HALF-YEARLY REPORT 2019

Belfius
Bank & Insurance

Cover: own Belfius photo composition
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KEY FIGURES

Consolidated statement of income

(In millions of EUR)	1H 2018	1H 2019
INCOME[1]	1,174	1,155
EXPENSES	(690)	(710)
GROSS INCOME	483	445
Impairments on financial instruments and provisions for credit commitments[1]	(10)	(30)
Impairments on tangible and intangible assets	(1)	0
NET INCOME BEFORE TAX	473	414
Tax expense (income)	(138)	(110)
NET INCOME AFTER TAX	335	305
Non-controlling interests	0	0
NET INCOME GROUP SHARE	335	304
of which		
Bank	185	179
Insurance[2]	149	126

(1) For comparability purposes, Belfius presents a proforma for the Statement of Income end June 2018. Where a (bottom-line neutral) shift between "Income" and "Impairments on financial instruments and provisions for credit commitments" was made.
(2) Contribution of the Belfius insurance group tot the consolidated statement of income.

Consolidated balance sheet

(In millions of EUR)	31/12/18	30/06/19
TOTAL ASSETS	164,165	171,692
of which		
Cash and balances with central banks	8,314	9,018
Loans and advances due from credit institutions	13,107	14,529
Loans and advances	91,123	93,005
Debt securities & equity instruments	28,569	29,195
Unit linked products insurance activities	2,838	3,418
Derivatives	12,768	14,335
TOTAL LIABILITIES	154,206	161,534
of which		
Cash and balances from central banks	3,962	3,954
Credit institutions borrowings and deposits	5,867	7,139
Borrowings and deposits	79,661	83,287
Debt securities issued and other financial liabilities	26,687	26,399
Unit linked products insurance activities	2,838	3,418
Derivatives	17,740	20,203
TOTAL SHAREHOLDERS' EQUITY	9,446	9,638
of which		
Shareholders' core equity	9,055	9,095
Gains and losses not recognised in the statement of income	392	543
TOTAL EQUITY	9,960	10,158
of which		
Total shareholders' equity	9,446	9,638
Additional Tier 1 - instruments included in equity	497	497
Non-controlling interests	16	23

Ratios[1]

(In %)	31/12/18	30/06/19
Return on equity (ROE)	7.5%	6.8%
Return on assets (ROA)	0.39%	0.36%
Cost- income ratio (C/I ratio)[2]	60.4%	61.5%
Asset quality ratio	2.05%	1.95%
Coverage ratio	61.6%	62.1%
Liquidity Coverage Ratio (LCR)[3]	135%	132%
Net Stable Funding Ratio (NSFR)	116%	115%

(1) Unaudited.
(2) Cost-income ratio stood at 61.5% as of end June 2019. Sector levies have to be recognised in January of the year. If sector levies would have been linearly spread out over the year, the cost-income ratio would have been 56.1% at the end of June 2019.
(3) 12 month average.

Solvency ratios

(In %)	31/12/18	30/06/19
CET 1- ratio[1]	16.0%	15.5%
Tier 1 - ratio[1]	17.0%	16.4%
Total capital ratio[1]	19.6%	19.0%
Leverage ratio	6.0%	5.8%
Solvency II – ratio (before dividend)	219%	190%
Solvency II – ratio (after dividend)	203%	185%

(1) For the determination of the Capital ratios under Basel III, the regulatory authority asks Belfius to apply a prudential deconsolidation of Belfius Insurance and to apply a risk weighting of 370% on the a risk weighting of 370% on the equity instruments held by Belfius Bank in Belfius Insurance.

RATINGS OF BELFIUS BANK AS AT 8 AUGUST 2019

	Stand-alone rating[1]	Long-term rating	Outlook	Short-term rating
Fitch	a-	A-	Stable	F2
Moody's	baa2	A1	Stable	Prime-1
Standard & Poor's	a-	A-	Stable	A-2

(1) Intrinsic creditworthness

HIGHLIGHTS

RESILIENT 1H 2019 RESULTS ACHIEVED BY BELFIUS

- Belfius' **net income 1H 2019 stands at EUR 304 million**, down 9% compared to 1H 2018 where net income stood at EUR 335 million. In 1H 2019, the bank contributed EUR 179 million and the insurer EUR 126 million.
- Belfius' focus on its strategic long term development continues to translate into **investments** in business model, customers and human and digital capacities, resulting into continued very **strong commercial development** in all client segments of the Belgian economy.
- The combination of this strategic investment-stance, the still challenging macro-economical context and some non-typical elements such as higher claims for natural catastrophes leads to an all-in lower net income compared to 1H 2018:
  - Growing loan volumes compensate for the continuous low interest rate environment and result in a **resilient net interest income** of the bank for 1H 2019.
  - **Slightly increasing fee & commission income** thanks to the good development of fees from classical life and non-life insurance products and from payment services.
  - **Lower insurance contributions** as a result of:
    - the material natural catastrophes in 1H 2019 impacting Belfius' non-life result;
    - lower Branch 21 reserves leading to lower guaranteed life insurance contribution, despite resilient financial margin.
  - Strategic priorities result in continued investments in human capital as well as in IT and digitalization, leading to an **increase of the costs** and to a C/I ratio of 61.5%.
  - Sound risk management and good credit quality of the portfolios continue to translate into historically low cost of risk of the commercial activities. The overall **increase in cost of risk** is mainly stemming from Group Center which was positively impacted in 1H 2018 by a one-off effect from the sale of some Italian government bonds.
- Note that excluding the special items (which had a positive impact in 1H 2018), Belfius' adjusted net income increases with 10%, i.e. from EUR 349 million in 1H 2018 to EUR 383 million in 1H 2019.

Retail and Commercial

- Customer savings & investments: EUR 111 billion at the end of June 2019, up 6% compared to end 2018 : strong organic growth (EUR +3.3 billion) since end 2018, combined with a positive market effect (EUR +2.5 billion).
- New long-term loans granted to retail and commercial clients: EUR 5.8 billion in 1H 2019, up 12% compared to 1H 2018.
- Total insurance production (gross written premiums and transfers) amounted to EUR 1,321 million in 1H 2019, up 39% compared to 1H 2018.
- Sales of simple and frequently used products and services through direct channels continue to increase.

