HALF-YEARLY REPORT 2018

Belfius
Bank & Insurance

CONTENTS

MANAGEMENT REPORT

KEY FIGURES AND RATINGS

KEY FIGURES

Consolidated statement of income (In millions of EUR)	1H 2017 (IAS 39)	1H 2018 (IFRS 9)
INCOME	1,136	1,173
EXPENSES	(662)	(690)
GROSS INCOME	474	483
Impairments on financial instruments and provisions for credit commitments	(24)	(9)
Impairments on tangible and intangible assets	(5)	(1)
NET INCOME BEFORE TAX	445	473
Tax (expense) income	(84)	(138)
NET INCOME AFTER TAX	361	335
Non-controlling interests	0	0
NET INCOME GROUP SHARE	361	335
of which		
Banking group	*235*	*185*
Insurance group[1]	*126*	*149*

(1) Contribution of the Belfius Insurance group to the consolidated statement of income.

Consolidated balance sheet (In millions of EUR)	01/01/18[1] (IFRS 9)	30/06/18 (IFRS 9)
TOTAL ASSETS	167,217	166,951
of which		
Cash and balances with central banks	*10,237*	*11,168*
Loans and advances due from credit institutions	*13,802*	*13,174*
Loans and advances	*85,406*	*87,558*
Debt securities & equity instruments	*30,776*	*28,880*
Unit linked products insurance activities	*2,598*	*2,824*
Derivatives	*16,415*	*14,995*
TOTAL LIABILITIES	157,772	157,063
of which		
Cash and balances from central banks	*3,979*	*3,971*
Credit institutions borrowings and deposits	*7,131*	*7,252*
Borrowings and deposits	*76,328*	*78,125*
Debt securities issued and other financial liabilities	*28,269*	*27,040*
Unit linked products insurance activities	*2,598*	*2,824*
Derivatives	*21,196*	*19,834*
TOTAL EQUITY	9,444	9,888
of which		
Shareholders' core equity	*8,788*	*8,832*
Gains and losses not recognised in the statement of income	*657*	*544*
Additional Tier-1 instruments included in equity	*0*	*497*
Non-controlling interests	*0*	*15*

(1) IFRS 9 - opening balance sheet: for more information, see the transition tables from IAS 39 to IFRS 9 in the Condensed consolidated interim financial statements in this report from page 82 onwards.

Ratios[1]	31/12/17 (IAS 39)	01/01/18 (IFRS 9)	30/06/18 (IFRS 9)
Return on equity (ROE)	7.0%	7.1%	7.8%
Return on assets (ROA)	0.35%	0.35%	0.40%
Cost-income ratio (C/I ratio)[2]	58.1%	N/A	58.8%
Asset quality ratio	1.99%	2.15%	2.20%
Coverage ratio	63.3%	63.3%	61.4%
Liquidity Coverage Ratio (LCR)[3]	132%	N/A	133%
Net Stable Funding Ratio (NSFR)	116%	N/A	116%

(1) Unaudited.
(2) Cost-income ratio stood at 58.8% as of end June 2018. Sector levies have to be recognized in one shot in January of the year. If the sector levies would have been linearly spread out over the year, the cost-income ratio would have been 53.7% at the end of June 2018.
(3) 12 month average.

Solvency ratios[1]	31/12/17 (IAS 39)	01/01/18 (IFRS 9)	30/06/18 (IFRS 9)
CET 1- ratio Fully Loaded[2]	15.9%	16.2%	16.3%
Tier 1- ratio Fully Loaded[2][3]	15.9%	16.2%	17.3%
Total capital ratio Fully Loaded[2][3]	18.1%	18.3%	20.0%
Leverage ratio Fully Loaded	5.5%	N/A	5.9%
Solvency II – ratio (before dividend)	230%	N/A	216%
Solvency II – ratio (after dividend)	219%	N/A	210%

(1) Unaudited.
(2) For the determination of the Capital ratios under CRR/CRD IV the regulatory authority requires Belfius to monitor and report solvency on a prudential consolidation scope where Belfius Insurance is equity accounted for and to apply a risk weighting of 370% on the capital instruments of Belfius Insurance subscribed by Belfius Bank. This is commonly known as "Danish Compromise".
(3) The increase is mainly due to the issuance of an Additional Tier 1 instrument in 1Q 2018.

RATINGS OF BELFIUS BANK AS AT 9 AUGUST 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

HIGHLIGHTS

STRONG 1H 2018 RESULTS ACHIEVED BY BELFIUS

- **Belfius' Net Income before tax 1H 2018 stands at EUR 473 million**, up 6% from 1H 2017. The bank contributed EUR 274 million and the insurer EUR 199 million.
- Solid growth of the net income before tax is compensated by an increase **of tax expenses**, hence leading to **net income of EUR 335 million in 1H 2018**, i.e. 7% down compared to a net income of EUR 361 million in 1H 2017.
- **Further growing commercial franchise and efficient financial management** continue to **support the profit capacity of Belfius**:
  - Resilient Net interest income of the bank despite low interest rate environment.
  - Stable Fee & Commission income of the bank thanks to successful profit diversification and bancassurance strategy.
  - Cost containment programs well on track, even in light of accelerating investments in both the digitalization of financial services in Belgium and in people to support the commercial growth, leading to operating costs of EUR 690 million and to a C/I ratio of 58.8%.
  - Sound risk management and good credit quality of the portfolios continue to translate into historically low cost of risk (EUR 9 million in 1H 2018 vs. EUR 24 million in 1H 2017), which further benefited from the sale of some Italian government bonds in 1H 2018.

STRONG COMMERCIAL MOMENTUM IN 1H 2018, LEADING TO VOLUME GROWTH IN CUSTOMER BALANCES, LENDING AND INSURANCE PREMIUMS

Retail and Commercial

- **Customer savings & investments**: EUR 107 billion at the end of June 2018, up 2% compared to end 2017.
- **New LT loans** granted to retail and commercial clients: EUR 5.2 billion in 1H 2018, up 6% compared to 1H 2017.
- **Total insurance production** amounted to EUR 951 million in 1H 2018, up 4% compared to 1H 2017.
- **Growing sales through direct channels** supporting customer equipment.

Public and Corporate

Public & Corporate **continues to strongly develop its Corporate segment**, and remains the **leading full service provider in the Belgian Public & Social segment**

- Belfius granted EUR 2.3 billion **LT loans to its corporate customers** during 1H 2018, a 24% growth y-o-y.
- **Continued momentum in Debt Capital Markets (DCM)**; participation rate of 85% with PSB clients and 44% with corporate clients.

STRONG CAPITAL BASE (BOTH FOR BANK AND INSURANCE) AND SOUND FINANCIAL PROFILE

- Belfius continues to demonstrate **solid solvency levels**: 16.3% CET 1 Fully Loaded at consolidated level and 210% Solvency II ratio for Belfius Insurance.
- **Net asset value** at EUR 9.4 billion, slightly below end 2017 level, as remaining part of FY 2017-dividend has been paid in April 2018.
- Belfius' Board of Directors of 8 August 2018 decided to pay an **interim dividend**, relative to 1H 2018 results, of EUR 100 million to the Belgian State.

"Personally, I am extremely proud of the results we have achieved over recent years and during this first half-year. That success was only possible with the confidence of our customers as well as the commitment of our staff members and our agents, and I would like to thank them most sincerely. The commercial performances we have posted in the first half-year in practically every key field are evidence of this. They encourage us to go even further and to align our strategy even more closely to what customers expect and wish of a bank-insurer looking to the future."

Marc Raisière, CEO

"Once more this year our half-yearly results offer us the opportunity to pay an interim dividend of EUR 100 million to our shareholder and confirm our conviction that Belfius is ready for a possible IPO. Nevertheless, the difficult rate and market context make it necessary to diversify our earnings further and to continue in the efforts we have been making over last years to control costs and to achieve operational excellence. It is only in this way that we can further strengthen our sustainable role in favour of Belgian society and economy."

Jos Clijsters, Chairman of the Board of Directors

FINANCIAL RESULTS

PRELIMINARY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Changes to the scope of consolidation

1.1. Full Consolidation of Auxipar

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 finalization of the liquidation, in the interest of all stakeholders. This agreement listed a combination of actions to finalize towards end of liquidation, including the takeover of the Auxipar shares held by the Arco companies by Belfius.

As a result of these actions moving forward, Belfius has increased, on March 29, its stake in Auxipar from 39.7% to 74.99% for a price of EUR 29.4 million. The transaction qualifies for Belfius as a business combination achieved in stages and is thus subject to IFRS 3 whereby any previously held interest is adjusted to its fair value as of the acquisition date with any resulting gain reported in the consolidated income statement. Belfius has estimated the fair value of Auxipar at EUR 82.8 million at acquisition date, in line with the acquisition price for 100% of the shares (EUR 83.3 million). The revaluation following the application of IFRS 3 of the previously held interest (recognized at end March 2018 at EUR 33 million) resulted in a capital gain of EUR 23 million. The difference between the restatement of the balance sheet and the consideration paid, resulted in a goodwill of EUR 0.1 million.

Please note that one of the investments of Auxipar is a 82.7% stake in EPC, an organization of pharmacies distributing pharmaceutical products. While Auxipar as such owns the majority of the shares in EPC, it does not have substantiated control over the investment as

- there is a limitation of the voting rights and
- no shareholder/control agreements exist.

As a result, Belfius will consolidate EPC through the equity method. The value of EUR 20.7 million resulting from the equity method is considered as the fair value of EPC estimated at the date of acquisition of Auxipar and includes EUR 1.4 million of goodwill.

1.2. Other changes in the scope of consolidation

Belfius sold its investments in "NEB Participation" to Nethys. It concerned an associate previously accounted for through the equity method. Belfius realized a capital gain of EUR 23.6 million on this sale.

Belfius has consolidated the new entity Bancontact Payconiq Company of which it owns 22.5% of the shares, through equity method, following the merger between Payconiq and Bancontact on 29 June 2018.

Caring People, a 100% subsidiary of Corona performing contact center activities for Corona, is fully consolidated as from 2018 onwards.

1.3. Future changes in the scope of consolidation which have already been decided upon

The Board of Directors of Belfius Bank approved on 26 April 2018 the simplification of the group structure by the closing of the Dublin branch of Belfius Bank, preceded by the transfer of the Dublin branch portfolio to Belfius Ireland, a subsidiary of Belfius Bank. The impacts in the statement of income are currently under analysis and depend among others on future market evolutions. Belfius intends to fully implement this decision by the end of 2018.

2. Fundamentals of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements of Belfius are prepared in accordance with IAS 34 Interim Reporting as adopted by the EU. The condensed consolidated interim financial statements are prepared on a going-concern basis.

PRELIMINARY REMARKS

Note that as from 1 January 2018 the IFRS 9 standard on financial instruments has become applicable. The first time adoption of this standard resulted in an opening balance as at 1 January 2018 under IFRS 9 and had quite an important impact on

- the balance sheet presentation,
- the classification of financial assets and
- retained earnings.

Belfius has taken the opportunity to review the **presentation of its balance sheet** as from 1 January 2018. More in particular, under IAS 39, Belfius has applied a more 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 1 January 2018 Belfius has opted to adopt a more nature based presentation, whereby assets and liabilities are grouped based on their type.

The **classification of financial assets 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. As a consequence, the classification of certain financial assets under IAS 39 are no longer comparable with the classification of these financial assets under IFRS 9.

Furthermore, IFRS 9 defines a **new measurement model** resulting from either

- business model choice and
- SPPI test as well as a new impairment model.

As a result, a transition impact can be noted between IAS 39 and IFRS 9 which is either reversed or recorded in Other Comprehensive Income or Retained Earnings.

Under IFRS 9, an option is provided not to restate the comparatives, and Belfius has decided to make use of this exemption. As a result, Belfius presents IAS 39 balance sheet and IAS 39 statement of income as they were reported in the 2017 financial statements. Nevertheless, for comparability purposes, Belfius compares the balance sheet at Date of Initial Application (DIA) on 1 January 2018 with the balance sheet end June 2018.

Seeing that no proforma is made for the statement of income end June 2017, Belfius will present and comment the reported statement of income under IAS 39 end June 2017 alongside the statement of income end June 2018 under IFRS 9.

Note that a detailed analysis of the DIA is available in note 3 "accounting principles on a consolidated basis" of chapter "Transition tables from IAS 39 to IFRS 9".

ANALYSIS OF THE CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2018, the balance sheet total amounted to EUR 167.0 billion and decreased with EUR 0.3 billion compared to the total of EUR 167.2 billion at 1 January 2018. The balance sheet is composed of EUR 148.6 billion for the banking group (compared to EUR 148.7 billion at 1 January 2018) and EUR 18.4 billion for the insurance group (compared to EUR 18.5 billion at 1 January 2018). 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.

The stable evolution of the balance sheet total is the result of following main impacts: an increase in "loans and advances" as well as "borrowings and deposits" which was offset by a decrease of the fair value of "derivatives" following market evolutions, and a decrease in the "debt securities and equity instruments" and "debt securities issued".

1. Assets

Cash and balances with central banks increased with 9.1% or EUR 0.9 billion to EUR 11.2 billion as at 30 June 2018, due to an increase of EUR 0.9 billion deposit facility at the National Bank of Belgium where Belfius, in view of its liquidity management, deposits part of its surplus cash.

Loans and advances due from credit institutions decreased with 4.5% or EUR 0.6 billion to EUR 13.2 billion as at 30 June 2018, due to a decrease of cash collateral paid of EUR 1.0 billion, partially offset by an increase of EUR 0.4 billion interbank loans.

As at 30 June 2018 **loans and advances** amounted to EUR 87.6 billion. The increase of EUR 2.2 billion, or 2.5%, compared to 1 January 2018, is essentially explained by an increase in commercial assets for EUR 2.1 billion (mainly mortgage loans and term loans) in line with our strategy to further develop our commercial franchise and to support the Belgian economy. Other items explaining the evolution are an increase in reverse repurchase agreements of EUR 0.3 billion and an increase of cash collateral paid of EUR 0.1 billion. Note that at date of initial application of IFRS 9, a total stock of EUR 2.3 billion loans did not pass the SPPI-test and are therefore measured at fair value through profit or loss. It mainly concerns loans to the public and social sector with specifically structured interest rate features. As customary, regularly restructurings take place, transforming from time to time non basic loans into basic loans structures. This resulted in 1H 2018 in a decrease of EUR 0.3 billion in the non-basic loans and advances measured at fair value through profit or loss.

The asset quality ratio, indicating the ratio between impaired loans and advances and the gross outstanding loans and advances, increased slightly from 2.15% at 1 January 2018 to 2.20% at 30 June 2018.

The **debt securities & equity instruments** decreased by EUR 1.9 billion to EUR 28.9 billion as at 30 June 2018. The Debt securities & equity instruments portfolio is situated in the insurance group for EUR 12.6 billion (versus EUR 13.2 billion at 1 January 2018), and in the banking group EUR 16.3 billion (versus EUR 17.6 billion at 1 January 2018).

Two types of business models can be distinguished within Belfius group. The bond portfolios within the banking group are managed within a business model whose objective is to "held to collect" contractual cash flows until maturity apart from certain positions that were classified as "held to collect and sell". The latter concerns part of the Italian government bond portfolio which has been sold in the meantime for concentration risk management purposes. The debt securities of the insurance group are managed according to their ALM policies and guidelines, resulting in the insurance group having determined that a large part of this portfolio should be defined as "held to collect" and certain debt securities as "held to collect and sell" to cover the liquidity needs within Belfius Insurance.

Synoptic consolidated balance sheet (IFRS 9)

(In millions of EUR)	01/01/18	*Contribution Bank into group(1)*	*Contribution Insurance into group(1)*	30/06/18	*Contribution Bank into group(1)*	*Contribution Insurance into group(1)*	Evolution
TOTAL ASSETS	167,217	148,725	18,492	166,951	148,593	18,359	(265)
of which							
Cash and balances with central banks	10,237	*10,237*	*0*	11,168	*11,168*	*0*	932
Loans and advances due from credit institutions	13,802	*13,756*	*46*	13,174	*13,078*	*96*	(628)
A. Measured at amortised cost	13,802	*13,756*	*46*	13,174	*13,078*	*96*	(628)
Loans and advances	85,406	*81,299*	*4,108*	87,558	*83,513*	*4,046*	2,152
A. Measured at amortised cost	83,060	*78,989*	*4,072*	85,561	*81,554*	*4,007*	2,500
C. Measured at fair value through profit or loss	2,346	*2,310*	*36*	1,998	*1,959*	*39*	(349)
Debt securities & equity instruments	30,776	*17,558*	*13,219*	28,880	*16,308*	*12,572*	(1,896)
A. Measured at amortised cost	21,144	*15,354*	*5,790*	21,193	*15,279*	*5,914*	50
B. Measured at fair value through other comprehensive income	6,963	*1,352*	*5,611*	5,579	*224*	*5,355*	(1,384)
C. Measured at fair value through profit or loss	2,670	*852*	*1,818*	2,108	*805*	*1,303*	(561)
Unit linked products insurance activities	2,598	*0*	*2,598*	2,824	*0*	*2,824*	227
Derivatives	16,415	*16,415*	*0*	14,995	*14,995*	*0*	(1,420)
TOTAL LIABILITIES	157,772	139,818	17,955	157,063	139,199	17,864	(709)
of which							
Cash and balances from central banks	3,979	*3,979*	*0*	3,971	*3,971*	*0*	(8)
Credit institutions borrowings and deposits	7,131	*7,099*	*32*	7,252	*7,218*	*33*	120
A. Measured at amortised cost	7,131	*7,099*	*32*	7,252	*7,218*	*33*	120
Borrowings and deposits	76,328	*76,328*	*0*	78,125	*78,125*	*0*	1,797
A. Measured at amortised cost	76,274	*76,274*	*0*	78,071	*78,071*	*0*	1,796
B. Measured at fair value through profit or loss	54	*54*	*0*	54	*54*	*0*	0
Debt securities issued and other financial liabilities	28,269	*28,269*	*0*	27,040	*27,040*	*0*	(1,229)
A. Measured at amortised cost	22,027	*22,027*	*0*	20,198	*20,198*	*0*	(1,829)
B. Measured at fair value through profit or loss	6,241	*6,241*	*0*	6,842	*6,842*	*0*	601
Unit linked products insurance activities	2,598	*0*	*2,598*	2,824	*0*	*2,824*	227
Derivatives	21,196	*21,196*	*0*	19,834	*19,827*	*7*	(1,362)
Provisions for insurance activities	14,584	*0*	*14,584*	14,321	*0*	*14,321*	(263)
Subordinated debts	1,199	*1,199*	*0*	1,206	*1,206*	*0*	7
A. Measured at amortised cost	1,199	*1,199*	*0*	1,206	*1,206*	*0*	7
TOTAL EQUITY	9,444	8,907	537	9,888	9,394	495	444
of which							
Shareholders' core equity	8,788	*8,730*	*58*	8,832	*8,744*	*88*	44
Gains and losses not recognised in the statement of income	657	*177*	*479*	544	*153*	*392*	(112)
Additional Tier-1 instruments included in equity	0	*0*	*0*	497	*497*	*0*	497

(1) Information based on non-audited figures.

- The **debt securities measured at amortised cost** remained stable at EUR 21.2 billion, in line with the business models for the debt instruments.
- The **financial assets measured at fair value through other comprehensive income** amounted at EUR 5.6 billion; a decrease of EUR 1.4 billion, mainly resulting from the sale of some Italian government bonds for a notional amount of EUR 0.8 billion at Belfius Bank, in line with Belfius' objective to decrease its related concentration risk, and the sales of some government bonds at Belfius Insurance within customary ALM management in the individual life segment.
- The **debt securities measured at fair value through profit or loss** decreased with EUR 0.6 billion to EUR 2.1 billion principally following a disinvestment of EUR 0.4 million at Belfius Insurance of mainly monetary (mutual) funds.

The **unit linked products insurance activities** increased with 8.7% or EUR 0.2 billion to EUR 2.8 billion as at 30 June 2018, mostly resulting from transfers from Branch 21 contracts coming to maturity and net new cash, though partially offset by fair value evolution in line with relevant markets.

The positive fair value of **derivatives** decreased by EUR 1.4 billion to EUR 15.0 billion (-8.6% compared to 1 January 2018) following market evolutions.

2. Liabilities

Cash and balances from central banks remained stable at EUR 4.0 billion.

Credit Institutions borrowings and deposits increased with EUR 0.1 billion to EUR 7.3 billion as at 30 June 2018 following increases in repurchase agreements for EUR 0.7 billion and deposits by EUR 0.4 billion, partially offset by a decrease in cash collateral received by EUR 1.0 billion.

End of June 2018, **borrowing and deposits** increased with EUR 1.8 billion to EUR 78.1 billion, entirely due to the organic growth of sight and saving accounts.

Debt securities issued and other financial instruments decreased with EUR 1.2 billion to EUR 27.0 billion as at 30 June 2018.

- **Debt securities measured at amortised cost** amounted to EUR 20.2 billion, a decrease of EUR 1.8 billion compared to 1 January 2018 due to the maturity of certificates of deposit and other debt securities, partially offset by the issuance of EUR 0.6 billion covered bonds in the second quarter of 2018.
- The **debt securities measured at fair value through profit and loss** increased with EUR 0.6 billion to EUR 6.8 billion following new debt issuances, partially offset by debt securities that came to maturity.

The negative fair value of **derivatives** decreased by EUR 1.4 billion to EUR 19.8 billion (-6.4% compared to 1 January 2018) following market evolutions.

The **provisions for insurance activities** decreased with EUR 0.3 billion to EUR 14.3 billion as at 30 June 2018 mainly due to lower net production volumes following the low interest rate environment as well as a high number of surrenders. Note that these reserves are mostly reinvested by clients in banking products of Belfius Bank as well as in Branch 23 or Branch 44 products of Belfius Insurance. The technical provision for Non Life products increased with EUR 29 million mainly due to an increase in provision for unearned premiums, as the beginning of the year is characterized by important due dates, as well as, due to a growth in Non Life activity.

Subordinated debts measured at amortised cost remained stable at EUR 1.2 billion, the Tier 2 issue of EUR 0.2 billion in the first quarter of 2018 was entirely offset by calls on issued Tier 2 debt in 1Q and 2Q.

3. Equity

End of June 2018, **total equity** amounted to EUR 9.9 billion, compared to EUR 9.4 billion as of 1 January 2018. The increase of EUR 444 million is essentially explained by the profit for the period of EUR 335 million as well as the additional Tier 1 issue of 497 million, though partially offset by

- the payment of the full year 2017 dividend of EUR 363 million (of which EUR 75 million was already paid as interim dividend in 3Q 2017) as well as
- the decrease of EUR 112 million in "gains and losses not recognised in the statement of income".

The **shareholders' core equity** increased with EUR 44 million to EUR 8.8 billion due to the net income for the 1H 2018 of EUR 335 million, partially offset by:

- the ordinary dividend of EUR 363 million over the result of 2017, of which EUR 75 million was already paid via an interim dividend in 3Q 2017, and
- the dividend on Additional Tier 1 of EUR 4 million (before tax).

Gains and losses not recognised in the statement of income decreased with EUR 112 million to EUR 544 million at 30 June 2018. The reserve in Other Comprehensive Income of the banking group amounted to EUR 153 million (a decrease of EUR 25 million) and of the insurance group to EUR 392 million (a decrease of EUR 88 million).

- The **fair value of debt instruments measured at fair value through other comprehensive income** decreased with EUR 96 million to EUR 279 million as at 30 June 2018. This negative evolution stems from an increase of the credit spreads compared to last year and from realized capital gains resulting from disinvestments within the insurance group and from the sale of some Italian bonds within the banking group.
- The **fair value of equity instruments measured at fair value through other comprehensive income** decreased with EUR 30 million to EUR 157 million due to market evolutions.
- The **remeasurement of defined benefit plans** increased with EUR 4 million to EUR 117 million compared to 1 January 2018 due to the slight increase in discount rate, partially offset by the lower return on the pension plan assets.

On 1 February 2018, Belfius issued EUR 500 million (nominal value) **Additional Tier-1 instruments** (AT1), that qualify as additional equity under CRR/ CRD IV. The AT1 security has been analyzed in respect with IAS 32 and is 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.

ANALYSIS OF THE CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

1. Net income group share

The result before tax of 473 million in 1H 2018 shows a solid increase compared to the 445 million in 1H 2017 (up 6.3%). End June 2018, Belfius recorded a net income group share of EUR 335 million, against EUR 361 million end June 2017 (down 7.3%). The net income group share decreased compared to June 2017 mainly due to higher tax expense in 1H 2018 mainly as a result of the use of tax losses in 1H 2017 for which no deferred tax assets were recognized before.

The bank's contribution to the consolidated net income in 1H 2018 amounted to EUR 185 million (compared to EUR 235 million in 1H 2017) and the insurance group's contribution to EUR 149 million (compared to EUR 126 million in 1H 2017).

2. Income

In 1H 2018, **total income** amounted to EUR 1,173 million, up 3.3% or EUR 38 million compared to 1H 2017.

Net interest income decreased with EUR 39 million to EUR 945 million. Note that the net interest income of 1H 2017 included an exceptional impact of EUR 37 million following the standardization of collateral contracts, these interests had been set aside since OIS turned negative. All in all, the interest margin remains under pressure due to the low interest rate environment though partially compensated by higher volumes in loans. In addition, the lower outstandings in Branch 21 and reinvestments at lower market yields had a negative impact on the net interest income at Belfius Insurance side.

Net income from financial instruments at fair value through profit or loss decreased with EUR 53 million from EUR 68 million in 1H 2017 to EUR 14 million in 1H 2018. Note that in 1H 2017, the net income from financial instruments at fair value through profit or loss was impacted by the positive response by Belfius on the global trend towards derivatives standardization. More in particular, Belfius concluded agreements on certain collateral contracts of derivatives which had a positive impact on the net trading result of EUR 133 million. This positive impact was partially offset by the impact in the net result of hedge accounting of methodological refinements on ALM management of loans, by including more credit contingencies on expected cash-flows, amounting to EUR -174 million.

In 1H 2018, the net income from financial instruments at fair value through profit or loss was negatively impacted by basis risks (reflected in the net result of hedge accounting), though this result is partially offset by the net trading income. More in particular, Belfius is managing basis risks by means of additional derivatives (economic hedges for basis risks) for which no hedge accounting is set up, meaning that the result of these economic hedges is not included in the "net result from hedge accounting" but in the line "net trading income".

Net income on investments and liabilities increased with EUR 2 million to EUR 96 million in 1H 2018. Note that the net income on investments and liabilities of 1H 2017 was impacted by exceptional realized gains from derisking of the remaining US RMBS bond in the former legacy portfolio (for EUR 7 million), whereas in 1H 2018, it was exceptionally positively impacted (for EUR 10 million) following the sale of certain Italian government bond and swap packages, for a notional bond amount of EUR 0.8 billion in line with Belfius' objective to decrease its related concentration risk.

The net income on investments and liabilities for 1H 2018 is overall mainly impacted by the sale of the "NEB Participations" (for EUR 23.6 million), the revaluation of the historical stake in Auxipar following step up acquisition (for EUR 23 million) as well as capital gains on divestments in bonds for EUR 44 million within the insurance group and EUR 10 million within the banking group (former mentioned Italian government bonds impact).

Belfius sold its investments in "NEB Participation" to Nethys. It concerned an associate previously accounted for through the equity method. Belfius realized a capital gain of EUR 23.6 million on this sale. In addition, Belfius has increased, on 29 March, its stake in Auxipar from 39.7% to 74.99% for a price of EUR 29.4 million. The transaction qualifies for Belfius as a business combination achieved in stages and is thus subject to IFRS 3 whereby any previously held interest is adjusted to its fair value as of the acquisition date with any resulting gain reported in the consolidated income statement. Belfius has estimated the fair value of Auxipar at EUR 82.8 million at acquisition date, in line with the acquisition price for 100% of the shares (EUR 83.3 million). The revaluation following the application of IFRS 3 of the previously held interest (recognized at end March 2018 at EUR 33 million) resulted in a capital gain of EUR 23 million.

Net fee and commission income increased with EUR 5 million, or 1.7%, to EUR 277 million. The increase in commissions mainly stems from an increased stock in off-balance sheet assets under management. The positive evolution is stalling somewhat, due to less favorable stock markets and some commercial pressure on the asset management fees.

The **technical result from insurance activities** increases with EUR 85 million from EUR -88 million in 1H 2017 to EUR -3 million in 1H 2018. Note that, since 2014, Belfius has used the results of the liability adequacy test (LAT) to assess the adequacy of its life

Synoptic Consolidated statement of income

(In millions of EUR)	1H 2017 IAS 39	*Contribution Bank into group[1]*	*Contribution Insurance into group[1]*	1H 2018 IFRS 9	*Contribution Bank into group[1]*	*Contribution Insurance into group[1]*	Evolution
INCOME	1,136	864	271	1,173	865	308	+3.3%
of which							
Net interest income	984	*744*	*240*	945	*731*	*215*	-4.0%
Net income from financial instruments at fair value through profit and loss	68	*68*	*0*	14	*17*	*(3)*	-79.1%
Net income on investments and liabilities	94	*16*	*79*	96	*42*	*54*	+1.7%
Net fee and commission income	272	*264*	*9*	277	*265*	*12*	+1.7%
Technical result from insurance activities	(88)	*0*	*(88)*	(3)	*0*	*(3)*	-97.1%
Other income and expense	(243)	*(233)*	*(10)*	(207)	*(199)*	*(8)*	-14.7%
EXPENSES	(662)	(555)	(107)	(690)	(577)	(113)	+4.3%
GROSS INCOME	474	309	165	483	288	195	+1.9%
Impairments on financial instruments and provisions for credit commitments	(24)	*(25)*	*1*	(9)	*(13)*	*4*	-62.2%
Impairments on (in)tangible assets	(5)	*(5)*	*0*	(1)	*(1)*	*0*	-85.7%
NET INCOME BEFORE TAX	445	280	165	473	274	199	+6.3%
Tax (expense) income	(84)	*(45)*	*(39)*	(138)	*(89)*	*(49)*	+64.5%
Current tax (expense) income	(57)	*(16)*	*(41)*	(111)	*(80)*	*(31)*	+94.0%
Deferred tax (expense) income	(27)	*(29)*	*3*	(27)	*(9)*	*(19)*	+1.9%
Attributable to non-controlling interests	0	*0*	*0*	0	*0*	*0*	-
NET INCOME GROUP SHARE	361	235	126	335	185	149	-7.3%

(1) Information based on non-audited figures.

technical provisions life for low interest rates and other risks which demonstrated that the technical provisions were more than sufficient. In 2018, Belfius has defined its Risk Appetite Framework (RAF) for Life reserving under IFRS. The application of the RAF confirmed that the life technical provisions were more than sufficient. In 1H 2018, Belfius assessed these life technical provisions, in line with this RAF, taking into account the remaining uncertainties, model risks and sensitivities, resulting in an impact of EUR 45 million. In Non Life, the technical margin improved with EUR 13 million thanks to an overall better loss ratio and good business development.

Other income and expense improved by EUR 36 million to EUR -207 million. Note that "other income and expense" included in 1H 2017 the recognition of a provision for potential settlements of ongoing disputes with third parties.

Belfius has recognized EUR -222 million in 1H 2018 as sector levies (including the contribution to the Single Resolution Board), compared to EUR -218 million in 1H 2017. Belfius also reports a cumulative stock of EUR 17 million irrevocable payment commitments for Single Resolution Board in its off-balance sheet.

3. Expenses

Notwithstanding important investments in human resources and digitalization and innovation, Belfius continues to operate within a cost containment objective. In 1H 2018, **total expenses** increased to EUR 690 million, an increase of EUR 29 million or 4.3% compared to 1H 2017. Staff expenses increased with EUR 35 million to EUR 294 million. Please note that the staff expenses 1H 2017 were marked by an exceptional positive result of EUR 27 million following the restructuring of a pension plan.

4. Gross income

As a result, **gross income** increased to EUR 483 million in 1H 2018, up EUR 9 million or 1.9% compared to 1H 2017. The banking group contributed EUR 288 million (compared to EUR 309 million in 1H 2017) and the insurance group EUR 195 million (compared to EUR 165 million in 1H 2017).

The consolidated cost-income ratio remains below 60%, although it increased slightly from 58.3% in 1H 2017 to 58.8% in 1H 2018.

5. Impairments on financial instruments and provisions for credit commitments

Impairments on financial instruments and provisions for credit commitments decreased with EUR 15 million to EUR -9 million. The decrease mainly stemmed from the exceptional reversal of EUR 19 million following the sale of certain Italian government bonds in line with Belfius' objective to decrease its related concentration risk. Note that in 1H 2017, an exceptional positive impact (of EUR 10 million) following derisking can be noted, mainly on the sale of the remaining US RMBS bond of the former legacy portfolio.

6. Impairments on tangible and intangible assets

Impairments on tangible and intangible assets amounted to EUR -1 million in 1H 2018 compared to EUR -5 million in 1H 2017. Following the investments in digitalization and innovation, Belfius continues to review the (expected) economic use of its internally developed software and recorded, where necessary, impairments.

7. Net income before tax

Net income before tax stood at EUR 473 million in 1H 2018, up EUR 28 million or 6.3% compared to 1H 2017. The banking group contributed EUR 274 million (compared to EUR 280 million in 1H 2017) and the insurance group EUR 199 million (compared to EUR 165 million in 1H 2017).

8. Tax expense

Tax expense, including deferred taxes, amounted to EUR 138 million in 1H 2018 compared to EUR 84 million in 1H 2017. The tax expense increased compared to 1H 2017 mainly as a result of the use of tax losses in 1H 2017 for which no deferred tax assets were recognized before. Seeing the higher taxable profit in Belgium in 1H 2018, an increase of the effective tax rate (ETR) to 29.2% in 1H 2018 can be noted, compared to 19% in 1H 2017.

9. Net income group share

As a result, Belfius **net income group share** amounted to EUR 335 million in 1H 2018, compared to EUR 361 million in 1H 2017.

11. Dividend

The Board of Directors has decided to pay out an interim dividend of EUR 100 million in September 2018.

12. Solvency Bank

The implementation of IFRS 9 had an impact on the solvency of Belfius Bank. We refer to the chapter "Capital management" of this report for further detail. Hence for comparability purposes, Belfius will analyze its solvency position by comparing the regulatory own funds, risk exposure and solvency ratios at Date of Initial Application (DIA) on 1 January 2018 with those end June 2018.

At the end of June 2018, CET 1 ratio (Fully Loaded) amounted to 16.3%, an increase of 11 bps compared to 1 January 2018.

Please note that the CET 1 ratio end 1H 2018 takes into account a foreseeable dividend of EUR 171 million, based on a 60% target dividend pay-out ratio for 2018, in line with Belfius Bank's current dividend policy. Note also that if Belfius Bank would pay a potential extra ordinary dividend of EUR 400 million (still to be decided upon), as sometimes referred to by media in light of Belfius' potential IPO, it would result in a (pro forma) CET 1 ratio of 15.5%.

The increase in CET 1 ratio since 1 January 2018 is the result of positive effects in CET 1 capital (+17 bps) offset by negative effects in total risk exposure (-6 bps).

CET 1 capital (Fully Loaded) amounted to EUR 8,341 million, compared with EUR 8,253 million at 1 January 2018. The increase in CET 1 capital of EUR 88 million results mainly from the inclusion of the regulatory net profit, and net of the foreseeable dividend, and despite the decrease of the "gains and losses not recognized in the statement of income".

At the end of June 2018, regulatory risk exposure (Fully Loaded) of Belfius amounted to EUR 51,218 million, an increase with EUR 179 million compared to EUR 51,039 million at 1 January 2018.

The regulatory credit risk exposure decreased by EUR 257 million to EUR 39,181 million. This evolution results from diverging trends. First of all, the credit risk exposures increased in all segments (excluding in public and social) in the first semester of 2018 in line with the commercial strategy. Secondly, different regulatory measures have come into force since 1 January 2018, the most important measure being the new macro-prudential measure related to residential real estate exposures imposed by the National Bank of Belgium. However, these developments leading to higher risk weighted assets for credit risk have been fully compensated by some active derisking conducted by Belfius. The most noticeable de-risking action concerns the sale of Italian bonds in 1Q 2018 (for more than EUR 1 billion exposure).

The regulatory market risk exposure increased by EUR 481 million to EUR 2,322 million, mostly due to an increase in derivatives activities stemming from our financial markets' client flow management activities, servicing the commercial activities, where an increase in equity derivative positions (as hedge for an increase in commercial volumes in equity linked products) and in interest rate derivative positions, all respecting Belfius' market risk limits framework, can be noticed.

