objective. The determination of the business model takes into account all relevant information in normal scenarios and also considers the following factors:

- Past experience regarding the frequency, volume and timing of sales, the reasons for such sales and expectations about future sales activity;
- How the asset's performance is evaluated and reported to key management personnel;
- How risks are assessed and managed; and
- How managers are compensated.

Belfius applies the following business models to manage its financial assets:

- Hold to collect contractual cash flows;
- Hold to collect contractual cash flows and sell;
- Any other business models such as trading and management of assets on a fair value basis.

At initial recognition of a financial asset, Belfius determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model.

Once a year, Belfius reassesses its business models to determine whether the business models have changed since the preceding period.

Change in Business model

A future change in business models for existing financial assets and the related prospective reclassification of all affected financial assets will be very exceptional as it should be the consequence of an acquisition, sale or development of an activity or a business line that is significant for the operations of each of the entities of Belfius Group and is demonstrable to external parties. In view of its significance, the proposition to change should be discussed and decided by the appropriate governance bodies.

2.4.2.2. Financial assets measured at amortised cost (AC)

Debt instruments (including hybrid contracts) that are held within a business model "hold to collect contractual cash flows" and with contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI compliant) and for which Belfius has not elected the fair value option, are subsequently measured at amortised cost.

This category includes debt instruments with the objective of holding these debt instruments until maturity and generating a stable interest margin. When loans are sold to a securitization vehicle that is consolidated, this does not preclude their classification as hold to collect.

Sales are not an integral part of the hold to collect business model but may be consistent with this business model if sales are close to maturity, sales are due to an increase in credit risk or sales are not significant (even if frequent) or infrequent (even if significant). Judgement should be applied to determine whether the sales are consistent with a hold to collect business model.

Amortised cost is the amount at which the debt instruments are measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount using the effective interest method (cf.section.II.2.4.8. Interest income and expense), and adjusted for any impairment for expected credit losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss when they arise. Any gain or loss on derecognition is recognised in profit or loss.

2.4.2.3. Financial assets measured at fair value through other comprehensive income (FVTOCI)

This category includes debt instruments and investments in equity instruments.

Debt instruments measured at fair value through other comprehensive income

Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt instruments and whose contractual cash flows are solely payments of principal and interest on the principal outstanding are subsequently measured at fair value through other comprehensive income on the condition that Belfius has not elected the conditional fair value option.

Debt instruments included in funds with dedicated assets (segregated funds) or for which flexibility is required to face potential surrenders of life insurance contracts, investment opportunities or kept to face potential liquidity needs are included in this category.

Movements in the carrying amount representing unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income under the line item "Gains and losses not recognised in the income statement - Fair value changes of debt instruments measured at FVTOCI".

When the debt instrument is disposed of Belfius recycles the cumulative gain or loss previously recognised in other comprehensive income to the line item "Net income on investments and liabilities" in the income statement.

Other gains and losses such as interest revenue and impairment are recognised in profit or loss. Foreign exchange gains and losses on debt instruments measured at FVTOCI that are not part of a designated hedging relationship are recognised in profit or loss; other exchange differences are recognised in other comprehensive income. Interest income is recognised using the effective interest method similar to financial assets measured at amortised cost.

Investments in equity instruments measured at fair value through other comprehensive income

Are included in this category, equity instruments that meet the IAS 32 definition and that are neither held for trading nor representing contingent consideration recognised by an acquirer in a business combination, and for which Belfius at initial recognition irrevocably on an instrument-by-instrument basis has elected to measure them at fair value through other comprehensive income (FVTOCI).

Subsequent changes in fair value, foreign exchange gains and losses and realised gains and losses are presented in other comprehensive income under the line item "Fair value changes of equity instruments measured at FVTOCI". On derecognition, the cumulative gains or losses previously recognised in other comprehensive income as mentioned above, are not subsequently reclassified to the income statement but are transferred within equity to the line item "Reserves and retained earnings".

Fair value measurement is required for all equity instruments, even if those instruments are not quoted in an active market. Acquisition cost as appropriate estimate of fair value is only admitted in limited circumstances (cf. section II.2.4.7 Fair value of financial instruments).

Dividends are recognised in the income statement when the right to receive payment of these dividends is established, it is probable that the economic benefits associated with the dividends will flow to Belfius and the amount of the dividends can be measured reliably. If a dividend represents a return of investments, it will be accounted as a reduction of the acquisition cost.

2.4.2.4. Financial assets measured at fair value through profit or loss (FVTPL)

Financial assets subsequently measured at fair value through profit or loss consist of debt instruments and investments in equity instruments. Non hedging derivatives are treated in section II.2.4.6. A Derivatives – Trading portfolio, including embedded derivatives.

Debt instruments held for trading

These instruments are intended to generate a profit from short-term fluctuations in price or dealer's margins or are included in a portfolio in which a pattern of short-term profit taking exists. Belfius initially recognises these instruments at their fair value and subsequently remeasures them at fair value, with unrealised and realised gains and losses recorded in the income statement under the line item "Net income from financial instruments at fair value through profit or loss". Interest income and interest expense (negative yield) are accrued using the effective interest rate method and Belfius opted to record these under the line item "Interest income" and "Interest expense".

Debt instruments designated at fair value through profit or loss (referred to as fair value option)

In some cases and if appropriately documented, Belfius can at initial recognition irrevocably designate debt instruments that meet the business model hold to collect and/or hold to collect and sell criteria and that give rise to cash flows that are solely payments of principal and interest at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch.

The valuation rules as mentioned under paragraph "Debt instruments held for trading" apply to this category.

Debt instruments measured at fair value through profit or loss (non basic instruments)

This category includes debt instruments with contractual cash flows that are not solely payments of principal and interest such as some structured loans as well as financial assets with a legal form of equity but, based on the substance of the contract, meet the definition of a debt instrument (such as open-end funds, shares with legal end date, real estate certificates).

The valuation rules as mentioned under paragraph "Debt instruments held for trading" apply to this category.

Investments in equity instruments measured at fair value through profit or loss

This category includes investments in equity instruments held for trading as well as non trading investments in equity instruments that at initial recognition were not irrevocably elected to be designated at FVTOCI.

Gains and losses due to remeasurement to fair value (realised and unrealised) and foreign exchange gains and losses are recognised in the income statement under the line item "Net income from financial instruments at fair value through profit or loss". Dividends that represent a return on investment are also recognised in the income statement under the line item "Dividends".

2.4.3. Classification and subsequent measurement of financial liabilities

2.4.3.1. Financial liabilities measured at amortised cost (AC)

These liabilities are subsequently measured at amortised cost and any difference between their amount made available and the amount due at maturity is recognised in the income statement as interest expense or interest income (negative yield) over the remaining duration of the liabilities using the effective interest rate method.

2.4.3.2. Financial liabilities measured at fair value through profit or loss (FVTPL)

Financial liabilities are measured at fair value through profit or loss when the liability is either held for trading or at initial recognition irrevocably designated at fair value through profit or loss.

Financial liabilities held for trading

Financial liabilities held for trading includes short positions in securities. These instruments are intended to generate a profit from short-term fluctuations in price or dealer's margins or are included in a portfolio in which a pattern of short-term profit taking exists. Belfius initially recognises these instruments at their fair value and subsequently remeasures them at fair value, with unrealised and realised gains and losses recorded in the income statement under the line item "Net income from financial instruments at fair value through profit or loss".

Financial liabilities designated at fair value through profit or loss (FVTPL)

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may upon initial recognition be designated at fair value through profit or loss in the following circumstances:

- → The use of designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- → The financial liability forms part of a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- → The financial liability contains one or more embedded derivatives and IFRS 9 permits the entire hybrid (combined) contract to be designated at FVTPL.

The valuation rules applicable for financial liabilities held for trading apply except for the recognition of own credit risk.

Changes in fair value attributable to own credit risk of a financial liability to which the fair option is applied, are recognised in other comprehensive income under the line item "Fair value changes due to own credit risk on financial liabilities designated as at fair value through profit or loss", unless this recognition would create or enlarge an accounting mismatch in profit or loss. These amounts are not subsequently reclassified to profit or loss. Instead, they are transferred to the line item "Reserves and retained earnings" upon derecognition of the financial liability. The remaining amount of the change in fair value is recognised in profit or loss.

2.4.4. Derecognition and modification of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the asset's cash flows expire or when substantially all the risks and rewards of ownership of the asset are transferred to another entity.

Regular way sales of financial assets are derecognised on settlement date, which is the date of delivery by Belfius. Financial liabilities are derecognised when they are extinguished (i.e when the obligation specified in the contract is discharged, cancelled or expires).

A modification of a financial asset or a financial liability (including exchange) occurs when the contractual terms governing the cash flows are renegotiated or otherwise modified between initial recognition and maturity of the financial instrument and, in case of financial assets, is based on the nature of the transaction. If a modification occurs and the existing contract is not derecognised, a modification gain or loss is recognised in the income statement . This gain or loss is determined by recalculating the gross carrying amount of the existing financial instrument as the present value of the renegotiated or modified contractual cash flows, using the financial instrument's original effective interest rate (or the credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

For modified financial assets that are not derecognised, an assessment is made to determine whether there has been a significant increase in the credit risk of the financial asset, by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Depending on the outcome of the assessment, a change in loss allowance may be recorded (cf. section II.2.4.5 on impairment of financial instruments).

2.4.5. Impairment of financial instruments

Impairment determination and calculation is governed by the Credit Risk Impairment Guidelines of the Risk Department and more details are available in the Risk Report.

2.4.5.1. Determination of the impairment

Expected credit losses (ECL) associated with debt instruments carried at amortised cost and debt instruments measured at fair value through other comprehensive income (FVTOCI) are determined on a forward-looking basis. For lease receivables, Belfius has not opted to apply the simplified approach of recognising lifetime expected losses. Loan commitments and financial guarantees not measured at fair value through profit or loss are also subject to impairment and the loss allowance is recognised as a provision. No impairment losses are recognised on investments in equity instruments.

Loss allowances and provisions for 12-month expected credit losses are initially recognised on trade date for financial assets in scope of impairment (debt instruments, lease receivables and contract assets), loan commitments and financial guarantees not measured at fair value through profit or loss.

12-month expected credit losses relates to the portion of lifetime expected credit losses that represent the expected credit losses resulting from default events that are possible within the 12 months after the reporting date.

With the exception of purchased or originated credit-impaired (POCI) financial assets, the amount of expected credit losses is measured through a loss allowance at an amount equal to either an 12- month ECL or a lifetime ECL. Lifetime ECL are the losses that result from all possible default events over the expected life of the financial asset.

At initial recognition, POCI assets do not carry a loss allowance for 12-month expected losses but lifetime expected credit losses are incorporated into the calculation of the effective interest rate. The amount recognised as a loss allowance for such assets is not the total amount of lifetime expected credit losses, but instead the change in lifetime expected credit losses since initial recognition of the financial asset, which may be a negative or positive amount.

Expected credit losses are a probability-weighted estimation of expected cash shortfalls discounted at the original effective interest rate of the financial asset or the credit-adjusted effective interest rate in case of purchased or originated credit-impaired financial assets. Expected cash shortfall is the difference between the cash flows due under the contract and the cash flows expected to be received, taking into consideration the value of collateral and other credit enhancements.

The estimation of cash flows considers all contractual terms of the financial asset (such as prepayment, extension, call and similar options) through its expected life.

Impairment calculation is based on a two-fold building block approach:

- → Block 1: determination of the appropriate Stage per exposure;
- → Block 2: calculation of the expected credit losses per exposure for stages 1,2 and 3

The following credit exposures are distinguished:

- → Performing credit exposures i.e. exposures for which there has not been a significant increase in credit risk since origination (stage 1);
- → Under-performing credit exposures i.e. exposures for which there has been a significant increase in credit risk between the moment Belfius originated or purchased the financial asset and the reporting date (stage 2);
- → Non-performing credit exposure i.e. exposures that become credit impaired (stage 3).

A change of the classification into stages can go in both directions.

Performing credit exposures – classification Stage 1

All exposures not classified in stage 2 (significant increase of credit risk since origination) or stage 3 (occurrence of impairment) are by definition classified in stage 1. For these exposures, Belfius recognises at initial measurement a 12-month expected credit loss, i.e. the expected credit loss that results from those default events on the financial instrument that are possible within 12 months after the reporting date.

Under-performing credit exposures – classification Stage 2
Exposures for which there has been a significant increase in credit risk between origination or purchase of the financial asset and reporting date are classified in stage 2.

The following quantitative and qualitative factors identify a significant increase in credit risk for an individual exposure of a counterpart:

→ A significant deterioration of the lifetime probability of default (lifetime PD) of the counterpart; and
→ The fact that the customer to whom the individual exposure belongs is put by Belfius on its Watchlist meaning the list that identifies counterparties where problems might arise (or have arisen). There is however one exception: a new contract may be classified in Stage 1 if, when originating the contract, the customer already figures on the Watchlist and that since then there is no new significant increase in credit risk for this contract.

In assessing whether a significant deterioration of the lifetime PD occurred since origination, a comparison is made between lifetime PDs at the date of origination with lifetime PDs at reporting date.

Non-performing credit exposure - Classification at stage 3
At each reporting date, the Default Committee assesses whether there is an objective evidence that a financial asset or a group of financial assets is impaired/defaulted. If affirmative, these financial assets are considered as credit-impaired and are transferred to Stage 3 and a lifetime expected loss is recognised.

The expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

An impaired/defaulted status is attributed to debtors that satisfy either one or both of the following criteria:

→ The debtor has material exposures which are more than 90 days past due;
→ The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless the existence of any past due amount or the number of days past due.

2.4.5.2. Accounting treatment of impairments

Debt instruments carried at amortised cost and lease receivables
At each reporting date, changes in the amount of impairment losses are recognised in the income statement under the line item "Impairment on loans and advances and provisions for credit commitments". Impairment losses are reversed through the same line item of the income statement if an increase in future cash flows objectively relates to an event occurring after the original impairment was recognised. The impairment loss is recorded as a deduction of the gross carrying amount of the asset (allowance) in the statement of financial position.

Debt instruments measured at fair value through other comprehensive income (FVTOCI)
Debt instruments measured at fair value through other comprehensive income are governed by the same accounting principles in respect of impairment applicable to debt instruments measured at amortised cost.

However, the loss allowance shall be recognised in other comprehensive income as part of the revaluation amount in the line item "Fair value changes of debt instruments measured at FVTOCI"and shall not reduce the carrying amount (i.e. fair value) of the financial asset in the statement of financial position.

Calculation and recognition of interest income
The underlying basis for calculating the effective interest depends on the status of the financial instrument:

→ The gross carrying amount (amortised cost before deducting any expected loss allowances) for non-credit impaired financial assets (stage 1 and 2);
→ The net carrying amount (gross carrying amount less expected loss allowances) for credit-impaired financial assets (stage 3).

Interest income for originated or purchased credit-impaired financial assets is recognised by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset. Lifetime expected credit losses are incorporated in the credit-adjusted effective interest rate.

Write offs
Debt instruments are written off when there are no reasonable expectations of recovering the debt instrument . Belfius only applies full write offs and exposures in stage 1 and 2 are always transferred to stage 3 before being written off.

A write-off constitutes a derecognition event and the stock of loss allowance is not reversed but used against the reduction of the gross carrying amount of the instrument written off. Any additional loss is reported in the income statement in the line item "Impairment on loans and advances and provisions for credit commitments".

Loan commitments and financial guarantees not measured at fair value through profit or loss
Off-balance-sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments are usually converted into on-balance-sheet items when called. However, these off-balance-sheet exposures are subject to 12-month or lifetime expected losses. The expected loss is recognised as a provision in the balance sheet and the date that Belfius becomes a party to the irrevocable commitment is considered as the date of initial recognition for applying the impairment requirements.

Loan commitments
At the end of each reporting period a provision based on 12-month expected losses calculated on the expected portion of the loan commitment to be drawn down within the next 12 months is recognised. In case of a significant increase in the risk of default of

the underlying loan, lifetime expected credit losses are recognised on the expected portion to be drawn down over the remaining life of the loan commitment.

The expected credit loss is the present value of the difference between the contractual cash flows if the holder of the loan commitment draws down the loan and the cash flows that are expected to be received if the loan is drawn down. The remaining life of the loan commitment is the maximum contractual period during which there is an exposure to credit risk. In case of arrangements that include both a loan and an undrawn commitment component (such as credit cards), the period for estimating expected credit losses is beyond the contractual date on which repayment could be demanded but the period over which the lender is, in practice, exposed to credit risk.

Financial guarantees

For financial guarantee contracts changes in the risk that the specified debtor will default on the contract are considered. At each reporting period, the amount of the loss allowance equals the 12-month expected credit loss unless there has been a significant increase in the risk of default, in which case the loss allowance is calculated for lifetime expected credit losses. Expected losses reflect the cash shortfalls equal to the difference between the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that are expected to be received from the holder, the debtor or any other party.

2.4.6. Derivatives

2.4.6.1. Derivatives – Trading portfolio, including embedded derivatives

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading and Belfius initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash-flow models or pricing models, as appropriate. All changes in fair value are recognised in the income statement.

The interest results of derivatives for which there is an economic hedge relationship are recognised in interest income/interest expense.

Derivatives are reported as assets when their fair value is positive and as liabilities when their fair value is negative.

When a hybrid contract contains a host that is a financial asset in the scope of IFRS 9, the entire hybrid contract, including all embedded features, is assessed for classification. However, if the host contract is a financial liability, a lease receivable, an insurance contract or another non-financial host contract an assessment is made to determine whether the embedded feature requires separation and should be presented as a separate derivative in trading. This is the case when:

- → Risks and characteristics of the embedded features are not closely related to those of the host contract;
- → The hybrid contract is not carried at fair value with unrealised gains and losses reported in the income statement;
- → A separate instrument with the same terms as the embedded feature would meet the definition of a derivative.

2.4.6.2. Derivatives – Hedging

As the development of the new macro hedge accounting model (cf. "Accounting for dynamic risk management activities") is still in progress, the IASB provided all entities including those that engage in portfolio hedge accounting of interest rate risk with the following accounting policy options until the IASB Research project "Dynamic Risk Management" is completed:

- → Option 1: Apply the new hedge accounting requirements of IFRS 9 and continue to use the IAS 39 model for interest-rate portfolio hedging;
- → Option 2: Continue to apply the existing (micro)hedge accounting requirements in IAS 39, including the IAS 39 interest-rate portfolio hedge model.

In both cases, the use of the IAS 39 interest-rate portfolio hedging model is subject to expanded disclosure requirements.

Belfius has opted to continue to apply the existing (micro)hedge accounting requirements of IAS 39 and the "Carve out" conditions applicable to interest-rate portfolio hedging as endorsed by the European Commission.

Hedging derivatives are categorised as either:

- → A hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge) or a fair value hedge of the interest rate risk exposure of a portfolio (cf. II.2.4.6 C); or
- → A hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash-flow hedge).

Derivatives are designated as hedging instruments if certain criteria are met:

- → Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
- → The hedge is documented in such a way as to show that it is expected to be highly effective (within a range of 80% to 125%) in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged position throughout the reporting period; and
- → The hedge is effective at inception and on an ongoing basis.

Belfius records changes in the fair value of derivatives that are designated and qualify as fair value hedges in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities that is attributable to the specific hedged risk. The interest accruals are recognised in "interest income" or "interest expense".

If the hedge no longer meets the criteria for a fair value hedge or if the hedge is voluntarily discontinued, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to the income statement over the remaining life of the hedged position (or the hedging instrument if shorter) by an adjustment of the yield of the hedged item.

The effective part of the changes in the fair value of derivatives that are designated and qualify as cash-flow hedges, is recognised in "Other comprehensive income" under the item "Gains (losses) on cash flow hedges" (see "Consolidated statement of changes in shareholders' equity"). The ineffective portion of the change in the fair value of the hedging instrument (if any) is recognised directly in the income statement. The amount recognised in other comprehensive income should be the lower of the cumulative gain or loss on the hedging instrument from the inception of the hedge, and the cumulative change in the fair value (present value) of the expected cash flows on the hedged item from the inception of the hedge.

Amounts deferred in equity are transferred to the income statement and classified as "interest income" or "interest expense" in the periods during which the hedged item affects the income statement.

2.4.6.3. Fair value hedge of the interest-rate risk exposure of a portfolio

As mentioned in II.1.1 General, Belfius makes use of the IAS 39 provisions for portfolio fair value hedges of interest rate risk as endorsed by the European Commission (cf. EU carve out) because it better reflects the way financial instruments are managed.

Awaiting the completion of the IASB Research project "Dynamic Risk Management", Belfius continues to apply the current carved out provisions.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Belfius recognises the hedging items at fair value with any changes in fair value accounted for in the income statement. The hedged items include financial assets and liabilities at amortised cost and debt instruments measured at FVTOCI.

The hedged interest-rate risk revaluation of elements carried at amortised cost is reported on the balance sheet under the line item "Gain/loss on the hedged item in portfolio hedge of interest rate risk" where as the hedged interest-rate risk revaluation of elements carried at FVTOCI is included in the line item "Loans and advances FVTOCI" and "Debt securities and equities at FVTOCI".

2.4.7. Fair value of financial instruments

2.4.7.1. General principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an organised market (such as a recognised stock exchange) are to be used as fair value, as they are the best evidence of the fair value of a financial instrument. Quoted market prices are not available for all financial assets and liabilities held or issued by Belfius.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. A valuation model reflects the transaction price on the measurement date in an arm's length exchange under normal business considerations, i.e. the price that would be received by the holder of the financial asset in an orderly transaction that is not a forced liquidation or forced sale or the price to transfer the liability.

The valuation model takes into account all factors that market participants consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they are incorporated into the model.

Only in very exceptional circumstances (i.e where a new fair value cannot be measured) cost will be used for the fair value valuation of investments in unquoted equity instruments.

2.4.7.2. Specific rules

The specific rules and approaches used for the determination of fair value of financial instruments are summarised in note 9.1. "Fair value".

2.4.7.3. Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised and remain on the balance sheet. The corresponding liability is recorded under "Credit institutions borrowings and deposits / Amortised Cost" or "Borrowings and deposits / Amortised Cost", as appropriate. The asset is included as "pledged" in the supporting notes to the financial statements.

Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans are recorded as "Loans and advances due from credit institutions / Amortised Cost " or "Loans and advances / Amortised Cost".

The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest rate method.

Securities lent to counterparties are not derecognised. Securities borrowed are not recognised in the balance sheet. Fees are recorded within the line item "Fee and commission income and expense".

2.4.8. Interest income and expense

Interest income and expense are recognised on an accrual basis in the income statement for all interest bearing instruments using the effective interest rate method (transaction costs included). Transaction costs for financial assets and liabilities measured at fair value through profit or loss are recognised immediately in profit or loss.

Negative interests on these instruments are presented as a separate item within interest expense (interest expense on financial assets) or within interest income (interest income on financial liabilities). Accrued interest is reported in the balance sheet in the same line item as the related financial asset or liability.

Following fees are an integral part of the effective interest rate of a financial instrument with an expected life of more than one year and a defined duration:

- Origination fees received relating to the creation or acquisition of a financial asset;
- Commitment fees received to originate a loan when the loan commitment is not measured at fair value through profit or loss and it is probable that Belfius will enter into a specific lending arrangement. If the commitment expires without granting the loan, the fee is recognised as revenue on expiry.
- Origination fees paid on issuing financial liabilities measured at amortised cost.

The underlying basis for calculating the effective interest depends on the status of the financial instrument:

- The gross carrying amount (amortised cost before deducting any expected loss allowances) for non-credit impaired financial assets (stage 1 and 2) or the amortised cost for financial liabilities;
- The net carrying amount (gross carrying amount less expected loss allowances) for credit-impaired financial assets (stage 3).

Interest income for originated or purchased credit-impaired financial assets is recognised by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset. Lifetime expected credit losses are incorporated in the credit-adjusted effective interest rate.

Interest results of trading derivatives are recognised in "Net income from financial instruments at fair value through profit or loss", whereas interest results on all other derivatives are recognised in interest income or interest expense.

2.5. IFRS 15 "Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2018)

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which will replace the requirements in IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 becomes effective for annual periods beginning on or after 1 January 2018. Clarifications in the areas of identifying performance obligations, principal versus agent, licensing application guidance and additional practical expedients for entities transitioning to IFRS 15 were published in 2016.

The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

Belfius has performed a quantitative and qualitative analysis to assess the impact of the standard:

- Identification of the contracts with customers that are within the scope of the standard. Considering the nature of the activities of Belfius, special attention was given to specific features in contracts with customers that could result in contracts being partially within the scope of IFRS 15 and partially within the scope of another standard. Contracts identified to be in scope (partially or completely) were assessed using the five-step model for revenue recognition;
- Identification of the performance obligation(s) . assessment of (series of) distinct goods or services. Specifically, for broker / dealer transactions, particular attention was given to the agent and versus principal assessment;
- Determination of the transaction price with a focus on variable considerations, constraining estimates of variable consideration and the existence of a significant financing component in the contract;
- Allocation of the transaction price to the performance obligation in the contract; and
- Recognition of revenue if to the extent the performance obligation is being satisfied by transferring the promised goods or services.

Based on this assessment, no material impacts from the adoption of IFRS 15 in relation to the amount and timing of revenue recognition has been identified. For contracts for which Belfius is acting as agent , IFRS 15 will have a limited impact on the presentation, as revenue will be recognised as a net amount of consideration in stead of gross amounts of relevant revenue and expenses.

2.6. IFRS 17 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2021)

In May 2017, the IASB issued IFRS 17 "Insurance Contracts". IFRS 17 is a comprehensive accounting model and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The new standard introduces a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts held or issued and investment contracts with a discretionary participation feature.

The new standard supersedes IFRS 4 and is effective for periods beginning on or after 1 January 2021 with early application permitted. It should be applied retrospectively unless impracticable, in which case alternative approaches can be applied.

Based on our first understanding and ongoing analysis, preparing for and implementing the new standard will have a significant impact on the financial statements and key performance indicators of Belfius Insurance and Belfius Bank.

Considering the complexity of the matters, an IFRS 17 dedicated task force has been created ensuring a strict project governance structure.

2.7. Changes in presentation

None.

3. Consolidation

3.1. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of

- the acquisition-date fair values of the assets transferred by Belfius,
- the liabilities incurred by Belfius to former owners of the acquiree and
- the equity interests issued by Belfius in exchange for control of the acquiree.

Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

3.2. Subsidiaries

Subsidiaries are those entities over which Belfius has, either directly or indirectly, control. Belfius controls an entity when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are fully consolidated as from the date on which effective control is transferred to Belfius and are no longer consolidated as from the date on which control is lost. Intercompany transactions, balances and gains and losses on transactions between consolidated companies of Belfius are eliminated. Where necessary, the accounting policies of the subsidiaries are aligned to ensure consistency with the policies adopted by Belfius.

When Belfius loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests.

3.3. Jointly controlled entities and associates

A joint venture (JV) is a joint arrangement whereby the parties have joint control of the arrangement. Joint control is a 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. Joint ventures are accounted for using the equity method.

Associates are investments in which Belfius has significant influence, but does not exercise control. This is usually the case when Belfius owns between 20% and 50% of the voting rights. Investments in associates are initially measured at cost and accounted for using the equity method.

Following the equity method, the ownership share of net income for the year is recognised as income of joint ventures and associates, whereas the share in other comprehensive income of joint ventures and associates is carried on a separate line of the statement of comprehensive income and the investment is recorded in the balance sheet at an amount that reflects Belfius' share of the net assets of joint ventures and associates increased with related goodwill.

Gains and losses on transactions between Belfius and its "equity method investments" are eliminated to the extent of the interest therein of Belfius. The recognition of losses from joint ventures and associates is discontinued when the carrying amount of the investment reaches zero, unless Belfius has incurred or guaranteed legal or constructive obligations on behalf of the associate or joint venture. Where necessary, the accounting policies of the joint ventures and associates are aligned to ensure consistency with the policies adopted by Belfius.

3.4. Structured entities

A structured entity is an entity whose activities are not governed by way of voting rights. These entities generally finance the purchase of assets by issuing debt and equity securities that are collateralised by assets held by the structured entities. The debt and equity securities issued by the structured entities may include tranches with varying levels of subordination. In assessing whether Belfius has power over such investees in which it has an interest, Belfius considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee and the size of its exposure to the variability of returns of the investee.

4. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset (and, consequently, only the net amount is reported) when Belfius has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5. Foreign currency translation and transactions

5.1. Foreign currency translation

On consolidation, the income and cash-flow statements of foreign entities that have a functional currency different from the presentation currency of Belfius are translated into the presentation currency (EUR) of Belfius at the average exchange rates for the year (annual reporting) or the period (interim reporting) and their assets and liabilities are translated at the respective year-end or quarter-end exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates, joint ventures and of borrowings and other currency instruments designated as hedges of such investments, are recorded as a cumulative translation adjustment within equity. On disposal of a foreign entity, such exchange differences are recognised in the statement of income as part of the gain or loss on disposal.

5.2. Foreign currency transactions

For individual Belfius entities, foreign currency transactions are accounted for using the approximate exchange rate at the date of the transaction. Outstanding balances of monetary and non-monetary items carried at fair value denominated in foreign currencies are translated at period- or year-end using the exchange rates applicable at period- or year-end. Historical rates are used for non-monetary items carried at cost. The exchange differences for non-monetary items carried at fair value are governed by the same accounting treatment as for fair value adjustments. Exchange differences for monetary items are recorded in the consolidated statement of income.

6. Financial instruments

At initial recognition, judgement is used in determining the appropriate classification of the investments. Under certain conditions, financial assets could subsequently be reclassified.

6.1. Recognition and derecognition of financial instruments

Belfius recognises and derecognises financial instruments held for trading on trade date. All other "regular way" purchases and sales of financial instruments are recognised and derecognised on settlement date, which is the date of delivery to or by Belfius.

Belfius recognises financial liabilities on its balance sheet when it becomes party to the contractual provisions of the instrument. Belfius derecognises financial liabilities only when they are extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

6.2. Loans and advances due from banks and customers

Belfius classifies non-derivative financial assets with fixed or determinable payments that are not quoted on an active market into this category (labelled by IAS 39 as Loans and Receivables – L&R).

Belfius recognises such interest-bearing financial assets initially at fair value plus directly attributable transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest-rate method and recorded under "Interest income".

6.3. Investments held to maturity

Belfius classifies interest-bearing financial assets with fixed maturity quoted in an active market as held to maturity (HTM) when management has both the intent and the ability to hold the assets to maturity.

Belfius recognises such interest-bearing financial assets initially at fair value plus directly attributable transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest-rate method and recorded under "Interest income".

6.4. Financial assets available for sale

Belfius classifies financial assets intended to be held for an indefinite period of time, but which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices, as financial assets available for sale (AFS).

Belfius recognises financial assets initially at fair value plus transaction costs. Interest is recognised based on the effective interest-rate method and recorded under "Interest income". Belfius recognises dividend income from equity instruments under "Dividend income".

Financial assets available for sale are subsequently measured at fair value (cf. II.6.11 Fair value of financial instruments). Unrealised gains and losses arising from changes in the fair value of financial assets classified as available for sale are recognised within equity under the item "Gains and losses not recognised in the statement of income". When securities are disposed of or impaired, the related accumulated fair value adjustments are recycled to "Net income on investments and liabilities".

6.5. Financial instruments measured at fair value through profit or loss (derivatives excluded)

6.5.1. Financial instruments held for trading

Financial assets held for trading includes loans and securities. Financial liabilities held for trading includes short positions in securities. These instruments are intended to generate a profit from short-term fluctuations in price or dealer's margins or are included in a portfolio in which a pattern of short-term profit taking exists. These instruments are initially recognised and subsequently measured at fair value, with unrealised gains and losses recorded in the statement of income under "Net income from financial instruments at fair value through profit or loss". Interest income and expense are accrued using the effective interest rate method and recorded under "Interest income" and "Interest expense". Dividends received are recorded under "Dividend income".

6.5.2. Financial instruments designated at fair value through profit or loss

In some cases and if appropriately documented, Belfius can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" if:

- → the use of the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- → a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- → an instrument contains a non-closely related embedded derivative:
- → that significantly modifies the cash flows that otherwise would be required by the contract, or
- → for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.

The valuation rules mentioned under paragraph II.6.5.1. Financial instruments held for trading apply to this category.

6.6. Impairments on financial assets

Belfius records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events occurring after initial recognition and evidencing:

- (a) a decline in the expected cash flows; and
- (b) an impact on the estimated future cash flows that can be reliably estimated.

6.6.1. Financial assets measured at amortised cost

Belfius first assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Determination of the impairment

- Specific impairments – If there is objective evidence that loans or other receivables or financial assets classified as held to maturity are impaired, the amount of the impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated recoverable amount, being the present value of expected cash flows, including estimations of the amounts recoverable from guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). Assets with small balances that share similar risk characteristics follow the principles as described below.
- Collective impairments – Collective impairments cover losses "incurred but not yet reported" on segments (portfolios) where there is objective evidence of losses. The estimations of these impairments are based on historical patterns of losses in each segment and the credit ratings allocated to the borrowers and reflect the current economic environment in which the borrowers operate. For that purpose, credit-risk models are developed using an approach that combines appropriate default probabilities and loss-given defaults that are subject to regular back-testing and risk models, consistently with the "incurred-loss" model. Assumptions are made when defining the way inherent losses are modelled and to determine the required parameters, based on historical experience.

Accounting treatment of the impairment

Belfius recognises changes in the amount of impairment losses in the statement of income and reports them as "Impairment on loans and advances and provisions for credit commitments". The impairment losses are reversed through the statement of income if the increase in future cash flows relates objectively to an event occurring after the impairment was recognised. Write-offs occur when Belfius considers the outstanding amounts as uncollectible and the additional loss is reported as "Impairment on loans and advances and provisions for credit commitments".

6.6.2. Reclassified financial assets

In specific circumstances, Belfius can reclassify financial assets initially classified as held for trading or available for sale into held to maturity or loans and receivables categories. If this is the case, the fair value at the date of transfer becomes the new amortised cost of these financial assets.

Regarding the calculation of impairment, reclassified financial assets are governed by the same estimates, judgements and accounting principles as financial assets initially measured at amortised cost. If there is objective evidence that reclassified financial assets are impaired, the amount of impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset and the net present value of the expected cash flows discounted at the recalculated effective yield at the time of reclassification.

6.6.3. Financial assets available for sale

Belfius recognises the impairment of financial assets available for sale on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

Determination of the impairment

- Equity instruments – For equity instruments quoted in an active market, objective evidence of impairment are a significant (more than 40%) or prolonged (more than 3 years) decline in fair value compared to the acquisition price. In addition, management can decide to recognise impairment losses should other objective evidence be available. An impairment is recognised for non quoted equities when objective evidence is available such as financial difficulties of the issuer or an increased probability of bankruptcy.
- Interest-bearing financial instruments – For interest-bearing financial instruments, impairment is triggered based on the same criteria as applied to individually impaired financial assets valued at amortised cost (see II.6.6.1).

Accounting treatment of the impairment

When financial assets available for sale are impaired, the total AFS reserve is recycled and these impairment losses are reported in the statement of income under the line item "Net income on investments and liabilities". Write-offs occur when the outstanding amounts are considered as uncollectible and the additional loss is reported as "Net income on investments and liabilities".

Impairments on equity instruments cannot be reversed through the statement of income and all subsequent increases in fair value are recognised through equity.

Please refer to chapter Risk Monitoring - Credit Risk for further information on how credit risk is monitored by Belfius.

6.6.4. Off-balance-sheet exposures

Belfius usually converts off-balance sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments into on-balance sheet items when called. However, there may be circumstances such as uncertainty about the counterparty, where the off-balance sheet exposure should be regarded as impaired. Belfius considers loan commitments as impaired if the credit worthiness of the client has deteriorated to such an extent that the repayment of the loan to be granted under the loan commitment and associated interest payments have become doubtful.

6.7. Derivatives

6.7.1. Derivatives – Trading portfolio, including embedded derivatives

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are the currency and the interest rate derivatives. Belfius, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash-flow models or pricing models, as appropriate. All changes in fair value are recognised in the statement of income.

The interest results of derivatives for which there is an economic hedge relationship are recognised in interest income/interest expense.

Belfius reports derivatives as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives embedded in other financial instruments are presented as separate derivatives in the trading when:

- their risks and characteristics are not closely related to those of the host contract; and
- the hybrid contract is not carried at fair value with unrealised gains and losses reported in the statement of income.

6.7.2. Derivatives - Hedging

Hedging derivatives are categorised as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge) or a fair value hedge of the interest rate risk exposure of a portfolio (cf. II.6.8.); or
- a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash-flow hedge).

Belfius designates derivatives as hedging instruments if certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
- the hedge is documented in such a way as to show that it is expected to be highly effective (within a range of 80% to 125%) in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged position throughout the reporting period; and
- the hedge is effective at inception and on an ongoing basis.
- Belfius records changes in the fair value of derivatives that are designated and qualify as fair value hedges in the statement of income, along with the corresponding change in fair value of the hedged assets or liabilities that is attributable to the specific hedged risk. The interest accruals are recognised in "interest income" or "interest expense".

If the hedge no longer meets the criteria for a fair value hedge or if the hedge is voluntarily discontinued, Belfius amortises the adjustment to the carrying amount of a hedged interest-bearing financial instrument to the statement of income over the remaining life of the hedged position (or the hedging instrument if shorter) by an adjustment of the yield of the hedged item.

Belfius recognises the effective part of the changes in the fair value of derivatives that are designated and qualify as cash-flow hedges, in "Other comprehensive income" under the item "Gains and losses not recognised in the statement of income" (see "Consolidated statement of changes in shareholders' equity"). Any non-effective portion of the changes in the fair value of the hedging instrument is recognised in the statement of income. Amounts deferred in equity are transferred to the statement of income and classified as "interest income" or "interest expense" in the periods during which the hedged firm commitment or forecast transaction affects the statement of income.

6.8. Fair value hedge of the interest-rate risk exposure of a portfolio

As mentioned in II.1.1. General, Belfius makes use of the carve out provision in IAS 39 as adopted by the European Union because it better reflects the way in which Belfius manages its financial instruments.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Belfius recognises the hedging items at fair value with adjustments accounted for in the statement of income. The hedged items include financial assets and liabilities at amortised cost and financial assets available for sale.

Belfius reports hedged interest-rate risk revaluation of elements carried at amortised cost on the balance sheet under the item "Gain/loss on the hedged item in portfolio hedge of interest rate risk".

6.9. Borrowings

Belfius recognises borrowings initially at fair value, being generally their issue proceeds, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost. Belfius recognises any difference between their initial carrying amount and the reimbursement value in the statement of income over the period of the borrowings using the effective interest-rate method.

Belfius classifies the instruments or its components, on initial recognition, as a financial liability or an equity instrument in accordance with the economic substance rather than the legal form. If applicable, further details on the applicable judgements are described in the corresponding notes.

6.10. Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised and remain on the balance sheet. The corresponding liability is recorded under "Due to banks" or "Customer borrowings and deposits", as appropriate. The asset is included as "pledged" in the supporting notes to the financial statements.

Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans are recorded as "loans and advances due from banks" or "loans and advances to customers".

The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest-rate method.

Securities lent to counterparties are not derecognised. Securities borrowed are not recognised in the balance sheet.

6.11. Fair value of financial instruments

6.11.1. General principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an organised market (such as a recognised stock exchange) are to be used as fair value, as they are the best evidence of the fair value of a financial instrument. Quoted market prices are not available for all financial assets and liabilities held or issued by Belfius.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. A valuation model reflects the transaction price on the measurement date in an arm's length exchange under normal business considerations, i.e. the price that would be received by the holder of the financial asset in an orderly transaction that is not a forced liquidation or forced sale or the price to transfer the liability.

The valuation model takes into account all factors that market participants consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they are incorporated into the model.

6.11.2. Specific rules

The approaches used for the determination of fair value of financial instruments are summarised in note 9.1. "Fair value".

6.12. Day one profit or loss

The day one profit or loss is applicable to all financial instruments measured at fair value through profit or loss.

The day one profit or loss is the difference between:

- the transaction price and the quoted market price, if the financial instrument is quoted; or
- the transaction price and the fair value determined by using a valuation technique, (mark-to-model) if where the instrument is not quoted.

If the main parameters of the model are observable and if the model meets the validation requirements of Risk Management, the day one profit or loss will be recognised immediately in the statement of income.

If the main parameters are not observable or Risk Management has not validated the model, the day one profit or loss will be amortised on a straight line basis over the expected life of the instrument. However, if the data becomes observable subsequently the remaining portion of day one profit or loss will be recognised in the statement of income.

In cases of early termination of the underlying instrument, the remaining portion of day one profit or loss will be recognised in the statement of income.

7. Interest income and expense

Interest income and expense are recognised in the statement of income for all interest bearing instruments not measured at fair value through profit or loss on an accrual basis using the effective interest-rate method (transaction costs included). Negative interests on these instruments are presented as a separate item within interest expense (interest expense on financial assets) or within interest income (interest income on financial liabilities). Interest results of derivatives used in accounting and economic hedge relationships are recognised in interest income or expense. Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial asset or liability. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument. Once an interest-bearing financial asset has been impaired, interest income is recognised based on the interest rate that was used to discount the future cash flows for measuring the recoverable amount. Accrued interest is reported in the same item as the related financial asset or liability in the balance sheet.

8. Fee and commission income and expense

Commissions and fees arising from most of the activities of Belfius are recognised on an accrual basis over the life of the underlying transaction. Performance fees are recognised when all underlying conditions are met and therefore acquired.

Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.

9. Insurance and reinsurance activities

9.1. Classification

Belfius Insurance operates in both Life and Non-Life insurance activities.

IFRS 4 (Phase 1) is applied to all policies where the insurer accepts a significant insurance risk by agreeing to indemnify the policyholder in the event of a well-defined and uncertain occurrence in the future (the insured event). Reinsurance policies that comply with this definition, as well as investment contracts with a discretionary participation feature, or DPF, also come under this field of application.

The rules for deposit accounting apply for financial instruments without discretionary profit sharing, as well as for unit-linked (branch 23 type) insurance policies. This means that the deposit component and the insurance component are valued and presented separately. IAS 39 and not IFRS 4 is applicable for the valuation and presentation of the deposit component. With deposit accounting, the related premiums and the resulting entry of the obligation are not recorded in the income statement. The obligations themselves are not recorded in the technical provisions, but under financial liabilities. Associated management charges and commission fees are entered immediately in the income statement. Payments made are not entered in the income statement, but result in a reduction of the obligation. For unit-linked (branch 23) contracts, the deposit component and the corresponding investments are valued at their fair value, with variations in the income statement. The fair value is determined by the number of units, multiplied by the value of the unit that is based on the fair value of the underlying investments.

Group insurance cover for Belfius staff is not within the scope of IFRS 4, but instead is dealt with under the valuation rules for pension schemes.

9.2. Valuation

9.2.1. General

For the (re)insurance policies that come under the scope of application set out above. Under IFRS, no provision may be made for equalisation and disaster and the following rules apply:

Provision for unearned premiums

The provision for unearned premiums is calculated pro rata temporis for each agreement separately, based on the net premium. For accepted reinsurance, the reserves are recorded based on data passed on by the ceding companies.

Provisions for claims to be paid

The amount of the provision for claims to be paid in the Non-Life direct business equals the amount owed to beneficiaries, plus the management charges for the claims.

For the reported claims, the provision for the claims to be paid in Non-Life direct business is calculated on a case-by-case basis, including future settlement costs or as a separate provision for a group of claims. When a claim is settled in the form of annuity payments, the amount that needs to be reserved is calculated based on actuarial methods. For "claims incurred but not (enough) reported" (IBN(E)R) on reporting date, a provision is determined based on past experience regarding the number and amount of claims reported after the reporting date. Account is also taken of exceptional events and additional provisions are also booked on the basis of statutory requirements, such as for workers' compensation.

Provisions for Life insurance

The provision for Life insurance is calculated taking account of the statutory requirements and terms regarding the Life insurance business. As such, the following apply:

- *Valuation using the forward-looking method:* this method is applied for provisions in branch 21 insurance policies with guaranteed returns on future premiums. The calculation is based on the technical terms of the policies.
- *Valuation using the retrospective method:* this method is applied for provisions in universal life branch 21 insurance policies. The calculation is based on the technical terms of the policies, without taking future premiums into account.
  For accepted reinsurance, a provision is booked separately for each agreement based on the information provided by the ceding party.
  As a supplement to the rules set out above, an additional provision is booked for the low interest rate risk and other factors that have an important impact on the adequacy of the technical provisions.

Provision for (discretionary) profit sharing

A discretionary participation feature ("DPF") is a contractual right to receive additional benefits, on top of guaranteed benefits, whose amount or timing is contractually at the discretion of the insurer, also called "profit sharing". Belfius Insurance records a deferred profit sharing for the amount of the expected profit sharing to be shared with policyholders.

The amount of deferred profit sharing is reduced by the actual allocation to individual policyholders after the approval of the insurance company's Annual ordinary shareholders meeting.

The deferred profit sharing related to unrealized capital gains or losses on allocated investments is recognised in the revaluation reserve in other comprehensive income (equity). Upon realization of the allocated investments, the part of the deferred profit sharing related to these realized capital gains or losses is adjusted and recorded in the insurance technical provisions.

Reinsurance activities

A specific reduction in value is applied to the reinsurance assets if:

- there is objective evidence, resulting from an event that occurred after the initial recognition of the reinsurance assets, that the ceding party will not recover all amounts due. Account is taken of the rating and solvency of the reinsurer; and
- the amounts are reliably measurable.

We refer to the rules related to specific impairment.

9.2.2. Liability Adequacy Test – LAT

At the end of each reporting period, Belfius Insurance conducts liability adequacy tests on its technical provisions. If these additional tests indicate that the book value of the technical provisions is insufficient compared to the current value of the estimated future cash flows, an additional technical provision is recorded for this shortfall through the income statement. These tests are assessed separately for technical provisions Life and technical provisions Non-Life.

For life insurance, an estimate is made of the expected cash flows of contracts, taking into account the assumptions that are also used for other modelling purposes. The present value of these expected cash flows is determined using a discount curve according to the EIOPA methodology including a volatility adjustment calibrated on Belfius Insurance's investment portfolio.

The Liability Adequacy Test takes into consideration the unrealized gains on the investment portfolio allocated to the Life business.

If the calculated value is higher than the provision for Life insurance, the difference is taken through the income statement.

For Non-Life insurance, the liability adequacy test verifies whether the provision for unearned premiums and the provision for claims are sufficient to make a full settlement of the incurred claims and all claims expected to occur within the ongoing insurance coverage period.

9.2.3. Shadow accounting

If the realisation of unrealised profits from financial assets available for sale recorded under other comprehensive income has an immediate effect on the valuation of the technical provisions, shadow accounting offers a solution through the partial transfer of unrealised investment results from other comprehensive income to technical provisions.

First and foremost, Belfius Insurance applies shadow accounting if the statutory or contractual conditions in the insurance policies state that the realisation of recorded but unrealised profits on clearly defined assets belonging to the insurer has a direct effect on the valuation of the corresponding insurance contracts and investment contracts with DPF. This application occurs mainly in insurance policies managed through funds with dedicated assets.

Belfius has also decided to recognize a "shadow loss" for the difference between the value of the Life insurance obligations based on the LAT methodology described above on the one hand and the provisions for Life insurance on the other hand. This amount is limited to the unrealised gains recognised in other comprehensive income for financial assets available for sale covering Life insurances.

10. Network costs

Network costs consist of commissions paid to Belfius Bank independent branches and are based on outstanding volumes and production figures. Commissions for the production of interest-bearing financial assets and financial liabilities are included in interest income and expense using the effective interest-rate method.

11. Tangible fixed assets

Tangible fixed assets include property, equipment and investment properties.

All property and equipment are stated at cost less accumulated depreciation and impairments. Subsequent costs are included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to Belfius and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

The estimated useful lives are:

- buildings (including acquisition costs and non-deductible taxes): 20 to 50 years;
- computer equipment: 1 to 6 years;
- leasehold improvements, equipment and furniture: 2 to 12 years;
- vehicles: 2 to 5 years.

An item of property and equipment can be composed of significant parts with individually varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined for the head offices used starting 2006:

- structure of the building: 50 years;
- roof and frontage: 30 years;
- technical installations: 10 to 20 years;
- fixtures and fittings: 10 to 20 years.

Tangible fixed assets are tested for impairment when an indication of impairment loss exists. If the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any) on a systematic basis over its remaining useful life.

Gains and losses on disposals of property and equipment are included under "Net income on investments and liabilities".

Investment properties are those properties held to earn rentals or for capital appreciation. Belfius may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property only if Belfius holds an insignificant portion for its own use.

Investment properties are recorded at cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis. Depreciation on buildings and other assets given in operating lease are booked under "Other expense".

12. Intangible assets

Intangible assets consist mainly of

→ (a) internal development expenditures and
→ (b) acquired software.

The costs associated with maintaining computer software programmes are recognised as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond one year is added to the original cost of the software. Internal development costs recognised as assets are amortised using the straight-line method over their useful lives from the time the developed item is available for use.

An acquired customer portfolio is amortised using the straight-line method over the expected life of the portfolio taking into account the expected loss of customers in the acquired portfolio.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset, they are capitalised. Other borrowing costs are recognised as an expense.

Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists. If the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any) on a systematic basis over its remaining useful life. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included under "Net income on investments and liabilities".

13. Goodwill

13.1. Measurement of goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

It is measured as the difference between

→ The sum of the following elements:
  - consideration transferred;
  - amount of any non-controlling interests in the acquiree;
  - fair value of the acquirer's previously held equity interest in the acquiree (if any).

→ Minus the fair value determined at acquisition date of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, this difference is negative (" badwill"), it is recognised immediately in profit or loss as a bargain purchase gain.

13.2. Impairment of goodwill

The carrying amount of goodwill is reviewed at year-end. For the purpose of this impairment testing, Belfius allocates goodwill to cash-generating units (CGUs) or groups of such units.

When circumstances or events indicate that there may be uncertainty about the carrying amount, goodwill is written down for impairment when the recoverable amount of the CGU or group of CGUs to which it has been allocated is lower than the carrying value.

The recoverable amount is the higher of the fair value less cost to sell or the value in use. The "value in use" is the sum of the future cash flows that are expected to be derived from a CGU. Expected cash flows used by Belfius are those of the financial budget approved by management.

The calculation of the "value in use" shall also reflect the time value of money (current risk-free rate of interest) corrected for the price for bearing the uncertainty inherent in the asset. This is reflected in the discount rate.

14. Other assets

Other assets mainly include accrued income (other than interest prorata), prepayments, operational taxes and other accounts receivable. They also include assets from insurance contracts (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories and plan assets relating to employee benefit obligations.

15. Non-current assets (disposal group) held for sale and discontinued operations

If the carrying amount of a non-current asset (or disposal group) is recovered principally through a sale transaction rather than through continuing use, it will be classified as "held for sale".

Belfius measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and its fair value less costs to sell. Non-current assets (or disposal groups) classified as held for sale are presented separately in the balance sheet, without restatement for previous periods. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale.

A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss of discontinued operations is presented under a separate line in the statement of income.