Public and Corporate

- Public and Corporate continues to strongly develop its Corporate segment, and remains the leading full service provider in the Belgian Public and Social segment.
- Belfius granted EUR 2.6 billion long-term loans to its corporate customers during 1H 2019, a 13% growth y-o-y. PSB long-term loans are increasing to EUR 1.1 billion.
- Continued momentum in Debt Capital Markets (DCM); participation rate of 86% with PSB clients and 80% with corporate clients.

STRONG CAPITAL BASE AND SOUND FINANCIAL PROFILE

- Even with Belfius' strategy to continue to put more capital at work to further develop its commercial franchise, Belfius continues to demonstrate solid solvency levels: 15.5% CET 1 at consolidated level and 185% SII ratio for Belfius Insurance.
- Net asset value at EUR 9.6 billion, up from EUR 9.4 billion end 2018.
- Belfius' Board of Directors of 8 August 2019 decided to pay an interim dividend, relative to 1H 2019 results, of EUR 100 million to its shareholder, and to set the full year 2019 dividend target pay-out ratio range at 40% to 50%.

"Belfius once again demonstrated its resilience in the first half-year.
We have always set ambitious and realistic goals and we continue to do so in the light of the challenges that await the entire industry. We succeeded in maintaining our strengths and performed robustly across all sectors and segments. Therefore, I would particularly like to thank our customers for their continued faith in us, as well as our agents and staff for their unwavering commitment. Our financial strength and commercial dynamics are the foundation we are building our Ambition 2025 strategy on. The latter will be revealed in the last quarter of this year."

Marc Raisière, CEO

"In the difficult conditions of this first half of the year, Belfius again demonstrated that it fully merits the trust of its shareholder, customers and staff. Our solid half-yearly results again enable us to pay an interim dividend of 100 million euros to our shareholder. However, these strong results must not obscure the challenges that await us. Indeed, the economic environment is likely to remain both difficult and uncertain due to issues such as ongoing low interest rates, a slowdown in the economy and ever-stricter capital requirements. Not to mention international geopolitical and trading tensions. As a result, maintaining a particularly strong position in terms of liquidity and solvency continues to be a central concern in our long-term strategy."

Jozef Clijsters, Chairman of the Board of Directors

FINANCIAL RESULTS

PRELIMINARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Changes to the scope of consolidation

On 5 March 2019, the companies Jaimy (original name BI New Co) and Charlin performed a capital increase of respectively EUR 11.6 million and EUR 15.1 million by incorporating the software that Belfius Insurance internally developed specifically for those companies in 2018. Following the contribution in cash by its partner The Boston Consulting Group, Belfius Insurance's share in equity decreased from 100% to 78.5% at Jaimy and 77.4% at Charlin. Jaimy aims to provide a platform where users can request small home repairs. Charlin aims to offer a sensor enabled monitoring solution for the elderly whereby they'll be able to stay longer in their own homes without special assistance. The capital increases ensure that these entities can further develop their activities and can commercially expand in their respective markets.

There were no significant acquisitions and disposals in 1H 2019.

2. Fundamentals of the consolidated 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

As from 1 January 2019 the IFRS 16 standard on lease accounting became applicable and has replaced IAS 17. IFRS 16 fundamentally changes the manner in which lessees account for leases by introducing a single lessee accounting model. The adoption of IFRS 16 by lessors retains the former IAS 17 lease accounting treatment.

In line with the transitional provisions, Belfius, as a lessee, used the modified retrospective application and has exempted lease agreements with a remaining lease term less than 12 months. Accordingly, Belfius did not restate comparative information and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings.

At the date of initial application, a right-of-use asset and a lease liability were recognised in the balance sheet with a limited negative impact of EUR 2.8 million in retained earnings. The right-of-use assets are measured as if IFRS 16 had been applied since start date of the lease contracts.

Note that a detailed analysis of the initial application is available in note 3 "accounting principles on a consolidated basis" chapter 2.1 First-time application IFRS16.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

Total assets increased by EUR 7.5 billion, or 4.6%, from EUR 164.2 billion as at 31 December 2018 to EUR 171.7 billion as at 30 June 2019. The total assets are composed of EUR 153.8 billion for Belfius' Banking Group (compared to EUR 146.4 billion at 31 December 2018) and EUR 17.9 billion for Belfius Insurance (compared to EUR 17.8 billion at 31 December 2018). These amounts represent the contribution of Belfius' Banking Group and Belfius Insurance to the consolidation scope and do not reflect their respective stand alone total assets.

The loan portfolio increased thanks to higher volumes in mainly mortgage loans and term loans. In addition, an increase in "derivatives" can be identified following lower interest rates compared to year-end 2018 as well as the corresponding collateral in "loans and advances due from credit institutions". Furthermore, a shift in funding sources can be identified due to the low interest environment whereby "debt securities issued" decreases against "deposits".

1. Assets

1.1. Cash and balances with central banks

Cash and balances with central banks increased by EUR 0.7 billion, or 8.5%, to EUR 9.0 billion as at 30 June 2019, compared to EUR 8.3 billion as at 31 December 2018. In view of its liquidity management Belfius deposits part of its cash at the National Bank of Belgium.

1.2. Loans and advances due from credit institutions

Loans and advances due from credit institutions increased with 10,8% or EUR 1.4 billion to EUR 14.5 billion as at 30 June 2019 compared to EUR 13.1 billion as at 31 December 2018, due to an increase in cash collateral paid of EUR 1.7 billion in line with the fair value evolution of derivatives and EUR 0.3 billion term loans, partially offset by a decrease of EUR 0.6 billion reverse repurchase agreements.