The regulatory operational risk exposure – based on the standardized approach – and the regulatory risk exposure for Danish Compromise remained stable over the semester, at respectively EUR 2,932 million and EUR 6,783 million.

Tier 1 capital is no longer equal to the CET 1 capital and amounted to EUR 8,838 million, compared to EUR 8,253 million at 1 January 2018, following the additional Tier 1 issue of EUR 500 million (nominal value) in February 2018.

The total capital ratio amounted to 20.0%, an increase of 166 bps compared to 1 January 2018.

More detailed information is provided in the "Capital management" chapter of this half-yearly report.

12. Solvency Insurer

The Solvency II ratio of Belfius Insurance stood at 216% at the end of June 2018, before foreseeable dividend, slightly lower than the ratio as of December 2017. The Available Financial Resources (AFR) slightly decreased over the first half year from EUR 2,469 million as of 1 January 2018 to EUR 2,417 million at the end of June 2018. The decrease is mainly due to the increase in credit spreads observed during the first semester of 2018 and the decrease of the Ultimate Forward Rate used in the Best Estimate calculations.

Belfius Insurance's required capital slightly increased from EUR 1,128 million at the end of 2017 to EUR 1,149 million at the end of June 2018. This results from a slightly increased equity risk, a lower loss absorbing capacity of technical provisions and deferred taxes which are only partially compensated by a lower interest and spread risk compared to end 2017.

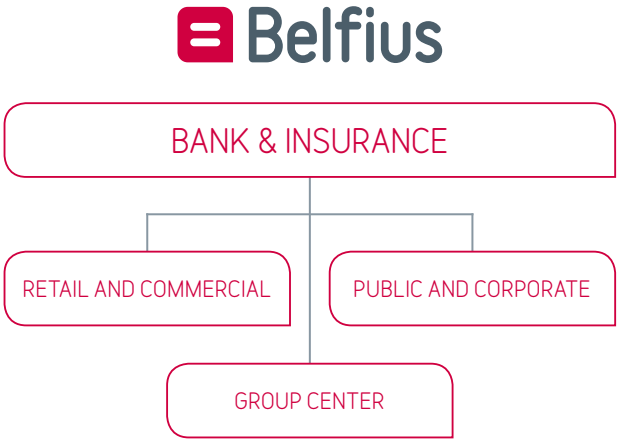
Net of the foreseeable dividend of EUR 60 million, the Solvency II ratio 1H 2018 amounts to 210%.

More detailed information is provided in the "Capital management" chapter of this half-yearly 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.



KEY FIGURES OF THE SEGMENT REPORTING (UNAUDITED)

Balance Sheet

	31/12/17 (IAS 39)		
(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.

	30/06/18 (IFRS 9)		
(In billions of EUR)	Assets	Liabilities	Equity
Retail and Commercial (RC)	56.9	79.0	2.5
Public and Corporate (PC)	42.2	25.5	2.4
Group Center (GC)	67.8	52.6	5.0
TOTAL	**167.0**	**157.1**	**9.9**
of which banking group	*148.6*	*139.6*	*9.0*
of which insurance group[1]	*18.4*	*17.4*	*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 June 2018.

The equity allocated to Retail and Commercial and Public and Corporate is a normative regulatory equity, which is derived from the regulatory risk exposures of these business lines multiplied by 13.5% (Belfius' minimum operational CET 1 ratio).

KEY FIGURES OF THE SEGMENT REPORTING (UNAUDITED)

Statement of income

(In millions of EUR)	1H 2017 (PF[1]) Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	872	293	(30)	1,136
EXPENSES	(499)	(100)	(62)	(662)
GROSS INCOME	373	193	(92)	474
Cost of risk	(19)	(11)	5	(24)
Impairments on (in)tangible assets	(4)	(1)	0	(5)
NET INCOME BEFORE TAX	351	181	(87)	445
Tax (expense) income	(106)	(59)	81	(84)
NET INCOME AFTER TAX	245	122	(6)	361
Non-controlling interests				
NET INCOME GROUP SHARE	245	122	(6)	361
of which banking group	*138*	*110*	*(13)*	*235*
of which insurance group[2]	*107*	*12*	*7*	*126*

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018, resulting in higher income for Retail and Commercial and for Public and Corporate and lower income for Group Center. These analytical adjustments have no impact on the total results of Belfius.
(2) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

(In millions of EUR)	1H 2018 Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	859	293	22	1,173
EXPENSES	(509)	(113)	(68)	(690)
GROSS INCOME	350	180	(47)	483
Cost of risk	(16)	(13)	20	(9)
Impairments on (in)tangible assets	(1)	0	0	(1)
NET INCOME BEFORE TAX	333	166	(26)	473
Tax (expense) income	(92)	(40)	(7)	(138)
NET INCOME AFTER TAX	241	127	(33)	335
Non-controlling interests				
NET INCOME GROUP SHARE	241	127	(33)	335
of which banking group	*118*	*108*	*(40)*	*185*
of which insurance group[1]	*123*	*19*	*7*	*149*

(1) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

RETAIL AND COMMERCIAL (RC)

Commercial performance in 1H 2018

The commercial activity continues to show excellent dynamics. Belfius enjoys a strong growth in **total savings and investments** of EUR 2.1 billion in 1H 2018, amounting to EUR 106.5 billion thanks to strong organic growth in non-maturing products.

On-balance sheet deposits totalled EUR 66.2 billion on 30 June 2018, up +4.0% from the end of 2017. There was very good growth in the funds deposited in current and savings accounts, which reached EUR 13.0 billion (+11.8%) and EUR 42.6 billion (+2.8%) respectively at the end of June 2018. Less customer funds found their way to long-term fixed rate investments, resulting in a drop of 4.2% for savings certificates to an amount of EUR 2.2 billion. The less favourable stock markets and the further evolved MIFID regulation lead to a change in product mix with more non-maturing deposit products versus fewer asset management products.

Off-balance sheet investments went slightly down by 0.8% in 1H 2018, compared to the end of 2017, to EUR 30.1 billion, mainly due to unfavourable market conditions.

Retail and Commercial (Unaudited) (In billions of EUR)	30/06/17 (PF[1])	31/12/17 (PF[1])	30/06/18	Evolution 06/18 - 12/17
TOTAL SAVINGS AND INVESTMENTS	103.6	104.4	106.5	+2.0%
DEPOSITS	63.5	63.6	66.2	+4.0%
Savings accounts	*41.1*	*41.5*	*42.6*	*+2.8%*
Savings certificates	*2.4*	*2.3*	*2.2*	*-4.2%*
Bonds issued by Belfius	*7.9*	*7.8*	*8.0*	*+1.6%*
Current accounts	*11.7*	*11.6*	*13.0*	*+11.8%*
Term accounts	*0.4*	*0.4*	*0.4*	*-4.6%*
OFF-BALANCE SHEET INVESTMENTS[1]	29.9	30.4	30.1	-0.8%
LIFE INSURANCE RESERVES[2]	10.2	10.4	10.2	-1.4%
Life Branch 21	*7.3*	*7.2*	*6.9*	*-4.5%*
Life Branch 23	*1.0*	*1.1*	*1.2*	*+8.1%*
Life Branch 44	*2.0*	*2.1*	*2.1*	*+4.2%*

(1) On 6 March 2018, the Belgian Council of State cancelled the Arco co-operative guarantee scheme (which has been organized by Royal Decrees in 2011). Important uncertainties remain with respect to the contemplated sustainable and structured solution (i.e. position of the European Commission on the contemplated solution, adherence of Arco shareholders, the uncertain impact on the litigation proceedings, market circumstances, etc). The reporting of Arco shares was adapted, and the current value of the shares has been set to "indeterminable". As a consequence the off-balance sheet investments and the total savings and investments have been decreased by EUR 1.5 billion.
(2) Investment products.

Retail and Commercial (Unaudited) (In billions of EUR)	30/06/17	31/12/17	30/06/18	Evolution 06/18 - 12/17
TOTAL LOANS TO CUSTOMERS	43.5	45.0	46.5	+3.2%
Mortgage loans	*29.8*	*30.6*	*31.2*	*+2.1%*
Consumer loans	*1.4*	*1.5*	*1.6*	*+10.7%*
Business loans	*11.8*	*12.5*	*13.1*	*+5.0%*
Other retail loans	*0.5*	*0.5*	*0.6*	*+4.2%*

Retail and Commercial (Unaudited) (In billions of EUR)	30/06/17	31/12/17	30/06/18	Evolution 06/18 - 12/17
TOTAL LIFE INSURANCE RESERVES[1]	12.8	12.9	12.9	+0.3%
Guaranteed products (Branch 21/26)	10.4	10.4	10.1	-2.1%
Unit-Linked (Branch 23)	2.4	2.5	2.8	+9.8%

(1) Investment products and insurance products.

Life insurance reserves for investment products amounted to EUR 10.2 billion, down 1.4% compared to the end of 2017. Investments in Branch 21 life insurance guaranteed products decreased because of the low interest rates, but that drop was partially offset by a strong increase in Branch 23 and Branch 44 products.

Total loans to customers rose strongly to EUR 46.5 billion at the end of June 2018. The increase occurred mainly in consumer loans (+10.7%) and business loans (+5.0%). Mortgage loans, which account for two thirds of all loans in this segment, amounted to EUR 31.2 billion at the end of June 2018 and remained at a high level with an increase of 2.1 % compared to the end of 2017.

New long term loans granted to retail and commercial clients during 1H 2018 amounted to EUR 5.2 billion compared to EUR 4.9 billion in 1H 2017. In 1H 2018, the new production of mortgage loans slightly decreased from EUR 2.9 billion in 1H 2017 to EUR 2.7 billion. During the same period, EUR 2.0 billion in new long-term business loans were granted, up 21.7% compared to 1H 2017. Belfius assisted 6,460 new start-ups in 1H 2018.

The **total insurance premium production** from customers in the Retail and Commercial segment amounted to EUR 951 million in 1H 2018, compared to EUR 916 million in 1H 2017, an increase of 3.8%.

Life insurance production stood at EUR 656 million in 1H 2018[1], up 2.7% compared to 1H 2017[2]. Unit-linked (Branch 23) premiums went up strongly (+11.9%). Traditional Life (Branch 21/26) production decreased (-6.1%) following the low interest rate environment. These evolutions demonstrate the life product mix transformation: less guaranteed products and more unit-linked products.

Non-Life insurance production in 1H 2018 stood at EUR 295.5 million, up 6.3% compared to 1H 2017, thanks to the bank distribution channel and good performance in all other strategic distribution channels (e.g. Corona Direct Insurance, DVV).

(1) Of which EUR 478.3 million Gross Written Premiums and EUR 177.3 million transfers.
(2) Of which EUR 319.6 million Gross Written Premiums and EUR 318.6 million transfers.

Indeed, thanks to the "one-stop-shopping" concept of Belfius, the mortgage loan cross-sell ratio for property insurance stood at 84.7% in 1H 2018 compared to 84.3% in 1H 2017. With a ratio of 139% in 1H 2018 Belfius also continues to show a solid mortgage loan cross-sell ratio for credit balance insurance.

Total insurance reserves in the Retail and Commercial segment amounted to EUR 14.0 billion. Life insurance reserves increased since the end of 2017 by 0.3% to EUR 12.9 billion in 1H 2018 in a context of historically low interest rates. Unit-linked reserves (Branch 23) increased by 9.8%, while traditional guaranteed life reserves (Life Branch 21/26) decreased by 2.1%, demonstrating the life product mix transformation from guaranteed products to unit-linked products. Non-life reserves remained stable at EUR 1 billion.

Belfius continues to set the pace in **mobile banking** in Belgium and further developed its **digitally supported business model**. On 30 June 2018, Belfius apps for smartphones and tablets had 1,151,000 users (+7.5% compared to end of 2017) and were consulted by customers on average (slightly more than) once a day. The very 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 direct channels. In 1H 2018, 46% of the new pension saving contracts, 30% of the new credit cards and 27% of the new savings accounts were subscribed via direct channels.

Financial results 1H 2018

RC net income after tax decreased slightly from EUR 245 million in 1H 2017 to EUR 241 million in 1H 2018.

Financial Results RC (In millions of EUR)	1H 2017 (PF[1]) IAS 39	1H 2018 IFRS 9
INCOME	872	859
Net interest income bank	*456*	*424*
Net fee and commissions bank	*243*	*239*
Life insurance contribution	*143*	*153*
Non-life insurance contribution	*82*	*101*
Other	*(51)*	*(58)*
COSTS	(499)	(509)
GROSS INCOME	373	350
Cost of risk	(19)	(16)
Impairments on (in)tangible assets	(4)	(1)
NET INCOME BEFORE TAXES	351	333
Taxes	(106)	(92)
NET INCOME AFTER TAXES	245	241
Non controlling interests		
NET INCOME GROUP SHARE	245	241
ADJUSTED NET INCOME GROUP SHARE	242	233

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018.

Ratios (in %)	1H 2017 (PF[1])	1H 2018
Cost-income ratio[2]	57.2%	59.3%
RoNRE[3]	21.7%	20.6%

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018.
(2) Expenses relative to income.
(3) 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)	June 2017 (PF[1])	Dec. 2017	June 2018
Normative regulatory equity[2]	2,257	2,300	2,476
Regulatory risk exposures	16,859	17,476	18,568

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018.
(2) The Normative regulatory equity of the business line is derived from the regulatory risk exposures of the business line multiplied by 13.5%.

In 1H 2018, **total income** amounted to EUR 859 million, down 1.5 % compared to 1H 2017, demonstrating the resilience of Belfius RC's business model in the context of the adverse interest rate environment and the less favourable financial markets.

- Net interest income of the bank amounted to EUR 424 million, a decrease of 7%, driven by margin pressure on non-maturing deposits, partially compensated by strong RC loan volume growth at loan margins still slightly above margins on RC loan stock.
- Net fee and commission of RC bank slightly decreased by 1.9% and amounted to EUR 239 million in 1H 2018 as implementation of MiFID II and less favourable financial markets are slowing down net inflows in investment products.
- Life insurance contribution amounted to EUR 153 million, up 7.7% compared to 1H 2017. This increase results mainly from the reassessment of technical provisions in line with Belfius Insurance's risk tolerance policy and from the analytical reallocation of the revaluation (EUR 8 billion) of the previously held interest of Belfius Insurance in Auxipar.
- Non-Life insurance contribution increased strongly by 23.5% and amounted to EUR 101 million in 1H 2018. This positive evolution results from the excellent dynamics in Non-Life, especially in the bank distribution channel.
- The consolidated other income amounted to EUR -58 million compared to EUR -51 million in 1H 2018, mainly driven by analytical allocated sector levies.

In 1H 2018 **total expenses** amounted to EUR 509 million, an increase of EUR 10 million or 1% compared to 1H 2017 in line with Belfius' digital and human investment program.

As a result, **gross income** decreased to EUR 350 million in 1H 2018, down EUR 23 million or 6.3% compared to 1H 2017.

The **cost of risk** still remains at historically low levels, demonstrating a good credit quality in current benign environment, and amounted to EUR 16 million in 1H 2018.

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

Pre-tax income stood at EUR 333 million, down EUR 18 million or 5.1% compared to 1H 2018.

Tax expenses amounted to EUR 92 million in 1H 2018 compared to EUR 106 million in 1H 2017. This decrease is mainly due to lower profit before taxes.

Despite the pressure on net interest income, **total net income** decreases by only 1.4% and amounts to EUR 241 million in 1H 2018.

Excluding the already abovementioned special elements item, the **adjusted**[1] **net income** RC amounts to EUR 233 million in 1H 2018, down 3.6% compared to 1H 2017.

RC cost-income ratio amounted to 59.3%, compared to 57.2% in 1H 2017. The Return on Normative Regulatory Equity (RoNRE) stood at 20.6%.

(1) Adjusted Results and Special items are Alternative Performance Measures and are defined and reconciled in the APM - document on the website : *www.belfius.be/results*

PUBLIC AND CORPORATE (PC)

Commercial performance in 1H 2018

On 30 June 2018, **total savings and investments** stood at EUR 32.9 billion, an increase of 2.4% compared with the end of 2017. **On-balance sheet deposits** decreased by EUR 0.6 billion (-2.6%), to EUR 22.6 billion. The **off-balance sheet investments** registered an increase of 16.6% to reach EUR 9.7 billion. **Life insurance reserves for investment** products amounted to EUR 0.6 billion.

Total outstanding loans increased by EUR 0.7 billion (or 2.0%) to EUR 39.0 billion. Outstanding loans in Public and Social banking slightly 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' commercial strategy towards Belgian corporates results in an increase of 8.8% (compared to December 2017) of outstanding loans to EUR 11.8 billion at the end of June 2018. Off-balance sheet commitments increased with 3.7% to EUR 21.2 billion.

Belfius granted EUR 3.1 billion (+21%) of new long-term loans in the Belgian economy for Corporate customers and the Public sector in 1H 2018. Long-term loan production for Corporate customers increased by 24% to EUR 2.3 billion. This increase is a.o. the result of our growth ambition in this corporate segment and a pertinent and clear positioning as a "Business to Government" market specialist.

Despite poor market demand in 1H 2018, Belfius still granted EUR 0.8 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. It manages the treasury of practically all local authorities.

Belfius also confirmed its position as leader in Debt Capital Markets (DCM) for (semi-)Public and Corporate customers by offering diversified financing solutions. During 1H 2018, the bank has placed a total funding amount of EUR 2.9 billion short term and EUR 0.3 billion long term notes (allocated amount) for public and social sector clients and kept its level of participation rate at 85%. The long term funding amount placed is slightly lower than in 1H 2017 partly due to one delayed benchmark transaction of a large public entity towards 2H 2018. With a participation rate of 44% in new long term bond issuances, Belfius also confirmed during 1H 2018 its position as leader in bond issues for Belgian corporate clients, and placed a total amount of EUR 1.0 billion short term and EUR 0.1 billion long term notes.

Belfius also structured and placed capital market transactions within Equity Capital Markets (ECM), such as IPO's, capital increases and private placement of shares for various corporate clients in 1H 2018. These mandates were executed in close cooperation with Kepler Cheuvreux, Europe's leading independent equity broker, with whom Belfius entered into a strategic partnership in November 2017 to create a new equity franchise with strong local presence in Belgium. Additionally, Kepler Cheuvreux also published its first independent equity research reports for listed Belgian corporates in 1H 2018.

With regard to **insurance activities**, total gross production in the Public and Corporate segment amounted to EUR 225 million in 1H 2018. Gross production in the life segment amounted to EUR 141 million in 1H 2018, down 11% compared to 1H 2017, mainly due to the historically low interest rate environment. Gross production in the non-life segment amounted to EUR 85 million in 1H 2018, a decrease of almost EUR 5 million or 5.5% compared to 1H 2017. In 2Q 2018, Belfius Insurance decided to focus its non-life insurance

Public and Corporate (Unaudited) (In billions of EUR)	30/06/17	31/12/17	30/06/18	Evolution 06/18 - 12/17
TOTAL SAVINGS AND INVESTMENTS	30.8	32.1	32.9	+2.4%
Deposits	22.1	23.2	22.6	-2.6%
Off-balance sheet investments	8.1	8.3	9.7	+16.6%
Life insurance reserves(1)	0.6	0.6	0.6	-1.7%

(1) Investment products.

Public and Corporate (Unaudited) (In billions of EUR)	30/06/17	31/12/17	30/06/18	Evolution 06/18 - 12/17
OUTSTANDING LOANS	39.2	38.3	39.0	2.0%
Public and Social	28.8	27.4	27.3	-0.7%
Corporate	10.3	10.8	11.8	8.8%
OFF-BALANCE SHEET COMMITMENTS	19.2	20.5	21.2	3.7%

Public and Corporate (Unaudited) (In billions of EUR)	1H 2017	1H 2018	Evolution
TOTAL PREMIUMS RECEIVED	248	225	-9,0%
Life	*158*	*141*	*-11,0%*
Non-life	*90*	*85*	*-5,5%*

business on the segment of social sector through direct distribution and to put the non-life-activities towards other institutional and corporate customers through the brokerage channel in run-off, and to reallocate freed-up resources to its strong developing non-life insurance business with SME customers through its own (bank and DVV) distribution channels.

Financial results 1H 2018

PC net income after tax rose from EUR 122 million in 1H 2017 to EUR 127 million in 1H 2018, up 3.9% thanks to continued solid commercial dynamics, especially the higher volumes in corporate loans and a good contribution from Financial Management Services (DCM & ECM), compensating for pressure on the interest margin, specifically on non-maturing deposits.

In 1H 2018, **total income** remained stable compared to 1H 2017 and amounts to EUR 293 million.

- Net interest income of the bank amounted to EUR 200 million, up 12.7% compared to 1H 2017, mainly thanks to higher loan volumes compensating for pressure on interest margin especially on non-maturing deposits.
- Net fee and commission income of PC bank remained stable in 1H 2018 and amounted to EUR 26 million.
- Income from Life insurance contribution amounted to EUR 38 million, up EUR 21 million compared to 1H 2017. This increase results from a reassessment of technical life provisions in 1H 2018 whereas 1H 2017 was negatively impacted by some provisions for (discretionary) profit sharing.
- Non-life insurance result was impacted by higher loss ratios in car insurance and in workers compensation.

Financial Results PC (In millions of EUR)	1H 2017 (PF[1]) IAS 39	1H 2018 IFRS 9
INCOME	293	293
Net interest income bank	*177*	*200*
Net fee and commissions bank	*25*	*26*
Life insurance contribution	*17*	*38*
Non-life insurance contribution	*16*	*6*
Other	*59*	*24*
COSTS	(100)	(113)
GROSS INCOME	193	180
Cost of risk	(11)	(13)
Impairments on (in)tangible assets	(1)	0
NET INCOME BEFORE TAXES	181	166
Taxes	(59)	(40)
NET INCOME AFTER TAXES	122	127
Non controlling interests		
NET INCOME GROUP SHARE	122	127
ADJUSTED NET INCOME GROUP SHARE	118	103

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018.

Ratios (in %)	1H 2017 (PF[1])	1H 2018
Cost-income ratio[2]	34.2%	38.5%
RoNRE[3]	11.3%	11.3%

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018.
(2) Expenses relative to income.
(3) 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)	June 2017 (PF[1])	Dec. 2017	June 2018
Normative regulatory equity[2]	2,152	2,235	2,368
Regulatory risk exposures	16,212	16,805	17,763

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018.
(2) 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 24 million, down by 59.7% or EUR 29 million. This is mainly stemming from the negative evolution of the credit spreads in 1H 2018 impacting fair value adjustments on non-collateralized derivatives with PC customers compared to the same period last year, partially offset by the capital gain (EUR 24 million) on the sale of the NEB participation.

In 1H 2018, **total expenses** increased in line with Belfius' Group digital and human investment program and amounted to EUR 113 million, up 12.3% compared to 1H 2017. The reported cost-income ratio remained at a low level of 38.5%.

As a result, the **gross income** decreased with EUR 13 million compared to 1H 2017 to EUR 180 million in 1H 2018.

The **cost of risk** amounted to EUR 13 million in 1H 2018. A slight increase of EUR 2 million compared to 1H 2017 in line with the commercial momentum in the corporate segment. The cost of risk remains at a historically low level, demonstrating the good credit quality of the PC franchise in current benign environment.

Pre-tax income stood at EUR 166 million, down EUR 15 million or 8.1% compared to1H 2017.

Tax expenses amounted to EUR 40 million in 1H 2018 compared to EUR 59 million in 1H 2017.

As a result, Belfius' PC **net income group share** amounted to EUR 127 million in 1H 2018, compared to EUR 122 million in the same period of last year.

Excluding the above mentioned special items, the **total adjusted**[1] **net income** PC amounts to EUR 103 million in 1H 2018, down 12.9% compared to 1H 2017.

The Return on Normative Regulatory Equity (RoNRE) stood at 11.3%.

GROUP CENTER (GC)

From 1 January 2017, Group Center operates through two subsegments.

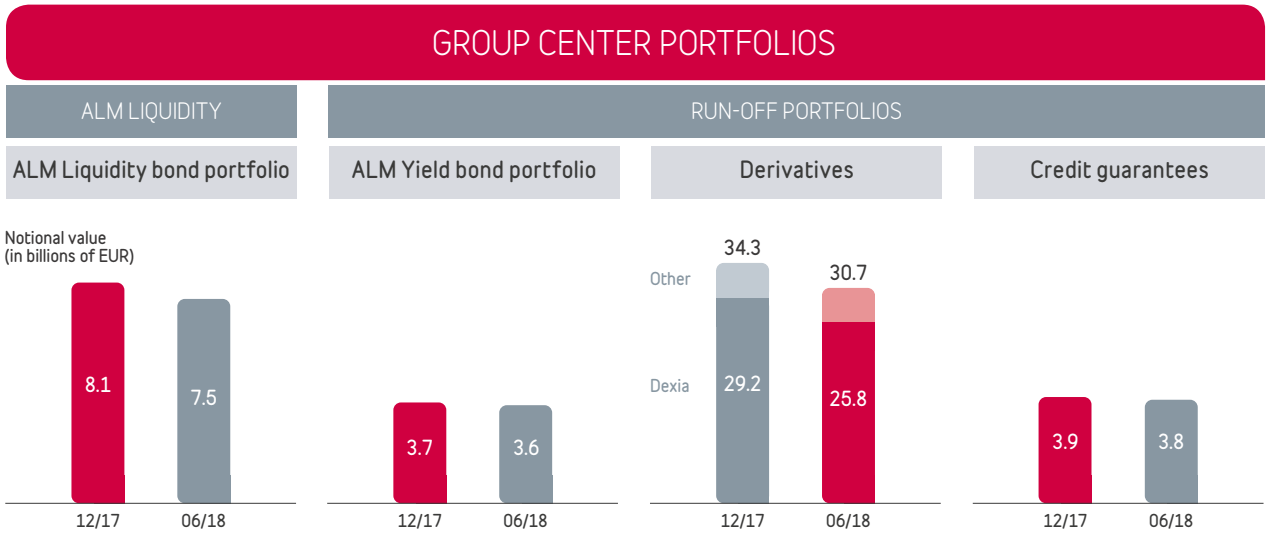
- Run-off portfolios which are mainly comprised of
  - a portfolio of bonds issued by international issuers, especially active in the public and regulated utilities sector (which includes the UK inflation-linked bonds), covered bonds and ABS/RMBS , the so-called ALM Yield bond portfolio;
  - a portfolio 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.

(1) Adjusted Results and Special items are Alternative Performance Measures and are defined and reconciled in the APM – document on the website : *www.belfius.be/results*



At the end of June 2018, the ALM Yield bond portfolio stood at EUR 3.6 billion[1], down 0.7% compared to December 2017, mainly due to amortizations. End of June 2018, the portfolio was composed of corporates (70%), sovereign and public sector (12%), asset-backed securities (11%), and financial institutions (7%). Almost 85% 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 June 2018, the ALM Yield bond portfolio has an average life of 20.5 years and the average rating remained at A. 95% of the portfolio is investment grade (IG).

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 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 amounted to EUR 30.7 billion[1] at the end of June 2018 (compared to EUR 34.3 billion at the end of December 2017), of which EUR 25.8 billion with Dexia entities (compared to EUR 29.2 billion at the end of December 2017). The fair value of those Dexia derivatives amounts to EUR 4.1 billion.

At the end of June 2018, the average rating of the portfolio stood at A- and the average residual life of the portfolio stood at 14.3 years[2].

Credit guarantees

At the end of June 2018, the credit guarantees portfolio amounted to EUR 3.8 billion[1], down 2% compared to December 2017, 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 June 2018, the average rating of the portfolio remained at A- and the average residual life of the portfolio stood at 10.1 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 June 2018, the ALM Liquidity bond portfolio stood at EUR 7.5 billion[1], down EUR 0.5 billion or 7% compared to December 2017, mainly due to the sale of Italian sovereign bonds (EUR 0.8 billion) partially compensated by a reinvestment program of EUR in LCR eligible bonds. End of June 2018, the portfolio was composed of sovereign and public sector (67%), covered bonds (25%), asset-backed securities (5%) and corporates (2%). The Italian government bonds in the ALM Liquidity bond portfolio amounted to EUR 1.5 billion[1] as of 30 June 2018.

At the end of June 2018, 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)).

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.

(1) Nominal amount
(2) Calculated on EAD

Financial Results GC (In millions of EUR)	1H 2017 (PF[1]) IAS 39	1H 2018 IFRS 9
INCOME	(30)	22
of which		
Net interest income bank	*111*	*107*
Other	*(127)*	*(77)*
COSTS	(62)	(68)
GROSS INCOME	(92)	(47)
Cost of risk	5	20
Impairments on (in)tangible assets	0	0
NET INCOME BEFORE TAXES	(87)	(26)
Taxes	81	(7)
NET INCOME AFTER TAXES	(6)	(33)
Non controlling interests		
NET INCOME GROUP SHARE	(6)	(33)
AJUSTED NET INCOME GROUP SHARE	19	12

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018.

Financial results 1H 2018

GC net income after tax stood at EUR -33 million in 1H 2018, compared to EUR -6 million in 1H 2017.

In 1H 2018, **total income** amounted to EUR 22 million, that is EUR 52 million more than in 1H 2017. This strong increase results from:

- realised gains on the sale of Italian Government bonds (EUR 10 million) in the first quarter of 2018, in line with Belfius' objective to flexibly manage part of its concentration risk on Italian government exposure;
- further solid balance sheet management, and more specifically: excellent ALM management in current low interest rate environment, and lower funding costs of collateral in benign liquidity markets;
- the analytical reallocation of the revaluation (EUR 15 billion) of the previously held interest of Belfius Bank in Auxipar contributed also positively to the total income.

Note that the GC total income in the first half is also impacted by the IFRC 21 adjustments of sector levies (EUR 111 million in 1H 2018 compared to EUR 109 million in 1H 2017).

In 1H 2018, **total expenses** slightly increased from EUR 62 million in 1H 2017 to EUR 68 million, mainly as a result of Belfius' digital and human investment program. EUR 5 milllion restructuring costs were booked as special item at Belfius Insurance, for implementing its decision to run off its PC Non Life via brokers-business.

The **gross income** improved significantly from EUR - 92 million in 1H 2017 compared to EUR -47 million in 1H 2018.

The **cost of risk** stood at EUR +20 million, mainly stemming from reversal of provision (EUR 19 million) related to the Italian government bonds sold in the first quarter of 2018.

Pre-tax income stood at EUR -26 million in 1H 2018 compared to EUR -87 million in 1H 2017.

Taxes amounted to EUR -7 million in 1H 2018 compared to EUR +81 million in 1H 2017. This evolution is mainly stemming from the positive impacts of recognizing deferred tax assets on formerly impaired ones in 1H 2017 whereas in 1H 2018 there were negative impacts: next to having more taxable profit in Belgium, unfavourable financial markets have lead to some negative trading and hedge results in our ex-legacy book managed in Ireland, not translating into any deferred tax asset at this stage.

As a result, Belfius' GC **net income group share** amounted to EUR -33 million in 1H 2018, compared to EUR -6 million in 1H 2017.

Excluding the previously mentioned special items, the **adjusted**[1] **net income** GC amounts to EUR 12 million, down 38% compared to 1H 2017.

(1) Adjusted Results and Special items are Alternative Performance Measures and are defined and reconciled in the APM - document on the website : *www.belfius.be/results*

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:

- the minimum capital requirements ("Pillar 1 requirements") as provided for by Article 92 of Regulation (EU) No 575/2013 (CRR IV);
- the capital requirements that are imposed by the decision following the SREP in application of Article 16(2)(a) of Regulation (EU) No 1024/2013 and which go beyond the Pillar 1 requirements ("Pillar 2 requirements");
- the combined buffer requirement as defined in Article 128(6) of Directive 2013/36/EU (CRD IV).

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 buffer for (other) domestic systemically important institutions (O-SII buffer) of 1.5% (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 2018.

Please note that from 1 January 2018, the transitional measures for the regulatory capital are no longer applicable for Belfius Bank. The consolidated CET 1 ratio ("fully loaded") of Belfius stood at 16.3% at the end of 1H 2018, well above the abovementioned 2018 applicable CET 1 capital requirement.

Further to these regulatory requirements, in current market circumstances and under current regulations, Belfius had defined a minimum operational CET 1 ratio of 13.5%, on solo and consolidated levels. This ratio is intended to maintain Belfius' distribution assessment and decision autonomy under stressed financial environments. In addition, Belfius will for the time being manage with a target CET 1 ratio that will be 2% higher than this minimum operational level to take into account additional unforeseeable elements. Belfius intends to manage its solvency in line with this target ratio in normal times and on a steady state basis, unless the above mentioned buffer is (partially or entirely) used, and as long as regulations on statutory and/or consolidated capital ratios would not materially change.

1.2. Applied methodology

In line with CRR/CRD IV regulations part X, Belfius was 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 was referenced as the "phased in" calculation. The measures impacting the CET 1 capital ended 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 to monitor and report solvency on the prudential scope, where Belfius Insurance is equity-accounted for (hence not fully consolidated but treated as a third party), and as such, 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 June 2018, Belfius also complies with all requirements requested from a financial conglomerate point of view.

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

The implementation of IFRS 9 as of 1 January 2018 (DIA, Date of Initial Application), had an impact on Belfius' solvency ratios. The impacts of the initial application of IFRS 9 were recognized in retained earnings and OCI which impacts the regulatory own funds. An additional impact was noted on risk exposures due to impacts on balance sheet exposure amounts from reclassifications.

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 – Date of Initial Application[1]	(291)
ACCOUNTING CORE SHAREHOLDERS' EQUITY 01/01/18	8,794
Transformation of the insurance group in a third party exposure	(46)
Elimination DIA adjustments BI group	(15)
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS 01/01/18	8,733

(1) The tables given above are identical to the disclosure made in the 2017 Annual Report, except for an adjustment to deferred tax. The change related to a refinement of the tax rates used to calculate the deferred taxes

We refer to the transition tables in chapter 3 of the condensed consolidated interim financial statements of 1H 2018 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 the prudential scope.

For comparison reasons, we have performed a pro forma calculation of the CET 1 ratio as at 1 January 2018, DIA of IFRS 9.

The reconciliation table between accounting core shareholders' equity on 31 December 2017 towards the starting point for the regulatory core own funds on 1 January 2018 is detailed above.

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.

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 (CET 1 CAPITAL) FULLY LOADED	8,037	8,253
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS[1]	9,039	8,733
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)	(387)
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 IRB	138	138
General credit risk adjustments SA (standard approach)	20	20
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) FULLY LOADED	9,134	9,350

(1) The tables given above are identical to the disclosure made in the 2017 Annual Report, except for an adjustment to deferred tax. The change related to a refinement of the tax rates used to calculate the deferred taxes

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 positive 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[1]	39,073	39,438
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	51,039

(1) The tables given above are identical to the disclosure made in the 2017 Annual Report, except for an adjustment to deferred tax. The change related to a refinement of the tax rates used to calculate the deferred taxes.

As such, after DIA of IFRS 9 the CET1 ratio (pro forma 1 January 2018) amounts to:

(In %)	31/12/17	01/01/18	Delta
CRR/CRD IV (FULLY LOADED)			
Common Equity Tier 1 ratio (CET 1-ratio)[1]	15.9%	16.2%	29 bps
Tier 1-capital ratio (T1-ratio)[1]	15.9%	16.2%	29 bps
TOTAL CAPITAL RATIO[1]	18.1%	18.3%	27 bps

(1) The tables given above are identical to the disclosure made in the 2017 Annual Report, except for an adjustment to deferred tax. The change related to a refinement of the tax rates used to calculate the deferred taxes

3. Regulatory own funds on consolidated level

As indicated above, for regulatory reporting purposes, Belfius Insurance group is not consolidated and its assets and liabilities are to be 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.

Again, for comparison reasons, Belfius has added the pro forma regulatory own funds calculations on 1 January 2018, DIA of IFRS 9.

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

(In millions of EUR)	01/01/18	30/06/18
ACCOUNTING CORE SHAREHOLDERS' EQUITY	8,794	8,832
Transformation of the insurance group into a third party exposure	(46)	(107)
Elimination DIA adjustments BI group	(15)	0
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,733	8,725

At the end of June 2018, the starting point for the regulatory core own funds amounted to EUR 8,725 million, a decrease of EUR 8 million stemming from the inclusion of the regulatory net result of 1H 2018 of 283 million EUR, the deduction of the dividend of 363 million EUR over the year 2017 (net of EUR 75 million of 2017 interim dividend already paid in 3Q 2017) and the decrease of 4 million EUR (before tax) due to the payment in April 2018 of the dividend on the Additional Tier 1 instrument.