16. Leases

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

16.1. Belfius is the lessee

Belfius grants operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the statement of income on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded at the lower of the present value of the minimum lease payments and the fair value and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to Belfius. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest-rate method.

16.2. Belfius is the lessor

Belfius grants both operating and finance leases.

Revenue from operating leases is recognised in the statement of income on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.

For finance leases, Belfius recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.

The interest rate implicit in the lease contract is the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

17. Deferred income tax

Deferred income tax is recognised in full, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred taxes are measured at tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted.

Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

A deferred tax liability is recognised on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except to the extent that Belfius is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes related to the fair value measurement of assets available for sale and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

18. Employee benefits

18.1. Short-term benefits

Short-term benefits are expected to be wholly settled within twelve months after the end of the annual reporting period in which the employee renders service. These are measured on an undiscounted basis and recognised as an expense.

18.2. Post-employment benefits

Post-employment benefits include retirement benefits (annuity or lump sum payments on retirement) and other post-employment benefits such as medical care granted after the completion of the employment.

18.2.1. Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows based on interest rates determined by reference to market yields on high quality corporate bonds that have terms to maturity approximating to the terms of the related liability. When there is no deep market in such bonds, the market yields on government bonds shall be used. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions comprising both demographic assumptions and financial assumptions such as the inflation rate, salary increase.

The amount recognised in the balance sheet for the defined benefit plan is the difference between the present value of the defined benefit obligation (using the Projected Unit Credit Method) and the fair value of any plan assets. This amount may be presented as a liability or an asset.

In case of a net asset, the amount recognised is limited to the asset ceiling, which is the present value of any economic benefits available for Belfius in the form of refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability (asset) are recognised in other comprehensive income and are never reclassified to profit or loss. Remeasurements arise from the effect of changes in demographic and financial assumptions, from experience adjustments, the return on plan assets and any change in the effect of the asset ceiling.

18.2.2. Defined contribution plans

The contributions of Belfius related to defined contribution plans are charged to the statement of income in the year to which they relate.

Due to the legal minimum guaranteed rate of return imposed by the Belgian State, Belgian contribution plans are considered as defined benefit plans under IAS 19 and presented as such.

Given the change in legislation at the end of 2015 (i.e. the minimum guaranteed returns on employer and employee contributions decreased respectively from 3,25% and 3,75% to 1,75%), the valuation of the obligation of the Belgian defined contribution plans is based on the defined benefit methodology i.e. the Projected Unit Credit Method.

18.3. Other long-term benefits

A benefit is classified as other long-term employee benefits when the payment is not expected to be wholly settled before twelve months after the end of the annual closing period in which the employee renders service. These mainly include provisions for jubilee premiums and bonuses that employees receive after completion of specified periods of service.

Due to the smaller degree of uncertainty compared with post-employment benefits, a simplified method based on actuarial calculations is required to recognise and measure jubilees and other long-term benefits. A provision is set up for the estimated liability as a result of services rendered by employees up to the balance-sheet date and remeasurements are recognised in the statement of income.

18.4. Termination benefits

Termination benefits result either from a decision of Belfius to terminate the employment before the normal date of retirement or an employee's decision to accept redundancy payments from Belfius for termination of employment. Any benefit that requires future service is not a termination benefit.

A termination benefit provision is recognised at the earlier of when related restructuring costs are recognised and when Belfius can no longer withdraw the offer of those benefits.

19. Provisions and contingent liabilities

Provisions are mainly recognised for litigation claims, restructuring and loan commitments.

Provisions are measured at the present value of the best estimate of expenditures required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognised when:

- → Belfius has a present legal or constructive obligation as a result of past events;
- → it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- → a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised when there is uncertainty about the creditworthiness of the counterparty. Please refer to impairment section II.6.6.

Unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability is disclosed.

20. Levies

Levies are outflows of resources embodying economic benefits imposed by governments on entities as identified by the legislation (i.e laws and/or regulations) other than income taxes, fines or other penalties imposed for breaches of the legislation.

Belfius recognises a liability when the obligating event occurs. All levies are taken upfront in full (no accrual accounting permitted) in "other expense" and the related amounts due are booked in "other liabilities".

21. Share capital

Dividends on ordinary shares of Belfius

Belfius recognises its dividends on its ordinary shares as a liability from the date on which they are declared. Any dividends for the year declared post-balance-sheet date are disclosed in the subsequent events note.

22. Fiduciary activities

Assets and related income that are held by Belfius, together with related undertakings to return such assets to customers, are excluded from the financial statements if Belfius acts in a fiduciary capacity such as a nominee, trustee or agent.

23. Government grants

Government grants are assistance by government in the form of transfers of resources, other than credit lending stimulation instruments, to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They are not recognised until there is reasonable assurance that the entity will comply with the attached conditions and that the grant will be received. Government refers to government, government agencies and similar bodies such as community institutions.

The benefit of a government loan at a below market rate of interest is recognised in profit or loss on a systematic basis considering the conditions and obligations that have been met, or must be, met when identifying the costs for which the grants are intended.

TRANSITION TABLES FROM IAS 39 TO IFRS 9

Abbreviations used	
AC	Amortized cost
AFS	Available for sale
CFH	Cash flow hedge
DIA	Date of initial application
ECL	Expected credit loss
FVO	Fair value option
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
HTM	Held to maturity
L&R	Loans and receivables
OCI	Other comprehensive income
RE	Retained earnings
SPPI	Solely payments of principal and interest

Presentation of 31/12/17 financial statements in adapted lay-out

IAS 39 as published (valuation method lay-out) 31/12/17 (in millions of EUR)		Movement	Ref	IAS 39 under new lay-out (nature lay-out) 31/12/17	
I. Cash and balances with central banks	10,237			I. Cash and balances with central banks	10,237
				II. Loans and advances due from credit institutions	
II. Loans and advances due from banks	14,121	(320)	A	A. Measured at amortised cost	13,802
				B. Measured at fair value through other comprehensive income	
				C. Measured at fair value through profit or loss	
				III. Loans and advances	
III. Loans and advances to customers	90,057	(4,468)	A & B	A. Measured at amortised cost	85,589
				B. Measured at fair value through other comprehensive income	
		3	C	C. Measured at fair value through profit or loss	3
				IV. Debt securities & equity instruments	
IV. Investments held to maturity	5,442	8,608	A & B	A. Measured at amortised cost	14,050
V. Financial assets available for sale	17,983			B. Measured at fair value through other comprehensive income	17,983
VI. Financial assets measured at fair value through profit or loss	3,240	(2,601)	C	C. Measured at fair value through profit or loss	640
		2,598	C	V. Unit linked products insurance activities	2,598
VII. Derivatives	20,303	(3,889)	B	VI. Derivatives	16,415
VIII. Gain/loss on the hedged item in portfolio hedge of interest rate risk	3,721			VII. Gain/loss on the hedged item in portfolio hedge of interest rate risk	3,721
IX. Investments in equity method companies	31			VIII. Investments in equity method companies	31
X. Tangible fixed assets	1,059			IX. Tangible fixed assets	1,059
XI. Intangible assets	162			X. Intangible assets	162
XII. Goodwill	104			XI. Goodwill	104
				XII. Tax assets	
XIII. Current tax assets	20			A. Current tax assets	20
XIV. Deferred tax assets	235			B. Deferred tax assets	235
		277	D	XIII. Technical insurance provisions - part of the reinsurer	277
XV. Other assets	1,224	(277)	D	XIV. Other assets	947
XVI. Non current assets (disposal group) held for sale and discontinued operations	19			XV. Non current assets (disposal group) held for sale and discontinued operations	19
TOTAL ASSETS	167,959			TOTAL ASSETS	167,891

IAS 39 as published (valuation method lay-out) 31/12/17 (in millions of EUR)			Movement	Ref	IAS 39 under new lay-out (nature lay-out) 31/12/17		
I.	Due to banks	11,110	(7,131)	R	I.	Cash and balances from central banks	3,979
					II.	Credit institutions borrowings and deposits	
			7,131	R		A. Measured at amortised cost	7,131
						B. Measured at fair value through profit or loss	
					III.	Borrowings and deposits	
II.	Customer borrowings and deposits	76,274				A. Measured at amortised cost	76,274
IV	Financial liabilities measured at fair value through profit or loss	8,893	(8,839)	S		B. Measured at fair value through profit or loss	54
					IV.	Debt securities issued and other financial liabilities	
III	Debt securities	22,027				A. Measured at amortised cost	22,027
			6,241	S		B. Measured at fair value through profit or loss	6,241
			2,598	S	V.	Unit linked products insurance activities	2,598
VI.	Derivatives	21,264	(68)	B	VI.	Derivatives	21,196
VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	105			VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	105
V.	Technical provisions of insurance companies	15,150			VIII.	Provisions for insurance activities	15,150
VIII.	Provisions and contingent liabilities	425			IX.	Provisions and contingent liabilities	425
					X.	Subordinated debts	
IX.	Subordinated debts	1,199				A. Measured at amortised cost	1,199
						B. Measured at fair value through profit or loss	
					XI.	Tax liabilities	
X.	Current tax liabilities	51				A. Current tax liabilities	51
XI.	Deferred tax liabilities	177				B. Deferred tax liabilities[1]	177
XII.	Other liabilities	1,762	0		XII.	Other liabilities	1,762
XIII.	Liabilities included in disposal groups held for sale				XIII.	Liabilities included in disposal groups held for sale	
TOTAL LIABILITIES		158,438			TOTAL LIABILITIES		158,369
XIV.	Subscribed capital	3,458			XIV.	Subscribed capital	3,458
XV.	Additional paid-in capital	209			XV.	Additional paid-in capital	209
XVI.	Treasury shares				XVI.	Treasury shares	
XVII.	Reserves and retained earnings	4,812			XVII.	Reserves and retained earnings	5,417
XVIII.	Net income for the period	606			XVIII.	Net income for the period	
CORE SHAREHOLDERS' EQUITY		9,084			CORE SHAREHOLDERS' EQUITY		9,084
XX.	Frozen fair value of financial assets reclassified to loans and advances	(474)	580	Q	XIX.	Fair value changes of debt instruments measured at fair value through other comprehensive income	106
XIX.	Remeasurement available-for-sale reserve on securities	812	(580)	Q	XX.	Fair value changes of equity measured at fair value through other comprehensive income	232
					XXI.	Fair value changes due to own credit risk on financial liabilities designated as at fair value through profit or loss to be presented in other comprehensive income	
			(14)	V	XXII.	Fair value changes of derivatives measured at fair value through other comprehensive income - Cash flow hedges	(14)
XXI.	Remeasurement defined benefit plan	113			XXIII.	Remeasurement pension plans	113
XXII.	Discretionary participation features of insurance contracts				XXIV.	Discretionary participation features of insurance contracts	
XXIII.	Other reserves	(14)	14	V	XXV.	Other reserves	0
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		437			GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		437
TOTAL SHAREHOLDERS' EQUITY		9,521			TOTAL SHAREHOLDERS' EQUITY		9,521
XXIV.	Non-controlling interests	0			XXVI.	Non-controlling interests	0
TOTAL EQUITY		9,521			TOTAL EQUITY		9,521
TOTAL LIABILITIES AND EQUITY		167,959			TOTAL LIABILITIES AND EQUITY		167,891

From "valuation method lay-out" to "nature lay-out"

Belfius has taken the opportunity to review the presentation of its balance sheet with the implementation of a new accounting standard. Belfius has applied a valuation based presentation, whereby the presentation of the balance sheet was primarily based on the valuation method of the assets and liabilities. However, as from January 1, 2018, Belfius has opted to adopt a more nature based presentation, whereby assets and liabilities are grouped based on their type.

For example, under IAS 39, bonds are classified under five different asset categories:

→ Loans and advances due from banks;
→ Loans and advances to customers;
→ Investments held to maturity;
→ Financial assets available for sale; and
→ Financial assets measured at FVTPL.

Under the adopted lay-out, bonds will be presented in a single line item called "Debt securities and equity instruments" below presenting sub-lines for the different valuation methods.

As such, the balance sheet under IAS 39 has been restated from a "valuation method lay-out" to this new "nature lay-out", forming the starting point of the transition to allow for a clear view of the different impacts of IFRS 9.

As such, Belfius has performed the following reclassifications to present the new lay-out:

Reference in transition table	
A	**Reclassification of the bonds** FROM → Loans and advances due from banks; and → Loans and advances to customers under the "valuation method lay-out" TO → Debt securities & equity instruments measured at AC under the "nature lay-out".
B	**Reclassification of the not closely related embedded derivatives** FROM → Derivatives under the "valuation method lay-out" TO → Loans and advances measured at AC; and → Debt securities & equity instruments measured at AC under the "nature lay-out".
C	**Reclassification of unit linked products and FVO loans** FROM → Financial assets measured at FVTPL under the "valuation method lay-out" TO → Unit linked products insurance activities; and → Loans and advances to customers measured at FVTPL under the "nature lay-out".
D	**Reclassification of the share of the reinsurers in the technical insurance reserves** FROM → Other assets under the "valuation method lay-out" TO → Technical insurance provisions - part of the reinsurer under the "nature lay-out".

The above reclassifications represent changes made to the presentation of the assets in the balance sheet. Reclassifications were also done on the liabilities and equity:

Reference in transition table	
Q	**Reclassification of the AFS reserve and the frozen AFS reserve** Under the new "nature lay-out", the OCI reserve for debt and equity instruments is shown separately. Under the "valuation method lay-out", the AFS reserve is split between the frozen AFS reserve and the AFS reserve on securities. Under the new "nature lay-out", the OCI reserve is split between amounts relating to debt instruments and equity instruments, regardless of whether it was considered as part of the frozen AFS reserve or the AFS reserve on securities.
R	**Further detailing of balance sheet** FROM → Due to banks under the "valuation method lay-out" TO → Cash and balances from Central banks; and → Credit institutions borrowings and deposits measured at AC under the "nature lay-out".
S	**Further detailing of balance sheet** FROM → Financial liabilities measured at FVTPL under the "valuation method lay-out" TO → Borrowings and deposits measured at FVTPL; → Debt securities issued and other financial liabilities measured at FVTPL; and → Unit linked products insurance activities under the "nature lay-out".
V	**Further detailing of balance sheet** FROM → Other reserves under the "valuation method lay-out" TO → Fair value changes of derivatives measured at fair value through other comprehensive income - Cash flow hedges under the "nature lay-out".

The total of the above reclassifications add up to zero as it represents movements between different accounts.

Transition of the financial statements of 31/12/17 from IAS 39 to financial statements of 1/1/18 IFRS 9

IAS 39 under new lay-out (nature lay-out) 31/12/17 (in millions of EUR)		IFRS 9 impact on classification and measurement, including additional impairment								IFRS 9 01/01/18
		Classification				Remeasurement	Ref	Impairment	Ref	Total
		Business model	Ref	Basicness (SPPI)	Ref					
I. Cash and balances with central banks	10,237									10,237
II. Loans and advances due from credit institutions										
A. Measured at amortised cost	13,802							0	P	13,802
B. Measured at fair value through other comprehensive income										
C. Measured at fair value through profit or loss										
III. Loans and advances										
A. Measured at amortised cost	85,589	(32)	H	(2,380)	E			(116)	P	83,060
B. Measured at fair value through other comprehensive income										
C. Measured at fair value through profit or loss	3	32	H	2,380	E	(69)	J			2,346
IV. Debt securities & equity instruments										
A. Measured at amortised cost	14,050	9,598	I	(326)	F	(2,098)	K	(81)	P	21,144
B. Measured at fair value through other comprehensive income	17,983	(9,598)	I	(1,680)	G	258	L			6,963
C. Measured at fair value through profit or loss	640			2,005	F & G	25	M			2,670
V. Unit linked products insurance activities	2,598									2,598
VI. Derivatives	16,415									16,415
VII. Gain/loss on the hedged item in portfolio hedge of interest rate risk	3,721					1,326	N			5,046
VIII. Investments in equity method companies	31									31
IX. Tangible fixed assets	1,059									1,059
X. Intangible assets	162									162
XI. Goodwill	104									104
XII. Tax assets										
A. Current tax assets	20									20
B. Deferred tax assets	235					(9)	O	94		320
XIII. Technical insurance provisions – part of the reinsurer	277									277
XIV. Other assets	947									947
XV. Non current assets (disposal group) held for sale and discontinued operations	19									19
TOTAL ASSETS	167,891									167,220

IAS 39 under new lay-out			IFRS 9 impact on classification and measurement, including additional impairment				
(in millions of EUR)			Remeasure-ment	Ref	Impairment	Ref	IFRS 9 01/01/18
I.	Cash and balances from central banks	3,979					3,979
II.	Credit institutions borrowings and deposits						
	A. Measured at amortised cost	7,131					7,131
	B. Measured at fair value through profit or loss						
III.	Borrowings and deposits						
	A. Measured at amortised cost	76,274					76,274
	B. Measured at fair value through profit or loss	54					54
IV.	Debt securities issued and other financial liabilities						
	A. Measured at amortised cost	22,027					22,027
	B. Measured at fair value through profit or loss	6,241					6,241
V.	Unit linked products insurance activities	2,598					2,598
VI.	Derivatives	21,196					21,196
VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	105					105
VIII.	Provisions for insurance activities	15,150	(566)	T			14,584
IX.	Provisions and contingent liabilities	425			113	P	538
X.	Subordinated debts						
	A. Measured at amortised cost	1,199					1,199
	B. Measured at fair value through profit or loss						
XI.	Tax liabilities						
	A. Current tax liabilities	51					51
	B. Deferred tax liabilities(1)	177	(150)	O			27
XII.	Other liabilities	1,762					1,762
XIII.	Liabilities included in disposal groups held for sale						
TOTAL LIABILITIES		158,369					157,766
XIV.	Subscribed capital	3,458					3,458
XV.	Additional paid-in capital	209					209
XVI.	Treasury shares						
XVII.	Reserves and retained earnings	5,417	(40)		(247)	P	5,130
XVIII.	Net income for the period						
CORE SHAREHOLDERS' EQUITY		9,084					8,797
XIX.	Fair value changes of debt instruments measured at fair value through other comprehensive income	106	238		31	P	375
XX.	Fair value changes of equity measured at fair value through other comprehensive income	232	(45)				187
XXI.	Fair value changes due to own credit risk on financial liabilities designated as at fair value through profit or loss to be presented in other comprehensive income						
XXII.	Fair value changes of derivatives measured at fair value through other comprehensive income – Cash flow hedges	(14)	(5)	U			(19)
XXIII.	Remeasurement pension plans	113					113
XXIV.	Discretionary participation features of insurance contracts						
XXV.	Other reserves	0					0
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		437					657
TOTAL SHAREHOLDERS' EQUITY		9,521					9,454
XXVI.	Non-controlling interests	0					0
TOTAL EQUITY		9,521					9,454
TOTAL LIABILITIES AND EQUITY		167,891					167,220

Introduction

The amounts presented are the current best estimates and can be subject to change following additional review and analysis.

Three distinct types of impacts can be distinguished in the different columns presented in the table above between IAS 39 and IFRS 9:

- **Classification**
  The classification under IFRS 9 is based on both the business model for managing the financial assets and the characteristics of the financial assets' contractual cash flows.
  Belfius has assessed its business models and analyzed whether the contractual cash flows of the financial assets represents solely payments of principal and interest (SPPI test) on the principal amount outstanding.
  The amounts mentioned in the column "Classification" are the book values under IAS 39 that are reclassified following either a change in business model or because the financial asset is not compliant with the SPPI test.
  The total of the column should, therefore, be zero.

- **Remeasurement**
  Following the change in business model or because the financial asset is not compliant with the SPPI test, the book value under IAS 39 might need to be adjusted.
  For example, if a financial asset under IAS 39 is classified in AFS but is considered as held to collect and complies with the SPPI test under IFRS 9, then the financial asset should be measured at AC (as if IFRS 9 was applied from inception date of the asset) instead of at fair value. As a result, the revaluation to fair value, under IAS 39, is reversed so that the AC value, under IFRS 9, is presented for that financial asset.
  The total of the column "Remeasurement" will present the IAS 39 to IFRS 9 transition impact on equity as the revaluation is either reversed or recorded in OCI or RE.
  Note that the impairment impact is presented separately from these remeasurements.

- **Impairment**
  Under IFRS 9, an expected loss model must be applied on all financial assets measured at AC or at FVTOCI (apart from equity instruments that have been irrevocably measured at FVTOCI) as well as on loan commitments, financial guarantees, lease receivables within the scope of IAS 17, and on trade receivables or contract assets within the scope of IFRS 15.
  Seeing that IAS 39 applies an incurred loss model, the impact of this change in methodology has been presented in the column impairment.
  The total of this column "Impairment" presents part of the total impact in RE.

Note that the description below focusses only on financial assets. The impact on financial liabilities is limited to an impact on the balance sheet lines "Provisions for insurance activities" and "Derivatives" and is separately indicated as liabilities when discussed below.

Should own credit risk be recorded, a reclassification from RE towards OCI is required.

(i) Classification

SPPI test

Belfius has made an extensive analysis of its debt instruments to determine whether they comply with the SPPI test. All debt instruments have been reviewed and documented within the Group.
Based on these reviews, Belfius has identified

- certain loans (with and without structures);
- a limited number of bonds; an
- equity instruments considered non-SPPI debt securities. These loans and debt securities need to be measured at FVTPL, irrespective of business model.

As a result, following reclassifications can be noted:

Reference in transition table	
E	Reclassification of the loans (with and without structures) classified in the "nature lay-out" balance sheet in Loans and advances measured at AC to Loans and advances measured at FVTPL.
F	Reclassification of the bonds classified in the "nature lay-out" balance sheet in Debt securities & equity instruments measured at AC to Debt securities & equity instruments measured at FVTPL.
G	Reclassification of equity instruments considered non-SPPI debt securities classified in the "nature lay-out" balance sheet in Debt securities & equity instruments measured at FVTOCI to Debt securities & equity instruments measured at FVTPL.

Business model

The term business model refers to the way an entity manages its financial assets in order to generate cash flows; the business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. It does not relate to a choice but it is rather a matter of fact that can be observed by the way an entity is managed and information is provided to its management.

Belfius has defined the different business models for its financial assets in the banking group and the insurance group. The business models reflect how the financial assets are managed in order to generate cash flows and is based on:

- past experience regarding the frequency, volume and timing of sales including the reasons for such sales and expectations about future sales activity;
- the evaluation and reporting of the financial assets;
- assessment and management of key risks; and
- the compensation of the manager

The analysis resulted in the following business models:

Loans

The loan portfolio fits within the framework of the classic banking and insurance transformation business with the objective of generating a stable interest margin. The objective is to hold these loans until maturity. Belfius has no history of actively selling loans with the exception of securitization. The fact that loans are sold to a securitization vehicle that does not transfer risks and rewards to third parties does not preclude, from a consolidated group's perspective, Belfius from considering these loans as originated with the intention of holding them until maturity.

In limited circumstances, a standard risk-management related pruning of a loan portfolio could be executed, for instance to bring the average rating of the portfolio in line with the risk appetite framework.

All in all, Belfius has opted for a hold to collect business model and will measure loans at AC.

One exception is noted, whereby an entity in the Group warehouses mortgage loans, for a limited period of time, before transferring these mortgage loans to a non-related party. Such mortgage loans are hence classified as held for sale and will be measured at FVTPL.

Debt securities

The business models are assessed at entity level.
Two types of business models can be distinguished in Belfius group context:

- *Banking group*
  The banking group has two types of bond portfolios: an ALM Yield portfolio and an ALM Liquidity portfolio. Both aim to generate stable earnings until maturity.
  The bond portfolios are managed within a business model whose objective is to hold the bonds to collect contractual cash flows until maturity. As such, the bonds are measured at AC with the exception of some identified bonds that Belfius aims to sell under specific conditions and that are thus classified at FVTOCI.
- *Insurance group*
  The debt securities of the insurance group are managed according to their ALM policies and guidelines. As a result, the insurance group determined that a large part of this portfolio should be defined as held to collect.
  However, in order to cover liquidity needs (following unexpected surrenders) and generate result for profit sharing possibilities, the insurance group has decided to classify certain bonds as held to collect and sell, and will measure these at FVTOCI. These bonds will be managed within a volatility risk framework. As a result, the insurance group will apply a mixed business model for its bond portfolio whereby part of the portfolio will be held to collect contractual cash flows and the other considered as held to collect and sell.

Equity instruments

Belfius has made the irrevocable choice at DIA to measure its current holdings in equity instruments at FVTOCI.

As a result, following transfers from IAS 39 classification to IFRS 9 business model can be noted:

Reference in transition table	
H	Reclassification of the warehoused mortgage loans classified in the "nature lay-out" balance sheet in Loans and advances measured at AC to Loans and advances measured at FVTPL.
I	Reclassification of the debt securities based on their applicable business models resulting in movements between Debt securities & equity instruments measured at AC and Debt securities & equity instruments measured at FVTOCI.

Remeasurement

IFRS 9 is applied retrospectively, requiring Belfius to apply it as if it has always been in force.

All adjustments to the book values of the financial assets are recognized in either the opening balance of RE or another component of equity, as applicable.

Remeasurement of non-SPPI compliant financial assets

At the date of initial application of IFRS 9, the non-SPPI compliant financial assets need to be measured at their fair values. Any difference between the book value under IAS 39 and the fair value is recognized in the opening balance of RE. It mainly concerns structured loans within the PCB business line to public and social counterparties.

As a result, following remeasurements can be noted:

Reference in transition table		Corresponding adjustment in equity
J	Remeasurement of non-SPPI compliant loans classified in the "nature lay-out" balance sheet in Loans and advances measured at FVTPL.	RE
M	Remeasurement of non-SPPI compliant debt securities classified in the "nature lay-out" balance sheet in Debt securities & equity instruments measured at FVTPL.	RE

Remeasurement of previously reclassified debt instruments

In 2008 and 2009, Belfius applied the amendment to IAS 39, permitting the reclassification of certain illiquid financial assets from AFS and Trading to L&R. Belfius also opted to reclassify certain bonds previously classified as AFS to HTM (during 2014 and 2015), following the change in intent of managing the portfolio. Following these reclassifications, the cumulative change in the fair value recognized in the AFS reserve at the time of reclassification was frozen and amortized from that moment onward over the remaining life of the instruments.

On application of IFRS 9, for instruments compliant with the SPPI-test, the frozen AFS reserve is to be reversed by adjusting the opening balance of RE given the retroactive application of IFRS 9.

For IFRS 9, the book value of the financial asset should represent either

- the AC if the asset is classified as held to collect; or
- the fair value if the asset is classified as held to collect and sell or held for sale if non-compliant with the SPPI test. Any difference between the book value under IAS 39 and the book value under IFRS 9 is recognized in the opening balance of RE or OCI, as applicable.

As a result, following remeasurements can be noted:

Reference in transition table		Corresponding adjustment in equity
K	Remeasurement of previously reclassified debt instruments classified in the "nature lay-out" balance sheet in Debt securities & equity instruments measured at AC.	RE
L	Remeasurement of previously reclassified debt instruments classified in the "nature lay-out" balance sheet in Debt securities & equity instruments measured at FVTOCI.	OCI
M	Remeasurement of previously reclassified debt instruments classified in the "nature lay-out" balance sheet in Debt securities & equity instruments measured at FVTPL.	RE
U	Belfius has certain bond and swap packages, for which the bond was bifurcated under IAS 39, that are considered as compliant with the SPPI test under IFRS 9. The underlying bonds are held in a hold to collect business model and hedge accounting is applied. This accounting treatment ensures a consistent presentation of the intent of management in the financial statements.	CFH → RE

Change in measurement of financial assets due to determined business model

After applying the new business models, any difference between the book value under IAS 39 and IFRS 9 is either recognized in RE or OCI.

As a result, following remeasurements can be noted:

Reference in transition table		Corresponding adjustment in equity
K	Remeasurement of financial assets measured at FVTOCI under IAS 39, but measured at AC under IFRS 9, the cumulative gain or loss recognized in OCI is reversed by adjusting the opening balance of RE given the retroactive application of IFRS 9. The financial asset is then remeasured to its AC by adjusting the opening balance of RE.	OCI
L	Remeasurement of financial assets measured at AC under IAS 39, but measured at FVTOCI under IFRS 9, the difference between the book value under IAS 39 and the fair value is recognized in OCI.	OCI

Impact on the portfolio hedge

An impact on the portfolio hedge can be noted, the result of a change in presentation for debt instruments measured at FVTOCI under IAS 39, but considered as hold to collect under IFRS 9 and measured at AC.

Under IAS 39, the fair value changes for these instruments, attributable to the risk being hedged are reclassified from OCI to profit or loss; whereas under IFRS 9, the fair value changes on these reclassified instruments attributable to the risk being hedged following portfolio hedge is classified on the asset side under the line Gain/loss on the hedged item in portfolio hedge of interest rate risk.

As a result, following remeasurements can be noted:

Reference in transition table		Corresponding adjustment in equity
N	Reclassification of the value of the hedged risk classified in the "nature lay-out" balance sheet in Reserves and retained earnings to Gain/loss on the hedged item in portfolio hedge of interest rate risk.	RE

Impact on technical provisions

Certain net unrealized gains that were previously presented on the balance sheet under IAS 39, are no longer presented on the balance sheet under IFRS 9 following the choice in business model. These recognized net unrealized gains are not attributable to Belfius Insurance, but rather to the policy holders. Belfius Insurance applied, shadow accounting whereby these net unrealized gains were reclassified from OCI to the provision for insurance activities. While, under IFRS 9, these net unrealized gains still exist, they are no longer recognized on the balance sheet given the choice of business model, as such, a reclassification from OCI to provision for insurance activities is not necessary.

As a result, following remeasurements can be noted:

Reference in transition table		Corresponding adjustment in equity
T	Decrease of the shadow accounting resulting in a decrease in the Provision for insurance activities with a related increase in OCI.	OCI

Impact on deferred taxes

Reference in transition table	
O	Any impact in equity from DIA IFRS 9 needs to be recorded net of taxes. As a result, an impact on the deferred tax assets and deferred tax liabilities is to be noted.

Impact on OCI for equity instruments

Seeing that for equity instruments classified irrevocably through OCI, no recycling is performed in profit or loss, all previously recognized impairments under IAS 39 should be reversed through RE for equities irrevocably measured at FVTOCI.

As a result, following reclassifications can be noted:

	Corresponding adjustment in equity
Reclassification of impairment on equity instruments classified in the "nature lay-out" balance sheet in RE to the OCI reserve.	RE → OCI

(iii) Impairment

Under IFRS9, Impairment is to be recognized (through P&L) on all financial assets measured at AC or at FVTOCI. In addition, loan commitments, financial guarantees and other commitments given are also subject to impairments.

Under IAS 39, an incurred loss model was used whereas under IFRS 9, an ECL model needs to be applied. This IFRS 9 model requires a two step approach

- 1: Determination of the appropriate stage per exposure
- 2: Calculation of the ECL per exposure

In order to determine the appropriate stage per exposure, a key element of the assessment of consists of comparing the rating at origination for all its financial assets under the impairment norm with the rating at reporting date. If a significant increase in credit risk is stated, the financial asset is allocated to stage 2 and a life time expected credit loss is calculated. If the financial asset is allocated to stage 1, a one year ECL is determined. Note that in some cases expert views and analysis are applied, on top of more mechanical rating evolutions, in order to take into account particular characteristics of exposures.

We refer to a detailed description of the calculation methodology in the valuations rules.

In order to determine the impact of the impairment, on DIA IFRS9, the collective impairment calculated with the IAS 39 model is reversed through retained earnings and the new ECL is recorded as a deduction of the financial assets in case the financial asset is measured at AC or recognized in OCI in case the financial asset is measured at FVTOCI. In addition, a new IFRS 9 provision has been recorded for loan commitments, financial guarantees and other commitments.

As a result, following remeasurements can be noted:

Reference in transition table		Corresponding adjustment in equity
P	Removal of previously accounted collective impairment for financial assets measured at AC and booking the appropriate ECL against the book value of the financial assets.	RE
	Removal of previously accounted collective impairment for financial assets measured at FVTOCI and booking the appropriate ECL against the OCI reserve of the financial assets.	OCI
	Additional ECL as a result of the increased scope of impairment under IFRS 9, recorded in Provisions and contingent liabilities.	RE

IV. OPERATING SEGMENTS REPORTING

(some amounts may not add up due to roundings-off)

An operating segment (or business line) is a distinguishable component of Belfius that is engaged in providing either products or services (business segment) to a homogeneous group of clients and/or through a homogeneous set of operations.

Since the separation from Dexia Group end 2011, Belfius presented its financial accounts in two segments inherited from the Dexia era: Franchise and Side. Since end 2011, Belfius actively executed a tactical de-risking program with respect to its Side portfolios, resulting in a strong decrease of outstanding volumes and a positive evolution of the portfolios' key risk indicators. Thanks to these continued efforts, the risk profile of Side was brought in line with the targeted risk profile. Hence, as from 1 January 2017 onwards, Belfius integrates the remainder of Side into Franchise (i.e. in Group Center) and no longer separates its financial reporting into the segments Franchise and Side.

From 1 January 2017 onwards, the segmentation of Belfius can be described as follows:

→ **Retail and Commercial (RC)** managing the commercial relationships with individual customers and with small & medium sized enterprises both at bank and insurance level.

→ **Public and Corporate (PC)** managing the commercial relationships with public sector, social sector and corporate clients both at bank and insurance level.

→ **Group Center (GC)** containing mainly the residual results not allocated to the two commercial segments, as well as the interest rate and liquidity management results linked to an internal transfer pricing system with the business lines. The former Side segment has been fully integrated in Group Center. In general, Group Center consists of:
- a bond portfolio, consisting of an ALM liquidity bond portfolio and an ALM yield bond portfolio,
- a derivatives and credit guarantee portfolio stemming from the former Side portfolio, containing the collateralized derivatives with Dexia entities, intermediated and hedged with the financial markets, the non-collateralized derivatives with international non financial counterparts, the credit guarantees (written protection), partly reinsured with monolines (including a TRS), and some bought credit protections for some ALM yield bonds and
- other activities such as ALM derivatives for B/S management, Financial Markets services (mostly to Business Lines and ALM), the management of central assets like buildings, and the management of 2 former specific loan files (loans to Holding Communal & Arco) and Group Center of Belfius Insurance.

Note that there are no internal sales or purchases between segments, the assets and liabilities presented within a segment are those generated and originated by the business lines.

1. Segmentation – Balance sheet

	31/12/16 (PF)(1)		
(In thousands of EUR)	Assets	Liabilities	Equity
Retail and Commercial	53,797,582	77,014,304	2,219,660
Public and Corporate	41,697,834	26,074,218	2,021,375
Group Center	81,225,512	64,620,685	4,770,684
TOTAL	**176,720,927**	**167,709,207**	**9,011,720**
of which banking group	*156,775,408*	*148,570,715*	*8,088,986*
of which insurance group(2)	*19,945,519*	*19,138,492*	*922,734*

(1) Due to the integration of Side into Group Center, the 2016 balance sheet by segment has been restated to allow the comparison with 2017. For the Equity per business line, a new methodology is applied as from 2017 onwards, allocating CET 1 capital equal to 13.5% of the RWA for each business line. Note that till 2016, CET 1 target was set at 10.5% for Franchise and 13% for Side. Please note that the capital allocation for the insurance activities is based on the Danish Compromise, allocated to each business line in proportion to its contribution to Belfius Insurance Solvency II SCR requirements. Any non allocated capital is reported in Group Center.
(2) Note that the assets and liabilities represent the contribution of the Belfius Insurance group to the consolidated balance sheet.

	31/12/17		
(In thousands of EUR)	Assets	Liabilities	Equity
Retail and Commercial	56,527,208	77,118,099	2,300,483
Public and Corporate	41,659,169	26,263,639	2,234,766
Group Center	69,772,824	55,056,055	4,986,158
TOTAL	**167,959,201**	**158,437,793**	**9,521,408**
of which banking group	*148,476,016*	*139,868,365*	*8,607,650*
of which insurance group(1)	*19,483,185*	*18,569,428*	*913,758*

(1) Note that the assets and liabilities represent the contribution of the Belfius Insurance group to the consolidated balance sheet.

The equity allocated to Retail and Commercial and Public and Corporate is the normative regulatory equity, which is derived from the RWA of these business lines multiplied by 13.5% (Belfius' minimal operational CET 1 ratio). The target was determined by the minimum CET 1 ratio of 10.75% together with a stress buffer of 2.75%.

2. Statement of income

A. Segmentation by business line

(In thousands of EUR)	31/12/16 (PF)(1) Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	**1,715,521**	**456,076**	**87,674**	**2,259,271**
Net interest income bank	944,334	345,528	117,057	1,406,919
Net Fee and commissions bank	453,951	47,459	(4,030)	497,380
Life insurance contribution	250,159	34,582	10,651	295,392
Non-life insurance contribution	144,676	3,767	0	148,443
Other	(77,599)	24,740	(36,003)	(88,862)
EXPENSES	**(1,017,621)**	**(209,885)**	**(138,775)**	**(1,366,281)**
Gross operating income	697,900	246,191	(51,101)	892,990
Impairments on loans and advances and provisions for credit commitments	(41,217)	(25,418)	(49,334)	(115,969)
Impairments on (in)tangible assets	1,978	525	0	2,502
NET INCOME BEFORE TAX	658,660	221,298	(100,434)	779,524
Tax (expense) income	(200,035)	(69,622)	25,384	(244,272)
NET INCOME AFTER TAX	458,625	151,676	(75,050)	535,251
Non-controlling interests	0	0	23	23
Net income group share	458,625	151,676	(75,073)	535,229
of which banking group(2)	*280,585*	*151,211*	*(97,140)*	*334,656*
of which insurance group(2)(3)	*178,041*	*465*	*22,067*	*200,572*

(1) Due to the integration of Side into Group Center, the income statement by segment has been restated to allow for comparison with 2017. The main changes in analytical results relate to the integration of the new Belgian sector levy "Single Belgian Bank Levy" (lower cost for Retail and Commercial and Group Center but higher for Public and Corporate) and allocation of the collateral cost to the business lines.
(2) Note that the net contribution in the consolidated Belfius P&L amounts to EUR 168 million for Belfius Insurance and EUR 367 million for Belfius Bank. After adjustment for an intragroup transaction, the net contribution amounts to EUR 201 million for Belfius Insurance and EUR 335 million for Belfius Bank. More in particular, Belfius Insurance has bought back, before maturity, its Tier 2 subordinated debt issued end 2011 which was subscribed by Belfius Bank, and this at a fair value above book value, as yields for subordinated debt came down since then. At the same time, Belfius Insurance reissued (and Belfius Bank subscribed) new Tier 2 subordinated debts and in that way extended the maturity profile of its outstanding subordinated debt and increased somewhat its total outstanding Tier 2, as such improving its total capital mix.
(3) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

(In thousands of EUR)	31/12/17 Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	**1,684,406**	**519,342**	**150,934**	**2,354,682**
Net interest income bank	898,410	361,147	222,348	1,481,905
Net Fee and commissions bank	490,254	47,355	(3,849)	533,760
Life insurance contribution	237,652	30,791	(1,197)	267,246
Non-life insurance contribution	174,776	25,902	(250)	200,427
Other	(116,686)	54,147	(66,117)	(128,656)
EXPENSES	**(1,027,163)**	**(207,876)**	**(133,569)**	**(1,368,608)**
Gross operating income	657,243	311,466	17,365	986,074
Impairments on loans and advances and provisions for credit commitments	(39,581)	(28,458)	35,026	(33,013)
Impairments on (in)tangible assets	(3,719)	(681)	13,867	9,467
NET INCOME BEFORE TAX	613,943	282,327	66,258	962,528
Tax (expense) income	(171,243)	(89,306)	(96,458)	(357,007)
NET INCOME AFTER TAX	442,701	193,021	(30,199)	605,522
Non-controlling interests	0	0	20	20
Net income group share	442,701	193,021	(30,219)	605,502
of which banking group	*251,977*	*176,830*	*6,137*	*434,944*
of which insurance group(1)	*190,728*	*16,132*	*(36,302)*	*170,558*

(1) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income. Belfius Insurance presents a net income of EUR 184 million in its consolidated accounts over 2017. The difference with the contribution of the insurer to the Belfius Group of EUR 171 million is mainly related to the realized result on bonds sold or bought by Belfius Insurance to or from other entities of the Belfius group that is adjusted at consolidated level, combined with the correction of the amortizations for buildings sold from Belfius Bank to Belfius Insurance, and a reversal of the impairment on a building owned by Belfius Insurance only accounted for on Belfius Insurance consolidated level (and not on Belfius group level, since never impaired at that level).

B. Segmentation by contribution scope

(In thousands of EUR)	31/12/16 Contribution Bank into group(1)	Contribution Insurance into group(1)	Total
INCOME	**1,777,162**	**482,109**	**2,259,271**
Net interest income	1,406,919	536,313	1,943,232
Dividend income	22,006	66,226	88,233
Net income from equity method companies	2,520	2,498	5,018
Net income from financial instruments at fair value through profit or loss	15,880	990	16,870
Net income on investments and liabilities	(4,784)	120,494	115,710
Net fee and commission income	497,349	10,121	507,470
Technical margin insurance activities	0	(254,779)	(254,779)
Other income & expense	(162,728)	246	(162,482)
EXPENSES	**(1,156,753)**	**(209,527)**	**(1,366,281)**
Gross operating income	620,408	272,582	892,990
Impairments on loans and advances and provisions for credit commitments	(118,161)	2,192	(115,969)
Impairments on (in)tangible assets	2,502	0	2,502
NET INCOME BEFORE TAX	504,750	274,774	779,524
Tax (expense) income	(170,071)	(74,201)	(244,272)
NET INCOME AFTER TAX	334,679	200,572	535,251
Non-controlling interests	23	0	23
Net income group share(2)	334,656	200,572	535,229

(1) Note that the statement of income represents the contribution of the Belfius banking group (i.e. Belfius bank with all its subsidiaries apart from the Belfius insurance group) as well as the Belfius insurance group (i.e. Belfius insurance with its subsidiaries).
(2) Note that the net contribution in the consolidated Belfius P&L amounts to EUR 168 million for Belfius Insurance and EUR 367 million for Belfius Bank. After adjustment for an intragroup transaction, the net contribution amounts to EUR 201 million for Belfius Insurance and EUR 335 million for Belfius Bank. More in particular, Belfius Insurance has bought back, before maturity, its Tier 2 subordinated debt issued end 2011 which was subscribed by Belfius Bank, and this at a fair value above book value, as yields for subordinated debt came down since then. At the same time, Belfius Insurance reissued (and Belfius Bank subscribed) new Tier 2 subordinated debts and in that way extended the maturity profile of its outstanding subordinated debt and increased somewhat its total outstanding Tier 2, as such improving its total capital mix.

(In thousands of EUR)	31/12/17 Contribution Bank into group(1)	Contribution Insurance into group(1)	Total
INCOME	1,861,047	493,635	2,354,682
Net interest income	1,481,905	469,568	1,951,473
Dividend income	8,692	64,391	73,083
Net income from equity method companies	2,394	1,801	4,195
Net income from financial instruments at fair value through profit or loss	46,068	74	46,143
Net income on investments and liabilities	20,728	153,230	173,958
Net fee and commission income	533,760	18,903	552,663
Technical margin insurance activities	0	(208,814)	(208,814)
Other income & expense	(232,501)	(5,518)	(238,019)
EXPENSES	(1,132,749)	(235,859)	(1,368,608)
Gross operating income	728,298	257,776	986,074
Impairments on loans and advances and provisions for credit commitments	(33,279)	265	(33,013)
Impairments on (in)tangible assets	9,467	0	9,467
NET INCOME BEFORE TAX	704,487	258,042	962,528
Tax (expense) income	(269,523)	(87,484)	(357,007)
NET INCOME AFTER TAX	434,964	170,558	605,522
Non-controlling interests	20	0	20
Net income group share(2)	434,944	170,558	605,502

(1) Note that the statement of income represents the contribution of the Belfius banking group (i.e. Belfius bank with all its subsidiaries apart from the Belfius insurance group) as well as the Belfius insurance group (i.e. Belfius insurance with its subsidiaries).
(2) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income. Belfius Insurance presents a net income of EUR 184 million in its consolidated accounts over 2017. The difference with the contribution of the insurer to the Belfius Group of EUR 171 million is mainly related to the realized result on bonds sold or bought by Belfius Insurance to or from other entities of the Belfius group that is adjusted at consolidated level, combined with the correction of the amortizations for buildings sold from Belfius Bank to Belfius Insurance, and a reversal of the impairment on a building owned by Belfius Insurance only accounted for on Belfius Insurance consolidated level (and not on Belfius group level, since never impaired at that level).

We refer for a detailed description of the segment results to the management report.

V. NOTES ON THE ASSETS OF THE CONSOLIDATED BALANCE SHEET

(some amounts may not add up due to rounding)

5.1. CASH AND CASH EQUIVALENTS

Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Cash and balances with central banks other than mandatory reserves(1)	4,111,132	9,436,665
Mandatory reserves with central banks(2)	1,000,000	800,299
Loans and advances due from banks(1)	5,307,800	1,369,062
Financial assets available for sale	0	3,000
TOTAL	10,418,931	11,609,025

(1) A significant increase can be noted due to additional cash deposited at the central banks following the decrease of reverse repurchase agreements.
(2) The "Mandatory reserves" include the minimum reserve deposits that Belfius has with the European Central Bank (ECB) or with other central banks.

5.2. CASH AND BALANCES WITH CENTRAL BANKS

Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Cash in hand	428,293	553,016
Balances with central banks other than mandatory reserve deposits(1)	3,682,757	8,883,355
Mandatory reserves deposits(2)	1,000,000	800,299
TOTAL	5,111,050	10,236,669
Of which included in cash and cash equivalents	*5,111,132*	*10,236,964*

(1) Belfius reduced the use of reverse repurchase agreements and deposited more cash at the ECB.
(2) The "Mandatory reserves deposits" includes the minimum reserve deposits that Belfius has with the European Central Bank (ECB) or with other central banks.

5.3. LOANS AND ADVANCES DUE FROM BANKS

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Cash collateral	15,788,915	11,828,695
Sight accounts	166,992	155,887
Reverse repurchase agreements	4,638,347	1,525,227
Loans and other advances	1,072,733	292,201
Bonds	339,772	324,256
Impaired loans	2,149	0
Less:		
Specific impairment on impaired loans or impaired bonds	(43)	0
Collective impairment	(6 311)	(4,838)
TOTAL	**22,002,553**	**14,121,427**
Of which included in cash and cash equivalents	*5,307,800*	*1,369,062*
Of which included in financial lease	*46,983*	*49,332*

A decrease can be noted in cash collateral as a result of the slight increase of interest rates compared to year-end 2016 and of additional offsetting possibilities due to additional clearing with LCH (more specifically London Clearing House or "LCH"). In particular, following a global trend towards market standardisation of derivative contracts, Belfius decided, and successfully managed, to restructure certain derivative contracts by eliminating certain optionalities. During the process, Belfius was able to transform these collateral contracts into contracts that could be cleared with a central clearing house and decided to clear these derivatives through LCH. As the IFRS offsetting requirements were met, the presentation of the collateral as well as derivatives' amounts on balance sheet were impacted.

Again, a decrease in reverse repurchase agreements can be noted as more cash was deposited at the ECB.

2. Analysis of quality

See note 5.18.

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis of the fair value

See note 9.1.

5. Reclassification of financial assets

See note 5.8.

5.4. LOANS AND ADVANCES TO CUSTOMERS

1. Analysis by counterparty

(In thousands of EUR)	31/12/16	31/12/17
Public entities	26,753,005	24,867,619
Corporate & SME	30,744,574	31,533,516
Retail	31,474,144	33,296,729
Impaired loans	2,050,387	1,821,591
Impaired bonds(1)	269,611	0
Less:		
Specific impairment on impaired loans or impaired bonds(2)	(1,261,638)	(1,152,862)
Collective impairment	(327,684)	(309,668)
TOTAL	**89,702,399**	**90,056,926**

(1) Belfius accomplished its last part of its former active tactical derisking program by selling the remaining US RMBS bonds in the former Side portfolio (as from 01/01/2017 merged into Group Center).
(2) A decrease of specific impairments can be noted, a.o. due to the sale of the impaired US RMBS bonds.

2. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Cash collateral	1,673,008	580,869
Reverse repurchase agreements	261,511	671,084
Loans and other advances(1)	81,001,952	83,475,952
Of which bills and own acceptances	*33,599*	*23,112*
Of which finance lease	*3,135,715*	*3,260,637*
Of which consumer loans	*1,461,473*	*1,458,315*
Of which mortgage loans(2)	*28,820,331*	*30,558,045*
Of which term loans(3)	*44,349,940*	*45,063,091*
Of which current accounts	*1,816,994*	*1,672,995*
Of which other loans and advances	*1,383,900*	*1,439,756*
Bonds	6,035,251	4,969,959
Impaired loans(4)	2,050,387	1,821,591
Impaired bonds(4)	269,611	0
Less:		
Specific impairment on impaired loans or impaired bonds(5)	(1,261,638)	(1,152,862)
Collective impairment	(327,684)	(309,668)
TOTAL	**89,702,399**	**90,056,926**

(1) The underlying pool of loans of the covered bonds (Pandbrieven) amount to EUR 9.5 billion end 2017 (and EUR 11.2 billion end 2016). This covered pool guarantees the outstanding covered bonds, of which EUR 4.9 billion mortgage covered bonds (versus EUR 6.1 billion end 2016) and EUR 2.3 billion public covered bonds (versus EUR 2.3 billion end 2016).This decrease is explained by the 2012 issue of EUR 1.25 billion covered bonds that came to maturity in the second half of 2017. We also refer to note 9.3.4. on Transfer of financial assets which do not qualify for derecognition in the consolidated balance sheet.
(2) In 2016 EUR 2.7 billion "mortgage loans" were securitised, in 2017 this increased to EUR 6.3 billion. We also refer to note 12. "Securitisations" and to note 9.3.4. on Transfer of financial assets which do not qualify for derecognition in the consolidated balance sheet.
(3) In 2016 EUR 3.2 billion "term loans" were securitised, in 2017 this decreased to EUR 2.6 billion. We also refer to note 12. "Securitisations" and to note 9.3.4. on Transfer of financial assets which do not qualify for derecognition in the consolidated balance sheet.
(4) In the context of managing the global credit quality of its loan portfolio, Belfius has opted to sell some loans that were fully or significantly impaired. Furthermore Belfius accomplished its last part of its former active tactical derisking program by selling the remaining US RMBS bonds in the former Side portfolio (as from 1 January 2017 merged into Group Center). As a result, the coverage ratio, indicating the ability to absorb potential losses from non-performing loans with specific impairment provisions, increased from 54.38% to 63.29%. We refer to the chapter Alternative Performance Measures for more information.
(5) A decrease of specific impairments can be noted, a.o. due to the sale of the impaired US RMBS bonds.

An increase in mortgage loans and term loans can be noted in line with Belfius' strategy to service all constituents of the Belgian market. The decrease of bonds is mainly due to some opportunistic sales.

3. Analysis of quality

See note 5.18.

4. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

5. Analysis of the fair value

See note 9.1.

6. Reclassification of financial assets

See note 5.8.