1.3. Loans and advances

Loans and advances increased by EUR 1.9 billion, or 2.1%, to EUR 93.0 billion as at 30 June 2019, compared to EUR 91.1 billion as at 31 December 2018. The increase was due to an increase in commercial assets of EUR 1.7 billion (mainly mortgage loans and term loans) in line with our strategy to further develop our commercial franchise

Synoptic Consolidated balance sheet

(In millions of EUR)	31/12/18	*Contribution Bank into group*[(1)]	*Contribution Insurance into group*[(1)]	30/06/19	*Contribution Bank into group*[(1)]	*Contribution Insurance into group*[(1)]	Evolution
TOTAL ASSETS	164,165	*146,356*	*17,810*	171,692	*153,745*	*17,947*	+7,527
Of which							
Cash and balances with central banks	8,314	*8,314*	*0*	9,018	*9,018*	*0*	+704
Loans and advances due from credit institutions	13,107	*13,073*	*34*	14,529	*14,493*	*36*	+1,422
A. Measured at amortised cost	13,107	*13,073*	*34*	14,529	*14,493*	*36*	+1,422
Loans and advances	91,123	*87,054*	*4,069*	93,005	*88,791*	*4,214*	+1,882
A. Measured at amortised cost	89,302	*85,271*	*4,031*	91,268	*87,083*	*4,185*	+1,965
C. Measured at fair value through profit or loss	1,820	*1,783*	*37*	1,737	*1,709*	*28*	-83
Debt securities & equity instruments	28,569	*16,739*	*11,830*	29,195	*17,352*	*11,843*	+626
A. Measured at amortised cost	21,611	*15,671*	*5,939*	22,256	*16,209*	*6,048*	+646
B. Measured at fair value through other comprehensive income	5,216	*217*	*4,999*	5,169	*216*	*4,952*	-47
C. Measured at fair value through profit or loss	1,742	*850*	*892*	1,770	*927*	*843*	+28
Unit linked products insurance activities	2,838	*0*	*2,838*	3,418	*0*	*3,418*	+580
Derivatives	12,768	*12,739*	*28*	14,335	*14,332*	*2*	+1,567
TOTAL LIABILITIES	154,206	*136,849*	*17,356*	161,534	*144,218*	*17,316*	+7,329
Of which							
Cash and balances from central banks	3,962	*3,962*	*0*	3,954	*3,954*	*0*	-8
Credit institutions borrowings and deposits	5,867	*5,810*	*56*	7,139	*7,116*	*23*	+1,272
A. Measured at amortised cost	5,867	*5,810*	*56*	7,139	*7,116*	*23*	+1,272
Borrowings and deposits	79,661	*79,661*	*0*	83,287	*83,287*	*0*	+3,626
A. Measured at amortised cost	79,610	*79,610*	*0*	83,234	*83,234*	*0*	+3,624
B. Measured at fair value through profit or loss	52	*52*	*0*	54	*54*	*0*	+2
Debt securities issued and other financial liabilities	26,687	*26,687*	*0*	26,399	*26,397*	*1*	-288
A. Measured at amortised cost	19,275	*19,275*	*0*	18,007	*18,006*	*1*	-1,268
B. Measured at fair value through profit or loss	7,412	*7,412*	*0*	8,392	*8,392*	*0*	+979
Unit linked products insurance activities	2,838	*0*	*2,838*	3,418	*0*	*3,418*	+580
Derivatives	17,740	*17,740*	*0*	20,203	*20,201*	*2*	+2,463
Provisions for insurance activities	13,908	*0*	*13,908*	13,360	*0*	*13,360*	-547
Subordinated debts	1,219	*1,219*	*0*	1,214	*1,214*	*0*	-6
A. Measured at amortised cost	1,219	*1,219*	*0*	1,214	*1,214*	*0*	-6
TOTAL SHAREHOLDERS' EQUITY	9,446	*9,009*	*437*	9,638	*9,030*	*608*	+191
Of which							
Shareholders' equity	9,055	*8,897*	*158*	9,095	*8,964*	*131*	+40
Gains and losses not recognised in the statement of income	392	*112*	*279*	543	*67*	*476*	+151
TOTAL EQUITY	9,960	*9,506*	*453*	10,158	*9,527*	*631*	+199
of which							
Total shareholders' equity	9,446	*9,009*	*437*	9,638	*9,030*	*608*	+191
Additional Tier 1 - instruments included in equity	497	*497*	*0*	497	*497*	*0*	0
Non-controlling interests	16	*0*	*16*	23	*0*	*23*	+7

(1) Information based on non-audited figures.

and to support the Belgian economy. Other items include an increase in cash collateral paid of EUR 0.2 billion in line with the fair value evolution of derivatives and an increase in reverse repurchase agreements of EUR 0.1 billion.

Please note that certain loans do 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.

1.4. Debt securities and equity instruments

The debt securities and equity instruments portfolio is situated in Belfius's Banking Group for EUR 17.4 billion (versus EUR 16.7 billion at 31 December 2018) and in Belfius Insurance for EUR 11.8 billion (versus EUR 11.8 billion at 31 December 2018).

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, except for some positions that were classified as "held to collect and sell". 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 its balance sheet.

The debt securities measured at amortised cost increased with 0.6 billion or 3.0% to 22.3 billion as at 30 June 2019 compared to EUR 21.6 billion as at 31 December 2018 following investments in corporate bonds within the liquidity portfolio at Belfius Bank as well as reinvestments in government bonds at Belfius Insurance.

The financial assets measured at fair value through other comprehensive income slightly decreased to EUR 5.2 billion as at 30 June 2019. Redemptions and some divestments of Belgian government bonds, in order to manage the duration gap and to decrease the concentration risk within the balance sheet of Belfius Insurance, was partially offset by positive fair value adjustments on debt and equity instruments. Note that certain equity positions (mainly at Belfius Insurance) were sold for risk and ALM purposes.

The debt securities measured at fair value through profit or loss slightly increased with EUR 0.03 billion, or 1.6%, to EUR 1.8 billion as at 30 June 2019 compared to EUR 1.7 billion as at 31 December 2018.

1.5. Unit linked products insurance activities

Unit linked products within our insurance activities (Branch 23) increased with EUR 0.6 billion, or 20.4%, to EUR 3.4 billion as at 30 June 2019 compared to EUR 2.8 billion as at 31 December 2018, resulting from transfers of client investments from Branch 21 contracts coming to maturity, net new cash and positive fair value evolution.

1.6. Derivatives

Derivatives increased by EUR 1.6 billion, or 12.3%, to EUR 14.3 billion as at 30 June 2019, compared to EUR 12.8 billion as at 31 December 2018, following the lower interest rate environment compared to year-end 2018.