Note that the net income (EUR 283 million) differs from the consolidated net income (EUR 335 million) due to the "prudential" consolidation scope, as described above. The scope change adjustments can be detailed as follows:

(In millions of EUR)	FY 2017	30/06/18
CONSOLIDATED NET INCOME	606	335
Elimination of Belfius Insurance	(171)	(149)
Scope changes:		
dividend (Belfius Insurance)	120	120
other	5	(23)
REGULATORY NET INCOME	560	283

In the regulatory own funds calculations using the CRR/CRD IV regulations, Belfius Bank applies the "fully loaded" method as from 1 January 2018. The transitional measures on CET 1 capital ended on 31 December 2017, moreover Belfius Bank has no Tier 2 instruments anymore subject to the transitional measures applicable till 31 December 2021.

Regulatory own funds

(In millions of EUR)	01/01/18	30/06/18
COMMON EQUITY TIER 1 CAPITAL (CET 1 CAPITAL) FULLY LOADED	8,253	8,341
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,733	8,725
DEDUCTION OF FORESEEABLE DIVIDEND	(288)	(171)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	196	175
Remeasurement defined benefit plans	112	114
OCI reserves - portfolios measured at FVTOCI	84	61
Other reserves	(19)	(23)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	19	23
DEDUCTIONS AND PRUDENTIAL FILTERS	(388)	(388)
Deferred tax assets on losses carried forward	0	0
Investments in securitisation positions	(23)	(21)
Changes in the value of own credit standing	(4)	(4)
Value adjustments due to the requirements for regulatory prudent valuation	(98)	(88)
Intangible fixed assets	(127)	(139)
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 1 CAPITAL FULLY LOADED	8,253	8,838
Additional Tier 1 capital instruments	0	497
TIER 2 CAPITAL FULLY LOADED	1,097	1,393
Tier 2 capital instruments	939	1,131
Excess of provisions over expected losses for IRB portfolios	138	168
General credit risk adjustments SA (standard approach)	20	95
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) FULLY LOADED	9,350	10,232

CET 1 capital (Fully Loaded) amounted to EUR 8,341 million, compared with EUR 8,253 million at 1 January 2018. The increase in CET 1 capital of EUR 88 million results mainly from the inclusion of the regulatory net profit, though partially offset by the correction for foreseeable dividend of EUR 171 million and despite the decrease of the "gains and losses not recognized in the statement of income".

The deduction of foreseeable dividend of EUR 171 million in June 2018 is a prudential adjustment of the year-to-date regulatory net profit, considered not eligible for CET 1 capital, based on 60% target dividend pay-out ratio for 2018 of the regulatory net income. At 1 January 2018, a deduction of an estimated remaining dividend of EUR 288 million over the full year profit of 2017 was made (EUR 75 million was already paid out as interim dividend in 3Q 2017).

In addition, a decrease of the "gains and losses not recognised in the statement of income" of EUR 21 million can be noted following the sale of some Italian government bonds, as these debt instruments were measured at fair value through OCI.

The deductions and prudential filters remain stable.

Tier 1 capital is no longer equal to the CET 1 capital and amounted to EUR 8,838 million, compared to EUR 8,253 million at 1 January 2018 following the additional Tier 1 issue of EUR 500 million (nominal value) in February 2018.

Tier 2 capital increased from EUR 1,097 million to EUR 1,393 million. This increase is mainly related to:

- the new issuance of EUR 200 million (nominal value) in the first quarter of 2018,
- a larger excess of provisions over expected losses (EUR 30 million) and
- the increase of EUR 75 million of the adjustments for general credit risk for exposures treated in standard approach.

Please note that The Governing Council of the European Central Bank (ECB) has granted Belfius permission to call three Tier 2 instruments in the first half year of 2018 for an amount of EUR 191 million (value on 31 December 2017), as a result Belfius has no longer any Tier 2 instruments treated under transitory measures.

At the end of June 2018, the total regulatory own funds amounted to EUR 10,232 million, compared to EUR 9,350 million at 1 January 2018.

4. Regulatory risk exposure on consolidated level

The regulatory risk exposure 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%.

At the end of June 2018, regulatory risk exposure (Fully Loaded) of Belfius amounted to EUR 51,218 million, an increase with EUR 179 million compared to EUR 51,039 million at 1 January 2018.

The regulatory credit risk exposure decreased by EUR 257 million to EUR 39,181 million. This evolution results from diverging trends. First of all, the credit risk exposures increased in all segments (excluding in public and social) in the first semester of 2018 in line with the commercial strategy. Secondly, different regulatory measures have come into force since 1 January 2018, the most important measure being the new macro-prudential measure related to residential real estate exposures imposed by the National Bank of Belgium. However, these developments leading to higher risk weighted assets for credit risk have been fully compensated by some active de-risking conducted by Belfius. The most noticeable de-risking action concerns the sale of Italian bonds in 1Q 2018 (for more than EUR 1 billion exposure).

The regulatory market risk exposure increased by EUR 481 million to EUR 2,322 million, mostly due to an increase in derivatives activities stemming from our financial markets' client flow management activities, servicing the commercial activities, where an increase in equity derivative positions (as hedge for an increase in commercial volumes in equity linked products) and in interest rate derivative positions, all respecting Belfius' market risk limits framework, can be noticed.

The regulatory operational risk exposure – based on the standardized approach – and the regulatory risk exposure for Danish Compromise remained stable over the semester, at respectively EUR 2,932 million and EUR 6,783 million.

5. Solvency ratios for Belfius Bank on consolidated level

At the end of June 2018, CET 1 ratio amounted to 16.3%, an increase of 11 bps compared to 1 January 2018. Note that this CET 1 ratio takes into account a prudential deduction for foreseeable (interim) dividend of EUR 171 million. Note also that if Belfius Bank would pay a potential extra ordinary dividend of EUR 400 million (still to be decided upon), as sometimes referred to by media in light of Belfius' potential IPO, it would result in a (pro forma) CET 1 ratio of 15.5%.

The increase in CET 1 ratio to 16.3% is the result of positive effects in CET 1 capital (+17 bps) offset by negative effects in total risk exposure (-6 bps). We refer to the comments above for further information.

At the end of June 2018, Tier 1 capital ratio amounted to 17.3%, an increase of 109 bps compared to 1 January 2018. This increase was stemming from the inaugural Additional Tier 1 bond issue with a nominal value of EUR 500 million in February 2018.

(In millions of EUR)	01/01/18	30/06/18	Evolution
Regulatory credit risk exposure	39,438	39,181	(257)
Regulatory market risk exposure	1,841	2,322	481
Regulatory operational risk exposure	2,932	2,932	0
Danish Compromise	6,828	6,783	(45)
REGULATORY RISK EXPOSURE FULLY LOADED	51,039	51,218	179

(In %)	01/01/18	30/06/18
CRR/CRD IV (FULLY LOADED)		
Common Equity Tier 1 ratio (CET 1 ratio)	16.2%	16.3%
Tier 1-capital ratio (T1 ratio)	16.2%	17.3%
TOTAL CAPITAL RATIO	18.3%	20.0%

The total capital ratio amounted to 20.0%, an increase of 166 bps compared to 1 January 2018.

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 (fully loaded) would result in an increase of 21 bps on the CET 1 ratio and a decrease of 17 bps on the Total Capital ratio.

6. Solvency ratios for Belfius Bank on statutory level

At the end of June 2018, CET 1 ratio on Belfius Bank statutory level (before inclusion of the statutory net result of EUR 236 million) amounts to 16.3%.

Note that if Belfius Bank would pay a potential extra ordinary dividend of EUR 400 million (still to be decided upon), as sometimes referred to by media in light of Belfius' potential IPO, it would result in a (pro forma) CET 1 ratio of 15.5%.

At the end of June 2018, the available distributable items on statutory level amounted to EUR 3,540 million, unchanged compared to end of 2017.

7. 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 (for items already 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.

Note that, since the regulatory Tier 1 capital is calculated without transitional measures (Fully Loaded), the leverage ratio is reported as "Fully Loaded" as well.

Also note that the calculation of Tier 1 capital, leverage ratio exposure and leverage ratio are presented with comparison of 31 December 2017 (as published and reported) and 30 June 2018. The leverage ratio exposure has not been recalculated for the impacts of the initial application of IFRS 9.

At the end of June 2018, the Belfius leverage ratio (Fully Loaded) - based on the current CRR/CRD IV legislation - stood at 5.9%, an increase of 41 bps compared to the end of 2017.

This increase is due to the higher level of Tier 1 capital (see below), partially offset by the higher total leverage exposure measure.

(In millions of EUR)[1]	31/12/17	30/06/18
TIER 1 CAPITAL (FULLY LOADED)	8,037	8,838
Total assets	167,959	166,951
Deconsolidation of Belfius Insurance	(19,098)	(18,119)
Adjustment for derivatives	(21,670)	(19,534)
Adjustment for securities financing transactions exposures	3,729	4,498
Adjustment for prudential corrections in calculation of Tier 1 capital	(268)	(279)
Off-balance sheet exposures	14,959	15,621
LEVERAGE RATIO EXPOSURE	145,611	149,138
LEVERAGE RATIO (FULLY LOADED)	5.5%	5.9%

(1) unaudited

8. Impact of upcoming regulatory reforms (CRR2 and finalisation of the Basel III package by Basel Committee)

In the coming years, different regulatory reforms are still expected with an impact on the financial position of the banks.

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.

Before being applicable to Belfius, the revised capital standards need to be implemented into EU regulations and will therefore be subject to negotiations between the EU commission, Council and Parliament. The monitoring of the changing regulatory landscape forms a fundamental part of Belfius capital planning, risk appetite and strategy.

Belfius has estimated the potential impacts of the Basel III finalization package on its solvency based on the texts 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. However, 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 and the maintenance of current EU specificities);
- 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).

Furthermore, as of 30 June 2018, the transposition into European law of the international rules with regard to "Banking reform package" agreed over the last years is not yet finalized, although a first agreement has been reached at the European Parliament's Economic and Monetary Committee (ECON) in June. The final agreement is currently expected by end 2018. This Banking reform 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 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 cap for subordination and sanctions to MREL breaches and links with the bail-in rules.

CAPITAL MANAGEMENT AT 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, implemented requirements aimed to 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 2,417 million at the end of June 2018. It was composed for 85% of the highest quality capital Tier 1.

Tier 2 capital equalled EUR 365 million and consisted mainly of two subordinated loans. Compared to December 2017, the regulatory own funds of Belfius Insurance remains relatively stable, even after the payment of the dividend of EUR 120 million in March 2018 and taking into account a new foreseeable dividend (over 1H 2018) of EUR 60 million.

(in millions of EUR)	31/12/17	01/01/18[1]	30/06/18
AVAILABLE FINANCIAL RESOURCES	2,469	2,469	2,417
TIER 1	2,110	2,110	2,052
IFRS Equity[1]	2,173	1,891	1,837
Foreseeable dividend	(120)	(120)	(60)
Valuation difference (after tax)[1]	(113)	169	105
Subordinated debt	170	170	170
TIER 2	358	358	365
Subordinated debt	347	347	354
Others	11	11	11

(1) As of 1 January 2018, the IFRS equity and valuation changed due to first adoption of IFRS 9.

3. Solvency requirement

(in millions of EUR)	31/12/17	31/12/17
SOLVENCY CAPITAL REQUIREMENT	1,128	1,149
Market risk	1,111	1,125
Credit Risk	157	149
Insurance Risk	603	612
Operational Risk	97	96
Diversification	(491)	(493)
Loss absorbing capacity of technical provisions and deferred taxes	(350)	(341)

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 1,149 million at the end of June 2018, slightly higher compared to the end of 2017 (EUR 1,128 million). This results from an increased equity risk, a lower loss absorbing capacity of technical provisions and deferred taxes which are only partially compensated by a lower interest and spread risk compared to end 2017.

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.

4. Solvency ratios at Belfius Insurance

(In %)	31/12/17	30/06/18
SOLVENCY II RATIO		
Solvency II ratio (before dividend)	230%	216%
Solvency II ratio (after dividend)	219%	210%

The Solvency II ratio of Belfius Insurance stood at 216% at the end of June 2018, before foreseeable dividend, lower than the ratio as of December 2017. The AFR slightly decreased over the first half year from EUR 2,469 million to EUR 2,418 million. The decrease is mainly due to the increase in credit spreads observed during the first semester of 2018 and the decrease of the Ultimate Forward Rate used in the Best Estimate calculations. Taking into account a foreseeable dividend of EUR 60 million, the Solvency II ratio is at 210% end of June 2018.

In addition to the establishment of a complete risk framework, the Solvency II regulations also require a self- assessment in which, taking into account the business plan, the future capital buffers are highlighted and a number of sensitivities are performed. 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.

For example, a 0.25% fall in the interest level (compared with the level at June 2018) would have an impact of -5% on the Solvency II ratio. An equities' market shock of -30% on share prices would have an impact of -8% and a 0.50% rise in the credit spreads across the whole bond and credit portfolio would result in an impact of -35%.

	Shock	Solvency II ratio
Basis scenario (after dividend)		210%
Stress scenario		
Interest rate	-25 bps	205%
Equity	-30%	202%
Credit spread	+50 bps	175%

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

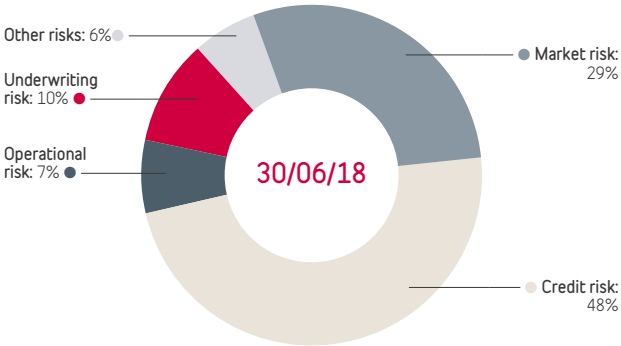
The Management Board, which also acts as the Risk Appetite Committee (RAC), is responsible for managing the capital level and allocation process and has authority in all matters relating to economic capital. The RAC analyses among others the various models involved in calculating the economic capital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

Belfius economic capital was EUR 5,423 million at the end of June 2018 (against EUR 5,792 million at the end of 2017).

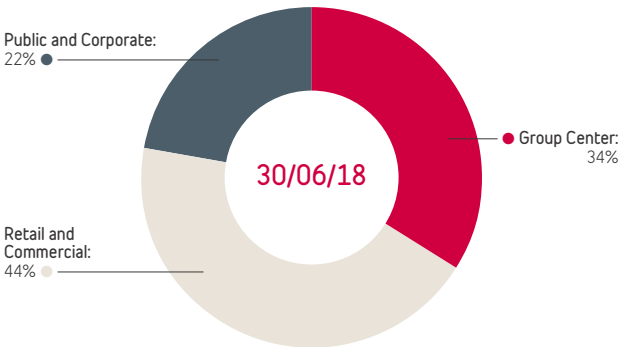
In the first half of 2018, the ranking between the main categories of risks remained the same as end 2017: credit risk represented approximately 48% of the economic capital and was the main contributor; market risk (inter alia including interest rate risk, foreign-exchange rate risk, spread risk and equity risk) was 29%, underwriting risk 10%, operational risk 7% and other risks (prepayment, funding,...) 6%.

By business line, the economic capital was allocated as follows: Retail and Commercial (RC) and Public and Corporate (PC) represented 44% and 22% respectively of Belfius' economic capital; the balance was made up of 34% 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 run off credit guarantees).

Breakdown of economic capital by type of risk



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 8,554 million at the end of June 2018 compared to EUR 8,445 million end 2017.

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)	01/01/18[1]	30/06/18
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,733	8,725
Deduction of foreseeable dividend	(288)	(171)
TOTAL NORMATIVE REGULATORY EQUITY	8,445	8,554
of which allocated to		
Retail and Commercial Banking	2,300	2,476
Public and Corporate Banking	2,235	2,368
Group Center	4,216	3,710

(1) Under IFRS 9. Date of initial application.

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 macroeconomic 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' annual report and dedicated risk report which is available at www.belfius.com.

1. Macroeconomic environment in the first half of 2018

Economic growth disappointed in the first quarter of 2018 in the euro zone and also in Belgium. While growth peaked at 2.7%, respectively 1.7% in 2017, the growth rates unexpectedly fell back to only 1.6% for the Euro zone and 1.2% for Belgium in the first quarter of 2018. Mainly Germany and France, the two biggest economies of the euro zone disappointed albeit for different reasons. While this weak performance is expected to be temporary, also in the second quarter of 2018 many convincing signs pointing to a strong and rapid recovery are still to be found.

The fundamentals of the economy do however remain solid in Europe: the unemployment rate at 8.4% keeps on falling and is close to pre-crisis levels, wages are slowly rising and capital expenditures by companies are still increasing. Confidence, though quite a bit lower than in 2017, still is consistent with growth rates in Europe above 2%. The Belgian economy also displays these positive features such that a growth in the neighbourhood of 1.8% for the second half of the year and 1.5% to 1.6% for the full year is warranted for the country.

The international environment finally remains supportive to growth stronger than in the first quarter: international trade resumed its increase after the decline in the first quarter, the international economic momentum remains present and interest rates stay low. All this does not preclude the fact that some risk factors are to be dealt with.

1.1. Threat of a trade war

The USA are imposing tariffs on most of its trading partners who tend to adopt retaliatory measures. This risks to end in a global trade war, hindering trade, creating inflation and reducing investment, consumption and growth.

1.2. Increased oil prices

Oil prices went up by more than 60% since June 2017. The US sanctions against Iran and third countries that deal with Iran have the potential to lift petroleum prices even more. This impacts consumption and growth in the euro zone and Belgium negatively.

1.3. ECB policy

The ECB announced the end of the Quantitative Easing if inflation confirms its path towards the ECB goal of slightly less than 2%. Long term interest rates can moderately go up, while short term rates are believed to remain in negative territory until 2020.

1.4. Political risks

Political risks are more prominent in the economic landscape than last year: the outcome of the elections in Italy and the political consequences of the refugee crisis put strains on the European construction and different national governments. This makes it less probable that the EU will be capable to put some necessary reforms in place. Also the Brexit negotiations have to come to a conclusion in the second half of the year. Though the UK formulated a proposal on how Brexit should happen, for the EU it can probably only serve as a basis for further negotiations. Given the limited remaining time to strike a deal, a hard Brexit is still possible. Third, the relationship between the EU and the USA has deteriorated considerably. This increases the risks of less foreign direct investment, less trade and hence less growth.

IFRS 9 IMPAIRMENT METHODOLOGY

1. Introduction

1.1. Scope

Belfius Bank, and all its subsidiaries, recognize loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at Fair Value through profit and loss:

- investments in debt instruments (loan and securities) measured at amortized cost;
- investments in debt instruments measured at fair value through other comprehensive income (FVOCI);
- all loan commitments not measured at fair value through profit or loss;
- financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at fair value through profit or loss;
- lease receivables that are within the scope of IAS 17, Leases; and
- trade receivables or contract assets within the scope of IFRS 15.

No impairment loss is recognized on equity investments.

Belfius has translated this scope in its Chart of Account through the flagging of the relevant accounting classes on and off-balance for which the ECL calculation is executed.

1.2. Accounting principles

With the exception of purchased or originated credit-impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- A 12-month ECL, i.e. the ECL that results from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- The Lifetime ECL that results from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

ECL are a probability-weighted estimate of credit losses over the expected life of the financial instrument. This is expressed as the present value of cash shortfalls i.e. the difference between the cash flows that are due to the entity in accordance with the contract and the cash flows that the entity expects to receive. Because ECL consider the amount and the timing of payments, a credit loss arises even if the entity expects to be paid in full, but later than when contractually due.

The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of ECLs recognized as a loss allowance or provision (12 months vs. lifetime) depends on the extent of credit deterioration since origination.

1.2.1. Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, Belfius recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss.

1.2.2. Modification and derecognition of financial assets

A modification of a financial instrument occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a derecognition occurs it is followed by the recognition of the new financial instrument and will therefore follow the regular impairment process and staging determination.

1.2.3. Write Off

Belfius endorses the importance of timely writing off uncollectable loans.

Nevertheless, an automatic and systematic write-off of files with a default status after a certain period of time elapsed would entail several risks taking into account Belgian regulation, and this as well from an accounting, legal as tax point of view.

For this reason, Belfius books write-offs only in the following cases:

- Debt forgiveness;
- The sale of the receivable;
- The closing of the insolvency proceedings, or the receipt of a written statement evidencing that no more recoveries can be expected. Note that bankruptcy trustees, or other insolvency officers such as liquidators, are encouraged to close insolvency proceedings as soon as possible, or, at least, to send Belfius an attest of "un-recoverability" without any delay, once it appears that no recoveries can be expected;
- There is an objective evidence that the file is uncollectable, and, therefore, Belfius' Stage 3 Impairment Committee decides – based on an individual assessment, case by case, and only in exceptional and limited cases – not to pursue any longer an active recovery and/or enforcement strategy.

2. Credit Risk Principles

During the 2008 financial crisis, the delayed recognition of credit losses associated with loans and other financial instruments was identified as a weakness in the accounting standards at that time. This was primarily due to the fact that impairment requirements under IAS 39 were based on an "incurred loss model» meaning that a credit impairment was not recognized until a credit loss event occurred. This gave room to postpone losses and this is why the impairment requirements in the new accounting standard IFRS 9 are based on an "expected credit loss model". This model requires an entity to recognize ECL at all times, and to update the amount of ECL at each reporting date to reflect changes in risk.

Belfius' impairment calculation under IFRS 9 is based on a twofold building block approach. First, determining the appropriate stage per asset contract ("staging") and second calculating the expected loss per contract

The methodology developed for both building blocks to obtain IFRS 9 compliant parameters is based on the existing Risk Architecture and Basel processes, methodologies and models to which appropriate adaptations were made. The fundamental changes with regards to Basel models involve different time horizons and a point-in-time (PIT) approach using forward-looking macro-economic information, rather than a through-the-cycle (TTC, for PD) or downturn calibrated (for LGD) approach.

2.1. Basel Internal Rating Systems

The internal rating systems used by Belfius in the prudential Framework are set up to evaluate the three Basel parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For each counterparty type in the advanced method, a set of two models, one for PD and one for LGD, has been developed. 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 PD models estimate the one-year probability of default on a through-the-cycle[1] (TTC) basis. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed and adjusted during the yearly back testing when applicable. In addition, each scale has been attributed two default classes (named D1 and D2).

For non-retail, LGD models estimate the ultimate loss incurred on a defaulting counterparty before considering the credit risk mitigants. The unsecured LGD depends on various factors such as the product type, the level of subordination or the rating of the counterparty. The granularity of the estimate is a function of the quantity and quality of data available. For retail, LGD is mainly determined by product type based on workout recoveries.

CCF models estimate the portion of off-balance-sheet commitments that would be drawn should a counterparty go into default. The regulation authorizes the use of CCF models only when CCF under the Foundation Approach is not equal to 100% (as it is for credit substitutes for instance). CCF granularity also depends on availability of data.

Internal estimates of Basel parameters are widely used within Belfius Bank. They are notably used in the decision making process, credit risk management and monitoring, internal limit determination, provisioning methodology and pricing, in addition to the calculation of the regulatory risk weighted exposure amounts.

2.2. Transformation of Basel parameters to IFRS 9 parameters

The Basel models serve as a starting point for the IFRS 9 parameters. This is possible because the same definition of default is used.

In order to compute point-in-time PDs, we base ourselves on through-the-cycle[1] PDs, expected rating migration behavior and macro-economic information that is common to a whole portfolio. Consequently, two counterparts with the same rating within the same model will have the same point-in-time PD term structure. A more granular approach can be added through judgment calls outside the model. For segments that are treated in standardized approach for regulatory capital computations, a mapping to Basel models is defined.

LGD is an estimate of the loss conditional to default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models use explanatory variables that are asset class and product specific. Whereas LGD is calibrated to an economic downturn in the Basel context, best estimates are applied for IFRS 9. These parameters are computed using the most recent workout observations and forward-looking estimates of collateral values.

EAD (Exposure at default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. Belfius approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early prepayment, changes in use of undrawn commitments and credit mitigation actions taken before default. Belfius uses EAD models that reflect the characteristics of the portfolios.

2.3. Rating and PD at inception

In order to support the Stage determination within the Belfius methodology, an important effort has been performed in order to capture the rating or the best estimate rating at inception applicable by contract.

Ratings used as a starting point are historically available Basel ratings or best estimates. In order to associate these ratings to an IFRS 9 compliant point-in-time PD, a backward-looking view on the economic performance of each origination year was integrated. This view takes into account the availability of historical data and the materiality of credit exposures. This transformation is performed in 2 steps:

- Step 1: Analyze the evolution of three variables[2], occurring in the pillar II stress test models, between 1995 and 2015 and qualify each year on a scale "Good / Average / Bad".
- Step 2: Based on the aforementioned qualification we simulate the Point-in-Time PD's as of a past date. For average years, these are computed as described in section 2.2 using through-the-cycle parameters. For bad years, the resulting PD's are adjusted upwards and for good years, the PD's are adjusted downwards.

From 2016 on, the real point-in-time PD's are stored as PD at inception for all new originated contracts.

2.4. Incorporation of Forward Looking information

Within Belfius, an Expert Panel is in charge of the definition of the different macro-economic scenarios incorporating forward looking information. These scenarios are built upon information delivered by Belfius' chief economist, who uses external and internal information to generate a "Neutral" scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

(1) One must note that a rating system that remains relatively constant though different business conditions is a "Through-the-cycle" rating system whilst a rating system that changes period by period is a point-in-time (PIT) rating system
(2) Stock market, Belgian yearly unemployment rate and annual Belgian GDP growth

Belfius attributes probabilities to the forecast scenarios identified. The base case scenario is the most-likely outcome and consists of information used by Belfius for strategic planning and budgeting. Belfius has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Belfius has not made changes neither in the estimation techniques nor in the significant assumptions made during the reporting period.

The forward-looking information in our PD models is performed according to four scenarios:

- **1.** Neutral Scenario
- **2.** Optimistic Scenario
- **3.** Pessimistic Scenario
- **4.** Stress Scenario

2.5. Time lag

The calculation of ECL for exposures in Stages 1 & 2 requires the processing of a huge number of records. Belfius assumes that concentrating these calculations on the reporting date itself would imply as well an operational as a technical risk. In addition, there is a clear need to work with stabilized accounting and risk data, and several IFRS 9 governance steps have to be gone through.

For all these reasons, Belfius applies a time lag, and uses thus the exposure data of the previous reporting date for its ECL calculations, with exception of the Bond & Credit Derivatives portfolio for which no time lag is applied.

Nevertheless, significant credit events post observation date are taken into account for ECL calculation.

2.6. Management judgement

ECL estimation is complex and to a certain extent judgmental. It depends on a wide range of data that may not be immediately available, including forward-looking estimates of key macro- and micro-economic factors as well as management's assumptions on the relationship between forecasts, amounts and timing of recoveries.

ECL computation may have substantial impacts on the financial statements as well as regulatory metrics. It is thus important that ECLs are determined in a well governed environment. To that extent the Impairment Committee is in charge of including potential ECL effects from forward looking (macroeconomic) evolutions not captured by the mechanical calculation.

To address this, a "management call" layer can be accounted. This layer can be positive or negative and aims to include all elements entering in the ECL calculation that were not taken into account by the mechanical computation on individual level or (sub)portfolio level.

3. Staging

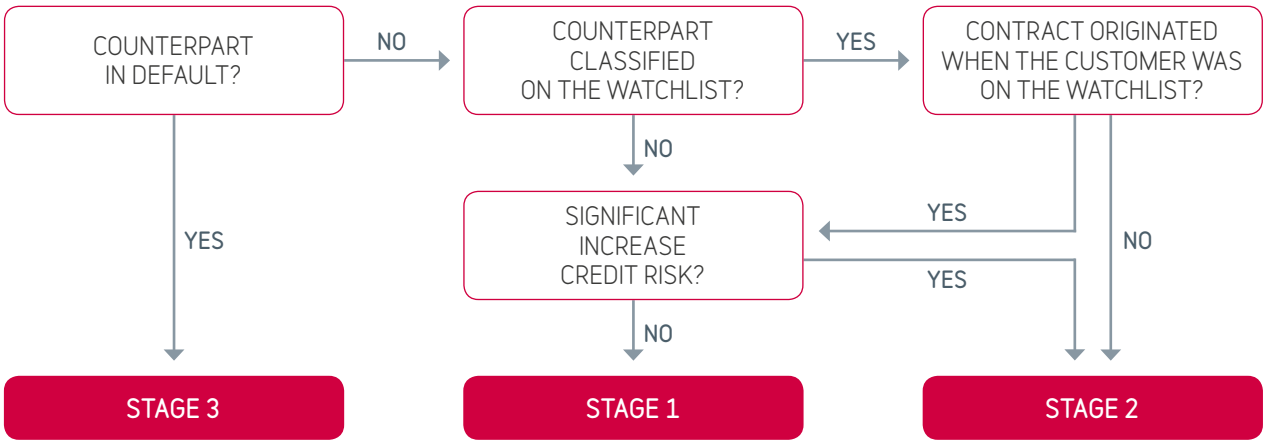
3.1. Definition

IFRS 9 distinguishes 3 Stages:

- Stage 1: Performing credit exposures, i.e. exposures for which there has not been a significant increase in credit risk since origination.
- Stage 2: Under-performing credit exposures, i.e. exposures for which there has been a significant increase in credit risk between the moment where the entity originated or purchased the financial instrument and the reporting date.
- Stage 3: Non-Performing credit exposures, i.e. exposures that become credit impaired.

This process is applied at each reporting date and results in a Stage allocation for each contract.

The staging definition within Belfius can be synthetized as follows:



3.2. Definition of Default

A default status is assigned to the debtors who 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 realization of collateral, regardless the existence of any past due amount or the number of days past due.

Belfius Default guideline provides in-depth description of indicators used to categorize an exposure in default. The default committee within the Risk department is competent to define the default status. Based on regulatory evolutions, Belfius will update its guideline to comply with the updated EBA definition of default.

Under IFRS 9 all financial assets which have an objective evidence of impairment at reporting date should be transferred to Stage 3. A financial asset is considered to be credit-impaired when one or more events – that have an unfavorable impact on its estimated cash flows – have occurred.

At Belfius the definition of default and the Stage 3 "allocation" are fully aligned, since Belfius only books a specific impairment for counterparts/products with a default status. This implies that:

- All individual exposures on a counterpart will be transferred to Stage 3 as soon as the latter receives a default status;
- All exposures classified in Stage 3, i.e. exposures treated as credit-impaired under IFRS 9, will be treated as defaulted;
- The lifting of the default status by Belfius' Default committee implies by definition a reclassification of the related exposures, to either Stage 2 (if there is still a clear indication of increased credit risk since origination) or Stage 1.

3.3. Watchlist definition

The Watchlist Guideline defines internal and external indicators to identify an increase of credit risk that may lead to an intensive follow-up and/or management of credit files. On a quarterly basis, dedicated Risk Committees identify the files requiring a higher level of monitoring.

Belfius classifies automatically all exposures figuring on the Watchlist in Stage 2 since the presence of the customer on the Watchlist is considered as a signal of increased credit risk since origination. 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. In two situations, there will be a mandatory classification on the Watchlist:

- If one or more credit products of the counterpart received a "Forbearance flag[(1)]";
- If an exposure is overdue for more than 30 days, unless one can clearly prove that it concerns an operational past due or that the overdue is not a sign of a significant increase of credit risk since initial recognition.

3.4. Significant increase in Credit Risk

To assess whether a significant increase in credit risk occurred since origination, Belfius compares lifetime PDs at the date of origination with lifetime PDs at reporting date. As previously detailed, the PD term structure viewed at a given date is a function of rating, client segment or product type, macro-economic conditions at that given date and remaining maturity. The PDs used for staging purpose are fully consistent with the PDs used for measuring loss allowances for ECL.

For staging purposes, Belfius approximates the (change in) lifetime PD as the (change in) three-year point-in-time PD, such that with an unchanged rating and unchanged macro-economic conditions, evaluation of PD change cannot lead to an increase or a decrease in credit risk. The time horizon of three years is a good proxy for capturing changes in the entire PD term structure within Belfius PD models.

Note that for exposures with a shorter maturity than 3 years, Belfius uses a 1 year PIT PD for staging purpose.

The PD change is compared to a threshold. The threshold has been calibrated to match a three-notch downgrade for as many ratings as possible given unchanged macro-economic conditions.

Some counterparts do not have a rating at inception and/or at reporting date. In such a case it is not possible to determine any change in credit risk since origination. Belfius took a prudent approach and reports therefore unrated exposures by definition as Stage 2 exposures.

4. Expected Credit Loss

4.1. Impact of the Staging

To the exception of POCI financial assets (see point 1.2 above), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

To calculate a 12-month ECL for a credit exposure figuring in Stage 1, Belfius applies the formula described on next page with a time horizon of one year. To calculate a lifetime ECL for a credit exposure figuring in Stage 2, Belfius applies this formula with the residual maturity of the exposure as time horizon.

(1) EBA defines the concept of forborne exposures as being debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

4.2. Reference formula

Belfius uses the following formula in order to calculate its expected credit losses:

Where

$$\sum_{t} \frac{(1\text{-}CPR(t))*PD(t)*EAD(t)*LGD(t)}{(1+EIR)^{t-1}}$$

1-CPR (t) is the proportion of the portfolio that will not be prepaid in year t, or the ECL parameter that reflects the expected value of the proportion of the exposure that will still be existing at that moment.

PD (t) is the probability of default in year t, taking into account macro-economic conditions and forward looking information.

EAD (t) is the exposure at default in year t, or the ECL parameter that reflects the estimation of the extent to which a bank may be exposed to a counterparty in the event of, and at the time of that counterparty's default. Belfius calculates the EAD component (Credit Conversion Factor included) as the sum of all cash flows between t and the maturity date of the financial instrument.

LGD (t) is the loss given default in year t, or the ECL parameter that reflects the share of an asset that is lost if the borrower defaults. LGD is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

EIR is the Effective Interest Rate of the contract, i.e. the rate that exactly discounts the estimated cash payments or receipts through the expected life of the financial asset to the amortized cost of a financial asset that is a purchased or originated credit-impaired asset.

t is the yearly discretization.

5. Governance

5.1. Introduction

ECL estimation is complex and to a certain extent judgmental. It depends on a wide range of data which may not be immediately available, including forward-looking estimates of key macro- and micro-economic factors and management's assumptions about the relationship between these estimates, the amounts and timing of recoveries.

The changes brought by IFRS 9 to the ECL calculation and subsequent staging have significant impacts on the financial statements and regulatory metrics requiring a well governed environment. The need of Belfius to oversee and govern IFRS 9 Impairments resulted in a modified committee structure, consisting of one Expert Panel and two dedicated Impairment Committees.

5.2. Expert Panel IFRS 9 Impairment

The Expert Panel IFRS 9 Impairment has a transversal character and acts for Belfius Bank and all its subsidiaries.

Membership to the Expert Panel is reserved to representatives of Risk Management and Finance (chief economist function included) and meets quarterly.

The main mission of the Expert Panel is to monitor the evolution of the macro-economic environment and, thereupon, to formulate proposals for scenario's allowing the derivation of the Point-in-Time (PIT) parameters needed to calculate the ECL under IFRS 9.

In addition, the Expert Panel discusses the possible evolutions of the parameters used and assesses frequently the appropriateness of the (portfolio specific) Staging thresholds.

Finally, the Expert Panel also formulates portfolio and/or sector outlooks, and can assess individual exposures with shared credit risk characteristics in order to determine whether there has been a significant increase of credit risk.

Note that all proposals formulated by the Expert Panel are submitted subsequently to the Stage 1 & 2 Impairment Committee for decision.

Finally, the Expert Panel also formulates portfolio and/or sector outlooks, and can assess individual exposures with shared credit risk characteristics in order to determine whether there has been a significant increase of credit risk.

Note that all proposals formulated by the Expert Panel are submitted subsequently to the Stage 1 & 2 Impairment Committee for decision.

5.3. Stage 1 & 2 Impairment Committee

The Stage 1 & 2 Impairment Committee has a transversal character and acts for Belfius Bank and all its subsidiaries.

Membership is reserved to representatives of Risk Management and Finance. The Stage 1 & 2 Impairment Committee meets quarterly.

The Stage 1 & 2 Impairment Committee challenges or validates the input received from the Expert Panel and takes the final decision on the ECL accounted for in Stage 1 & 2.

5.4 Stage 3 Impairment Committee

Belfius has two Stage 3 Impairment Committees, one at the level of Belfius Bank and one at the level of Belfius Insurance. Please note that the Stage 3 Impairment Committee of Belfius Bank acts as well for all other subsidiaries except Belfius Insurance. This committee meets on a quarterly basis.

The Stage 3 Impairment Committee of Belfius Bank is organized at a transversal and at a local level, with competences linked to the amount of the individual impairment amount. Membership is reserved

to representatives of Risk Management, Finance, Customer Loan Services and Front Offices.