5.5. INVESTMENTS HELD TO MATURITY

1. Analysis by counterparty

(In thousands of EUR)	31/12/16	31/12/17
Public entities	3,942,082	3,943,947
Banks	1,063,842	1,089,087
Corporate & SME	387,324	408,966
Impaired financial investments	0	0
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT	5,393,247	5,441,999
Less:		
Specific impairment on impaired financial investments	0	0
TOTAL	5,393,247	5,441,999

The slight increase in investments held to maturity is related to purchases of some high quality bonds (rated AAA/AA) in the ALM liquidity portfolio. We refer to the chapter Alternative Performance Measures for more information.

2. Analysis of quality

See note 5.18.

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Bonds issued by public sector	3,942,082	3,943,947
Other bonds and fixed-income instruments	1,451,166	1,498,052
TOTAL	5,393,247	5,441,999

5. Analysis of the fair value

See note 9.1.

6. Reclassification of financial assets

See note 5.8.

5.6. FINANCIAL ASSETS AVAILABLE FOR SALE

1. Analysis by counterparty

(In thousands of EUR)	31/12/16	31/12/17
Public entities	11,700,509	11,151,714
Banks	2,705,690	2,137,055
Corporate & SME	4,321,641	4,599,677
Impaired financial investments	160,159	160,999
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT	**18,887,999**	**18,049,445**
Less:		
Specific impairment on impaired financial investments	(68,210)	(66,848)
TOTAL	18,819,789	17,982,597
Of which included in cash and cash equivalents	0	3,000

2. Analysis of quality

See note 5.18.

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Bonds issued by public sector	11,678,049	11,135,849
Other bonds and fixed-income instruments	4,941,141	4,023,536
Equity and variable-income instruments	2,268,809	2,890,061
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT	**18,887,999**	**18,049,445**
Specific impairment on impaired financial investments	(68,210)	(66,848)
TOTAL	18,819,789	17,982,597

The decrease in the overall portfolio is mainly linked to bonds that came to maturity, as well as negative mark-to-market movements due to the slightly higher interest rate compared to year-end 2016. A rebalancing of the portfolio can be noted following the liquidation of Belfius Insurance's participation in the consolidated funds "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds" which was partially reinvested in liquid investment funds.

5. Analysis of the fair value

See note 9.1.

6. Reclassification of financial assets

See note 5.8.

5.7. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(In thousands of EUR)	31/12/16	31/12/17
Financial assets held for trading	793,122	639,583
Financial assets designated at fair value(1)	2,192,857	2,600,715
TOTAL	2,985,979	3,240,298

(1) The increase is mainly due to additional "branch 23" products as well as positive fair value evolutions.

FINANCIAL ASSETS HELD FOR TRADING

1. Analysis by counterparty

(In thousands of EUR)	31/12/16	31/12/17
Public entities	67,668	213,246
Banks	22,645	25,478
Corporate & SME	702,809	400,859
TOTAL	793,122	639,583
Of which included in financial lease	*0*	*0*

2. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Bonds issued by public sector	61,966	208,771
Other bonds and fixed-income instruments	662,674	392,280
Equity and variable-income instruments	68,482	38,532
TOTAL	793,122	639,583

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis of the fair value

See note 9.1.

5. Reclassification of financial assets

See note 5.8.

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

1. Analysis by counterparty

(In thousands of EUR)	31/12/16	31/12/17[1]
Public entities	25,087	25,199
Banks	11,827	13,929
Corporate & SME	2,155,944	2,561,587
TOTAL	2,192,857	2,600,715

(1) The table presents mainly the investment portfolio of "branch 23" transactions.

2. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Loans	3,143	3,143
Unit-linked products Insurance – bonds and loans[1]	747,365	747,049
Unit-linked products Insurance – equity and variable-income instruments[1]	1,442,349	1,850,524
TOTAL	2,192,857	2,600,715

(1) The increase in unit-linked insurance products is mostly situated in equity and variable income instruments and is related to the evolution of stock exchange and to the increased customer demand for these products.

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis of the fair value

See note 9.1.

The category "Financial assets designated at fair value through profit or loss" is currently only used for insurance activities: mainly (unit-linked) "branch 23" insurance contracts. The return of the underlying investment fund units belongs entirely to its policyholder.

The methodology used to determine the fair value of "Financial assets designated at fair value" is detailed in note 9.1.

5.8. RECLASSIFICATION OF FINANCIAL ASSETS

(In thousands of EUR)	From Trading to Loans and advances (1)	From Available-for-sale portfolio to Loans and advances (2)
Book value as at 31 December 2016 (A)	55,254	4,304,921
Fair value as at 31 December 2016 (B)	54,428	1,998,947
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN INCOME (1) DUE TO RECLASSIFICATION (B) – (A)	(825)	n.a.
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN AFS RESERVE BEFORE IMPACT OF HEDGE ACCOUNTING / ECONOMIC HEDGE (2) DUE TO RECLASSIFICATION (B) – (A)	n.a.	(2,305,974)

(In thousands of EUR)	From Trading to Loans and receivables (1)	From Available for sale portfolio to Loans and receivables (2)
Book value as at 31 December 2017 (A)	46,149	3,964,855
Fair value as at 31 December 2017 (B)	45,073	2,138,638
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN INCOME (1) DUE TO RECLASSIFICATION (B) – (A)	(1,076)	n.a.
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN AFS RESERVE BEFORE IMPACT OF HEDGE ACCOUNTING / ECONOMIC HEDGE (2) DUE TO RECLASSIFICATION (B) – (A)	n.a.	(1,826,217)

1. Reclassification of financial assets under IAS 39

As a response to the financial crisis, the IASB issued on 13 October 2008 an amendment to IAS 39 "Financial Instruments: Recognition and Measurement" permitting the reclassification of certain illiquid financial assets. Belfius decided in 2008 and 2009 to benefit from this opportunity to reclassify assets for which an active market, as well as reliable quoted prices, were no longer available.

The further decrease of the outstanding amounts of the reclassed portfolio is mainly linked to the 2017 accomplishment of the last part of the active tactical derisking program in the former Side portfolio.

Impact of reclassifications on equity and results

We refer to the accounting policies for the further details on the impact of the reclassification.

A. Transfer from "Held for trading" to "Loans and advances"
In 2008 Belfius reclassified EUR 2.8 billion from "Held for trading" to "loans and advances". End 2017 EUR 46.1 million reclassified bonds remain.

The impact of this amortisation in the interest margin amounts to EUR 0.4 million in 2016 and EUR 0.1 million in 2017.

There are no new impaired bonds in 2017 in this category.

B. Transfer from "Available for sale" to "Loans and advances"
Belfius has also reclassified a significant portfolio from "Available-for-sale portfolio" to "Loans and advances" for a total amount of EUR 16.3 billion in 2008 and 2009. End 2017, a portfolio of reclassified bonds of EUR 4.0 billion remains.

Two US RMBS bonds for an outstanding amount of EUR 272 million were impaired in 2016 and have been sold in 2017. We refer to note 9.2.5. Movements in allowances for credit losses.

There are no new impaired bonds in 2017 in this category.

A reclassification from "Available for Sale" to "Loans and Advances" does not generate a P&L impact due to the amortisation of the premium/discount which was created at the moment of the reclassification, as a compensating amortisation can be noted for the "frozen AFS reserve".

2. Reclassification of financial assets following a change in intention

Transfer from "Available for sale" to " Held to maturity"
In 2014, Belfius reclassified EUR 2.8 billion from "Financial assets available for sale portfolio" to "Investments held to maturity". This resulted in a "frozen fair value of reclassified financial assets" of EUR 40.5 million. It concerned mainly Italian sovereign debt instruments. Belfius applied IAS 39.54 following the change in intent of the management for this portfolio.

On 1 January 2015, Belfius decided to reclass an additional EUR 1.5 billion bonds from "Financial assets available for sale" to "Investments held to maturity". It concerned mainly bonds issued by the Belgian and French governments. This resulted in a "frozen fair value of reclassified financial assets" of EUR -3.4 million. Belfius applied IAS 39.54 following the change in intent of the management for this portfolio.

5.9. DERIVATIVES

1. Analysis by nature

(In thousands of EUR)	31/12/16 Assets	31/12/16 Liabilities	31/12/17 Assets	31/12/17 Liabilities
Derivatives held for trading	23,200,723	21,714,137	18,457,596	15,520,935
Derivatives designated as fair value hedges	134,282	277,854	63,235	187,425
Derivatives designated as cash flow hedges	5,180	51,563	523,792	517,284
Derivatives designated as portfolio hedge	1,967,036	7,528,967	1,258,411	5,038,388
TOTAL	25,307,222	29,572,521	20,303,034	21,264,032

A significant decrease in the fair value of derivatives can be noted as a result of the slight increase of interest rates compared to year-end 2016 as well as additional offsetting due to additional clearing with LCH (more specifically London Clearing House or "LCH"). In particular, following a global trend towards market standardisation of derivative contracts, Belfius decided, and successfully managed, to restructure certain derivative contracts by eliminating certain optionalities. During the process, Belfius was able to transform these collateral contracts into contracts that can be cleared with a central clearing house and decided to clear part of these derivatives through LCH. As the IFRS offsetting requirements were met, the presentation of the collateral as well as derivatives amount on balance sheet was impacted. The total LCH offsetting amounted to EUR 8.7 billion end 2017, compared to EUR 7.8 billion end 2016. We also refer to note 9.3.6. "offsetting".

2. Detail of derivatives held for trading[(1)]

(In thousands of EUR)	31/12/16 Notional amount[(2)] To receive	31/12/16 Notional amount[(2)] To deliver	31/12/16 Assets	31/12/16 Liabilities	31/12/17 Notional amount[(2)] To receive	31/12/17 Notional amount[(2)] To deliver	31/12/17 Assets	31/12/17 Liabilities
Foreign exchange derivatives	23,909,804	23,828,083	3,108,066	2,960,404	20,591,576	20,551,302	2,391,248	2,348,671
Interest rate derivatives	362,684,868	372,752,981	19,766,420	18,517,673	332,322,969	336,781,752	15,800,846	12,965,473
of which option/cap/floor/collar/swaption	*185,449,705*	*198,790,414*	*3,323,173*	*3,719,112*	*173,599,993*	*183,217,533*	*2,659,586*	*2,934,108*
of which interest rate swaps	*172,130,659*	*171,982,403*	*16,442,702*	*14,797,708*	*147,584,187*	*147,277,950*	*13,141,053*	*10,031,045*
of which forward rate agreements	*99,985*	*0*	*1*	*0*	*1,099,985*	*0*	*1*	*(56)*
of which interest futures	*5,004,519*	*1,980,164*	*544*	*853*	*10,038,803*	*6,286,269*	*205*	*218*
Credit derivatives	2,199,544	2,135,238	184,592	133,974	1,509,537	1,522,677	120,279	111,749
Equity derivatives	3,399,972	3,382,613	141,645	102,086	3,719,182	3,318,170	145,224	95,041
TOTAL	392,194,188	402,098,915	23,200,723	21,714,137	358,143,264	362,173,900	18,457,596	15,520,935

(1) Note that Belfius opted at origination to present its non closely related embedded derivatives separately from the host contract on the balance sheet (as permitted by IFRS) and classified the non closely embedded derivatives as derivatives on the balance sheet. As a result, the trading derivatives comprise the bifurcated embedded derivatives on the relevant part of the bond and loan portfolios as well as on the relevant issued debt securities, even if these derivatives are part of a hedge relationship.
(2) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of the derivative financial instrument that are presented separately in the table. In case f.e. of an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated. In addition, the "Notional amount to deliver" represents the notional amount on which the interest to be paid by Belfius is calculated.

The derivatives position of Belfius originated partially from the fact that Belfius was the competence center for derivatives within the former Dexia Group. These derivatives were hedged externally for market risk. The derivatives between Belfius Bank and Dexia Group entities remained in the scope of Belfius after the sale of Belfius to the Belgian State in 2011. The credit risk is thereon mitigated through the use of collateral (Credit Support Annex).

For additional information on related market risk, we refer to the note 9.5 Market Risk.

Note that the notional amount of derivatives continues to decrease significantly through active management of the derivatives book (f.e. unwinding of operations following TriReduce identification of risk neutral positions).

3. Detail of derivatives designated as fair value hedges

	31/12/16				31/12/17			
	Notional amount(1)		Assets	Liabilities	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	601,918	538,475	132,308	267,555	550,973	502,334	63,235	187,425
of which cross currency swaps	*601,918*	*538,475*	*132,308*	*267,555*	*550,973*	*502,334*	*63,235*	*187,425*
Interest rate derivatives	277,011	40,000	1,974	10,299	0	0	0	0
of which interest rate swaps	*40,000*	*40,000*	*1,974*	*0*	*0*	*0*	*0*	*0*
of which forwards	*237,011*	*0*	*0*	*10,299*	*0*	*0*	*0*	*0*
TOTAL	**878,930**	**578,475**	**134,282**	**277,854**	**550,973**	**502,334**	**63,235**	**187,425**

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of the derivative financial instrument that are presented separately in the table. In case f.e. of an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated. In addition, the "Notional amount to deliver" represents the notional amount on which the interest to be paid by Belfius is calculated.

Belfius applies mainly the technique of fair value hedge to hedge interest rate and foreign exchange risk on certain bonds. Belfius uses mainly plain vanilla interest rate swaps for hedge accounting under IFRS except for non EUR bonds where Belfius uses plain vanilla interest rate & currency swaps.

4. Detail of derivatives designated as cash flow hedges

	31/12/16				31/12/17			
	Notional amount(1)		Assets	Liabilities	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	583,018	592,798	5,180	51,563	3,833,433	3,810,606	523,792	517,284
of which cross currency swaps	*583,018*	*592,798*	*5,180*	*51,563*	*3,833,433*	*3,810,606*	*523,792*	*517,284*
TOTAL	**583,018**	**592,798**	**5,180**	**51,563**	**3,833,433**	**3,810,606**	**523,792**	**517,284**

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of the derivative financial instrument that are presented separately in the table. In case f.e. of an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated. In addition, the "Notional amount to deliver" represents the notional amount on which the interest to be paid by Belfius is calculated.

Following a global trend towards market standardisation of derivative contracts, Belfius decided, and successfully managed, to restructure certain derivative contracts by eliminating certain optionalities. In particular, in some derivative contracts, Belfius does not have the option to choose the currency for its collateral posting anymore. As a result, Belfius needs to pay since then more collateral in GBP instead of in EUR. In order to hedge for this additional collateral demand in GBP, Belfius has entered into some Cross Currency Swaps whereby it receives GBP in exchange for EUR. These Cross Currency Swaps are recorded in a cash flow hedge relationship for the currency risk on a "highly probable forecasted transaction", whereby Belfius demonstrates that the collateral to be paid is higher than the notional of the Cross Currency Swap.

Estimated cashflows from cashflow hedging derivatives per time bucket

(In thousands of EUR)	Inflow	Outflow
Not more than three months	1,813,000	(3,302,110)
More than three but not more than six months	1,813,000	(3,299,671)
More than six months but not more than one year	1,813,000	(3,284,287)
More than one but not more than two years	1,813,000	(3,263,683)
More than two but not more than five years	1,813,000	(3,162,855)
More than five years	1,589,504	(2,895,876)

5. Detail of derivatives of portfolio hedge

	31/12/16				31/12/17			
	Notional amount(1)		Assets	Liabilities	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Interest rate swaps	69,220,561	69,220,639	1,967,036	7,528,967	53,542,070	53,535,860	1,258,411	5,038,388
TOTAL	69,220,561	69,220,639	1,967,036	7,528,967	53,542,070	53,535,860	1,258,411	5,038,388

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of the derivative financial instrument that are presented separately in the table. In case f.e. of an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated. In addition, the "Notional amount to deliver" represents the notional amount on which the interest to be paid by Belfius is calculated.

Belfius applied portfolio hedge accounting to hedge part of its loan and bond portfolio on the asset side and its issued bonds on the liability side. These hedged items are hedged by plain vanilla interest rate swaps.

The accumulated gain/loss on the hedged item in portfolio hedge of interest rate risk on the balance sheet amounts to EUR 3.7 million assets and EUR 0.1 million liabilities on 31 December 2017 compared to EUR 4.5 million assets and EUR 0.2 million liabilities at year-end 2016.

5.10. INVESTMENTS IN EQUITY METHOD COMPANIES

1. Carrying value

(In thousands of EUR)	2016	2017
CARRYING VALUE AS AT 1 JANUARY	106,775	97,044
Disposals(1)(2)	(3,198)	(69,862)
Changes in scope of consolidation (out)	0	0
Share of result before tax	6,383	4,599
Share of tax	(1,365)	(404)
Dividend paid	(3,822)	(7,626)
Transfers(3)	(7,730)	7,730
Other movements	0	0
CARRYING VALUE AS AT 31 DECEMBER	97,044	31,481

(1) Belfius Insurance has sold its equity participation in "Pole Star" and "North Light" in the second half of 2017. Belfius Insurance has sold its equity stake in "Aviabel" in the first half of 2017, classified in "Non current assets (disposal group) held for sale and discontinued operations" end 2016.
(2) The company Société Espace Léopold has been liquidated in 2016.
(3) As at 31 December 2016, the equity stake in Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations". We refer to note 10.2.

2. List of equity method companies

(In thousands of EUR)	Book value 2016	2017	Website
Pole Star SA(1)	33,708		
North Light SA(1)	32,819		
TEB Participations SA	13,847	13,900	
Auxipar SA	7,807	9,406	
Aviabel SA(1)(2)	7,730		*www.aviabel.be*
Isabel SA	4,361	5,013	*www.isabel.eu*
Erasmus Garden SA	4,501	3,161	
Société Espace Léopold SA(3)	0		
Transfers Aviabel to "Non current assets (disposal group) held for sale and discontinued operations"(2)	(7,730)		
TOTAL	97,044	31,481	

(1) Belfius Insurance has sold its equity participation in "Pole Star" and "North Light" in the second half of 2017. Belfius Insurance has sold its equity stake in "Aviabel" in the first half of 2017, classified in "Non current assets (disposal group) held for sale and discontinued operations" end 2016.
(2) As at 31 December 2016, the equity stake in Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations". We refer to note 10.2.
(3) The company Société Espace Léopold has been liquidated in 2016.

There are no significant restrictions on the equity method companies, on their ability to access or use assets, and settle liabilities, of the group.

Next to an equity stake, Belfius Insurance has a right to some preferred dividends on Auxipar.

We refer to note 10.3.3.

3. Financial information of the joint arrangements and associates evaluated through the equity method

(In thousands of EUR)	Assets	Liabilities	Equity	Net income	%	Annual report, as at
ASSOCIATES						
Aviabel SA(1)	141,146	96,906	44,240	5,270	20.00%	31/12/2016
Auxipar SA	55,808	37,093	18,715	4,113	39.70%	31/12/2016
Isabel SA	32,727	14,759	17,969	3,435	24.00%	31/12/2016
TEB Participations SA	68,551	4,319	64,232	4,408	20.57%	31/12/2016
JOINT VENTURES						
Pole Star SA(2)	88,828	81,074	7,755	1,423	60.00%	31/12/2016
North Light SA(3)	66,559	61,717	4,842	1,856	60.00%	31/12/2016
Société Espace Léopold SA(4)	0	0	0	0	50.00%	31/12/2016
Erasmus Garden SA	32,944	28,291	4,653	2,730	50.00%	31/12/2016

(1) The main items on the asset side are the investments by the insurance company for an amount of EUR 95.5 million. The main items on the liability side are the technical provisions for an amount of EUR 88.1 million. Note that Aviabel has been sold during the first half of 2017.
(2) The company "Pole Star" is specialised in real estate. The main items on the asset side are the tangible fixed assets for an amount of EUR 81.1 million. The main items on the liability side are the financial debts for an amount of EUR 80.5 million. Note that "Pole Star" has been sold during the second half of 2017.
(3) "North Light" has been sold during the second half of 2017.
(4) Société Espace Léopold SA has been liquidated in 2016.

There are no significant or material commitments towards the joint ventures.

There are no significant restrictions on the equity method companies, on their ability to access or use assets, and settle liabilities, of the group.

Only those joint ventures with a material impact (i.e. an impact of more than 1% of the consolidated balance sheet total and/or consolidated P&L) have been reported.

5.11. TANGIBLE FIXED ASSETS

1. Net book value

(In thousands of EUR)	Land and buildings		Office furniture and other equipment		Investment property	Total
	Own use owner	Own use finance lease	Own use owner	Own use finance lease		
ACQUISITION COST AS AT 1 JANUARY 2016	**1,479,434**	**2,507**	**383,362**	**784**	**630,882**	**2,496,970**
Acquisitions[1]	48,242	0	5,367	416	30,818	84,843
Subsequent expenditures	6,800	0	0	0	4,252	11,052
Disposals[2]	(86,579)	0	(353)	0	(104,974)	(191,907)
Transfers and cancellations[3]	(20,004)	0	(5,735)	0	(5,469)	(31,208)
Other movements	(8,887)	0	(972)	0	0	(9,859)
ACQUISITION COST AS AT 31 DECEMBER 2016 (A)	**1,419,005**	**2,507**	**381,669**	**1,200**	**555,509**	**2,359,891**
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2016	**(799,290)**	**(2,443)**	**(320,419)**	**(265)**	**(174,765)**	**(1,297,181)**
Post-acquisition adjustments	0	0	0	0	0	0
Booked	(30,203)	(10)	(10,402)	(394)	(14,923)	(55,933)
Impairment: booked	(1,036)	0	0	0	0	(1,036)
Write-back[4]	3,014	0	0	0	525	3,538
Disposals	24,427	0	249	0	22,454	47,129
Transfers and cancellations	15,330	0	5,735	0	4,968	26,033
Other movements	8,247	24	972	0	3	9,246
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2016 (B)	**(779,512)**	**(2,429)**	**(323,865)**	**(659)**	**(161,738)**	**(1,268,204)**
Accumulated amortisation	(734,495)	(2,429)	(323,865)	(659)	(161,087)	(1,222,535)
Accumulated impairment	(45,017)	0	0	0	(651)	(45,669)
NET BOOK VALUE AS AT 31 DECEMBER 2016 (A)+(B)	**639,493**	**78**	**57,804**	**541**	**393,771**	**1,091,687**

(1) Acquisitions include mainly leasing contracts for the construction of property. Disposals include the delivery of these leasing contracts and the assets are at that moment reclassed to loans and advances.

(2) Disposals include the delivery of the leasing contracts, the sale of bank agencies and the sale of the "Royal Center".

(3) Mainly transfers to tangible assets held for sale.

(4) For more information regarding this impairment write-back, see disclosure 7.14 "Impairment on tangible and intangible assets".

(In thousands of EUR)	Land and buildings		Office furniture and other equipment		Investment property	Total
	Own use owner	Own use finance lease	Own use owner	Own use finance lease		
ACQUISITION COST AS AT 1 JANUARY 2017	1,419,005	2,507	381,669	1,200	555,509	2,359,891
Acquisitions[1]	35,803	0	6,816	652	6,752	50,023
Subsequent expenditures	8,127	0	0	0	3,797	11,924
Disposals[2]	(86,738)	0	(2,074)	0	(5,715)	(94,527)
Transfers and cancellations	37,012	0	(3,892)	0	(25,030)	8,091
Foreign exchange adjustments	0	0	0	0	0	0
Other movements	0	0	45	0	263	308
ACQUISITION COST AS AT 31 DECEMBER 2017 (A)	1,413,210	2,507	383,669	1,851	551,476	2,352,713
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2017	(779,512)	(2,429)	(323,865)	(659)	(161,738)	(1,268,204)
Post-acquisition adjustments	0	0	0	0	0	0
Booked	(35,948)	0	(10,126)	(612)	(12,966)	(59,652)
Impairment: booked	(257)	0	0	0	0	(257)
Write-back[3]	16,135	0	0	0	102	16,237
Disposals[2]	23,907	0	1,336	0	175	25,419
Transfers and cancellations	(14,267)	0	3,888	0	3,810	(6,569)
Other movements	0	24	(46)	0	0	(21)
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2017 (B)	(789,942)	(2,405)	(329,267)	(1,271)	(170,617)	(1,293,502)
Accumulated amortisation	(760,852)	(2,405)	(329,267)	(1,271)	(170,067)	(1,263,862)
Accumulated impairment	(29,090)	0	0	0	(549)	(29,639)
NET BOOK VALUE AS AT 31 DECEMBER 2017 (A)+(B)	623,268	102	54,402	580	380,859	1,059,212

(1) Acquisitions include mainly leasing contracts for the construction of property. Disposals include the delivery of these leasing contracts and the assets are at that moment reclassed to loans and advances.
(2) Disposals include the delivery of the leasing contracts and the sale of bank agencies.
(3) For more information regarding this impairment write-back, see disclosure 7.14. "Impairment on tangible and intangible assets". Note that most of the reversal is related to the Belfius headquarter Rogier Tower. The value of the building has increased due to the reassessment of the occupancy rate following the execution of the "Belfius Together" and "Belfius Way of Working" strategy, where Belfius Insurance and Belfius Bank employees working in Brussels (Centre) are sharing more and more the same headquarter.

2. Fair value of investment property

(In thousands of EUR)	31/12/16	31/12/17
TOTAL	510,514	499,910
Fair value subject to an independent valuation	499,593	491,230
Fair value not subject to an independent valuation	10,922	8,680

5.12. INTANGIBLE ASSETS

(In thousands of EUR)	Internally developed software	Other intangible assets(1)	Total
ACQUISITION COST AS AT 1 JANUARY 2016	273,223	82,986	356,209
Acquisitions(2)	59,554	12,596	72,150
Disposals	0	0	0
Transfers and cancellations(3)	(65,267)	6,467	(58,801)
ACQUISITION COST AS AT 31 DECEMBER 2016 (A)	267,510	95,582	363,092
Accumulated amortisation	(193,358)	(65,228)	(258,587)
Accumulated impairment	(15,682)	0	(15,682)
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2016	(209,040)	(65,228)	(274,268)
Booked	(24,837)	(6,724)	(31,561)
Transfers and cancellations(3)	65,267	(6,435)	58,832
Other movements	0	6,446	6,446
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2016 (B)	(168,609)	(71,942)	(240,551)
Accumulated amortisation	(168,609)	(71,942)	(240,551)
Accumulated impairment	0	0	0
NET BOOK VALUE AS AT 31 DECEMBER 2016 (A)+(B)	98,901	23,640	122,541

(1) Other intangible assets include mainly purchased software for 23.4 million EUR in 2016.
(2) During the year internally developed software costs were capitalised. The internally developed software relates to several ongoing IT projects at Belfius. These projects relate to the further digitalisation of Belfius IT platforms and applications.
(3) Transfers and cancellations mainly include cancellations of own developed software.

(In thousands of EUR)	Internally developed software	Other intangible assets	Total
ACQUISITION COST AS AT 1 JANUARY 2017	267,510	95,582	363,092
Acquisitions(1)	62,993	23,490	86,482
Disposals	0	(13)	(13)
Transfers and cancellations	(31,824)	0	(31,824)
ACQUISITION COST AS AT 31 DECEMBER 2017 (A)	298,679	119,059	417,738
Accumulated amortisation	(168,609)	(71,942)	(240,551)
Accumulated impairment	0	0	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2017	(168,609)	(71,942)	(240,551)
Booked	(37,785)	(9,310)	(47,095)
Transfers and cancellations(2)	31,824	0	31,824
Other movements	0	0	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2017 (B)	(174,571)	(81,093)	(255,664)
Accumulated amortisation	(170,689)	(81,093)	(251,781)
Accumulated impairment	(3,882)	0	(3,882)
NET BOOK VALUE AS AT 31 DECEMBER 2017 (A)+(B)	124,108	37,966	162,074

(1) During the year internally developed software costs were capitalised. The internally developed software relates to several ongoing IT projects at Belfius. These projects relate to the further digitalisation and innovation of Belfius IT platforms and applications.
(2) Transfers and cancellations mainly include cancellations of own developed software.

5.13. GOODWILL

(In thousands of EUR)	Positive goodwill(1)
ACQUISITION COST AS AT 1 JANUARY 2016	129,886
ACQUISITION COST AS AT 31 DECEMBER 2016 (A)	129,886
Accumulated amortisation as at 1 January 2016	(25,920)
Accumulated impairment as at 1 January 2016	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2016	(25,920)
Accumulated amortisation as at 31 December 2016	(25,920)
Accumulated impairment as at 31 December 2016	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2016 (B)	(25,920)
NET BOOK VALUE AS AT 31 DECEMBER 2016 (A)+(B)	103,966

(1) Positive goodwill relates to goodwill on Belfius Insurance.

(In thousands of EUR)	Positive goodwill(1)
ACQUISITION COST AS AT 1 JANUARY 2017	129,886
ACQUISITION COST AS AT 31 DECEMBER 2017 (A)	129,886
Accumulated amortisation as at 1 January 2017	(25,920)
Accumulated impairment as at 1 January 2017	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2017	(25,920)
Accumulated amortisation as at 31 December 2017	(25,920)
Accumulated impairment as at 31 December 2017	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2017 (B)	(25,920)
NET BOOK VALUE AS AT 31 DECEMBER 2017 (A)+(B)	103,966

(1) Positive goodwill relates to goodwill on Belfius Insurance.

The annual impairment test did not require an impairment on goodwill. The impairment test was performed by comparing the equity value of Belfius Insurance with the "value in use". This value in use was determined based on a discounted cash flow model with the following inputs:

- → financial plan for 5 years,
- → discount rate: a cost of equity of 10% and
- → a long term growth rate for Belgium of 0.5%.

Note that the financial plan has only a limited impact on the impairment test. The main drivers are the discount curve and long term growth rate. Based on that scenario, a surplus could be identified, note that there have been no change in parameters compared to last year.

For 2016 and 2017, all scenarii (ranging from a growth rate from -2% to +2% and a discount rate of 6% to 12%) showed that no impairment was required. The assumptions for these scenarii are aligned with the expected evolution of the results in the financial plan and with the market conditions for capital costs. Only if the required Cost of equity (discount curve) amounts to 14% (2016) and 16% (2017) together with a growth rate of 0.0%, an impairment would start to become necessary. At a cost of equity of 10% impairment would start at a negative growth rate of 7% (2016) or 11% (2017), after realisation of the financial plan.

5.14. DEFERRED TAX ASSETS

1. Analysis

(In thousands of EUR)	31/12/16	31/12/17
Deferred income tax liabilities	(272,877)	(176,964)
Deferred income tax assets[1]	578,427	357,586
DEFERRED TAXES	305,549	180,623
Not recognised deferred tax assets	(172,579)	(122,187)
NET DEFERRED INCOME TAX ASSETS/(LIABILITIES)	132,970	58,436

(1) Decrease of deferred tax assets following the use of tax losses carried forward, and the Belgian tax reform, see also point 4 below.

2. Movements

(In thousands of EUR)	2016	2017
AS AT 1 JANUARY	293,655	132,970
Movements of the year		
Statement of income charge/credit	(187,835)	(59,835)
Items related to "Other Comprehensive Income"	27,150	24,329
Effect of change in tax rates – statement of income	0	(105,920)
Effect of change in tax rates – equity	0	66,892
Variation of scope of consolidation	0	0
Foreign exchange adjustments	0	0
Other movements Movements	0	0
AS AT 31 DECEMBER	132,970	58,436

A. Deferred tax coming from assets of the balance sheet

	31/12/16		31/12/17	
(In thousands of EUR)	Total	Of which impact in result	Total	Of which impact in result
Loans and advances	141,218	(38,451)	134,412	(2,105)
Investments held to maturity	0	(3,708)		(6,500)
Financial assets available for sale	(1,161,960)	38,727	(844,275)	152,615
Derivatives	(535,156)	181,728	(967,008)	(432,523)
Gain/loss on the hedged item in portfolio hedge of interest rate risk	(1,209,817)	(31,543)	(849,259)	360,559
Other	16,065	25,060	35,399	19,333
TOTAL	(2,749,650)	171,813	(2,490,731)	91,379

B. Deferred tax coming from liabilities of the balance sheet

	31/12/16		31/12/17	
(In thousands of EUR)	Total	Of which impact in result	Total	Of which impact in result
Financial liabilities measured at fair value through profit or loss	54,276	1,360	4,012	(50,264)
Technical provisions of insurance companies	323,095	(4,832)	251,812	7,097
Derivatives	2,240,106	(153,837)	2,205,153	(30,697)
Gain/loss on the hedged item in portfolio hedge of interest rate risk	70,521	(6,457)	31,064	(39,457)
Other	130,975	(65,593)	99,518	5,359
TOTAL	2,818,973	(229,359)	2,591,559	(107,962)

(In thousands of EUR)	31/12/16 Total	31/12/16 Of which impact in result	31/12/17 Total	31/12/17 Of which impact in result
Deferred tax coming from the balance sheet	69,323	(57,546)	100,828	(16,583)
Not recognised deferred tax assets – temporary differences	(63,258)		(58,035)	
DEFERRED TAX – TEMPORARY DIFFERENCES	6,065		42,793	

C. Deferred tax coming from other elements

(In thousands of EUR)	31/12/16 Total	31/12/16 Of which impact in result	31/12/17 Total	31/12/17 Of which impact in result
Tax losses carried forward	236,226	(134,699)	79,794	(156,956)
TOTAL	236,226	(134,699)	79,794	(156,956)
Not recognised deferred tax assets – tax losses carried forward	(109,321)		(64,152)	
DEFERRED TAX COMING FROM OTHER ELEMENTS AFTER NOT RECOGNISED DEFERRED TAX ASSETS – TAX LOSSES CARRIED FORWARD	126,905		15,642	

(In thousands of EUR)	31/12/16	31/12/17
DEFERRED TAX BEFORE NOT RECOGNISED DEFERRED TAX	305,549	180,623
DEFERRED TAX AFTER NOT RECOGNISED DEFERRED TAX	132,970	58,436

3. Expiry date of not recognised deferred tax assets

Nature (In thousands of EUR)	31/12/16 Less than 1 year	> 1 year and ≤ 5 years	> 5 years	Unlimited maturity	Total
Tax losses carried forward	(33,069)	0	0	(76,252)	(109,321)
TOTAL	(33,069)	0	0	(76,252)	(109,321)

Nature (In thousands of EUR)	31/12/17 Less than 1 year	> 1 year and ≤ 5 years	> 5 years	Unlimited maturity	Total
Tax losses carried forward	0	0	0	(64,152)	(64,152)
TOTAL	0	0	0	(64,152)	(64,152)

The business plans of the entities, except for the entity managing a large part of the "ex-Side" activities, show sufficient structural taxable profit to recognize temporary differences (DTA) on carry forward fiscal losses. The future profitability of the entity managing a large part of the "ex-Side" activities, is uncertain. Hence, no DTA were recognized at this entity.

4. Belgian tax reform

The Belgian corporate income tax reform, enacted just before year-end 2017, decides in a gradual decrease, among other measures, of the nominal corporate income tax rate from 33.9% in 2017 to 25% in 2020. This has lead to an increase of the effective tax rate for Belfius by 66bps, from 33.9% in 2016 to 40.5% in 2017; without the Belgian corporate tax reform the effective tax rate would have been 29.5%.

Following IAS12, tax assets and liabilities are assessed using the rates and laws that have been enacted or are substantively enacted by the balance sheet date. Belfius has therefore performed a reassessment of its deferred taxes, leading to:

- an increase in Other Comprehensive Income by EUR 67 million of which EUR 17 million for the banking group and EUR 49 million for the insurance group, and
- a negative impact on Belfius' 2017 net results stemming from a reassessment of deferred taxes through P&L, resulting in an additional tax expense for the banking group (EUR 64 million) and the insurance group (EUR 42 million).

Gains and losses not recognised in the statement of income (In thousands of EUR)	31/12/17	Contribution Bank into group	Contribution Insurance into group
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME BEFORE REASSESSMENT	370,009	(363,481)	733,490
Impact deferred tax reassessment	66,892	17,400	49,492
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	436,901	(346,081)	782,982

Net income attributable to equity holders of the parent (In thousands of EUR)	31/12/17	Contribution Bank into group	Contribution Insurance into group
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT BEFORE REASSESSMENT	711,422	498,881	212,541
Impact deferred tax reassessment	(105,920)	(63,937)	(41,983)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	605,502	434,944	170,558

Net asset value (In thousands of EUR)	31/12/17	Contribution Bank into group	Contribution Insurance into group
NET ASSET VALUE BEFORE REASSESSMENT	9,560,265	8,746,847	813,418
Impact deferred tax reassessment	(39,028)	(46,537)	7,509
NET ASSET VALUE	9,521,237	8,700,310	820,927

5.15. OTHER ASSETS

(In thousands of EUR)	31/12/16	31/12/17
OTHER ASSETS	**567,473**	**773,888**
Accrued income	65,051	62,741
Deferred expenses	21,237	23,544
Payments in transit from clients	447,006	647,259
Plan assets	0	12,328
Inventories	1,046	3
Operational taxes	33,133	28,013
OTHER ASSETS SPECIFIC TO INSURANCE COMPANIES	**436,916**	**450,342**
Share of the reinsurers in the technical reserves	257,064	276,930
Receivables resulting from direct insurance transactions	69,810	72,037
Premiums to be issued	0	0
Deferred acquisition costs	8,353	0
Other insurance assets(1)	101,690	101,375
Impaired insurance assets	436	697
Less:		
Specific impairment	(436)	(697)
TOTAL	**1,004,389**	**1,224,230**

(1) The other (re)insurance assets include amongst others the reinsurance deposits which are given in guarantee for the reinsurance technical provisions and the current accounts with the reinsurance counterparties. The other assets have increased mainly due to an increase of pending payments from clients.

5.16. NON CURRENT ASSETS (DISPOSAL GROUP) HELD FOR SALE AND DISCONTINUED OPERATIONS

(In thousands of EUR)	31/12/16	31/12/17
Assets of subsidiaries held for sale(1)	7,730	0
Tangible and intangible assets held for sale	19,643	17,610
Other assets	1,399	1,172
TOTAL	**28,772**	**18,782**

(1) As at 31 December 2016, the equity stake in Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations".

In 2017, Belfius Insurance has decided to liquidate its investments in the following funds: "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds". The decision was taken after a re-assessment of the investment framework, and it was determined that the volatility of these funds did not comply anymore with Belfius Insurance's new investment framework. As a result, these participations fell within the application of IFRS 5 and were classified as "Non current assets (disposal group) held for sale and discontinued operations" as at 30 June 2017. Note that these assets have been sold in the second half of 2017.

An overview is provided in annex 10.2.

5.17. LEASING

1. Belfius as a lessor

A. Finance lease

(In thousands of EUR)	31/12/16	31/12/17
Gross investment in finance leases		
Not later than 1 year	829,742	863,620
> 1 year and ≤ 5 years	1,545,632	1,672,321
> 5 years	1,255,309	1,177,294
SUBTOTAL (A)	3,630,683	3,713,235
UNEARNED FUTURE FINANCE INCOME ON FINANCE LEASES (B)	453,536	408,549
NET INVESTMENT IN FINANCE LEASES (A)+(B)	3,177,147	3,304,686

(In thousands of EUR)	31/12/16	31/12/17
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	739,674	777,639
> 1 year and ≤ 5 years	1,341,568	1,478,234
> 5 years	1,095,906	1,048,814
TOTAL	3,177,147	3,304,686

(In thousands of EUR)	31/12/16	31/12/17
Amount of uncollectible finance lease payments included in the provision for loan losses at the end of the period	50,667	45,387
Residual values unguaranteed by lessees	262,469	318,384
Estimated fair value of finance lease(1)	3,563,271	3,507,502
Accumulated allowance for uncollectible minimum lease payments	24,569	24,225

(1) The figures of 2016 have been restated.

The main underlying assets in finance lease relate to:

- real estate such as office buildings, commercial real estate, industrial real estate;
- production equipment;
- cars and trucks, locomotives and vessels;
- alternative energy equipment (f.i. solar systems);
- IT equipment.

B. Operating lease

(In thousands of EUR)	31/12/16	31/12/17
Future net minimum lease receivables under non-cancellable operating leases are as follows:		
Not later than 1 year	14,754	25,057
> 1 year and ≤ 5 years	75,950	100,712
> 5 years	422,001	476,969
TOTAL	512,705	602,738

The main underlying assets in operating lease relate to:

- real estate;
- cars and trucks;
- IT equipment.

2. Belfius as a lessee

A. Finance lease

Amounts involved are immaterial. See note 5.11. "Tangible fixed assets".

B. Operating lease

(In thousands of EUR)	31/12/16	31/12/17
Future net minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	8,075	8,342
> 1 year and ≤ 5 years	27,931	28,533
> 5 years	22,840	21,968
TOTAL	**58,847**	**58,843**
Amount of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date:	4,733	4,462
Lease and sublease payments recognised as an expense during the period:		
Minimum lease payments	7,637	7,790
Contingent rents	0	0
TOTAL	**7,637**	**7,790**

The main underlying assets in operating lease relate to:

- IT equipment;
- cars.

5.18. QUALITY OF FINANCIAL ASSETS

1. Analysis of loans and securities not subject to impairment

(In thousands of EUR)	Gross amount (A) 31/12/16	Gross amount (A) 31/12/17
Loans and advances due from banks	22,006,758	14,126,265
Loans and advances to customers	88,971,723	89,697,864
Investments held to maturity	5,393,247	5,441,999
Financial assets available for sale	18,727,841	17,888,446
Of which Fixed-income instruments	*16,617,408*	*15,157,602*
Of which Equity instruments	*2,110,432*	*2,730,845*
TOTAL	135,099,569	127,154,575

2. Analysis of impaired loans and securities

(In thousands of EUR)	Gross amount (B)		Specific impairment (C)		Net amount (B)+(C)	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
Loans and advances due from banks	2,149	0	(43)	0	2,106	0
Loans and advances to customers[1]	2,319,998	1,821,591	(1,261,638)	(1,152,862)	1,058,360	668,729
Financial assets available for sale	160,159	160,999	(68 210)	(66 848)	91,948	94,150
Of which Fixed-income instruments	*1,782*	*1,782*	*(840)*	*(840)*	*942*	*942*
Of which Equity instruments	*158,376*	*159,216*	*(67,370)*	*(66,008)*	*91,006*	*93,208*
TOTAL	2,482,306	1,982,590	(1,329,891)	(1,219,710)	1,152,414	762,880

(1) In the context of managing the global credit quality of its loan portfolio, Belfius has opted to sell some loans that are fully or significantly impaired. Furthermore Belfius accomplished its de-risking tail by selling the remaining US RMBS bonds in the former Side portfolio (as from 1 Januari 2017 merged into Group Center). As a result the coverage ratio, indicating the ability to absorb potential losses from non-performing loans of Belfius, improved from 54.38% to 63.29%. We refer to the chapter Alternative Performance Measures for more information.

3. Analysis of loans and securities

(In thousands of EUR)	Gross amount (A)+(B)		Specific impairment (C)		Net amount (A)+(B)+(C)	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
Loans and advances due from banks	22,008,907	14,126,265	(43)	0	22,008,864	14,126,265
Loans and advances to customers	91,291,721	91,519,456	(1,261,638)	(1,152,862)	90,030,083	90,366,594
Investments held to maturity	5,393,247	5,441,999	0	0	5,393,247	5,441,999
Financial assets available for sale	18,887,999	18,049,445	(68,210)	(66,848)	18,819,789	17,982,597
Of which Fixed-income instruments	*16,619,191*	*15,159,384*	*(840)*	*(840)*	*16,618,351*	*15,158,544*
Of which Equity instruments	*2,268,809*	*2,890,061*	*(67,370)*	*(66,008)*	*2,201,438*	*2,824,053*
SUBTOTAL BEFORE COLLECTIVE IMPAIRMENT	137,581,875	129,137,165	(1,329,891)	(1,219,710)	136,251,983	127,917,455
Collective impairment (-)	0	0	0	0	(333,995)	(314,506)
TOTAL	137,581,875	129,137,165	(1,329,891)	(1,219,710)	135,917,988	127,602,949

VI. NOTES ON THE LIABILITIES OF THE CONSOLIDATED BALANCE SHEET

(some amounts may not add up due to rounding)

6.1. DUE TO BANKS

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Demand deposits	766,077	280,552
Term deposits	571,177	745,574
Repurchase agreements	291,591	1,811
Central banks	3,232,230	3,978,544
Cash collateral received	7,191,558	5,452,457
Other borrowings	529,198	650,955
TOTAL	12,581,830	11,109,893

A significant decrease can be noted in the cash collateral received, by EUR 1.7 billion following slightly higher interest rates compared to year-end 2016, as well as additional offsetting due to some additional clearing with LCH (more specifically London Clearing House or "LCH").

On 10 March 2016, the ECB announced a new series of four targeted longer-term refinancing operations (TLTRO II). These TLTRO's are designed to further enhance the functioning of the monetary policy transmission mechanism by supporting bank lending to the real economy. At the end of 2016, Belfius had an outstanding TLTRO II participation of EUR 3.0 billion. Belfius drew an additional EUR 1.0 billion, end March 2017, resulting in a total participation of EUR 4.0 billion at the end of December 2017, in view of continuing to take on its role of lending to the real economy.

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

6.2. CUSTOMER BORROWINGS AND DEPOSITS

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Demand deposits	23,185,142	24,318,276
Saving deposits	34,905,916	35,952,551
Term deposits	9,502,922	8,908,989
Other customer deposits	6,544,526	7,033,386
TOTAL CUSTOMER DEPOSITS	74,138,507	76,213,201
Repurchase agreements	20,756	10,415
Other borrowings	11,778	50,866
TOTAL CUSTOMER BORROWINGS	32,533	61,282
TOTAL	74,171,040	76,274,483

The increase in customer borrowings is mainly the result of the growth of sight and saving accounts.

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

6.3. DEBT SECURITIES

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Certificates of deposit	5,305,648	4,834,442
Customer saving certificates	2,840,684	2,358,979
Non-convertible bonds(1)	7,366,918	7,612,633
Covered bonds(2)	8,468,179	7,221,010
TOTAL	**23,981,430**	**22,027,063**

(1) Belfius has issued inaugural Non-Preferred Senior bonds increasing its loss absorption capacity, that contribute the Minimum Requirement for own funds and Eligible Liabilities (MREL). The first tranche of EUR 750 million was issued on 5 September 2017, with a maturity of 5 years and an annual coupon of 0.75%. The second tranche of EUR 500 million was issued on 19 October 2017, with a maturity of 7 years and an annual coupon of 1.00%. The increase stemming from this new type of lialibilties was partially offset by debt securities that came to maturity.

(2) **The covered bonds programmes:**
Belfius has two covered bond programmes:

- Mortgage Pandbrieven programme; and
- Public Pandbrieven programme.

The covering assets of the Mortgage Pandbrieven are mainly Belgian mortgage loans granted in accordance with the law on mortgage loans (law of 4 August 1992), through the branch network of Belfius. The covering assets of the Public Pandbrieven are mainly loans granted to Belgian public sector entities (municipalities, provinces, etc.).

The Belgian pandbrieven investors have a direct recourse to:

- the general estate of the issuing credit institution (i.e. repayment of the Belgian pandbrieven is an obligation of the issuing bank as a whole) and
- the segregated estate, that comprises the cover pool that is exclusively reserved for the Belgian pandbrieven investors under the specific program to which the segregated estate is joined and for the claims of other parties that are or can be identified in the issue conditions. Assets become part of the cover pool upon registration in a register held by the issuer for such purpose.

A detailed description of the covering assets (including the outstanding amount and the characteristics of the loans in the cover pool) can be consulted in the management report "Risk management" and in section "9.3. Information on asset encumbrance and collateral received" as well as:

- for the Mortgage Pandbrieven Programme on *https://www.belfius.com/EN/debt-issuance/Belgian-mortgage-pandbrieven-programme/index.aspx*
- for the Public Pandbrieven Programme on *https://www.belfius.com/EN/debt-issuance/Belgian-public-pandbrieven-programme/index.aspx*

The carrying value of the cover pool amount to EUR 11.2 billion in December 2016 and EUR 9.5 billion in December 2017. This decrease is explained by the 2012 issue of EUR 1.25 billion covered bonds that came to maturity in the second half of 2017. The carrying value of the cover pool is accounted for in Loans and advances to customers. We also refer to note 5.4.

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

6.4. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(In thousands of EUR)	31/12/16	31/12/17
Financial liabilities held for trading	21,760	62,796
Financial liabilities designated at fair value(1)	7,502,491	8,829,915
TOTAL	7,524,251	8,892,710

(1) This category contains mainly "branch 23" products and long term funding securities. The increase is mainly due to the increasing volume of "branch 23" products and to positive fair value movements.

FINANCIAL LIABILITIES HELD FOR TRADING

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Bonds issued by public sector	15,825	61,496
Other bonds	5,895	1,299
Equity instruments	40	0
TOTAL	21,760	62,796

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
Non-subordinated liabilities(1)	5,312,776	6,232,343
Unit-linked products(2)	2,189,714	2,597,572
TOTAL	7,502,491	8,829,915

(1) It mainly concerns long term funding securities.
(2) The increase in unit-linked insurance products is mostly situated in equity and variable income instruments and is related to the evolution of stock exchange and to the increased customer demand for these products.

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

The category "Financial liabilities designated at fair value through profit or loss" is currently used in the following situations:

- for insurance activities: mainly (unit-linked) "branch 23" insurance contracts. The return of the underlying investment fund units belongs entirely to its policyholder;
- for banking activities: to eliminate or significantly reduce a measurement or recognition inconsistency, between debt instruments and their hedges, that would otherwise arise.

The methodology used to determine the fair value of "financial liabilities designated at fair value" is detailed in note 9.1.

6.5. TECHNICAL PROVISIONS OF INSURANCE COMPANIES

Note that Belfius has decided to restate 2016, in order to further enhance the presentation of the profitability of the insurance business . As a result, Belfius has opted to present in here the figures on technical provisions including intragroup transactions between bank and insurance entities, where these relate mainly to insurance contracts concluded between the group's bank and insurance entities and to distribution commissions that the insurer pays to the bank.

(In thousands of EUR)	31/12/16	31/12/17
GROSS RESERVES		
In the consolidated balance sheet (as presented on balance sheet)	15,990,324	15,149,692
Intragroup transactions	6,353	10,180
Gross reserves including intragroup transactions	15,996,676	15,159,873

1. Insurance contracts Life

A. Gross reserves

	31/12/16			31/12/17		
(In thousands of EUR)	Insurance contracts	Investment contracts with DPF(1)	Total	Insurance contracts	Investment contracts with DPF(1)	Total
LIFE INSURANCE RESERVES	4,601,342	9,209,896	13,811,239	4,741,747	8,264,624	13,006,372
Reserves due to results of LAT (Liability Adequacy Test)	0	0	0	0	0	0
Reserves due to shadow accounting adjustments	75,867	697,779	773,646	63,311	563,424	626,735
Variation due to variation of scope of consolidation IFRS 5	0	0	0	0	0	0
TOTAL LIFE INSURANCE RESERVE	4,677,209	9,907,676	14,584,885	4,805,059	8,828,048	13,633,107
Claims reserves	67,494	64,863	132,357	59,915	48,088	108,003
Profit sharing reserve	11,269	82,795	94,064	78,987	90,969	169,956
Unearned premium reserves (UPR)	0	0	0	0	0	0
Other technical reserves	426	0	426	3,436	0	3,436
Variation due to variation of scope of consolidation IFRS 5	0	0	0	0	0	0
TOTAL GROSS TECHNICAL RESERVES LIFE	4,756,399	10,055,333	14,811,732	4,947,398	8,967,105	13,914,503

(1) Discretionary participation feature (DPF).