2. Liabilities

Total liabilities increased by EUR 7.3 billion, or 4.8%, to EUR 161.5 billion as at 30 June 2019, compared to EUR 154.2 billion as at 31 December 2018. A shift in funding sources can be identified due to the low interest rate environment whereby "debt securities issued" decreases against "deposits". Furthermore, an increase in "derivatives" can be identified, following the lower interest rate environment compared to year-end 2018.

2.1. Cash and balances from central banks

Cash and balances from central banks remained stable at EUR 4.0 billion as at 30 June 2019.

2.2. Credit Institutions borrowings and deposits

Credit Institutions borrowings and deposits increased with EUR 1.3 billion, or 21.7%, to EUR 7.1 billion as at 30 June 2019 compared to EUR 5.9 billion as at 31 December 2018, following an increase of EUR 0.8 billion in deposits and an increase of EUR 0.5 billion in cash collateral received in line with the fair value evolution of derivatives.

2.3. Borrowings and deposits

Borrowings and deposits increased by EUR 3.6 billion, or 4.6%, to EUR 83.3 billion as at 30 June 2019, compared to EUR 79.7 billion as at 31 December 2018. The increase in customer borrowings and deposits was mainly due to the organic growth of saving and sight accounts.

2.4. Debt securities issued and other financial instruments

Debt securities issued and other financial instruments decreased with EUR 0.3 billion, or 1.1%, to EUR 26.4 billion as at 30 June 2019 compared to EUR 26.7 billion as at 31 December 2018.

The debt securities measured at amortised cost decreased by EUR 1.3 billion, or 6.6%, to EUR 18.0 billion as at 30 June 2019 compared to EUR 19.3 billion as at 31 December 2018, due to the maturity of EUR 0.6 billion covered bonds and EUR 1.0 billion other debt securities, partially offset by an increase of EUR 0.3 billion certificates of deposit.

The debt securities measured at fair value through profit and loss increased with EUR 1.0 billion, or 13.2%, to EUR 8.4 billion as at 30 June 2019 compared to EUR 7.4 billion as at 31 December 2018, following new issuances of (structured) debt securities for retail customers.

2.5. Derivatives

Derivatives increased by EUR 2.5 billion, or 13.9%, to EUR 20.2 billion as at 30 June 2019, compared to EUR 17.7 billion as at 31 December 2018 following the low interest rate environment compared to year-end 2018.

2.6. Provisions for insurance activities

Provisions for Life insurance activities decreased with EUR 0.6 billion, to EUR 12.1 billion as at 30 June 2019 compared to EUR 12.6 billion as at 31 December 2018. In current low interest rate environment, we note a continued shift from Branch 21 products towards alternative investment forms such as Branch 23 or mixed Branch 44 products. As a result, a substantial part of the Branch 21 investment contracts coming at maturity are not reinvested in new Branch 21 investment contracts.

The technical provision for non-life products increased slightly with EUR 39 million to EUR 1.3 billion as at 30 June 2019 due to the growth in non-life activity. In addition, an increase in the claims provisions can be noted due to the storms in the first semester, partially offset by a release of EUR 5 million of claims provisions in line with the decrease of uncertainties above our risk appetite framework.

2.7. Subordinated debts

Subordinated debts remained stable at EUR 1.2 billion as at 30 June 2019, compared to year-end 2018.

3. Equity

Total equity increased by EUR 198.6 million, or 2.0%, to EUR 10.2 billion as at 30 June 2019 compared to EUR 10.0 billion as at 31 December 2018. The increase was mainly due to the profit for the period of EUR 304 million. This was partially offset by payment of the remaining dividend to pay with respect to the full year 2018 dividend of EUR 363 million (of which EUR 100 million was paid as interim dividend in 2018). Furthermore, gains and losses not recognised in the statement of income increased with EUR 151 million following the low interest rate environment, lower credit spreads in general and improved equity markets compared to year-end 2018.

3.1. Shareholders' core equity

Shareholders' core equity increased with EUR 40.2 million, or 0.4%, to EUR 9.1 billion as at 30 June 2019 compared to EUR 9.06 billion as at 31 December 2018. The increase was mainly due to the profit for the period of EUR 304 million. This was partially offset by payment of the remaining dividend to pay with respect to the full year 2018 dividend of EUR 363 million (of which EUR 100 million was paid as interim dividend in 2018). The realised results on disinvestments of equity instruments are accounted for directly in retained earnings. A total of EUR 8 million (after tax) of realised gains on such transactions was reported in 1H 2019 (mainly at Belfius Insurance).

3.2. Gains and losses not recognised in the statement of income

Gains and losses not recognised in the statement of income increased by EUR 151.3 million, or 38.6%, to EUR 542.8 million as at 30 June 2019 compared to EUR 391.5 million as at 31 December 2018. The contribution of the Belfius' Banking Group amounted to EUR 67 million (a decrease of EUR 46 million) and of Belfius Insurance to EUR 476 million (an increase of EUR 197 million). The fair value of debt instruments measured at fair value through other comprehensive income increased with EUR 93 million, or 29.9%, to EUR 312 million as at 30 June 2019 compared to EUR 219 million as at 31 December 2018. This positive movement stems from lower interest rates and lower credit spreads compared to last year, partially offset by realised gains resulting from divestments from Belfius Insurance. The fair value of equity instruments measured at fair value through other comprehensive income increased with EUR 91 million, or 54.8%, to EUR 166 million as at 30 June 2019 compared to EUR 75 million as at 31 December 2018 due to improved stock markets. The remeasurement of defined benefit plans increased with EUR 6 million, or 12.0%, to EUR 48 million as at 30 June 2019 compared to EUR 42 million as at 31 December 2018 mainly due to:

- → the positive return on plan assets and the remeasurement of a pension plan for which Belfius is now informed again of the fair value of the underlying asset portfolio of the segregated fund and
- → change in pension plans parameters. These increases were partially offset by and by a lower discount curve compared to end 2018. The discretionary participation feature of insurance contracts increased to EUR 62 million as at 30 June 2019 compared to EUR 42 as at 31 December 2018. The total amount of future profit sharing amounts to EUR 179 million and remains stable. As at 30 June 2019, an amount of EUR 96 million was recorded through P&L compared to EUR 122 million at year end 2018. The remaining EUR 62 million (after tax) is accounted via equity.