The Stage 3 Impairment Committee determines and decides the Stage 3 specific (individual) impairment amounts, before these figures are communicated for transcription in the financial accounts.

CREDIT RISK

1. Exposure to credit risk[1]

The definition of Maximum Credit Risk Exposure "FEAD" 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).

Belfius credit risks are of course based on a consolidation scope that includes its fully consolidated subsidiaries, Belfius Insurance included.

As at 30 June 2018, the total credit risk exposure within Belfius reached EUR 167.0 billion, a decrease of EUR 6.8 billion or 3.9 % compared to the end of 2017.

At bank level the credit risk exposure decreased with 3.0 % to EUR 152.9 billion. At the level of Belfius Insurance, the credit risk exposure went down by 12.5% to EUR 14.1 billion at 30 June 2018.

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 (28% of the total) constitute the two main categories. The credit risk exposure on public sector entities slightly decreased with EUR 0.8 billion, while the credit risk exposure on individuals, self-employed and SMEs increased by EUR 1.4 billion due to increasing commercial activities. The expansion of Belfius' corporate activities is also reflected in higher credit risk exposure (+EUR 1.2 billion) for this segment leading to an increase of its relative proportion from 17% by the end of 2017 to 18% by June 2018.

The relative proportion of the segment central governments remained stable in relative terms at 14%, but went down with EUR 2.0 billion in June 2018. The decrease is mainly explained by the sale of Italian and Belgian government bonds in the first quarter of 2018. 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 (FEAD), with a positive impact on the net result of first half of 2018 of EUR 21 million (after reversal of related impairment provision and net of tax).

More than half (53%) of the government bonds portfolio is invested in Belgian government bonds at the Group level. While at bank level the Belgian government bonds represents 39% of the total government bond portfolio, the relative proportion at Belfius Insurance stood at 64%.

The credit risk exposure on financial institutions further decreased during the first half of 2018 by EUR 6.5 billion and stood at 8% by 30 June 2018 against 11% at the end of 2017, resulting from the incorporation of excess collateral received in the netting of derivatives. 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

(1) Credit risk exposure is expressed as Full Exposure at Default (FEAD), See also note 9.2 of this report.

Breakdown of credit risk by counterparty

(FEAD, in EUR billion)	31/12/17	30/06/18	Of which	
			Bank	*Insurer*
Central governments	24.8	22.8	16.9	5.9
of which govemment bonds	*12.9*	*9.7*	*4.0*	*5.7*
Public sector entities	47.4	46.6	44.7	1.9
Corporate	29.5	30.7	29.4	1.3
Monoline insurers	3.5	4.3	4.3	-
ABS/MBS	1.0	0.9	0.8	0.1
Project Finance	2.0	1.9	1.9	-
Individuals, self-employed and SMEs	45.2	46.5	43.0	3.5
Financial institutions	19.7	13.2	11.9	1.3
Other	0.7	-	-	-
TOTAL	173.8	167.0	152.9	14.1

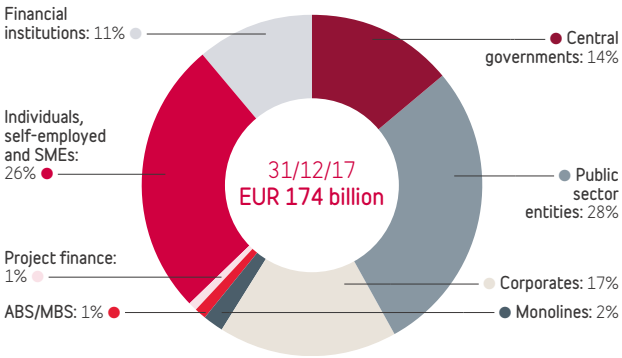
the first half of 2018, the relative proportion of the monoline insurers went down from 2.4% at the end of 2017 to 2% by 30 June 2018.

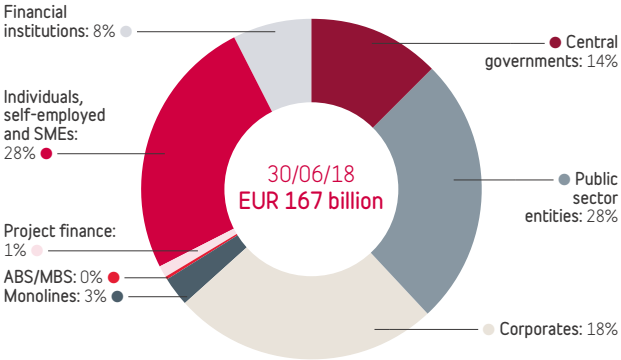
Belfius' positions are mainly concentrated in the European Union: 96% or EUR 152.9 billion at bank level and 95% or EUR 12.9 billion for Belfius Insurance. The total relative credit risk exposure on counterparties situated in Belgium is 73%, 6% in the United Kingdom, 4% in France, 2% in Italy and in the United States and Canada and 1% in Spain.

The credit risk exposure to counterparties in the United Kingdom amounted to EUR 9.9 billion as of end June 2018. 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 good credit quality.

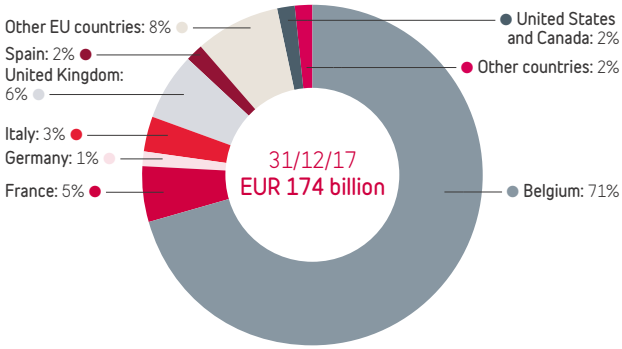
At 30 June 2018, 84% of the total credit risk exposure had an internal credit rating of investment grade (IG).

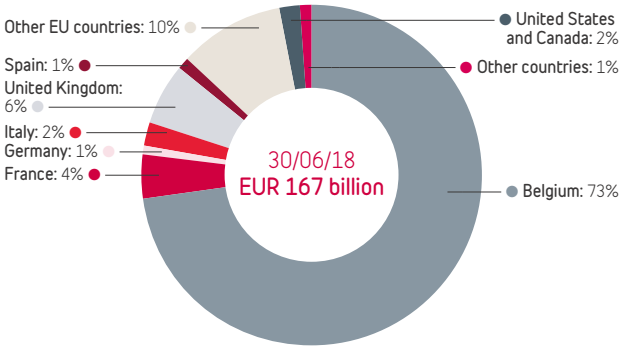
Breakdown of credit risk by counterparty



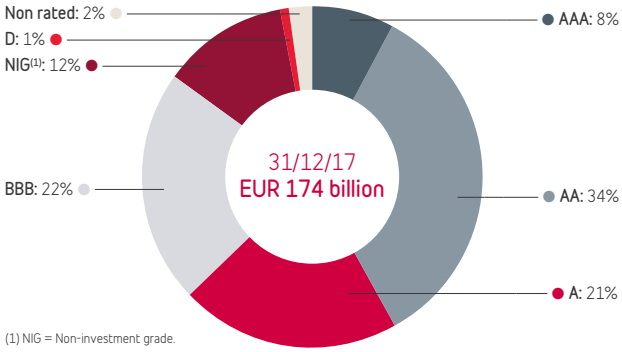


Breakdown of credit risk by geographical region

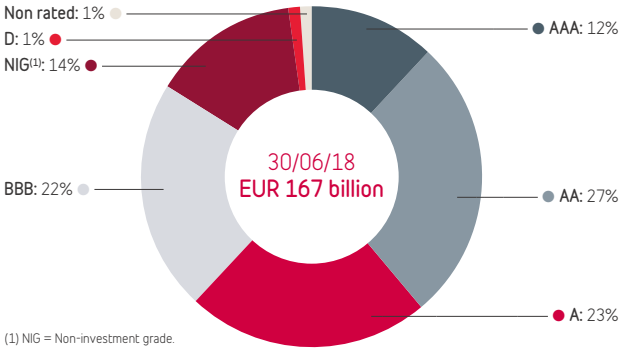




Breakdown of credit risk by rating



(1) NIG = Non-investment grade.



(1) NIG = Non-investment grade.

Asset quality[1]

(In millions of EUR, except where indicated)	31/12/17 (IAS 39)	1/1/18[2] (IAS 39)	30/06/18 (IFRS 9)
Gross outstanding loans and advances to customers (measured at amortised cost)	91,520	84,535	87,052
Impaired loans and advances to customers (measured at amortised cost)	1,822	1,822	1,917
Specific impairments on loans and advances to customers (stage 3)	1,153	1,153	1,176
Asset quality ratio[3]	1.99%	2.15%	2.20%
Coverage ratio[4]	63.3%	63.3%	61.4%
Collective impairments on loans and advances to customers (stage 1&2)	310	322	316

(1) Belfius Insurance included.
(2) Due to the application of IFRS 9 and the new presentation of the balance sheet (bonds in "loans and advances to customers" were transferred to "Debt securities & equity instruments"), the presentation and figures of 31 December 2017 are different from the opening balance of 1 January 2018 . We refer to the transition IFRS 9 tables for a detailed description.
(3) The ratio between impaired loans and advances to customers and the gross outstanding loans and advances to customers.
(4) The ratio between the specific impairments and impaired loans and advances to customers.

2. Asset quality

At the end of June 2018, the volume of gross outstanding loans and advances to customers grew by 3%, whereas the amount of impaired loans and advances to customers amounted to EUR 1,917 million, representing an increase of 5% compared to 1 January 2018. As a consequence, the asset quality ratio slightly increased from 2.15% as of 1 January 2018 to 2.20% at the end of June 2018 and, over the same period, the coverage ratio slightly decreased from 63.3% to 61.4%. These evolutions are due to a number of corporate loans, that went into default and that were adequately covered by collateral (inducing a proportionally lower degree of impairment). The collective impairments (stage 1 & 2) on loans and advances to customers decreased since 1 January 2018 by EUR 6 million to EUR 316 million at the end of June 2018.

MARKET RISK

1. Overview

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. 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).

2. Non Financial Markets activities

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 aspects: economic value volatility and earnings volatility. The measurement of both 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 -23 million per 10 bps at 30 June 2018 (compared to EUR -34 million per 10 bps at 31 December 2017), 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 +45 million of the next book year and an estimated cumulative effect of EUR +126 million over a three year period, whereas a 35 bps decrease would lead to an estimated negative impact of EUR -39 million of the next book year and an estimated cumulative effect of EUR -164 million over a three year period (compared to EUR +37 million, resp. EUR +111 million and EUR -29 million, resp. EUR -141 million for similar rate shocks end of last year).

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. Interest rate risk of 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 10 million per 10 bps as of 30 June 2018 (against EUR 17 million per 10 bps as of 31 December 2017). The earnings have a low sensitivity to interest rates for the next years, thanks to good matching in terms of duration.

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 bps, resp. 50 bps.

(In millions of EUR)	31/12/17	30/06/18
Belfius Bank		
Sensitivity (+10 bps)	-34	-23
Earnings at risk (+50 bps)	+37	+45
Belfius Insurance		
Sensitivity (+10 bps)	+17	+10
Earnings at risk (+50 bps)	+3	+3

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 Exposure

At the end of June 2018, the global VaR level of Financial Market activities amounts EUR 24.2 million, an increase of EUR 5.8 millions compared to end 2017 (EUR 18.4 million). This increase is mainly due to the higher IR sensitivity to LT rate and integration of the Credit Derivatives inflation risk into the VaR.

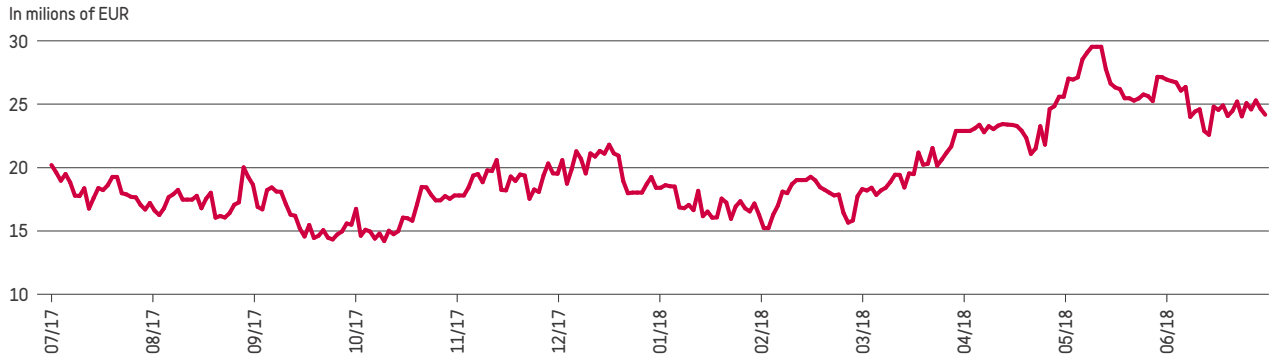
The market RWA increased by EUR 481 million up to EUR 2,322 billion mainly as a consequence of the IR risk increase in Financial Markets.

Value-at-Risk by activity

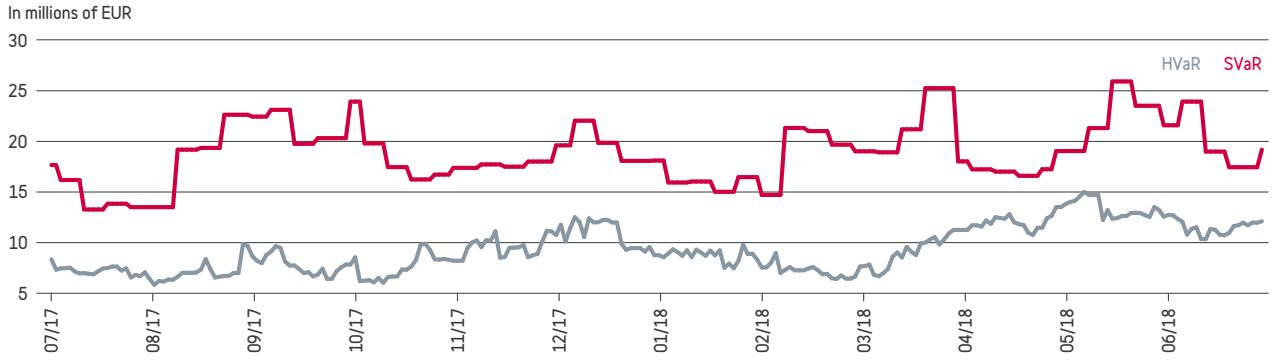
VaR(1) (99% 10 days) (In millions of EUR)	31/12/17				30/06/18			
	IR(2) & FX(3)	Equity	Spread	Other risks(4)	IR(2) & FX(3)	Equity	Spread	Other risks(4)
By activity								
Average	8.1	4.3	3.8	1.5	9.6	5.3	3.4	1.4
EOY	8.9	5.8	2.7	1.1	12.3	6.0	4.2	1.7
Maximum	13.0	6.3	7.1	2.1	15.5	7.6	6.1	2.2
Minimum	4.4	2.3	2.1	1.1	6.0	3.6	2.1	0.4
Global								
Average		17.7				19.7		
EOY		18.4				24.2		
Maximum		24.1				29.5		
Minimum		13.2				14.2		
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 2H 2017 - 1H 2018



Evolution of HVaR and SVaR (Internal Model) in 2H 2017 - 1H 2018



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: at any time, Belfius Bank ensures it has sufficient quality assets to cover a temporary liquidity shortfall, 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 liquidity guidelines, 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. ALM analyses and reports on current and future liquidity positions and risks. It 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 Assets and Liabilities Forum (ALF), in presence of the Risk department, the Treasury department 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 and challenges the retained hypothesis and models.

In addition to the RAF-limits, a set of liquidity Key Risk Indicators (KRI) is defined in the liquidity guidelines. Compliance with KRI is monitored and reported on a daily basis. The objective of these KRI is to remain sufficiently liquid and to respect regulatory liquidity ratios in stress situations. Several stress simulations have been defined which take into account action plans with recovery measures. These recovery measures are regularly tested in the market.

Next to that a daily liquidity dashboard is generated in order to detect as early as possible any liquidity problems.

ALF also monitors 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 allocation of these funds to customers through 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 which allow Belfius Bank to collect funding on the repo market and/or from the ECB;
- the capacity to obtain interbank and institutional funding.

1.3. Consolidation of the liquidity profile

During the first half of 2018, 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, a benchmark covered bond and new Tier 2 instruments;
- collecting short and medium-term (CP/CD/EMTN) deposits from institutional investors.

Belfius Bank participates to the ECB TLTRO funding programme with an amount of EUR 4.0 billion with a purpose to finance investment needs of SMEs, social sector and retail clients (mortgage loans excluded).

The issuance of an AT1 in the beginning of 2018 also had a positive impact on the liquidity.

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 reached end of June 2018 a 12 month average LCR of 133%[1]. The LCR of the Bank has remained above 100% during the first semester of 2018.

The Net Stable Funding Ratio (NSFR), based on our current interpretation of current Basel III rules, stood at 116% end of June 2018.

1.4. Minimum requirement for own funds and eligible liabilities (MREL)

At the end of May 2018, the National Bank of Belgium (NBB) has notified Belfius Bank of the MREL requirement imposed by the Single Resolution Board (SRB).

The Bank Recovery and Resolution Directive (BRRD) provides that institutions established in the European Union (EU) should meet a minimum requirement for own funds and eligible liabilities ("MREL") to ensure an effective and credible application of the bail-in tool. The SRB MREL determination follows the methodology laid down in the "SRB 2017 MREL Policy", published by the SRB on 20 December 2017. The MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds (TLOF[2]).

The SRB determines the consolidated MREL requirement for Belfius Group at the level of 9.70% of its total liabilities and own funds, to be met at all times and taking into account an evolving balance sheet. Taking into account data as of 31 December 2016, this MREL requirement corresponds to an amount of EUR 12.479 billion. Based upon data as of 30 June 2018, the MREL requirement of 9.70% of TLOF amounts to EUR 12.52 billion.

Following the current SRB methodology, Belfius Group exceeded the MREL requirement based on data 31 December 2016, and hence no transitional period has been defined by the SRB for Belfius.

As mentioned in the SRB 2017 MREL Policy, the SRB has also set out a subordination benchmark for O-SIIs[3]. The total subordination benchmark for Belfius has currently been set as 16%[4] of the total risk exposures as of December 2016.

The SRB reserves the right to adjust the aforementioned policy at a later stage in the light of the future design of the BRRD and further development of the MREL policy.

1.5. Liquidity reserves

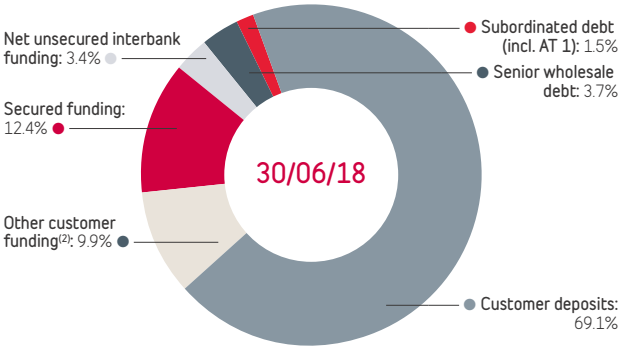
At the end of June 2018, Belfius Bank had readily realisable liquidity reserves of EUR 32.5 billion. These reserves consisted of EUR 10.6 billion in cash, EUR 9.8 billion in ECB eligible bonds (of which EUR 5.9 billion are CCP-eligible[5]), EUR 10.0 billion in other assets also eligible at the ECB and EUR 2.1 billion in other liquid bonds.

These liquidity reserves represent 5.1 times the Bank's institutional funding outstanding end of June 2018 and having a remaining maturity of less than one year.

(1) From 1H 2018 onwards, Belfius discloses a 12 month average LCR in accordance to EBA guidelines on LCR disclosure.
(2) TLOF : based on prudential scope of consolidation with prudential netting of derivatives exposures
(3) O-SIIs : Other Systemically Important Institutions
(4) This subordination benchmark is composed of two components:
→ a general level depending on the systemic importance of banks ((12% + fully-fledged CBR) of total RWA for O-SIIs))
→ a potential bank specific add-on depending on the outcome of the NCWO principle (not yet finally defined by SRB)
(5) CCP = Central Counterparties

1.6. Funding diversification at Belfius Bank

Main funding sources[1]



(1) At bank level only.
(2) Retail bonds and savings certificates.

Belfius Bank has a historical stable volume of commercial funding that comes from its RC and PC customers. RC and PC funding equals EUR 88.6 billion of which EUR 66.1 billion is from RC. The increase of EUR 1.9 billion commercial funding compared to end of 2017 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 June 2018.

Belfius Bank also receives medium-to-long-term wholesale funding, including EUR 7.9 billion from covered bonds (EUR 5.5 billion backed by mortgage loans and EUR 2.4 billion by public sector loans), EUR 2.9 billion from Senior Unsecured, and EUR 4.0 billion in TLTRO funding from ECB as at 30 June 2018.

Note that the second semester of 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.

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.

1.7. Encumbered assets

According to Belfius current interpretation of the EBA guideline on the matter, the encumbered assets at Belfius Bank level amount to EUR 32 billion in June 2018 and represent 21% of total bank balance sheet and collateral received under securities format, which amounts to EUR 152.4 billion (EUR 148.8 billion assets and EUR 3.6 billion collateral received). This represents an increase of the encumbrance ratio of 0.6% compared to end 2017.

Belfius is active on the covered bond market since the set-up of the first covered bond programme in 2012. In June 2018, the total amount issued was EUR 7.9 billion. New issues of EUR 0.7 billion were realised in the second quarter of 2018. End June 2018, the assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amount to EUR 9.8 billion (increase of EUR 0.7 billion compared to end 2017).

The Bank is also collecting funding through repo markets for a limited amount and other collateralised deposits. End June 2018, the total amount of assets used as collateral for this activity amounts to EUR 6.4 billion, of which EUR 4.3 billion linked to the ECB funding.

The balance of encumbered assets is mainly linked to collateral pledged (gross of collateral received) for the derivatives exposures for EUR 12.7 billion (decrease of EUR 0.9 billion compared to end 2017), 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. General

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. During this identification, 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**.

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 quantitative operational risk appetite indicators are included as well: an "operational loss" indicator and a "composite indicator".

Managing operational risk is a **decentralized responsibility**. Each of the Bank's line management organisations have the primary responsibility for monitoring the operational risk in its individual sphere of activity (first line of defence). Upon that, the Operational Risk Management department ensures the regular monitoring of operational risks and incidents and establishes a quarterly report for all activities (second line of defence).

The **systematic collection and control of data on operational incidents** is one of the main requirements of the Basel Committee regarding operational risk management 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.

Another important task of operational risk management is the analysis of the overall main potential risks for Belfius. 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.

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.

The process of developing a "product, activity, process or system" – the **new product approval process** - 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.

2. 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.

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.

Threats and incidents are followed up on a continuous basis by IT Security and monthly via the ISS. The amount of IT Security incidents remains relatively stable and correct measures are each time taken.

The policy relating to securing information and its associated guidelines, norms and practices are aimed at safeguarding the information assets) of Belfius. The Information Security Policy has recently been updated.

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 ambitions and to align the actual risk posture with the risk appetite.

Large security projects are grouped together in a **security roadmap** which typically spans the course of two years. Of course, the ever-evolving security threat landscape requires organizations to be resilient and anticipate on existing and future threats.

Belfius frequently performs **internal and independent tests** to provide assurance about all aspects of the security organization.

A **cyber security insurance** was underwritten in 2015 and is renewed ever since on a yearly basis.

In 2016, Belfius started up a specific program to increase the protection level of information and data (**Data Leakage Program**).

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.

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 **GDPR** or General Data Protection Regulation became applicable as of 25 May 2018. It has a significant impact on the entire organization and customer relationship management of Belfius Bank & Insurance.

3. Business Continuity & Crisis Management

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.

4. Fraud risk management

In collaboration with Audit and Compliance, a global **fraud policy** was formally established at Belfius Bank. Fraud management is the responsibility of the CRO, member of the Management Board. 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.

Based on the actual figures, the fraud losses of the bank and the insurance company stay "limited" similar to previous years. Avoiding fraud and recovery remain in general at a high level.

5. Regulatory Capital

To calculate its **regulatory capital** in the light of its operational risk management, Belfius Bank uses the **Basel "standardised approach (STA)".**

Operational Risk RWA remain quite stable compared to 2017 (EUR 2,932 million end June 2018 vs EUR 2,915 million).

CORPORATE GOVERNANCE

COMPOSITION OF THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS OF BELFIUS BANK

1. Management Board

On 30 June 2018, the Management Board of Belfius Bank consists of six members, namely:

Chairman	Marc Raisière
Members	Dirk Gyselinck
	Eric Hermann
	Olivier Onclin
	Dirk Vanderschrick
	Johan Vankelecom

On 25 April 2018, the directorship of Mr Dirk Gyselinck was renewed for a period of 4 years to end at the close of the Ordinary Shareholders' Meeting in 2022.

2. Board of Directors

On 30 June 2018, the Board of Directors had fifteen members, six of whom are members of the Management Board (cf. table on the following page).

BOARD OF DIRECTORS OF BELFIUS BANK (30/06/18)	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	■		■				■	
Chris Sunt	Lawyer	■		■	■			■	
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

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, Belfius has a constructive obligation at the date of this report, and 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 since 2016. The date of the hearings is not yet known.

No provision has been made for this claim.

2. "Belfius 2016" CBA's

In 2014, two trade unions within Belfius, BBTK and ACLVB, summoned the bank to demand the annulment of collective bargaining agreements (CBA) "Belfius 2016" signed in 2013 by Belfius Bank with two other trade unions. The Labour Court of Brussels decided, by an intermediary judgment of 8 June 2017 and a final judgment of 8 December 2017, that:

- CBA's can be concluded with only one trade union, even if they modify CBA's concluded with more trade unions ;
- Belfius did not violate the unions right to collective bargaining;
- "Belfius 2016" CBA's did however not respect all formalities imposed by the CBA Act and for that reason they are declared relatively null;
- The unions' claim with regard to the annulment of the "Belfius 2016" CBA's for all Belfius Bank employees is not admissible;
- The unions' claim for a moral compensation is not admissible.

Subsequent to the intermediary judgement, Belfius Bank refiled the initial version of the "Belfius 2016" CBA's in June 2017, the registration of which was previously refused by the competent Federal Authority (FOD WASO/SPF ETCS). The FOD/SPF accepted on 4 July 2017 to register these CBA's. In the opinion of Belfius Bank, this should cover the relative nullity of the "Belfius 2016" CBA's as declared by the intermediary judgment. The union's claim to also annul those CBA's was rejected by the Court in its final judgment.

In December 2017, BBTK and ACLVB confirmed that they wouldn't appeal the Labour Court's judgment. Therefore, this judgement has become definitive and the "Belfius 2016" CBA's are applicable towards all employees and all unions.

However, given the relative nullity of the "Belfius 2016" CBA's as stated in the intermediary judgment, employees could still individually claim the application of the previous CBA's in new court proceedings. In this context, Belfius has been summoned by an individual employee before the Labour Court of Brussels. Belfius is of the opinion that the chances of success of such procedure are limited.

No provision has been made for this case.

3. Arco - Cooperative shareholders

Various parties, including Belfius Bank, have been summoned by Arco - Cooperative shareholders in three separate procedures, i.e. one procedure before the Dutch speaking Commercial Court of Brussels, one procedure before the Court of First Instance of Antwerp, Section Turnhout and another procedure before the Court of First Instance of Brussels:

- On 30 September 2014, 737 shareholders from 3 companies of the Arco Group (Arcopar, Arcoplus and Arcofin) initiated (with support of Deminor) proceedings against the Arco entities and Belfius Bank before the Dutch speaking Commercial Court of Brussels (the "Deminor Proceedings"). On 19 December 2014, 1,027 additional shareholders of the Arco entities joined in the Deminor Proceedings. On 15 January 2016, 405 additional shareholders of the Arco entities joined the Deminor 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 Deminor 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. On 3 April 2018, the plaintiffs also summoned the Belgian State to intervene in the Turnhout Proceedings. The case (only procedural elements) will normally be pleaded on 22 October 2018. The Court will then have to decide if it will transfer this procedure to the proceedings in Brussels.

- 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. Groups of Arco-shareholders organized themselves via social media to mobilize other Arco shareholders to become claimant in this procedure, and to the knowledge of Belfius, as of today, at least 3,800 Arco shareholders did so. 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.

For further information on the Summer agreement, dd 23 July 2018, please refer to the "Notes to the condensed consolidated interim financial statements", section "post-balance-sheet events".

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 an estimated 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 started a proceeding on the merits before 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 merits, 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 merits.

On 29 March 2018 Belfius introduced a request for an "interim injunction" before the commercial court of Brussels, as part of the proceeding on the merits and with the purpose of obtaining - from Ethias - the withheld financial information about the pension plan. The interim injunction is expected in the course of Q3 2018

A first complete judgment on the merits 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 (i) unilaterally increase the management costs, (ii) unilaterally de-segregate the pension plan and (iii) 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 credits 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 those 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.

CERTIFICATE OF A RESPONSIBLE PERSON

I, Johan Vankelecom, Member of the Board of Directors, Member of the Management Board and Chief Financial Officer of Belfius Bank SA, certify, on behalf of the Board of Directors, that, to the best of my knowledge,

A. the condensed consolidated interim financial statements, for the period ended 30 June 2018, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss;
B. the interim management report includes a fair review of
   - → important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements,
   - → a description of the principal risks and uncertainties for the remaining six months of the financial year.

Brussels, 9 August 2018

For the Board of Directors

Johan Vankelecom
Member of the Board of Directors
Member of the Management Board
Chief Financial Officer

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 1H 2018

This section has been reviewed by the auditors

This section has been reviewed by the auditors

This section has been reviewed by the auditors

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

Assets (In thousands of EUR)		31/12/17 IAS 39
I.	Cash and balances with central banks	10,236,669
II.	Loans and advances due from banks	14,121,427
III.	Loans and advances to customers	90,056,926
IV.	Investments held to maturity	5,441,999
V.	Financial assets available for sale	17,982,597
VI.	Financial assets measured at fair value through profit or loss	3,240,298
VII.	Derivatives	20,303,034
VIII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	3,720,764
IX.	Investments in equity method companies	31,481
X.	Tangible fixed assets	1,059,212
XI.	Intangible assets	162,074
XII.	Goodwill	103,966
XIII.	Current tax assets	20,343
XIV.	Deferred tax assets	235,399
XV.	Other assets	1,224,230
XVI.	Non current assets (disposal group) held for sale and discontinued operations	18,782
TOTAL ASSETS		167,959,201

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

Liabilities (In thousands of EUR)		31/12/17 IAS 39
I.	Due to banks	11,109,893
II.	Customer borrowings and deposits	76,274,483
III.	Debt securities	22,027,063
IV.	Financial liabilities measured at fair value through profit or loss	8,892,710
V.	Technical provisions of insurance companies	15,149,692
VI.	Derivatives	21,264,032
VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	105,017
VIII.	Provisions and contingent liabilities	425,300
IX.	Subordinated debts	1,198,968
X.	Current tax liabilities	51,351
XI.	Deferred tax liabilities	176,964
XII.	Other liabilities	1,762,321
XIII.	Liabilities included in disposal group and discontinued operations	0
TOTAL LIABILITIES		158,437,793

Equity (In thousands of EUR)		31/12/17 IAS 39
XIV.	Subscribed capital	3,458,066
XV.	Additional paid-in capital	209,232
XVI.	Treasury shares	0
XVII.	Reserves and retained earnings	4,811,537
XVIII.	Net income for the period	605,502
CORE SHAREHOLDERS' EQUITY		9,084,337
XIX.	Remeasurement available-for-sale reserve on securities	812,081
XX.	Frozen fair value of financial assets reclassified to loans and advances	(474,031)
XXI.	Remeasurement defined benefit plan	112,998
XXII.	Discretionary participation features of insurance contracts	0
XXIII.	Other reserves	(14,147)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		436,901
TOTAL SHAREHOLDERS' EQUITY		9,521,237
XXIV.	Non-controlling interests	171
TOTAL EQUITY		9,521,408
TOTAL LIABILITIES AND EQUITY		167,959,201

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

Assets (In thousands of EUR)		Notes	01/01/18 IFRS 9	30/06/18 IFRS 9
I.	Cash and balances with central banks	5.1	10,236,669	11,168,351
II.	Loans and advances due from credit institutions	5.2	13,801,882	13,174,319
	A. Measured at amortised cost		*13,801,882*	*13,174,319*
	B. Measured at fair value through other comprehensive income		*0*	*0*
	C. Measured at fair value through profit or loss		*0*	*0*
III.	Loans and advances	5.3	85,406,374	87,558,168
	A. Measured at amortised cost		*83,060,191*	*85,560,628*
	B. Measured at fair value through other comprehensive income		*0*	*0*
	C. Measured at fair value through profit or loss		*2,346,183*	*1,997,540*
IV.	Debt securities & equity instruments	5.4	30,776,327	28,880,455
	A. Measured at amortised cost		*21,143,773*	*21,193,328*
	B. Measured at fair value through other comprehensive income		*6,962,747*	*5,578,665*
	C. Measured at fair value through profit or loss		*2,669,808*	*2,108,462*
V	Unit linked products insurance activities		2,597,572	2,824,305
VI.	Derivatives	5.5	16,414,511	14,994,931
VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	5.5	5,046,357	4,770,270
VIII.	Investments in equity method companies		31,481	36,215
IX.	Tangible fixed assets		1,059,212	1,044,326
X.	Intangible assets		162,074	181,425
XI.	Goodwill		103,966	103,966
XII.	Tax assets		337,298	419,922
	A. Current tax assets		*20,343*	*95,645*
	B. Deferred tax assets		*316,955*	*324,277*
XIII.	Technical insurance provisions - part of the reinsurer		276,930	281,003
XIV.	Other assets	5.6	947,299	1,490,622
XV.	Non current assets (disposal group) held for sale and discontinued operations		18,782	23,099
TOTAL ASSETS			167,216,734	166,951,378

For comparability purposes, Belfius presents the balance sheet at Date of Initial Application (DIA) on 01/01/18 with the balance sheet end June 2018. Note that a detailed analysis of the DIA is available in note 3 "accounting principles on a consolidated basis" chapter "Transition tables from IAS 39 to IFRS 9".

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

Liabilities (In thousands of EUR)		Notes	01/01/18 IFRS 9	30/06/18 IFRS 9
I.	Cash and balances from central banks	6.1	3,978,544	3,970,500
II.	Credit institutions borrowings and deposits	6.2	7,131,349	7,251,545
	A. Measured at amortised cost		*7,131,349*	*7,251,545*
	B. Measured at fair value through profit or loss		*0*	*0*
III.	Borrowings and deposits	6.3	76,328,151	78,124,709
	A. Measured at amortised cost		*76,274,483*	*78,070,844*
	B. Measured at fair value through profit or loss		*53,669*	*53,865*
IV.	Debt securities issued and other financial liabilities	6.4	28,268,533	27,039,999
	A. Measured at amortised cost		*22,027,063*	*20,197,965*
	B. Measured at fair value through profit or loss		*6,241,470*	*6,842,034*
V.	Unit linked products insurance activities		2,597,572	2,824,305
VI.	Derivatives	5.5	21,195,874	19,833,614
VII	Gain/loss on the hedged item in portfolio hedge of interest rate risk	5.5	105,017	143,099
VIII.	Provisions for insurance activities	6.5	14,583,630	14,321,049
IX.	Provisions and contingent liabilities	6.6	538,164	514,118
X.	Subordinated debts	6.7	1,198,968	1,206,466
	A. Measured at amortised cost		*1,198,968*	*1,206,466*
	B. Measured at fair value through profit or loss		*0*	*0*
XI.	Tax liabilities		84,521	55,920
	A. Current tax liabilities		*51,351*	*32,633*
	B. Deferred tax liabilities		*33,170*	*23,288*
XII.	Other liabilities		1,761,932	1,777,823
XIII.	Liabilities included in disposal group and discontinued operations		0	0
TOTAL LIABILITIES			157,772,256	157,063,147

Equity (In thousands of EUR)		01/01/18 IFRS 9	30/06/18 IFRS 9
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	5,120,363	4,829,858
XVIII.	Net income for the period	0	334,622
SHAREHOLDERS' CORE EQUITY		8,787,661	8,831,778
XIX.	Fair value changes of debt instruments measured at fair value through other comprehensive income	375,113	279,167
XX.	Fair value changes of equity instruments measured at fair value through other comprehensive income	187,222	157,275
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	0	0
XXII.	Fair value changes of derivatives following cash flow hedging	(18,901)	(22,757)
XXIII.	Remeasurement pension plans	112,998	116,592
XXIV.	Discretionary participation features of insurance contracts	0	13,979
XXV.	Other reserves	215	215
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		656,646	544,469
TOTAL SHAREHOLDERS' EQUITY		9,444,308	9,376,247
XXVI.	Additional Tier-1 instruments included in equity	0	497,083
XXVII.	Non-controlling interests	171	14,901
TOTAL EQUITY		9,444,478	9,888,231
TOTAL LIABILITIES AND EQUITY		167,216,734	166,951,378

For comparability purposes, Belfius presents the balance sheet at Date of Initial Application (DIA) on 01/01/18 with the balance sheet end June 2018. Note that a detailed analysis of the DIA is available in note 3 "accounting principles on a consolidated basis" chapter "Transition tables from IAS 39 to IFRS 9".