The gross technical provisions for Life decreased by EUR 897 million in 2017 compared to 2016. An evolution that can be explained as follows:

- → the main reason for the decrease results from the market conditions (persistent low interest rates and high insurance taxes) not being supportive for Life Investment products. As such Belfius also offers more and more its clients the opportunity to switch to alternative investment forms, including in the form of pure branch 23 or mixed branch 44 products. As a result, a substantial part of the branch 21 investment contracts at maturity in 2017 was not reinvested in branch 21 investment contracts;
- → the decrease in shadow loss recognition by EUR 147 million due to a changed interest rate structure and the decrease of the branch 21 portfolio;
- → increase of the discretionary participation share reserve for EUR 76 million to EUR 170 million (see below).

The total reserves in application of the shadow accounting amount to EUR 627 million in 2017 against EUR 774 million in 2016. An amount of EUR 63 million was transferred from the Reserves Available For Sale financial assets to the technical reserve by application of shadow accounting to insurance contracts with segregated fund management. In addition, the need for a shadow loss adjustment for the other assets available for sale that are compared to the technical provisions was also determined. In this respect, the influence on the valuation of the technical reserves is checked when the unrealized results recognized in equity are effectively realized and reinvested at current market conditions. Based on this exercise, the booked reserves would be insufficient when unrealized results would be fully realized, as a result of which an amount of EUR 563 million has been transferred from the revaluation reserves to the technical reserves. At the end of 2016 this transfer amounted to EUR 698 million. The decrease is the result of the changed interest rate structure and the decrease of Life reserves.

Discretionary profit sharing is a contractual but conditional right to receive additional benefits in addition to a guaranteed return. At the moment when the annual business plan is drawn up, an estimate is made of the total conditional profit sharing decided to include on the balance sheet. The valuation rules stipulate that for the part of this estimate for which no technical provisions have been booked through the profit and loss account, this is presented on balance in a separate category of equity.

The total discretionary participation estimate is EUR 170 million at the end of 2017, of which EUR 29 million is part of the 2017 profit-sharing plan and EUR 141 million relates to an estimate for the coming years. The estimate of EUR 141 million relating to the coming years is with the accounts of 2017 fully included in the technical provisions via the income statement. An additional provision was made in P&L 2017 for future discretionary profit sharing (EUR 76 million) following the realization of some capital gains within the Life segment. The provision ensures an accounting matching principle whereby the part of the investment results for profit sharing is attributed to the year in which effective annual profit sharing is dotated to the policyholders.

No discretionary profit sharing element is included in equity end 2017; at the end of 2016 this amounted to EUR 49 million gross.

At the end of 2016, the total estimate of the discretionary participation features amounted to EUR 143 million, of which EUR 22 million was part of the 2016 profit-sharing plan and EUR 121 million related to an estimate for the coming years. From the EUR 121 million relating to the coming years, EUR 72 million was included in technical provisions through the income statement. The balance, EUR 48.7 million, was processed through equity in accordance with the valuation rules.

The evolution in the profit sharing provisions, related to current year, from EUR 22 million at the end of 2016 to EUR 29 million at the end of 2017, is to a large extent attributable to the higher discretionary profit distribution within the segregated accounts, but also to a higher provision for profit sharing for the branch 44 products and for life insurance products for the self-employed. The increase in the estimated cost of future profit sharing from EUR 121 million at the end of 2016 to EUR 141 million at the end of 2017 (excluding segregated funds) directly follows from the profit sharing strategy set by the Board of Directors.

B. Share of reinsurers

	31/12/16			31/12/17		
(In thousands of EUR)	Insurance contracts	Investment contracts with DPF[1]	Total	Insurance contracts	Investment contracts with DPF[1]	Total
Share of reinsurers in Life insurance reserve	158,948	0	158,948	172,203	0	172,203
Share of reinsurers in claims reserves	1,616	0	1,616	1,508	0	1,508
Share of reinsurers in unearned premium reserves (UPR)	0	19	19	0	0	0
Share of reinsurers in profit sharing reserves	3,647	0	3,647	5,383	0	5,383
Share of reinsurers in other technical reserves	124	0	124	1,662	0	1,662
TOTAL SHARE OF REINSURERS IN TECHNICAL RESERVES LIFE	**164,335**	**19**	**164,354**	**180,757**	**0**	**180,757**

(1) Discretionary participation feature (DPF).

C. Discretionary participation feature included in equity

	31/12/16			31/12/17		
(In thousands of EUR)	Insurance contracts	Investment contracts with DPF[1]	Total	Insurance contracts	Investment contracts with DPF[1]	Total
Net discretionary participation feature included in equity	0	48,739	48,739	0	0	0

(1) Discretionary participation feature (DPF).

D. Reconciliation of changes in life insurance reserve

(In thousands of EUR)	2016			2017		
	Gross amount contracts	Reinsurance amount	Net amount	Gross amount contracts	Reinsurance amount	Net amount
LIFE INSURANCE RESERVES AS AT 1 JANUARY	**15,334,105**	**221,743**	**15,112,361**	**14,584,885**	**158,947**	**14,425,937**
Variation in opening due to variation of scope of consolidation	846	437	408	0	0	0
Net payment received/ premiums receivable	594,409	17,552	576,856	576,557	19,345	557,212
Additional reserves due to shadow accounting adjustments	193,700	0	193,700	(146,911)	0	(146,911)
Additional reserves due to results of LAT (Liability Adequacy Test)	0	0	0	0	0	0
Claims paid	(1,854,276)	(107,130)	(1,747,146)	(1,616,762)	(4,837)	(1,611,925)
Results on death and on life	(73,599)	(3,466)	(70,133)	(78,943)	1,628	(80,570)
Attribution of technical interest	356,297	4,592	351,705	326,882	1,189	325,693
Other changes	33,405	25,219	8,186	(12,601)	(4,069)	(8,532)
Variation due to variation of scope of consolidation IFRS 5	0	0	0	0	0	0
LIFE INSURANCE RESERVES AS AT 31 DECEMBER	**14,584,885**	**158,947**	**14,425,938**	**13,633,107**	**172,203**	**13,460,904**

E. Classification of the reserve by guaranteed interest rate

Guaranteed interest rate	Classification of the reserve[1]			
(In thousands of EUR)	31/12/16		31/12/17	
> 4.00%	1,549,235	11%	1,445,155	11%
≤ 4.00%	1,348,749	10%	856,509	7%
≤ 3.50%	1,938,933	14%	1,329,063	10%
≤ 3.00%	3,144,633	23%	2,971,122	23%
≤ 2.50%	1,476,858	11%	1,491,056	11%
≤ 2.00%	3,773,253	27%	4,476,483	34%
Equal to 0%	346,363	3%	203,769	2%
Other	233,214	2%	233,214	2%
TOTAL	**13,811,238**	**100%**	**13,006,372**	**100%**

(1) Total gross technical reserves Life excluding shadow accounting adjustments.

2. Insurance contracts Non-Life

A. Gross reserves

(In thousands of EUR)	31/12/16	31/12/17
Claims reserves	914,301	953,050
Reserves Unallocated Loss Adjustment Expenses (ULAE)	33,413	42,339
Reserves for claims incurred but not reported (IBNR)	71,186	79,800
GROSS RESERVES NON-LIFE	1,018,900	1,075,189
Other technical reserves	36,799	36,333
Profit sharing reserves	2,356	1,362
Unearned premium reserves (UPR)	126,890	132,486
TOTAL GROSS RESERVES NON-LIFE	1,184,944	1,245,370

B. Share of reinsurers

(In thousands of EUR)	31/12/16	31/12/17
Share of reinsurers in claims reserves	91,863	93,316
SHARE OF REINSURERS	91,863	93,316
Share of reinsurers in other technical reserves	655	295
Share of reinsurers in unearned premium reserves (UPR)	191	2,563
TOTAL SHARE OF REINSURERS IN TECHNICAL RESERVES NON-LIFE	92,709	96,174

C. Reconciliation of changes in claims reserves

	2016			2017		
(In thousands of EUR)	Gross amount contracts	Reinsurance amount	Net amount	Gross amount contracts	Reinsurance amount	Net amount
CLAIMS RESERVES AS AT 1 JANUARY	955,618	91,171	864,446	1,018,900	91,862	927,038
Claims paid on previous years	(137,273)	7,630	(144,903)	(140,888)	(9,915)	(130,973)
Change in claim charges on previous years	3,911	(6,965)	10,877	(53,879)	7,499	(61,378)
Liabilities on claims current year	196,644	26	196,618	251,055	3,870	247,186
CLAIMS RESERVES AS AT 31 DECEMBER	1,018,900	91,862	927,038	1,075,188	93,315	981,873

6.6. PROVISIONS AND CONTINGENT LIABILITIES

1. Analysis of movements

(In thousands of EUR)	Pensions and other employment defined benefit obligations	Other long term employee benefits	Re-structuring[1]	Provisions for legal & tax litigations[2]	Commitments and guarantees given (off balance sheet)	Onerous contracts	Other provisions	Total
AS AT 1 JANUARY 2016	167,532	18,113	119,649	44,436	11,896	4,768	39,150	405,543
Additional provisions	52,989	5,216	16,543	3,084	6,566	1,130	4,240	89,768
Amounts used	(45,192)	(1,055)	(39,606)	(3,435)	0	(3,888)	(8,865)	(102,041)
Unused amounts reversed	(16,947)	(148)	1,192	(6,541)	(7,041)	0	(1,005)	(30,489)
Changes in scope of consolidation (out)[3]	0	0	0	(64)	0	0	0	(64)
Transfers	0	0	0	14	0	0	0	14
Provisions booked from/to equity[4]	49,418	0	0	0	0	0	0	49,418
Foreign exchange adjustments	0	0	0	(1)	94	0	0	93
AS AT 31 DECEMBER 2016	207,801	22,126	97,778	37,494	11,514	2,010	33,519	412,243

(1) The restructuring provision is used in line with agreed plans and is reviewed annually and adjusted, where necessary, if the reality is different from the taken assumptions (e.g. higher number of people leaving the company, inflation, pension data ...). This is done to make sure that Belfius can continue to meet its obligations related to previous labour agreements. The duration of the future restructuring payment is approximately 3 years.
(2) The "Provision for legal litigations" contains mainly amounts provisioned for potential settlements of disputes with third parties, see below.
(3) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016.
(4) Actuarial gains or losses as a result of changed assumptions or deviations from the reality compared to the assumptions are processed through equity. The actuarial losses of 2016 are mainly due to a reduced discount rate compared to 2015, which is partially offset by experience gains and a return on assets that was higher than the actuarial assumption.

(In thousands of EUR)	Pensions and other employment defined benefit obligations	Other long term employee benefits	Re-structuring[1]	Provisions for legal & tax litigations[2]	Commitments and guarantees given (off balance sheet)	Onerous contracts	Other provisions	Total
AS AT 1 JANUARY 2017	207,801	22,126	97,778	37,494	11,514	2,010	33,519	412,243
Additional provisions	27,586	4,939	5,663	73,786	1,992	0	7,470	121,435
Amounts used	(46,865)	(1,239)	(39,989)	(514)	0	(2,010)	(4,486)	(95,103)
Unused amounts reversed	(785)	(53)	(1,087)	(328)	(4,958)	0	(2,189)	(9,400)
Changes in scope of consolidation (out)	0	0	0	0	0	0	0	0
Transfers	15,984	0	0	0	0	0	(930)	15,054
Provisions booked from/to equity[3]	(18,784)	0	0	0	0	0	0	(18,784)
Foreign exchange adjustments	0	0	0	0	(146)	0	0	(146)
AS AT 31 DECEMBER 2017	184,937	25,774	62,365	110,437	8,401	0	33,385	425,300

(1) The restructuring provision is used in line with agreed plans and is reviewed annually and adjusted, where necessary, if the reality is different from the taken assumptions (e.g. higher number of people leaving the company, inflation, pension data ...). This is done to make sure that Belfius can continue to meet its obligations related to previous labour agreements. The duration of the future restructuring payment is approximately 3 years.
(2) The "Provision for legal litigations" contains mainly amounts provisioned for potential settlements of disputes with third parties, see below.
(3) A decrease is noted following the remeasurement of the defined benefit plans due to a slightly higher discount rate compared to year-end 2016 following the increased interest rates and the favorable return on the pension plan assets.

2. Post-employment benefits

In Belgium, each employee is eligible for a state pension. In addition, Belfius provides pension plan benefits for its employees and in some cases reimburses certain medical costs for retired employees.

The liability for those benefits is calculated and booked into our accounts according to the IAS19-methodology.

Considering that Belfius has benefit plans for employees mainly located in Belgium, the post-employment benefits are subject to the Belgian market practice and regulations (the plans abroad are not substantial).

Belfius Bank accounts liabilities for several defined benefit plans.

Pension plans are mainly settled through the payment of a lump sum even though the option exists to receive a payment as an annuity.

Additional pension plans

The legislation of 18 December 2015 intending to guarantee the sustainability and the social character of supplementary pensions and to strengthen complementarity in relation to the legal retirement pension, included different aspects regarding additional pension plans.

The changes in legislation regarding the guaranteed interest rate for employers on contributions for defined contribution plans resulted in a different calculation for the pension obligation. The intrinsic method to valuate the pension obligations of the defined contribution plans was from 2016 on replaced by the "projected unit credit method".

This methodology is applied by Belfius.

Other legislative amendments by end 2015 are integrated into the calculation of the liabilities, including additonal rules regarding the time of payment of the supplementary pension and a ban on favorable anticipation.

In addition, the transitional measures that are applicable for older employees were integrated in the calculation of liabilities.

Defined benefit plans *(=DB)*

Under defined benefit plans, the employee future benefit depends on various factors such as the employee's length of service and his final salary.

Before 2007 all pension plans of Belfius were defined benefit plans. Belfius employees build up rights in these defined benefit plans, which could vary according to the time of entry into service and according the entity in which the employees are employed.

As from 1 January 2017 new employees in Belfius Bank were no longer granted access to a defined benefit plan. Instead, a defined contribution plan was introduced for new employees.

Belfius Insurance had a similar evolution as Belfius Bank. From 1 January 2007 on, new employees joined a defined contribution plan, but the employees who entered before that date kept their defined benefit plan as active plan and continue to build up rights into this defined benefit plan. Most pension plans of Belfius Insurance are internally insured and consequently, the non qualifying assets of these pension plans are not included in the reporting of the net pension liabilities.

Defined contribution plans *(= DC)*

Under defined contribution plans, the benefit upon retirement depends on the contributions to the plan, both employer and employee contributions, and the investment performance of the fund or insurance contract.

Belgian defined contribution pension plans are by Belgian law subject to minimum guaranteed rates of return on employer contributions and on employee contributions.

This compulsory return implies that Belgian defined contribution plans are defined benefit plans under the requirement of IAS 19.

There are several defined contribution plans within Belfius Bank. The main defined contribution plan is funded by employer and employee contributions. Employer contributions made to the plan are based on seniority and salary. Employee contributions are a fixed percentage of salary. The defined contribution plans of Belfius Bank are all managed in an OFP (organism for financing of pensions).

Belfius Insurance and Corona also dispose of defined contribution pension plans (branch 21) for their employees (internal insured plans).

The guaranteed minimum return for which the employer is responsible, at the end, changed materially in 2016 following the new legislation.

If the pension plan is a branch 21 group insurance, the so-called horizontal method is applicable. The reserves preserve their initial employers guarantee until the final payout. This means that the existing reserves as at 31 December 2015 are still subject to the existing guaranteed 3.75% on employee contributions and 3.25% on the employer contributions until departure. For contributions from 1 January 2016 onwards, the guarantee has become variable in function of the OLO 10 years interest rate with a minimum guarantee of 1.75% and a maximum guarantee of 3.75% (for the years 2016 and 2017, the guarantee was 1.75%).

For the defined contribution plans that are managed within an OFP, the so-called vertical method is applicable. This means that the existing guarantee of 3.25% on employers contributions and 3.75% on employee contributions only applies until 31 december 2015. For the year 2016 and 2017, the accumulated reserves as well as the new contributions are accrued to the minimum variable employer guaranteed interest rate (1.75%). Note that the guaranteed yield is variable in function of future OLO-10 year interest rate.

The defined contribution plans are treated as defined benefit plans for the consolidated financial statements. For those plans the liabilities are calculated upon the "projected unit credit" method that is based on the projected benefit at the end of the career taking into account the salary increases until payout.

Since the contribution rates of the basic DC-plan of Belfius Bank and the DC-plan of Corona increase with seniority, the determination of the benefits granted to the already existing service time, also takes into account future contributions (the projected benefits for the entire career are multiplied by the ratio of past service time to the projected service time).

For the other DC-plans of Belfius, the calculation of the benefits is awarded to the already existing service time just based on the already paid contributions.

In both cases, if the defined benefit obligation calculated according to the projected unit credit methodology is lower than the individual account or the benefit obligation at the end of the year taking into account the interest rates guaranteed by the employer, then the highest of these 3 values is included in the liabilities of Belfius.

The fair value of the qualifying (in the net pension obligation recognized) underlying assets of the defined contribution plans amounted to EUR 261.6 million end 2017 and EUR 187.7 million end 2016. This important increase was due to new contributions, a transfer of ceiled assets from another plan, a favorable return and limited benefit payments.

A. Movement in the defined benefit liability (asset)

(In thousands of EUR)	Present value of obligation	Plan assets at fair value	Deficit/ (surplus)	Asset ceiling	Net liability/ (asset)
AS AT 1 JANUARY 2016	**1,807,665**	**(1,691,521)**	**116,144**	**51,390**	**167,534**
Service cost					
Current service cost	50,344	0	50,344	0	50,344
Past service cost and (gain)/loss on settlements(1)	(13,979)	0	(13,979)	0	(13,979)
Administrative expenses	0	1,154	1,154	0	1,154
Interest income - Interest expense	41,064	(38,566)	2,498	1,219	3,717
(A) EXPENSE AND INCOME RECOGNIZED IN P&L	**77,429**	**(37,412)**	**40,017**	**1,219**	**41,236**
Remeasurements (gain)/loss					
Effect of changes in demographic assumptions	8,850	0	8,850	0	8,850
Effect of changes in financial assumptions	143,772	0	143,772	0	143,772
Effect of experience adjustments	(39,802)	0	(39,802)	0	(39,802)
Return on plan assets (excl. interest income)	0	(52,861)	(52,861)	0	(52,861)
Changes in the effect of asset ceiling (excluding interest income/ expense)	0	0	0	(10,470)	(10,470)
(B) REMEASUREMENTS (GAIN)/LOSS RECOGNIZED IN OCI	**112,820**	**(52,861)**	**59,959**	**(10,470)**	**49,489**
DEFINED BENEFIT COST INCLUDED (A)+(B)	**190,249**	**(90,273)**	**99,976**	**(9,251)**	**90,725**
Contributions					
Employer	0	(45,038)	(45,038)	0	(45,038)
Plan participants	2,954	(2,954)	0	0	0
Payments					
Benefit payments	(80,731)	75,387	(5,344)	0	(5,344)
Other					
Foreign exchange adjustments	(6,110)	6,180	70	(148)	(78)
Other	0	0	0	0	0
AS AT 31 DECEMBER 2016(2)	**1,914,027**	**(1,748,219)**	**165,808**	**41,991**	**207,799**

(1) The negative pension costs linked to "past service cost" are related to the amendments to the Belgian legislation by the end of 2015 on early retirement and inclusion of pensions paid in capital.
(2) By the end of 2016, 92.4% of the total pension liabilities are related to funded pension plans, 5.7% are related to non qualifying assets, and 1.9% are related to unfunded pension liabilities.

(In thousands of EUR)	Present value of obligation	Plan assets at fair value(1)	Deficit/ (surplus)	Asset ceiling	Net liability/ (asset)
AS AT 1 JANUARY 2017	1,914,028	(1,748,219)	165,809	41,991	207,800
Service cost					
Current service cost	53,179	0	53,179	0	53,179
Past service cost and (gain)/loss on settlements(2)	(27,462)	0	(27,462)	0	(27,462)
Administrative expenses	0	2,343	2,343	0	2,343
Interest income - Interest expense	30,790	(28,286)	2,504	723	3,227
(A) EXPENSE AND INCOME RECOGNIZED IN P&L	56,507	(25,943)	30,563	723	31,287
Remeasurements (gain)/loss					
Effect of changes in demographic assumptions	(4,001)	0	(4,001)	0	(4,001)
Effect of changes in financial assumptions	(13,003)	0	(13,003)	0	(13,003)
Effect of experience adjustments	39,890	0	39,890	0	39,890
Return on plan assets (excl. interest income)	0	(12,764)	(12,764)	0	(12,764)
Changes in the effect of asset ceiling (excluding interest income/ expense)	0	0	0	(28,884)	(28,884)
(B) REMEASUREMENTS (GAIN)/LOSS RECOGNIZED IN OCI	22,886	(12,764)	10,123	(28,884)	(18,761)
DEFINED BENEFIT COST INCLUDED (A)+(B)	79,393	(38,707)	40,686	(28,161)	12,525
Contributions					
Employer	0	(46,557)	(46,557)	0	(46,557)
Plan participants	2,958	(2,958)	0	0	0
Payments					
Benefit payments	(90,553)	87,320	(3,233)	0	(3,233)
Other	0	0	0	0	0
Effect of business combinations and disposals(3)	2,111	0	2,111	0	2,111
Foreign exchange adjustments	(1,487)	1,500	14	(55)	(41)
Other	0	0	0	0	0
AS AT 31 DECEMBER 2017(4)(5)	1,906,450	(1,747,620)	158,830	13,776	172,606

(1) Concerning the market value of the pension plan ensured by Ethias we refer to item 4 of the section legal litigations.
(2) The negative past service cost of 2017 is based on the transfer of surplusses formerly subject to asset ceiling to a "Belfius defined contribution pension plan" in order to pay for future risk premiums.
(3) Some additional small pension liabilities with non qualifying assets were included in the IAS19 liabilities of Belfius in 2017.
(4) By the end of 2017, 91.5% of the total pension liabilities are related to funded pension plans, 6.2% are related to non qualifying assets, and 2.3% are related to unfunded pension liabilities.
(5) 172,606 thousand EUR represents the total position of defined pension plans. 184,937 thousand EUR concerns "pension and other employment defined benefit obligations" and 12,328 thousand EUR concerns "other assets - plans assets" for the plans ending with a net asset as at end 2017.

B. Fair value of plan assets

(In thousands of EUR)	31/12/16	31/12/17
Plan assets at fair value		
Cash and cash equivalents	19,930	26,462
Equity instruments	213,509	266,186
Debt securities	1,344,476	1,301,053
Real estate	70,598	59,610
Insurance contracts	99,707	94,309
TOTAL	1,748,220	1,747,620

In 2017, 94.9% of the plan assets at fair value is based on market quotes

C. Assumptions for Belgian plans

	31/12/16	31/12/17
Discount rate	1.65%	1.70%
Inflation rate	1.75%	1.75%
Salary growth rate (age-linked)	0.75% - 2.25%	0.75% - 3.00%

Assumptions

The discount rate is based on accrued interest curve consisting of AA corporate bonds.

The inflation rate is based on the long term estimates published by the European Central Bank.

Belfius uses the Belgian mortality tables that through age corrections are adapted to the current generally longer service life.

D. Sensitivity(1) of the present value of the Defined Benefit Obligation at end of year to changes of assumptions

	-50bp	+50bp
Discount rate	+5.99%	-5.56%
Inflation rate	-4.02%	+3.72%
Real salary increase	-2.07%	+2.96%

(1) If all other assumptions are held constant.

E. Weighted average duration of the benefit obligation

	31/12/16	31/12/17
Belgium	12,43	12,03

F. Risks and ALM

Several of Belfius Group defined benefit pension plans are insurance policies issued by Ethias. This is further explained in item 4 of the section "legal litigations".

The key risks to which pension plans managed by the Belfius pension fund (OFP) are exposed, relate to interest rate, inflation, longevity and age of retirement. The management of the pension plans has been delegated to an "Investment Committee" and is mainly liability driven in its investment policy. A formalised investment framework ("Statement of Investment Principles") has been set-up to ensure a well-diversified and dedicated investment portfolio. The pension plans' liabilities are evaluated at least once a year. On a regular basis, an ALM study (with cash flow analysis and stress tests) is performed to determine and analyse the sensitivities of the plans to i.e. interest rate and inflation shocks. These form an important driver for the investment committee in its deliberations on the asset allocation of the investment portfolio. Day-to-day management of this portfolio and the plans' liquidity aspects have been entrusted to an external asset manager who, on a regular basis, delivers a report of its activities to the investment committee. The pension plans managed as group insurance branch 21 have the same risks, but the risks of interest rate and longevity are partly covered by the insurer.

3. Contingent liabilities

A. Commitments to Single Resolution Fund

Belfius has opted to pay part of its contribution of the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment is fully covered by cash collateral. See also note 8.5. "Commitments to Single Resolution Fund".

B. Legal litigations

Belfius (Belfius Bank and its consolidated subsidiaries) is involved as a party in a number of litigations in Belgium, arising in the ordinary course of its business activities, including those where it is acting as an insurer, capital and credit provider, employer, investor and tax payer.

In accordance with IFRS, Belfius makes provisions for such litigations when, in the opinion of its management, after analysis by its company lawyers and external legal advisors as the case may be, it is probable that Belfius will have to make a payment and when the amount of such payment can be reasonably determined.

With respect to certain other litigations against Belfius of which management is aware (and for which, according to the principles outlined above, no provision has been made), management is of the opinion, after due consideration of appropriate advice, that, while it is often not feasible to predict or determine the ultimate outcome of all pending litigations, such litigations are without legal merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss.

The most important cases are listed below, regardless of whether a provision has been made or not. Their description does not deal with elements or evolutions that do not have an impact on the position of Belfius. If the cases listed below were to be successful for the opposite parties, they could eventually result in monetary consequences for Belfius. Such impact remains unquantifiable at this stage.

Housing Fund of the Brussels Capital Region

On 9 October 2012, the Housing Fund of the Brussels Capital Region (Woningfonds van het Brussels Hoofdstedelijk Gewest/Fonds du Logement de la Région de Bruxelles-Capitale) summoned Belfius Bank before the Brussels Commercial Court. The Housing Fund subscribed for a total amount of EUR 32,000,000 to 4 treasury notes issued by Municipal Holding (Gemeentelijke Holding/Holding Communal), placed by Belfius acting as dealer under the Municipal Holding commercial paper program, between July and September 2011 (Commercial Paper program). Due to severe financial difficulties encountered by the Municipal Holding, the Housing Fund granted a voluntary waiver to the Municipal Holding on 24 November 2011 and received repayment for EUR 16,000,000. The Municipal Holding entered into liquidation in December 2011. Due to the intervention of Belfius as dealer of the treasury notes, the Housing Fund demands the payment by Belfius Bank of the non-repaid capital. As the loss incurred on this investment is the result of a voluntary waiver of the claim by the Housing Fund, which matches half of the investment, Belfius Bank rejects the demand from the Housing Fund.

On 27 March 2014, the Brussels Commercial Court accepted the claim application by the Housing Fund, but declared it unfounded. The Housing Fund lodged an appeal against this judgement on 3 June 2014.

There was no significant evolution in this claim during 2016 and 2017. The date of the hearings is not yet known.

No provision has been made for this claim.

BBTK and ACLVB

On 8 May 2014, two trade unions within Belfius Bank, BBTK and ACLVB, summoned Belfius Bank before the Brussels Labour Court. They demanded the annulment of the collective bargaining agreements (CBA) that Belfius Bank signed in 2013 with two other trade unions of the Bank.

On 8 June 2017, the Labour Court decided in an intermediary judgement that:

- → CBA may validly be signed by only 1 trade union, even though they modify older CBA concluded with other (more) trade unions;
- → Belfius did not violate the unions' rights to collective bargaining; and
- → the final registered CBA "Belfius 2016" (as opposed to the initial version of the CBA Belfius tried to register just before) did however not respect some formalities imposed by the CBA Act and for that reason, they are declared relatively null by the Labour Court.

On 4 July 2017, Belfius has registered the initial version of the CBA with the competent Federal Authority (FOD WASO/SPF ETCS) which contain the abovementioned legal formalities as decided by the Labour Court.

On 8 December 2017, the Labour Court decided in a final judgment that the unions' claims are not admissible. After this judgment, both unions BBTK and ACLVB have confirmed to Belfius that they won't appeal this Labour Court's final judgment. Given the relative nullity of the first registered CBA as stated in the judgment of 8 June 2017, it cannot be fully ruled out that current and/or former employees of Belfius Bank could still individually claim the application of the previous CBA, in new court proceedings. Belfius is of the opinion that the chances of success and consequences for Belfius of such proceedings would not be material, given the registration of the initial version of the CBA on 4 July 2017.

Arco - Cooperative shareholders

Various parties, including Belfius Bank, have been summoned by Arco - Cooperative shareholders in two separate procedures, i.e. one procedure before the Dutch speaking Commercial Court of Brussels and another procedure before the Court of First Instance of Antwerp, Section Turnhout:

- → On 30 September 2014, 737 shareholders from 3 companies of the Arco Group (Arcopar, Arcoplus and Arcofin) initiated proceedings against the Arco entities and Belfius Bank before the Dutch speaking Commercial Court of Brussels (the "Brussels Proceedings"). On 19 December 2014, 1,027 additional shareholders of the Arco entities joined in the Brussels Proceedings. On 15 January 2016, 405 additional shareholders of the Arco entities joined the Brussels Proceedings, resulting in a total of 2,169 plaintiffs. The plaintiffs have requested that the Brussels Court rule, among other things, that:
  - the agreements by virtue of which they became shareholders of the relevant Arco entities are null and void,
  - the defendants should, jointly and severally, reimburse the plaintiffs their financial contribution in these entities plus interest and
  - the defendants are liable for certain additional damages to the plaintiffs.

  The financial contribution of the 2,169 plaintiffs for which reimbursement is sought amounted to approximately EUR 6.5 million (principal amount) as at the date of this Report. The plaintiffs' claims in the Brussels Proceedings are based on allegations of fraud and/or error on the part of the Arco entities and Belfius Bank. In the alternative, the plaintiffs have argued that Belfius Bank breached its general duty of care as a normal and prudent banker. In relation to Belfius Bank, the plaintiffs have referred to certain letters and brochures allegedly containing misleading information issued by the predecessors of Belfius Bank. The Belgian State and the Chairman of the Management Board of the Arco entities are also defendants in the proceedings before the Commercial Court of Brussels. Belfius Bank needs to submit its first legal briefs on 16 August 2018 and the case will normally be pleaded during several pleading sessions in June 2021.

→ Separately from the abovementioned proceedings before the Commercial Court of Brussels, on 24 October 2016, three shareholders in Arcopar initiated court proceedings (the "Turnhout Proceedings") against Belfius Bank before the Court of First Instance of Antwerp, section Turnhout. The plaintiffs in the Turnhout Proceedings request that Belfius Bank is to be held liable to pay an "undetermined provisional amount of EUR 2,100" per plaintiff plus interest and costs, because they claim that Belfius Bank misled them in subscribing Arcopar-shares. As at the date of this Report, the aggregate amount of the claims of the plaintiffs in the Turnhout Proceedings amounted to approximately EUR 6,300 (principal amount). The plaintiffs base their claims upon promotional material that was distributed by the predecessors of Belfius Bank as well as the Arco entities and the former Belgian Christian collective of workers' associations (ACW). On 27 February 2017, Belfius Bank summoned Arcopar to intervene in the Turnhout Proceedings and to indemnify Belfius Bank for any amount for which it would be held liable towards the plaintiffs. In subsidiary order, the plaintiffs have also filed a claim against Arcopar and Belfius Bank requesting that their subscription of Arcopar shares is to be declared null and void. Belfius Bank needs to submit its final legal briefs on the 22 June 2018. The case will normally be pleaded on the 22 October 2018.

Furthermore, on 7 February 2018, two cooperative shareholders summoned the Belgian State before the court of first instance of Brussels because they state that the Belgian State has made a fault by promising and introducing a guarantee scheme for shareholders of financial cooperative companies (like the Arco cooperative shareholders) which has been considered illicit state aid by the European Commission. These two plaintiffs also summoned Belfius Bank on 7 February 2018 to intervene in this procedure, and claim compensation from Belfius Bank because they consider that Belfius Bank erred in the sale of the Arco shares. As of today, groups of Arco-shareholders organized themselves via social media to mobilize other Arco shareholders to become claimant in this procedure. There is not yet a pleading calendar in this case.

No provision has been made for these claims because Belfius Bank is of the opinion that it has sufficient valid arguments to result in these claims being declared inadmissible and/or without merit.

Ethias

Belfius is party to a dispute with Ethias, the insurer of some of Belfius' pension plans. Ethias is currently managing one of Belfius' pension plans in a segregated fund, whereby 100 per cent. of the financial gains on the underlying assets are allocated to the plan according to a profit sharing agreement validly concluded between the parties. Ethias has claimed a significant increase in management costs which is not provided for in the existing agreements. Following Belfius' refusal to grant this increase, Ethias terminated the profit sharing agreement and threatened to transfer unilaterally the pension plan assets to Ethias' main fund. If that were to occur, the financial gains of the underlying assets would no longer be paid in full to the pension plan, and Belfius would be compelled to evaluate these assets based on Ethias' guaranteed rates (rather than at market value), which would have a negative impact of EUR 83 million on Belfius' other comprehensive income (OCI). In order to prevent this, Belfius summoned Ethias before the Court in Brussels in summary proceedings on 23 December 2016. Separately from the summary proceeding, Belfius also introduced a proceeding on the merit in the commercial court of Brussels on 12 January 2017.

On 18 January 2017, the Court in summary proceedings prohibited the transfer of the assets, subject to a penalty up to EUR 3 million, and ordered Ethias to continue allocating 100 per cent. of the financial gains to the segregated fund. Ethias appealed against the judgment before the Brussels Court of Appeal. On 20 June 2017, the Court again ruled against Ethias and maintained the prohibition on the transfer of the plan's assets. However, because summary proceedings do not allow an adjudication on the merit, the Court also ruled that Ethias was no longer required to allocate 100 per cent. of the financial gains to the pension plan, awaiting the judgment on the merit.

A first judgment on the merit is currently expected in the course of H1 2019. Based on clear and valid contractual stipulations, Belfius is of the opinion that Ethias may not:

- → unilaterally increase the management costs;
- → unilaterally de-segregate the pension plan; and;
- → terminate the profit sharing agreement.

Funding Loss

Belfius Bank is facing some legal actions regarding the issue of indemnities charged for funding losses incurred by the bank. The latter are charged to professional clients in the case of early repayment of professional credits. These indemnities are calculated in line with the current legal dispositions and the contractual framework of such loans to reflect the financial losses that are actually incurred by the bank in the case of early repayment of a professional credit. Belfius booked a provision to cover the potential adverse outcome of the active litigation proceedings for which it assesses to have a less strong case.

Investigations into "Panama Papers"

These paragraphs are mentioned for completeness only, although the matters below do not comprise a litigation. On 5 December 2017, a police search under the lead of an examining magistrate of Brussels (onderzoeksrechter/juge d'instruction) took place at Belfius Bank's head office in the framework of the Belgian "Panama Papers" Parliamentary Commission. The bank was investigated as a witness and has not been accused of any wrongdoing. The scope of the investigation is to establish whether there are any violations of anti-money laundering obligations and to investigate the link between Belfius Bank (or its predecessors), and, amongst others, Experta and Dexia Banque Internationale à Luxembourg (i.e. former entities of the Dexia group).

To date, Belfius Bank did not receive any further information since the above mentioned police search.

6.7. SUBORDINATED DEBTS

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/17
CONVERTIBLE SUBORDINATED DEBT		
Loan capital perpetual subordinated notes	0	0
Loan capital non-perpetual subordinated notes	0	0
NON-CONVERTIBLE SUBORDINATED DEBT		
Loan capital perpetual subordinated notes	367,452	350,644
Loan capital non-perpetual subordinated notes	1,031,201	848,325
TOTAL	1,398,653	1,198,968
HYBRID CAPITAL AND REDEEMABLE PREFERENCE SHARES	0	0

A decrease can be noted following a EUR 175 million subordinated bond that came to maturity in 1H 2017 and the early repayment of two subordinated bonds of EUR 20 million each, partially compensated by the Tier 2 issue (private placement) of EUR 50 million in the first half of 2017.

2. Analysis cash flows and non-cash changes

(In thousands of EUR)	31/12/16	31/12/17
OPENING BALANCE	913,004	1,398,653
CASH FLOWS		
Issuance of subordinated debts	500,000	49,626
Reimbursement of subordinated debts	(4,321)	(215,472)
NON-CASH CHANGES		
Foreign exchange adjustments	(14,261)	(30,808)
Effective Interest rate	10,305	(480)
Fair value hedge revaluation	(1,858)	(2,549)
Transfers between reimbursement value and premium/discount	(4,216)	0
CLOSING BALANCE	1,398,653	1,198,968

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis of the fair value

See note 9.1.

5. Data for each subordinated debt

Ref. No.	Currency	Book value in thousands of currency units	Maturity date or method for determining the duration	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Conditions of compensations	Value in regulatory Tier2 capital (Phased In) in thousands EUR
1.(1)	EUR	15,000	15/07/2019	a) not applicable b) no specific conditions c) none	CMS linked(2)	4,608
2.(1)	EUR	40,000	03/12/2019	a) not applicable b) no specific conditions c) none	• if GBP libor 12 months < 5%: rate = GBP libor 12 months + 20bp, • if GBP libor 12 mois ≥ 5%: rate = 7.55%	15,378
3.(1)	EUR	11,000	16/12/2019	a) not applicable b) no specific conditions c) none	CMS linked(2)	4,307
4.	EUR	29,965	01/03/2022	a) not applicable b) no specific conditions c) none	Euribor 3m + 43bp	24,960
5.	EUR	44,957	04/04/2022	a) not applicable b) no specific conditions c) none	6%	38,284
6.	EUR	17,500	undetermined (call date : 29/12/2023)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each period of 12 years b) no specific conditions c) none	4.609% till 29/12/2023, then IRS 12y + 200bp	17,500
7.	EUR	17,500	undetermined (call date : 29/12/2022)	a) possible with the agreement of the ECB, from the time of the call, on 29/12/2029 and then at the end of each period of 10 years b) no specific conditions c) none	5.564% till 29/12/2019, then IRS 3y + 200bp	17,500
8.	EUR	50,000	undetermined (call date : 15/07/2023)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each period of 12 years b) no specific conditions c) none	5.348% till 15/07/2023, then IRS 12y + 200bp	50,000
9.	EUR	65,904	undetermined (call date : 18/05/2018)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each interest period b) no specific conditions c) none	Euribor 6m + 187bp	65,904
10.	USD	50,000	undetermined (call date : 25/02/2018)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each interest period b) no specific conditions c) none	USD Libor3m + 175bp	41,672
11.	USD	100,000	undetermined (call date : 21/03/2018)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each interest period b) no specific conditions c) none	USD Libor3m + 175bp	83,344
12.(1)	JPY	10,000,000	11/09/2025	a) not applicable b) no specific conditions c) none	6.10%	74,060
13.(1)	JPY	10,000,000	11/09/2025	a) not applicable b) no specific conditions c) none	6.05%	74,060
14.	EUR	72,000	undetermined (call date : 1/1/2025)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each year b) no specific conditions c) none	6.25% till 01/01/2025, then Euribor 3m + 417bp	72,000
15.	EUR	546,217	11/05/2026	a) not applicable b) no specific conditions c) none	3.125%	546,217

(1) As the interest structure embedded in the contract is considered as not closely related to the host contract; it has been bifurcated and is presented as a separate derivative on the balance sheet
(2) CMS: Constant Maturity Swap.

6.8. OTHER LIABILITIES

(In thousands of EUR)	31/12/16	31/12/17
OTHER LIABILITIES (EXCEPT RELATING TO INSURANCE ACTIVITIES)	1,222,052	1,428,332
Accrued costs	112,180	107,232
Deferred income	33,204	30,567
Other granted amounts received	137	161
Salaries and social charges (payable)	139,196	137,391
Operational taxes	63,046	54,957
Pending payments to clients and debts to service providers	496,420	598,890
Pending payments from lease contracts	88,654	155,895
Pending payments from factoring activities	289,214	343,239
OTHER LIABILITIES SPECIFIC TO INSURANCE ACTIVITIES	313,900	333,989
Debts for deposits from assignees	239,078	256,643
Debts resulting from direct insurance transactions	53,176	56,848
Debts resulting from reinsurance transactions	21,615	20,456
Other insurance liabilities	31	43
TOTAL	1,535,952	1,762,321

The other liabilities have increased due to an increase of pending payments from lease contracts and factoring activities as well as to clients.

VII. NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

(some amounts may not add up due to rounding)

Significant items included in the statement of income

We refer to the chapter “Financial results” in the management report.

7.1. INTEREST INCOME – INTEREST EXPENSE

(In thousands of EUR)	31/12/16	31/12/17
INTEREST INCOME	3,983,201	3,561,100
INTEREST INCOME OF ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	3,124,601	2,902,037
Cash and balances with central banks	138	0
Loans and advances due from banks	43,177	34,603
Loans and advances to customers	2,400,730	2,183,504
Financial assets available for sale	536,965	478,700
Investments held to maturity	90,991	91,542
Interest on impaired assets	29,228	27,210
Interest income on financial liabilities (negative yield)(1)	17,414	85,427
Other(1)	5,958	1,052
INTEREST INCOME OF ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	858,599	659,063
Financial assets held for trading	20,173	10,323
Financial assets designated at fair value	0	0
Derivatives held for trading	354,201	299,732
Derivatives as hedging instruments	484,225	349,008
INTEREST EXPENSE	(2,039,969)	(1,609,627)
INTEREST EXPENSE OF LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(623,995)	(462,636)
Due to banks	(9,616)	(9,501)
Customer borrowings and deposits	(128,129)	(89,136)
Debt securities	(347,851)	(236,396)
Subordinated debts(1)	(30,621)	(39,447)
Interest expense on financial assets (negative yield)(1)	(105,191)	(86,363)
Other	(2,587)	(1,792)
INTEREST EXPENSE OF LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	(1,415,974)	(1,146,991)
Financial liabilities held for trading	(747)	(652)
Financial liabilities designated at fair value	(122,437)	(99,218)
Derivatives held for trading	(261,094)	(232,425)
Derivatives as hedging instruments	(1,031,696)	(814,697)
NET INTEREST INCOME	1,943,232	1,951,473

(1) Negative interest has been detailed further and is presented as a specific line item. The presentation for 2016 has been changed to be aligned with the 2017 presentation.

Net interest income increased with EUR 8 million to EUR 1,951 million mainly following higher commercial activity volumes, strict pricing management, efficient interest rate hedging and benign financial markets (leading to decreasing wholesale funding costs), despite the continuing low interest rate environment. In addition, the net interest income was furthermore positively impacted by the volume discount of 40bps on TLTRO II applied interest rates(*) and by the reversal of the accrued but finally unpaid negative interests which had been accrued since OIS (Overnight Index Swap) turned negative. More specifically, Belfius applied a floor on the interest rate renumeration on collateral (i.e. negative interests are not applied), but accrued nevertheless these interests. Seeing that, following the agreements on the standardisation of the CSA (Credit Support Annex) agreements, these interests were no longer due, Belfius was able to reverse the accrual.

(*) The TLTRO II was designed to allow the banks to obtain long-term funding (4-year maturity) at zero cost, even with the opportunity to obtain a negative rate, one that corresponds to a retroactive discount on the sum to be reimbursed, up to a maximum of 40bps. This discount would apply only if the banks were to achieve some targets of increased loans to the real economy. The interest rate applicable to each TLTRO-II will be determined based on the lending history of the participant in the period 1 February 2016 to 31 January 2018. Since for Belfius all conditions were fulfilled, the discount was accounted for in 2017.

7.2. DIVIDEND INCOME

(In thousands of EUR)	31/12/16	31/12/17
Financial assets available for sale	87,510	71,559
Financial assets held for trading	723	1,525
Financial assets designated at fair value	0	0
TOTAL	**88,233**	**73,083**

The decrease in dividend income is mainly a consequence of the exceptional dividend received in 2016 from Visa Belgium.

7.3. NET INCOME FROM EQUITY METHOD COMPANIES

(In thousands of EUR)	31/12/16	31/12/17
Income from equity method companies before tax	6,383	4,599
Share of tax	(1,365)	(404)
Impairments on goodwill	0	0
TOTAL	**5,018**	**4,195**

7.4. NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(In thousands of EUR)	31/12/16	31/12/17
Net trading income	47,057	240,309
Net result of hedge accounting	(27,835)	(193,732)
Net result of financial instruments designated at fair value through profit or loss and result from the related derivatives	(2,352)	(434)
Of which trading derivatives included in a fair value option strategy	*9,864*	*(33,976)*
Forex activity and exchange differences	0	0
TOTAL	**16,870**	**46,143**

"Net trading income" has increased from EUR 47 million in 2016 to EUR 240 million in 2017, a.o. explained by an improvement of the markets which resulted in a positive evolution in fair value adjustments. In addition, Belfius was able to respond efficiently to the global trend towards standardisation of derivative contracts. As a result, Belfius was able to conclude agreements on certain optionalities in collateral contracts of derivatives which had a positive impact on the results. Following these agreements, Belfius recorded a global net impact of EUR 75 million following the contractual adjustments with these counterparties. This positive impact, in the line "Net trading income" was partially offset by the impact of methodological refinements on ALM management of loans, by including more credit contingencies on expected cash-flows, amounting to EUR -174 million in the line "Net result of hedge accounting".

The total amount recorded on the balance sheet as credit value adjustments stands at EUR -85 million end 2017 (compared to EUR -182 million end 2016), whereas total amount on the balance sheet of the debit value adjustment recorded amounts to EUR 4 million end 2017 (EUR 9 million end 2016). The total amount on the balance sheet related to funding value adjustments amounts to EUR -42 million end 2017 (compared to EUR -49 million end 2016). We also refer to note 9.5 which gives a global overview of the market risks.

The total P&L impact for credit value adjustments amounted to EUR +97 million in 2017 (compared to +68 million in 2016), for debit value adjustments EUR -5 million in 2017 (compared to -18 million in 2016) and for funding value adjustments EUR +7 million in 2017 (compared to EUR -1 million in 2016).

Result of hedge accounting

(In thousands of EUR)	31/12/16	31/12/17
FAIR VALUE HEDGES	(7,466)	(13,136)
Fair value changes of the hedged item attributable to the hedged risk	41,843	(27,485)
Fair value changes of the hedging derivatives	(49,309)	14,349
CASH FLOW HEDGES	0	0
Fair value changes of the hedging derivatives – ineffective portion	0	0
PORTFOLIO HEDGE	(20,369)	(180,595)
Fair value changes of the hedged item	482,006	(769,701)
Fair value changes of the hedging derivatives	(502,376)	589,106
TOTAL	(27,835)	(193,732)

(In thousands of EUR)	31/12/16	31/12/17
DISCONTINUATION OF CASH FLOW HEDGE ACCOUNTING (CASH FLOWS STILL EXPECTED TO OCCUR) – AMOUNTS RECORDED IN INTEREST MARGIN	108	103

Following the changes in the basis risk (between, among others, OIS and BOR3M) and the low interest rate environment, the net result from hedge accounting has decreased. Nevertheless, the effectiveness tests were respected at all times. Note that the interest position was adjusted following the above mentioned mehodological refinements within ALM for EUR -174 million.

Belfius applies mainly Fair value Hedges for establishing a hedge relationship between the hedged items and hedging instruments for the interest rate risk. It applies this on a macro basis on the asset side and on the liability side as well as on a micro basis for certain bonds on asset side and liability side.

7.5. NET INCOME ON INVESTMENTS AND LIABILITIES

(In thousands of EUR)	31/12/16	31/12/17
Gains on Loans and advances	16,447	17,276
Gains on Financial assets available for sale	212,082	171,778
Gains on Tangible fixed assets	8,976	10,746
Gains on Liabilities	236	6
Other gains	12,234	0
TOTAL GAINS	249,975	199,806
Losses on Loans and advances	(14,114)	(7,246)
Losses on Financial assets available for sale	(111,736)	(19,174)
Losses on Investments held to maturity	(3)	(24)
Losses on Tangible fixed assets	(435)	(499)
Losses on Assets held for sale	(101)	(52)
Losses on Liabilities	(330)	(110)
Other losses(1)	(10,031)	(27)
TOTAL LOSSES	(136,750)	(27,133)
NET IMPAIRMENT	2,485	1,285
TOTAL	115,710	173,958

(1) Note that for 2016 the result in ex-Side, of derisking in the credit guarantees portfolio, was recorded in the line "other gains" and "other losses".

The increase is mainly attributable to Belfius Insurance following a capital gain on the sale of Aviabel, North Light and Pole Star for a total amount of EUR 67 million, as well as a capital gain of EUR 9 million on divestments in bonds, funds and equities following the liquidation of "Belfius European Loan Fund, "Belins High Yield" and "Belins US corporate Bonds". These gains were recorded in "Gains on Financial assets available for sale". A material part of these capital gains were reserved in the technical provision for future discretionary participation features.

Furthermore, Belfius Bank realized an accounting gain of EUR 9 million on the sale of some bonds included in the last part of its former active tactical derisking program. This gain was recorded in "Gains on loans and advances.

Net impairment

(In thousands of EUR)	Specific risk		Total
	Allowances	Write-backs	
AS AT 31 DECEMBER 2016			
Securities available for sale	(6,152)	8,637	2,485
TOTAL	(6,152)	8,637	2,485

(In thousands of EUR)	Specific risk		Total
	Allowances	Write-backs	
AS AT 31 DECEMBER 2017			
Securities available for sale	(1,933)	3,218	1,285
TOTAL	(1,933)	3,218	1,285

Note that “Net income on investments and liabilities” includes write-offs and recoveries on impaired financial assets measured at “Financial assets available for sale” or “Investments held to maturity”. When impaired financial assets classified at “Financial assets available for sale” are disposed of or written off, Belfius records the realized results thereon in “Net income on investments and liabilities”. When impaired “Investments held to maturity” are written off, Belfius records the realized result in “Net income on investments and liabilities”. When tangible and intangible assets are disposed of, all realized gains and losses are reported in “Net income on investments and liabilities”. Furthermore, “Net income on investments and liabilities” includes the gains and losses on not impaired loans and advances that have been sold. The Impairments on this category are recorded in “impairments on loans and advances and provisions for credit commitments”.