3.3. Additional Tier 1 - instruments included in equity

The Additional Tier 1 - instruments included in equity remained stable at EUR 497 million as at 30 June 2019. There is no variation in the value of the additional Tier 1 issue compared to year-end 2018.

ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

1. Income

Belfius total income decreased with EUR 18.4 million, or 1.6%, to EUR 1,155 million as at 30 June 2019, compared to EUR 1,174 million as at June 2018. Belfius banking group contributed EUR 872.2 million compared to EUR 865.8 million as at June 2018, Belfius Insurance contributed EUR 283.0 million compared to EUR 307.8 million as at June 2018.

Synoptic consolidated statement of income

(In millions of EUR)	1H 2018[1]	*Contribution Bank into group*[2]	*Contribution Insurance into group*[2]	1H 2019	*Contribution Bank into group*[2]	*Contribution Insurance into group*[2]	Evolution
INCOME	1,174	*866*	*308*	1,155	*872*	*283*	-1.6%
Of which							
Net interest income	945	*731*	*215*	945	*738*	*207*	0.0%
Net income from financial instruments at fair value through profit or loss	14	*17*	*(3)*	58	*54*	*4*	310.1%
Net income on investments and liabilities[1]	96	*43*	*53*	54	*(2)*	*56*	-43.6%
Net fee and commission income	277	*265*	*12*	276	*268*	*8*	-0.3%
Technical result from insurance activities	(3)	*0*	*(3)*	(26)	*0*	*(26)*	933.4%
Other income and expenses	(207)	*(199)*	*(8)*	(200)	*(197)*	*(3)*	-3.4%
EXPENSES	(690)	*(577)*	*(113)*	(710)	*(589)*	*(121)*	2.9%
GROSS INCOME	483	*289*	*194*	445	*284*	*162*	-7.9%
Impairments on financial instruments and provisions for credit commitments[1]	(10)	*(14)*	*4*	(30)	*(34)*	*4*	215.4%
Impairments on tangible and intangible assets	(1)	*(1)*	*0*	0	*0*	*0*	-36.5%
NET INCOME BEFORE TAX	473	*274*	*199*	414	*249*	*166*	-12.4%
Tax (expense) income	(138)	*(89)*	*(49)*	(110)	*(70)*	*(40)*	-20.5%
Attributable to non-controlling interests	0	*0*	*0*	0	*0*	*0*	-65.0%
NET INCOME GROUP SHARE	335	*185*	*149*	304	*179*	*126*	-9.0%

(1) For comparability purposes, Belfius presents a proforma for the Statement of Income end June 2018. Where a (bottom-line neutral) shift between "Net income on investments and liabilities" and "Impairments on financial instruments and provisions for credit commitments" was made.
(2) Information based on non-audited figures.

1.1. Net interest income

Net interest income remained stable at EUR 945 million as at 30 June 2019 thanks to higher volumes in commercial assets, and this despite the pressure due to the lower interest rate environment within a highly competitive market as well as lower outstandings in Branch 21 and reinvestments at lower market yields.

1.2. Net income from financial instruments measured at fair value through profit or loss

Net income from financial instruments measured at fair value through profit or loss increased with EUR 43.7 million to EUR 57.8 million in June 2019, compared to EUR 14.1 million in June 2018.

The net result from financial instruments was positively impacted by lower credit spreads more than offsetting some negative impact of the lower interest rates. Note that 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), partially offset by positive net trading income. Belfius is managing basis risks through additional derivatives (economic hedges for basis risks) for which no hedge accounting is set up.

1.3. Net income on investments and liabilities

Net income on investments and liabilities decreased by EUR 42.0 million, or -43.6%, to EUR 54.4 million in June 2019, compared to EUR 96.4 million in June 2018.

In 1H 2018 the net income on investments and liabilities was mainly impacted by the sale of the equity stake of Belfius in "NEB Participations" with realised gain of EUR 23.6 million, and the revaluation of its historical stake in Auxipar following step up acquisition, with revaluation impact of EUR 23 million. In 1H 2018 Belfius Insurance realised gains on divestments in bonds for EUR 44 million, part of these capital gains (EUR 9 million) were realized following the settlement of a segregated fund which was (almost entirely) compensated by an opposite movement in the technical result from insurance activities life. In 1H 2018, the Belfius' Banking Group realized a gain of EUR 10 million following the sale of certain Italian government bond and swap packages, for a notional amount of EUR 0.8 billion, in line with Belfius' objective to decrease its related concentration risk.

In 1H 2019, a lower amount of Belfius group-wide gains has been realized, with Belfius Insurance realizing EUR 54 million of gains on sold bonds in order to manage its duration gap and to somewhat decrease its concentration risk on Belgian government bonds.

1.4. Net fee and commission income

Net fee and commission income remained rather stable, at EUR 276.2 million in June 2019, compared to EUR 277.0 million in June 2018. Slightly declining insurance and asset management fees, were almost entirely offset by an increase in commission income on payment services and private banking services.

1.5. Technical result from insurance activities

Technical result from insurance activities decreased with EUR 23.8 million to a loss of EUR 26.4 million for 30 June 2019, compared to a loss of EUR 2.6 million for 30 June 2018.

The technical result from insurance activities Life decreased with EUR 9 million. The allocation of technical interests decreased with EUR 29 million following the declining outstanding in Life Branch 21 and a decreasing average guaranteed interest rate on the remaining volumes. 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 sufficient. Belfius assessed these life technical provisions, in line with this RAF, taking into account the remaining uncertainties, model risks and sensitivities, resulting in 1H 2018 in a release (and hence positive impact) of EUR 45 million. In 1H 2019, the reassessment resulted in no release.

In Non-Life, the technical margin decreased with EUR 15 million, mainly stemming from an increase in the claim cost natural catastrophes of EUR 11 million. Following the reassessment of the technical provisions non-life in line with the decrease of uncertainties above our risk appetite framework, EUR 5 million release of claims provisions was booked in 1H 2019 compared to EUR 10 million in 1H 2018. Furthermore, as a result of run-off strategy, a decrease in gross written premiums PCI Non-Life could be noted.