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

(In thousands of EUR)			30/06/17 IAS 39	30/06/18 IFRS 9
I.	Interest income	7.1	1,826,104	1,650,880
II.	Interest expense	7.1	(841,904)	(705,574)
III.	Dividend income		46,194	49,241
IV.	Net income from equity method companies		2,230	1,229
V.	Net income from financial instruments at fair value through profit or loss	7.2	67,563	14,105
VI.	Net income on investments and liabilities	7.3	94,371	95,954
VII.	Fee and commission income	7.4	354,594	367,292
VIII.	Fee and commission expenses	7.4	(82,290)	(90,245)
IX.	Technical result from insurance activities	7.5	(88,325)	(2,551)
	A. Gross earned premiums		*713,349*	*729,640*
	B. Other technical income and charges		*(801,675)*	*(732,191)*
X.	Other income	7.6	68,467	100,278
XI.	Other expenses	7.7	(311,490)	(307,478)
INCOME			1,135,512	1,173,130
XII.	Staff expenses		(259,380)	(293,944)
XIII.	General and administrative expenses		(235,933)	(244,293)
XIV.	Network costs		(127,283)	(105,988)
XV.	Depreciation and amortisation of fixed assets		(39,085)	(45,984)
EXPENSES			(661,681)	(690,210)
GROSS INCOME			473,831	482,921
XVI.	Impairments on financial instruments and provisions for credit commitments		(24,371)	(9,200)
XVII.	Impairments on tangible and intangible assets		(4,607)	(658)
XVIII.	Impairments on goodwill		0	0
NET INCOME BEFORE TAX			444,852	473,063
XIX.	Current tax (expense) income		(57,061)	(110,685)
XX.	Deferred tax (expense) income		(26,828)	(27,328)
TOTAL TAX (EXPENSE) INCOME			(83,888)	(138,013)
NET INCOME AFTER TAX			360,964	335,050
XXI.	Discontinued operations (net of tax)		0	0
NET INCOME			360,964	335,050
Attributable to non-controlling interests			20	428
Attributable to equity holders of the parent			360,945	334,622

Seeing that no proforma is made for the statement of income, the statement of income reported under IAS 39 end June 2017 is compared with the statement of income end June 2018 under IFRS 9. Note that a detailed analysis of the DIA is available in note 3 "accounting principles on a consolidated basis" chapter "Transition tables from IAS 39 to IFRS 9".

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(In thousands of EUR)	30/06/17		
	Before-tax amount	Tax (expense) income	Net-of-tax amount
IAS 39			
RESULT RECOGNISED IN THE STATEMENT OF INCOME	444,852	(83,888)	360,964
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Remeasurement defined benefit plan	14,893	(5,062)	9,831
TOTAL OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS	14,893	(5,062)	9,831
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	5,401	9,736	15,137
Gains (losses) on cash flow hedges	(4,672)	4,032	(640)
Other comprehensive income from assets held for sale	11,855	3,997	15,852
Discretionary participation features of insurance contracts	20,575	(5,372)	15,203
TOTAL OF OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS	33,159	12,393	45,552
OTHER COMPREHENSIVE INCOME	48,052	7,331	55,383
TOTAL COMPREHENSIVE INCOME	492,904	(76,558)	416,347
Attributable to equity holders of the parent			416,327
Attributable to non-controlling interests			20

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

(In thousands of EUR)	30/06/18		
	Before-tax amount	Tax (expense) income	Net-of-tax amount
IFRS 9			
RESULT RECOGNISED IN THE STATEMENT OF INCOME	473,063	(138,013)	335,050
Fair value changes of equity instruments measured at fair value through other comprehensive income	(31,036)	1,379	(29,656)
Remeasurement pension plans	4,792	(1,198)	3,594
TOTAL OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS	(26,244)	181	(26,062)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(136,179)	40,270	(95,909)
Gains (losses) on cash flow hedges	(12,379)	8,523	(3,856)
Discretionary participation features of insurance contracts	18,418	(4,440)	13,979
TOTAL OF OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	(130,140)	44,353	(85,787)
OTHER COMPREHENSIVE INCOME	(156,384)	44,534	(111,849)
TOTAL COMPREHENSIVE INCOME	316,679	(93,478)	223,200
Attributable to equity holders of the parent	315,885	(93,440)	222,445
Attributable to non-controlling interests	794	(38)	756

"Belfius realised an income before tax of EUR 473 million, an increase of EUR 28 million compared to 1H 2017. Notwithstanding the continuous pressure on the interest margin, Belfius realised good commercial results thanks to strong growth of commercial volumes. In addition, Belfius was able to continue its strict cost containment.

The tax expenses increased mainly as a result of the use of tax losses in 1H 2017 which were not recognised before. As a result the net income after tax decreased with EUR 26 million.

The remeasurement of defined benefit plans increased due to slightly higher discount rate, partially offset by the favorable return on the pension plan assets.

Following the implementation of IFRS 9 as from 1 January 2018, the total other comprehensive income is difficult to compare as 1H 2017 is reported under IAS 39 whereas 1H 2018 is reported under IFRS 9.

The 1H 2017 unrealised gains (losses) was mainly impacted by sales within the Belfius Insurance portfolio as well as the shadow accounting adjustment due to the interest rate evolution.

The 1H 2018 decrease of fair value changes of debt instruments stemmed from an increase of the credit spreads compared to last year and from realized capital gains resulting from disinvestments. The decrease in fair value changes of equity instruments resulted from market evolutions.

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM 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
IAS 39					
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			395,229	(395,229)	0
Dividends[1]				(140,000)	(140,000)
Net income for the period				360,945	360,945
AS AT 30 JUNE 2017	3,458,066	209,232	4,886,534	360,945	8,914,777

(1) Belfius has paid a dividend of EUR 140 million over the 2016 result in April 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	
IAS 39								
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	(98,127)				15,203			(82,924)
Transfers to income of available-for-sale reserve amounts due to impairments	(142)							(142)
Transfers to income of available-for-sale reserve amounts due to disposals	(51,712)	3,038						(48,673)
Amortisation of net fair value on reclassified portfolio in application of IAS 39 amended		7,887						7,887
Net change in fair value through equity - cah flow hedges			(594)					(594)
Net change in cash flow hedge reserve due to transfers to income			(46)					(46)
Transfers to technical provisions of insurance companies[2][3]	170,044							170,044
Provisions booked from/to equity							9,831	9,831
Transfers	(15,852)			15,852				0
AS AT 30 JUNE 2017	734,076	(487,727)	(34,183)	15,852	48,042	217	96,821	373,097

(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) These transfers concern amounts after tax as a result of 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.
(3) The technical provisions of associates are not included in the consolidated balance sheet.

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim 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
IAS 39			
AS AT 31 DECEMBER 2016	173	0	173
Movements of the period			
Dividends	(6)		(6)
Net income for the period	20		20
AS AT 30 JUNE 2017	187	0	187

(In thousands of EUR)	
IAS 39	
Core shareholders' equity	8,914,777
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	373 097
Non-controlling interests	187
TOTAL EQUITY AS AT 30 JUNE 2017	9,288,062

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim 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
IFRS 9					
AS AT 31 DECEMBER 2017	3,458,066	209,232	5,417,038	0	9,084,337
IFRS 9 DATE OF INITIAL APPLICATION IMPACT	0	0	(296,675)	0	(296,675)
AS AT 1 JANUARY 2018	3,458,066	209,232	5,120,363	0	8,787,661
Movements of the period					
Dividends[1]	0	0	(288,000)	0	(288,000)
Dividends Additional Tier 1	0	0	(3,685)	0	(3,685)
Net income for the period	0	0	0	334,622	334,622
transfers from OCI due to sale of equity instruments	0	0	1,180	0	1,180
AS AT 30 JUNE 2018	3,458,066	209,232	4,829,858	334,622	8,831,778

(1) Belfius paid EUR 288 million as dividend over 2017, as well as an interim dividend of EUR 75 million in 2H 2017.

The IFRS 9 DIA impact is mainly related to

- the new calculation for impairment of EUR 257 million (expected credit loss model) and
- the remeasurement of non basic financial assets.

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim 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 debt instruments at fair value through other comprehensive income	Gains (losses) on cash flow hedges	Discretionary participation features of insurance contracts	Unrealised result of property revaluation	Remeasurement equity instruments at fair value through other comprehensive income	Remeasurement defined benefit plan	
IFRS 9							
AS AT 31 DECEMBER 2017	105,849	(14,361)	0	215	232,201	112,998	436,901
IFRS 9 DATE OF INITIAL APPLICATION IMPACT	269,264	(4,540)	0	0	(44,979)	0	219,745
AS AT 1 JANUARY 2018	375,113	(18,901)	0	215	187,222	112,998	656,646
Movements of the period							
Net change in fair value through other comprehensive income - debt instrument	(31,925)	0	13,979	0	0	0	(17,946)
Transfer to income due to impairments - debt instruments	3,313	0	0	0	0	0	3,313
Transfer to income due to disposals - debt instruments	(66,248)	0	0	0	0	0	(66,248)
Net change in fair value through other comprehensive income - equity instruments	0	0	0	0	(24,818)	0	(24,818)
Net change in fair value through equity - derivatives - hedging reserve	0	(3,807)	0	0	0	0	(3,807)
Net change in cash flow hedge reserve due to transfers to income	0	(49)	0	0	0	0	(49)
Transfers to technical provisions of insurance companies	(1,086)	0	0	0	(3,334)	0	(4,420)
Provisions booked from/to equity	0	0	0	0	0	3,594	3,594
Transfers	0	0	0	0	(616)	0	(616)
Transfers to RE due to sale of equity instruments	0	0	0	0	(1,180)	0	(1,180)
AS AT 30 JUNE 2018	279,167	(22,757)	13,979	215	157,275	116,592	544,469

The impact of IFRS 9 is mainly related to the business model reassessment. Belfius Bank defined a "held to collect" business model resulting in the reversal of the negative frozen Available-For-Sale reserve as well as the negative unrealised gains and losses not recognised in the statement of income.

At Belfius Insurance a mixed model is applied following the ALM policies and guidelines, making that the insurance group determined that a large part of this portfolio should be defined as "held to collect" and certain debt securities as "held to collect and sell" to cover the liquidity needs.

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

Additional Tier-1 instruments included in equity

(In thousands of EUR)

IFRS 9	
AS AT 1 JANUARY 2018	0
Movements of the period	
Issuance of AT 1 instruments	497,083
AS AT 30 JUNE 2018	497,083

On 1 February 2018, Belfius issued EUR 500 million capital instruments, that qualify as AT1 under CRR/ CRD IV. The AT1 security has been analysed 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 after 7.25 years ("First Call Date") and every interest payment date thereafter. A CET 1 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).

Non-controlling interests

(In thousands of EUR)

IFRS 9	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 1 JANUARY 2018	171	0	171
Movements of the period			
Dividends	184	0	184
Net income for the period	428	0	428
Net change in fair value through equity	0	328	328
Variation of scope of consolidation	13,790	0	13,790
Other movements	0	0	0
AS AT 30 JUNE 2018	14,573	328	14,901

The non-controlling interests are mainly related to the minority stake within Auxipar.

(In thousands of EUR)

IFRS 9	
Core shareholders' equity	8,831,778
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	544,469
Additional Tier-1 instruments included in equity	497,083
Non-controlling interests	14,901
TOTAL EQUITY AS AT 30 JUNE 2018	9,888,231

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

Equity	30/06/17 IAS 39	30/06/18 IFRS 9
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)		
Ordinary	1,00	0,93
Diluted	1,00	0,93
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 30 June	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 79 to 157 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

(In thousands of EUR)	30/06/17 IAS 39	31/12/17 IAS 39
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after tax	360,964	605,522
Adjustment for:		
Depreciation, amortisation and other impairment	*50,006*	*91,278*
Impairment on bonds, equities, loans and other assets	*(28,736)*	*(93,620)*
Net (gains) or losses on investments	*(41,309)*	*(106,527)*
Increase / (decrease) of provisions (mainly insurance provision)	*(629,424)*	*(495,916)*
Unrealised (gains) or losses	*188,131*	*193,629*
Income from equity method companies	*(2,230)*	*(4,195)*
Dividends from equity method companies	*854*	*7,626*
Deferred taxes	*26,828*	*165,749*
Unrealised FX gain/loss	*(30,631)*	*(53,873)*
Changes in operating assets and liabilities[(1)(2)]	2,785,407	1,190,845
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES[(1)]	2,679,859	1,500,517
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(74,667)	(147,778)
Sales of fixed assets	31,472	79,208
Acquisitions of unconsolidated equity shares	(73,415)	(209,873)
Sale of unconsolidated equity shares[(3)]	153,992	354,124
Acquisition of subsidiaries and of business units	(5,235)	(5,235)
Sale of subsidiaries and of business units	0	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	32,147	70,447
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of subordinated debts[(4)]	99,251	49,626
Repayments of subordinated debts[(1)]	(265,098)	(215,472)
Dividends paid[(5)]	(140,006)	(140,023)
Interim dividends paid[(6)]	0	(75,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES[(1)]	(305,852)	(380,870)
NET CASH PROVIDED	2,406,154	1,190,094
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	10,418,931	10,418,931
Cash flow from operating activities[(1)]	2,679,859	1,500,517
Cash flow from investing activities	32,147	70,447
Cash flow from financing activities[(1)]	(305,852)	(380,870)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	12,825,085	11,609,025
ADDITIONAL INFORMATION		
Income tax paid (included in line net cash provided (used) by operating activities)	(97,712)	(176,012)
Dividends received (included in line net cash provided (used) by operating activities)	47,048	80,709
Interest received (included in line net cash provided (used) by operating activities)	1,897,804	3,663,805
Interest paid (included in line net cash provided (used) by operating activities)	(822,401)	(1,607,916)

(1) The figures of 30/06/17 have been restated for the repayments of subordinated debts which was previously reported under the line "changes in operating assets and liabilities".
"(2) 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 September 5th, 2017, with a maturity of 5 years and an annual coupon of 0.75%. The second tranche of EUR 500 million was issued on October 19th, 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.
(3) Belfius has sold its investments in "Aviabel", "Pole Star" and "North Light" during 2017.
(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.
(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 3Q 2017.

We refer to the chapter "Liquidity" of the management report for a detailed description of the liquidity position.

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

(In thousands of EUR)	30/06/18 IFRS 9
CASH FLOW FROM OPERATING ACTIVITIES	
Net income after tax	334,622
Net income attribuable to minority interests	428
ADJUSTMENT FOR NON CASH ITEMS:	57,879
Depreciation, amortisation and other impairment	54,369
Impairment on bonds, loans and other assets	(12,462)
Net (gains) or losses on investments	(25,639)
Net (gains) or losses on investments - assets	*(2,038)*
Net (gains) or losses on investments - equity	*(23,601)*
Increase / (decrease) of provisions (mainly insurance provision)	(10)
Unrealised (gains) or losses	14,019
Net unrealised gains from cash flow hedges	(49)
Income from equity method companies	(1,229)
Dividends from equity method companies	1,552
Deferred taxes	27,328
Deferred tax income	*(68,368)*
Deferred tax charges	*95,695*
Other adjustments	0
CHANGES IN OPERATING ASSETS	(356,340)
Balances with central banks	0
Loans and advances due from credit institutions	1,331,315
Loans and advances	(2,204,745)
Debt securities and equity instruments	1,073,146
Assets from insurance companies	(9,806)
Tax asset	(78,013)
Accrued income from financial assets	123,181
Other assets	(590,710)
Assets held for sale-other assets	(707)
CHANGES IN OPERATING LIABILITIES	328,268
Balances with central banks	0
Loans and advances due to credit institutions	118,970
Customer borrowings and deposits	1,807,854
Debt securities	(1,231,635)
Technical provisions of insurance companies	(249,413)
Provisions and contingent liabilities	0
Tax liabilties	(12,508)
Accrued expenses on financial instruments	(112,074)
Other liabilities specific to insurance companies	(6,560)
Other liabilities	13,634
Liabilities held for sale-other liabilities	0
OTHER OPERATING FLOWS	836,917
DERIVATIVES	479,098
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,680,872

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

(In thousands of EUR)	30/06/18 IFRS 9
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(68,481)
Sales of fixed assets	8,074
Acquisitions of unconsolidated equity shares(1)	(84,640)
Sale of unconsolidated equity shares(2)	47,379
Acquisitions of subsidiaries and of business units(3)	(29,379)
Sale of subsidiaries and of business units	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(127,048)
CASH FLOW FROM FINANCING ACTIVITIES	
Issuance of subordinated debts(4)	198,952
Reimbursement of subordinated debts(4)	(190,919)
Issuance of Additional Tier-1 instruments(5)	497,083
Dividends paid(6)	(291,500)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	213,616
NET CASH PROVIDED	1,767,440
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	11,609,025
Cash flow from operating activities	1,680,872
Cash flow from investing activities	(127,048)
Cash flow from financing activities	213,616
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	(57)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	13,376,408
ADDITIONAL INFORMATION	
Income tax paid (included in line net cash provided (used) by operating activities)	(204,067)
Dividends received (included in line net cash provided (used) by operating activities)	50,793
Interest received (included in line net cash provided (used) by operating activities)	1,772,224
Interest paid (included in line net cash provided (used) by operating activities)	(808,182)

(1) Belfius Insurance has sold certain equity positions for risk and ALM purposes.
(2) Belfius Bank sold its investments in "NEB participations", an associate evaluated through the equity method, for EUR 37 million.
(3) On 29 March, Belfius acquired 35.3% of the shares of Auxipar.
(4) Belfius issued a new subordinated debt tier 2 for a nominal amount of EUR 200 million in the first quarter of 2018. In addition, the Governing Council of the European Central Bank (ECB) has granted Belfius permission to call three Tier 2 instruments in the first half year of 2018 for an amount of EUR 191 million.
(5) On 1 February 2018, Belfius issued EUR 500 million capital instruments, that qualify as AT1 under CRR/ CRD IV.
(6) Belfius paid a dividend of EUR 288 million over the 2017 result in 2Q 2018, note that an interim dividend of EUR 75 million had been paid in 2017). In addition, a dividend on Additional Tier 1 of EUR 4 million was paid.

The notes on pages 79 to 157 are an integral part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

II. POST-BALANCE-SHEET EVENTS

Please find below an overview of non-adjusting events between the balance sheet date (30 June 2018) and the publication of this report.

1. Interim dividend

The Board of Directors has decided to pay out an interim dividend of EUR 100 million in September 2018.

2. Summer agreement 23 July 2018

In the continuity of former federal governments' initiatives with respect to Arco, the federal government reconfirmed its will to work on a sustainable solution in view of indemnifying Arco-shareholders/ individuals of registered financial cooperatives.

In the "Summer Agreement" of 23 July 2017, the federal government decided to finance a sustainable solution with funds stemming from the IPO of Belfius and the proceeds of the Arco liquidation.

In the "Summer Agreement" of 23 July 2018, the federal government reconfirmed its engagement to partially indemnify the individual Arco-shareholders for their alleged losses with respect to the liquidation of the Arco-companies. In the summer agreement of 2018, the federal government envisages Belfius to provide a direct contribution through a settlement for litigation and an indirect contribution through an extra ordinary dividend linked to the potential IPO.

Belfius did not commit to a constructive obligation. Important uncertainties remain with respect to the contemplated sustainable and structured solution (i.e. position of the European Commission on the contemplated solution, adherence of Arco shareholders, the uncertain impact on the litigation proceedings, market circumstances etc). Furthermore, the estimation of an amount related to such potential obligation cannot be made reliable at the moment. Belfius has not recognized a provision for litigations in the 1H accounts.

III. ACCOUNTING PRINCIPLES

The principal accounting policies adopted in the preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements have been approved by the Board of Directors of Belfius on 9 August 2018.

ACCOUNTING POLICIES

1. Basis of accounting – statement of compliance

1.1. General

The condensed consolidated interim financial statements of Belfius are prepared in accordance with IAS 34 interim reporting as adopted by the EU.

The Royal Decree of 5 December 2004 requires Belfius to publish its consolidated financial statements according to the IFRS approved by the European Union as from 31 December 2006.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with Belfius consolidated annual financial statements as at 31 December 2017.

2. Changes in accounting policies and applicable standards since the previous annual publication that may impact Belfius

Since the previous publication in the annual report of Belfius, the accounting policies were adapted for the accounting of financial instruments and revenue recognition, for which starting 1 January 2018 IFRS 9 and IFRS 15 are applied. Further information about the nature and the effect of these changes are provided in detail in the 2017 annual report of Belfius: Notes to the consolidated financial statements – section III. Accounting principles on a consolidated basis - paragraph 2.4. IFRS 9 "Financial instruments" and paragraph 2.5. IFRS 15 "Revenue from Contracts with Customers", and in the transition disclosures in paragraph "Transition tables from IAS 39 to IFRS 9".

The overview of the texts below is made until the reporting date of 30 June 2018.

2.1. IASB and IFRIC texts endorsed by the European Commission and applied as from 1 January 2018

The IASB has published an IFRIC and several limited amendments and improvements to existing IFRS. They will be applied, if necessary, but their impact is estimated to be negligible.

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" clarifies the exchange rate to use when accounting for transactions where Belfius recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.
- Amendments to IAS 40 "Transfers of Investment Property" clarify the requirements on transfers to, or from, investment property.
- The amendments to IFRS 1 and IAS 28, as part of the "Annual Improvements to IFRSs 2014-2016 Cycle".
- Amendments to IFRS 2 related to "Classification and Measurement of Share-based Payment Transactions" deal with the following topics: vesting conditions, net settlement features and modifications to the terms and conditions.

2.2. IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2018

Standards under analysis

- 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.

2.3. New IFRS standards, IFRIC interpretations 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

- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" state that in case a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. These amendments might impact Belfius and are effective from 1 January 2019 with early application permitted.
- The revised "Conceptual Framework for Financial Reporting" includes revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. It does not have a stated effective date and the IASB Board will start using it immediately.
- The "Amendments to References to the Conceptual Framework in IFRS Standards" document updates references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS practice statements. These might impact Belfius and are effective from 1 January 2020.

Standards with no impact

Nihil.

Standards not applicable for Belfius

Nihil.

2.4. Ongoing projects

2.4.1. 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.

2.4.2. IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)

In January 2016, the IASB issued IFRS 16 Leases, which will become effective on 1 January 2019.

Belfius Bank has performed a qualitative and quantitative analysis to assess the impact of the new standard:

- Identification of all the contracts that are within the scope of the standard.
- Specification in each contract of the identified assets and the right to control the use of the identified asset
- Distinction between service components and lease components within each contract
- Analysis of the contracts in connection with the recognition exemptions as provided in IFRS 16 relating to the lease term (short term leases) and low value assets . As Belfius has opted to apply these recognition exemptions, Belfius will recognise the lease payments associated with those leases as an expense on a straight-line basis over the lease term
- Calculation of the impact of first time adoption and the future impact in the statement of profit or loss due to the application of IFRS 16

Based on this first assessment and the fact that the standard does not significantly change the lessor accounting model, the estimation of the first impact on the financial statements of Belfius is expected to be limited.

2.5. Changes in presentation

The additional Tier-1 issuance of January 2018 exclusively addressed to institutional investors is classified as an equity instrument as requested by IAS 32 and reported in a separate equity line item "XXVI - Additional Tier-1 instruments included in equity". This leads to a renumbering of the previously used line item "XXVI - Non-controlling interests" into the new line item "XXVII - Non-controlling interests". Because this is a mere renumbering of a line item, Belfius does not provide a pro-forma balance sheet.

Seeing that under IFRS 9, an option is provided not to restate the comparatives, Belfius has decided to make use of this exemption. As a result, Belfius presents IAS 39 balance sheet and IAS 39 statement of income as they were reported in the fully year 2017 financial statements.

TRANSITION TABLES FROM IAS 39 TO IFRS 9

Abbreviations used

AC	Amortised 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 equivalent presented based on the nature of assets (nature lay-out)	
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 equivalent presented based on the nature of assets (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*	*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 instruments 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 following cash flow hedging	(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 based on the valuation method of the assets and liabilities. However, as from 1 January 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 lines:

- 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 adapted lay-out, bonds will be presented in a single line item called "Debt securities & equity instruments" presenting sub-lines for the different valuation methods.

As such, the balance sheet under IAS 39 has been changed 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:

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 (except reference "B" that impact both assets and liabilities). 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 to derivatives following cash flow hedging 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 01/01/18 IFRS 9

IAS 39 equivalent presented based on the nature of assets (nature lay-out) 31/12/17			IFRS 9 impact on classification and measurement, including additional impairment								IFRS 9 01/01/18
			Classification				Remeas-urement	Ref	Impair-ment	Ref	Total
(in millions of EUR)			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*	*91*	*O*	*317*
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									167,217

IAS 39 equivalent presented based on the nature of assets (nature lay-out) 31/12/17 (in millions of EUR)		Remeasurement	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	*177*	*(144)*	*O*			*33*
XII. Other liabilities	1,762					1,762
XIII. Liabilities included in disposal groups held for sale						
TOTAL LIABILITIES	158,369					157,772
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)		(257)	P	5,120
XVIII. Net income for the period						
CORE SHAREHOLDERS' EQUITY	9,084					8,788
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 instruments 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 following cash flow hedging	(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					9,444
XXVI. Non-controlling interests	0					0
TOTAL EQUITY	9,521					9,444
TOTAL LIABILITIES AND EQUITY	167,891					167,217

Introduction

The tables given above are identical to the disclosure made in the 2017 Annual Report, except for an adjustment to deferred tax. The change related to a refinement of the tax rates used to calculate the deferred taxes.

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 analysed whether the contractual cash flows of the financial assets represent solely payments of principal and interest (SPPI test) on the principal amount outstanding.
  The amounts mentioned in the column "Classification" are the carrying amounts 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 carrying amounts 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 designated at FVTOCI) as well as on loan commitments, financial guarantees, lease receivables within the scope of IAS 17, and on trade receivables 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.

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; and
- investments in funds 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 investments in funds 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 securitisation. The fact that loans are sold to a securitisation vehicle that does not transfer risks and rewards to third parties and 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 applied 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 as 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 carrying amounts of the financial assets are recognised in either the opening balance of RE or another component of equity (the deferred tax impact is accounted for in the same line-item as the adjustment), 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 carrying amount under IAS 39 and the fair value is recognised 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 recognised in the AFS reserve at the time of reclassification was frozen and amortised 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 carrying amount 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 carrying amount under IAS 39 and the carrying amount under IFRS 9 is recognised 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 carrying amount under IAS 39 and IFRS 9 is either recognised 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 (under the new nature lay-out"), but measured at AC under IFRS 9, the cumulative gain or loss recognised 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 carrying amount under IAS 39 and the fair value is recognised 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 (under the new nature lay-out"), 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 unrealised 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 recognised net unrealised gains are not attributable to Belfius Insurance, but rather to the policy holders. Belfius Insurance applied shadow accounting whereby these net unrealised gains were reclassified from OCI to the provision for insurance activities. While, under IFRS 9, these net unrealised gains still exist, they are no longer recognised 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. The impacts mainly derive from the reversal of the frozen AFS reserve, the reversal of the AFS reserve relating to financial assets measured at FVTOCI under IAS 39 but measured at AC under IFRS 9, and the decrease noted in the shadow accounting.

Impact on OCI for equity instruments

Seeing that for equity instruments irrevocably classified through OCI, no recycling is performed in profit or loss, all previously recognised 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

Impairment

Under IFRS 9, Impairment is to be recognised (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 impairment.

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:

- Determination of the appropriate stage per exposure
- Calculation of the ECL per exposure

In order to determine the appropriate stage per exposure, a key element of the assessment consists of comparing the credit rating at origination for all its financial assets within the scope of the IFRS 9 impairment requirements with the credit rating at reporting date. If a significant increase in credit risk is observed, the financial asset is allocated to stage 2 and a lifetime 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 valuation rules.

In order to determine the impact of the impairment, on DIA IFRS 9, the collective impairment calculated with the IAS 39 model is reversed through RE and the new ECL is recorded as a deduction of the financial assets in case the financial asset is measured at AC or recognised 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 carrying amount 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

Reconciliation of impairment allowance balance from IAS 39 (+ specific provisions IAS 37) to IFRS 9

IAS 37/39 as published 31/12/17 (in millions of EUR)	Collective impairment	Specific impairment	Specific provisions
II. Loans and advances due from banks	(5)	0	
III. Loans and advances to customers	(310)	(1,153)	
IV. Investments held to maturity	0	0	
	0	(67)	
V. Financial assets available for sale			
TOTAL LOAN LOSS ALLOWANCE	(315)	(1,220)	
VIII. Provisions and contingent liabilities[1]	0	0	(8)
TOTAL PROVISION	0	0	(8)

IFRS 9 01/01/18 (in millions of EUR)	IFRS 9 impact on impairment					
	Movements[2]	Remeasurement	Total	Impairment per stage		
					Stage 2	Stage 3
II. Loans and advances due from credit institutions	5	0	0	0	0	0
A. Measured at amortised cost	*5*	*0*	*0*	*0*	*0*	*0*
III. Loans and advances	103	(116)	(1,475)	(138)	(184)	(1,153)
A. Measured at amortised cost	*103*	*(116)*	*(1,475)*	*(138)*	*(184)*	*(1,153)*
IV. Debt securities & equity instruments	(42)	(125)	(232)	(2)	(229)	(1)
A. Measured at amortised cost	*(108)*	*(81)*	*(189)*	*(1)*	*(187)*	*(1)*
B. Measured at fair value through other comprehensive income	*66*	*(44)*[3]	*(44)*	*(2)*	*(42)*	*0*
	66	(241)	(1,708)	(141)	(413)	(1,154)
IX. Provisions and contingent liabilities[1]	0	(113)	(121)[4]	(51)	(57)	(13)
	0	(113)	(121)	(51)	(57)	(13)

(1) Relates to financial guarantees and commitments given included in this line-item
(2) Movements relate to the impacts noted when applying the new layout when moving from a "valuation method" layout to a "nature based layout", reclassifications under IFRS 9 taking into consideration both the business models and the SPPI assessments.
(3) This loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the debt instruments measured at FVTOCI in the statement of financial position. It's presented in this table for comparability purposes (gross of deferred tax) only, together with the impairment of other financial assets.
(4) This amount is made up of EUR 81.7 million relating to loan commitments, and EUR 39.5 million to financial guarantees.

Reclassification to amortised cost

(in millions of EUR)	
FROM AVAILABLE-FOR-SALE (IAS 39 CLASSIFICATION) TO AMORTISED COST (IFRS 9 CLASSIFICATION)	
Fair value as at 31 December 2017	11,206
Fair value as at 30 June 2018	11,250
FAIR VALUE GAIN/(LOSS) THAT WOULD HAVE BEEN RECOGNISED DURING THE YEAR IF THE FINANCIAL ASSET HAD NOT BEEN RECLASSIFIED	43

IV. OPERATING SEGMENTS REPORTING

(Some amounts may not add up due to roundings)

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 into Group Center.

1. Balance sheet

	31/12/17		
(In thousands of EUR)	Assets	Liabilities	Equity
IAS 39			
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%.

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.

	30/06/18		
(In thousands of EUR)	Assets	Liabilities	Equity
IFRS 9			
Retail and Commercial	56,900,371	78,969,631	2,476,209
Public and Corporate	42,205,886	25,534,279	2,367,563
Group Center	67,845,120	52,559,237	5,044,459
TOTAL	166,951,378	157,063,147	9,888,231
of which banking group	148,592,681	139,620,158	8,972,523
of which insurance group[1]	18,358,696	17,442,988	915,708

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

2. Statement of income

A. Segmentation by business line

(In thousands of EUR)	30/06/17			
	Retail and Commercial	Public and Corporate	Group Center	Total
IAS 39 (PF[1])				
INCOME	872,314	293,159	(29,961)	1,135,512
Net interest income bank	*455,846*	*177,312*	*110,598*	*743,755*
Net Fee and commissions bank	*243,019*	*24,538*	*(3,950)*	*263,607*
Life insurance contribution	*142,560*	*17,228*	*(9,846)*	*149,942*
Non-life insurance contribution	*81,742*	*15,545*	*0*	*97,286*
Other	*(50,853)*	*58,537*	*(126,763)*	*(119,078)*
EXPENSES	(498,971)	(100,331)	(62,379)	(661,681)
Gross income	373,342	192,828	(92,340)	473,831
Impairments on loans and advances and provisions for credit commitments	(18,756)	(11,084)	5,469	(24,371)
Impairments on (in)tangible assets	(3,927)	(591)	(90)	(4,607)
NET INCOME BEFORE TAX	350,660	181,153	(86,961)	444,852
Tax (expense) income	(106,077)	(59,070)	81,259	(83,888)
NET INCOME AFTER TAX	244,583	122,083	(5,702)	360,964
Non-controlling interests	0	0	20	20
Net income group share	244,583	122,083	(5,722)	360,945
of which banking group	*137,672*	*109,816*	*(12,901)*	*234,587*
of which insurance group[2]	*106,911*	*12,267*	*7,180*	*126,358*

(1) Due to the (i) integration of the new Belgian sector levy "Single Belgian Bank Levy" and (ii) the allocation of the collateral cost to the business lines, the operating segments reporting 1H 2017 has been restated to allow comparison with 1H 2018, resulting in higher income for Retail and Commercial and Public and Corporate and lower income for Group Center). These analytical adjustments have no impact on the total results of Belfius.
(2) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

(In thousands of EUR)	30/06/18			
	Retail and Commercial	Public and Corporate	Group Center	Total
IFRS 9				
INCOME	859,106	292,500	21,524	1,173,130
Net interest income bank	*423,829*	*199,776*	*106,908*	*730,513*
Net Fee and commissions bank	*238,513*	*25,971*	*810*	*265,294*
Life insurance contribution	*153,474*	*37,574*	*(8,958)*	*182,090*
Non-life insurance contribution	*100,970*	*5,588*	*(109)*	*106,449*
Other	*(57,680)*	*23,591*	*(77,127)*	*(111,216)*
EXPENSES	(509,280)	(112,665)	(68,264)	(690,210)
Gross income	349,826	179,835	(46,740)	482,921
Impairments on financial instruments and provisions for credit commitments	(16,106)	(13,200)	20,105	(9,200)
Impairments on (in)tangible assets	(829)	(217)	388	(658)
NET INCOME BEFORE TAX	332,892	166,418	(26,247)	473,063
Tax (expense) income	(91,563)	(39,597)	(6,853)	(138,013)
NET INCOME AFTER TAX	241,329	126,821	(33,101)	335,050
Non-controlling interests	180	0	248	428
Net income group share	241,149	126,821	(33,349)	334,622
of which banking group	117,841	107,866	(40,336)	185,371
of which insurance group[1]	123,309	18,955	6,987	149,251

(1) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

B. Segmentation by contribution scope

(In thousands of EUR)	30/06/17 Contribution Bank into group[1]	30/06/17 Contribution Insurance into group[1]	30/06/17 Total
IAS 39			
INCOME	864,082	271,430	1,135,512
Net interest income	*743,755*	*240,444*	*984,199*
Dividend income	*5,755*	*40,439*	*46,194*
Net income from equity method companies	*518*	*1,713*	*2,230*
Net income from financial instruments at fair value through profit or loss	*67,535*	*27*	*67,563*
Net income on investments and liabilities	*15,661*	*78,710*	*94,371*
Net fee and commission income	*263,607*	*8,697*	*272,304*
Technical margin insurance activities	*0*	*(88,325)*	*(88,325)*
Other income & expense	*(232,749)*	*(10,274)*	*(243,023)*
EXPENSES	(554,926)	(106,756)	(661,681)
Gross income	309,156	164,674	473,831
Impairments on loans and advances and provisions for credit commitments	(24,939)	568	(24,371)
Impairments on tangible and intangible assets	(4,607)	0	(4,607)
NET INCOME BEFORE TAX	279,610	165,243	444,852
Tax (expense) income	(45,004)	(38,885)	(83,888)
NET INCOME AFTER TAX	234,606	126,358	360,964
Non-controlling interests	20	0	20
Net income group share	234,587	126,358	360,945

(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).