7.6. FEE AND COMMISSION INCOME – EXPENSE

(In thousands of EUR)	31/12/16			31/12/17		
	Income	Expense	Net	Income	Expense	Net
Commissions on unit trusts and mutual funds managed by third parties	194,649	(5,594)	189,055	296,800	(57,140)	239,660
Insurance activity(1)	116,559	(4,865)	111,694	113,341	(4,020)	109,321
Credit activity	34,826	(9,073)	25,753	36,262	(9,521)	26,741
Purchase and sale of securities	19,151	(1,268)	17,883	20,550	(1,599)	18,951
Purchase and sale of unit trusts and mutual funds	30,314	(410)	29,904	29,326	(393)	28,933
Payment services	144,756	(54,044)	90,712	154,841	(58,890)	95,951
Commissions to not exclusive brokers	30,114	(20,281)	9,833	1,871	(11,735)	(9,864)
Services on securities other than safekeeping	3,015	(1,136)	1,879	4,767	(1,255)	3,512
Custody	18,208	(3,671)	14,537	23,539	(2,950)	20,589
Issues and placements of securities	1,723	(2,357)	(633)	3,063	(3,604)	(542)
Servicing fees of securitisation	284	0	284	251	0	251
Private banking	17,423	(4,022)	13,401	18,457	(5,255)	13,203
Clearing and settlement	7,877	(5,184)	2,694	8,847	(6,116)	2,731
Securities lending	100	(22)	78	4,448	(4)	4,444
Financial guarantees(2)	6,109	(5,713)	396	5,196	(6,327)	(1,131)
TOTAL	625,109	(117,639)	507,470	721,472	(168,809)	552,663

(1) Financial guarantees (formerly included in “Insurance activity”) has been detailed further and is presented as a specific line item. The presentation for 2016 has been changed to be aligned with the 2017 presentation.

An increase in “Commissions on unit trusts and mutual funds managed by third parties” can be noted due to Belfius’ strategy to further develop its asset management activity, a.o. through Belfius Investment Partners, as well as to increasing customer demand, and improved and less volatile equity markets.

7.7. INSURANCE RESULTS

Note that Belfius has decided to restate 2016, in order to further enhance the presentation of the profitability of the insurance business. As a result, Belfius has opted to present in here the figures on insurance results including intragroup transactions between bank and insurance entities, where these relate mainly to insurance contracts concluded between the group's bank and insurance entities and to distribution commissions that the insurer pays to the bank.

(In thousands of EUR)	31/12/16	31/12/17
GROSS EARNED PREMIUMS		
In the consolidated income statement (as presented on statement of income)	1,386,144	1,451,024
Intragroup transactions	16,692	17,157
Gross earned premiums including intragroup transactions	1,402,835	1,468,182

1. Overview per activity

A. Consolidated statement of income

	31/12/16				31/12/17			
(In thousands of EUR)	Life	Non-Life	Non-Technical	Total	Life	Non-Life	Non-Technical	Total
INCOME	**295,392**	**148,443**	**38,275**	**482,109**	**267,246**	**200,427**	**25,962**	**493,635**
Technical result[1]	(355,524)	100,745	0	(254,779)	(359,903)	151,089	0	(208,814)
Gross earned premiums	769,297	633,539	0	1,402,835	799,667	668,515	0	1,468,182
Other technical income and charges	(1,124,821)	(532,794)	0	(1,657,614)	(1,159,569)	(517,426)	0	(1,676,996)
Financial result	637,891	46,607	42,269	726,767	607,139	48,447	27,960	683,546
Interest income, Interest expense, Dividend income	535,991	45,903	20,645	602,539	469,961	41,941	22,057	533,959
Net income on investments and liabilities	105,874	775	13,845	120,494	143,628	6,224	3,378	153,230
Net income from equity method companies, Net income from financial instruments at fair value through profit or loss, Other income, Other expense	(3,974)	(72)	7,780	3,734	(6,450)	283	2,524	(3,643)
Fee and commission income, Fee and commission expense	13,025	1,091	(3,995)	10,121	20,009	891	(1,998)	18,903
EXPENSES	**(70,438)**	**(132,211)**	**(6,878)**	**(209,527)**	**(66,314)**	**(157,528)**	**(12,017)**	**(235,859)**
Impairments on loans and advances and provisions for credit commitments, Impairments on goodwill	2,978	446	(1,232)	2,192	946	(63)	(618)	265
Impairments on tangible and intangible assets	0	0	0	0	0	0	0	0
NET INCOME BEFORE TAX	227,931	16,678	30,165	274,774	201,878	42,836	13,327	258,042
Tax (expense) income	(58,236)	(3,496)	(12,469)	(74,201)	(31,259)	(7,011)	(49,214)	(87,484)
NET INCOME	169,695	13,181	17,696	200,572	170,619	35,825	(35,887)	170,558
Attributable to non-controlling interests	0	0	0	0	0	0	0	0
Attributable to equity holders of the parent	169,695	13,181	17,725	200,601	170,619	35,825	(35,887)	170,558

(1) Statement of income IX. Technical result from insurance activities.

B. Consolidated balance sheet

Technical provisions of insurance companies (In thousands of EUR)	31/12/16 Life	Non-Life	Non-Technical	Total	31/12/17 Life	Non-Life	Non-Technical	Total
Technical provisions - insurance activities	14,811,732	1,184,944		15,996,676	13,914,503		1,245,370	15,159,874
Technical provisions unit-linked	2,175,157			2,175,157	2,575,772			2,575,772
Technical provisions - share of reinsurers	164,355	92,709		257,064	180,757		96,174	276,930

Belfius Insurance reported a technical result of EUR -228 million in 2017 compared to EUR -276 million in the previous financial year, an increase by of EUR 48 million. The Non-Life result increased by EUR 50 million to EUR 151 million, while the technical result Life decreased by EUR 3 million to EUR -380 million.

Life

In accordance with IFRS 4, the deposit component for a number of investment contracts without discretionary participation features is unbundled and valued as a financial instrument in accordance with IAS 39. This means that the premium income and technical expenses of these contracts are not reported under the technical margin. This mainly concerns Branch 23 contracts.

The gross earned premiums increase by 3.9% from EUR 769 million to EUR 780 million. Growth is reflected in both traditional insurance products and investment insurance with profit sharing.

The Life technical result decreased by EUR 3 million compared to 2016. The lower interest cost resulting from declining technical provisions is compensated by the profit sharing for additional provisions for discretionary participation features (EUR 76 million) following the realization of some capital gains within the Life segment. The provision ensures an accounting matching principle whereby part of the investment results is attributed to the year in which effective annual profit sharing is dotated to the policy-holders. For 2016, the discontinuation of a group insurance with the Non-Profit Sector resulted in a negative impact on the technical result of EUR 51 million because the realized capital gains within the segregated accounts were attributable to the customer.

Non-Life

The gross earned premiums increase by 5.5% from EUR 634 million to EUR 669 million. This growth demonstrates the success of the bank-insurance model and the digital developments of Belfius. In 2016, the Non-Life technical result was impacted by a number of elements, such as the terrorist attacks in March, the flooding in the second quarter and an increase of the reserves following a revision of the indicative tables.

On the other hand, 2017 can be characterized as an average year of claims and losses. There were no real significant events in contrast with 2016. Overall, we note that the frequency in the number of claims continues to fall, at the same time, the average cost per damage increases.

2. Gross earned premiums

(In thousands of EUR)	31/12/16 Insurance contracts	Investment contracts with DPF	Total	31/12/17 Insurance contracts	Investment contracts with DPF	Total
Gross premiums written	467,599	301,699	769,297	474,465	325,202	799,667
Change in gross unearned premium reserves (UPR)	0	0	0	0	0	0
GROSS EARNED PREMIUMS	467,599	301,699	769,297	474,465	325,202	799,667

(In thousands of EUR)	31/12/16	31/12/17
GROSS PREMIUMS WRITTEN LIFE	769,297	799,667
Direct business	768,860	798,000
Accepted reinsurance	437	1,667
GROSS PREMIUMS WRITTEN UNIT-LINKED	120,835	250,115

3. Non-Life insurance by product group

(In thousands of EUR)	Gross earned premiums	Claims incurred and other technical expenses	Acquisition commissions	Technical result from ceded reinsurance	Net income on capital	Operating expenses	Other	Net income before tax
TOTAL AS AT 31 DECEMBER 2016	633,539	(383,894)	(124,983)	(23,916)	46,607	(132,211)	1,537	16,678
ACCEPTED REINSURANCE	2,158	(8,884)	(221)	(541)	1,253	(179)	(9)	(6,423)
DIRECT BUSINESS	631,381	(375,010)	(124,762)	(23,375)	45,354	(132,032)	1,546	23,101
All risks/accidents	103,130	(44,804)	(21,559)	(7,788)	8,707	(24,181)	(14)	13,493
Cars/third party liability	163,254	(103,531)	(28,342)	(7,241)	21,505	(36,455)	(25)	9,164
Cars/other branches	84,947	(50,366)	(15,816)	(796)	1,360	(20,355)	(1)	(1,028)
Fire and other damage to property	208,241	(112,346)	(51,942)	(7,162)	7,162	(35,760)	(11)	8,183
Other[1]	71,808	(63,963)	(7,103)	(,388)	(15,281)	6,620	1,596	(6,711)

(1) Includes Credit and suretyship, non-life distribution, health and accidents at work.

(In thousands of EUR)	Gross earned premiums	Claims incurred and other technical expenses	Acquisition commissions	Technical result from ceded reinsurance	Net income on capital	Operating expenses	Other	Net income before tax
TOTAL AS AT 31 DECEMBER 2017	668,515	(369,870)	(129,789)	(17,768)	48,447	(157,528)	833	42,841
ACCEPTED REINSURANCE	1,753	(1,229)	(171)	(337)	1,246	(83)	(9)	1,168
DIRECT BUSINESS	666,763	(368,640)	(129,617)	(17,431)	47,201	(157,445)	843	41,673
All risks/accidents	109,298	(56,875)	(22,672)	(723)	9,097	(28,992)	(80)	9,053
Cars/third party liability	168,161	(120,954)	(28,578)	1,787	22,664	(42,557)	(193)	330
Cars/other branches	92,228	(51,915)	(17,684)	(940)	1,550	(23,590)	(13)	(364)
Fire and other damage to property	223,317	(83,884)	(55,622)	(16,982)	7,215	(45,792)	(310)	27,943
Other[1]	73,759	(55,012)	(5,060)	(574)	(16,514)	6,675	1,437	4,712

(1) Includes Credit and suretyship, non-life distribution, health and accidents at work.

7.8. OTHER INCOME

(In thousands of EUR)	31/12/16	31/12/17
Operational taxes	8	3
Rental income from investment property	23,144	25,519
Other rental income	6,216	4,191
Write-back of provisions for litigations	9,423	842
Real estate projects[1][2]	44,805	2,505
Other income on other activities[1][3]	135,189	108,834
OTHER INCOME	218,785	141,895

(1) Real estate projects have been detailed further and are presented as a specific line item. The presentation for 2016 changed to be aligned with the 2017 presentation.
(2) In 2016, Belfius has realized more real estate projects than in 2017. The revenue recorded in other income amounted to EUR 3 million (compared to EUR 45 million in 2016) while the investments costs recorded in other expense amounted to EUR 1 million (compared to EUR 40 million in 2016).
(3) "Other income on other activities" also includes other operational income from leasing activities and other operational income.

7.9. OTHER EXPENSE

(In thousands of EUR)	31/12/16	31/12/17
Sector levies[1]	(220,215)	(217,356)
Repair and maintenance on investment properties that generated income during the current financial year	(6,618)	(9,095)
Provisions for litigations[2]	(300)	(39,475)
Real estate projects[3][4]	(40,181)	(1,337)
Other expense on other activities[3][5]	(113,953)	(112,650)
OTHER EXPENSE	(381,267)	(379,913)

(1) Sector levies are specific taxes for financial institutions, it includes
→ the Deposit Guarantee Scheme contributions,
→ Subscription tax,
→ Financial Stability Contribution and
→ the contributions to the Single Resolution Fund.
Belfius has opted to pay part of its contribution of the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment is fully covered by cash collateral. For this, Belfius has recorded EUR 17.5 million in its off balance sheet accounts.
(2) The increase in "Provisions for litigations" is mainly stemming from amounts provisioned for potential settlements of disputes with third parties.
(3) Real estate projects have been detailed further and are presented as a specific line item. The presentation for 2016 changed to be aligned with the 2017 presentation.
(4) In 2016, Belfius has realized more real estate projects than in 2017. The revenue recorded in other income amounted to EUR 3 million (compared to EUR 45 million in 2016) while the investments costs recorded in other expense amounted to EUR 1 million (compared to EUR 40 million in 2016).
(5) "Other expenses on other activities" includes other operational expenses for leasing activities (other than rental expenses and contingent rents), depreciation and amortization on office furniture and equipment given in operational lease, other operational expenses, depreciation and amortization on investment property, and other operational taxes.

7.10. STAFF EXPENSE

(In thousands of EUR)	31/12/16	31/12/17
Wages and salaries	(420,573)	(417,380)
Social security and insurance costs	(123,001)	(118,827)
Pension costs – defined benefit plans[1]	(37,791)	(29,890)
Pension costs – defined contribution plans[1]	(577)	(202)
Other postretirement obligations (reversal/use)	(651)	(297)
Other long-term employee benefits	(4,014)	(3,648)
Restructuring expenses (reversal/use)[1][2]	19,906	28,477
Other expense	(13,501)	(20,558)
TOTAL	(580,201)	(562,324)

(1) We refer to note 6.6. "Provisions and contingent liabilities" for a detailed description.
(2) The evolution in restructuring expenses is stemming from the reversal/use of the provision following the execution of the "restructuring plan 2016".

Average FTE as at 31 December 2016	Belgium	Luxembourg	Ireland	Fully consolidated
Senior Executives	153	1	2	156
Employees	6,193	3	7	6,203
TOTAL	6,346	4	9	6,359
of which banking group	5,064	3	9	5,076
of which insurance group	1,282	1	0	1,283

Average FTE as at 31 December 2017	Belgium	Luxembourg	Ireland	Fully consolidated
Senior Executives	153	2	2	157
Employees	6,111	4	6	6,121
TOTAL	6,264	6	8	6,278
of which banking group	4,979	3	8	4,990
of which insurance group	1,285	3	0	1,288

7.11. GENERAL AND ADMINISTRATIVE EXPENSE

(In thousands of EUR)	31/12/16	31/12/17
Occupancy	(27,730)	(28,055)
Operating leases (except technology and system costs)	(7,297)	(7,363)
Professional fees	(34,794)	(42,588)
Marketing advertising and public relations	(44,948)	(55,968)
Technology and system costs	(157,495)	(178,788)
Software costs and research and development costs	(26,350)	(35,250)
Repair and maintenance expenses	(515)	(398)
Restructuring costs other than staff	2,468	7,172
Insurance (except related to pension)	(3,834)	(3,800)
Transportation of mail and valuable	(18,574)	(17,118)
Operational taxes	(51,245)	(57,922)
Other general and administrative expense	(77,051)	(59,234)
TOTAL	(447,364)	(479,313)

In 2017, total general and administrative expenses increased by EUR 32 million, amounting to EUR 479 million at year-end 2017 following higher professional fees, marketing costs, technology and system costs, and software costs and research and development costs, in line with Belfius' investment program in the digital revolution in financial services.

7.12. DEPRECIATION AND AMORTISATION OF FIXED ASSETS

(In thousands of EUR)	31/12/16	31/12/17
Depreciation of buildings	(30,365)	(29,720)
Depreciation of other tangible assets	(10,796)	(10,738)
Amortisation of intangible assets(1)	(31,561)	(43,213)
TOTAL	(72,722)	(83,672)

(1) Following continuous investments in digitalization and innovation, more own development costs are being capitalised since a few years. As a result the amortisation of intangible assets increased.

7.13. IMPAIRMENTS ON LOANS AND ADVANCES AND PROVISIONS FOR CREDIT COMMITMENTS

1. Collective impairment

(In thousands of EUR)	31/12/16	31/12/17
Allowances	(46,088)	(41,581)
Write-backs	75,734	48,492
TOTAL OF COLLECTIVE IMPAIRMENT ON LOANS	29,646	6,911

2. Specific impairment

	31/12/16				
(In thousands of EUR)	Allowances	Write-backs	Losses	Recoveries	Total
Loans and advances due from banks	(43)	0	0	0	(43)
Loans and advances to customers	(264,914)	158,383	(62,537)	23,644	(145,424)
Assets from insurance companies(1)	(123)	259	0	0	136
Other receivables	(759)	0	0	0	(759)
Commitments	(6,566)	7,041	0	0	475
TOTAL	(272,405)	165,684	(62,537)	23,644	(145,615)

(1) Is presented under item XV. of the Assets.

(In thousands of EUR)	31/12/17				
	Allowances	Write-backs[1]	Losses	Recoveries	Total
Loans and advances due from banks	0	43	(19)	0	24
Loans and advances to customers[1]	(492,753)	582,950	(160,981)	28,641	(42,143)
Assets from insurance companies[2]	(291)	30	0	0	(262)
Other receivables	(560)	50	0	0	(510)
Commitments	(1,992)	4,958	0	0	2,967
TOTAL	**(495,595)**	**588,030**	**(161,000)**	**28,641**	**(39,924)**

(1) In the context of managing the global credit quality of its loan portfolio, Belfius has opted to sell some loans that were fully or significantly impaired. Furthermore, Belfius accomplished the last part of its active tactical derisking program by selling some US RMBS bonds, part of the former Side portfolio (as from 1 Januari 2017 merged into Group Center). The reversals linked to that resulted in a historic low cost of risk. As a result, the coverage ratio, indicating the ability to absorb potential losses from non-performing loans, increased from 54.38% to 63.29%. We refer to the chapter Alternative Performance Measures for more information.
(2) Is presented under item XV. of the Assets.

Note that "Net income on investments and liabilities" includes write-offs and recoveries on impaired financial assets measured at "Financial assets available for sale" or ""Investments held to maturity". When impaired financial assets classified at "Financial assets available for sale" are disposed of or written off, Belfius records the realized results thereon in "Net income on investments and liabilities". When impaired "Investments held to maturity" are written off, Belfius records the realized results thereon in "Net income on investments and liabilities". When tangible and intangible assets are disposed of, all realized gains and losses are reported in "Net income on investments and liabilities". Furthermore, "Net income on investments and liabilities" includes the gains and losses on not impaired loans and advances that have been sold. The impairments on this category are recorded in "impairments on loans and advances and provisions for credit commitments".

7.14. IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS

(In thousands of EUR)	31/12/16	31/12/17
Impairment on investment property	525	133
Impairment on land and buildings[1]	1,978	13,727
Impairment on assets held for sale	0	(511)
Impairment on intangible assets[2]	0	(3,882)
TOTAL	**2,502**	**9,467**

(1) Note that most of the reversal is related to the Belfius headquarter Rogier Tower. The value of the building has increased due to the reassessment of the occupancy rate following the execution of the "Belfius Together" and "Belfius Way of Working" strategy, where Belfius Insurance and Belfius Bank employees working in Brussels (Centre) are sharing more and more the same headquarter.
(2) Following continuous investments in digitalization and innovation, Belfius has reviewed in 2017 the (expected) economic use of its internally developed software and recorded, where necessary, impairments.

7.15. IMPAIRMENT ON GOODWILL

Nil

The annual impairment test did not require an impairment on goodwill. The impairment test was performed by comparing the equity value of Belfius Insurance with the "value in use". This value in use was determined based on a discounted cash flow model with the following inputs:

- financial plan for 5 years,
- discount rate: a cost of equity of 10% and
- a long term growth rate for Belgium of 0.5%.

Note that the financial plan has only a limited impact on the impairment test. The main drivers are the discount curve and long term growth rate. Based on that scenario, a surplus could be identified, note that there have been no change in parameters compared to last year.

For 2016 and 2017, all scenarii (ranging from a growth rate from -2% to +2% and a discount rate of 6% to 12%) showed that no impairment was required. The assumptions for these scenarii are aligned with the expected evolution of the results in the financial plan and with the market conditions for capital costs. Only if the required Cost of equity (discount curve) amounts to 14% (2016) and 16% (2017) together with a growth rate of 0.0%, an impairment would start to become necessary. At a cost of equity of 10% impairment would start at a negative growth rate of 7% (2016) or 11% (2017), after realisation of the financial plan.

7.16. TAX (EXPENSE) INCOME

(In thousands of EUR)	31/12/16			31/12/17		
	Tax on current year result	Other tax expense	Total	Tax on current year result	Other tax expense	Total
Current tax expense / income: Income tax on current year	(57,904)		(57,904)	(159,371)		(159,371)
Current tax expense/income: Income tax on previous year		4,116	4,116		2,300	2,300
Current tax expense/income: Provision for tax litigations		(2,734)	(2,734)		(34,186)	(34,186)
TOTAL CURRENT TAXES			**(56,522)**			**(191,258)**
Deferred taxes on current year	(204,980)		(204,980)	(228,870)		(228,870)
Deferred taxes on previous year		17,230	17,230		63,121	63,121
TOTAL DEFERRED TAXES			**(187,750)**			**(165,749)**
TOTAL	(262,884)	18,612	(244,272)	(388,241)	31,235	(357,007)
STANDARD CALCULATED TAX RATE			31.34%			37.09%

1. Effective corporate income tax charge

(In thousands of EUR)	31/12/16	31/12/17
NET INCOME BEFORE TAX	779,524	962,528
Income and losses from companies accounted for by the equity method	5,018	4,195
TAX BASE (A)	774,505	958,334
Statutory tax rate	33.99%	33.99%
TAX EXPENSE USING STATUTORY RATE	263,254	325,738
Tax effect of rates in other jurisdictions	9,173	(7,684)
Tax effect of non-taxable revenues(1)	(35,112)	(13,424)
Tax effect of non-tax deductible expenses	30,315	12,124
Tax effect from reassessment of unrecognised deferred tax assets	10,807	(6,631)
Tax effect of change in tax rates	1,699	105,920
Items taxed at a reduced rate(2)	(2,673)	(32,269)
Other increase (decrease) in statutory tax charge	(14,579)	4,467
TAX ON CURRENT YEAR RESULT (B)	262,884	388,241
Tax base	774,505	958,334
EFFECTIVE TAX RATE (B)/(A)	33.9%	40.5%

(1) Mainly definitively tax-exempted income (dividends and capital gains on shares).
(2) Concerns the sale of equities, mainly the sold shares of Aviabel, North Light and Pole Star.

2. Belgian tax reform

The Belgian corporate income tax reform, enacted just before year-end 2017, decides in a gradual decrease, among other measures, of the nominal corporate income tax rate from 33.9% in 2017 to 25% in 2020. This has lead to an increase of the effective tax rate for Belfius by 66bp, from 33.9% in 2016 to 40.5% in 2017; without the Belgian corporate tax reform the effective tax rate would have been 29.5%.

Following IAS12, tax assets and liabilities are assessed using the rates and laws that have been enacted or are substantively enacted by the balance sheet date. Belfius has therefore performed a reassessment of its deferred taxes, leading to

- an increase in Other Comprehensive Income by EUR 67 million of which EUR 17 million for the banking group and EUR 49 million for the insurance group, and
- a negative impact on Belfius' 2017 net results stemming from a reassessment of deferred taxes through P&L, resulting in an additional tax expense for the banking group (EUR 64 million) and the insurance group (EUR 42 million).

Net income attributable to equity holders of the parent (In thousands of EUR)	31/12/17	Contribution Bank into group	Contribution Insurance into group
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT BEFORE REASSESSMENT	711,422	498,881	212,541
Impact deferred tax reassessment	(105,920)	(63,937)	(41,983)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	605,502	434,944	170,558

OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

VIII. NOTES ON THE CONSOLIDATED OFF-BALANCE SHEET ITEMS

(some amounts may not add up due to rounding)

8.1. REGULAR WAY TRADE

(In thousands of EUR)	31/12/16	31/12/17
Loans to be delivered and purchases of assets	1,551,820	2,302,973
Borrowings to be received and sales of assets	1,295,247	7,976,417

8.2. GUARANTEES

(In thousands of EUR)	31/12/16	31/12/17
Guarantees given to credit institutions	1,337,642	1,274,481
Guarantees given to customers	4,027,258	3,869,989
Guarantees received from credit institutions(1)	918,144	957,394
Guarantees received from customers	29,875,666	30,462,784

(1) This amount includes the personal guarantees and similar rights of recourse obtained for derivatives.

8.3. LOAN COMMITMENTS

(In thousands of EUR)	31/12/16	31/12/17
Unused lines granted to credit institutions	738,843	206,907
Unused lines granted to customers	22,607,338	23,606,619
Unused lines obtained from credit institutions	8,648	21,352

8.4. OTHER COMMITMENTS TO FINANCING ACTIVITIES

(In thousands of EUR)	31/12/16	31/12/17
Insurance activity – Commitments received	70,276	70,151
Banking activity – Commitments given[1]	22,534.469	21.032.593
Banking activity – Commitments received	69,838,280	69,865,357

(1) Mainly related to repurchase agreements and collateralisation of loans with the European Central Bank and other central banks.

For more details regarding the liquidity position, we refer to the "Risk Management" section in the Management Report.

The section "Banking activity- Commitments given" also includes the underlying assets of the covered bond programs.

The special estate of the mortgage covered bond program contains mainly residential mortgage loans for a total amount of EUR 8.4 billion (nominal) at the end of 2016 and 7.2 billion (nominal) at the end of 2017.

See also note 6.3 "Debt securities".

8.5. COMMITMENTS TO SINGLE RESOLUTION FUND

(In thousands of EUR)	31/12/16	31/12/17
Single Resolution Fund- Commitments given	9,517	17,473

Belfius has opted to pay part of its contribution to the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment is fully covered by cash collateral.

8.6. BOND LENDING AND BOND BORROWING TRANSACTIONS

(In thousands of EUR)	31/12/16	31/12/17
Securities lending	349,491	1,627,190
Securities borrowing	16	0

In the context of its liquidity management, from time to time, Belfius enters into bond lending transactions against fees.

IX. NOTES ON RISK EXPOSURE

(some amounts may not add up due to rounding)

9.1. FAIR VALUE

1. Fair value of financial instruments

A. Breakdown of fair value of assets

(In thousands of EUR)	31/12/16			31/12/17		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and balances with central banks	5,111,050	5,111,050	0	10,236,669	10,236,669	0
Loans and advances(1)(2)	111,704,952	119,020,584	7,315,632	104,178,353	110,940,869	6,762,516
Loans and other advances(2)	105,244,638	113,700,246	8,455,608	98,992,204	106,300,820	7,308,616
Bonds	6,460,314	5,320,338	(1,139,976)	5,186,149	4,640,049	(546,100)
Investments held to maturity	5,393,247	5,428,785	35,537	5,441,999	5,453,674	11,674
Financial assets measured at fair value through profit or loss	2,985,979	2,985,979	0	3,240,298	3,240,298	0
Financial assets available for sale	18,819,789	18,819,789	0	17,982,597	17,982,597	0
Derivatives	25,307,222	25,307,222	0	20,303,034	20,303,034	0
Non current assets (disposal group) held for sale and discontinued operations(3)	28,772	47,164	18,392	18,782	32,974	14,192

(1) As the interest rates have increased in 2017 on the long end of the interest rate curve, the fair value of the loan portfolio has decreased compared to end year 2016. The decrease of the difference between the carrying amount and fair value between 2016 (EUR 7.3 million) and 2017 (EUR 6.8 million) is mainly due to the increase of the real rate in UK and to the improvement of the credit spreads, the fair value of the bond portfolio has increased compared to end year 2016. Note that an internal estimate of the future potential prepayment rate has been considered in the determination of the fair value .

(2) The figures of 2016 have been restated.

(3) In 2017, Belfius has liquidated its investments in the following funds: "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds" in the course of the second half of 2017. The decision was taken after a re-assessment of the investment framework, and it was determined that the volatility of these funds did not comply anymore with Belfius Insurance's new investment framework.

B. Breakdown of fair value of liabilities

(In thousands of EUR)	31/12/16			31/12/17		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Borrowings and deposits	86,752,871	86,938,237	185,366	87,384,376	87,479,299	94,923
Debt securities(1)	23,981,430	24,604,690	623,260	22,027,063	22,637,612	610,549
Subordinated debts	1,398,653	1,506,575	107,922	1,198,968	1,336,003	137,034
Financial liabilities measured at fair value through profit or loss	7,524,251	7,524,251	0	8,892,710	8,892,710	0
Derivatives	29,572,521	29,572,521	0	21,264,032	21,264,032	0
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	0

(1) Please note that the figures of 2016 have been restated.

For some assets and liabilities, Belfius estimates that the fair value approximates the carrying value (as explained further on in the valuation techniques). In addition, Belfius estimates that the own credit risk has not changed significantly and has thus not taken into account a revaluation of the own credit risk.

The carrying amount does not include the "Gain/loss on the hedged item in portfolio hedge of interest rate risk" as it is presented separately on the balance sheet. In 2016, the value of the hedged interest rate risk amount is EUR 4,534 million on the asset side and EUR 207 million on the liability side. End 2017, EUR 3,721 million on the asset side and EUR 105 million on the liability side are recognised on the balance sheet.

2. Analysis of fair value of financial instruments

A. Assets

	31/12/16			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Loans and advances	949,023	36,316,411	81,755,150	119,020,584
Loans and other advances[(1)(2)]	0	34,592,191	79,108,055	113,700,246
Bonds	949,023	1,724,219	2,647,095	5,320,338
Investments held to maturity	4,909,451	346,760	172,574	5,428,785
SUBTOTAL	5,858,474	36,663,170	81,927,724	124,449,369
Financial assets measured at fair value through profit or loss	2,353,445	360,824	271,710	2,985,979
Financial assets available for sale[(3)]	16,968,817	612,330	1,238,643	18,819,789
Derivatives	754	24,089,030	1,217,438	25,307,222
Non current assets (disposal group) held for sale and discontinued operations[(1)]	0	38,035	9,129	47,164
SUBTOTAL	19,323,015	25,100,219	2,736,920	47,160,154

(1) As there is no active market and no observable data to incorporate in the valuation models, most of the commercial loans and advances are classified as level 3. Except for the short term commercial loans and advances which are classified as level 2, due to the short term nature of the financial assets.
(2) Please note that the figures of 2016 have been restated.
(3) Bonds and equities for which no reliable quoted market prices are available, and significant non-observable inputs are used to incorporate in potential valuation models, are classified as level 3.

	31/12/17			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Loans and advances	1,099,150	27,716,334	82,125,385	110,940,869
Loans and other advances[(1)]	0	26,099,416	80,201,404	106,300,820
Bonds	1,099,150	1,616,918	1,923,981	4,640,049
Investments held to maturity	4,968,234	363,563	121,876	5,453,674
SUBTOTAL	6,067,384	28,079,897	82,247,261	116,394,543
Financial assets measured at fair value through profit or loss	3,012,917	72,723	154,657	3,240,298
Financial assets available for sale[(2)]	16,325,526	322,701	1,334,370	17,982,597
Derivatives	1,967	19,334,196	966,871	20,303,034
Non current assets (disposal group) held for sale and discontinued operations	0	31,802	1,172	32,974
SUBTOTAL	19,340,410	19,761,422	2,457,070	41,558,902

(1) As there is no active market and no observable data to incorporate in potential valuation models, most of the commercial loans and advances are classified as level 3. Except for the short term commercial loans and advances which are classified as level 2, due to the short term nature of these financial assets.
(2) Bonds and equities for which no reliable quoted market prices are available, and significant non-observable inputs are used to incorporate in potential valuation models, are classified as level 3.

B. Liabilities

	31/12/16			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Borrowings and deposits	0	86,262,395	675,842	86,938,237
Debt securities[(1)]	8,904,277	3,548,345	12,152,068	24,604,690
Subordinated debts	719,314	292,606	494,655	1,506,575
SUBTOTAL	9,623,591	90,103,346	13,322,565	113,049,502
Financial liabilities measured at fair value through profit or loss	2,210,594	2,631,860	2,681,797	7,524,251
Derivatives	1,290	28,584,283	986,949	29,572,521
Liabilities included in disposal groups and discontinued operations	0	0	0	0
SUBTOTAL	2,211,884	31,216,143	3,668,745	37,096,772

(1) Please note that the figures of 2016 have been restated.

(In thousands of EUR)	31/12/17 Level 1	Level 2	Level 3	Total
Borrowings and deposits	0	86,948,046	531,253	87,479,299
Debt securities	8,275,470	3,094,131	11,268,011	22,637,612
Subordinated debts	875,527	98,457	362,019	1,336,003
SUBTOTAL	9,150,997	90,140,635	12,161,283	111,452,914
Financial liabilities measured at fair value through profit or loss	2,622,050	2,944,937	3,325,724	8,892,710
Derivatives	353	20,450,312	813,367	21,264,032
Liabilities included in disposal groups and discontinued operations	0	0	0	0
SUBTOTAL	2,622,403	23,395,249	4,139,090	30,156,742

3. Transfer between Level 1 and Level 2 fair value for assets and liabilities at fair value in the balance sheet

A. Assets at fair value in the balance sheet

(In thousands of EUR)	31/12/16 From level 1 to 2	31/12/16 From level 2 to 1	31/12/17 From level 1 to 2	31/12/17 From level 2 to 1
Financial assets measured at fair value through profit or loss	67	0	15,973	300,949
Financial assets available for sale(1)	85,153	5,641	35,931	388,491
Derivatives	0	0	0	0
TOTAL	85,220	5,641	51,904	689,441

(1) Seeing the improved liquidity following higher market activity on certain bonds, they have been transferred from level 2 to level 1.

B. Liabilities at fair value in the balance sheet

(In thousands of EUR)	31/12/16 From level 1 to 2	31/12/16 From level 2 to 1	31/12/17 From level 1 to 2	31/12/17 From level 2 to 1
Financial liabilities measured at fair value through profit or loss	0	0	0	0
Derivatives	52	0	0	0
TOTAL	52	0	0	0

4. Reconciliation Level 3

A. Assets

(In thousands of EUR) 31/12/16	Opening balance	Total of realised gains and losses in P&L	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sale	Settlement	Transfers in Level 3	Transfer out of Level 3(1)	Closing balance
Financial assets measured at fair value through profit or loss	275,343	0	90,093		9,281	(99,054)	0	89	(4,042)	271,710
Financial assets available for sale(1)	1,513,586	0	12,652	23,713	153,454	(61,651)	(10,509)	632	(393,233)	1,238,643
Derivatives	1,424,784	0	(148,532)		255,383	0	(282,188)	(40)	(31,970)	1,217,438
TOTAL	3,213,713	0	(45,787)	23,713	418,118	(160,705)	(292,697)	681	(429,245)	2,727,791

(1) End 2016, the transfers out of level 3 concern mainly the investments in the funds "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds". Note that these funds have been liquidated in the course of 2017.

(In thousands of EUR)	31/12/17									
	Opening balance	Total of realised gains and losses in P&L	Total of unrealised gains and losses in P&L[1]	Total gains/ losses in other comprehensive income	Purchases	Sale	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial assets measured at fair value through profit or loss	271,710	0	(0)		155,858	(268,243)	0	1,200	(5,867)	154,657
Financial assets available for sale	1,238,643	(125)	36,851	(11,387)	138,404	(5,544)	(36,365)	12,180	(38,287)	1,334,370
Derivatives	1,217,438	0	(287,051)		237,748	0	(218,768)	24,146	(6,642)	966,871
TOTAL	2,727,791	(125)	(250,200)	(11,387)	532,010	(273,788)	(255,133)	37,527	(50,797)	2,455,898

(1) Seeing the increased interest rates and despite the improved credit spreads compared to year end 2016, the fair value of these level 3 derivatives has decreased.

B. Liabilities

(In thousands of EUR)	31/12/16									
	Opening balance	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sale	Direct origination[1]	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial liabilities measured at fair value through profit or loss	2,553,069	2		727	(99)	138,387	0	0	(10,290)	2,681,797
Derivatives	1,143,464	(76,252)		184,517	0	0	(233,668)	10	(31,123)	986,949
TOTAL	3,696,533	(76,250)		185,245	(99)	138,387	(233,668)	10	(41,413)	3,668,745

(1) The column "Direct origination" refers to the issuance of Belfius bonds. These are classified at Fair value through profit and loss to eliminate an accounting mismatch.

(In thousands of EUR)	31/12/17									
	Opening balance	Total of unrealised gains and losses in P&L[1]	Total gains/ losses in other comprehensive income	Purchases	Sale	Direct origination[2]	Settlement	Transfers in Level 3	Transfer out of Level 3[1]	Closing balance
Financial liabilities measured at fair value through profit or loss	2,681,797	(23,705)		50,734	(727)	572,453	(11,602)	80,743	(23,968)	3,325,724
Derivatives	986,949	(184,287)		163,290	0	0	(145,253)	(9,894)	2,562	813,367
TOTAL	3,668,745	(207,992)		214,024	(727)	572,453	(156,855)	70,849	(21,407)	4,139,090

(1) Seeing the increased interest rates and despite the improved credit spreads compared to year end 2016, the fair value of these level 3 derivatives has decreased.
(2) The column "Direct origination" refers to the issuance of Belfius bonds. These are classified at Fair value through profit and loss to eliminate an accounting mismatch.

The column "Total of realised gains and losses in P&L" and "Total of unrealized gains and losses in P&L" cannot be analysed on a stand alone basis, as some assets or liabilities classified at amortized cost or some assets and liabilities classified in level 1 or 2 may be hedged by derivatives classified in level 3.

Note that the column "Total gains/losses in other comprehensive income"" comprises the OCI reserve at reporting date of level 3 assets.

5. Valuation techniques and data (level 1, 2 and 3)

Financial instruments measured at fair value (trading, designated at fair value through profit or loss, available for sale, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available (level 1)

If the market is active – meaning that reliable bid-offer prices are available representing effective transactions for meaningful amounts concluded on an arm's length basis between willing counterparties – these market prices provide for reliable evidence of fair value and are therefore used for fair value measurement (f.e. interest rate futures, high liquid bonds, etc).

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, which is not the case for the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques (level 2 and 3)

Financial instruments for which no quoted market prices in active markets are available, are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume, bid- offer spread and the number of price/spread contributions. The models that Belfius uses range from standard models available in the market to in-house developed valuation models. Availability of some observable market prices and model inputs reduces the need for management judgement and estimation and the uncertainty associated with the determination of fair values. These availabilities vary depending on the products and markets and are subject to changes based on specific events and general conditions in the financial markets.

Once a financial instrument is not classified as level 1, Belfius requires that two conditions are met for inclusion in level 2 (f.e. currency swaps, swaptions, cap/floors, foreign exchange contracts/ options, and less liquid bonds):

- the model must have either passed a successful validation by the Validation department or comply with the price reconciliation process run by the Market Risk department that has been installed to test the reliability of valuations;
- the data that Belfius incorporates in its valuation models are either directly observable data (prices) or indirectly observable data (spreads).

Fair value measurements that do not fall under level 1 or do not comply with the two conditions for level 2 mentioned above, are reported as part of the level 3 disclosure. In that respect, the following parameters are within Belfius not considered to be observable: Belgian inflation, CMS spread, equity correlations (such as equity baskets, illiquid bonds, total return swaps, credit default obligations and credit default swaps).

Bonds traded in inactive markets are valued using valuation techniques. To price its portfolio of illiquid bonds, Belfius uses modelled spreads on a mix of fundamental (or "through-the-cycle") information and information from the market (or "point-in-time"). In line with continuous market evolutions, Belfius continues to refine its calculation methodologies for the determination of market-derived spreads (mark-to-model) by means of a method based on cross-sections on a large universe of bonds and CDS spreads.

A regular back testing is based on the comparison between model spreads and (as good as it gets) market information (even if illiquid and/or potentially less relaible) for illiquid positions which are fair valued in mark-to-model. A comparable exercise is also done on model spreads through a market challenging. Model spreads and (assumed) market spreads are compared on a monthly basis across different risk dimensions such as the rating, maturity and sectors.

Derivatives are valued at mid-market prices for which, again, the former described cascade (level 1, 2, 3) is applied. For level 2 fair values, Belfius uses observable market parameters and valuation models that are in line with the market practices. The discount interest rate curve takes account of any collateral agreements.

Following additional value adjustments are also applied within Belfius:

- Unearned credit spread: this value adjustment takes account of the possibility that a counterparty might default and part of the fair value cannot be recovered (Credit Value Adjustment) and of the creditworthiness of Belfius (Debit Value Adjustment). The Unearned credit spread is calculated both on collateralized and non collateralized derivatives. For collateralized derivatives with standard ISDA/CSA agreements, the unearned credit spread is calculated taking into account the Margin Period of Risk and the collateral exchanged. For uncollateralized derivatives an estimation is made of the expected exposures, by forecasting the future fair value of the derivative in line with market practice. These expected exposures are then multiplied by an expected loss indication. Seeing that the majority of these expected losses are not directly observable in the market, Belfius uses market-derived spreads on a mix of fundamental (or "through-the-cycle") information and information from the market (or "point-in-time"). These spreads are determined by means of a method based on cross-sections on a large universe of bonds and CDS spreads.
- Bid/ask adjustment: because the mid-market prices do not take account of the direction in which the deal was closed, the bid/ ask adjustment does take account of this information in the total fair value.
- Funding spread: this value adjustment takes into account the funding cost or benefit for uncollateralized transactions. For all uncollateralized transactions, a correction is made for the funding value adjustment based on the average funding cost of Belfius Bank. This funding cost is determined by ALM taking into account the different funding sources.
- Market price uncertainty: value adjustment for uncertainty of market parameters.

- Model risk: this value adjustment is made if the assumptions used in a valuation model cannot be verified with sufficient accuracy.
- Cash-CDS adjustment: this adjustment takes into account the spread difference between the cash instruments and corresponding derivatives.

Financial instruments measured at amortised cost (for which fair values are disclosed in the notes to the financial statements)

This item relates to financial instruments classified as Loans and Advances at inception or that have been reclassified from trading or AFS to L&R.

As a response to the financial crisis, the IASB issued on 13 October 2008 an amendment to IAS 39 allowing for the reclassification of certain illiquid financial assets. Belfius decided to benefit from this opportunity to reclassify assets for which no longer an active market, nor reliable quoted prices, were at that time available.

Financial instruments classified in Held to Maturity and Loans and Advances since inception measured at amortised cost (having valuations at fair value in IFRS disclosures)

The fair value of loans and advances, including mortgages loans and Held to Maturity instruments, is determined using the following valuation principles.

General principles:

- the carrying amount of loans maturing within 12 months is assumed to reflect their fair value;
- for bonds the valuation is done in the same way as bonds classified in AFS.

Interest-rate part:

- the fair value of fixed-rate loans and mortgage loans reflects interest-rate movements since inception;
- loans with an adjustable rate are priced using the corresponding forward rates increased with the contractual margin;
- market or model values for caps, floors and prepayment options are included in the fair value of loans and receivables;
- the fair value of variable-rate loans (f.i. 3M euribor) is assumed to be approximated by their carrying amounts;
- an adjustment for the credit risk is also included in the fair value.
- the future potential prepayment rate has been approximated by taking into account an internal estimate.

A. Quantitative information on significant unobservable data (level 3)

If the fair value of a financial instrument is determined based on valuation techniques using inputs that are not based on observable market data, alternative assumptions may impact the own funds and the result.

Financial instrument	Non-observable items	Difference with alternative assumptions	Impact in P&L of alternative assumptions (in millions of EUR)	Impact in equity of alternative assumptions (in millions of EUR)
OTC swaps on Belgian inflation	Expectations in Belgian inflation	+30bp	-3.11	
OTC derivatives on CMS spread	Correlation between CMS interest rates	+10%	0.62	
OTC swaps Bermudian Feature	Mean Reversion	1%	1.01	
Collateralised Debt Obligation	Credit spread	-10bp	-3.85	
Credit Default Swap	Credit spread	-10bp	2.63	
Illiquid bonds	Credit spread	-10bp		+5.11

B. Valuation process

The risk management department in charge of market risks determines the fair value level for each transaction. Seeing that the market risk department provides all market data, it has the expertise with respect to observability. In addition, the market risk department has a clear view on the validation status and the reliability of the models used.

C. Transfers between valuation levels

The IFRS levels are dependent on an internal liquidity score. The liquidity score is distributed between very liquid (big score) and very illiquid (small score) instruments. Therefore, a small change in the liquidity on the market doesn't influence the distribution of L1 and L2 or L3. A few bonds are nevertheless close to the border of illiquidity and can change from L1 to L2 or L3 and vice versa. The main events in 2017 (like ECB decisions and French elections) changed some high scores to a lower scores, and we had some transfers from L1 to L2 (and vice versa). We observed also decreasing of L3 volume following a corresponding decreasing of the L3 positions.

6. Disclosure of difference between transaction prices and model values (deferred day one profit)

No significant amounts are recognized as deferred Day One Profit or Loss (DOP) in 2016 nor in 2017.

More specifically, as Belfius sells plain vanilla products (like Interest Rate Swaps (IRS)), or some more complex products (like structured transactions) which are hedged in the market in line with market risk limits and framework, the resulting day one profit is recognized up-front. Only a few transactions of non material amounts have non observable parameters, consequently the Deferred DOP is immaterial.

9.2. CREDIT RISK EXPOSURE

1. Analysis of total credit risk exposure

The definition of Maximum Credit Risk Exposure "MCRE" is completely in line with our risk management measure FEAD – Full Exposure At Default, as used in our Pillar 3 report, and is determined as follows:

- for balance sheet assets (except for derivatives): the gross carrying amounts (before impairment);
- for derivatives: the fair value of derivatives increased with the potential future exposure (calculated under the current exposure method or add-on);
- for reverse repurchase agreements: the carrying amount complemented by the excess collateral provided for repurchase agreements;
- for off-balance sheet commitments: either the undrawn part of liquidity facilities or the maximum commitment of Belfius for guarantees granted to third parties (including financial guarantees given).

Note that the definition of the Maximum Credit Risk Exposure as used internally and for the risk tables presented below, presenting the carrying amount of its assets gross of any impairment losses differs slightly from IFRS 7 with a presentation of assets net of impairment.

A. Exposure by geographical region

(In thousands of EUR)	31/12/16	31/12/17
Belgium	121,528,561	123,018,100
France	10,531,222	9,013,633
Germany	2,725,025	2,433,554
Greece[1]	351	303
Ireland	114,749	78,470
Italy[2]	6,215,048	5,625,969
Luxembourg	789,965	990,556
Spain[3]	3,337,894	2,746,680
Portugal	97,247	157,746
Other EU countries[4]	7,032,319	11,753,946
Rest of Europe	1,002,171	886,484
Turkey	128,910	83,403
United Kingdom	11,283,008	11,295,559
United States and Canada	4,616,910	3,083,857
South and Central America	520,199	451,265
Southeast Asia	591,341	441,789
Japan	425,704	397,066
Other	1,485,301	1,343,110
TOTAL	172,425,925	173,801,490

(1) The exposure on Greece mainly concerns a small number of retail loans granted to residents in Greece having economical ties to Belgium and displaying good credit stance.
(2) The decrease of the total credit risk esposure on Italy is mainly due to the decrease in derivative exposure. Note that Belfius has reduced its exposure on Italy in Q1 2018. We refer to the section related to post-balance-sheet events.
(3) The decrease is mainly linked to a decrease in reverse repurchase agreements as well as some minor sales in Spanish covered bonds.
(4) Includes supranational entities, such as the European Central Bank. The significant increase is mainly related to an increase of the monetary reserves.

B. Exposure by category of counterparty

(In thousands of EUR)	31/12/16	31/12/17
Central governments	20,326,106	24,799,346
Public sector entities	50,331,570	47,374,892
Corporate	27,531,917	29,509,425
Monoline insurers	4,174,649	3,517,111
ABS/MBS	1,403,080	997,140
Project finance	2,102,398	2,034,176
Individuals, SME, self-employed	42,336,114	45,168,423
Financial institutions	23,557,744	19,655,957
Other	662,347	745,020
TOTAL	172,425,925	173,801,490

C. Detail of most important countries per counterparty

	31/12/16						
(In thousands of EUR)	Central government bonds(1)	Financial institutions(2)	ABS/MBS	Public sector entities	Corporate - Project finance	Other	Total
Belgium	7,952,753	1,257,059	484	47,623,897	20,350,166	44,344,202	121,528,561
France	644,251	7,725,651	15,944	1,274,326	747,922	123,128	10,531,222
United Kingdom	0	3,891,958	315,337	48,453	4,036,805	2,990,455	11,283,008
Spain(2)	269,031	2,574,807	186,267	145,906	155,791	6,092	3,337,894
Italy	3,837,706	2,071,700	155,620	0	144,197	5,825	6,215,048
United States and Canada	0	1,609,973	396,924	62,749	1,337,696	1,209,568	4,616,910
TOTAL	12,703,741	19,131,148	1,070,576	49,155,331	26,772,577	48,679,270	157,512,643

(1) Direct exposure.
(2) Mainly covered bonds.

	31/12/17						
(In thousands of EUR)	Central government bonds(1)	Financial institutions(2)	ABS/MBS	Public sector entities	Corporate - Project finance	Other	Total
Belgium	7,199,038	664,593	50,000	45,167,119	22,634,885	47,302,465	123,018,100
France	796,034	6,283,030	33,821	939,245	849,546	111,957	9,013,633
United Kingdom	0	4,312,017	265,936	45,649	3,809,619	2,862,338	11,295,559
Spain(2)	360,321	1,945,984	164,048	123,954	144,186	8,187	2,746,680
Italy	3,733,129	1,611,805	126,302	0	149,243	5,490	5,625,969
United States and Canada	0	992,701	110,318	89,303	1,210,816	680,719	3,083,857
TOTAL	12,088,522	15,810,130	750,425	46,365,270	28,798,295	50,971,156	154,783,798

(1) Direct exposure.
(2) Mainly covered bonds.

We also refer to the chapter "Risk management" of the management report for further information.

2. Credit quality of financial assets not impaired

(In thousands of EUR)	31/12/16 AAA to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	9,504,448	6,276,805	171,375	143,195	16,095,823
Financial assets designated at fair value (excluding variable income securities)	0	1,756	0	0	1,756
Financial assets held for trading (excluding variable income securities)	65,326	643,565	1,878	1,220	711,989
Loans and advances (at amortised cost)	40,904,502	38,418,879	16,271,755	1,938,639	97,533,775
Investments held to maturity	3,021,903	2,368,806	2,538	0	5,393,247
Derivatives	2,593,590	14,248,141	243,098	103,484	17,188,313
Other financial instruments - at cost	483,863	114,083	15,694	666,159	1,279,799
Loan commitments granted	13,203,494	7,235,762	3,880,070	160,684	24,480,010
Guarantee commitments granted	2,033,694	4,701,326	909,423	59,410	7,703,853
TOTAL	71,810,820	74,009,123	21,495,831	3,072,791	170,388,565

(In thousands of EUR)	31/12/17 AAA to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	8,612,865	6,303,823	81,546	160,764	15,158,998
Financial assets designated at fair value (excluding variable income securities)	0	1,116	0	0	1,116
Financial assets held for trading (excluding variable income securities)	108,879	466,177	2,788	123	577,967
Loans and advances (at amortised cost)	40,329,380	42,700,917	17,413,073	1,867,236	102,310,606
Investments held to maturity	2,947,838	2,435,322	2,542	56,298	5,442,000
Derivatives	1,804,881	11,740,195	250,921	60,143	13,856,140
Other financial instruments - at cost	328,844	128,838	9,115	751,958	1,218,755
Loan commitments granted	8,378,617	11,918,773	4,635,704	142,150	25,075,244
Guarantee commitments granted	1,898,528	5,437,722	969,541	35,173	8,340,964
TOTAL	64,409,832	81,132,883	23,365,230	3,073,845	171,981,790

The indicated ratings are either internal or external based. In fact, Belfius applies the AIRBA (Advanced Internal Ratings Based Approach) for the calculation of capital requirements for credit risk within the context of Pillar 1 of Basel III. Except for Asset Backed Securities (ABS) positions for which the credit risk is based on external ratings only (Fitch, Standard & Poors or Moody's).