1.6. Net other income and expenses

Net other income and expenses improved by EUR 7.0 million, or 3.4%, to a loss of EUR 200.2 million as at 30 June 2019, compared to a loss of EUR 207.2 million as at 30 June 2018. Belfius has recognised an expense of EUR 222 million in 1H 2019 as sector levies (including the contribution to the Single Resolution Board), stable with the expense booked in 1H 2018. 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 2018).

2. Expenses

Expenses increased by EUR 19.8 million, or 2.9%, to EUR 710.0 million as at 30 June 2019, compared to EUR 690.2 million as at 30 June 2018 following an increase in expenses linked to further investments in human capital, digitalization and innovation efforts, and new activities such as Jaimy and Charlin, in line with Belfius' development strategy.

2.1. Staff expense

Staff expense increased by EUR 11.5 million, or 3.9%, to EUR 305.5 million as at 30 June 2019, compared to EUR 293.9 million as at 30 June 2018. This increase was mainly driven by important investments in human capital. Note that in 1H 2018, a restructuring provision of EUR 5 million was recognised following the decision of Belfius Insurance to focus its wholesale non-life insurance business on the segment of social sector through direct distribution and to put the wholesale non-life-activities through the brokerage and bank distribution channels in run-off. These freed-up resources were reallocated to its strong developing non-life insurance business with SME customers through Belfius's own (bank and DVV) distribution channels.

2.2. General and administrative expense

General and administrative expense increased by EUR 2.3 million, or 0.9%, to EUR 246.6 million as at 30 June 2019, compared to EUR 244.3 million as at 30 June 2018. This increase was mainly driven by expenses linked to important investments for digitalization and innovation.

2.3. Network costs

Network costs decreased by EUR 1.9 million, or 1.8%, to EUR 104.1 million as at 30 June 2019, compared to EUR 106.0 million as at 30 June 2018, in line with Belfius's continuously slightly decreasing network footprint.

2.4. Depreciation and amortisation of fixed assets

Depreciation and amortisation of fixed assets increased by EUR 7.9 million, or 17.2%, to EUR 53.9 million as at 30 June 2019, compared to EUR 46.0 million as at 30 June 2018. Following continuous investments in digitalization and innovation also stemming from new activities, more own development costs being capitalised resulting in increased amortisations of intangible assets.

3. Gross income

Gross income decreased by EUR 38.2 million, or -7.9%, to EUR 445.2 million as at 30 June 2019, compared to EUR 483.4 million as at 30 June 2018. Belfius' Banking Group contributed EUR 284 million (compared to EUR 289 million as at 30 June 2018) and Belfius Insurance EUR 162 million (compared to EUR 194 million as at 30 June 2018).

4. Impairments on financial instruments and provision for credit commitments

Impairments on financial instruments and provision for credit commitments increased by EUR 20.8 million, to EUR 30.5 million as at 30 June 2019, compared to EUR 9.7 million as at 30 June 2018. The historically low impairment cost of 1H 2018 was mainly due to a reversal of EUR 19 million related to the sale of certain Italian government bonds, in line with Belfius' objective to decrease its related concentration risk. In 1H 2019, overall impairment cost remains at historically low levels, although some additional impairments were recorded as a result of the growth of the loan portfolio (stage 1) and some transfers to stage 2 and stage 3 for certain exposures.

5. Net income before tax

Net income before tax decreased by EUR 58.8 million, or 12.4%, to EUR 414.3 million as at 30 June 2019, compared to EUR 473.1 million as at 30 June 2018. Belfius' Banking Group contributed EUR 249 million (compared to EUR 274 million in 1H 2018) and Belfius Insurance EUR 166 million (compared to EUR 199 million in 1H 2018).

6. Tax expense

The tax expense including deferred taxes decreased with EUR 28.3 million, or 20.5%, to EUR 109.7 million as at 30 June 2019, compared to EUR 138.0 million as at 30 June 2018.

Given the lower taxable profit in entities of Belfius and the recognition of a tax gain with regards to Innovation Income Deduction, a decrease of the effective tax rate to 26.5% can be noted in 1H 2019, compared to 29.2% in 1H 2018.

7. Net income group share

Total group result amounted to EUR 304.6 million, minority interests remained stable at EUR 0.2 million. As a result, Belfius net income group share amounted to EUR 304.4 million as at 30 June 2019, compared to EUR 334.6 million as at 30 June 2018.

8. Dividend

The Board of Directors of 8 August 2019 has decided to pay out an interim dividend of EUR 100 million to be paid in 3Q 2019.

9. Solvency

9.1. Solvency at Bank level

At the end of June 2019, CET 1 - ratio amounted to 15.5%, a decrease of 47 bps compared to the end of 2018. Note that this CET 1 - ratio takes into account a deduction for prudential foreseeable dividend (relative to 1H 2019) of EUR 182 million.

The decrease in CET 1 - ratio to 15.5% is the result of positive effects in CET 1 capital (+34 bps) offset by negative effects in total risk exposure (-81 bps).

CET 1 capital amounted to EUR 8,508 million, compared with EUR 8,329 million at the end of 2018. The increase in CET 1 capital of EUR 179 million results mainly from the inclusion of the net prudential result and the increase of the "gains and losses not recognized in the statement of income", partially offset by the correction for half-year prudential foreseeable dividend of EUR 182 million.

At the end of June 2019, regulatory risk exposure of Belfius amounted to EUR 54,793 million, an increase with EUR 2,728 million compared to EUR 52,065 million at the end of 2018.

The regulatory credit risk exposure increased by EUR 2,640 million to EUR 41,571 million mainly due to the higher commercial loan production (essentially in business and corporate banking).

The regulatory CVA exposure increased with EUR 344 million to EUR 1,950 million following positive fair value evolutions, hence increasing exposures on derivatives.

The regulatory market risk exposure decreased with EUR 364 million to EUR 1,437 million, mainly due to the closing and hedging of some foreign exchange and interest rate positions resulting in an overall lower Value at Risk.

Regulatory operational risk exposure remained stable over the period at EUR 2,975 million.

The regulatory risk exposure for Belfius Insurance under the Danish Compromise increased with EUR 109 million to EUR 6,860 million, due to the increased fair value of some subordinated loans granted by Belfius Bank to Belfius Insurance.