(In thousands of EUR)	30/06/18 Contribution Bank into group[1]	30/06/18 Contribution Insurance into group[1]	30/06/18 Total
IFRS 9			
INCOME	864,937	308,193	1,173,130
Net interest income	*730,513*	*214,792*	*945,305*
Dividend income	*8,586*	*40,655*	*49,241*
Net income from equity method companies	*775*	*454*	*1,229*
Net income from financial instruments at fair value through profit or loss	*16,903*	*(2,797)*	*14,105*
Net income on investments and liabilities	*42,168*	*53,786*	*95,954*
Net fee and commission income	*265,294*	*11,753*	*277,047*
Technical margin insurance activities	*0*	*(2,551)*	*(2,551)*
Other income & expense	*(199,303)*	*(7,898)*	*(207,201)*
EXPENSES	(576,886)	(113,323)	(690,210)
Gross income	288,050	194,870	482,921
Impairments on financial instruments and provisions for credit commitments	(13,142)	3,942	(9,200)
Impairments on tangible and intangible assets	(658)	0	(658)
NET INCOME BEFORE TAX	274,251	198,812	473,063
Tax (expense) income	(88,880)	(49,133)	(138,013)
NET INCOME AFTER TAX	185,371	149,679	335,050
Non-controlling interests	0	428	428
Net income group share	185,371	149,251	334,622

(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).

We refer for a detailed description of the segment results to the management report.

V. NOTES ON THE ASSETS OF THE CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(some amounts may not add up due to rounding)

5.1. CASH AND CASH EQUIVALENTS

Analysis by nature

(In thousands of EUR)	31/12/17 IAS 39	01/01/18 IFRS 9	30/06/18 IFRS 9
Cash in hand	553,016	553,016	452,771
Balances with central banks other than mandatory reserve deposits	8,883,355	8,883,355	10,715,580
Mandatory reserves deposits[1]	800,299	800,299	0
TOTAL	**10,236,669**	**10,236,669**	**11,168,351**
Of which included in cash and cash equivalents	*10,236,964*	*10,236,964*	*11,168,585*

(1) The "Mandatory reserves deposits" includes the minimum reserve deposits that Belfius has with European Central Bank or with other central banks. Note that end June 2018, no reserves were posted at the ECB, though, on average, EUR 800 million is posted during the month.

Cash and balances with central banks increased with 9.1% or EUR 0.9 billion to EUR 11.2 billion as at 30 June 2018, due to an increase of EUR 0.9 billion deposit facility at the National Bank of Belgium where Belfius, in view of its liquidity management, deposits part of its surplus cash.

5.2. LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS

Due to the application of IFRS 9 and the new presentation of the balance sheet (bonds in "loans and advances due from banks" were transfered to "Debt securities & equity instruments"), the presentation and figures of 31 December 2017 are different from the opening balance of 1 January 2018. We refer to the transition IFRS 9 tables for a detailed description. Note that Belfius chose not to restate comparatives.

1. Presentation and figures on 31/12/17 (IAS 39)

Loans and advances due from banks (refers to table 5.3. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Cash collateral	11,828,695
Sight accounts	155,887
Reverse repurchase agreements	1,525,227
Loans and other advances	292,201
Bonds	324,256
Impaired loans	0
Impaired bonds	0
Less:	
Specific impairment on impaired loans or impaired bonds	*0*
Collective impairment	*(4,838)*
TOTAL	**14,121,427**
of which included in cash and cash equivalents	*1,369,062*
of which included in financial lease	*49,332*

2. Presentation and figures on 30/06/18 (IFRS 9)

A. Summary Totals

(In thousands of EUR)	01/01/18	30/06/18
Measured at Amortised Cost	13,801,882	13,174,319
Measured at fair value through other comprehensive income	0	0
Measured at fair value through profit and loss	0	0
TOTAL	13,801,882	13,174,319

B. Analysis by nature

Not measured at fair value through profit or loss

(In thousands of EUR)	01/01/18		30/06/18	
	Amortised Cost	Measured at fair value through other comprehensive income	Amortised Cost	Measured at fair value through other comprehensive income
Cash collateral	11,828,695	0	10,869,799	0
Sight accounts	155,887	0	232,448	0
Reverse repurchase agreements	1,525,227	0	1,445,427	0
Financial lease	49,332	0	68,934	0
Other loans and advances	242,869	0	557,790	0
Impaired loans stage 3	0	0	0	0
Less :				
impairment stage 1 2 3	*(128)*	*0*	*(80)*	*0*
TOTAL	13,801,882	0	13,174,319	0
of which included in cash and cash equivalents	*1,369,062*	*0*	*2,063,764*	*0*

Loans and advances due from credit institutions decreased with 4.5% or EUR 0.6 billion to EUR 13.2 billion as at 30 June 2018, due to a decrease of cash collateral paid of EUR 1.0 billion, partially offset by an increase of EUR 0.4 billion interbank loans.

Note that end June 2018 an amount of EUR 0.6 billion reverse repurchase agreements have been netted with repurchase agreements, in line with the requirements described in IAS 32.

3. Analysis of quality

See note 9.2.

4. Analysis of the fair value

See note 9.1.

5.3. LOANS AND ADVANCES

Due to the application of IFRS 9 and the new presentation of the balance sheet (bonds in "loans and advances to customers" were transfered to "Debt securities & equity instruments"), the presentation and figures of 31 December 2017 are different from the opening balance of 1 January 2018 . We refer to the transition IFRS 9 tables for a detailed description. Note that Belfius chose not to restate comparatives.

1. Presentation and figures on 31/12/17 (IAS 39)

Loans and advances to customers (refers to table 5.4. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Cash collateral	580,869
Reverse repurchase agreements	671,084
Loans and other advances	83,475,952
of which bills and own acceptances	*23,112*
of which finance lease	*3,260,637*
of which consumer loans	*1,458,315*
of which mortgage loans	*30,558,045*
of which term loans	*45,063,091*
of which current accounts	*1,672,995*
of which other loans and advances	*1,439,756*
Bonds	4,969,959
Impaired loans	1,821,591
Impaired bonds	0
Less:	
Specific impairment on impaired loans or impaired bonds	*(1,152,862)*
Collective impairment	*(309,668)*
TOTAL	90,056,926

1. Presentation and figures on 30/06/18 (IFRS 9)

A Summary Totals

(In thousands of EUR)	01/01/18	30/06/18
Measured at Amortised Cost	83,060,191	85,560,628
Measured at fair value through other comprehensive income	0	0
Measured at fair value through profit and loss	2,346,183	1,997,540
TOTAL	85,406,374	87,558,168

B. Analysis by nature

Not measured at fair value through profit or loss

(In thousands of EUR)	01/01/18		30/06/18	
	Amortised Cost	Measured at fair value through other comprehensive income	Amortised Cost	Measured at fair value through other comprehensive income
Cash collateral	580,869	0	680,678	0
Reverse repurchase agreements	671,084	0	1,005,171	0
Financial lease	3,242,635	0	3,251,549	0
Other Loans and advances[1]	78,219,770	0	80,198,380	0
of which bills and own acceptances		*0*	*36,218*	*0*
of which securitised loans		*0*	*0*	*0*
of which consumer loans		*0*	*1,581,800*	*0*
of which mortgage loans[2]		*0*	*31,252,202*	*0*
of which term loans[3]		*0*	*44,472,700*	*0*
of which current accounts		*0*	*1,310,998*	*0*
of which other loans and advances		*0*	*1,544,461*	*0*
Impaired loans stage 3	1,821,242	0	1,916,687	0
Less				
Impairment stage 1 2 3	(1,475,411)	0	(1,491,837)	0
TOTAL	83,060,191	0	85,560,628	0

(1) The underlying pool of loans of the covered bonds (Pandbrieven) amount to EUR 10.1 billion end June 2018 (and EUR 9.5 billion end 2017). This covered pool guarantees the outstanding covered bonds, of which EUR 5.5 billion mortgage covered bonds (versus EUR 4.9 billion end 2017) and EUR 2.4 billion public covered bonds (versus EUR 2.3 billion end 2017). This increase is explained by the issue of EUR 0.7 billion covered bonds in 2018.
(2) In 2017 EUR 6.3 billion "mortgage loans" were securitised, in June 2018 this decreased to EUR 5.9 billion.
(3) In 2017 EUR 2.6 billion "term loans" were securitised, in June 2018 this decreased to EUR 2.4 billion.

As at 30 June 2018 loans and advances amounted to EUR 87.6 billion. The increase of EUR 2.2 billion, or 2.5%, compared to 1 January 2018, is essentially explained by an increase in commercial assets for EUR 2.1 billion (mainly mortgage loans and term loans) in line with our strategy to further develop our commercial franchise and to support the Belgian economy. Other items explaining the evolution are an increase in reverse repurchase agreements of EUR 0.3 billion and an increase of cash collateral paid of EUR 0.1 billion.

Measured at fair value through profit and loss

(In thousands of EUR)	01/01/18			
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Non-trading financial assets mandatorily measured at fair value through profit or loss	Total
Loans and advances	32,285	3,143	2,310,755	2,346,183

(In thousands of EUR)	30/06/18			
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Non-trading financial assets mandatorily measured at fair value through profit or loss	Total
Loans and advances	33,347	0	1,964,193	1,997,540

Note that at date of initial application of IFRS 9, a total stock of EUR 2.3 billion loans did not pass the SPPI-test and are therefore measured at fair value through profit or loss. It mainly concerns loans to the public and social sector with specifically structured interest rate features.

As customary, regularly restructurings take place, transforming from time to time non basic loans into basic loans structures. This resulted in 1H 2018 in a decrease of EUR 0.3 billion in the non-basic loans and advances measured at fair value through profit or loss.

3. Analysis of quality

See note 9.2.

4. Analysis of the fair value

See note 9.1.

5.4. DEBT SECURITIES & EQUITY INSTRUMENTS

Due to the application of IFRS 9 and the new presentation of the balance sheet (bonds in "loans and advances due from banks" were transfered to "Debt securities & equity instruments"), the presentation and figures of 31 December 2017 are different from the opening balance of 1 January 2018 . We refer to the transition IFRS 9 tables for a detailed description. Note that Belfius chose not to restate comparatives.

1. Presentation and figures on 31/12/17 (IAS 39)

Loans and advances due from banks (refers to table 5.3. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Cash collateral	11,828,695
Sight accounts	155,887
Reverse repurchase agreements	1,525,227
Loans and other advances	292,201
Bonds	324,256
Impaired loans	0
Impaired bonds	0
Less:	
Specific impairment on impaired loans or impaired bonds	*0*
Collective impairment	*(4 838)*
TOTAL	14,121,427
Of which included in cash and cash equivalents	*1,369,062*
Of which included in financial lease	*49,332*

Bonds issued by public sector	3,943,947
Other bonds and fixed-income instruments	1,498,052
TOTAL	5,441,999

Loans and advances to customers (refers to table 5.4. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Cash collateral	580,869
Reverse repurchase agreements	671,084
Loans and other advances	83,475,952
of which bills and own acceptances	*23,112*
of which finance lease	*3,260,637*
of which consumer loans	*1,458,315*
of which mortgage loans	*30,558,045*
of which term loans	*45,063,091*
of which current accounts	*1,672,995*
of which other loans and advances	*1,439,756*
Bonds	4,969,959
Impaired loans	1,821,591
Impaired bonds	0
Less:	
Specific impairment on impaired loans or impaired bonds	*(1,152,862)*
Collective impairment	*(309,668)*
TOTAL	90,056,926

Investments held to maturity (refers to table 5.5. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Bonds issued by public sector	3 943 947
Other bonds and fixed-income instruments	1 498 052
TOTAL	5,441,999

Financial assets available for sale (refers to table 5.6. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Bonds issued by public sector	11,135,849
Other bonds and fixed-income instruments	4,023,536
Equity and variable-income instruments	2,890,061
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT	18,049,445
Specific impairment on impaired financial investments	(66,848)
TOTAL	17,982,597

Financial assets measured at fair value through profit or loss (refers to table 5.7. of the annual report 2017)

FINANCIAL ASSETS HELD FOR TRADING

Analysis by nature

(In thousands of EUR)	31/12/17
Bonds issued by public sector	208,771
Other bonds and fixed-income instruments	392,280
Equity and variable-income instruments	38,532
TOTAL	639,583

2. Presentation and figures on 30/06/18 (IFRS 9)

A. Summary Totals

(In thousands of EUR)	01/01/18	30/06/18
Measured at Amortised Cost	21,143,773	21,193,328
Measured at fair value through other comprehensive income	6,962,747	5,578,665
Measured at fair value through profit and loss	2,669,808	2,108,462
TOTAL	30,776,327	28,880,455

The debt securities & equity instruments decreased by EUR 1.9 billion to EUR 28.9 billion as at 30 June 2018. The "Debt securities & equity instruments" portfolio is situated in the insurance group for EUR 12.6 billion (versus EUR 13.2 billion at 1 January 2018), and in the banking group EUR 16.3 billion (versus EUR 17.6 billion at 1 January 2018).

Two types of business models can be distinguished within Belfius group. The bond portfolios within the banking group are managed within a business model whose objective is to "held to collect" contractual cash flows until maturity apart from certain positions that were classified as "held to collect and sell". The latter concerns part of the Italian government bond portfolio which has been sold in the meantime for concentration risk management purposes. The debt securities of the insurance group are managed according to their ALM policies and guidelines, resulting in the insurance group having determined that a large part of this portfolio should be defined as "held to collect" and certain debt securities as "held to collect and sell" to cover the liquidity needs within Belfius Insurance.

Seeing that certain bond positions did not comply with the solely payment of principal and interest on the principal amount outstanding, a classification at fair value through profit and loss was required. It mainly concerns monetary funds within Belfius Insurance.

B. Analysis by nature

Not measured at fair value through profit or loss

	01/01/18		30/06/18	
(In thousands of EUR)	Amortised Cost	Measured at fair value through other comprehensive income	Amortised Cost	Measured at fair value through other comprehensive income
Debt securities issued by public sector	10,362,673	3,913,529	10,760,630	2,510,517
Other debt securities	10,968,114	1,718,472	10,620,802	1,587,909
Equity	0	1,374,444	0	1,501,473
Impaired debt securities stage 3	1,782	0	1,782	0
Less :				
impairment stage 1 2 3	*(188,797)*	*(43,699)*	*(189,887)*	*(21,234)*
TOTAL	21,143,773	6,962,747	21,193,328	5,578,665
of which included in cash and cash equivalents	*3,000*	*0*	*144,059*	*0*

The debt securities measured at amortised cost remained stable at EUR 21.2 billion, in line with the business models for the debt instruments.

The financial assets measured at fair value through other comprehensive income amounted at EUR 5.6 billion; a decrease of EUR 1.4 billion, mainly resulting from the sale of some Italian government bonds for a notional amount of EUR 0.8 billion at Belfius Bank, in line with Belfius' objective to decrease its related concentration risk, and the sale of some government bonds at Belfius Insurance within customary ALM management in the individual life segment.

Measured at fair value through profit and loss

(In thousands of EUR)	01/01/18			
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Non-trading financial assets mandatorily measured at fair value through profit or loss	Total
Debt securities issued by public sector	208,771	0	178,104	386,875
Other debt securities	393,662	0	1,850,738	2,244,400
Equity instruments	38,532	0	1	38,533
TOTAL	640,965	0	2,028,843	2,669,808

(In thousands of EUR)	30/06/18			
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Non-trading financial assets mandatorily measured at fair value through profit or loss	Total
Debt securities issued by public sector	125,687	0	129,287	254,974
Other debt securities	358,820	0	1,384,137	1,742,958
Equity instruments	110,530	0	0	110,530
TOTAL	595,038	0	1,513,424	2,108,462

The debt securities measured at fair value through profit or loss decreased with EUR 0.6 billion to EUR 2.1 billion principally following a disinvestment of EUR 0.4 million at Belfius Insurance of mainly monetary (mutual) funds.

Within Measured at fair value through other comprehensive income - Equity

(In thousands of EUR)	30/06/18		
	Reason for designation	Fair Value	Dividend income recognised
Investments designated as at FVOCI			
TOTAL	Investment portfolio	1,501,473	47,007

(In thousands of EUR)	30/06/18		
	Reason for disposal	Fair Value at derecognition date	Transfer of cumulative gain or loss within equity
Investments derecognised at FVOCI			
TOTAL	Investment portfolio	31,794	1,180

Belfius Insurance has sold certain equity positions for a risk and ALM purposes.

3. Analysis of quality

See note 9.2.

4. Analysis of the fair value

See note 9.1.

5.5. DERIVATIVES

Refers to table 5.9. of the annual report 2017

Due to the new presentation of the balance sheet under IFRS 9, the figures of 31 December 2017 are different from the opening balance of 1 January 2018 . We refer to the IFRS 9 transition table for a detailed description. Note that with IFRS 9, applicable as from 1 January 2018, the notion of non closely embedded derivatives for financial assets no longer exists as the financial asset should be considered as a whole. As a result, the notion of bifurcated embedded derivatives as such disappears from the balance (fair value) and off balance sheet accounts (notional amount). Belfius chose not to restate comparatives.

1. Analysis by nature

	31/12/17		01/01/18		30/06/18	
(In thousands of EUR)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading	18,457,596	15,520,935	14,529,941	15,286,752	12,966,181	12,765,236
Derivatives designated as fair value hedges	63,235	187,425	67,176	304,078	145,671	1,848,425
Derivatives designated as cash flow hedges	523,792	517,284	523,836	516,887	697,714	715,374
Derivatives designated as portfolio hedge	1,258,411	5,038,388	1,293,558	5,088,157	1,185,365	4,504,578
TOTAL	20,303,034	21,264,032	16,414,511	21,195,874	14,994,931	19,833,614

A significant decrease in the fair value of derivatives can be noted following market evolutions. Note that the netting on the balance sheet of the fair value of the derivatives with LCH amounted to EUR 8.1 billion end 2018, compared to EUR 8.7 billion end 2017.

2. Detail of derivatives held for trading

	31/12/17				30/06/18			
	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	20,591,576	20,551,302	2,391,248	2,348,671	18,618,143	18,607,829	1,779,490	1,730,169
Interest rate derivatives	332,322,969	336,781,752	15,800,846	12,965,473	311,056,985	307,624,494	10,926,184	10,821,553
of which option/cap/floor/ collar/swaption	*173,599,993*	*183,217,533*	*2,659,586*	*2,934,108*	*159,096,814*	*168,531,341*	*2,484,756*	*2,738,510*
of which interest rate swaps	*147,584,187*	*147,277,950*	*13,141,053*	*10,031,045*	*136,699,979*	*136,570,444*	*8,440,894*	*8,082,951*
of which forward rate agreements	*1,099,985*	*0*	*1*	*(56)*	*4,500,000*	*0*	*61*	*0*
of which forwards	*0*	*0*	*0*	*158*	*51,700*	*0*	*319*	*5*
of which interest futures	*10,038,803*	*6,286,269*	*205*	*218*	*10,708,491*	*2,522,709*	*154*	*86*
Credit derivatives	1,509,537	1,522,677	120,279	111,749	1,520,772	1,559,705	121,791	107,552
Equity derivatives	3,719,182	3,318,170	145,224	95,041	4,320,242	4,221,809	138,717	105,963
TOTAL	358,143,264	362,173,900	18,457,596	15,520,935	335,516,142	332,013,837	12,966,181	12,765,236

(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 the case of f.e. an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated; 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).

The implementation of IFRS 9 had an impact on the notional amount of the derivatives. In particular, Belfius opted under IAS 39, at origination, to present its non closely related embedded derivatives separately from the host contract on the balance sheet (as permitted by IAS 39) and classified the non closely related embedded derivatives as derivatives on the balance sheet. As a result, end 2017, the trading derivatives include the bifurcated embedded derivatives on that specific part of the bond and loan portfolios as well as on some issued debt securities, even if these derivatives are part of a hedge relationship.

With the application of IFRS 9, the notion of non closely embedded derivative for financial assets no longer exists. As a result, an impact on the off balance sheet accounts (notional amounts) as well as on the balance sheet amounts (fair value) can be noted. More in particular, a decrease of EUR 13.5 billion can be noted on the notional amounts following the implementation of IFRS 9.

3. Detail of derivatives designated as fair value hedges

	31/12/17				30/06/18			
	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	550,973	502,334	63,235	187,425	795,701	674,318	142,949	708,019
Interest rate derivatives	0	0	0	0	4,807,903	4,807,903	2,721	1,133,469
of which option/cap/floor/ collar/swaption	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
of which interest rate swaps	*0*	*0*	*0*	*0*	*4,807,903*	*4,807,903*	*2,721*	*1,133,469*
of which forward rate agreements	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
of which interest futures	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Credit derivatives	0	0	0	0	0	0	0	0
Equity derivatives	0	0	0	0	677,893	0	0	6,937
TOTAL	550,973	502,334	63,235	187,425	6,281,498	5,482,221	145,671	1,848,425

(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 the case of f.e. an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated; 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 the 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

	31/12/17				30/06/18			
	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	3,833,433	3,810,606	523,792	517,284	5,247,373	5,224,935	697,714	715,374
of which fx forward	0	0	0	0	0	0	0	3,506
of which cross currency swaps	3,833,433	3,810,606	523,792	517,284	5,247,373	5,224,935	697,714	711,868
of which fx future	0	0	0	0	0	0	0	0
Interest rate derivatives	0	0	0	0	0	0	0	0
of which interest rate swaps	0	0	0	0	0	0	0	0
Credit derivatives	0	0	0	0	0	0	0	0
Other derivatives	0	0	0	0	0	0	0	0
Equity derivatives	0	0	0	0	0	0	0	0
Commodity derivatives	0	0	0	0	0	0	0	0
TOTAL	3,833,433	3,810,606	523,792	517,284	5,247,373	5,224,935	697,714	715,374

(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 the case of f.e. an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated; 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, since then Belfius needs to pay 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	2,439,788	(3,566,898)
More than three but not more than six months	2,439,788	(3,548,368)
More than six months but not more than one year	2,439,788	(3,541,902)
More than one but not more than two years	2,439,788	(3,515,391)
More than two but not more than five years	2,439,788	(3,415,169)
More than five years	2,211,074	(3,127,501)

5. Detail of derivatives of portfolio hedge

	31/12/17				30/06/18			
	Notional amount[1]		Assets	Liabilities	Notional amount[1]		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	53,542,070	53,535,860	1,258,411	5,038,388	50,633,966	50,627,914	1,185,365	4,504,578
TOTAL	53,542,070	53,535,860	1,258,411	5,038,388	50,633,966	50,627,914	1,185,365	4,504,578

(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 the case of f.e. an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated; 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 4.8 million assets and EUR 0.1 million liabilities on 30 June 2018 compared to EUR 3.7 million assets and EUR 0.1 million liabilities at year-end 2017 (IAS 39). We refer to note 3 "accounting principles on a consolidated basis", chapter "Transition tables from IAS 39 to IFRS 9" for a detailed description of the impacts of IFRS 9.

5.6. OTHER ASSETS

Refers to table 5.15. of the annual report 2017

(In thousands of EUR)	31/12/17	01/01/18	30/06/18
OTHER ASSETS	773,888	773,887	1,308,104
Accrued income	62,741	62,741	143,961
Deferred expenses	23,544	23,544	42,463
Payments in transit from clients	647,259	635,995	1,065,893
Plan assets	12,328	12,328	12,210
Inventories	3	3	7
Operational taxes	28,013	28,013	31,372
Precious metals	0	11,264	12,197
OTHER ASSETS SPECIFIC TO INSURANCE COMPANIES	450,342	173,412	182,518
Share of the reinsurers in the technical reserves[1]	276,930		
Receivables resulting from direct insurance transactions	72,037	72,037	74,807
Other insurance assets[2]	101,375	101,375	107,712
Impaired insurance assets	697	697	697
Less:			
Impairment	*(697)*	*(697)*	*(697)*
TOTAL	1,224,230	947,299	1,490,622

(1) The line item "Share of the reinsurers in the technical reserves" has been presented seperately under the new presentation of the balance sheet
(2) Other insurance assets are deposits placed with cedants as a guarantee for reinsurance transactions and claims on reinsurers.

The other assets have increased mainly due to an increase of pending payments from clients.

VI. NOTES ON THE LIABILITIES OF THE CONSOLIDATED BALANCE SHEET

(some amounts may not add up due to rounding)

6.1. CASH AND BALANCES FROM CENTRAL BANKS

Note that with the application of IFRS 9, Belfius has taken the opportunity to review its presentation on the balance sheet. Belfius has opted to present loans from central banks seperately under IFRS 9 instead of a cumulative presentation with loans from financial institutions.

1. Presentation and figures on 31/12/17

Due to banks (refers to table 6.1. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Demand deposits	280,552
Term deposits	745,574
Repurchase agreements	1,811
Central Banks	**3,978,544**
Cash collateral received	5,452,457
Other borrowings	650,955
TOTAL	11,109,893

2. Presentation and figures on 30/06/18

Analysis by nature

Not measured at fair value through profit or loss

(In thousands of EUR)	31/12/17	01/01/18	30/06/18
Deposits	3,978,544	3,978,544	3,970,500
TOTAL	3,978,544	3,978,544	3,970,500

Cash and balances from central banks remained stable at EUR 4.0 billion.

3. Analysis of the fair value

See note 9.1.

6.2. CREDIT INSTITUTIONS BORROWINGS AND DEPOSITS

Note that with the application of IFRS 9, Belfius has taken the opportunity to review its presentation on the balance sheet. Belfius has opted to present loans from central banks seperately under IFRS 9 instead of a cumulative presentation with loans from financial institutions.

1. Presentation and figures on 31/12/17

Due to banks (refers to table 6.1. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Demand deposits	280,552
Term deposits	745,574
Repurchase agreements	1,811
Central banks	3,978,544
Cash collateral received	5,452,457
Other borrowings	650,955
TOTAL	11,109,893

2. Presentation and figures on 30/06/18

A. Summary Totals

(In thousands of EUR)	31/12/17	01/01/18	30/06/18
Measured at amortised cost	7,131,349	7,131,349	7,251,545
Measured at fair value through profit and loss	0	0	0
TOTAL	7,131,349	7,131,349	7,251,545

B. Analysis by nature

Not measured at fair value through profit or loss

	Amortised Cost	
(In thousands of EUR)	01/01/18	30/06/18
Demand deposits	280,552	161,388
Term deposits	745,574	1,071,608
Repurchase agreements	1,811	724,546
Cash collateral received	5,452,457	4,494,818
Other borrowings	650,955	799,185
TOTAL	7,131,349	7,251,545

Credit Institutions borrowings and deposits increased with EUR 0.1 billion to EUR 7.3 billion as at 30 June 2018 following increases in repurchase agreements for EUR 0.7 billion and deposits by EUR 0.4 billion, partially offset by a decrease in cash collateral received by EUR 1.0 EUR. Over 2018, Belfius maintained its outstanding TLTRO II participation of EUR 4.0 billion in view of continuing to take on its role of lending to the real economy.

Note that end June 2018 an amount of EUR 0.6 billion repurchase agreements have been netted with reverse repurchase agreements, in line with the requirements described in IAS 32.

3. Analysis of the fair value

See note 9.1.

6.3. BORROWINGS AND DEPOSITS

Due to the the new presentation of the balance sheet
(Further detailing of balance sheet from "Financial liabilities measured at FVTPL" to
→ Borrowings and deposits measured at FVTPL;
→ Debt securities issued and other financial liabilities measured at FVTPL; and
→ Unit linked products insurance activities),
the presentation of 31 December 2017 is different as from 1 January 2018 . We refer to the transition IFRS 9 tables for a detailed description. Belfius chose not to restate comparatives.

1. Presentation and figures on 31/12/17

Customer borrowings and deposits (refers to table 6.2. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Demand deposits	24,318,276
Saving deposits	35,952,551
Term deposits	8,908,989
Other customer deposits	7,033,386
TOTAL CUSTOMER DEPOSITS	76,213,201
Repurchase agreements	10,415
Other borrowings	50,866
TOTAL CUSTOMER BORROWINGS	61,282
TOTAL	76,274,483

Financial liabilities measured at fair value through profit or loss (refers to table 6.4. of the annual report 2017)

Financial liabilities held for trading

Analysis by nature

(In thousands of EUR)	31/12/17
Bonds issued by public sector	61,496
Other bonds	1,299
TOTAL	62,796

Financial liabilities designated at fair value

Analysis by nature

(In thousands of EUR)	31/12/17
Non-subordinated liabilities	6,232,343
Unit-linked products	2,597,572
TOTAL	8,829,915

2. Presentation and figures on 30/06/18 (IFRS 9)

A. Summary Totals

(In thousands of EUR)	01/01/18	30/06/18
Measured at amortised cost	76,274,483	78,070,844
Measured at fair value through profit and loss	53,669	53,865
TOTAL	76,328,151	78,124,709

B. Analysis by nature

Not measured at fair value through profit or loss

	Amortised Cost	
(In thousands of EUR)	01/01/18	30/06/18
Demand deposits	24,318,275	24,933,755
Saving deposits	35,952,551	37,039,867
Term deposits	8,908,989	8,655,304
Cash collateral	12,059	23,526
Other customer deposits	7,021,327	7,390,585
TOTAL DEPOSITS	76,213,201	78,043,037
Repurchase agreements	10,415	0
Other borrowings	50,866	27,807
TOTAL BORROWINGS	61,282	27,807
TOTAL	76,274,483	78,070,844

End of June 2018, borrowing and deposits increased with EUR 1.8 billion to EUR 78.1 billion, entirely due to the growth of sight and saving accounts.

Measured at fair value through profit or loss

	Financial liabilities designated at fair value through profit or loss	
(In thousands of EUR)	01/01/18	30/06/18
Deposits	53,669	53,865
TOTAL	53,669	53,865

3. Analysis of the fair value

See note 9.1.

6.4. DEBT SECURITIES ISSUED AND OTHER FINANCIAL INSTRUMENTS

Due to the the new presentation of the balance sheet
(Further detailing of balance sheet from "Financial liabilities measured at FVTPL" to:
→ Borrowings and deposits measured at FVTPL;
→ Debt securities issued and other financial liabilities measured at FVTPL; and
→ Unit linked products insurance activities),
the presentation of 31 December 2017 is different as from 1 January 2018 . We refer to the transition IFRS 9 tables for a detailed description. Belfius chose not to restate comparatives.

1. Presentation and figures on 31/12/17

Debt securities (refers to table 6.3. of the annual report 2017)

Analysis by nature

(In thousands of EUR)	31/12/17
Certificates of deposit	4,834,442
Customer saving certificates	2,358,979
Non-convertible bonds	7,612,633
Covered bonds	7,221,010
TOTAL	22,027,063

Financial liabilities measured at fair value through profit or loss (refers to table 6.4. of the annual report 2017)

Financial liabilities held for trading

Analysis by nature

(In thousands of EUR)	31/12/17
Bonds issued by public sector	61,496
Other bonds	1,299
Repurchase agreements	0
Equity instruments	0
TOTAL	62,796

Financial liabilities designated at fair value

Analysis by nature

(In thousands of EUR)	31/12/17
Non-subordinated liabilities	6,232,343
Unit-linked products	2,597,572
TOTAL	8,829,915

2. Presentation and figures on 30/06/18 (IFRS 9)

A. Summary Totals

(In thousands of EUR)	01/01/18	30/06/18
Measured at amortised cost	22,027,063	20,197,965
Measured at fair value through profit and loss	6,241,470	6,842,034
TOTAL	28,268,533	27,039,999

B. Analysis by nature

Not measured at fair value through profit or loss

(In thousands of EUR)	Amortised Cost	
	01/01/18	30/06/18
Certificates of deposit	4,834,442	3,382,906
Customer saving certificates	2,358,979	2,269,276
Non-convertible debts	7,612,633	6,647,329
Covered bonds[1]	7,221,010	7,898,454
TOTAL	22,027,063	20,197,965

(1) **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 9.5 billion in December 2017 and EUR 10.1 billion in June 2018. This increase is explained by the issue of EUR 0.6 billion covered bonds in 2018. The carrying value of the cover pool is accounted for in loans and advances. We also refer to note 5.3.

Measured at fair value through profit or loss

(In thousands of EUR)	01/01/18			30/06/18		
	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Total	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Total
Debt securities		6.178.674	6.178.674		6.759.493	6.759.493
Debt securities issued by public sector (trading positions)	61.496		61.496	82.469		82.469
Other debt securities (trading positions)	1.299		1.299	72		72
TOTAL	62.796	6.178.674	6.241.470	82.542	6.759.493	6.842.034

The debt securities measured at fair value through profit and loss increased with EUR 0.6 billion to EUR 6.8 billion following new debt issuances, partially offset by debt securities that came to maturity.

3. Analysis of the fair value

See note 9.1.

6.5. PROVISIONS FOR INSURANCE ACTIVITIES

Refers to table 6.5. of the annual report 2017

Due to the application of IFRS 9 (remeasurement) figures of 31 December 2017 are different from the opening balance of 1 January 2018. We refer to the transition IFRS 9 tables for a detailed description. Belfius chose not to restate comparatives.

Note that Belfius has opted to present the figures on technical provisions including intragroup transactions between bank and insurance entities, as these mainly relate 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)	31/12/17	01/01/18	30/06/18
GROSS RESERVES			
In the consolidated balance sheet (as presented on balance sheet)	15,149,692	14,583,630	14,321,049
Intragroup transactions	10,180	10,180	12,801
Gross reserves including intragroup transactions	15,159,873	14,593,810	14,333,850

1. General overview Life/Non-Life contracts

	31/12/17			01/01/18			30/06/18		
(In thousands of EUR)	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total
GROSS RESERVES[1]	13,914,503	1,245,370	15,159,873	13,348,441	1,245,370	14,593,810	13,058,470	1,275,380	14,333,850
Gross reserves – Share of reinsurers	180,757	96,174	276,931	180,757	96,174	276,931	192,157	88,846	281,003

(1) Liabilities V. "Technical provisions of insurance companies".

2. Insurance contracts Life

Assets and liabilities

Gross reserves

(In thousands of EUR)	31/12/17	01/01/18	30/06/18
LIFE INSURANCE RESERVES	13,006,372	13,006,372	12,785,050
Reserves due to results of LAT (Liability Adequacy Test)	0	0	0
Reserves due to shadow accounting adjustments	626,735	60,674	47,487
TOTAL LIFE INSURANCE RESERVE	13,633,107	13,067,046	12,832,538
Claims reserves	108,003	108,003	62,561
Profit sharing reserve	169,956	169,956	163,244
Other technical reserves	3,436	3,436	127
TOTAL GROSS TECHNICAL RESERVES LIFE	13,914,503	13,348,441	13,058,470

The provisions for insurance activities decreased with EUR 0.3 billion to EUR 14.3 billion as at 30 June 2018 mainly due to lower net production volumes following the low interest rate environment as well as a high number of surrenders. Note that these reserves are mostly reinvested by clients in banking products of Belfius Bank as well as in Branch 23 or Branch 44 products of Belfius Insurance.

The profit sharing dotation of current year, other than the profit sharing allocated to the segregated accounts, was offset by a reversal of the provision for the future cost of discretionary participations features recorded in the income statement. As the estimate of the future cost of discretionary participations features remained stable at EUR 141 million, an amount of EUR 18 million was reclassified in equity. The profit sharing allocated to the segregated accounts amounted to EUR 14 million and was totally offset by the financial results on the underlying asset portfolios.

3. Insurance contracts Non-Life

Assets and liabilities

Gross reserves

(In thousands of EUR)	31/12/17	01/01/18	30/06/18
GROSS RESERVES NON-LIFE	1,075,189	1,075,189	1,071,099
Other technical reserves	37,695	37,695	37,363
Unearned premium reserves (UPR)	132,486	132,486	166,918
TOTAL GROSS RESERVES NON-LIFE	1,245,370	1,245,370	1,275,380

The technical provision for Non-Life products increased with EUR 29 million mainly due to an increase in provision for unearned premiums, as the beginning of the year is characterised by important due dates, as well as, due to a growth in Non-Life activity.

Certain net unrealised 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 determination of the business models under IFRS 9. These unrecognised net unrealised gains are not attributable to Belfius Insurance, but rather to the policy holders. Belfius Insurance applied shadow accounting whereby these net unrealised gains were reclassified from OCI to the technical provision for insurance activities. While, under IFRS 9, these net unrealised gains still exist, they are no longer recognized on the balance sheet, as such, a reclassification from gains and losses not recognized in the statement of income to technical provision for insurance activities is not applied.