3. Maximum credit risk exposure by class of financial instruments and impact of collateral

	31/12/16		31/12/17	
(In thousands of EUR)	Maximum credit risk exposure	Effect of physical collateral	Maximum credit risk exposure	Effect of physical collateral
Financial assets available for sale (excluding variable income securities)	16,095,823	0	15,158,999	0
Financial assets designated at fair value (excluding variable income securities)	1,756	0	1,116	0
Financial assets held for trading (excluding variable income securities)	711,990	0	577,965	0
Loans and advances (at amortised cost)	99,499,062	2,774,177	104,039,235	2,840,841
Investments held to maturity	5,393,247	0	5,441,999	0
Derivatives	17,188,721	0	13,856,807	0
Other financial instruments – at cost	1,280,521	0	1,219,626	0
Loan commitments granted	24,523,246	111,324	25,109,189	132,765
Guarantee commitments granted	7,731,559	66,956	8,396,554	109,931
TOTAL	172,425,925	2,952,457	173,801,490	3,083,537

4. Information on past-due or impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. This is considered on a contract by contract basis. For example, if a counterpart fails to pay the required interests at due date, the entire loan is considered as past due.

	31/12/16			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(In thousands of EUR)	≤ 90 days	> 90 days ≤ 180 days	> 180 days	
Financial assets available for sale (excluding variable income securities)	0	0	0	1,782
Loans and advances (at amortised cost)	556,709	19,479	25,253	2,322,147
Investments held to maturity	0	0	0	0
Other financial instruments – at cost	0	0	0	5,459
TOTAL	556,709	19,479	25,253	2,329,388

	31/12/17			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(In thousands of EUR)	≤ 90 days	> 90 days ≤ 180 days	> 180 days	
Financial assets available for sale (excluding variable income securities)	0	0	0	1,782
Loans and advances (at amortised cost)	551,888	13,728	17,461	1,821,591
Investments held to maturity	0	0	0	0
Other financial instruments – at cost	0	0	0	3,122
TOTAL	551,888	13,728	17,461	1,826,495

Past due outstandings relate mainly to retail and corporate loans. Financial assets are considered as impaired according to the accounting policies “Impairments on financial assets”.

5. Forbearance

	31/12/16			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
(In thousands of EUR)			Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
Debt Instruments at amortised cost	631,284	(109,278)	309,424	5,981
Loan commitments – given	20,714	0	15,033	338

	31/12/17			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
(In thousands of EUR)			Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
Debt Instruments at amortised cost	626,890	(122,035)	329,701	4,713
Loan commitments – given	25,327	0	21,528	0

We also refer to the chapter “Risk management” of the management report for futher information, section Credit Risk.

6. Movements in allowances for credit losses

(In thousands of EUR)	As at 1 January 2016	Utilisation	Amounts set aside for estimated probable loan losses	Amounts reversed for estimated probable loan losses	Other	As at 31 December 2016	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
SPECIFIC ALLOWANCES FOR INDIVIDUALLY AND COLLECTIVELY ASSESSED FINANCIAL ASSETS	**(1,231,801)**	**36,895**	**(260,359)**	**130,126**	**(4,753)**	**(1,329,891)**	**23,644**	**(48,220)**
Loans and advances due from banks	(2,677)	0	(43)	0	2,677	(43)	0	0
Loans and advances to customers	(1,158,443)	28,257	(254,163)	130,126	(7,415)	(1,261,638)	23,644	(48,220)
Investments held to maturity	0	0	0	0	0	0	0	0
Financial assets available for sale	(70,681)	8,637	(6,152)	0	(14)	(68,210)	0	0
Of which Fixed-income instruments	*(840)*	*0*	*0*	*0*	*0*	*(840)*	*0*	*0*
Of which Equity instruments	*(69,841)*	*8,637*	*(6,152)*	*0*	*(14)*	*(67,370)*	*0*	*0*
ALLOWANCES FOR INCURRED BUT NOT REPORTED LOSSES ON FINANCIAL ASSETS	**(377,229)**	**0**	**(46,088)**	**75,734**	**13,588**	**(333,995)**	**0**	**0**
Loans and advances due from banks	(8,109)	0	(2,764)	4,787	(225)	(6,311)	0	0
Loans and advances to customers	(369,120)	0	(43,324)	70,947	13,813	(327,684)	0	0
Investments held to maturity	0	0	0	0	0	0	0	0
TOTAL	**(1,609,030)**	**36,895**	**(306,446)**	**205,860**	**8,835**	**(1,663,887)**	**23,644**	**(48,220)**

(In thousands of EUR)	As at 1 January 2017	Utilisation	Amounts set aside for estimated probable loan losses(1)	Amounts reversed for estimated probable loan losses	Other	As at 31 December 2017	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
SPECIFIC ALLOWANCES FOR INDIVIDUALLY AND COLLECTIVELY ASSESSED FINANCIAL ASSETS	(1,329,891)	152,401	(494,686)	436,711	15,756	(1,219,710)	28,641	(37,634)
Loans and advances due from banks	(43)	38	0	5	0	0	0	0
Loans and advances to customers(1)	(1,261,638)	149,145	(492,753)	436,706	15,678	(1,152,862)	28,641	(37,634)
Investments held to maturity	0	0	0	0	0	0	0	0
Financial assets available for sale	(68,210)	3,218	(1,933)	0	77	(66,848)	0	0
Of which Fixed-income instruments	*(840)*	*0*	*0*	*0*	*0*	*(840)*	*0*	*0*
Of which Equity instruments	*(67,370)*	*3,218*	*(1,933)*	*0*	*77*	*(66,008)*	*0*	*0*
ALLOWANCES FOR INCURRED BUT NOT REPORTED LOSSES ON FINANCIAL ASSETS	(333,995)	0	(41,581)	48,492	12,579	(314,506)	0	0
Loans and advances due from banks	(6,311)	0	(7)	1,163	317	(4,838)		
Loans and advances to customers	(327,684)	0	(41,574)	47,328	12,262	(309,668)		
Investments held to maturity						0		
TOTAL	(1,663,887)	152,401	(536,268)	485,203	28,335	(1,534,216)	28,641	(37,634)

(1) Belfius accomplished its last part of its former active tactical derisking program by selling the remaining US RMBS bonds in the former Side portfolio (as from 1 January 2017 merged into Group Center) allowing for a reversal of previously recorded specific impairments.

7. Credit risk information for loans designated at fair value through profit or loss

Amounts involved are immaterial. See note 5.7 "Financial assets measured at fair value through profit and loss".

8. Credit risk information about financial liabilities designated at fair value through profit or loss

As at 31 December 2016 (In thousands of EUR)	Book value	Amount of change in the fair value attributable to changes in the credit risk of the liability		Difference between carrying amount of the financial liability and contractual amount required to be paid at maturity(1)
		Change of the period	Cumulative amount	
	7,502,491	0	0	134,220

(1) This amount includes the premium/discount and the change in market value.

As at 31 December 2017 (In thousands of EUR)	Book value	Amount of change in the fair value attributable to changes in the credit risk of the liability		Difference between carrying amount of the financial liability and contractual amount required to be paid at maturity(1)
		Change of the period	Cumulative amount	
	8,829,915	0	0	89,737

(1) This amount includes the premium/discount and the change in market value.

9.3. INFORMATION ON ASSET ENCUMBRANCE AND COLLATERAL RECEIVED

1.1. Assets

	31/12/16			
(In thousands of EUR)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	0	0	1,730,450	1,730,450
Debt securities	3,125,031	3,387,770	13,535,258	25,789,008
Loans and advances	33,167,553		68,937,353	
of which cash collateral given	17,461,903			

	31/12/17			
(In thousands of EUR)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments			1,737,779	1,737,779
Debt securities	3,029,165	3,386,715	11,741,357	23,502,428
Loans and advances	27,348,857		68,871,758	
of which cash collateral given	12,409,546			

1.2. Collateral received

	As at 31 December 2016		As at 31 December 2017	
(In thousands of EUR)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	586,825	6,010,392	730,460	2,865,887
Equity instruments	0	47,735	0	108,398
Debt securities	586,825	5,962,657	730,460	2,757,489
Own debt securities issued other than own covered bonds or ABS	0	379,894		326,597

2. Summary encumbrance by source

As at 31 December 2016	Encumbered assets						Total
	Loans and advances	Debt securities					
(In thousands of EUR)		Financial assets available for sale	Investments held to maturity	Loans and advances	Financial assets held for trading	Fair value of encumbered collateral received or own debt securities issued	
SOURCE OF ENCUMBRANCE							
Derivatives – collateral	17,461,903	758,699				224,353	18,444,955
Repurchase agreements		197,379	608,987	122,195	6,147	8,348	943,055
Collateralised deposits other than repurchase agreements	787,328	474,120	0	84,520	0	131,983	1,477,951
Central bank funding	2,757,255	0	138,653	294,518		0	3,190,426
Covered bonds issued	10,600,331	0	0	0	0	0	10,600,331
Asset-backed securities issued	586,973	0	0	0	0	0	586,973
Fair value of securities borrowed with non cash-collateral	597,381	0	0	0	0	0	597,381
Securities lending		180,386	155,181	13,925	0	0	349,491
Other	376,382	0	0	90,306	16	222,141	688,846
TOTAL	33,167,553	1,610,584	902,820	605,464	6,163	586,825	36,879,409

As at 31 December 2017	Encumbered assets						Total
	Loans and advances	Debt securities					
(In thousands of EUR)		Financial assets available for sale	Investments held to maturity	Loans and advances	Financial assets held for trading	Fair value of encumbered collateral received or own debt securities issued	
SOURCE OF ENCUMBRANCE							
Derivatives – collateral	12,409,546	598,282	32,565	281,935	0	257,342	13,579,670
Repurchase agreements		21,466	12,062	978	87	172,493	207,086
Collateralised deposits other than repurchase agreements	1,006,174	21,398	11,762	160,377	0	13,177	1,212,889
Central bank funding	4,058,298	0	187,358	175,122	0	0	4,420,779
Covered bonds issued	9,130,482	0	0	0	0	0	9,130,482
Asset-backed securities issued	517,274	0	0	0	0	0	517,274
Fair value of securities borrowed with non cash-collateral	0	0	0	0	0	0	0
Securities lending	0	725,759	591,320	1,216	0	279,758	1,598,052
Other	227,082	0	110,033	97,444	0	7,691	442,250
TOTAL	27,348,857	1,366,906	945,101	717,072	87	730,460	31,108,482

This information on asset encumbrance was determined according to the current Belfius interpretation of the EBA definition and scope. Following the EBA definition, an asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. This definition covers more than the IFRS requirements that focuses more on pledged assets. Among the encumbered assets the securities lending should not be considered as pledged. As a consequence, amounts pledged according to IFRS 7 amount to EUR 29.5 billion. This represents a decrease of EUR 7.0 billion compared to 2016. The pledged assets according to IFRS7 amounted to EUR 36.5 billion in 2016.

The definition of encumbered assets includes assets that were pledged as a result of repurchase agreements, loans granted by the central banks, guarantees for the issuance of covered bonds and securitisations, the assets given under bond lending transactions and collateral posted under the "Credit Support Annex" (CSA) or "Credit Support Deed" (CSD).

EBA disclosure requirements fit with the IFRS7 accounting standards disclosure requirements as it requests to report encumbered (and unencumbered) amounts of "own" assets both in carrying amount and in fair value and encumbered (and unencumbered) amounts of received collateral in fair value.

Total collateral received represented EUR 3.6 billion end 2017. The Bank has the right to repledge this collateral that is fully available for encumbrance.

End 2017, an amount of EUR 13.6 billion of collateral is pledged for derivatives (cash + securities). Securities lending amounts to 1.2 billion EUR, of which 0.6 billion EUR of AFS securities. Note that these securities are not pledged. Bonds given under CSA agreements can be re-used by counterparties and represent EUR 0.9 billion. Bonds posted under CSD cannot be re-used.

Belfius is active on the covered bond market since the set-up of its first covered bond programme in 2012. End 2017, the total outstanding notional amount of covered bonds issued was EUR 7.2 billion. An amount of EUR 1.25 billion matured during the last quarter of the year and was not refinanced. End 2017, the assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amount to EUR 9.1 billion (decrease of EUR 1.5 billion compared to end 2016). Assets seggregated in cover pools cannot be re-used by investors.

Since 2017, in the context of its liquidity management, Belfius is also active in bond lending transactions under agreed Global Master Securities Lending Agreements (GMSLA). This activity generates EUR 1.6 billion of encumbered assets.

The collateral pledged to the European Central Bank amounts to EUR 7 billion at the end of 2017, of which EUR 4.4 billion encumbered for TLTRO II funding of EUR 4.0 billion (increase of EUR 1 billion in comparison with 2016) and EUR 2.6 billion which is available. The assets pledged to collateralise the TLTRO funding are composed of EUR 4 billion public, SME and mortgage loans (through securitisation vehicles Penates and Mercurius) and of EUR 0.4 billion of bonds. End 2016, the assets encumbered amounted to EUR 3.2 billion (TLTRO funding of EUR 3 billion). Credit claims pledged for ECB funding cannot be re-used by the ECB.

3. Encumbered assets/collateral received and associated liabilities

	As at 31 December 2016		As at 31 December 2017	
(In thousands of EUR)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	32,079,503	35,243,691	25,693,963	29,068,180

4. Transfer of financial assets that do not qualify for derecognition in the consolidated balance sheet

(In thousands of EUR)	31/12/16				
	Carrying amount of transferred assets	Carrying amount of associated liabilities	For those liabilities that recourse only to the transferred assets		
			Fair value of transferred assets	Fair Value of associated liabilities	Net position
Loans and advances due from banks	0	0	0	0	0
Loans and advances to customers	581,192	581,192	639,652	584,401	55,251
Financial assets held for trading	6,478	6,334	0	0	0
Financial assets available for sale	1,115,092	1,040,491	0	0	0
Financial assets designated at fair value	0	0	0	0	0
TOTAL	1,702,762	1,628,016	639,652	584,401	55,251

(In thousands of EUR)	31/12/17				
	Carrying amount of transferred assets	Carrying amount of associated liabilities	For those liabilities that recourse only to the transferred assets		
			Fair value of transferred assets	Fair Value of associated liabilities	Net position
Loans and advances due from banks	0	0	0	0	0
Loans and advances to customers	461,106	461,106	496,984	463,162	33,822
Financial assets held for trading	87	84	0	0	0
Financial assets available for sale	903,579	903,531	0	0	0
Financial assets designated at fair value	0	0	0	0	0
TOTAL	1,364,773	1,364,722	496,984	463,162	33,822

There is a significant decline in the carrying amount of transferred assets and the associated liabilities following the decrease of funding through repurchase agreements.

A. Repurchase agreements

Belfius uses repurchase agreements as financing transactions where securities are sold to a market counterparty in exchange for cash and where the transferred securities are repurchased at maturity date of the contract.

The repurchase agreements are conducted under the terms of the Global Master Repurchase Agreements. The market counterparties are subject to the credit risk process as described in the management report.

Since all significant risks and rewards associated with ownership of the transferred securities are retained, the securities remain on the balance sheet of Belfius. The cash obtained under this transaction is recognised as a liability.

Since the counterparty, in case of default, has not only a right on the transferred assets, but on the entire debt, the columns "for those liabilities that resort only to the transferred assets" are not applicable on this.

B. Securitisation of credits

Belfius has different securitisation vehicles that are consolidated as most of the risks and rewards remain for Belfius. The underlying financial assets continue to be recognized on the balance sheet and the liquid assets obtained through securitisation are represented by a debt instrument. We refer to note 12."Securitisation" for further details.

The securitized loans Penates 5 are included in this overview as investors have a contractual right on the cash flows of the underlying loans. Since the investors only have a contractual right on the underlying credits and not on the entire debt, the column "for those liabilities that recourse only to the transferred assets" is applicable here.

The related received cash transfer is recognised as a liability.

5. Collateral and other credit enhancements obtained by taking possession of collateral

Amounts involved are immaterial.

6. Offsetting

A. Financial assets subject to offsetting

As at 31 December 2016 (In thousands of EUR)	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Amounts not set off in the balance		Net amount
				Financial instrument	Securities + cash collateral received	
Derivatives with London Clearing House	7,847,785	7,812,741	35,044	0	0	35,044
Derivatives with master netting agreements	21,232,973	0	21,232,973	10,821,821	6,799,765	3,611,387
Reverse repurchase agreements with master netting agreements	4,899,858	0	4,899,858	0	4,898,418	1,440
TOTAL	33,980,616	7,812,741	26,167,875	10,821,821	11,698,183	3,647,871

As at 31 December 2017 (In thousands of EUR)	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Amounts not set off in the balance		Net amount
				Financial instrument	Securities + cash collateral received	
Derivatives with London Clearing House	8,697,635	8,654,745	42,890			42,890
Derivatives with master netting agreements	15,626,256		15,626,256	8,568,136	5,086,856	1,971,264
Reverse repurchase agreements with London Clearing House	195,811	195,811	0			0
Reverse repurchase agreements with master netting agreements	2,196,311		2,196,311		2,195,300	1,011
TOTAL	26,716,013	8,850,556	17,865,457	8,568,136	7,282,156	2,015,165

B. Financial liabilities subject to offsetting

As at 31 December 2016 (In thousands of EUR)	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities presented in the balance sheet	Amounts not set off in the balance		Net amount
				Financial instrument	Securities + cash collateral pledged	
Derivatives with London Clearing House	7,815,952	7,812,741	3,211	0	0	3,211
Derivatives with master netting agreements	28,806,723	0	28,806,723	10,822,178	17,372,495	612,050
Repurchase agreements with master netting agreements	312,346	0	312,346	0	312,163	183
TOTAL	36,935,021	7,812,741	29,122,280	10,822,178	17,684,658	615,444

As at 31 December 2017 (In thousands of EUR)	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities presented in the balance sheet	Amounts not set off in the balance		Net amount
				Financial instrument	Securities + cash collateral pledged	
Derivatives with London Clearing House	8,675,037	8,654,745	20,292			20,292
Derivatives with master netting agreements	20,754,302		20,754,302	8,568,136	11,951,394	234,772
Reverse repurchase agreements with London Clearing House	195,811	195,811	0			0
Reverse repurchase agreements with master netting agreements	12,227		12,227		11,986	241
TOTAL	29,637,377	8,850,556	20,786,821	8,568,136	11,963,380	255,305

9.4. INTEREST-RATE REPRICING RISK: BREAKDOWN BY REMAINING MATURITY UNTIL NEXT REFIXING INTEREST RATE

Sight accounts and saving deposits are presented in the column "At sight and on demand" as the information presented below takes into account the residual maturity until the next interest-rate refixing date on the legal repayment date, rather than on the observed behavioral customer data. However, for the determination of the interest rate sensitivity of the net asset value or earnings, the observed behaviour of customers on these liabilities is taken into account (see note 9.5 "Market risk and ALM").

1. 2016

A. Assets

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Accrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
Cash and balances with central banks	5,111,132	0	0	0	0	0	(82)	0	0	5,111,050
Loans and advances due from banks	15,996,683	5,669,792	228,400	10,586	82,813	3,376	(39,866)	57,123	(6,354)	22,002,553
Loans and advances to customers	3,299,819	19,308,852	11,580,010	21,692,005	32,735,151	2,202,416	447,262	26,207	(1,589,322)	89,702,399
Investments held to maturity	0	270,433	21,493	1,455,043	3,585,483	0	60,796	0	0	5,393,247
Financial assets available for sale	0	492,205	860,036	3,139,879	8,381,544	2,502,202	287,304	3,224,829	(68,210)	18,819,789
Financial assets measured at fair value through profit or loss	0	361,960	9,043	55,076	30,298	2,251,086	3,218	275,299	0	2,985,979
Derivatives							534,664	24,772,557		25,307,222
Gain/loss on the hedged item in portfolio hedge of interest rate risk								4,533,779		4,533,779
Investments in equity method companies						97,044				97,044
Tangible fixed assets						1,091,687				1,091,687
Intangible assets						122,541				122,541
Goodwill						103,966				103,966
Current tax assets						10,662				10,662
Deferred tax assets						405,847				405,847
Other assets	57,071	121,815	61,510	102,813	135,392	527,992	0	0	(2,203)	1,004,389
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0		30,126	0	0	(1,354)	28,772
TOTAL ASSETS	**24,464,704**	**26,225,056**	**12,760,491**	**26,455,402**	**44,950,681**	**9,348,945**	**1,293,297**	**32,889,795**	**(1,667,444)**	**176,720,927**
Regular way trade	0	943,123	171,091	1,822	154,550	281,234	0	0	0	1,551,820
Derivatives	0	120,268,595	54,977,123	94,148,096	192,255,420	1,243,967	0	0	0	462,893,201
OFF-BALANCE SHEET	**0**	**121,211,718**	**55,148,214**	**94,149,918**	**192,409,971**	**1,525,201**	**0**	**0**	**0**	**464,445,021**
TOTAL FOR INTEREST RATE REPRICING RISK	**24,464,704**	**147,436,774**	**67,908,704**	**120,605,319**	**237,360,651**	**10,874,147**	**1,293,297**	**32,889,795**	**(1,667,444)**	**641,165,948**

B. Liabilities

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Acrrued interest	Changes in fair value and fair value of derivatives	Total
Due to banks	7,961,013	1,417,043	138,970	3,012,537	31,005	20,434	829	0	12,581,830
Customer borrowings and deposits	58,064,630	14,120,036	226,173	654,747	1,032,103	601	72,751	0	68,162,754
Debt securities	0	5,534,481	7,361,408	6,233,449	4,682,905	0	169,187	0	27,777,552
Financial liabilities measured at fair value through profit or loss	0	1,010,128	1,531,090	1,684,692	883,256	2,189,766	91,092	134,226	6,916,469
Technical provisions of insurance companies						15,990,324			15,990,324
Derivatives							1,077,525	28,494,996	29,572,521
Gain/loss on the hedged item in portfolio hedge of interest rate risk								207,474	207,474
Provisions and contingent liabilities						412,243			412,243
Subordinated debts	0	175,472	0	66,000	733,239	404,741	16,651	2,549	913,004
Current tax liabilities						60,609			60,609
Deferred tax liabilities						272,877			272,877
Other liabilities	90,436	725,609	67,880	59,859	7,784	584,134	249	0	1,535,952
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	**66,116,080**	**22,982,770**	**9,325,520**	**11,711,284**	**7,370,293**	**19,935,729**	**1,428,285**	**28,839,246**	**167,709,206**
Regular way trade	0	555,698	62,747	3,117	218,024	455,660	0	0	1,295,247
Derivatives	0	124,048,888	74,166,219	88,505,018	184,457,308	1,329,898	0	0	472,507,331
OFF-BALANCE SHEET	**0**	**124,604,586**	**74,228,966**	**88,508,135**	**184,675,332**	**1,785,558**	**0**	**0**	**473,802,577**
TOTAL FOR INTEREST RATE REPRICING RISK	**66,116,080**	**147,587,356**	**83,554,486**	**100,219,419**	**192,045,625**	**21,721,287**	**1,428,285**	**28,839,246**	**641,511,783**

C. Net position

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
On-balance-sheet sensitivity gap	(41,651,376)	(150,582)	(15,645,781)	20,385,900	45,315,026	(10,847,141)

The actual interest rate risk of Belfius is managed based on more advanced assumptions. (See note 9.5 Market risk and ALM).

2. 2017

A. Assets

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Acrrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
Cash and balances with central banks	10,236,964	0	0	0	0	0	(295)	0	0	10,236,669
Loans and advances due from banks	12,002,697	1,767,385	236,636	10,337	73,706	1,129	(16,732)	51,105	(4,838)	14,121,427
Loans and advances to customers	2,073,582	19,197,769	12,239,965	22,782,136	33,091,004	1,684,683	426,858	23,459	(1,462,529)	90,056,926
Investments held to maturity	0	235,744	0	2,033,203	3,112,345	0	60,707	0	0	5,441,999
Financial assets available for sale	0	324,000	303,483	4,010,800	7,681,623	2,632,387	262,681	2,834,470	(66,848)	17,982,597
Financial assets measured at fair value through profit or loss	0	394,423	26,552	17,660	28,458	2,634,170	2,203	136,832	0	3,240,298
Derivatives							454,956	19,848,078		20,303,034
Gain/loss on the hedged item in portfolio hedge of interest rate risk								3,720,764		3,720,764
Investments in equity method companies						31,481				31,481
Tangible fixed assets						1,059,212				1,059,212
Intangible assets						162,074				162,074
Goodwill						103,966				103,966
Current tax assets						20,343				20,343
Deferred tax assets						235,399				235,399
Other assets	32,692	169,277	67,738	120,177	129,939	694,592	0	12,328	(2,515)	1,224,230
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0	0	20,426	0	0	(1,644)	18,782
TOTAL ASSETS	**24,345,935**	**22,088,599**	**12,874,375**	**28,974,311**	**44,117,077**	**9,279,864**	**1,190,379**	**26,627,036**	**(1,538,375)**	**167,959,201**
Regular way trade	0	2,295,565	0	3,109	0	4,299	0	0	0	2,302,973
Derivatives	0	23,311,731	48,183,574	136,941,140	207,099,304	674,278	0	0	0	416,210,027
OFF-BALANCE SHEET	**0**	**25,607,297**	**48,183,574**	**136,944,249**	**207,099,304**	**678,576**	**0**	**0**	**0**	**418,513,000**
TOTAL FOR INTEREST RATE REPRICING RISK	**24,345,935**	**47,695,895**	**61,057,949**	**165,918,560**	**251,216,381**	**9,958,440**	**1,190,379**	**26,627,036**	**(1,538,375)**	**586,472,201**

B. Liabilities

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Acrrued interest	Changes in fair value and fair value of derivatives	Total
Due to banks	5,734,800	1,301,820	24,857	4,009,505	29,642	32,384	(23,114)	0	11,109,893
Customer borrowings and deposits	60,239,019	14,419,891	94,892	622,483	844,968	215	53,015	0	76,274,483
Debt securities	0	6,045,919	5,029,607	6,240,329	4,558,536	0	152,671	0	22,027,063
Financial liabilities measured at fair value through profit or loss	0	1,981,190	1,705,791	1,641,688	790,167	2,597,572	86,145	90,157	8,892,710
Technical provisions of insurance companies						15,149,692			15,149,692
Derivatives							1,145,268	20,118,764	21,264,032
Gain/loss on the hedged item in portfolio hedge of interest rate risk								105,017	105,017
Provisions and contingent liabilities						425,300			425,300
Subordinated debts	0	0	0	140,921	694,337	347,919	15,790	0	1,198,968
Current tax liabilities						51,351			51,351
Deferred tax liabilities						176,964			176,964
Other liabilities	140,788	883,228	83,576	67,913	6,762	579,834	219	0	1,762,321
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	**66,114,607**	**24,632,047**	**6,938,723**	**12,722,840**	**6,924,413**	**19,361,231**	**1,429,995**	**20,313,937**	**158,437,793**
Regular way trade	0	7,959,537	0	3,043	0	13,838	0	0	7,976,417
Derivatives	0	20,187,019	48,178,601	139,476,480	211,596,853	729,569	0	0	420,168,521
OFF-BALANCE SHEET	**0**	**28,146,555**	**48,178,601**	**139,479,522**	**211,596,853**	**743,407**	**0**	**0**	**428,144,938**
TOTAL FOR INTEREST RATE REPRICING RISK	**66,114,607**	**52,778,603**	**55,117,324**	**152,202,362**	**218,521,265**	**20,104,638**	**1,429,995**	**20,313,937**	**586,582,731**

C. Net position

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
On-balance-sheet sensitivity gap	(41,768,672)	(5,082,707)	5,940,625	13,716,198	32,695,116	(10,146,198)

The actual interest rate risk of Belfius is managed based on more advanced assumptions. (See note 9.5 Market risk and ALM).

9.5. MARKET RISK AND ALM

We also refer to the chapter "Risk Management" of the Management report for further information, section Market Risk.

1. Financial markets

Within Belfius Bank, the Financial Markets Services department (FM) is the central point of entry to the financial markets. In general aspect, the department does not negotiate positions for own account: all transactions are based on client transactions. Transactions made by external or internal clients, for instance ALM including liquidity management belonging to the last category, are hedged overall within a framework of limits that complies with Belfius's risk policies. As a result, the various market risks are kept within that framework, a.o. by hedging transactions. The VaR figures stated below reflect these residual positions.

- The risks on client flow management activities include general interest rate, foreign exchange, equity prices, credit spread and other risks (inflation, CO2). These risks are managed within Value at Risk limits and other appropriate risk limits.
- Cash and Liquidity Management (CLM) is monitored by means of Value at Risk limits (VaR) and interest rate sensitivity limits.
- The spread risk of the investment portfolio and client flow management activities are managed with spread limits.

The Value-at-Risk (VaR) concept is used as the principal metric for management of the market risk Belfius Bank is facing. The VaR measures the maximum loss in Net Present Value (NPV) the bank might be facing in historical market conditions over a period of 10 days with a confidence interval of 99%.

The following risks are monitored at Belfius using a VaR computation:

- The interest rate and foreign-exchange rate risk: this category of risk is monitored via a historical VaR based on an internal model approved by the National Bank of Belgium.
  The historical simulation approach consists of managing the portfolio through a time series of historical asset yields. These revaluations generate a distribution of portfolio values (yield histogram) on the basis of which a VaR (% percentile) may be calculated.
  The main advantages of this type of VaR are its simplicity and the fact that it does not assume a normal but a historical distribution of asset yields (distributions may be non-normal and the behaviour of the observations may be non-linear).
- The general and specific equity risks are measured on the basis of a historical VaR with full valuation based on 300 scenarios.
- The spread risk and the inflation risk are measured via a historical approach, applying 300 observed variations on the sensitivities.

Since the end of 2011, Belfius also computes a Stressed Value-at-Risk (S-VaR) on top of its regular VaR, which also enters into the computation of weighted risks for Market Risk. This S-VaR measure consists of calculating a historical VaR based on a 12 consecutive months observation period which generates the largest negative variations of Net Present Value in the bank's current portfolio of financial instruments.

VaR(1) (99% 10 days) (In thousands of EUR)	31/12/16				31/12/17			
	IR(2) & FX(3)	Equity	Spread	Other risks(4)	IR(2) & FX(3)	Equity	Spread	Other risks(4)
By activity								
Average	11,346	3,141	6,372	873	8,120	4,294	3,770	1,487
EOY	12,104	2,528	6,889	1,189	8,860	5,758	2,727	1,061
Maximum	19,093	5,134	7,942	1,189	13,044	6,320	7,058	2,056
Minimum	6,050	1,813	4,191	631	4,433	2,276	2,117	1,061
Global								
Average	21,733				17,671			
EOY	22,709				18,406			
Maximum	31,088				24,107			
Minimum	14,103				13,206			
Limit	32,000				32,000			

(1) The Value at Risk (VaR) is a measure of the potential change in market value with a probability of 99% and over a period of 10 days.
(2) IR: interest rate risk.
(3) FX: foreign exchange risk.
(4) Inflation and CO_2 risk.

2. Asset-liability management (ALM)

A. Interest rate risk

Interest rate risk has two forms – economic value volatility and earnings volatility. The measurement of both is complementary in understanding the complete scope of interest rate risk in the balance sheet (excluding financial markets).

Economic value indicators capture the long-term effect of the interest rate changes on the economic value. Interest rate sensitivity of economic value measures the net change of the ALM economic value to an interest rate move by 10 basis points across the entire curve.

Earnings at Risk indicators capture the more shorter-term effect of the interest rate changes on the earnings of the Bank. Therefore, indirectly through profitability, interest rate changes can also have a shorter-term solvency effect. A 50bps increase of interest rates has an estimated positive impact on net interest income (before tax) of EUR +37 million of the next book year and an estimated cumulative effect of EUR +111 million over a three year period, whereas a 35bps decrease would lead to an estimated negative impact of EUR -29 million of the next book year and an estimated cumulative effect of EUR -141 million over a three year period.

(In thousands of EUR)	31/12/16	31/12/17
Bank		
Sensitivity	(16,100)	(34,179)
Earnings at risk	38,000	37,436
Insurance		
Sensitivity	12,844	16,614
Earnings at risk	2,586	2,743

B. Listed equity & real estate

(In thousands of EUR)	31/12/16	31/12/17
Insurance		
Market value - quoted shares & assimilated	611,366	583.819
Market value - quoted real estate	456,514	501.502
Shock 30% (negative)	(320,364)	(325.596)
VaR (99%, 10 days)	83,595	35.720

C. Real estate - direct property

(In thousands of EUR)	31/12/16	31/12/17
Insurance		
Market value	708,701	592,835
Shock 12.5% (negative)	(88,588)	(74,104)

3. Bond portfolio

A. Outstanding nominal amounts

(In thousands of EUR)	31/12/16	31/12/17
Bank	13,021,696	11,582,364
Insurance	9,768,522	9,632,617

B. Interest-rate sensitivity

The interest rate risk of the bond portfolio of the bank is either micro-hedged (for the former Side portfolio; hence low net interest rate sensitivity), or is managed through the ALM-framework (hence net interest rate sensitivity part of global ALM interest rate sensitivity).

The sensitivity to 1 bps interest rate increase of the value of the bond portfolio of the insurance companies amounted to EUR -7.5 million at the end of 2017, part of the global ALM management of the insurance companies.

C. Credit-spread sensitivity

This calculation estimates the sensitivity of the bond portfolio after one basis point spread widening.

(In thousands of EUR)	31/12/16	31/12/17
Bank	(20,188)	(18,148)
Insurance	(8,338)	(8,220)

9.6. LIQUIDITY RISK

Liquidity is managed with a view to comply with our Liquidity Risk Management guidelines and framework. We also refer to the management report for a detailed description.

End 2017, the LCR ratio stood at 130% (representing EUR 5 billion excess liquidity buffer as of 31 December 2017) compared to 127% in 2016 (or 4 EUR billion excess). The Liquidity Coverage Ratio forces financial institutions to maintain a sufficient stock of quality liquid assets to withstand a crisis that puts their cash flows under pressure. The liquid assets to hold must equal to or greater than their net cash outflow over a 30-day period under stress (as such, having at least 100% coverage). The parameters of the stress scenario are defined under Basel III. We also refer to the chapter Alternative Performance Measures for more information.

Breakdown residual maturity

We do not disclose amounts on the expected prepayment dates as such we have used the contractual maturity date for this table.

Current accounts and saving deposits are included in the column "At sight and on demand" even if they have no fixed repayment date.

All other assets and liabilities are split over the different periods according to the contractual cashflows characteristics.

1. 2016

A. Assets

	Breakdown of gross amount and premium/discount						Accrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity				
Cash and balances with central banks	5,111,132	0	0	0	0	0	(82)	0	0	5,111,050
Loans and advances due from banks	15,996,683	5,504,291	162,113	143,201	162,355	23,007	(39 866)	57 123	(6,354)	22,002,553
Loans and advances to customers	3,299,819	10,633,335	7,024,713	23,100,443	44,557,527	2,202,416	447 262	26 207	(1,589,322)	89,702,399
Investments held to maturity	0	0	21,493	1,460,048	3,782,911	68,000	60 796	0	0	5,393,247
Financial assets available for sale	0	407,128	760,036	3,199,518	8,498,042	2,511,142	287 304	3 224 829	(68,210)	18,819,789
Financial assets measured at fair value through profit or loss	0	3,689	8,727	55,391	388,568	2,251,086	3 218	275 299	0	2,985,979
Derivatives	0	0	0	0	0	0	534,664	24 772 557	0	25,307,222
Gain/loss on the hedged item in portfolio hedge of interest rate risk	0	0	0	0	0	0	0	4,533,779	0	4,533,779
Investments in equity method companies	0	0	0	0	0	97,044	0	0	0	97,044
Tangible fixed assets	0	0	0	0	0	1,091,687	0	0	0	1,091,687
Intangible assets	0	0	0	0	0	122,541	0	0	0	122,541
Goodwill	0	0	0	0	0	103,966	0	0	0	103,966
Current tax assets	0	0	0	0	0	10,662	0	0	0	10,662
Deferred tax assets	0	0	0	0	0	405,847	0	0	0	405,847
Other assets	57,071	122,551	61,510	102,813	135,392	527,256	0	0	(2,203)	1,004,389
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0	0	30,126	0	0	(1,354)	28,772
TOTAL ASSETS	24,464,704	16,670,994	8,038,592	28,061,414	57,524,795	9,444,780	1,293,297	32,889,795	(1,667,444)	176,720,927
Regular way trade	0	1,543,298	8,266	0	0	256	0	0	0	1,551,820
Foreign exchange derivatives	0	9,275,261	2,508,150	4,450,998	8,876,836	0	0	0	0	25,111,245
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	0	10,818,559	2,516,416	4,450,998	8,876,836	256	0	0	0	26,663,065
TOTAL	24,464,704	27,489,554	10,555,008	32,512,411	66,401,631	9,445,036	1,293,297	32,889,795	(1,667,444)	203,383,992

B. Liabilities

(In thousands of EUR)	Breakdown of gross amount and premium/discount At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Accrued interest	Changes in fair value and fair value of derivatives	Total
Due to banks	7,961,013	1,507,665	47,083	3,010,781	34,025	20,434	829	0	12,581,830
Customer borrowings and deposits	58,064,630	14,118,936	226,173	655,847	1,032,103	601	72,751	0	74,171,040
Debt securities	0	2,751,574	5,766,139	9,591,904	5,702,626	0	169,187	0	23,981,430
Financial liabilities measured at fair value through profit or loss	0	48,538	276,666	2,968,008	1,815,954	2,189,766	91,092	134,226	7,524,251
Technical provisions of insurance companies	0	1,044,680	472,471	5,973,639	8,499,533	0	0	0	15,990,324
Derivatives	0	0	0	0	0	0	1,077,525	28,494,996	29,572,521
Gain/loss on the hedged item in portfolio hedge of interest rate risk	0	0	0	0	0	0	0	207,474	207,474
Provisions and contingent liabilities	0	0	0	0	0	412,243	0	0	412,243
Subordinated debts	0	175,472	0	66,000	733,239	404,741	16,651	2,549	1,398,653
Current tax liabilities	0	0	0	0	0	60,609	0	0	60,609
Deferred tax liabilities	0	0	0	0	0	272,877	0	0	272,877
Other liabilities	90,436	726,753	67,880	59,859	7,784	582,990	249	0	1,535,952
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	66,116,080	20,373,619	6,856,412	22,326,038	17,825,265	3,944,261	1,428,285	28,839,246	167,709,206
Core shareholders' equity	0	0	0	0	0	8,693,833	0	0	8,693,833
Gains and losses not recognised in the statement of income	0	0	0	0	0	0	0	317,714	317,714
TOTAL SHAREHOLDERS' EQUITY	0	0	0	0	0	8,693,833	0	317,714	9,011,547
Non-controlling interests	0	0	0	0	0	173			173
TOTAL EQUITY	0	0	0	0	0	8,694,006	0	317,714	9,011,720
TOTAL LIABILITIES AND EQUITY	66,116,080	20,373,619	6,856,412	22,326,038	17,825,265	12,638,267	1,428,285	29,156,960	176,720,926
Regular way trade	0	1,295,244	0	0	0	2	0	0	1,295,247
Foreign exchange derivatives	0	9,270,479	2,481,798	4,489,070	8,718,010	0	0	0	24,959,356
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	0	10,565,723	2,481,798	4,489,070	8,718,010	2	0	0	26,254,603
TOTAL	66,116,080	30,939,342	9,338,210	26,815,108	26,543,275	12,638,270	1,428,285	29,156,960	202,975,529

C. Total liquidity gap

(In thousands of EUR)	Breakdown of gross amount and premium/discount At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
Total liquidity gap	(41,651,376)	(3,449,789)	1,216,798	5,697,303	39,858,356	(3,193,234)

The actual liquidity risk of Belfius is managed based on more advanced assumptions.

The liquidity position presented here results from the difference between the cashflows at contractual maturities of assets and liabilities and also takes into account the cashflows stemming from hedge transactions. This allows a presentation of the liquidity gap.

The market value of the derivatives is reported in the column 'Changes in fair value and fair value of derivatives".

2. 2017

A. Assets

(In thousands of EUR)	Breakdown of gross amount and premium/discount						Accrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity				
Cash and balances with central banks	10,236,964	0	0	0	0	0	(295)	0	0	10,236,669
Loans and advances due from banks	12,002,697	1,628,807	180,121	156,684	105,113	18,470	(16 732)	51 105	(4,838)	14,121,427
Loans and advances to customers	2,072,925	10,833,334	7,813,326	24,490,718	44,174,153	1,684,683	426 858	23 459	(1,462,529)	90,056,926
Investments held to maturity	0	0	0	2,044,316	3,312,164	24,812	60 707	0	0	5,441,999
Financial assets available for sale	0	262,618	167,046	4,048,696	7,832,607	2,641,327	262 681	2 834 470	(66,848)	17,982,597
Financial assets measured at fair value through profit or loss	0	172,598	26,552	17,660	250,283	2,634,170	2 203	136 832	0	3,240,298
Derivatives	0	0	0	0	0	0	454,956	19 848 078	0	20,303,034
Gain/loss on the hedged item in portfolio hedge of interest rate risk	0	0	0	0	0	0	0	3,720,764	0	3,720,764
Investments in equity method companies	0	0	0	0	0	31,481	0	0	0	31,481
Tangible fixed assets	0	0	0	0	0	1,059,212	0	0	0	1,059,212
Intangible assets	0	0	0	0	0	162,074	0	0	0	162,074
Goodwill	0	0	0	0	0	103,966	0	0	0	103,966
Current tax assets	0	0	0	0	0	20,343	0	0	0	20,343
Deferred tax assets	0	0	0	0	0	235,399	0	0	0	235,399
Other assets	32,692	172,651	67,738	120,177	129,939	691,219	0	12 328	(2,515)	1,224,230
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0	0	20,426	0	0	(1,644)	18,782
TOTAL ASSETS	**24,345,278**	**13,070,007**	**8,254,784**	**30,878,251**	**55,804,261**	**9,327,582**	**1,190,379**	**26,627,036**	**(1,538,375)**	**167,959,201**
Regular way trade	0	2,295,565	0	3,109	0	4,299	0	0	0	2,302,973
Foreign exchange derivatives	0	7,153,155	2,164,326	3,095,804	12,702,983	0	0	0	0	25,116,269
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	**0**	**9,448,721**	**2,164,326**	**3,098,914**	**12,702,983**	**4,299**	**0**	**0**	**0**	**27,419,242**
TOTAL	**24,345,278**	**22,518,728**	**10,419,110**	**33,977,164**	**68,507,244**	**9,331,880**	**1,190,379**	**26,627,036**	**(1,538,375)**	**195,378,443**

B. Liabilities

(In thousands of EUR)	Breakdown of gross amount and premium/discount						Accrued interest	Changes in fair value and fair value of derivatives	Total
	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity			
Due to banks	5,734,800	1,301,820	20,948	4,010,765	32,290	32,384	(23 114)	0	11,109,893
Customer borrowings and deposits	60,239,019	14,418,791	95,992	622,483	844,968	215	53 015	0	76,274,483
Debt securities	0	3,477,474	4,607,852	8,686,000	5,103,067	0	152 671	0	22,027,063
Financial liabilities measured at fair value through profit or loss	0	99,889	596,624	3,392,374	2,029,949	2,597,572	86 145	90 157	8,892,710
Technical provisions of insurance companies	0	203,074	604,498	6,733,697	7,612,138	(3,715)	0	0	15,149,692
Derivatives	0	0	0	0	0	0	1 145 268	20 118 764	21,264,032
Gain/loss on the hedged item in portfolio hedge of interest rate risk	0	0	0	0	0	0	0	105 017	105,017
Provisions and contingent liabilities	0	0	0	0	0	425,300	0	0	425,300
Subordinated debts	0	0	0	140,921	694,337	347,919	15 790	0	1,198,968
Current tax liabilities	0	0	0	0	0	51,351	0	0	51,351
Deferred tax liabilities	0	0	0	0	0	176,964	0	0	176,964
Other liabilities	140,788	884,454	83,570	67,919	6,762	578,607	219	0	1,762,321
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	66,114,607	20,385,501	6,009,484	23,654,159	16,323,512	4,206,597	1,429,995	20,313,937	158,437,793
Core shareholders' equity	0	0	0	0	0	9,084,337	0	0	9,084,337
Gains and losses not recognised in the statement of income	0	0	0	0	0	0	0	436,901	436 901
TOTAL SHAREHOLDERS' EQUITY	0	0	0	0	0	9,084,337	0	436,901	9,521,237
Non-controlling interests	0	0	0	0	0	171	0	0	171
TOTAL EQUITY	0	0	0	0	0	9,084,507	0	436,901	9,521,408
TOTAL LIABILITIES AND EQUITY	66,114,607	20,385,501	6,009,484	23,654,159	16,323,512	13,291,104	1,429,995	20,750,838	167,959,201
Regular way trade	0	7,959,537	0	3,043	0	13,838	0	0	7,976,417
Foreign exchange derivatives	0	7,167,269	2,156,644	3,122,299	12,418,030	0	0	0	24,864,242
Fx forward rate agreements	0	0	0	0	0	0	0	0	0
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	0	15,126,805	2,156,644	3,125,341	12,418,030	13,838	0	0	32,840,659
TOTAL	66,114,607	35,512,306	8,166,128	26,779,501	28,741,543	13,304,942	1,429,995	20,750,838	200,799,860

C. Total liquidity gap

	Breakdown of gross amount and premium/discount					
(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
Total liquidity gap	(41,769,329)	(12,993,579)	2,252,981	7,197,664	39,765,701	(3,973,062)

The actual liquidity risk of Belfius is managed based on more advanced assumptions.

More detailed information regarding liquidity is available in the chapter "Risk Management" of the management report.

The liquidity position presented here results from the difference between the cashflows at contractual maturities of assets and liabilities and also takes into account the cashflows stemming from hedge transactions. This allows a presentation of the liquidity gap.

The market value of the derivatives is reported in the column "Changes in fair value and fair value of derivatives".

9.7. CURRENCY RISK AND FOREIGN EXCHANGE

1. Currency risk

	31/12/16				
(In thousands of EUR)	GBP	USD	Other	EUR	Total
Total assets	8,642,248	4,552,280	3,221,116	160,305,282	176,720,926
Total liabilities	7,027,887	4,765,850	3,158,559	152,757,083	167,709,379
Total equity	(480,077)	(38,641)	(122,695)	9,652,960	9,011,547
NET ON BALANCE POSITION	**2,094,438**	**(174,929)**	**185,252**	**(2,104,761)**	**0**
Off-balance sheet - to receive	1,206,900	10,575,188	3,841,927	9,928,266	25,552,281
Off-balance sheet - to deliver	3,424,002	10,425,123	3,909,988	7,653,257	25,412,370
OFF-BALANCE SHEET - NET POSITION	**(2,217,102)**	**150,064**	**(68,061)**	**2,275,009**	**139,911**
NET POSITION	(122,664)	(24,864)	117,191	170,248	

	31/12/17				
(In thousands of EUR)	GBP	USD	Other	EUR	Total
Total assets	9,217,232	3,276,002	2,452,472	153,013,495	167,959,201
Total liabilities	4,555,687	3,817,531	3,009,534	147,055,211	158,437,964
Total equity	(677,296)	(7,027)	(119,036)	10,324,597	9,521,237
NET ON BALANCE POSITION	**5,338,841**	**(534,502)**	**(438,026)**	**(4,366,313)**	**0**
Off-balance sheet - to receive	341,206	12,022,041	3,512,236	11,161,922	27,037,406
Off-balance sheet - to deliver	5,683,031	11,522,819	2,879,963	6,842,895	26,928,708
OFF-BALANCE SHEET - NET POSITION	**(5,341,825)**	**499,223**	**632,273**	**4,319,027**	**108,698**
NET POSITION	(2,984)	(35,279)	194,248	(47,286)	

2. Foreign exchange

		31/12/16		31/12/17	
		Closing rate	Average rate	Closing rate	Average rate
Australian dollar	AUD	1.4618	1.4854	1.5365	1.4813
Canadian dollar	CAD	1.4198	1.4585	1.5068	1.4755
Swiss franc	CHF	1.0734	1.0900	1.1716	1.1164
Koruna (Czech republic)	CZK	27.0205	27.0377	25.5110	26.2773
Danish krone	DKK	7.4343	7.4447	7.4454	7.4387
Euro	EUR	1.0000	1.0000	1.0000	1.0000
Pound sterling	GBP	0.8548	0.8230	0.8877	0.8760
Hong Kong dollar	HKD	8.2008	8.5665	9.3790	8.8776
Forint	HUF	308.8800	311.5755	310.1850	309.2933
Shekel	ILS	4.0688	4.2255	4.1615	4.0641
Yen	JPY	123.3750	120.4433	135.0250	127.2750
Mexican peso	MXN	21.8330	20.6289	23.5401	21.4698
Norwegian Krone	NOK	9.0886	9.2559	9.8219	9.3762
New Zealand dollar	NZD	1.5175	1.5827	1.6882	1.5995
Swedish krona	SEK	9.5563	9.4749	9.8295	9.6448
Singapore dollar	SGD	1.5269	1.5245	1.6035	1.5629
Turkish lira	TRY	3.7203	3.3418	4.5484	4.1483
US dollar	USD	1.0576	1.1037	1.1999	1.1387

9.8. INSURANCE RISK

1. Definition

Belfius Insurance, as a part of Belfius, takes up risk through the insurance contracts that it underwrites. The risks within the underwriting risk category are associated with both the exposure covered by the specific line of insurance (Life and Non-Life) and the specific processes associated with insurance business (claims processing, premium collection, pricing, selection, etc.).

The risks that apply to all lines of the insurance business can be globally categorised as follows.

→ Life underwriting risk: is the risk arising from the underwriting of life insurance contracts. It is split up into:
  - Mortality risk, which is the risk that occurs when mortality increases. It applies to all undertakings for which thepay-outs are expected to increase when there is a rise in mortality.
  - Longevity risk is the opposite of the mortality risk. It applies to policies for which a fall in mortality would result in an increase in the expected payouts (e.g. pension policies). Improvements in medical treatments that prolong life without restoring the ability to work could cause these risks to materialise at a greater frequency than currently observed.
  - Morbidity or disability risk relates to the risk of loss or disadvantageous movements in expected benefits caused by changes in the level, nature, trend or volatility of the degree of disability.
  - Lapse risk for Life is described as the risk of loss or increase in pay-out caused to a difference between the effective exercise rate of the contractual options by the policyholder and the expected exercise rate. The term "options" should be viewed in the broad sense of the word: this submodule contains options in relation to redemption, cancellation or premium reduction, as well as the expansion of the guarantees. For some policies, exercise may be at the benefit of the insurance company, while for others it may result in a loss. As a result, this submodule features two scenarios: one in which the options are exercised more frequently than expected and another where they are exercised less frequently.
  - The risk relating to management costs corresponds with the risk that those management costs are higher than expected or that they subdue to higher inflation than expected.
  - Revision risk only applies for the annuities whose amounts may be valued negatively for the insurer as the result of a change in the statutory environment or in the policyholder's health situation.
  - Catastrophe risk is restricted to policies where an immediate and dramatic rise in mortality would result in an increase in benefits.