Tier 1 capital amounted to EUR 9,005 million, compared to EUR 8,826 million at the end of 2018.

The total capital ratio amounted to 19.0%, a decrease of 65 bps compared to end of 2018.

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

9.2. Solvency at Insurer level

The Solvency II – ratio at 30 June 2019 amounted to 185%, after foreseeable dividend. The decrease in the Solvency II – ratio compared to year-end 2018 (203%) is mainly due to:

- → the lower positive effect of the Loss Absorbing Capacity (-8pp) due to the change of corporate tax rate (from 29.58% to 25%);
- → the review of the Life liability assumptions with lower lapse rate in a context of low interest rates (-10 pp).

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

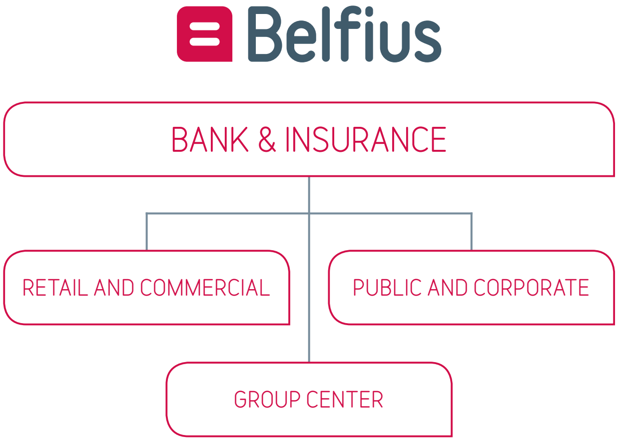
SEGMENT REPORTING

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.

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 93% loan to deposit ratio at the end of June 2019.

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)

Balance Sheet

	31/12/18		
(In billions of EUR)	Assets	Liabilities	Equity
Retail and Commercial (RC)	58.8	80.1	2.6
Public and Corporate (PC)	42.4	25.3	2.4
Group Center (GC)	63.0	48.9	4.9
TOTAL	164.2	154.2	10.0
of which banking group	146.4	137.3	9.0
of which insurance group(1)	17.8	16.9	0.9

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

	30/06/19		
(In billions of EUR)	Assets	Liabilities	Equity
Retail and Commercial (RC)	60.5	83.3	2.7
Public and Corporate (PC)	42.5	24.9	2.6
Group Center (GC)	68.7	53.4	4.8
TOTAL	171.7	161.5	10.2
of which banking group	153.7	144.5	9.2
of which insurance group(1)	17.9	17.0	0.9

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

KEY FIGURES OF THE SEGMENT REPORTING (UNAUDITED)

Statement of income

(In millions of EUR)	1H 2018 Retail and Commercial	1H 2018 Public and Corporate	1H 2018 Group Center	1H 2018 Total
INCOME	859	293	22	1,174
EXPENSES	(509)	(113)	(68)	(690)
GROSS INCOME	350	180	(46)	483
Cost of risk	(16)	(13)	19	(10)
Impairments on (in)tangible assets	(1)	0	0	(1)
NET INCOME BEFORE TAX	333	167	(27)	473
Tax (expense) income	(92)	(40)	(6)	(138)
NET INCOME AFTER TAX	242	127	(33)	335
Non-controlling interests	0	0	0	0
NET INCOME GROUP SHARE	241	127	(34)	335
of which banking group	118	108	(41)	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.

(In millions of EUR)	1H 2019 Retail and Commercial	1H 2019 Public and Corporate	1H 2019 Group Center	1H 2019 Total
INCOME	864	292	(1)	1,155
EXPENSES	(525)	(116)	(69)	(710)
GROSS INCOME	339	176	(70)	445
Cost of risk	(19)	(15)	3	(30)
Impairments on (in)tangible assets	(1)	0	0	0
NET INCOME BEFORE TAX	319	162	(66)	414
Tax (expense) income	(83)	(45)	18	(110)
NET INCOME AFTER TAX	236	117	(48)	305
Non-controlling interests	0	0	0	0
NET INCOME GROUP SHARE	236	117	(49)	304
of which banking group	134	102	(58)	179
of which insurance group(1)	102	15	9	126

(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)

1. Commercial performance RC in 1H 2019

The commercial activity continues to show excellent dynamics. Belfius enjoys a strong growth in **total savings and investments** of RC customers of EUR 5.9 billion in 1H 2019, amounting to EUR 110.9 billion thanks to strong organic growth in non-maturing products.

On-balance sheet deposits totaled EUR 70.6 billion on 30 June 2019, up +5.9% from the end of 2018. There was very good growth in the funds deposited in current and savings accounts, which reached EUR 14.7 billion (+11.5%) and EUR 46.4 billion (+5.7%) respectively at the end of June 2019. Less customer funds found their way to long-term fixed rate investments, resulting in a drop of 11.1% for savings certificates to an amount of EUR 1.5 billion. The volatile stock markets and the further evolved MIFID regulation lead to a change in product mix on new production with more non-maturing deposit products versus fewer asset management products.

Off-balance sheet investments increased by 6.8% in 1H 2019, compared to the end of 2018, to EUR 29.5 billion, mainly thanks to favourable market conditions.

Life insurance reserves for investment products amounted to EUR 10.8 billion, up 0.6% compared to the end of 2018. Investments in Branch 21 life insurance guaranteed products decreased because of the low interest rates, but that drop was offset by a strong increase in Branch 23 unit-linked products and Branch 44 products.

Total loans to RC customers rose strongly to EUR 50.4 billion at the end of June 2019. The increase occurred mainly in consumer loans (+7.3%) and business loans (+4.3%). Mortgage loans, which account for two thirds of all loans in this segment, amounted to EUR 33.4 billion at the end of June 2019 and remained at a high level with an increase of 3 % compared to the end of 2018.