6.6. PROVISIONS AND CONTINGENT LIABILITIES

Refers to table 6.6. of the annual report 2017

Due to the application of IFRS 9 (impairment) an impact on "provisions for off balance sheet commitments given" can be noted. As a result, the figures of 31 December 2017 are different from the ones of 1 January 2018. We refer to the IFRS 9 transition tables for a detailed description. Note that Belfius chose not to restate comparatives.

1. Analysis by nature

(In thousands of EUR)	31/12/17	01/01/18	30/06/18
Pensions and other employment defined benefit obligations	184,937	184,937	185,229
Other long term employee benefits	25,774	25,774	25,581
Restructuring(1)	62,365	62,365	45,536
Provisions for legal and tax litigations	110,437	110,437	105,003
Onerous contracts	0	0	0
Commitments and guarantees given (off-balance sheet)	8,401	121,266	122,190
Other provisions	33,385	33,385	30,579
TOTAL	425,300	538,164	514,119

(1) In 1H 2018, a restructuring provision of EUR 5 million was recognised following the decision of Belfius Insurance to focus its non-life insurance business on the segment of social sector through direct distribution and to put the non-life-activities towards other institutional and corporate customers through the brokerage channel in run-off, and to reallocate freed-up resources to its strong developing non-life insurance business with SME customers through its own (bank and DVV) distribution channels. The decrease in restructuring provisions is mainly related to the use of previously recognised restructuring provisions.

2. Contingent liabilities

A. Commitments to Single Resolution Fund

Belfius has opted in the past to pay part of its contribution to the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment was fully covered by cash collateral. In 2018, Belfius does not make use of this option. 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, Belfius has a constructive obligation at the date of this report, and 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 since 2016. The date of the hearings is not yet known.

No provision has been made for this claim.

"Belfius 2016" CBA's

In 2014, two trade unions within Belfius, BBTK and ACLVB, summoned the bank to demand the annulment of collective bargaining agreements (CBA) "Belfius 2016" signed in 2013 by Belfius Bank with two other trade unions. The Labour Court of Brussels decided, by an intermediary judgment of 8 June 2017 and a final judgment of 8 December 2017, that :

- CBA's can be concluded with only one trade union, even if they modify CBA's concluded with more trade unions;
- Belfius did not violate the unions right to collective bargaining;
- "Belfius 2016" CBA's did however not respect all formalities imposed by the CBA Act and for that reason they are declared relatively null;
- The unions' claim with regard to the annulment of the "Belfius 2016" CBA's for all Belfius Bank employees is not admissible;
- The unions' claim for a moral compensation is not admissible.

Subsequent to the intermediary judgement, Belfius Bank refiled the initial version of the "Belfius 2016" CBA's in June 2017, the registration of which was previously refused by the competent Federal Authority (FOD WASO/SPF ETCS). The FOD/SPF accepted on 4 July 2017 to register these CBA's. In the opinion of Belfius Bank, this should cover the relative nullity of the "Belfius 2016" CBA's as declared by the intermediary judgment. The union's claim to also annul those CBA's was rejected by the Court in its final judgment.

In December 2017, BBTK and ACLVB confirmed that they wouldn't appeal the Labour Court's judgment. Therefore, this judgement has become definitive and the "Belfius 2016" CBA's are applicable towards all employees and all unions.

However, given the relative nullity of the "Belfius 2016" CBA's as stated in the intermediary judgment, employees could still individually claim the application of the previous CBA's in new court proceedings. In this context, Belfius has been summoned by an individual employee before the Labour Court of Brussels. Belfius is of the opinion that the chances of success of such procedure are limited.

No provision has been made for this case.

Arco - Cooperative shareholders

Various parties, including Belfius Bank, have been summoned by Arco - Cooperative shareholders in three separate procedures, i.e. one procedure before the Dutch speaking Commercial Court of Brussels, one procedure before the Court of First Instance of Antwerp, Section Turnhout and another procedure before the Court of First Instance of Brussels:

- On 30 September 2014, 737 shareholders from 3 companies of the Arco Group (Arcopar, Arcoplus and Arcofin) initiated (with support of Deminor) proceedings against the Arco entities and Belfius Bank before the Dutch speaking Commercial Court of

Brussels (the "Deminor Proceedings"). On 19 December 2014, 1,027 additional shareholders of the Arco entities joined in the Deminor Proceedings. On 15 January 2016, 405 additional shareholders of the Arco entities joined the Deminor 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 Deminor 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. On 3 April 2018, the plaintiffs also summoned the Belgian State to intervene in the Turnhout Proceedings. The case (only procedural elements) will normally be pleaded on 22 October 2018. The Court will then have to decide if it will transfer this procedure to the proceedings in Brussels.

→ 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. Groups of Arco-shareholders organized themselves via social media to mobilize other Arco shareholders to become claimant in this procedure, and to the knowledge of Belfius, as of today, at least 3,800 Arco shareholders did so. 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.

For further information on the Summer agreement, dd 23 July 2018, please refer to the post-balance-sheet events.

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 an estimated 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 started a proceeding on the merits before 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 merits, 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 merits.

On 29 March 2018 Belfius introduced a request for an "interim injunction" before the commercial court of Brussels, as part of the proceeding on the merits and with the purpose of obtaining – from Ethias – the withheld financial information about the pension plan. The interim injunction is expected in the course of 3Q 2018

A first complete judgment on the merits is currently expected in the course of 1H 2019. Based on clear and valid contractual stipulations, Belfius is of the opinion that Ethias may not (i) unilaterally increase the management costs, (ii) unilaterally de-segregate the pension plan and (iii) 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 credits 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 those 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 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.

6.7. SUBORDINATED DEBTS

Refers to table 6.7. of the annual report 2017

1. Not measured at fair value through profit or loss

	Amortised Cost		
(In thousands of EUR)	31/12/17	01/01/18	30/06/18
CONVERTIBLE SUBORDINATED DEBT	0	0	0
Loan capital perpetual subordinated notes	0	0	0
Loan capital non-perpetual subordinated notes	0	0	0
NON-CONVERTIBLE SUBORDINATED DEBT	1,198,968	1,198,968	1,206,466
Loan capital perpetual subordinated notes	350,644	350,644	161,594
Loan capital non-perpetual subordinated notes	848,325	848,325	1,044,872
TOTAL	1,198,968	1,198,968	1,206,466
HYBRID CAPITAL AND REDEEMABLE PREFERENCE SHARES	0	0	0

Subordinated debts measured at amortised cost remained stable at EUR 1.2 billion, the Tier 2 issue of EUR 0.2 billion in the first quarter of 2018 was entirely offset by calls on issued Tier 2 debt in 1Q and 2Q.

2. Measured at fair value through profit or loss

	Financial liabilities designated at fair value through profit or loss		
(In thousands of EUR)	31/12/17	01/01/18	30/06/18
Sub. And potentially dilutive debts	0	0	0
TOTAL	0	0	0

3. Analysis cash flows and non-cash changes

(In thousands of EUR)	31/12/17	30/06/18
OPENING BALANCE	1,398,653	1,198,968
CASH FLOWS		
Issuance of subordinated debts	99,251	198,952
Repayments of subordinated debts	(265,098)	(190,919)
NON-CASH CHANGES		
Foreign exchange adjustments	(16,268)	6,870
Effective Interest rate	(8,464)	(7,405)
Fair value hedge revaluation	(2,549)	0
Transfers between reimbursement value and premium/discount	0	0
CLOSING BALANCE	1,205,524	1,206,466

4. Analysis of the fair value

See note 9.1.

VII. NOTES ON THE CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

(some amounts may not add up due to rounding)

7.1. INTEREST INCOME - INTEREST EXPENSE

Refers to table 7.1. of the annual report 2017

Due to the new presentation by measurement category as from 1 January 2018, the presentation of 30 June 2017 is different from 30 June 2018. Note that Belfius opted not to restate the comparitives of 1H 2017 statement of income.

1. Presentation and figures on 30/06/17 (IAS 39)

(In thousands of EUR)	30/06/17
INTEREST INCOME	1,826,104
INTEREST INCOME OF ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	1,476,420
Loans and advances due from banks	27,613
Loans and advances to customers	1,109,058
Financial assets available for sale	242,967
Investments held to maturity	45,621
Interest on impaired assets	14,226
Interest income on financial liabilities (negative yield)	36,237
Other	699
INTEREST INCOME OF ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	349,684
Financial assets held for trading	6,850
Derivatives held for trading	156,067
Derivatives as hedging instruments	186,767
INTEREST EXPENSE	(841,904)
INTEREST EXPENSE OF LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(234,345)
Due to banks	(4,017)
Customer borrowings and deposits	(46,022)
Debt securities	(120,938)
Subordinated debts	(22,184)
Interest expense on financial assets (negative yield)	(40,278)
Other	(905)
INTEREST EXPENSE OF LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	(607,559)
Financial liabilities held for trading	(983)
Financial liabilities designated at fair value	(53,838)
Derivatives held for trading	(116,633)
Derivatives as hedging instruments	(436,105)
NET INTEREST INCOME	984,199

1. Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18
INTEREST INCOME	1,650,880
INTEREST INCOME OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST	1,249,275
Loans and advances due from credit institutions	10,776
Loans and advances	952,994
Debt securities issued by public sector	182,444
Other debt securities	101,964
Other	1,097
INTEREST INCOME OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OCI	61,094
Debt securities issued by public sector	39,240
Other debt securities	21,854
INTEREST INCOME OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	307,584
Financial assets held for trading	3,646
Non-trading financial assets mandatorily measured at fair value	52,170
Loans and advances	*38,387*
Debt securities issued by public sector	*663*
Other debt securities	*13,119*
Derivatives held for trading	71,878
Derivatives as hedging instruments	179,891
INTEREST INCOME ON FINANCIAL LIABILITIES (NEGATIVE YIELD)	32,927
MODIFICATION GAIN ON FINANCIAL LIABILITIES	0
INTEREST EXPENSE	(705,574)
INTEREST EXPENSE OF FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(180,194)
Credit institutions borrwings and deposits	(6,986)
Customers borrowings and deposits	(49,829)
Debt securities issued	(105,717)
Subordinated debts	(16,706)
Other	(956)
INTEREST EXPENSE OF FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(482,679)
Financial liabilities held for trading	(2,257)
Financial liabilities designated at fair value	(47,017)
Derivatives held for trading	(77,524)
Derivatives as hedging instruments	(355,882)
INTEREST EXPENSE ON FINANCIAL ASSETS (NEGATIVE YIELD)	(42,701)
MODIFICATION LOSS ON FINANCIAL ASSETS	0
NET INTEREST INCOME	945,305

Net interest income decreased with EUR 39 million to EUR 945 million. Note that the net interest income of 1H 2017 included an exceptional impact of EUR 37 million following the standardization of collateral contracts, these interests had been set aside since OIS turned negative.

All in all, the interest margin remains under pressure due to the low interest rate environment though partially compensated by higher volumes in loans. In addition, the lower outstandings in Branch 21 and reinvestments at lower market yields had a negative impact on the net interest income at Belfius Insurance side.

7.2. NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Refers to table 7.4. of the annual report 2017

Due to the application of IFRS 9 as from 1 January 2018, the presentation of 30 June 2017 is different from 30 June 2018. Note that Belfius opted not to restate the comparitives of 1H 2017 statement of income.

1. Presentation and figures on 30/06/17 (IAS 39)

(In thousands of EUR)	30/06/17
Net trading income	235,769
Net result of hedge accounting	(188,184)
Net result of financial instruments designated at fair value through profit or loss and result from the related derivatives	(688)
Change in own credit risk	(27,188)
Forex activity and exchange differences	20,665
TOTAL	67,563

2. Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18
Net trading income	153,588
Net result of financial assets designated at fair value through profit or loss and result from the related derivatives	0
Net result of hedge accounting	(140,218)
Result of financial assets non-trading mandatorily measured at fair value through profit or loss	(27,525)
Loans and advances due from credit institutions	*0*
Loans and advances	*(24,437)*
Debt securities issued by public sector	*2,874*
Other Debt securities	*(5,962)*
Equity instruments	*0*
Net result of financial liabilities designated at fair value through profit or loss and result from the related derivatives (except own credit risk)	135
Forex activity and exchange differences	28,124
TOTAL	14,105

Net income from financial instruments at fair value through profit or loss decreased with EUR 53 million from EUR 68 million in June 2017 to EUR 14 million in June 2018. Note that in 1H 2017, the net income from financial instruments at fair value through profit or loss was impacted by the positive response by Belfius on the global trend towards derivatives standardization. More in particular, Belfius concluded agreements on certain collateral contracts of derivatives which had a positive impact on the net trading result of EUR 133 million. This positive impact was partially offset by the impact in the net result of hedge accounting of methodological refinements on ALM management of loans, by including more credit contingencies on expected cash-flows, amounting to EUR -174 million.

In 1H 2018, the net income from financial instruments at fair value through profit or loss was negatively impacted by basis risks (reflected in the net result of hedge accounting), though this result is partially offset by the net trading income. More in particular, Belfius is managing basis risks by means of additional derivatives (economic hedges for basis risks) for which no hedge accounting is set up, meaning that the result of these economic hedges is not included in the "net result from hedge accounting" but in the line "net trading income".

The total amount recorded on the balance sheet as credit value adjustments stands at EUR -84 million end June 2018 (compared to EUR -96 million end June 2017), whereas total amount on the balance sheet of the debit value adjustment recorded amounts to EUR 4 million end June 2018 (EUR 11 million end June 2017). The total amount on the balance sheet related to funding value adjustments amounts to EUR -38 million end June 2018 (compared to EUR -36 million end June 2017).

The total P&L impact for credit value adjustments amounted to EUR +1 million in June 2018 (compared to EUR +86 million in June 2017), for debit value adjustments EUR -0.4 million in June 2018 (compared to EUR +2 million in June 2017) and for funding value adjustments EUR +4 million in June 2018 (compared to EUR +14 million in June 2017).

Following the important market evolutions (mainly basis risk) as well as the low interest rate environment, the net result from hedge accounting is significant. Nevertheless, all effectiveness tests were respected at all times.

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 and liability side.

7.3. NET INCOME ON INVESTMENTS AND LIABILITIES

Refers to table 7.5. of the annual report 2017

Due to the application of IFRS 9 as from 1 January 2018, the presentation of 30 June 2017 is different from 30 June 2018. Note that Belfius opted not to restate the comparitives of 1H 2017 statement of income.

1. Presentation and figures on 30/06/17 (IAS 39)

(In thousands of EUR)	30/06/17
Gains on Loans and advances	13,743
Gains on Financial assets available for sale	87,392
Gains on Tangible fixed assets	6,844
Gains on Liabilities	6
TOTAL GAINS	107,985
Losses on Loans and advances	(3,971)
Losses on Financial assets available for sale	(9,678)
Losses on Investments held to maturity	(7)
Losses on Tangible fixed assets	(132)
Losses on Assets held for sale	(31)
Losses on Liabilities	(1)
TOTAL LOSSES	(13,821)
NET IMPAIRMENT	207
TOTAL	94,371

Net impairment

	Specific risk		Total
(In thousands of EUR)	Allowances	Write-backs	
AS AT 30 JUNE 2017			
Securities available for sale	(71)	278	207
TOTAL	(71)	278	207

2. Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18
FINANCIAL ASSETS AT AMORTISED COST (NOT IMPAIRED)	1,876
Capital gains on loans and advances	629
Capital gains on debt securities issued by public sector	1
Capital gains on other debt securities	1,246
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (NOT IMPAIRED)	286,013
Capital gains on debt securities issued by public sector	283,921
Capital gains on other debt securities	2,092
ASSETS HELD FOR SALE	46,857
Capital gains on Assets Held for Sale	46,857
OTHER	2,049
Capital gains on Tangible fixed assets	2,048
Other Capital gains	1
FINANCIAL LIABILITIES AT AMORTISED COST	1
Capital gains on financial liabilities	1
TOTAL GAINS	336,796
FINANCIAL ASSETS AT AMORTISED COST (NOT IMPAIRED)	(9,448)
Capital losses on loans and advances	(1,322)
Capital losses on other debt securities	(8,126)
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (NOT IMPAIRED)	(231,374)
Capital losses on debt securities issued by public sector	(231,197)
Capital losses on other debt securities	(177)
ASSETS HELD FOR SALE	(1)
Capital losses on Assets Held for Sale	(1)
OTHER	(10)
Capital losses on Tangible fixed assets	(10)
FINANCIAL LIABILITIES AT AMORTISED COST	(8)
Capital losses on financial liabilities	(8)
TOTAL LOSSES	(240,842)
TOTAL NET INCOME ON INVESTMENTS AND LIABILITIES	95,954

Net income on investments and liabilities increased with EUR 2 million to EUR 96 million in June 2018. Note that the net income on investments and liabilities of 1H 2017 was impacted by exceptional realized gains from derisking of the remaining US RMBS bond in the former legacy portfolio (for EUR 7 million), whereas in 1H 2018, it was exceptionally positively impacted (for EUR 10 million) following the sale of certain Italian government bond and swap packages, for a notional bond amount of EUR 0.8 billion in line with Belfius' objective to decrease its related concentration risk.

The net income on investments and liabilities for 1H 2018 is overall mainly impacted by the sale of the "NEB Participations" (for EUR 23.6 million), the revaluation of the historical stake in Auxipar following step up acquisition (for EUR 23 million) as well as capital gains on divestments in bonds for EUR 44 million within the insurance group and EUR 10 million within the banking group.

Belfius sold its investments in "NEB Participation" to Nethys. It concerned an associate previously accounted for through the equity method. Belfius realized a capital gain of EUR 23.6 million on this sale. In addition, Belfius has increased, on 29 March, its stake in Auxipar from 39.7% to 74.99% for a price of EUR 29.4 million. The transaction qualifies for Belfius as a business combination achieved in stages and is thus subject to IFRS 3 whereby any previously held interest is adjusted to its fair value as of the acquisition date with any resulting gain reported in the consolidated income statement. Belfius has estimated the fair value of Auxipar at EUR 82.8 million at acquisition date, in line with the acquisition price for 100% of the shares (EUR 83.3 million). The revaluation following the application of IFRS3 of the previously held interest (recognized at end March 2018 at EUR 33 million) resulted in a capital gain of EUR 23 million.

A. Realised gains or losses arising from derecognition of financial assets measured at amortised cost (impaired and not impaired)

(In thousands of EUR)	30/06/18
CAPITAL GAIN ARISING FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,876
Capital gains on loans and advances due from credit institutions	0
Capital gains on loans and advances	629
Capital gains on debt securities issued by public sector	1
Capital gains on other debt securities	1,246
CAPITAL GAINS ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	100
Capital gains on impaired loans and advances due from credit institutions	0
Capital gains on impaired loans and advances	100
Capital gains on impaired debt securities issued by public sector	0
Capital gains on impaired other debt securities	0
CAPITAL LOSSES ARISING FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	(9,448)
Capital losses on loans and advances due from credit institutions	0
Capital losses on loans and advances	(1,322)
Capital losses on debt securities issued by public sector	0
Capital losses on other debt securities	(8,126)
CAPITAL LOSSES ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	(78)
Capital losses on impaired loans and advances due from credit institutions	0
Capital losses on impaired loans and advances	(78)
Capital losses on impaired debt securities issued by public sector	0
Capital losses on impaired other debt securities	0

B. Realised gains or losses arising from derecognition of financial assets measured at FVOCI (impaired and not impaired)

(In thousands of EUR)	30/06/18
CAPITAL GAINS ARISING FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS MEASURED AT FVOCI	286,013
Capital gains on debt securities issued by public sector	283,921
Capital gains on other debt securities	2,092
CAPITAL GAINS ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT FVOCI	0
CAPITAL LOSSES ARISING FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS MEASURED AT FVOCI	(231,374)
Capital losses on debt securities issued by public sector	(231,197)
Capital losses on other debt securities	(177)
CAPITAL LOSSES ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT FVOCI	0

Note that in 2017, "Net income on investments and liabilities" includes write-offs and recoveries on impaired financial assets classified 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 off, all realized gains and losses are reported in "net income on investments and liabilities". Furthermore, "Net income on investmetns and liabilities" includes the gains and losses on not impaired loans and advances that have been sold. The impairments on this catergory are recorded in "impairments on loans and advances and provisions for credit commitments".

As from 1 January 2018, Belfius has opted to review the presentation of the realized result on financial assets and presents the realized result on financial assets in the line "Impairments on financial instruments and provisions for credit commitments" excluding financial assets classified under the business model "held to collect and sale". The realized result of the latter will be reported in the line "Net income on investments and liabilities". The realized result on impaired financial assets (stage 3) under all business models will be classified in the line "Impairments on financial instruments and provisions for credit commitments".

For comparison purposes, an amount of EUR 6.1 million was reported in 1H 2017 in the line "Net income on investment and liabilities" whereas it would have been classified under the line "Impairments on financial instruments and provisions for credit commitments" in 1H 2018.

7.4. FEE AND COMMISSION INCOME - EXPENSE

Refers to table 7.6. of the annual report 2017

	30/06/17 IAS 39			30/06/18 IFRS 9		
(In thousands of EUR)	Income	Expense	Net	Income	Expense	Net
Commissions on unit trusts and mutual funds managed by third parties	141,226	(24,917)	116,309	148,084	(33,001)	115,083
Insurance activity	57,771	(2,771)	55,000	60,871	(4,166)	56,706
Credit activity	18,584	(4,680)	13,904	17,682	(4,690)	12,992
Purchase and sale of securities	11,137	(909)	10,229	8,800	(319)	8,481
Purchase and sale of unit trusts and mutual funds	16,605	(222)	16,383	12,007	(17)	11,990
Payment services	73,912	(28,717)	45,195	79,101	(30,514)	48,587
Commissions to not exclusive brokers	936	(6,183)	(5,246)	886	(5,205)	(4,319)
Services on securities other than safekeeping	2,682	(596)	2,086	3,306	(631)	2,675
Custody	11,459	(1,511)	9,948	13,139	(1,390)	11,749
Issues and placements of securities	1,541	(3,012)	(1,472)	1,494	(2,137)	(643)
Servicing fees of securitisation	129	0	129	114	0	114
Private banking	9,344	(2,894)	6,450	12,281	(3,271)	9,010
Clearing and settlement	5,065	(2,750)	2,315	3,526	(1,920)	1,607
Securities lending	1,542	(1)	1,541	3,609	0	3,609
Financial guarantees	2,662	(3,128)	(466)	2,392	(2,983)	(592)
TOTAL	**354,594**	**(82,290)**	**272,304**	**367,292**	**(90,245)**	**277,047**

Net fee and commission income increased with EUR 5 million, or 1.7%, to EUR 277 million. The increase in commissions mainly stems from an increased stock in off-balance sheet assets under management. The positive evolution is stalling somewhat, due to less favorable stock markets and some commercial pressure on the asset management fees.

7.5. INSURANCE RESULTS

Refers to table 7.7. of the annual report 2017

Note that Belfius has opted to present the figures on technical provisions including intragroup transactions between bank and insurance entities, as these mainly relate 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)	30/06/17 IAS 39	30/06/18 IFRS 9
GROSS EARNED PREMIUMS		
In the consolidated income statement (as presented on statement of income)	713,349	729,640
Intragroup transactions	10,728	11,042
Gross earned premiums including intragroup transactions	724,077	740,682

1. Condensed consolidated interim statement of income

	30/06/17 IAS 39				30/06/18 IFRS 9			
(In thousands of EUR)	Life	Non-Life	Non-Technical	Total	Life	Non-Life	Non-Technical	Total
INCOME	149,941	97,286	24,203	271,430	182,090	106,449	19,654	308,193
Technical result[1]	(160,820)	72,494	0	(88,325)	(87,892)	85,341	0	(2,551)
Gross earned premiums	388,586	335,491	0	724,077	395,509	345,173	0	740,682
Other income and charges	(549,406)	(262,997)	0	(812,402)	(483,401)	(259,832)	0	(743,233)
Financial result	301,930	24,272	24,857	351,059	259,413	20,611	18,968	298,992
Interest income, Interest expense, Dividend income	244,803	22,577	13,502	280,883	221,202	20,148	14,097	255,447
Net income on investments and liabilities	68,325	1,501	8,883	78,710	47,987	77	5,722	53,786
Net income from equity method companies, Net income from financial instruments at fair value through profit or loss, Other income, Other expense	(11,199)	194	2,471	(8,533)	(9,776)	386	(851)	(10,241)
Fee and commission income, Fee and commission expense	8,831	520	(654)	8,697	10,569	497	687	11,753
EXPENSES	(31,196)	(70,044)	(5,516)	(106,756)	(32,744)	(75,568)	(5,011)	(113,323)
Impairments on financial instruments and provisions for credit commitments, Impairments on goodwill	542	103	(76)	568	2,987	195	760	3,942
Impairments on tangible and intangible assets	0	0	0	0	0	0	0	0
NET INCOME BEFORE TAX	119,287	27,345	18,611	165,243	152,333	31,076	15,403	198,812
Tax (expense) income	(28,211)	(6,667)	(4,006)	(38,885)	(38,651)	(8,390)	(2,092)	(49,133)
NET INCOME								0
Attributable to non-controlling interests	0	0	0	0	(180)	0	(248)	(428)
Attributable to equity holders of the parent	91,076	20,677	14,604	126,358	113,502	22,685	13,063	149,251

(1) Statement of income IX. Technical result from insurance activities.

2. Condensed consolidated interim balance sheet

Technical provisions of insurance companies (In thousands of EUR)	30/06/17 IAS 39				30/06/18 IFRS 9			
	Life	Non-Life	Non-Technical	Total	Life	Non-Life	Non-Technical	Total
Technical provisions - insurance activities	13,690,607	1,237,698	0	14,928,305	13,058,470	1,275,380	0	14,333,850
Technical provisions unit-linked	2,431,538	0	0	2,431,538	2,824,305	0	0	2,824,305
Technical provisions - share of reinsurers	172,323	94,127	0	266,450	192,157	88,846	0	281,003

The technical result from insurance activities increases with EUR 85 million from EUR -88 million to EUR -3 million. Note that, since 2014, Belfius has used the results of the liability adequacy test (LAT) to assess the adequacy of its life technical provisions for low interest rates and other risks which demonstrated that the technical provisions were more than sufficient. In 2018, Belfius has defined its Risk Appetite Framework (RAF) for Life reserving under IFRS. The application of the RAF confirmed that the life technical provisions were more than sufficient. In 1H 2018, Belfius assessed the life technical provisions, in line with this RAF, taking into account the remaining uncertainties, model risks and sensitivities, resulting in an impact of EUR 45 million. In Non-Life, the technical margin improved with EUR 13 million thanks to an overall better loss ratio and good business development.

7.6. OTHER INCOME

Refers to table 7.8. of the annual report 2017

(In thousands of EUR)	30/06/17 IAS 39	30/06/18 IFRS 9
Rental income from investment property	12,163	14,223
Other rental income	1,939	1,963
Other banking income	0	355
Write-back of provisions for litigations	513	6,333
Real estate projects(1)	752	2,399
Other income on other activities(2)	53,100	75,004
OTHER INCOME	68,467	100,278

(1) Proforma for 2017 as the presentation for 2017 changed to be aligned with the 2018 presentation, whereby real estate projects have been detailed further and is presented as a specific line item.
(2) "Other income on other activities" also includes other operational income from leasing activities and other operational income. Note that other income on other activities increased due to a higher number of lease contracts.

7.7. OTHER EXPENSE

Refers to table 7.9. of the annual report 2017

(In thousands of EUR)	30/06/17 IAS 39	30/06/18 IFRS 9
Sector levies[1]	(217,719)	(221,919)
Repair and maintenance on investment properties that generated income during the current financial year	(675)	(1,123)
Provisions for litigations[2]	(34,648)	(897)
Real estate projects[3]	(441)	(1,541)
Other expense on other activities[4]	(58,008)	(81,997)
OTHER EXPENSE	(311,491)	(307,478)

(1) Sector levies are specific taxes for financial institutions or insurers, it includes
→ the Deposit Guarantee Scheme contributions,
→ Subscription tax,
→ Financial Stability Contribution and
→ the contributions to the Single Resolution Fund.
Belfius has opted in the past to pay part of its contribution to the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment was fully covered by cash collateral. Belfius has recorded EUR 17.5 million in its off balance sheet accounts (stable compared to 2017).
(2) Proforma for 2017 as the presentation for 2017 changed to be aligned with the 2018 presentation whereby the provisions for litigations have been detailed further and are presented as a specific line item.
(3) Proforma for 2017 as the presentation for 2017 changed to be aligned with the 2018 presentation, whereby real estate projects have been detailed further and are presented as a specific line item.
(4) "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. Note that other expense on other activities increased due to a higher number of lease contracts.

OTHER NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

VIII. NOTES ON THE CONSOLIDATED OFF-BALANCE SHEET ITEMS

(some amounts may not add up due to roundings)

8.1. REGULAR WAY TRADE

Refers to table 8.1. of the annual report 2017

(In thousands of EUR)	31/12/17	30/06/18
Loans to be delivered and purchases of assets	2,302,973	1,766,486
Borrowings to be received and sales of assets	7,976,417	5,483,569

8.2. GUARANTEES

Refers to table 8.2. of the annual report 2017

(In thousands of EUR)	31/12/17	30/06/18
Guarantees given to credit institutions	1,274,481	1,181,468
Guarantees given to customers	3,869,989	4,031,247
Guarantees received from credit institutions[1]	957,394	920,753
Guarantees received from customers	30,462,784	30,528,315

(1) This amount includes the personal guarantees and similar rights of recourse obtained for derivatives.

8.3. LOAN COMMITMENTS

Refers to table 8.3. of the annual report 2017

(In thousands of EUR)	31/12/17	30/06/18
Unused lines granted to credit institutions	206,907	231,405
Unused lines granted to customers	23,606,619	26,558,341
Unused lines obtained from credit institutions	21,352	11,370
Unused lines obtained from customers	0	0

8.4. OTHER COMMITMENTS TO FINANCING ACTIVITIES

Refers to table 8.4. of the annual report 2017

(In thousands of EUR)	31/12/17	30/06/18
Insurance activity - Commitments given	0	0
Insurance activity - Commitments received	70,151	72,766
Banking activity - Commitments given[1]	21,032,593	22,019,845
Banking activity - Commitments received	69,865,357	72,024,787

(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 7.2 billion (nominal) at the end of 2017 and EUR 7.9 billion (nominal) at the end of June 2018.

See also note 6.4 "Debt securities issued and other financial instruments".

8.5. COMMITMENTS TO SINGLE RESOLUTION FUND

Refers to table 8.5. of the annual report 2017

(In thousands of EUR)	31/12/17	30/06/18
Single Resolution Fund- Commitments given	17,473	17,473

Belfius has opted in the past to pay part of its contribution to the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment was fully covered by cash collateral.

8.6. BOND LENDING AND BOND BORROWING TRANSACTIONS

Refers to table 8.6. of the annual report 2017

(In thousands of EUR)	31/12/17	30/06/18
Securities lending	1,627,190	2,007,524
Securities borrowing	0	0

In the context of its liquidity management, Belfius enters from time to time into bond lending transactions against fees.

IX. NOTES ON RISK EXPOSURE

(some amounts may not add up due to rounding)

9.1. FAIR VALUE

Refers to table 9.1. of the annual report 2017

Due to the application of IFRS 9 and the new presentation of the balance sheet, the presentation and figures of 31 December 2017 is different from the opening balance of 1 January 2018 and new classes have been identified. We refer to the IFRS 9 date of initial application for a detailed description.

1. Fair value of financial instruments

A. Breakdown of fair value of assets

Presentation and figures on 31/12/17 (IAS 39)

(In thousands of EUR)	31/12/17		
	Carrying amount	Fair value	Difference
Cash and balances with central banks	10,236,669	10,236,669	0
Loans and advances	104,178,353	110,940,869	6,762,516
Loans and other advances	*98,992,204*	*106,300,820*	*7,308,616*
Bonds	*5,186,149*	*4,640,049*	*(546,100)*
Investments held to maturity	5,441,999	5,453,674	11,674
Financial assets measured at fair value through profit or loss	3,240,298	3,240,298	0
Financial assets available for sale	17,982,597	17,982,597	0
Derivatives	20,303,034	20,303,034	0
Gain/loss on the hedged item in portfolio hedge of interest rate risk	3,720,764	3,720,764	0
Non current assets (disposal group) held for sale and discontinued operations	18,782	32,974	14,192
TOTAL	165,122,495	171,910,878	6,788,383

Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18		
	Carrying amount	Fair value	Difference
Cash, cash balances with central banks	11,168,351	11,168,351	0
Loans and advances due from credit institutions	13,174,319	13,175,064	745
Measured at amortised cost	*13,174,319*	*13,175,064*	*745*
Measured at fair value through other comprehensive income	*0*	*0*	*0*
Measured at fair value through profit or loss	*0*	*0*	*0*
Loans and advances	87,558,168	93,857,720	6,299,552
Measured at amortised cost	*85,560,628*	*91,860,180*	*6,299,552*
Measured at fair value through other comprehensive income	*0*	*0*	*0*
Measured at fair value through profit or loss	*1,997,540*	*1,997,540*	*0*
Debt securities	27,268,451	28,806,920	1,538,468
Measured at amortised cost	*21,193,328*	*22,731,797*	*1,538,468*
Measured at fair value through other comprehensive income	*4,077,191*	*4,077,191*	*0*
Measured at fair value through profit or loss	*1,997,932*	*1,997,932*	*0*
Equity instruments	1,612,003	1,612,003	0
Measured at fair value through other comprehensive income	*1,501,473*	*1,501,473*	*0*
Measured at fair value through profit or loss	*110,530*	*110,530*	*0*
Unit linked assets - insurance product branch 23	2,824,305	2,824,305	0
Derivatives	14,994,931	14,994,931	0
Gain/loss on of the hedged item in portfolio hedge of interest rate risk	4,770,270	4,770,270	0
Non current assets (disposal group) held for sale and discontinued operations	23,099	38,346	15,247
TOTAL	163,393,897	171,247,909	7,854,012

B. Breakdown of fair value of liabilities

Presentation and figures on 31/12/17 (IAS 39)

(In thousands of EUR)	31/12/17		
	Carrying amount	Fair value	Difference
Borrowings and deposits	87,384,376	87,479,299	94,923
Debt securities	22,027,063	22,637,612	610,549
Subordinated debts	1,198,968	1,336,003	137,034
Financial liabilities measured at fair value through profit or loss	8,892,710	8,892,710	0
Derivatives	21,264,032	21,264,032	0
Gain/loss on of the hedged item in portfolio hedge of interest rate risk	105,017	105,017	0
Liabilities included in disposal group and discontinued operations	0	0	0
TOTAL	140,872,166	141,714,673	842,507

Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18		
	Carrying amount	Fair value	Difference
Cash and balances from central banks	3,970,500	3,947,111	(23,389)
Borrowings and deposits	85,376,254	85,522,320	146,066
measured at amortised cost	*85,322,389*	*85,468,455*	*146,066*
measured at fair value through profit or loss	*53,865*	*53,865*	*0*
Debt securities issued and other financial instruments	27,039,999	27,605,976	565,977
measured at amortised cost	*20,197,965*	*20,763,942*	*565,977*
measured at fair value through profit or loss	*6,842,034*	*6,842,034*	*0*
Unit linked liabilities - insurance product branch 23	2,824,305	2,824,305	0
Derivatives	19,833,614	19,833,614	0
Gain/loss on of the hedged item in portfolio hedge of interest rate risk	143,099	143,099	0
Subordinated debts	1,206,466	1,324,198	117,732
measured at amortised cost	*1,206,466*	*1,324,198*	*117,732*
measured at fair value through profit or loss	*0*	*0*	*0*
Liabilities included in disposal group and discontinued operations	0	0	0
TOTAL	140,394,237	141,200,623	806,386

The decrease in fair value of the loan portfolio is mainly linked to the slight increase in interest rates on the long end of the interest rate curve as well as the prepayment wave of the last years. Note that an internal estimate of the future potential prepayment rate has been considered in the determination of the fair value.

For some assets and liabilities, Belfius estimates that the fair value approximates the carrying value (as explained further in the valuation techniques). In addition, Belfius estimates that the own credit risk has not changed significantly and hence did not perform a revaluation of the own credit risk.