→ Non-Life underwriting risk: is the specific insurance risk arising from Non-Life insurance contracts.Uncertainty about the results of the insurer's underwriting could be defined as:
  - Premium risk which is the risk where the amount of premiums received is not sufficient to pay claims that occur during the coverage period to which the premiums relate to.
  - Reserve risk is the risk of loss or unfavourable change in the value of the insurance undertakings arising from changes in the frequency and severity of the insured events, as well as in the date and amount of the claims to be paid.
  - Catastrophe risk is the risk arising from unpredictable events including, but not limited to, windstorms, coastal inundation, floods, severe winter weather, and other weather-related events, pandemics, large-scale fires, industrial explosions, earthquakes and other man-made disasters such as civil unrest and terrorist attacks,that is not covered by the premiums or reserves.

2. Managing the insurance risk

The Risk & Underwriting Committee gives recommendations about strategy in the area of underwriting and reserves for the insurance companies within Belfius Insurance and the resulting policy, in particular with regard to the following points:

- types and characteristics of the insurance business that Belfius Insurance is willing to manage;
- selection criteria for the risks that match the risk appetite;
- the way in which the actual underwriting is monitored;
- the managing between, on the one hand, the insurance premiums collected and, on the other, the claims to be paid out when costs are borne;
- identification of the risks arising from the undertakings of Belfius Insurance, including the implicit options and the capital that is guaranteed by the insurance products;
- making provisions for claims.

The overall strategy is developed by each concerned entity and followed up by the local persons in charge.

Reinsurance is one of the methods used to limit the insurance risk. The main objective of reinsurance is to reduce volatility in capital requirements and profits, and to diminish the uncertainty associated with the risk in the insurer's valuation.

The drivers of reinsurance are:

- Capacity: reinsurance gives insurers greater flexibility in terms of scope, type of risk and business volume that they can safely accept. This enables insurers to embark on new business or to expand their activities for a short period.
- Stability: structured reinsurance programmes enable insurers to stabilise their operating income.
- Protection: reinsurance provides protection against cumulative financial losses caused by a succession of events (such as poor weather) or against significant financial losses arising from a single event.
- Funding: reinsurance can be an alternative to a capital increase.
- Expertise: reinsurers assist insurers in their area of expertise. The qualified staff of reinsurance companies offer their services, for instance in establishing a new business.

3. Sensitivities

Belfius Insurance evaluates the effect of sensitivities on available economic capital. The technical reserves are expressed in market value.

Given the low market rates, the value of the technical reserves is higher than the redemption value, which results in a negative impact on capital in the event of a reduction in the redemption rate. The sensitivity to the redemption rate decreases in 2017, given a decrease in the volume of branch 21.

The insured capital on death is higher than the fair value of technical reserves, which results in a positive impact on available financial resources if there is a decrease in mortalityrates.

In non-life, lower administrative costs lead to a higher result, while an increase of claims leads to a lower result.

Underwriting risk Life: scenario that corresponds to[1]

	Impact on available financial resources before taxes	
(In millions of EUR)	31/12/16	31/12/17
An increase of 15% in mortality	(34.7)	(34.7)
An increase of 10% in expenses +1% inflation	(101.0)	(126.4)
A decrease of 10% in the lapse rates	(23.5)	(20.6)

(1) Scope: Belfius Insurance SA (= Belins solo), branch 23 included.

Underwriting risk Non-Life: scenario that corresponds to[1]

	Impact on income before taxes	
(In millions of EUR)	31/12/16	31/12/17
A decrease of 10% in administrative costs	6.6	9.0
An increase of 5% in claims made	(18.4)	(18.3)

(1) Scope: Belfius Insurance SA (= Belins solo) and Corona SA .

4. Development of claims

The claims triangle is the usual method for expressing the settlement of claims stretched out over a number of years. Inter alia it enables actuaries to assess the appropriateness of the technical provisions. In Non-Life insurance, between the event and closing date of a claim, the insurer can in general not determine the exact amount on total cost of the claim. During this period, the insurer establishes a reserve that equals to the estimated amount of future payments for the claim.

Given the reserve is only an estimate, there is a risk that the amount effectively paid is higher. To assess that risk, it is necessary to study the variation of two amounts:

→ the total of payments made prior to that date;
→ the reserve established on that date for future payments

The sum of these two components is called the total incurred claims cost.

The table below shows the evolution for Belfius Insurance SA and Corona SA since 2007 of the sum at the end of each year, of the total incurred claims cost per year of occurrence.

Claims development (excluding reinsurance and internal costs)

(In thousands of EUR)	Year of occurrence										
Year of settlement	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Estimation at the end of the year of occurrence	266,081	284,441	331,831	376,927	368,410	366,403	365,798	415,445	389,632	427,822	417,069
1 year later	253,679	286,182	315,094	377,982	365,547	350,517	324,524	392,976	361,479	402,910	
2 years later	240,004	276,197	302,958	376,143	355,306	334,313	312,883	381,044	353,512		
3 years later	231,754	266,868	302,314	370,819	350,249	329,882	306,454	374,836			
4 years later	228,986	267,226	300,159	370,924	352,804	328,046	303,051				
5 years later	231,760	266,805	299,236	363,378	350,780	323,899					
6 years later	229,487	267,520	296,773	360,537	351,335						
7 years later	227,465	267,249	293,969	357,875							
8 years later	225,761	264,048	293,741								
9 years later	225,140	264,340									
10 years later	224,495										

(In thousands of EUR)											
Actual estimation	224,495	264,340	293,741	357,875	351,335	323,899	303,051	374,836	353,512	402,910	417,069
Cumulative payments	(204,198)	(226,612)	(266,578)	(298,037)	(295,393)	(267,644)	(246,070)	(304,318)	(256,894)	(261,142)	(164,308)
Actual provisions	20,298	37,728	27,163	59,839	55,941	56,255	56,981	70,518	96,618	141,768	252,760

(In thousands of EUR)	
Provisions (after 2007)	875,869
Provisions (before 2007)	129,427
Internal costs	42,515
Accepted deals	27,377
TOTAL	**1,075,189**

(1) Claims reserves 31 December 2017 - note 6.5.2.

X. NOTES ON THE SIGNIFICANT CHANGES IN SCOPE OF CONSOLIDATION AND LIST OF SUBSIDIARIES AND AFFILIATED ENTERPRISES OF BELFIUS

10.1. SIGNIFICANT CHANGES IN SCOPE OF CONSOLIDATION

(Only those changes that have a material impact (i.e. an impact of more than 1% of balance sheet total and/or P&L) have been reported).

1. As at 31 december 2016

In 2016, the Belgian fund management company Belfius Investment Partners was founded and is fully consolidated. The funds "Belfius European Loans Fund", "Belins high yield" and "Belins US Corporate Bonds" were founded by Belfius Insurance in 2015 and joined the scope of consolidation during 2016.

The company "Vennootschap Leopold" was liquidated during 2016. The companies Copharma Industries Unltd and Eurco Ltd were deconsolidated as they are being liquidated.

Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016, classified in "Non current assets (disposal group) held for sale and discontinued operations", to Foyer S.A., realizing EUR 8 million on the sale recorded in net income on investments and liabilities. In 2H 2016, Belfius Insurance has decided to sell its participation in "Aviabel". Despite the fact that an agreement has been reached, it was end 2016 still subject to certain conditions, and thus the participation was classified as "Non current assets (disposal group) held for sale and discontinued operations" as per 31 December 2016, and as such this had no impact on the scope in 2016.

Note that Belfius Insurance and Sepia merged on 1 January 2016. This had no impact on the scope of the consolidation.

2. As at 31 december 2017

Belfius Insurance sold its investments in "Aviabel", an associate evaluated through the equity method, in the first half of 2017, classified in "Non current assets (disposal group) held for sale and discontinued operations" per year-end 2016, to the American insurance company Axis Capital, realizing EUR 8.9 million on the sale.

While Belfius Insurance has a long term vision on managing its real estate portfolio, it responds whenever possible on market opportunities. Such an opportunity arose on "Pole Star" and "North Light" whereby Belfius Insurance sold its 60% stake in both companies in the second half of 2017 to South Korean investors, realizing EUR 58 million on the sales. Both companies were joint ventures evaluated through the equity method.

Finally, Belfius Insurance liquidated its investments in the fully-consolidated funds: "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds" in the course of the second half of 2017. The decision was taken after a re-assessment of the investment framework, and it was determined that the volatility of these funds did not comply anymore with Belfius Insurance's new investment framework.

The real estate company Immoactivity was purchased end 2016 and is fully consolidated since January 2017.

10.2. ACQUISITIONS AND DISPOSALS OF CONSOLIDATED COMPANIES

1. Main acquisitions

A. Year 2016

There were no significant acquisitions in 2016.

B. Year 2017

The real estate company Immoactivity was purchased end 2016 and is fully consolidated from the beginning of 2017.

The assets and liabilities acquired were as follows:

	2016	2017
(In thousands of EUR)		Immoactivity
Tangible fixed assets		11,738
Other liabilities		(4)
NET ASSETS	0	11,734
Already in possession of the Group		
Purchase price (in cash)		5,235
Less:		
cash and cash equivalents in the subsidiary acquired		
NET CASH OUTFLOW THROUGH ACQUISITION	0	5,235

2. Main disposals

A. Year 2016

Foyer S.A., the largest financial privately owned group of Luxembourg, has reached an agreement in June 2016 with Belfius Insurance on the acquisition of "International Wealth Insurer". The transaction was closed on 9 August 2016, there was a positive impact in result of EUR 8 million recorded in 2016.

B. Year 2017

There were no significant disposals in 2017.

The assets and liabilities acquired were as follows:

	2016	2017
(In thousands of EUR)	International Wealth Insurer (IWI) SA	
Cash and cash equivalents	15,190	
Loans and advances due from banks	428	
Loans and advances to customers	9,405	
Financial assets measured at fair value through profit or loss	2,701,232	
Financial investments	632,132	
Tangible fixed assets	640	
Other assets	15,685	
Customer borrowings and deposits	(7,324)	
Financial liabilities measured at fair value through profit or loss	(2,701,232)	
Technical provisions of insurance companies	(508,136)	
Other liabilities	(60,404)	
NET ASSETS	97,616	0
GAINS RECOGNISED IN OCI RECYCLED TO THE INCOME STATEMENT UPON DISPOSAL	(30,950)	
NET VALUE	66,666	0
Proceeds from sale (in cash)	75,000	
Less:		
cost of the transaction	*0*	
Cash and cash equivalents in the subsidiary sold	*15,190*	
NET CASH INFLOW ON SALE	59,810	0

3. Assets and liabilities included in disposal groups held for sale and discontinued operations

A. Year 2016

As at 31 December 2016, the equity stake in Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations". A sales agreement was signed with the American insurance company Axis Capital, but it were in 2016 still subject to conditions not fulfilled. We also refer to note 5.10.

B. Year 2017

As at 31 December 2017, no subsidiaries were recorded as "Non current assets (disposal group) held for sale and discontinued operations".

In 2017, Belfius Insurance has decided to liquidate its investments in the following funds: "Belfius European Loans Fund", "Belins High Yield" and "Belins US Corporate Bonds". The decision was taken after a re-assessment of the investment framework, and it was determined that the volatility of these funds did not comply anymore with Belfius Insurance's new investment framework. As a result, these participations fell within the application of IFRS 5 and were classified as "Non current assets (disposal group) held for sale and discontinued operations" as at 30 June 2017. Note that these assets have been sold in the second half of 2017.

The transferred assets and liabilities were as follows:

	2016	2017
(In thousands of EUR)	Aviabel SA	
Investments in equity method companies	7,730	

10.3. SUBSIDIARIES, EQUITY-ACCOUNTED ENTERPRISES, AFFILIATED ENTERPRISES AND ENTERPRISES IN WHICH THE GROUP HOLDS RIGHTS REPRESENTING AT LEAST 20% OF THE ISSUED CAPITAL

1. Fully-consolidated subsidiaries

Name	Head office	% of capital held(1)	Business code
Belfius Asset Finance Holding SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	10
Belfius Auto Lease SA	Place Charles Rogier 11 B-1210 Bruxelles	100	5
Belfius Commercial Finance SA	Place Charles Rogier 11 B-1210 Bruxelles	100	15
Belfius Financing Company SA	Rue de l'Industrie 20 L-8399 Windhof	100	49
Belfius Immo SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	31
Belfius Insurance SA	Avenue Galilée 5 B-1210 Bruxelles	100	28
Belfius Insurance Invest SA	Avenue Galilée 5 B-1210 Bruxelles	100	21
Belfius Insurance Services Finance SA	Rue de l'Industrie 20 L-8399 Windhof	100	21
Belfius Investment Partners NV	Place Charles Rogier 11 B-1210 Bruxelles	100	19
Belfius Ireland Unltd	23 Shelbourne Road Ballsbridge Dublin 4 IE 4886676 P	100	49
Belfius Lease SA	Place Rogier 11 B-1210 Bruxelles	100	5
Belfius Lease Services SA	Place Rogier 11 B-1210 Bruxelles	100	5
Coquelets SA	Avenue Galilée 5 B-1210 Bruxelles	100	31
Corona SA	Avenue de la Métrologie 2 B-1130 Bruxelles	100	28
Crefius SA	Boulevard Pachéco 44 B-1000 Bruxelles	100	6
Dexia Secured Funding Belgium SA	Boulevard Pacheco 44 B-1000 Bruxelles	10	49
Elantis SA	Rue des Clarisses 38 B-4000 Liège	100	6
Immo Activity NV	Avenue Galilée 5 B-1210 Bruxelles	100	31
Immo Malvoz SPRL	Avenue Galilée 5 B-1210 Bruxelles	100	31
Immo Zeedrift SA	Avenue Galilée 5 B-1210 Bruxelles	100	31
Legros-Renier Les Amarentes Seigneurie de Loverval SA	Avenue Galilée 5 B-1210 Bruxelles	100	31
LFB SA	Avenue Galilée 5 B-1210 Bruxelles	100	31
Mercurius Funding SA	Boulevard Pacheco 44 B-1000 Bruxelles	5	49
Penates Funding SA	Rue Royale 97 b4 B-1000 Bruxelles	10	49

(1) Percentage of capital held by holding company

There are no significant restrictions on the subsidiaries, on their ability to access or use assets, and settle liabilities, of the group.

2. Non-consolidated subsidiaries

Name	Head office	% of capital held(1)	Reason for exclusion	Business code
Belfius Fiduciaire SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	non-significant	23
Belfius Part SA	Boulevard Pachéco 44 B-1000 Bruxelles	100	non-significant	10
Bureau Laveaux & Martin BVBA	Ravensteinstraat 2 bus 3 B-9000 Gent	100	non-significant	30
Brightknight NV	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	34
Caring people SA	Avenue de la Métrologie 2 B-1130 Bruxelles	100	non-significant	30
Finimmo SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	in liquidation	16
Fynergie SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	non-significant	32
Global Cleantech Capital II Feeder BV	Herengracht 338 NL-1016 CG Amsterdam	100	non-significant	41
Immorente SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	non-significant	31
Immo Rhododendrons SPRL	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	31
Immo Tumulis SPRL	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	31
Qualitass NV	Vilvoordsesteenweg 166 B-1850 Grimbergen	100	non-significant	30
Service Communal de Belgique SCI	Avenue Louise 106 B-1050 Ixelles	63.59	in liquidation	47
Shop Equipments SA	Boulevard Pachéco 44 B-1000 Bruxelles	100	non-significant	31
Smart Belgium Services NV	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	34
Spencr SA	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	34
The Studio SA	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	34
VDL - Interass NV	Brusselsesteenweg 346C B-9090 Melle	100	non-significant	30
Zakenkantoor Frans Verfaillie BVBA	Grote Markt 38 B-8600 Diksmuide	100	non-significant	30

3. Affiliated companies accounted for by the equity method

Name	Head office	% of capital held(1)	Business code
Auxiliaire de participations SA	Avenue Britsiers 5 B-1030 Schaerbeek	39.70	10
Erasmus Gardens SA	Avenue Hermann-Debroux 42 B-1160 Bruxelles	50	31
Isabel SA	Boulevard de l'Impératrice 13-15 B-1000 Bruxelles	24	39
NEB Participations SA	Rue Louvrex 95 B-4000 Liège	20.57	10

(1) Percentage of capital held by holding company

4. Affiliated companies not accounted for by the equity method

Name	Head office	% of capital held[1]	Reason for exclusion	Business code
Arkafund NV	Alfons Gossetlaan 30 B-1702 Groot-Bijgaarden	25	non-significant	21
Arlinvest NV	Hamiltonpark 24-26 B-8000 Brugge	49	non-significant	16
Assurcard NV	Fonteinstraat 1A Bus 0301 B-3000 Leuven	20	non-significant	34
Bancontact-Mistercash SA	Rue d'Arlon 82 B-1040 Bruxelles	20	non-significant	48
Banking Funding Company SA	Rue d'Arlon 82 B-1040 Bruxelles	21.62	non-significant	48
Bedrijvencentrum Regio Mechelen NV	De Regenboog 11 B-2800 Mechelen	24.33	non-significant	41
Belwing SA	Avenue Maurice-Destenay 13 B-4000 Liège	20	non-significant	10
Bizimmo NV	Vorstlaan 68 b9 B-1170 Watermaal-Bosvoorde	50	non-significant	31
Buildingnest NV	Vorstlaan 68 b9 B-1170 Watermaal-Bosvoorde	50	non-significant	31
Corfius Immo NV	Industrielaan 18 B-3730 Hoeselt	50	non-significant	31
DG INFRA + Bis SCS	Karel Oomsstraat 37 B-2018 Antwerpen	28.53	non-significant	10
DG INFRA + Ter SCS	Karel Oomsstraat 37 B-2018 Antwerpen	37.50	non-significant	10
Groene Poort Dreef NV	Westlaan 120 B-8800 Roeselare	50	non-significant	31
IDE Lux Finances SCRL	Drève de l'Arc-en-Ciel 98 B-6700 Arlon	36.87	non-significant	16
Imsol NV	Molenbergstraat 2 B-2000 Antwerpen	39.98	non-significant	31
Inforum G.I.E.	Rue d'Arlon 53 bte 4 B-1040 Bruxelles	50	non-significant	41
Justinvest NV	Heistraat 129 B-2610 Antwerpen	33.33	non-significant	32
Kuborn Real Estate NV	Avenue Maurice 8 B-1050 Bruxelles	20	non-significant	32
Leskoo SA	Avenue des Communautés 100 B-1200 Sint-Lambrechts-Woluwe	50	non-significant	31
NEB Foncière SA	Rue Louvrex 95 B-4000 Liège	20.49	non-significant	31
Newton Biocapital I Pricaf Privée de droit Belge SA	Avenue de Tervueren 273 B-1150 Woluwe-Saint-Pierre	24.4	non-significant	10
(Partners Through Innovation)2 SA	Place Charles Rogier 11 B-1210 Bruxelles	25.02	non-significant	34
Payconiq Belgium NV	Kempische Steenweg 303 b53 B-3500 Hasselt	33.33	non-significant	48
Rabot Invest NV	Heistraat 129 B-2610 Antwerpen	25	non-significant	32
R.E.D. Laboratories NV	Z1. Researchpark 100 B-1731 Zellik	22.20	non-significant	33
Re-Vive Brownfield Fund I CVBA	Kleemburg 1 bus 001 B-9050 Gent	24.97	non-significant	31
Société Mixte de Développement Immobilier SA	Avenue Maurice Destenay 13 B-4000 Liège	25.04	non-significant	32
Syneco Agence Conseil ASBL	Place l'Ilon 13 B-5000 Namur	20	non-significant	47
TDP SA	Karel Oomsstraat 37 B-2018 Antwerpen	50	non-significant	47
Wandelaar Invest SA	Rue du Vieux Marché aux Grains 63 B-1000 Bruxelles	25	non-significant	5

(1) Percentage of capital held by holding company

5. Belfius Bank Branches (not consolidated)

Name	Head office	% of capital held(1)	Business code
Belfius Antwerpen Berchem CVBA	Grote Steenweg 456 B-2600 Berchem	26	4
Belfius Antwerpen Zuidrand CVBA	Kioskplaats 49 B-2660 Hoboken	26	4
Belfius Ardenne - Spa - Pays de Herve SCRL	Place du Marché 22 B-4651 Battice	26	4
Belfius Ardenne et Famenne SCRL	Avenue de Bouillon 16 B-6800 Libramont-Chevigny	22.94	4
Belfius Auderghem-Boisfort SCRL	Boulevard du Souverain 282 B-1160 Bruxelles	26	4
Belfius Basilix SCRL	Boulevard de Smet de Nayer 2a B-1090 Bruxelles	26	4
Belfius Binche-Mariemont SCRL	Route de Mons 333 B-7130 Binche	26	4
Belfius Borinage SCRL	Rue J. Dufrane 3-5 B-7080 Frameries	26	4
Belfius Brugmann SCRL	Avenue Brugmann 247 B-1180 Bruxelles	22.29	4
Belfius Brugs Ommeland-Oudenburg CVBA	Dorpsstraat 8 B-8200 Brugge Sint-Michiels	26	4
Belfius Bruxelles-Anderlecht SCRL	Place Stéphanie 8 B-1050 Bruxelles	26	4
Belfius Centrum - West CVBA	Hendrik Consciencestraat 23 bus 6 B-8800 Roeselare	26	4
Belfius Charleroi Pont-à-Nôle SCRL	Avenue Paul Pastur 114 B-6032 Mont-sur-Marchienne	26	4
Belfius Charleroi-Sud SCRL	Boulevard Joseph Tirou 76-82 B-6000 Charleroi	26	4
Belfius Condroz-Famenne SCRL	Rue Saint-Eloi 1 B-5590 Ciney	25.58	4
Belfius Druivenstreek CVBA	Stationsplein 17 B-3090 Overijse	26	4
Belfius Durmevallei CVBA	Marktplein 3 B-9220 Hamme (O.-VL.)	26	4
Belfius Eeklo Gent-Oost CVBA	Grondwetlaan 9 B-9040 Sint-Amandsberg	25.16	4
Belfius Entre Sambre & Meuse SCRL	Rue de France 50-52 B-5600 Philippeville	25.37	4
Belfius Etterbeek SCRL	Rue des Champs 6 B-1040 Bruxelles	24.76	4
Belfius Fléron - Visé SCRL	Rue Saint Hadelin 1 B-4600 Visé	26	4
Belfius Gent-Centrum & Noord-west CVBA	Zonnestraat 23-25 B-9000 Gent	26	4
Belfius Geraardsbergen-Ninove CVBA	Oudenaardsestraat 4-6 B-9500 Geraardsbergen	26	4
Belfius Hageland Noord CVBA	Bogaardenstraat 26 B-3200 Aarschot	26	4
Belfius Hainaut Centre & Senne SCRL	Rue Albert 1er 23 B-7100 La Louvière	26	4
Belfius Hesbaye SCRL	Grand'Place 5 B-4280 Hannut	26	4
Belfius Kempen Noord CVBA	Gemeenteplaats 6 B-2960 Brecht	26	4
Belfius Kempen Oost CVBA	Markt 27 B-2400 Mol	26	4
Belfius Klein Brabant CVBA	Nieuwstraat 21 B-2830 Willebroek	26	4
Belfius Kortrijk - Menen - Ieper CVBA	Wijngaardstraat 52 B-8500 Kortrijk	26	4

(1) Percentage of capital held by holding company

Name	Head office	% of capital held(1)	Business code
Belfius Lambermont-Laeken SCRL	Avenue H. Conscience 182 B-1140 Evere	26	4
Belfius Leuven CVBA	Brusselsestraat 2 B-3000 Leuven	26	4
Belfius Liège Centre & Sud SCRL	Rue des Mineurs 12 B-4000 Liège	26	4
Belfius Liège Nord & Est SCRL	Chaussée de Tongres 391 B-4000 Liège	26	4
Belfius Louise SCRL	Place Stéphanie 8 B-1050 Bruxelles	24	4
Belfius Mandel-Leie CVBA	Holdestraat 19 B-8760 Meulebeke	26	4
Belfius Meuse-Ourthe-Amblève SCRL	Place Joseph Thiry 47 B-4920 Aywaille	26	4
Belfius Midden Limburg CVBA	Dorpsstraat 1A B-3530 Houthalen-Helchteren	26	4
Belfius Namur - Eghezée SCRL	Chaussée de Louvain 440 B-5004 Namur	26	4
Belfius Namur - Gembloux SCRL	Avenue Faculté d'Agronomie 12 B-5030 Gembloux	24.21	4
Belfius Namur Haute-Meuse SCRL	Rue de Marchovelette 1 B-5000 Namur	25.16	4
Belfius Netevallei CVBA	Grote Markt 13 B-2500 Lier	26	4
Belfius Nivelles-Tubize SCRL	Rue de Nivelles 30 B-1480 Tubize	26	4
Belfius Noord-Brabant CVBA	Kattestraat 2 B-1730 Asse	26	4
Belfius Noord-Limburg CVBA	Hertog Janplein 45 B-3920 Lommel	25.49	4
Belfius Nord Picardie SCRL	Rue de la Station 39 Boîte 41 B-7700 Mouscron	26	4
Belfius Pays de Mons SCRL	Avenue Jean d'Avesnes 9 B-7000 Mons	26	4
Belfius Regio Aalst CVBA	Stationsstraat 4 B-9300 Aalst	24.76	4
Belfius Regio Antwerpen Oost CVBA	André Hermanslaan 1 B-2100 Deurne	26	4
Belfius Regio Dendermonde-Buggenhout CVBA	Kerkstraat 64-66 B-9200 Dendermonde	26	4
Belfius Regio Erpe-Mere CVBA	Marktplein 36 B-9520 Sint-Lievens-Houtem	26	4
Belfius Regio Genk-Maaseik CVBA	Fruitmarkt 7 B-3600 Genk	26	4
Belfius Regio Hasselt CVBA	Havermarkt 36-38 B-3500 Hasselt	26	4
Belfius Regio Leie-Schipdonk CVBA	Volhardingslaan 72 (bus 1) B-9800 Deinze	26	4
Belfius Regio Mechelen CVBA	Grote Markt 31 B-2800 Mechelen	26	4
Belfius Regio Menen-Wevelgem CVBA	Kerkomtrek 16 B-8930 Menen	26	4
Belfius Regio Mortsel Kontich CVBA	Mechelsesteenweg 56 B-2640 Mortsel	26	4
Belfius Région Charleroi Airport SCRL	Place des Martyrs 2 B-6041 Gosselies	26	4
Belfius Région Huy-Andenne SCRL	Avenue du Bosquet 41 boîte 11 B-4500 Huy	26	4
Belfius Region Liège-Airport SCRL	Chaussée du Roi Albert 50 B-4431 Ans	26	4
Belfius Regio Noord-Antwerpen CVBA	Antwerpsesteenweg 49 B-2950 Kapellen	26	4

(1) Percentage of capital held by holding company

Name	Head office	% of capital held(1)	Business code
Belfius Regio Oostende-Knokke CVBA	Lippenslaan 74 B-8300 Knokke-Heist	26	4
Belfius Regio Sint-Niklaas CVBA	Hendrik Heymanplein 9 B-9100 Sint-Niklaas	26	4
Belfius Regio Turnhout-Hoogstraten CVBA	Vrijheid 109 B-2320 Hoogstraten	26	4
Belfius Regio Waregem-Kruishoutem CVBA	Markt 12 B-8790 Waregem	25.58	4
Belfius Regio Westhoek CVBA (in vereffening)	Grote Markt 31 B-8600 Diksmuide	26	4
Belfius Scheldeland CVBA	Kalkendorp 21 B-9270 Laarne	25.37	4
Belfius Sille & Dendre SCRL	Grand Place 72 B-7850 Enghien	26	4
Belfius Sud - Luxembourg SCRL	Rue d'Alba 1 B-6700 Arlon	26	4
Belfius Tienen - Sint-Truiden CVBA	Clockemstraat 38 B-3800 Sint-Truiden	26	4
Belfius Tournai-Val de Verne SCRL	Rue Royale 105/107/109 B-7500 Tournai	26	4
Belfius Uccle-Rhode SCRL	Chaussée de Waterloo 1356 B-1180 Uccle	26	4
Belfius Val de Sambre SCRL	Rue de Falisolle 401 B-5060 Sambreville	24	4
Belfius Val d'Haine et Haut-Pays SCRL	Rue Grande 49 B-7380 Quièvrain	26	4
Belfius Vallée de la Dyle SCRL	Place Alphonse Bosch 15 B-1300 Wavre	24.96	4
Belfius Vallée de la Woluwe SCRL	Place Dumon 22 B-1150 Bruxelles	26	4
Belfius Vilvoorde-Zaventem CVBA	Portaelsplein 68 B-1800 Vilvoorde	26	4
Belfius Vlaamse Ardennen CVBA	Nederstraat 17 B-9700 Oudenaarde	26	4
Belfius Waterloo SCRL	Chaussée de Bruxelles 306 B-1410 Waterloo	22.94	4
Belfius West - Brabant SCRL	Chaussée d'Alsemberg 1410 B-1620 Drogenbos	26	4
Belfius Westkust CVBA	Kerkstraat 58 B-8430 Middelkerke	26	4
Belfius Zennevallei CVBA	Basiliekstraat 13 B-1500 Halle	26	4
Belfius Zottegem-Zuidrand Gent CVBA	Heldenlaan 22 B-9620 Zottegem	26	4
Belfius Zuid-Oost-Limburg CVBA	Visésteenweg 204 (Bus 1) B-3770 Riemst	26	4

(1) Percentage of capital held by holding company

Business code	
1. Bank, credit institution	27. Captive reinsurance
2. Private savings bank	28. General insurance
3. Government credit institution	29. Financial product agency and broking
4. Banking agency	30. Insurance agency and broking
5. Leasing	31. Real estate (proprietary portfolio)
6. Home loans	32. Real estate agency (third party)
7. Development capital	33. Health and welfare
8. Consumer credits	34. Computer business / Information Technology
9. Other lending activities	35. Banking associations
10. Investment company	36. Other associations
11. Stock broking	37. Sewage, road cleaning and maintenance and waste management
12. Variable capital investment company	38. Recreation
13. Mutual funds	39. Telecommunications
14. Fund manager	40. Transportation
15. Factoring	41. Other services
16. Infrastructure and construction financing	42. Energy
17. Other specific financing	43. Economic development
18. Financial market administration	44. Water
19. Asset and portfolio management, financial advisory services	45. Book publishing and multimedia
20. Financial engineering, consultancy, financial research	46. Research and development
21. Other professional services in financial sector	47. Other service activities
22. Guarantee company	48. Production, management, distribution of computerized payment media
23. Trust company	49. Financing
24. Foreign currency exchange	50. Merchant banking
25. Life insurance	
26. Non-life insurance	

10.4. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

1. The nature, purpose, and activities of a structured entity

Belfius' involvement with unconsolidated structured entities is mainly from an investors perspective. The purpose of Belfius is to generate a stable interest margin from these investments.

Belfius has following types of exposures towards unconsolidated structured entities in its portfolio (mainly stemming from its former Side portfolio):

- Mortgage backed securities (MBS): these structured entities invest in residential and/or commercial mortgage loans which are financed through the issue of notes. Belfius has invested in the most senior tranches.
- Asset Backed Securities (ABS): these entities invest in loans, debt securities, leases and/or receivables which are financed through the issue of notes. Belfius has invested in the most senior tranches.
- Multi issuer covered bonds: these structured entities are set up by several banks, each participating for a certain percentage in the covered pool.
- Derivatives: Belfius has some derivatives with unconsolidated structured entities such as Credit Default Swaps, Total Return Swaps and Interest Rate Swaps.

We refer to note 12 "Securitisation".

2. Amounts concerned

(In thousands of EUR)	31/12/16 Carrying amount	31/12/16 Maximum credit risk exposure
FINANCIAL ASSETS	**1,703,171**	**1,732,501**
Financial assets held for trading	309,864	269,340
Financial assets measured at fair value through profit or loss	0	0
Financial assets available for sale	42,936	43,406
Derivatives hedge accounting	0	0
Loans and Receivables	1,079,925	1,149,309
Investments held to maturity	270,446	270,446
FINANCIAL LIABILITIES	**0**	**0**
Financial liabilities held for trading	0	0

(In thousands of EUR)	31/12/17 Carrying amount	31/12/17 Maximum credit risk exposure
FINANCIAL ASSETS	**1,243,905**	**1,244,427**
Financial assets held for trading	253,895	274,775
Financial assets measured at fair value through profit or loss	0	0
Financial assets available for sale	0	0
Derivatives hedge accounting	0	0
Loans and Receivables	754,267	733,909
Investments held to maturity	235,743	235,743
FINANCIAL LIABILITIES	**30,596**	**0**
Financial liabilities held for trading	30,596	0
Derivatives hedge accounting	**0**	
Financial liabilities at amortised cost	0	0
OFF-BALANCE SHEET ITEMS – GIVEN		
Loan commitments – given	0	0
Financial guarantees – given	0	0

The decrease of impairments on loans and advances to customers is mainly related to the sale of the remaining US RMBS bonds that are part of the former active tactical derisking program in the former Side portfolio (as from 1 January 2017 merged into Group Center). These bonds had been reclassified in the past from "Available for sale" to "Loans and advances".

XI. RELATED PARTIES TRANSACTIONS

The standard IAS 24 "Related Parties Disclosures" provides a partial exemption from the disclosure requirements for government-related entities. Consequently these related entities are not included in the table "Related parties transactions". The exposure of Belfius on for instance Belgian Government bonds can be found in the chapter "Risk Management" of the management report.

1. Related parties transactions

	Directors and key management personnel[1]		Subsidiaries[2]	
(In thousands of EUR)	31/12/16	31/12/17	31/12/16	31/12/17
Loans[3]	1,373	1,757	0	2,759
Interest income	39	30	0	11
Deposits and debt securities[3]	6,365	9,810	3,371	5,149
Interest expense	(5)	(5)	(1)	(0)
Net commission	0	0	107	(9)
Guarantees issued and commitments provided by the Group[4]	0	0	2,488	10
Guarantees and commitments received by the Group	3,795	4,265	0	0

	Associates		Joint ventures in which the entity is a venturer	
(In thousands of EUR)	31/12/16	31/12/17	31/12/16	31/12/17
Loans[3]	315,272	253,483	6,887	12,718
Interest income	10,132	6,596	79	155
Deposits and debt securities[3]	68,202	84,175	3,222	1,474
Interest expense	(151)	(41)	(2)	(0)
Net commission	15,375	132	35	330
Guarantees issued and commitments provided by the Group[4]	214,321	233,561	28,592	17,760
Guarantees and commitments received by the Group	70,540	69,379	14,538	38,665

(1) Key management includes the Board of Directors and the Management Board, as well as these persons's children and spouses or domestic partners and children of these persons's spouses or domestic partners.
(2) The amounts reported relate to transactions with subsidiaries that are not consolidated due to immateriality.
(3) Transactions with related parties are concluded at general market conditions.
(4) Unused lines granted.

No impairments were recorded on loans given to related parties.

2. Key management compensations[1]

(In thousands of EUR)	31/12/16	31/12/17
Short-term benefits[2]	3,637	4,275
Other long-term benefits	563	627

(1) Key management includes the Board of Directors and the Management Board.
(2) Short-term benefits include the salaries, bonuses and other advantages.

3. Dexia Real Estate Capital Markets

Dexia Real Estate Capital Markets (DRECM) was sold by Belfius in July 2010 to Dexia Holdings, Inc. (DHI). In June 2011, DRECM was sold by DHI to its parent, Dexia Crédit Local SA (DCL). In December 2016, DRECM assigned to DHI all of the assets, business and activities of DRECM, and DHI assumed all of DRECM's liabilities and obligations related thereto. Following such transfer, DRECM was liquidated into DCL with the DRECM legal entity being dissolved. DHI thus acts as the successor to DRECM.

Although DHI (as the successor to DRECM) is no longer a related party to Belfius, an overview of the remaining engagements of Belfius towards the former activities of DRECM is presented.

Note that no claims have been made up to the date of this report towards Belfius under these representations and warranties.

A. The purpose and context of the comfort letters

In the framework of three Commercial Real Estate Mortgage Loans securitisation operations in which DRECM was involved, DRECM entered into a Mortgage Loan Purchase Agreement as a seller of Commercial Mortgage Loans and into an Indemnification Agreement. In these agreements, DRECM gave certain representations and warranties in respect to some aspects of corporate standing and on some characteristics of the Commercial Mortgage Loans to certain CMBS trusts. Under the Mortgage Loan Purchase Agreement, a loan seller would be obligated under the reps and warranties to repurchase a loan if there was a material breach of the reps and warranties or a material document defect that can not be remedied, or cured, within a certain period of time (usually 90 days with extensions possible), so long as the repurchase demand was made in a timely manner. Given the fact that this was a kind of operational ongoing obligation of DRECM and DRECM was a non-rated entity, transaction participants and rating agencies required a larger first loss tranche (economically expensive for DRECM) or a counter guarantee from a rated entity. In this context Belfius Bank as a successor of Artesia Banking Corporation S.A. delivered the said comfort letters because the bank had a sufficient rating to reduce the requirement for credit enhancement.

B. The legal nature of the comfort letters

The first obligation to respect the terms of the Mortgage Loan Purchase Agreements and the Indemnification Agreements is the responsibility of DHI (as the successor to DRECM). It is only in case DHI (as the successor to DRECM) would not be performing that Belfius Bank promised to intervene with all means be it, human, technical or financial. The obligations of Belfius are obligations to perform or to pay. It is not a guarantee on first demand, nor an obligation to buy any non performing loan but a stand by back-up agreement for performance or payment. Although the shares of Belfius in DRECM were sold to DHI on 16 July 2010, these comfort letters are still in place. However, we believe that the risks for Belfius are extremely remote, seen no repurchase demands are outstanding, no previous transactions have led to any repurchases, and DHI (as a successor to DRECM) is sufficiently capitalized to meet its contractual obligations.

XII. SECURITISATION

Belfius currently has three traditional securitisation vehicles: Dexia Secured Funding Belgium, Penates Funding and Mercurius Funding. The total assets of these companies amount to EUR 9,008 million at 31 December 2017 compared to EUR 6,154 million at 31 December 2016. Atrium-2 was liquidated over the course of 2017.

According to the definition of control under IFRS 10, Dexia Secured Funding Belgium, Penates Funding and Mercurius Funding are included in the consolidated financial statements. Belfius has

→ full power over its securitisation vehicles,
→ exposure to their variable returns and
→ the ability to use its power to affect the amount of the returns.

Atrium-2 was a Belgian securitisation transaction of social housing loans pursuant to a long-term credit facility between Belfius and Domus Flandria NV (the borrower) and guaranteed by the Flemish Region. The guarantee of the Flemish Region was transferred to the SPV. The original size of the transaction was EUR 129.3 million. Two classes of fixed-rate notes were issued on 19 June 1997. While the Class A1 Notes had previously been redeemed in full, the Class A2 Notes were redeemed in full over the course of 2017.

Dexia Secured Funding Belgium (DSFB) is a Belgian securitisation vehicle (société d'investissement en créances (SIC) under Belgian law) with currently six compartments, one of which with activity, namely DSFB-2.

DSFB-2 (using the second ring-fenced compartment of DSFB) is a securitisation transaction of loans granted to Belgian entities (public and other). All the loans are 100% guaranteed by one of the three Belgian regions. This EUR 1,621 million transaction was launched on 28 April 2008. One tranche of floating rate notes, rated at closing AA/Aa1/AA+ by respectively S&P, Moody's and Fitch, was issued. Belfius has guaranteed the full and timely payment of principal and interest on the notes. As at 31 December 2017 EUR 960 million were still outstanding. The notes had a rating of A-sf/A1/A-sf at 31 December 2017. The DSFB-2 Notes are held by Belfius Bank and its subsidiary Belfius Ireland.

Penates Funding is a Belgian securitisation vehicle with currently ten compartments, two of which with activity, namely Penates-5 and Penates-6. Another compartment, namely Penates-4, became inactive over the course of 2017.

On 19 December 2011, Belfius closed a EUR 9,117 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-4, securitised Belgian residential mortgage loans originated by Belfius and issued four classes of notes: EUR 8,077.5 million Class A Mortgage-Backed Floating Rate Notes due 2045 (Fitch AAAsf/Moody's Aaasf/DBRS AAAsf); EUR 472.5 million Class B Mortgage-Backed Floating Rate Notes due 2045 (Fitch Asf/Moody's A3sf/DBRS Asf); EUR 450 million Class C Mortgage-Backed Floating Rate Notes due 2045 (unrated) and EUR 117 million Subordinated Class D Floating Rate Notes due 2045 (unrated). The notes were redeemed in full at the exercise of the Optional Redemption Call over the course of 2017.

On 16 November 2015, Belfius closed a EUR 1,030 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-5, securitised Belgian residential mortgage loans originated by Belfius Bank and issued EUR 350 million Class A1 Mortgage-Backed Floating Rate Notes due 2049 (Fitch AAAsf/Moody's Aaa(sf)); EUR 450 million Class A2 Mortgage-Backed Floating Rate Notes due 2049 (Fitch AAAsf/Moody's Aaa(sf)); EUR 200 million Class B Mortgage-Backed Floating Rate Notes due 2049 (unrated); EUR 30 million Class C Floating Rate Notes due 2049 (unrated). As at 31 December 2017, these ratings were unchanged from their initial rating. The outstanding amount of the Class A1 Notes was EUR 11 million, while the outstanding amounts of the other classes of notes were still at their initial amount. Hence there was EUR 691 million outstanding under Penates-5 at 31 December 2017. The Class A1 Notes and Class A2 Notes are held by institutional investors. The Class B Notes and Class C Notes are held by Belfius Bank.

On 15 May 2017, Belfius closed a EUR 6,030 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-6, securitised Belgian residential mortgage loans originated by Belfius Bank and issued EUR 2,490 million Class A1 Mortgage-Backed Floating Rate Notes due 2051 (DBRS AAAsf/Moody's Aaa(sf)); EUR 2,490 million Class A2 Mortgage-Backed Floating Rate Notes due 2051 (DBRS AAAsf/Moody's Aaa(sf)); EUR 1,020 million Class B Mortgage-Backed Floating Rate Notes due 2051 (unrated); EUR 30 million Class C Floating Rate Notes due 2051 (unrated). As at 31 December 2017, these ratings were unchanged from their initial rating. The outstanding amount of the Class A1 Notes was EUR 2,121 million, while the outstanding amounts of the other classes of notes were still at their initial amount. Hence there was EUR 5,661 million outstanding under Penates-6 at 31 December 2017. The transaction is held by Belfius Bank and its subsidiary Belfius Insurance Invest. The Penates -6 senior notes can be used as collateral in agreements with the European Central Bank or other counterparties.

Mercurius Funding is a Belgian securitisation vehicle with currently six compartments. It was established in 2012. One compartment, Mercurius-1, had outstanding notes at the end of 2017.

On 7 May 2012, Belfius closed a EUR 4,124 million SME (Small & Medium Enterprises) CLO securitisation transaction. The SPV, Mercurius Funding acting through its compartment Mercurius-1, securitised Belgian SME loans originated by Belfius and issued two classes of notes: EUR 3,200 million Class A SME Loan-Backed Fixed Rate Notes due 2035; EUR 924 million Class B SME Loan-Backed Fixed Rate Notes due 2037.

On 12 May 2014, the Mercurius-1 issued new notes: EUR 3,200 million Class A SME Loan-Backed Fixed Rate Notes due 2035 (Fitch A+ (sf)/Moody's A1(sf)/DBRS A(high)(sf)); EUR 924 million Class B SME Loan-Backed Fixed Rate Notes due 2037 (not rated). The proceeds were used to purchase an additional portfolio of SME loans and to redeem the old notes.

At the end of 2017, the ratings on the Class A Notes were AA(sf) at DBRS, A+(sf) at Fitch and Aaa(sf) at Moody's. The balance of the Class A Notes decreased to EUR 940 million. The outstanding amounts for the Class B Notes were still at their initial amount. Hence there was EUR 1,864 million outstanding under Mercurius-1 at 31 December 2017.

The Mercurius transaction is held by Belfius Bank and its subsidiary Belfius Ireland. The notes can be used as collateral in agreements with the European Central Bank or other counterparties.

BELFIUS BANK NV
STATUTORY AUDITOR'S REPORT TO THE SHAREHOLDERS' MEETING OF BELFIUS BANK SA FOR THE YEAR ENDED 31 DECEMBER 2017 (CONSOLIDATED FINANCIAL STATEMENTS)

In the context of the statutory audit of the consolidated financial statements of Belfius Bank SA ("the company") and its subsidiaries (jointly "the group"), we hereby submit our statutory audit report to you. This report includes our report on the consolidated financial statements together with our report on other legal, regulatory and professional requirements. These reports are one and indivisible.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 26 April 2017, in accordance with the proposal of the board of directors issued upon recommendation of the audit committee and presentation of the works council. Our mandate will expire on the date of the shareholders' meeting deliberating on the financial statements for the year ending 31 December 2019. Due to a lack of online archives dating back prior to 1997, we have not been able to determine exactly the first year of our appointment. We have performed the statutory audit of the consolidated financial statements of Belfius Bank SA for more than 21 consecutive periods.

Report on the audit of the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of 167 959 201 (000) EUR and the consolidated statement of income shows a consolidated net profit (group share) for the year then ended of 605 502 (000) EUR.

In our opinion, the consolidated financial statements of Belfius Bank SA give a true and fair view of the group's net equity and financial position as of 31 December 2017 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS
Impairments on loans and advances to customers The portfolio of loans and advances to customers of Belfius Bank amounts to 90 056 926 (000) EUR at 31 December 2017, of which a stock of 1 462 530 (000) EUR is related to specific (1 152 862 (000) EUR) and collective (309 668 (000) EUR) impairments booked on these loans and advances to customers. The methodology for the determination of the scope of loans and advances to customers identified for impairment and the assumptions for the measurement of impairments contain subjective elements and require judgment from management, such as timing of recognition and estimation of recoverable amounts. Changes in assumptions and methodology applied may have a major impact on the scope of impaired loans and advances to customers and on the measurement of impairments. Given the significance of impairments on loans and advances and the related estimation uncertainty, we consider the determination and valuation of impairments on loans and advances to customers as a key audit matter. Impairments on loans and advances consist of: → specific impairments for loans and advances to customers that are specifically identified as individually impaired; → collective impairments for loans and advances to customers that cover losses "incurred but not yet reported" on segments (portfolios) where there is objective evidence of losses. Please refer to note III accounting policies where in section 6.6. the accounting policies with respect to impairments are described, as well as note 5.4 concerning details on loans and advances to customers.	Our audit approach included testing both the design and implementation of internal controls for determining impairments on loans and advances to customers as well as substantive audit procedures. The internal controls were tested as follows: → obtaining audit evidence in respect of key controls, showing the review and approval process that management has in place for impairment events identification, as well as management judgments; → challenging the completeness and accuracy of data included in credit impairment models; → challenging the methodologies and assumptions applied for determining impairments by using our industry knowledge and experience, focusing on potential changes since last year. The substantive testing procedures can be summarized as follows: → reading the minutes of Risk Committees and Default Committees; → obtaining audit evidence of management judgments, especially focusing on the reasonableness of the approach; → testing a sample size of loans and advances to customers to ensure timely identification of impairment and for impaired loans and advances to customers to ensure appropriate impairment charge • for impairments determined on an individual basis, we have performed, for a sample basis, detailed credit file reviews thereby challenging the assumptions taken in the context of the impairment. • for impairments calculated on a collective basis, we assessed the model used and tested the completeness and the accuracy of the input parameters.
Estimation uncertainty with respect to provision for litigations The bank is involved in a number of litigations arising the ordinary course of its business activities. The recognition and measurement of provisions and the disclosure of contingent liabilities with respect to litigations require significant judgment by management. We have identified the following litigations as material: → Arco – Cooperative Shareholders cases → BBTK / ACLVB → Ethias Due to the significance of the uncertainties on the output of these claims and the judgements applied, auditing the adequacy of provision and disclosures on the litigations is considered a key audit matter. Please refer to note III accounting policies where in section 19 the accounting policies for provisions and contingent liabilities are described, as well as note 6.6 where the main litigations are disclosed in subsection 3.B.	We assess the design and implementation of key controls over financial reporting with respect to provisions for litigations and the disclosures of contingent liabilities. Key controls include amongst others controls over the assessment of the material litigations, their and valuation if necessary. We evaluate the bank's assessment of the nature and status of litigations and contingent liabilities. We consider the legal advice received by the bank from in-house counsel as well as independent external legal counsel when relevant for certain of the more material litigations. For the material litigations, we obtain external confirmation directly from the bank's independent external legal counsel. We examine the bank's analysis and conclusions with respect to provisions and disclosures for material litigations by corrobative inquiry of management, and consider the confirmation by independent external legal counsel. Finally, we assess the completeness and accuracy of the disclosures on provisions and contingent liabilities. We also assess whether the disclosures are in compliance with the requirements included in the International Financial Reporting Standards as adopted by the European Union (IAS 37).

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS

Fair Value measurement of Level 2 and Level 3 financial instruments with higher risk characteristics

Financial instruments defined as Level 2 and Level 3 within the bank's IFRS 13 fair value hierarchy disclosure present a higher exposure to the risk of incorrect valuation.

Fair value measurement of the following Level 2 and Level 3 financial instruments are considered as a key audit matter in our audit procedures:

- derivatives for 19 334 196 (000) EUR Level 2 and 966 871 (000) EUR Level 3 recognized on the asset side and 20 450 312 (000) EUR Level 2 and 813 367 (000) EUR Level 3 recognized on liability side;
- financial assets classified under available for sales for 322 701 (000) EUR Level 2 and 1 334 370 (000) EUR Level 3;
- financial assets designated at fair value through profit and loss for 72 723 (000) EUR Level 2 and 154 657 (000) EUR Level 3;
- financial liabilities measured at fair value through profit or loss for 2 944 937 (000) EUR Level 2 and 3 325 724 (000) EUR Level 3.

Valuation of complex financial instruments requires important efforts from the bank in terms of resources and governance. Our assessment is driven by multiple factors, including:

- the complexity of valuation models;
- the lack of adequacy of available market data for the purpose of valuing specific financial instruments;
- the necessity to use non-observable market data; and
- the high degree of judgement required.

The use of different valuation techniques and/or assumptions could produce significantly different fair values. Those factors concern amongst others the following components:

- the use of models for the valuation of complex Level 2 and Level 3 financial instruments;
- the fair value adjustments made to derivatives to reflect the counterparty credit risk (CVA/DVA) and funding risk (FVA);
- the necessity of using derived and/or illiquid pricing parameters as input for valuations of Level 2 and Level 3 financial instruments.

Please refer to note III accounting policies where in section 2.4.7 the accounting policies are described with respect to the fair value of financial instruments, as well as note 9.1 where in subsection 2 details are provided on the level classification of financial instruments.

Our audit procedures include, getting an insight in the group and its environment, including the internal control and governance that are relevant for the valuation of financial instruments, as well as the testing of parameters, valuation model setup and disclosures.

The assessment and control of valuation models involve an extensive participation of our valuation experts.