2. Analysis of fair value of financial instruments

A. Assets

Presentation and figures on 31/12/17 (IAS 39)

	31/12/17			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
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	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

Presentation and figures on 30/06/18 (IFRS 9)

	30/06/18			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Loans and advances	0	33,347	1,964,193	1,997,540
measured at fair value through other comprehensive income	*0*	*0*	*0*	*0*
measured at fair value through profit or loss	*0*	*33,347*	*1,964,193*	*1,997,540*
Debt securities	4,479,791	897,142	698,190	6,075,123
Measured at fair value through other comprehensive income	*3,418,621*	*362,071*	*296,500*	*4,077,191*
Measured at fair value through profit or loss	*1,061,171*	*535,071*	*401,690*	*1,997,932*
Equity instruments	1,341,565	0	270,439	1,612,003
Measured at fair value through other comprehensive income	*1,231,035*	*0*	*270,438*	*1,501,473*
Measured at fair value through profit or loss	*110,529*	*0*	*1*	*110,530*
Unit linked assets - insurance product branch 23	2,824,305	0	0	2,824,305
Derivatives	2,104	14,292,628	700,199	14,994,931
Non current assets (disposal group) held for sale and discontinued operations	1,985	34,483	1,878	38,346
TOTAL	8,649,750	15,257,599	3,634,899	27,542,248

Note that following the determination of the business model for IFRS 9, several debt instruments have been reclassified from "Financial assets available for sale" towards "Debt securities measured at fair value through other comprehensive income". As a result, a significant decrease can be noted in the analysis of the financial instruments especially in Level 1 and 2. Nevertheless, as certain structured loans did not pass the Solely Payment of Principal and Interest on the principal amount (SPPI) test, EUR 1.9 billion loans are measured at fair value through profit and loss, resulting in an increase in level 3 fair value.

B. Liabilities

Presentation and figures on 31/12/17 (IAS 39)

	31/12/17			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
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 group and discontinued operations	0	0	0	0
SUBTOTAL	2,622,403	23,395,249	4,139,090	30,156,742

Presentation and figures on 30/06/18 (IFRS 9)

	30/06/18			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Borrowings and deposits	0	53,865	0	53,865
measured at fair value through profit or loss	*0*	*53,865*	*0*	*53,865*
Debt securities issued and other financial liabilities	95,297	4,523,356	2,223,381	6,842,034
measured at fair value through profit or loss	*95,297*	*4,523,356*	*2,223,381*	*6,842,034*
Unit linked liabilities - insurance product branch 23	2,824,305	0	0	2,824,305
Derivatives	2,567	19,086,001	745,046	19,833,614
Subordinated debts	0	0	0	0
measured at fair value through profit or loss	*0*	*0*	*0*	*0*
Liabilities included in disposal group and discontinued operations	0	0	0	0
TOTAL	2,922,168	23,663,223	2,968,427	29,553,818

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

Presentation and figures on 31/12/17 (IAS 39)

	31/12/17	
(In thousands of EUR)	From level 1 to 2	From level 2 to 1
Financial assets measured at fair value through profit or loss	15,973	300,949
Financial assets available for sale	35,931	388,491
Derivatives	0	0
TOTAL	51,904	689,441

Presentation and figures on 30/06/18 (IFRS 9)

	30/06/18	
(In thousands of EUR)	From level 1 to 2	From level 2 to 1
Loans and advances	0	0
Debt securities	340,249	52,054
Measured at fair value through other comprehensive income	*50,795*	*13,829*
Measured at fair value through profit or loss	*289,454*	*38,225*
TOTAL	340,249	52,054

B. Liabilities at fair value in the balance sheet

Nihil

4. Reconciliation Level 3

A. Assets

Presentation and figures on 31/12/17 (IAS 39)

(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	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

Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18									
	Opening balance on 01/01/18	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	Closing balance
Loans and advances	2,313,898	0	(120,996)		32,257	(260,966)	0	0	0	1,964,193
measured at fair value through profit or loss	*2,313,898*	*0*	*(120,996)*		*32,257*	*(260,966)*	*0*	*0*	*0*	*1,964,193*
Debt securities	966,939	0	1,900	(3,642)	124,869	(156,603)	(36,484)	614	(199,403)	698,190
Measured at fair value through other comprehensive income	*395,032*	*0*	*1,376*	*(3,642)*	*2,684*	*(1,250)*	*(655)*	*0*	*(97,045)*	*296,500*
Measured at fair value through profit or loss	*571,907*	*0*	*524*		*122,185*	*(155,353)*	*(35,830)*	*614*	*(102,358)*	*401,690*
Equity instruments	219,006	0	1	18,355	34,691	(14,392)	(98)	22,692	(5,898)	270,439
measured at fair value through other comprehensive income	*216,437*	*0*	*1*	*18,355*	*34,691*	*(14,391)*	*(98)*	*22,692*	*(3,330)*	*270,438*
measured at fair value through profit or loss	*2,569*	*0*	*0*		*0*	*(1)*	*0*	*0*	*(2,568)*	*1*
Derivatives	782,518	0	(4,075)		48,264	0	(59,378)	278	(67,497)	700,199
TOTAL	4,282,361	0	(123,170)	14,713	240,081	(,431,960)	(95,960)	23,584	(272,798)	3,633,021

The "sale" in "loans and advances measured at fair value through profit and loss" is mainly due to the decrease in structured loans following the restructuring to more basic loans. The "purchases" of debt securities measured at fair value through profit or loss is mainly linked to belgian regional bonds.

B. Liabilities

Presentation and figures on 31/12/17 (IAS 39)

(In thousands of EUR)	31/12/17									
	Opening balance	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sale	Direct origination	Settlement	Transfers in Level 3	Transfer out of Level 3	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

Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18									
	Opening balance on 01/01/18	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehen-sive income	Purchases	Sale	Direct origination	Settlement	Transfers in Level 3	Transfer out of Level 3[1]	Closing balance
Debt securities issued and other financial liabilities	3,274,917	(18,360)		0	0	247,040	(97,541)	11,290	(1,193,964)	2,223,381
measured at fair value through profit or loss	*3,274,917*	*(18,360)*		*0*	*0*	*247,040*	*(97,541)*	*11,290*	*(1,193,964)*	*2,223,381*
Derivatives	863,255	8,277		74,678	(50,734)	0	(102,874)	(3,039)	(44,518)	745,046
TOTAL	4,138,171	(10,083)		74,678	(50,734)	247,040	(200,415)	8,252	(1,238,481)	2,968,427

(1) Following the formal validation of the valuation model, a shift from level 3 to level 2 can be noted for equity indexed bonds.

The column "total of realised gains and losses in P&L" and "total of unrealised gains and losses in P&L" cannot be analysed on a stand alone basis, as some assets or liabilities classified at amortised 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.

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.

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, debt instruments and investments in equity instruments measured at fair value through other comprehensive income, non trading financial assets mandatorily measured at fair value through profit or loss, 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, 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).

For that reason, structured loans measured at fair value through profit and loss are classified as level 3. These financial assets are illiquid and not traded on an active market. The fair value of these loans is determined by a valuation model essentially based on non observable data including additional value adjustments as described below.

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.

Unquoted equity instruments are systematically classified as level 3. In accordance with the principles set out in IFRS 13, different fair value measurement models for unquoted equity instruments are possible (discounted cash flow, net asset value, recent transaction price, ...).

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 (having valuations at fair value in IFRS disclosures)

The fair value of debt instruments held within the business model "hold to collect contractual cash flows", 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 measured at fair value through other comprehensive income;.
- 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 or 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)
OTC swaps on Belgian inflation	Expectations in Belgian inflation	+30 bps	-3.05
OTC derivatives on CMS spread	Correlation between CMS interest rates	+10%	0.22
OTC swaps Bermudian Feature	Mean Reversion	1%	0.9
Collateralised Debt Obligation	Credit spread	-10 bps	-4.13
Credit Default Swap	Credit spread	-10 bps	1.71

B. Valuation process

The Risk Management department in charge of market risks determines the fair value and the fair value level of 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 for the bonds or on an observability criteria and a validation status of the model for the derivative products. The liquidity score of the bonds is distributed between very liquid (big score) and very illiquid (small score). Therefore, a small change in the liquidity on the market doesn't influcence 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 but the main part stands in amortised cost for the bank. The main events in 2018 (Italy and Spain political events, Trump tweets and commercial threats) changed some high scores to a lower scores, though this had small impact on the overall liquidity score. We observed also decreasing of L3 volume following a corresponding decreasing of the L3 positions. For derivatives products, we haven't seen any important transfers between levels since the volume of the stock is stable and the observability stay the same. Moreover, the validation of the models is increasing in coverage leading to a decreasing trend of the L3 stock.

6. Disclosure of difference between transaction prices and model values (deferred day one profit)

No significant amounts are recognised as deferred Day One Profit or Loss (DOP) in 2017 nor in 2018.

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 recognised 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

Refers to table 9.2. of the annual report 2017

Due to the application of IFRS 9 and the new presentation of the balance sheet, the presentation and figures of 31 December 2017 is different from the opening balance of 1 January 2018 and new classes have been identified. We refer to the IFRS 9 date of initial application table for a detailed description.

1. The credit risk management practices - general principles

Maximum Credit Risk Exposure is expressed as Full Exposure At Default (FEAD), 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 after netting, increased with the potential future exposure calculated under the current exposure method (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.

2. Inputs, assumptions and techniques used for estimating impairment

We refer to the chapter "Risk management" of the management report for futher information, section Credit Risk.

3. Analysis of total credit risk exposure

A. Exposure by geographical region

Presentation and figures on 31/12/17 (IAS 39)

(In thousands of EUR)	31/12/17 (PF[1])
Belgium	122,926,718
France	6,868,668
Germany	1,204,985
Greece[2]	303
Ireland	78,470
Italy	4,130,791
Luxembourg	990,555
Spain	2,741,814
Portugal	157,746
Other EU countries[3]	11,722,656
Rest of Europe	883,453
Turkey	83,403
United Kingdom	10,846,189
United States and Canada	2,828,216
South and Central America	451,265
Southeast Asia	441,789
Japan	398,310
Other	1,342,982
TOTAL	168,098,313

(1) The figures of 31/12/17 have been restated following the application of the refined calculation methodology on the potential future exposures for derivatives.
(2) 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.
(3) Includes supranational entities, such as the European Central Bank. The significant increase is mainly related to an increase of cash and balances with central banks.

Presentation and figures on 30/06/18 (IFRS 9)

	30/06/18								
(In thousands of EUR)	Belgium	France	Luxembourg	Germany	Portugal	Ireland	Italy[1]	Greece[2]	Spain
Cash and balances with central banks	0	0	0	0	0	0	0	0	0
Loans and advances	85,798,670	1,353,342	465,260	126,816	1,567	1,196	78,726	68	265,091
measured at amortised cost	*83,814,331*	*1,353,342*	*465,260*	*126,816*	*1,567*	*1,196*	*78,726*	*68*	*265,091*
measured at fair value through other comprehensive income	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
measured at fair value through profit or loss	*1,984,339*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Debt securities	8,475,407	3,463,163	146,423	217,184	189,546	126,972	2,526,833	0	1,350,594
measured at amortised cost	*6,959,200*	*2,773,538*	*104,076*	*128,498*	*50,760*	*42,918*	*1,670,725*	*0*	*838,375*
measured at fair value through other comprehensive income	*1,255,183*	*554,380*	*42,346*	*75,768*	*138,786*	*70,702*	*802,688*	*0*	*492,644*
measured at fair value through profit or loss	*261,024*	*135,245*	*0*	*12,919*	*0*	*13,352*	*53,420*	*0*	*19,576*
Derivatives	858,422	998,138	62,462	333,061	0	69	36,806	0	203,872
Loan commitments and financial guarantees given.	26,187,544	539,868	437,774	5,065	540	3,195	4,352	233	10,738
Other (of which mainly securities lending and margin calls)	695,026	769,211	4,754	512,762	0	422	6,286	0	28,159
TOTAL	122,015,068	7,123,721	1,116,674	1,194,888	191,653	131,853	2,653,003	300	1,858,454

	30/06/18									
(In thousands of EUR)	Other EU countries[3]	Rest of Europe	United States and Canada	United Kingdom	Southeast Asia	South and Central America	Turkey	Japan	Other	TOTAL
Cash and balances with central banks	10,999,427	3,116	6,917	1,515	343	144	120	268	593	11,012,443
Loans and advances	807,785	337,855	32,193	154,800	229,276	26,389	7,779	77,560	86,336	89,850,706
measured at amortised cost	*807,785*	*337,855*	*32,193*	*154,800*	*229,276*	*26,389*	*7,779*	*77,560*	*86,336*	*87,866,367*
measured at fair value through other comprehensive income	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
measured at fair value through profit or loss	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*1,984,339*
Debt securities	1,012,557	149,906	2,239,847	5,273,855	21,642	85,052	0	395,018	579,950	26,253,949
measured at amortised cost	*760,645*	*127,166*	*2,093,916*	*4,665,023*	*21,642*	*78,631*	*0*	*394,509*	*556,408*	*21,266,031*
measured at fair value through other comprehensive income	*201,721*	*22,611*	*99,506*	*304,665*	*0*	*6,421*	*0*	*509*	*2,578*	*4,070,506*
measured at fair value through profit or loss	*50,192*	*129*	*46,425*	*304,167*	*0*	*0*	*0*	*0*	*20,965*	*917,412*
Derivatives	88,577	1,336	347,800	1,200,495	75	0	3	6,811	2,722	4,140,648
Loan commitments and financial guarantees given.	265,845	40,858	1,096,299	960,164	239,178	298,164	53,447	241	345,315	30,488,820
Other (of which mainly securities lending and margin calls)	15,995	672,183	212,717	2,288,358	0	0	0	0	40,113	5,245,986
TOTAL	13,190,186	1,205,254	3,935,773	9,879,188	490,513	409,748	61,349	479,898	1,055,029	166,992,553

(1) Belfius has sold in 1Q part of its Italian government bond and swap packages, for a notional amount of EUR 0.8 billion, which were classified under a "hold-to-collect and sale" business model. The sale was in line with Belfius' objective to manage its concentration risk on Italian government bonds. This brings the total remaining exposure to the Italian Republic at EUR 2.6 billion as of 2Q 2018.

(2) 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.

(3) Includes supranational entities, such as the European Central Bank. The significant increase is mainly related to an increase of cash and balances with central banks.

B. Exposure by category of counterpart

Presentation and figures on 31/12/17 (IAS 39)

(In thousands of EUR)	31/12/17 (PF[1])
Central governments	24,799,346
Public sector entities	47,374,892
Corporate	29,484,919
Monoline insurers	3,517,111
ABS/MBS	997,140
Project finance	2,034,176
Individuals, SME, self-employed	45,168,423
Financial institutions	13,977,287
Other	745,019
TOTAL	**168,098,313**

(1) The figures of 31/12/17 have been restated following the application of the refined calculation methodology on the potential future exposures for derivatives.

Presentation and figures on 30/06/18 (IFRS 9)

	30/06/18								
(In thousands of EUR)	Central governments	Public sector entities	Corporate	Monoline insurers	ABS/MBS	Project finance	Individuals, SME, self-employed	Financial institutions	Total
Cash and balances with central banks	11,012,443	0	0	0	0	0	0	0	11,012,443
Loans and advances	776,788	28,738,647	17,012,017	0	0	572,777	40,657,082	2,093,395	89,850,706
measured at amortised cost	*776,788*	*26,765,946*	*17,000,380*	*0*	*0*	*572,777*	*40,657,082*	*2,093,395*	*87,866,367*
measured at fair value through other comprehensive income	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
measured at fair value through profit or loss	*0*	*1,972,702*	*11,638*	*0*	*0*	*0*	*0*	*0*	*1,984,339*
Debt securities	10,283,670	3,938,372	3,239,641	3,437,592	939,396	820,810	0	3,594,469	26,253,949
measured at amortised cost	*8,014,579*	*3,226,280*	*2,357,025*	*3,149,314*	*812,448*	*820,810*	*0*	*2,885,575*	*21,266,031*
measured at fair value through other comprehensive income	*2,224,139*	*481,739*	*876,702*	*0*	*33,577*	*0*	*0*	*454,349*	*4,070,506*
measured at fair value through profit or loss	*44,951*	*230,353*	*5,914*	*288,278*	*93,371*	*0*	*0*	*254,545*	*917,412*
Derivatives	39,249	869,785	286,412	442,898	0	157,645	517	2,344,142	4,140,648
Loan commitments and financial guarantees given.	258,626	12,756,189	10,181,368	424,872	0	375,620	5,855,829	636,315	30,488,820
Other (of which mainly securities lending and margin calls)	431,136	284,007	971	0	0	0	687	4,529,184	5,245,986
TOTAL	**22,801,912**	**46,587,000**	**30,720,409**	**4,305,362**	**939,396**	**1,926,852**	**46,514,115**	**13,197,506**	**166,992,553**

4. Maximum Credit exposure by categories of Financial Instruments subject to impairment

Presentation and figures on 30/06/18 (IFRS 9)

Financial Assets

(In thousands of EUR)	30/06/18			
	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
CREDIT RATING GRADES				
Cash and balances with central banks	11,012,443	0	0	11,012,443
LOANS AND ADVANCES				
measured at amortised cost	79,297,696	6,785,962	1,782,709	87,866,367
AAA to AA-	*26,777,915*	*1,145,105*	*27,233*	*27,950,253*
A+ to BBB-	*36,272,193*	*2,412,057*	*2,985*	*38,687,235*
Non investment grade	*14,549,472*	*3,068,197*	*10,428*	*17,628,097*
Default	*0*	*0*	*1,741,849*	*1,741,849*
Unrated	*1,698,117*	*160,603*	*213*	*1,858,934*
measured at fair value through other comprehensive income	0	0	0	0
DEBT SECURITIES				
measured at amortised cost	13,894,761	7,369,488	1,782	21,266,031
AAA to AA-	*9,240,377*	*154,435*	*0*	*9,394,811*
A+ to BBB-	*4,594,192*	*6,977,293*	*1,782*	*11,573,268*
Non investment grade	*4,613*	*237,760*	*0*	*242,372*
Default	*0*	*0*	*0*	*0*
Unrated	*55,580*	*0*	*0*	*55,580*
measured at fair value through other comprehensive income	3,316,126	754,380	0	4,070,506
AAA to AA-	*1,302,361*	*0*	*0*	*1,302,361*
A+ to BBB-	*1,830,600*	*754,380*	*0*	*2,584,980*
Non investment grade	*87,190*	*0*	*0*	*87,190*
Default	*0*	*0*	*0*	*0*
Unrated	*95,974*	*0*	*0*	*95,974*

Off-Balance sheet exposure

(In thousands of EUR)	30/06/18			
	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
CREDIT RATING GRADES	28,926,573	1,446,998	115,250	30,488,820
Loan commitments and financial guarantees given	9,138,268	104,984	0	9,243,251
AAA to AA-	*15,102,255*	*335,311*	*995*	*15,438,560*
A+ to BBB-	*4,506,045*	*974,599*	*14,969*	*5,495,613*
Non investment grade	*0*	*0*	*99,286*	*99,286*
Unrated	*180,005*	*32,104*	*0*	*212,110*

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).

Purchased at credit impaired

Nihil

5. Financial assets subject to impairment that are past due

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.

A. Presentation and figures on 31/12/17 (IAS 39)

	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

B. Presentation and figures on 30/06/18 (IFRS 9)

	Assets without significant increase in credit risk since initial recognition (Stage 1)			Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Credit-impaired assets (Stage 3)		
	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days
Loans and advances due to credit institutions	200	32	0	0	0	0	0	0	0
Loans and advances	251.150	41.858	6.906	83.943	16.212	10.393	76.698	74.519	415.635
Debt securities	0	0	0	0	0	0	0	0	0

Past due outstandings relate mainly to retail and corporate loans.

6. Forbearance

A. Presentation and figures on 31/12/17 (IAS 39)

(In thousands of EUR)	31/12/17			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
			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

B. Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
			Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
Loans and advances due to credit institutions	0	0	0	0
Loans and advances	659,126	(128,075)	310,775	23,501
Debt securities	0	0	0	0
Off-Balance sheet exposure	25,786	0	12,716	0

We also refer to the chapter "Risk management" of the management report for further information section Credit Risk.

7. Movements in allowances for credit losses

A. Presentation and figures on 31/12/17 (IAS 39)

(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 01/01/2017 merged into Group Center) allowing for a reversal of previously recorded specific impairments.

B. Presentation and figures on 30/06/18 (IFRS 9)

(In thousands of EUR)	30/06/18			
	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS				
measured at amortised cost				
BALANCE AT 1 JANUARY	(97)	(32)	0	(128)
Increase due to origination and acquisition	(348)	0	0	(348)
Decrease due to derecognition	355	31	0	386
Changes due to credit riks	10	1	0	11
BALANCE AT 30 JUNE	(80)	0	0	(80)
LOANS AND ADVANCES				
measured at amortised cost				
BALANCE AT 1 JANUARY	(138,340)	(184,209)	(1,152,862)	(1,475,411)
Increase due to origination and acquisition	(102,124)	(87,341)	(32,351)	(221,816)
Decrease due to derecognition	77,544	93,036	7,628	178,208
Changes due to credit riks	1,456	(23,357)	(15,364)	(37,265)
Transfer to 12-month ECL (stage 1)	8,429	0	0	8,429
Transfer to lifetime ECL not credit impaired (stage 2)	0	39,899	0	39,899
Transfer to lifetime ECL credit impaired (stage 3)	0	0	4,154	4,154
Changes due to update the methodology for estimation	0	0	(8,191)	(8,191)
Decrease in allowance due to write off	0	0	26,657	26,657
Foreign exchange and other movements	(554)	(22)	(5,926)	(6,502)
BALANCE AT 30 JUNE	(153,589)	(161,993)	(1,176,256)	(1,491,837)

The "increase due to origination and acquisition" as well as "decrease due to derecognition" mainly relate to the fact that renewal of straight loans and Roll Over loans are accounted as an increase (New deal) and a decrease (End of former deal).

Note that the sale of loans (pruning) had an impact on the "decrease due to derecognition" for stage 2 and stage 3 loans.

(In thousands of EUR)	30/06/18			
	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
DEBT SECURITIES				
measured at amortised cost				
BALANCE AT 1 JANUARY	(835)	(187,122)	(840)	(188,797)
Increase due to origination and acquisition	(430)	(674)	0	(1,104)
Decrease due to derecognition	164	0	0	164
Changes due to credit riks	(63)	(115)	0	(178)
Transfer to 12-month ECL (stage 1)	3	0	0	3
Transfer to lifetime ECL not credit impaired (stage 2)	0	632	0	632
Foreign exchange and other movements	0	(606)	0	(606)
BALANCE AT 30 JUNE	(1,161)	(187,885)	(840)	(189,887)
measured at fair value through other comprehensive income				
BALANCE AT 1 JANUARY	1,598	42,101	0	43,699
Increase due to origination and acquisition	102	529	0	631
Decrease due to derecognition	(131)	(19,635)	0	(19,766)
Changes due to credit riks	78	(1,308)	0	(1,230)
Transfer to 12-month ECL (stage 1)	(64)	0	0	(64)
Transfer to lifetime ECL not credit impaired (stage 2)	0	(2,036)	0	(2,036)
BALANCE AT 30 JUNE	1,584	19,650	0	21,234
OFF-BALANCE SHEET EXPOSURES				
BALANCE AT 1 JANUARY	51,080	57,272	12,913	121,266
Increase due to origination and acquisition	23,497	17,319	0	40,816
Decrease due to derecognition	(12,857)	(15,796)	(2,842)	(31,495)
Changes due to credit riks	(9,814)	6,771	25,868	22,825
Transfer to 12-month ECL (stage 1)	(5,095)	0	0	(5,095)
Transfer to lifetime ECL not credit impaired (stage 2)	0	(22,373)	0	(22,373)
Transfer to lifetime ECL credit impaired (stage 3)	0	0	(4,185)	(4,185)
Changes due to modiification without derecognition	0	0	0	0
Changes due to update the methodology for estimation	0	0	100	100
Decrease in allowance due to write off	0	0	0	0
Foreign exchange and other movements	49	163	121	333
BALANCE AT 30 JUNE	46,860	43,355	31,975	122,190

9.3. INFORMATION ON ASSET ENCUMBRANCE AND COLLATERAL RECEIVED

Refers to table 9.3. of the annual report 2017

1.1. Assets

(In thousands of EUR)	31/12/17			
	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*			

(In thousands of EUR)	30/06/18			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments			1,785,802	1,785,802
Debt securities	3,888,533	4,289,119	12,085,409	12,727,403
Loans and advances	27,431,732		70,080,520	
of which cash collateral given	*11,512,612*			

1.2. Collateral received

(In thousands of EUR)	As at 31 December 2017		As at 30 June 2018	
	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	730,460	2,865,887	675,719	2,917,937
Equity instruments	0	108,398	0	128,633
Debt securities	730,460	2,757,489	675,719	2,789,304
Own debt securities issued other than own covered bonds or ABS		326,597	0	0

2. Summary encumbrance by source

As at 31 December 2017	Encumbered assets						Total
	Loans and advances	Debt securities					
		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	
(In thousands of EUR)							
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

As at 30 June 2018	Encumbered assets						Total
	Loans and advances		Debt securities				
	Measured at amortised cost	Measured at fair value through profit or loss	Measured at amortised cost	Measured at fair value through other comprehen-sive income	Measured at fair value through profit or loss	Fair value of encumbered collateral received or own debt securities issued	
(In thousands of EUR)							
SOURCE OF ENCUMBRANCE							
Derivatives - collateral	11,512,612	0	1,153,288	0	0	0	12,665,900
Repurchase agreements	9,014	0	201,870	0	27	470,281	681,193
Collateralised deposits other than repurchase agreements	1,119,314	0	228,842	0	0	299	1,348,454
Central bank funding	3,761,002	0	583,317	0	0	0	4,344,319
Covered bonds issued	9,701,004	0	99,417	0	0	0	9,800,421
Asset-backed securities issued	463,400			0	0	0	463,400
Fair value of securities borrowed with non cash-collateral	607,604	0			0	0	607,604
Securities lending	0	0	1,451,874	0	0	198,544	1,650,418
Other	253,746	0	169,926	0	4,009	6,595	434,276
TOTAL	27,427,695	0	3,888,533	0	4,036	675,719	31,995,984

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 loaned securities should not be considered as pledged. As a consequence, assets pledged according to IFRS 7 amount to EUR 30.4 billion.

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 are aligned with IFRS 7 as it requires 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 amounts to EUR 3.6 billion end June 2018. The Bank has the right to repledge this collateral that is fully available for encumbrance.

End June 2018, an amount of EUR 12.7 billion of collateral is pledged for derivatives (cash + securities). Securities pledged amount to EUR 1.2 billion and are measured at amortised cost. Bonds given under CSA agreements can be re-used by counterparties and represent EUR 0.3 billion. Bonds posted under CSD cannot be re-used.

Belfius is active in the covered bond market since 2012. End June 2018, the total amount issued was EUR 7.9 billion. New issues of EUR 0.7 billion were realised in 2Q 2018. At the end of June 2018, the assets encumbered for this funding source consist of commercial loans (public sector and mortgage loans) and amount to EUR 9.7 billion (increase of EUR 0.6 billion compared to end 2017). Loans segregated in cover pools cannot be re-used by investors.

Since 2017 Belfius is active in bond lending transactions under the agreed Global Master Securities Lending Agreements (GMSLA) to manage its liquidity buffer. This activity generates EUR 1.6 billion of encumbered assets.

"The collateral pledged to the European Central Bank amounts to EUR 6.6 billion at the end of June 2018. EUR 4.3 billion of the pledged collateral is encumbered for TLTRO II funding (amounting to EUR 4.0 billion), whilst EUR 2.3 billion is unencumbered. The assets pledged to collateralise the TLTRO funding are composed of EUR 3.7 billion public, SME and mortgage loans (through securitisation vehicles Penates and Mercurius) and EUR 0.6 billion of bonds. Credit claims pledged for ECB funding cannot be re-used by the ECB.

X. NOTES ON THE SIGNIFICANT CHANGES IN SCOPE OF CONSOLIDATION

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 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 Immo Activity was purchased end 2016 and is fully consolidated since January 2017.

2. As at 30 June 2018

A. Full Consolidation of Auxipar

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 finalization of the liquidation, in the interest of all stakeholders. This agreement listed a combination of actions to finalize towards end of liquidation, including the takeover of the Auxipar shares held by the Arco companies by Belfius.

As a result of these actions moving forward, Belfius has increased, on 29 March, its stake in Auxipar from 39.7% to 74.99% for a price of EUR 29.4 million. The transaction qualifies for Belfius as a business combination achieved in stages and is thus subject to IFRS 3 whereby any previously held interest is adjusted to its fair value as of the acquisition date with any resulting gain reported in the consolidated income statement. Belfius has estimated the fair value of Auxipar at EUR 82.8 million at acquisition date, in line with the acquisition price for 100% of the shares (EUR 83.3 million). The revaluation following the application of IFRS 3 of the previously held interest (recognized at end March 2018 at EUR 33 million) resulted in a capital gain of EUR 23 million. The difference between the restatement of the balance sheet and the consideration paid, resulted in a goodwill of EUR 0.1 million.

Please note that one of the investments of Auxipar is a 82.7% stake in EPC, an organization of pharmacies distributing pharmaceutical products. While Auxipar as such owns the majority of the shares in EPC, it does not have substantiated control over the investment as (a) there is a limitation of the voting rights and (b) no shareholder/control agreements exist. As a result, Belfius will consolidate EPC through the equity method. The value of EUR 20.7 million resulting from the equity method is considered as the fair value of EPC estimated at the date of acquisition of Auxipar and includes EUR 1.4 million of goodwill.

B. Other changes in the scope of consolidation

Belfius sold its investments in "NEB Participation" to Nethys. It concerned an associate previously accounted for through the equity method. Belfius realized a capital gain of EUR 23.6 million on this sale.

Belfius has consolidated the new entity Bancontact Payconiq Company of which it owns 22.5% of the shares, through equity method, following the merger between Payconiq and Bancontact on 29 June 2018.

Caring People, a 100% subsidiary of Corona performing contact center activities for Corona, is fully consolidated as from 2018 onwards.

C. Future changes in the scope of consolidation which have already been decided upon

The Board of Directors of Belfius Bank approved on 26 April 2018 the simplification of the group structure by the closing of the Dublin branch of Belfius Bank, preceded by the transfer of the Dublin branch portfolio to Belfius Ireland, a subsidiary of Belfius Bank. The impacts in the statement of income are currently under analysis and depend among others on future market evolutions. Belfius intends to fully implement this decision by the end of 2018.

10.2. ACQUISITIONS AND DISPOSALS OF CONSOLIDATED COMPANIES

1. Main acquisitions

A. Year 2017

The real estate company Immo Activity was purchased end 2016 and is fully consolidated from the beginning of 2017.

The assets and liabilities acquired were as follows:

(In thousands of EUR)	2017 Immo Activity
Tangible fixed assets	11,738
Other liabilities	(4)
NET ASSETS	11,734
Already in possession of the Group	
Purchase price (in cash)	5,235
Less: cost of the transaction	
Less: cash and cash equivalents in the subsidiary acquired	
NET CASH OUTFLOW THROUGH ACQUISITION	5,235

B. 30 June 2018

On 29 March, Belfius acquired 35.3% of the shares of Auxipar for a price of EUR 29.4 million, increasing its stake in Auxipar from 39.7% to 74.99%. Auxipar and its investment "Interfinance" are fully consolidated as from 2018 onwards. Its investment EPC is consolidated through equity method as while Auxipar as such owns the majority of the shares in EPC, it does not have substantiated control over the investment as (a) there is a limitation of the voting rights and (b) no shareholder/control agreements exist.

After the merge of Payconiq with Bancontact in June 2018, Belfius will consolidate the new entity Bancontact Payconiq Company through equity method.

Caring People, a 100% subsidiary of Corona, is fully consolidated as from 2018 onwards.

The assets and liabilities acquired were as follows:

(In thousands of EUR)	31/03/18 Group Auxipar	30/06/18 Caring People	30/06/18 Bancontact Payconiq
L&A due from credit institutions	2,130	1,662	
Debt securities and equity instruments	84,684		
Investments in equity method companies	27,707		7,587
Tax assets	647		
Other assets	293	194	
Provisions and contingent liabilities	(32,351)		
Tax liabilities		(10)	
Other liabilities	(10)	(633)	
NET ASSETS	83,099	1,212	7,587
Group share	62,312	1,212	7,587
Already in possession of the Group	32,933	1,212	7,587
Purchase price (in cash)	29,379	0	0
Less:			
cost of the transaction			
cash and cash equivalents in the subsidiary acquired			
NET CASH OUTFLOW THROUGH ACQUISITION	29,379	0	0

2. Main disposals

A. Year 2017

There were no significant disposals in 2017.

B. 30 June 2018

Belfius Bank sold its investments in "NEB participations", an associate evaluated through the equity method.

The assets and liabilities disposed were as follows:

(In thousands of EUR)	31/03/18 NEB Participations
Investments in equity method companies	13,900
NET ASSETS	13,900
Purchase price (in cash)	37,500
Less:	
cost of the transaction	
cash and cash equivalents in the subsidiary acquired	
NET CASH INFLOW ON SALE	37,500

3. Assets and liabilities included in disposal groups held for sale and discontinued operations

A. Year 2017

As at 31 December 2017 no subsidiaries were recorded as "Non current assets (disposal group) held for sale and discontinued operations".

B. 30 June 2018

As at 30 June 2018 no subsidiaries were recorded as "Non current assets (disposal group) held for sale and discontinued operations".

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)	31/12/17 IAS 39	30/06/18 IFRS 9	31/12/17 IAS 39	30/06/18 IFRS 9
Loans[3]	1,757	2,911	2,759	2,748
of which impaired loans stage 3	0	0	0	0
Interest income	30	27	11	47
Deposits and debt securities[3]	9,810	10,209	5,149	4,739
Interest expense	(5)	(3)	0	0
Net commission	0	0	(9)	(4)
Guarantees issued and commitments provided by the Group[4]	0	0	10	127
Guarantees and commitments received by the Group	4,265	5,272	0	0

	Associates		Joint ventures in which the entity is a venturer	
(In thousands of EUR)	31/12/17 IAS 39	30/06/18 IFRS 9	31/12/17 IAS 39	30/06/18 IFRS 9
Loans[3]	253,483	253,600	12,718	8,428
of which impaired loans stage 3	0	1,170	0	0
Interest income	6,596	2,784	155	78
Deposits and debt securities[3]	84,175	116,477	1,474	7,641
Interest expense	(41)	(22)	0	0
Net commission	132	1,229	330	183
Guarantees issued and commitments provided by the Group[4]	233,561	238,508	17,760	28,892
Guarantees and commitments received by the Group	69,379	60,369	38,665	38,693

(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.

2. 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.

BELFIUS BANK NV
REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

In the context of our appointment as the company's statutory auditor, we report to you on the condensed consolidated interim financial statements. These consolidated interim financial statements comprise the condensed consolidated interim balance sheet as at 30 June 2018, the condensed consolidated interim statement of income, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of change in equity and the condensed consolidated interim cash flow statement for the period of six months then ended, as well as selective notes II to XI.

Report on the condensed consolidated interim financial statements

We have reviewed the condensed consolidated interim financial statements of Belfius Bank SA ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" as adopted by the European Union.

The condensed consolidated interim balance sheet shows total assets of EUR 166,951 million and the condensed consolidated interim statement of income shows a consolidated profit (group share) for the period then ended of EUR 335 million.

The board of directors of the company is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review of the condensed consolidated interim financial statements in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with the International Standards on Auditing (ISA) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Belfius Bank SA have not been prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

Zaventem, 9 August 2018

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by

Bart Dewael

Bernard De Meulemeester

ABBREVIATIONS

Acronym	
12 Months ECL	12 months expected credit losses
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
CCF	Credit Conversion Factor
CET 1	Common Equity Tier 1
CoR	Cost of Risk
CPR	Credit Prepayment Risk
CRD	Capital Regulative Directive
CRR	Capital Regulative Regulation
CVA	Credit Value Adjustment
DCL	Dexia Crédit Local
DSFB	Dexia Secured Funding Belgium
EAD	Exposure at Default
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
EIR	Effective Interest Rate
FVOCI	Fair Value Through Other Comprehensive Income
GDP	Gross Domestic Product
GIPS-countries	Greece, Ireland, Portugal and Spain
IFRS 9	International Financial Reporting Standard 9
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
PD	Probability of Default
PIT	Point in time
POCI	Purchased or Originated Credit-Impaired
RoNRE	Return on Normative Regulatory Equity
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
T-LTRO	Targeted Long-Term Refinancing Operations
TTC	Through The Cycle
VaR	Value at Risk

ADDITIONAL INFORMATION

GENERAL INFORMATION ABOUT BELFIUS BANK

Company name and legal form
Belfius Bank SA

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Fax: + 32 2 285 14 30

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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
Place Rogier 11
B-1210 Brussels
E-mail: claim@belfius.be

If you are not satisfied with the response you receive, you can turn to the Negotiation department of Belfius Bank.

Belfius Bank
Negotiation department – RT 23/17
Place Rogier 11
B-1210 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, boite 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 Meeus 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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