Our internal control testing procedures includes

- performing trade life-cycle product walkthrough to confirm our understanding of the bank's processes and controls in the area of concluding and recording financial instrument transactions;
- getting an understanding of the control framework (including monitoring procedures) with regard to the valuation process of financial instruments;
- follow-up the proper and timely documentation of models and parameter choices and the formal approval thereof by competent committees;
- reading of model validation reports from the independent validation function.

Our substantive testing includes:

- the assessment of market parameters and key assumptions used in the models on a sample basis;
- assessment whether valuation methodologies are based on market practices, on experts' experience, market knowledge and are in line with IFRS 13;
- identification of high judgmental areas by assessment of management impact analysis and notes of valuation specialists;
- independent revaluation of financial instruments on a sample basis by our valuation experts;
- reading of the disclosures in the financial statements on valuation to ensure compliance with IFRS requirements.

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS
IT Continuity and Integrity Given the fact that the IT infrastructure is essential for the continuity and integrity of the operational activities of the group and for the financial and prudential reporting processes, we consider IT continuity and integrity a key audit matter. This assessment is based on → the multiplicity of IT applications; → the very high volume of transactions; → the fact that multiple applications are developed or tailored in house; → the fact that qualitative information recorded at transaction level by the business is essential to the preparation of the financial statements and to the preparation of prudential reportings (i.e. nature of transactions, nature of counterparties, rating, etc.); → the fact that outsourcing is an important element of the IT infrastructure.	Our control procedures involve the participation of IT audit experts. Our controls procedures include amongst others: → an assessment of the internal control procedures relating to General IT Controls applicable to IT components or applications considered as key in the financial reporting process; → an assessment of the procedures related to additional internal controls performed by finance, business, and IT departments in respect of the integrity and quality of data and the interface between operational application systems and financial reporting systems.
Adequacy of the technical provisions for life insurance (including shadow accounting) The provisions for Life insurance contracts amount to 13 633 107 (000) EUR per 31 December 2017. The Liability Adequacy Test (LAT) as well as the applied shadow accounting are based on complex (model) calculations. Therefore, several economic and non-economic assumptions over future events that are not certain are taken into account. Moreover, these assumptions are partly based on the judgement of management. Moreover, the complexity of the model (calculation) can be subject to errors because of inadequate data quality or not complete data, or because the internal control processes are inadequate. In application of the valuation rules, the group applies shadow accounting, whereby non-realized investment result from Other Comprehensive Income (partially) is transferred to the insurance technical provisions. This accounting treatment is applied when the realization of unrealized gains recorded in Other Comprehensive Income related to financial instruments available for sale directly impact the valuation of the technical insurance provisions. As per 31 December 2017 the shadow accounting correction amounts to 626 735 (000) EUR. Taking into account the importance of this balance sheet item as well as the impact on IFRS equity resulting from shadow accounting, we consider the adequacy of the provisions for life insurance (including shadow accounting) as a key audit matter.	Our audit procedures include, getting an insight in the group and its environment, including the internal control and governance that are relevant for the valuation of the technical provisions for life insurance, as well as the substantive testing of a.o. parameters, actuarial model setup and appropriate disclosures to the consolidated financial statements. We have involved our actuarial specialists in carrying out these audit procedures. Our audit procedures related to internal controls, consists of, among others: → the assessment of the design and implementation of the relevant internal control measures (among others related to data quality); → reading and assessing the documentation related to the choices of models and parameters, as well as the formal validation thereof by the competent committees; → reading of the reports of the independent control functions (Risk Management and Actuarial Function). Our substantive audit procedures consist of, among others: → an assessment of the suitability of the used assumptions and methodologies; → reading of minutes of the competent committees; → verification of the movement analysis prepared by the group, in order to assess the reasonableness of the evolutions during the year;

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS
Please refer to note III accounting policies where in section 9.2. the accounting policies are described with respect to technical insurance provisions (including shadow accounting), as well as note 6.5 Technical provisions of insurance companies.	→ verification of the projected cash flows included in the adequacy test to assess the reasonableness; → recalculation on a sample basis of elements included in the adequacy test; → reconciliation on a sample basis of input data that are used for calculations with accounting information; → verification of input data used for the calculation with accounting data; → verification of basis data that are used for the valuation of the technical provisions; → verification of the disclosures included in the consolidated financial statements related to insurance contracts.
Note on the capital position based on Solvency II regulation As from 1 January 2016, the Solvency II provisions are applicable for (re)insurers. The introduction of this regulation has a significant impact, amongst others due to the complexity of the calculation of the required capital and the focus that is put on the business wide risk management. Belfius Insurance is calculating the required capital based upon the Standard formula as included in the Solvency II regulation. As of 31 December 2017, the consolidated Solvency II ratio of Belfius Insurance amounts to 219% (after expected dividend distribution). The ratio is calculated by dividing Belfius Insurance consolidated market value balance sheet by the required capital (Solvency Capital Requirement or SCR). Both the Solvency II consolidated market value balance sheet as well as the SCR are based on complex calculations that make use of important assumptions that can significantly impact the solvency II ratio. The quality of the data used in these calculations is of great importance. The governance process linked to data quality has to be designed adequately to guarantee the completeness, the accuracy and the adequacy of the used data. Moreover, the use of model calculations can give rise to certain uncertainties that may impact the Solvency II ratio. We refer to the section Capital Management of the Management Report for Belfius Insurance Solvency II ratio.	Our audit procedures are designed to identify material deficiencies related to the calculation of the Solvency II ratio. Our audit procedures consist of getting an insight in the insurance entity and its environment, including the relevant internal control procedures and governance for the solvency ratio calculation. We have involved our actuarial specialists in performing our audit work. With respect to internal control, we have performed, amongst others, the following procedures: → an assessment of the design and implementation of the relevant internal control processes for the calculation of the Solvency II ratio (a.o. concerning data quality); → reading and assessing the documentation related to the choices of models and parameters, as well as the formal validation by the competent committees; → reading of the reports of the independent control functions (Risk Management and Actuarial Function). Our substantive audit procedures consist of, among others: → an assessment of the reasonableness of the used assumptions; → verification of completeness and accuracy of the changes made in the transition from the IFRS balance sheet to the Solvency II market value balance sheet. Our procedures consists among others of: • an assessment of the parameters and models used to determine the cash flows that are used in the calculation of the valuation of the technical provisions, • verification of the accuracy and completeness of the input data that are used for the calculation of the SCR, • verification of the calculations of the required capital per risk component, in line with the standard formula of the Solvency II regulation; → verification of the movement analysis prepared by the group, in order to assess the reasonableness of the evolutions during the year, with respect to the solvency ratio, the capital requirement per risk component and the market value balance sheet.

Responsibilities of the board of directors for the consolidated financial statements

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

In preparing the consolidated financial statements the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- → identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- → obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- → evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
- → conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- → evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- → obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes any public disclosure about the matter.

Report on other legal, regulatory and professional requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report[1] on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (Revised in 2018) to the International Standards on Auditing (ISA), our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements and other matters disclosed in this report

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for the period ended 31 December 2017 and it has been established in accordance with the requirements of article 119 of the Companies Code.

In the context of our statutory audit of the consolidated financial statements we are responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements and other information disclosed in the directors' report on the consolidated financial statements, i.e. the sections:

→ Belfius profile;
→ Belfius' mission and ambition;
→ other information (Alternative Performance Measures, GRI, Abbreviations and Additional Information);

are free of material misstatements, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such a material misstatement. We do not express any kind of assurance on the annual report.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in the the directors' report on the consolidated financial statements (section Management Report – Corporate Social Responsibility (CSR)) that is part of the annual report. This non-financial information has been established by the company in accordance with the GRI standards. We do however not express any opinion on the question whether this non-financial information has been established, in all material respects, in accordance with these GRI standards. Furthermore, we do not express any form of assurance conclusion on individual elements that have been disclosed in this non-financial information.

(1) The director's report prepared in accordance with article 119 of the Companies Code is named "Management Report" in the Annual Report of Belfius Bank SA.

Statements regarding independence

- Our audit firm and our network have not performed any prohibited services and our audit firm has remained independent from the company during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit of the consolidated financial statements, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

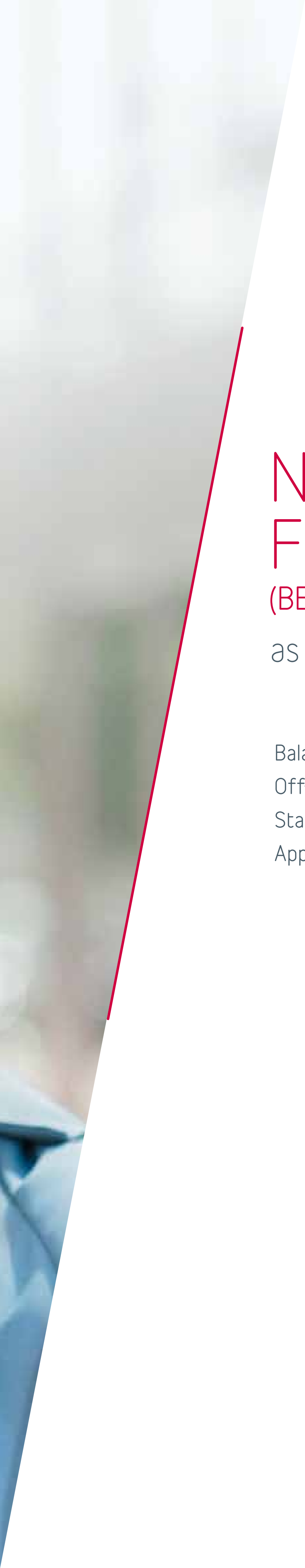
This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Zaventem, 4 April 2018

The statatutory auditor

DELOITTE Bedrijfsrevisoren / Réviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by

Bernard De Meulemeester | Bart Dewael



NON-CONSOLIDATED FINANCIAL STATEMENTS
(BE GAAP)

as at 31 December 2017

BALANCE SHEET (AFTER APPROPRIATION)

Assets (In thousands of EUR)		31/12/16	31/12/17
I.	Cash in hand, balances with central banks and post office banks	4,111,307	9,436,631
II.	Treasury bills eligible for refinancing with central banks	2,508	2,003
III.	Loans and advances to credit institutions	22,448,946	14,473,372
	A. Repayable on demand	15,864,629	11,904,697
	B. Other loans and adv. (with agreed maturity dates)	6,584,317	2,568,675
IV.	Loans and advances to customers	76,745,104	75,535,580
V.	Debt securities and other fixed-income securities	18,000,282	19,530,570
	A. Issued by public bodies	7,115,813	6,687,017
	B. Issued by other borrowers	10,884,469	12,843,553
VI.	Shares and other variable-yield securities	132,389	102,014
VII.	Financial fixed assets	2,637,614	2,751,641
	A. Participating interests in affiliated enterprises	1,992,837	2,087,606
	B. Participating interests in other enterprises linked by participating interests	94,972	91,318
	C. Other shares held as financial fixed assets	29,805	52,717
	D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests	520,000	520,000
VIII.	Formation expenses and intangible fixed assets	93,521	122,067
IX.	Tangible fixed assets	549,533	571,075
X.	Own shares	0	0
XI.	Other assets	3,439,976	2,722,427
XII.	Deferred charges and accrued income	21,763,247	18,558,627
TOTAL ASSETS		149,924,427	143,806,007

Liabilities (In thousands of EUR)		31/12/16	31/12/17
I.	Amounts owed to credit institutions	12,371,461	10,994,944
	A. Repayable on demand	7,084,588	5,377,884
	B. Amounts owed as a result of the rediscounting of trade bills	0	0
	C. Other debts with agreed maturity dates or periods of notice	5,286,873	5,617,060
II.	Amounts owed to customers	75,697,683	77,721,502
	A. Savings deposits	34,886,903	35,936,622
	B. Other debts	40,810,780	41,784,880
	1. Repayable on demand	24,854,112	26,148,888
	2. With agreed maturity dates or periods of notice	15,956,668	15,635,992
	3. As a result of the rediscounting of trade bills	0	0
III.	Debts evidenced by certificates	28,662,637	27,846,175
	A. Debt securities and other fixed-income securities in circul.	23,263,553	22,690,260
	B. Other	5,399,084	5,155,915
IV.	Other liabilities	4,083,576	3,424,603
V.	Accrued charges and deferred income	19,562,203	13,890,810
VI.	A. Provisions for liabilities and charges	160,032	173,794
	1. Pensions and similar obligations	254	240
	2. Taxation	21,334	32,415
	3. Other liabilities and charges	138,444	141,139
	B. Deferred taxes	0	0
VII.	Fund for general banking risks	988,737	988,737
VIII.	Subordinated liabilities	1,203,980	1,183,178
CAPITAL AND RESERVES		7,194,118	7,582,264
IX.	Capital	3,458,066	3,458,066
	A. Subscribed capital	3,458,066	3,458,066
	B. Uncalled capital (-)	0	0
X.	Share premium account	209,232	209,232
XI.	Revaluation surpluses	217	215
XII.	Reserves	3,526,603	3,914,751
	A. Legal reserve	345,807	345,807
	B. Reserves not available for distribution	2,344	2,344
	1. In respect of own shares held	0	0
	2. Other	2,344	2,344
	C. Untaxed reserves	26,167	26,167
	D. Reserves available for distribution	3,152,285	3,540,433
XIII.	Profits (losses (-)) brought forward	0	0
TOTAL LIABILITIES		149,924,427	143,806,007

OFF-BALANCE SHEET

(In thousands of EUR)		31/12/16	31/12/17
I.	Contingent liabilities	16,897,877	15,867,878
	A. Non-negotiated acceptances	138,447	80,418
	B. Guarantees serving as direct credit substitutes	15,198,507	14,074,189
	C. Other guarantees	1,401,339	1,575,934
	D. Documentary credits	159,584	137,337
	E. Assets charged as collateral security on behalf of third parties	0	0
II.	Commitments which could give rise to a risk	25,323,219	25,830,215
	A. Firm credit commitments	478,605	327,327
	B. Commitments as a result of spot purchases of transferable or other securities	507,205	321,911
	C. Undrown margin on confirmed credit lines	24,337,409	25,180,977
	D. Underwriting and placing commitments	0	0
	E. Commitments as a result of open-ended sale and repurchase agreements	0	0
III.	Assets lodged with the credit institution	106,401,859	109,622,459
	A. Assets held by the credit institution for fiduciary purposes	0	0
	B. Safe custody and equivalent items	106,401,859	109,622,459
IV.	Uncalled amounts of share capital	10,057	17,023

STATEMENT OF INCOME (PRESENTATION IN LIST FORM)

(In thousands of EUR)		31/12/16	31/12/17
I.	Interest receivable and similar income	2,605,765	2,448,428
	of which: from fixed-income securities	*615,441*	*476,292*
II.	Interest payable and similar charges (-)	(1,297,536)	(1,141,959)
III.	Income from variable-yield securities	170,186	162,048
	A. From shares and other variable-yield securities	10,387	7,491
	B. From participating interests in affiliated enterprises	145,073	148,538
	C. From participating interests in other enterprises linked by participating interests	13,794	2,951
	D. From other shares held as financial fixed assets	932	3,068
IV.	Commissions receivable	611,655	633,828
	A. Brokerage and commissions	0	0
	B. Allowances for services of administration, advice and custody	0	0
	C. Other commissions receivable	611,655	633,828
V.	Commissions payable (-)	(410,410)	(413,400)
VI.	Profit (loss (-)) on financial transactions	61,501	78,712
	A. On trading of securities and other financial instruments	(100,013)	135
	B. On disposal of investment securities	161,514	78,577
VII.	General administrative expenses (-)	(932,189)	(942,457)
	A. Remuneration, social security costs and pensions	(497,112)	(485,189)
	B. Other administrative expenses	(435,077)	(457,268)
VIII.	Depreciation/Amortization of and other write-downs on (-) formation expenses, intangible and tangible fixed assets	(65,730)	(75,010)
IX.	Decrease/Increase (-) in write-downs on receivables and in provisions for off balance sheet items "I. Contingent liabilities" and "II. Commitments which could give rise to a risk"	(89,625)	(91,733)
X.	Decrease/Increase (-) in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(71,335)	72,678
XI.	Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet items "I. Contingent liabilities" and "II. Commitments which could give rise to a risk"	59,814	43,157
XII.	Provisions for liabilities and charges other than those included in the off balance sheet items "I. Contingent liabilities" and "II. Commitments which could give rise to a risk"	(21,904)	(48,935)
XIII.	Transfer from (Transfer to) the fund for general banking risks	0	0
XIV.	Other operating income	155,045	235,846
XV.	Other operating charges	(183,501)	(188,025)
XVI.	Profits (Losses (-)) on ordinary activities before taxes	591,736	773,178
XVII.	Extraordinary income	15,461	71,536
	A. Adjustments to depreciation/amortization of and to other write-downs on intangible and tangible fixed assets	0	44,537
	B. Adjustments to write-downs on financial fixed assets	3,421	4,001
	C. Adjustments to provisions for extraordinary liabilities and charges	0	0
	D. Gain on disposal of fixed assets	12,040	22,998
	E. Other extraordinary income	0	0
XVIII.	Extraordinary charges (-)	(5,781)	(8,152)
	A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets	(483)	(3,985)
	B. Write-downs on financial fixed assets	(3,898)	(2,862)
	C. Provisions for extraordinary liabilities and charges	0	0
	D. Loss on disposal of fixed assets	(1,307)	(1,242)
	E. Other extraordinary charges	(93)	(63)
XIX.	Profits (Losses (-)) for the period before taxes	601,416	836,562
XIX*bis*.	A. Transfer to deferred taxes (-)	0	0
	B. Transfer from deferred taxes	0	0
XX.	Income taxes	(10,142)	(85,417)
	A. Income taxes (-)	(11,869)	(87,747)
	B. Adjustement of income taxes and write-back of tax provisions	1,727	2,330
XXI.	Profits (Losses (-)) for the period	591,274	751,145
XXII.	Transfer to untaxed reserves (-)	0	0
	Transfer from untaxed reserves	0	0
XXIII.	Profit (Losses (-)) for the period available for approbation	591,274	751,145

APPROBATION ACCOUNT

(In thousands of EUR)		31/12/16	31/12/17
A.	Profits (Losses (-)) to be appropriated	591,274	751,145
	1. Profits (Losses (-)) for the period available for approbation	591,274	751,145
	2. Profits (Losses (-)) brought forward	0	0
B.	Transfers from capital and reserves	0	0
	1. From capital and share premium account	0	0
	2. From reserves	0	0
C.	Appropriations to capital and reserves	376,274	388,145
	1. To capital and share premium account	0	0
	2. To legal reserve	0	0
	3. To other reserves	376,274	388,145
D.	Result to be carried forward	0	0
	1. Profits to be carried forward (-)	0	0
	2. Losses to be carried forward	0	0
E.	Shareholders' contribution in respect of losses	0	0
F.	Distribution of profits (-)	215,000	363,000
	1. Dividends(1)	215,000	363,000
	2. Director's entitlements(1)	0	0
	3. Other allocations(1)	0	0

(1) Only applicable to Belgian limited liability companies

BELFIUS BANK NV
STATUTORY AUDITOR'S REPORT TO THE SHAREHOLDERS' MEETING ON THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

We refer to the annual report published in Dutch or French.

ALTERNATIVE PERFORMANCE MEASURES – APM(*)

COMMON EQUITY TIER 1 RATIO

The CET 1 ratio presents the ratio between the CET 1 capital and the total regulatory risk exposures.

Calculation (%)	Reference	2016	2017
Phased In(1)	Management report/ Capital Management	16.6%	16.1%
Fully Loaded(2)	Management report/ Capital Management	16.1%	15.9%

(1) Phased In ratios are with application of transitory measures on numerator and denominator, in line with CRR/CRD IV regulations.
(2) Fully Loaded ratios are without application of any transitory measures.

TIER 1 RATIO

The Tier 1 ratio presents the ratio between the Tier 1 capital and the total regulatory risk exposures.

Calculation (%)	Reference	2016	2017
Phased In(1)	Management report/ Capital Management	16.6%	16.1%
Fully Loaded(1)	Management report/ Capital Management	16.1%	15.9%

(1) Phased In and Fully Loaded definition see Common Equity Tier 1 Ratio above.

TOTAL CAPITAL RATIO

The total capital ratio presents the ratio between the total regulatory own funds and the total regulatory risk exposures.

Calculation (%)	Reference	2016	2017
Phased In(1)	Management report/ Capital Management	19.4%	18.6%
Fully Loaded(1)	Management report/ Capital Management	18.4%	18.1%

(1) Phased In and Fully Loaded definition see Common Equity Tier 1 Ratio above.

DANISH COMPROMISE

The regulator has authorised Belfius to apply article 49 of the CRR IV for the calculation of the capital ratio's and hence to include the capital instruments of Belfius Insurance subscribed by Belfius Bank in the total regulatory risk exposure by applying a weighting of 370% (the so-called "Danish Compromise").

(*) On a regular basis the APM's will be updated on the website.

SOLVENCY II RATIO (INSURANCE)

The Solvency II ratio is calculated as the amount of regulatory own funds (AFR) as a percentage of the solvency capital requirement (SCR).

Calculation (%)	**Reference**	**2016**	**2017**
Solvency II ratio (after dividend)	Management report/ Capital Management	207%	219%

LEVERAGE RATIO

The leverage ratio is defined as the Tier 1 capital (the numerator) divided by the exposure measure (the denominator), i.e. balance sheet assets after certain restatements of derivatives, securities financing transactions, off-balance-sheet items and prudential adjustments deducted from the numerator.

Calculation (%)	**Reference**	**2016**	**2017**
Phased In	Management report/ Capital Management	5.4%	5.6%
Fully Loaded	Management report/ Capital Management	5.3%	5.5%

COST-INCOME RATIO

Gives an impression of the relative cost efficiency (expenses relative to income)

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2017**
Expenses (A)	Consolidated Income Statement	1,366	1,369
Income (B)	Consolidated Income Statement	2,259	2,355
COST-INCOME RATIO (=A/B)		**60.5%**	**58,1%**

The Cost-Income ratio is also calculated for each segment according to a similar definition.

ASSET QUALITY RATIO

The ratio between impaired loans and advances to customers and the gross outstanding loans and advances to customers.

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2017**
Impaired outstanding (A)	Note 5.4. Loans and advances to customers	2,320	1,822
Gross outstanding (B)	Note 5.4. Loans and advances to customers	91,292	91,520
ASSET QUALITY RATIO (=A/B)		**2.54%**	**1.99%**

COVERAGE RATIO

The ratio between the specific impairments and impaired loans and advances to customers.

Calculation (in millions of EUR or %)	Reference	2016	2017
Specific impairment (A)	Note 5.4 Loans and advances to customers	1,262	1,153
Impaired outstanding (B)	Note 5.4 Loans and advances to customers	2,320	1,822
COVERAGE RATIO (=A/B)		**54.4%**	**63.3%**

LIQUIDITY COVERAGE RATIO (LCR)

The Liquidity Coverage Ratio forces financial institutions to maintain a sufficient stock of quality liquid assets to withstand a crisis that puts their cash flows under pressure. The assets to hold must equal to or greater than their net cash outflow over a 30-day period under stress (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III.

Calculation (in millions of EUR or %)	Reference	2016	2017
Stock of quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	18,742	19,856
Net cash outflow over a 30-day period (B)	Based on the European Commission's Delegated Act on LCR	14,751	15,290
LCR (=A/B)		**127%**	**130%**

NET STABLE FUNDING RATIO (NSFR)

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding, and is based on Belfius' interpretation of the current Basel Committee guidelines, which may change in the future. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance-sheet (OBS) exposures.

Calculation (in millions of EUR or %)	2016	2017
Amount of available stable funding (A)	94,792	97,222
Amount of required stable funding (B)	86,362	83,470
NSFR (=A/B)	**110%**	**116%**

RETURN ON EQUITY (ROE)

Return on equity (ROE) is an indication of how profitable a company is relative to its equity. The return on equity is calculated as the annualized net income as a percentage of the average shareholders equity minus the dividend, not yet paid (based on N and N-1 figures).

Calculation (in millions of EUR or %)	Reference	2016	2017
Net income group share (A)	Consolidated Income Statement	535	606
Average core shareholders' equity (B)	Consolidated Balance Sheet	8,394	8,675
RETURN ON EQUITY (=A/B)		**6.4%**	**7.0%**

RETURN ON ASSETS (ROA)

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. The return on assets is calculated as the annualized net income as a percentage of the average total assets (based on N and N-1 figures).

Calculation (in millions of EUR or %)	Reference	2016	2017
Net income group share (A)	Consolidated Income Statement	535	606
Average total assets (B)	Consolidated Balance Sheet	176,842	172,340
RETURN ON ASSETS (=A/B)		**0.30%**	**0.35%**

RETURN ON NORMATIVE REGULATORY EQUITY (RoNRE)

Return on Normative Regulatory Equity (RoNRE) for a segment is calculated by Belfius as the annualized net income as a percentage of the average Normative Regulatory Equity. The Normative Regulatory Equity is defined as the CET 1 capital that is required to bring a segment to a CET 1 ratio (Fully Loaded) of 13.5%.

Calculation (in millions of EUR or %)	Reference	2016	2017
Net income group share RC (A)	Management report/ Segment reporting	459	443
Average Normative Regulatory Equity RC (B)	Management report/ Segment reporting	2,220	2,279
RoNRE (=A/B)		**20.7%**	**19.4%**

The RoNRE is also calculated for PC on a similar definition.

TOTAL SAVINGS AND INVESTMENTS[1]

Total savings and investments allocated to the different business lines, are composed of total deposits, off-balance sheet investments and life insurance reserves.

Total savings and investments	Retail and Commercial		Public and Corporate	
(in billions of EUR)	2016	2017	2016	2017
A. Total deposits	62.0	63.6	22.9	23.2
B. Off-balance sheet investments	29.6	31.9	8.2	8.3
C. Life insurance reserves	10.9	10.4	0.6	0.6
TOTAL CUSTOMER ASSETS	102.5	105.9	31.7	32.1

A. The **total deposits** consist of:

Calculation of RC deposits	Retail and Commercial (RC)		
(in billions of EUR)	Reference	2016	2017
RC Savings accounts	Component of note 6.2 Customer borrowings and deposits	40.0	41.5
RC Current accounts	Component of note 6.2 Customer borrowings and deposits	10.4	11.6
RC Term accounts	Component of note 6.2 Customer borrowings and deposits	0.5	0.4
RC Savings certificates	Component of note 6.3 Debt securities	2.8	2.3
RC Bonds issued by Belfius	Component of note 6.3 Debt securities	3.6	2.9
	Component of note 6.4 Financial liabilities measured at FV	4.8	4.9
TOTAL RC DEPOSITS		62.0	63.6

Calculation of PC deposits	Public and Corporate (PC)		
(in billions of EUR)	Reference	2016	2017
Public and Social	Component of note 6.2 Customer borrowings and deposits	16.9	16.7
Corporate	Component of note 6.2 Customer borrowings and deposits	6.1	6.5
TOTAL PC DEPOSITS		22.9	23.2

(1) Some amounts may not add up, due to rounding.

B. **Off-balance sheet investments** are customer assets products which are not on the balance of the bank nor are an insurance contract. Off balance sheet investments contain:

- customer assets managed by "allied or own asset management companies" in the form of mutual funds or by advisory or discretionary mandates; and
- customer assets managed directly by the customer (a.o. shares, bonds (not issued by Belfius)). The size and the development of asset managed by allied or own asset management companies is a major contributor to the fee income (asset management fees, entry fees).

C. **Life insurance reserves** are composed on the one hand of the Branch 21 investment products, or insurance products with a guaranteed income, with its mathematical reserves on the balance sheets of our insurance company; on the other hand there are the Branch 23 unit linked (investments) products, which are measured at fair value of the underlying assets (mainly off-balance). These products contribute to Belfius groups result by entry fees, commissions income on underlying assets, and net income on Branch 21 investment products.

TOTAL LOANS TO CUSTOMERS[1]

Total loans allocated to the customers of the different business lines, are composed of loans granted to these customers.

Calculation (in billions of EUR)	Reference	2016	2017
Mortgage loans	Component of note 5.4 Loans and advances to customers	28.8	30.6
Consumer loans	Component of note 5.4 Loans and advances to customers	1.4	1.5
Other retail loans	Component of note 5.4 Loans and advances to customers	0.5	0.5
Business loans	Component of note 5.4 Loans and advances to customers	11.4	12.5
TOTAL LOANS TO CUSTOMERS RC		42.1	45.0

Calculation (in billions of EUR)	Reference	2016	2017
Public and Social	Component of note 5.4 Loans and advances to customers	28.8	27.4
Corporate	Component of note 5.4 Loans and advances to customers	9.5	10.8
TOTAL LOANS TO CUSTOMERS PC		38.3	38.3

(1) Some amounts may not add up, due to rounding.

THE ALM LIQUIDITY BOND PORTFOLIO

Total ALM Liquidity bond portfolio is part of Belfius Banks' total LCR liquidity buffer.

Calculation (in billions of EUR)	Reference	2016	2017
Bonds	Component of note 5.4 Loans and advances to customers	0.5	0.5
	Component of note 5.5 Investments held to maturity	4.4	4.5
	Component of note 5.6 Financial assets available for sale	3.3	3.1
TOTAL ALM LIQUIDITY BOND PORTFOLIO		8.2	8.1

THE ALM YIELD BOND PORTFOLIO

Total ALM Yield bond portfolio is used to manage excess liquidity

Calculation (in billions of EUR)	Reference	2016	2017
Bonds	Component of note 5.4 Loans and advances to customers	4.1	3.6
	Component of note 5.6 Financial assets available for sale	0.3	0.1
TOTAL ALM YIELD BOND PORTFOLIO		4.4	3.7

THE CREDIT GUARANTEE PORTFOLIO

The credit guarantee portfolio refer to the intermediation transactions whereby, on different types of reference obligations, the former Dexia Bank sold credit protection to a financial counterpart and purchased credit protection with monoline insurers.

Calculation (in billions of EUR)	Reference	2016	2017
Credit guarantees	Component of mainly note 8.2 Guarantees and note 5.9 Derivatives	5.0	3.9
TOTAL CREDIT GUARANTEES		**5.0**	**3.9**

FUNDING DIVERSIFICATION AT BELFIUS BANK[1]

(in billions of EUR)	2016	2017
A. Commercial funding	84.9	86.8
B. Secured funding	13.9	12.7
C. Wholesale unsecured funding	5.2	6.0
D. Net unsecured interbank funding	4.6	5.1
TOTAL FUNDING	108.5	110.5

A. Commercial funding

The total deposits collected within the commercial Franchise (RC and PC) – see total savings and investments.

B. Secured funding

Funding for which specific collateral has been provided as (additional) security.

Calculation (in billions of EUR)	Reference	2016	2017
ECB: (T)LTRO	Component of note 6.1 Due to banks	3.0	4.0
Repo	Component of note 6.1 Due to banks	0.9	0.2
LT secured funding	Mainly component of note 6.2 Customer borrowings and deposits	1.6	1.3
Covered bonds	Component of note 6.3 Debt securities	8.4	7.2
TOTAL SECURED FUNDING		**13.9**	**12.7**

C. Wholesale unsecured funding

Funding obtained in the wholesale market for which no specific collateral has been provided.

Calculation (in billions of EUR)	Reference	2016	2017
LT senior unsecured funding	Mainly Component of note 6.3 Debt securities	3.9	4.8
LT subordinated funding	Note 6.7 Subordinated debts	1.3	1.2
TOTAL WHOLESALE UNSECURED FUNDING		**5.2**	**6.0**

D. Net unsecured interbank funding

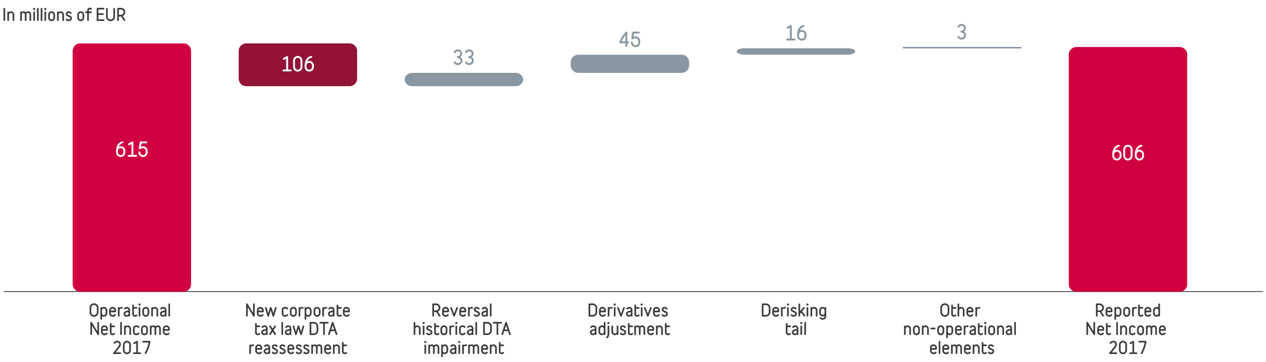
Calculation (in billions of EUR)	Reference	2016	2017
Net ST unsecured funding	Mainly component of note 6.3 Debt securities	4.6	5.1
TOTAL NET UNSECURED INTERBANK FUNDING		**4.6**	**5.1**

(1) Some amounts may not add up, due to rounding.

OPERATIONAL NET INCOME

Operational net income as defined by Belfius is an adjusted net income, starting from reported net income and excluding all atypical exceptional items (also called "one-offs") that have a material impact on the consolidated result, driven by exceptional events.

The difference between the Operational Net Income 2017 and the Reported Net Income 2017 can be explained as follows:



- New corporate tax law: (net) DTA reassessment (EUR -106 million).
- Reversal of historical DTA impairment thanks to improving taxable base (EUR 33 million).
- Adjustments on fair value of derivatives, a.o. from derivatives markets trend towards more central clearing and contract standardizations, allowing Belfius to conclude agreements on certain optionalities in collateral contracts of derivatives which had a positive impact (EUR 45 million).
- Derisking tail executed in 2017 a.o. on US RMBS net of release of provisions (EUR 16 million).
- Other non-operational elements, including one-off results and provisions in commercial activities (EUR 3 million).

GLOBAL REPORTING INITIATIVE (GRI) - TABLE

GRI Standard	GRI Disclosure	References (→)/information	Page number	Omission	Link to SDG (based on SDG Compass)
GRI 102: GENERAL DISCLOSURES					
GRI 102: GENERAL DISCLOSURES - ORGANIZATIONAL PROFILE					
102-1	Name of the organization	Belfius Bank NV/SA			
102-2	Activities, brands, products, and services	→ Profile of Belfius	2		
102-3	Location of headquarters	Avenue Pachéco 44, B-1000 Brussels			
102-4	Location of operations	Belgium			
102-5	Ownership and legal form	Public limited company			
102-6	Markets served	→ Segment reporting	57		
102-7	Scale of the organization	→ Profile of Belfius, Key Figures	2, 4		
102-8	Information on employees and other workers	→ HR, Rotating people and talent internally & externally	42	Whether a significant portion of the organization's activities are performed by workers who are not employees was not disclosed by Belfius.	No 8 Decent work and economic growth
102-9	Supply chain	As a financial services company, Belfius' main suppliers provide products and services to support the company's operations in office buildings and its mobility. Approximately 1300 frame contracts are managed by the procurement department. Social and environmental screening criteria are applied on a case-by-case basis, a CSR expert is dedicated in the procurement department to support in identifying the need for CSR screening and particular issues to be tackled. Belfius is a member of the Flemish Region's Green Deal initiative. → Belfius and CSR → The social impact of Belfius' activities : Leasing opts strategically for green, circular and digital	 14 31		
102-10	Significant changes to the organization and its supply chain	→ Management Report, Message from the chairmen	11		
102-11	Precautionary Principle or approach	→ Risk Management	84		
102-12	External initiatives	→ CSR, Belfius and CSR	14		
102-13	Membership of associations	→ CSR, Belfius and CSR	14		
GRI 102: GENERAL DISCLOSURES - STRATEGY AND ANALYSIS					
102-14	Statement from senior decision-maker	→ Management Report, Message from the chairmen	11		
GRI 102: GENERAL DISCLOSURES - ETHICS AND INTEGRITY					
102-16	Values, principles, standards, and norms of behavior	→ Profile of Belfius → Our Mission and Amibtion	2 6		No 16 Peace, justice and strong institutions
GRI 102: GENERAL DISCLOSURES - GOVERNANCE					
102-18	Governance structure	→ Corporate Governance	108		

GRI Standard	GRI Disclosure	References (→)/information	Page number	Omission	Link to SDG (based on SDG Compass)
GRI 102: GENERAL DISCLOSURES - STAKEHOLDER ENGAGEMENT					
102-40	List of stakeholder groups	→ CSR, Materiality analysis & dialogue with stakeholders	16-18		
102-41	Collective bargaining agreements	In 2017, 96,24% of the employees are covered by a collective bargaining agreement. Only the Board of Directors, executives and senior management are not covered by collective bargaining agreements but are covered by a 'management contract'.			No 8 Decent work and economic growth
102-42	Identifying and selecting stakeholders	→ CSR, Materiality analysis & dialogue with stakeholders	16-18		
102-43	Approach to stakeholder engagement	→ CSR, Materiality analysis & dialogue with stakeholders	16-18		
102-44	Key topics and concerns raised	→ CSR, Materiality analysis & dialogue with stakeholders	16-18		
GRI 102: GENERAL DISCLOSURES - REPORTING PRACTICE					
102-45	Entities included in the consolidated financial statements	Consolidated Financial Statements	129		
102-46	Defining report content and topic Boundaries	The financial consolidation boundary of Belfius Group is applied unless otherwise stated.	16-18		
102-47	List of material topics	→ CSR, Materiality analysis & dialogue with stakeholders			
102-48	Restatements of information	There were no restatements compared to the previous three fiscal years.			
102-49	Changes in reporting	Not applicable: this is the first report in which Belfius discloses its material topics and topic boundaries.			
102-50	Reporting period	Fiscal year from 1 January 2017 to 31 December 2017			
102-51	Date of most recent report	The most recent report containing economic, environmental and social information is the Annual Report 2016			
102-52	Reporting cycle	Annual			
102-53	Contact point for questions regarding the report	csr@belfius.be			
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.			
102-55	GRI content index	→ Annual report, GRI Content Table	304		
102-56	External assurance	Belfius' statutory auditor Deloitte Réviseurs d'Entreprises/Bedrijfsrevisoren have reviewed the Annual Report to assure the presence of the information required by the legislation on non-financial information (transposition of Directive 2014/95/EU)	278		
GRI 103: MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundaries	Material topic boundaries, management approaches and their respective evaluation methods are explained together with the particular practice discussed. → CSR, Materiality analysis & dialogue with stakeholders → CSR → HR	 16-18 14 42		
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
GRI 201: ECONOMIC PERFORMANCE					
201-1	Direct economic value generated and distributed	→ Consolidated Financial Statements → CSR, Sound Ethical Foundations, Tax Transparency	129 14		No 5 Gender equality No 7 Affordable and clean energy No 8 Decent work and economic growth No 9 Industry, innovation and infrastructure

GRI Standard	GRI Disclosure	References (→)/information	Page number	Omission	Link to SDG (based on SDG Compass)
GRI 203: INDIRECT ECONOMIC IMPACTS					
203-1	Infrastructure investments and services supported	→ CSR, The social impact of Belfius' activities : Social impact via "Smart Belgium"	21		No 8 Decent work and economic growth
203-2	Significant indirect economic impact	→ CSR, The social impact of Belfius' activities	20		No 9 Industry, innovation and infrastructure No 10 Reduced inequalities No 11 Sustainable cities and communities No 17 Partnerships for the goals
GRI 205: ANTI-CORRUPTION					
205-1	Operations assessed for risks related to corruption	Internal and external fraud are assessed as part of operational risks for Beflius Bank and Belfius Insurance. → Risk report	35		No 16 Peace, justice and strong institutions
205-3	Confirmed incidents of corruption and actions taken	In 2017 no corruption-related incidents were recorded. → CSR, Sound ethical Foundations: Honest banking and the fight against fraud	35		
GRI 301: MATERIALS					
301-1	Materials used by weight and volume	This is mainly covering paper consumption, which shows a decreasing trend. → CSR, Belfius' direct impact on the environment			No 8 Decent work and economic growth No 12 Responsible consumption and production
GRI 302: ENERGY					
302-1	Energy consumption within the organization	→ CSR, Belfius' direct impact on the environment: Energy-savings and hence less CO_2	39		No 7 Affordable and clean energy
302-2	Energy consumption outside of the organization	→ CSR, Belfius' direct impact on the environment: Sustainable commuting remains one of our strengths at Belfius, The Belfius Group's carbon footprint	39		No 8 Decent work and economic growth
302-4	Reduction of energy consumption	→ CSR, Belfius' direct impact on the environment:Energy-savings and hence less CO_2	39		No 12 Responsible consumption and production No 13 Climate action
GRI 305: EMISSIONS					
305-1	Direct (Scope 1) GHG emissions	→ CSR, Belfius' direct impact on the environment:The Belfius Group's carbon footprint	40		No 3 Good health and well-being
305-2	Energy indirect (Scope 2) GHG emissions	→ CSR, Belfius' direct impact on the environment:The Belfius Group's carbon footprint	41		No 12 Responsible consumption and production
305-3	Other indirect (Scope 3) GHG emissions	→ CSR, Belfius' direct impact on the environment:The Belfius Group's carbon footprint	41		No 13 Climate action No 14 Life below water No 15 Life on land
GRI 306: EFFLUENTS AND WASTE					
306-2	Waste by type and disposal method	All waste mentioned concerns non-hazardous waste and is recycled, except for the residual waste, which is incinerated. This information was provided by the waste disposal contractor. → CSR, Belfius' direct impact on the environment: The Belfius Group's carbon footprint	40		No 3 Good health and well-being No 6 Clean water and sanitation No 12 Responsible consumption and production

GRI Standard	GRI Disclosure	References (→)/information	Page number	Omission	Link to SDG (based on SDG Compass)
GRI 401: EMPLOYMENT					
401-1	New employee hires and employee turnover	→ HR, Investing in new talent	43		No 5 Gender equality No 8 Decent work and economic growth
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Differentiation in benefits provided to the employees based on the contract type of employees is possible, eg. some devices provided by the company are not granted to employees with a temporary contract.	48		
401-3	Parental leave	→ HR, Further developing a policy of wellbeing	48		
GRI 403: OCCUPATIONAL HEALTH AND SAFETY					
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Given the nature of Belfius' business activities, only absenteeism is reported. → HR, Further developing a policy of wellbeing	48		No 3 Good health and well-being No 8 Decent work and economic growth
403-4	Health and safety topics covered in formal agreements with trade unions	→ HR, Encouraging engagement through empowerment	48		
GRI 404: TRAINING AND EDUCATION					
404-1	Average hours of training per year per employee	→ HR, Investing in Learning & Development	46		No 4 Quality education No 8 Decent work and economic growth
404-3	Percentage of employees receiving regular performance and career development reviews	100% of Belfius' Group employees receive at least annually a performance review.			
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY					
405-1	Diversity of governance bodies and employees	→ HR, Rotating people and talent internally & externally, HR, Investing in new talents	45		No 5 Gender equality No 8 Decent work and economic growth
GRI 418: CUSTOMER PRIVACY					
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	→ Sound Ethical Foundations: Data Privacy		Total number of identified leaks, thefts, or losses of customer data.	No 16 Peace, justice and strong institutions
FINANCIAL SUPPLEMENT					
FS1	Policies with specific environmental and social components applied to business lines	→ CSR, The social impact of Belfius' activities	20		No 1 No poverty No 7 Affordable and clean energy No 8 Decent work and economic growth No 9 Industry, innovation and infrastructure No 10 Reduced inequalities No 11 Sustainable cities and communities
FS2	Procedures for assessing and screening environmental and social risks in business lines	→ CSR, The social impact of Belfius' activities : Sustainable and responsible investing	24		
FS6	Percentage of portfolio by business line by region, size and sector.	CSR, The social impact of Belfius' activities → Segment Reporting	24 57		
FS7	Monetary value of products and services developed in order to obtain specific social benefits by business line and purpose	→ CSR, The social impact of Belfius' activities : Philanthropy via Wealth Management → CSR, The social impact of Belfius' activities : Access to banking services via social products	32 32		
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	→ CSR, The social impact of Belfius' activities : Credit policy as a socio-economic driver	28		
FS11	Percentage of assets that have undergone positive or negative environmental and social screening.	→ CSR, The social impact of Belfius' activities : Sustainable and responsible investing	24		
FS14	Initiatives to improve access to financial services for disadvantaged people	→ CSR, The social impact of Belfius' activities : Access to banking services via social products	32		

ABBREVIATIONS

Acronym	
ABS	Asset-Backed Securities
AFS	Available For Sale
ALM	Asset-Liability Management
AUM	Assets Under Management
B/S	Balance Sheet
bp	Basis Point
C/I	Cost-Income
CET 1	Common Equity Tier 1
CoR	Cost of Risk
CVA	Credit Value Adjustment
CRD	Capital Regulative Directive
CRR	Capital Regulative Regulation
DCL	Dexia Crédit Local
DSFB	Dexia Secured Funding Belgium
EAD	Exposure at Default
EBA	European Banking Authority
ECB	European Central Bank
GDP	Gross Domestic Product
GIPS-countries	Greece, Ireland, Portugal and Spain
IRB	Internal Rate Based
LCM	Liquidity and Capital Management
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LT	Long Term
LTRO	Long-Term Refinancing Operations
MCRE	Maximum Credit Risk Exposure
MREL	Regulatory Technical Standards on minimum requirement for own funds and eligible liabilities
NBB	National Bank of Belgium
NIG	Non-Investment Grade
NSFR	Net Stable Funding Ratio
P&L	Profit and Losses
RoNRE	Return on Normative Regulatory Equity
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
T-LTRO	Targeted Long-Term Refinancing Operations
VaR	Value at Risk

ADDITIONAL INFORMATION

ADDITIONAL ADDRESSES OF BELFIUS BANK AND BELFIUS INSURANCE'S MAIN SUBSIDIARIES AND BRANCH[(1)]

Belfius Auto Lease
Operational vehicle leasing and car fleet management, maintenance and claims management services
Place Rogier 11 – B-1210 Brussels
Tel.: + 32 2 285 35 94
Fax: + 32 2 285 35 35
www.belfius-autolease.be

Belfius Bank, Dublin Branch
Credit Spread Portfolio management
23, Shelbourne Road – IRL-IFSC Dublin 4
Tel.: + 353 15 31 15 00
Fax: + 353 18 29 15 77

Belfius Commercial Finance
Financing commercial loans to debtors, debtor insolvency risk cover and debt recovery from debtors
Place Rogier 11 – B-1210 Brussels
Tel.: + 32 2 285 26 11
Fax: + 32 2 285 26 99
www.belfius-commercialfinance.be

Belfius Insurance
Insurance company marketing life and non-life insurance products, savings products and investments for individuals, the self-employed, liberal professions, companies and the public and social sector
Avenue Galilée 5 – B-1210 Brussels
Tel.: + 32 2 286 76 11
Fax: + 32 2 286 76 99
www.dvvlap.be
www.belfius-assurances.be

Belfius Insurance Invest
Investment management company for Belfius Insurance
Avenue Galilée 5 – B-1210 Brussels
Tel.: + 32 2 286 69 22
Fax: + 32 2 286 72 20

Belfius Ireland Unlimited Company
Managing a Public Sector bond portfolio
23,Shelbourne Road – IRL-IFSC Dublin 4
Tel.: + 353 15 31 15 00
Fax: + 353 18 29 15 77

Belfius Lease
Financial leasing and renting of professional capital goods to the public sector
Place Rogier 11 – B-1210 Brussels
Tel.: + 32 2 222 37 08
Fax: + 32 2 222 26 23
www.belfius-lease.be

Belfius Lease Services
Financial leasing and renting of professional capital goods to the self-employed, companies and liberal professions
Place Rogier 11 – B-1210 Brussels
Tel.: + 32 2 222 37 08
Fax: + 32 2 222 26 23
www.belfius-lease.be

Corona
Direct life and non-life insurance products for individuals
Avenue de la Métrologie 2 – B-1130 Brussels
Tel.: + 32 2 244 22 11
www.coronadirect.be

Crefius
Granting and managing mortgage loans

Registered office
Boulevard Pachéco 44 – B-1000 Brussels
Tel.: + 32 2 222 11 11
Fax: + 32 2 222 40 32

Operating offices
Chaussée de Dinant 1033 – B-5100 Wépion
Tel.: + 32 81 46 82 11
Fax: + 32 81 46 05 55

H. Consciencestraat 6 – B-8800 Roeselare
Tel.: + 32 51 23 21 11
Fax: + 32 51 23 21 45

Elantis
Granting and managing mortgage loans and consumer loans through a network of contributors

Registered office
Rue des Clarisses 38 – B-4000 Liège
Tel.: + 32 4 232 45 45
Fax: + 32 4 232 45 01

Operating office
Boulevard Saint-Michel 50
B-1040 Brussels
Tel.: + 32 2 732 12 12
Fax: + 32 2 737 29 27
www.elantis.be

The Studio
Digital lab aimed to develop and commercialize technological solutions
Place Rogier 11 – B-1210 Brussels
Tel.: + 32 2 222 09 36

(1) Are included in this list: all subsidiaries and the branch which are operating in the banking and insurance sector (or whose operations are contributing to banking and insurance activities).

GENERAL INFORMATION ABOUT BELFIUS BANK

Company name and legal form
Belfius Bank SA

Contact
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Fax: + 32 2 285 14 30

Registered office
Boulevard Pachéco 44
B-1000 Brussels

Main postal address
Place Rogier 11
B-1210 Brussels

Company number
RPM Brussels VAT BE 403.201.185

FSMA number
19649 A

Website
www.belfius.be
www.belfius.com

COMPLAINTS

If you encounter a problem, you can take it initially to your branch or your relationship manager. If your problem is not resolved, then contact the Complaints department.

Belfius Bank
Complaints department – RT 23/14
Boulevard Pachéco 44
B-1000 Brussels
E-mail: claim@belfius.be

If you are not satisfied with the response you receive, you can turn to the Negotation department of Belfius Bank

Belfius Bank
Negotiation department – RT 23/17
Boulevard Pachéco 44
B-1000 Brussels
E-mail: negotiation@belfius.be

If you are a natural person acting in a private capacity and you are not satisfied with the responses you have received from the bank's official bodies mentioned above, you can take your complaint to the Ombudsman in financial conflicts if it relates to banking products.

Ombudsman in financial conflicts
North Gate II
Boulevard du Roi Albert II 8, boîte 2
B-1000 Brussels
Tel. : +32 2 545 77 70
Fax : +32 2 545 77 79
E-mail : Ombudsman@Ombudsfin.be

For insurance products, you can take your complaint to the Insurance Ombudsman.

Insurance Ombudsman
Square de Meeûs 35
B-1000 Brussels
E-mail: info@ombudsman.as

CONTACT

For further general info over Belfius Bank & Insurance, feel free to surf *www.belfius.com*.

Got a question about Belfius Bank's results or strategy? Then please e-mail *financialcommunication@belfius.be*.

Any other queries? Then call +32 2 222 12 01 (Mon-Fri: 8 am-10 pm/Sat: 9 am-5 pm).

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Bank & Insurance

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