Retail and Commercial (Unaudited) (in billions of EUR)	30/06/18	31/12/18	30/06/19	Evolution 30/06/19 - 31/12/18
TOTAL SAVINGS AND INVESTMENTS	106.5	105.0	110.9	+5.6%
DEPOSITS	65.5	66.7	70.6	+5.9%
Savings accounts	42.6	43.9	46.4	+5.7%
Savings certificates	2.2	1.7	1.5	-11.1%
Bonds issued by Belfius	7.3	7.5	7.6	+1.8%
Current accounts	13.0	13.2	14.7	+11.5%
Term accounts	0.4	0.4	0.3	-3.1%
OFF-BALANCE SHEET INVESTMENTS	30.1	27.6	29.5	+6.8%
LIFE INSURANCE RESERVES(1)	10.8	10.7	10.8	+0.6%
Capital guaranteed products (Branch 21)	6.9	6.8	6.1	-10.5%
Unit-linked products (Branch 23)	1.8	1.9	2.4	+28.9%
Combination of capital guaranteed and unit-linked products (Branch 44)	2.1	2.1	2.3	+10.9%
o.w. capital guaranteed products	1.2	1.3	1.4	+7.7%
o.w. unit-linked products	0.9	0.8	1.0	+15.7%

(1) Investment products.

Retail and Commercial (Unaudited) (in billions of EUR)	30/06/18	31/12/18	30/06/19	Evolution 30/06/19 - 31/12/18
TOTAL LOANS TO CUSTOMERS	46.5	48.7	50.4	+3.5%
Mortgage loans	31.2	32.4	33.4	+3.0%
Consumer loans	1.6	1.7	1.8	+7.3%
Business loans	13.1	14.0	14.6	+4.3%
Other retail loans	0.6	0.6	0.6	-1.1%

Retail and Commercial (Unaudited) (in billions of EUR)	30/06/18	31/12/18	30/06/19	Evolution 30/06/19 - 31/12/18
TOTAL LIFE INSURANCE RESERVES(1)	12.9	12.8	12.8	0.0%
Guaranteed products (Branch 21/26)	10.1	10.0	9.4	-5.9%
Unit-Linked (Branch 23)	2.8	2.8	3.4	+20.9%

(1) Investment products and insurance products

New long term loans granted to retail and commercial clients during 1H 2019 amounted to EUR 5.8 billion compared to EUR 5.2 billion in 1H 2018. In 1H 2019, the new production of mortgage loans slightly increased from EUR 2.7 billion in 1H 2018 to EUR 3.1 billion. During the same period, EUR 2.2 billion in new long-term business loans were granted, up 12.3% compared to 1H 2018. Belfius assisted 7,011 new start-ups in 1H 2019.

Total insurance gross written premiums from customers in the Retail and Commercial segment amounted to EUR 769 million in 1H 2019, compared to EUR 773 million in 1H 2018, a slight decrease of 0.5%.

Life insurance production[1] stood at slightly more than 1.0 billion in 1H 2019[2], up 53.7% compared to 1H 2018[3] boosted by large transfers from guaranteed products (Branch 21) to unit-linked products (Branch 23) .

Non-Life insurance gross written premiums in 1H 2019 stood at EUR 315.8 million, up 6.8% compared to 1H 2018, thanks to the bank distribution channel and good performance in all other strategic distribution channels (e.g. Corona Direct Insurance, DVV).

Indeed, thanks to the "one-stop-shopping" concept of Belfius, the mortgage loan cross-sell ratio for property insurance stood at 84.8% in 1H 2019 compared to 84.7% in 1H 2018. With a ratio of 138.1% in 1H 2019 - compared to 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 13.9 billion. Life insurance reserves remained stable since the end of 2018 at EUR 12.8 billion in a context of historically low interest rates. Unit-linked reserves (Branch 23) increased by 20.9%, while traditional guaranteed life reserves (Life Branch 21/26) decreased by 5.9%, demonstrating the ongoing life product mix transformation from guaranteed products to unit-linked products. Non-life reserves remained stable at EUR 1.1 billion.

Belfius continues to set the pace in **mobile banking** in Belgium and further developed its **digitally supported business model**. On 30 June 2019, Belfius apps for smartphones and tablets had 1,334,000 users (+6.8% compared to end of 2018) and were consulted by these customers on average (slightly more than) once a day. The very high satisfaction figures show that continuous innovation, and our focus on user-friendliness and usefulness for the customer pays off.

Belfius continues to extend the functionalities of its direct channels. In 1H 2019, 63% of the new pension saving contracts, 40% of the new credit cards and 30% of the new savings accounts were subscribed via direct channels.

2. Financial results RC in 1H 2019

RC net income after tax decreased slightly from EUR 242 million in 1H 2018 to EUR 236 million in 1H 2019.

In 1H 2019, **total income** amounted to EUR 864 million, up 0.6 % compared to 1H 2018, demonstrating the resilience of Belfius RC's business model in the context of the adverse interest rate environment.

- → Net interest income of RC at the bank amounted to EUR 423 million, a slight decrease of 0.2%, 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 increased by 2.2% and amounted to EUR 244 million in 1H 2019.
- → Life insurance contribution amounted to EUR 147 million, down 3.9% compared to 1H 2018. This decrease results mainly from the decrease in Branch 21 outstanding reserves and the high positive impact of the reassessment of life technical provisions performed in 1H 2018, in line with Belfius Insurance's risk tolerance policy.
- → Non-Life insurance contribution decreased by 11.4% and amounted to EUR 89 million in 1H 2019. This negative evolution is mainly due to the high impact of claim charges of natural catastrophes in 1H 2019 (much higher than in 1H 2018).
- → The consolidated other income amounted to EUR -39 million compared to EUR -57 million in 1H 2018, mainly thanks to good results in the retail bonds activity.

In 1H 2019 **total expenses** amounted to EUR 525 million, an increase of EUR 16 million or 3% compared to 1H 2018, in line with Belfius' strategic development, digital and human investment programs.

As a result, **gross income** decreased to EUR 339 million in 1H 2019, down EUR 11 million or -3.1% compared to 1H 2018.

The **cost of risk** still remains at historically low levels, demonstrating a good credit quality in current benign environment, and amounted to EUR 19 million in 1H 2019.

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

Pre-tax income stood at EUR 319 million, down EUR 14 million or -4.3% compared to 1H 2018.

(1) Gross Written Premiums and transfers.
(2) Of which EUR 453.4 million Gross Written Premiums and EUR 551.9 million transfers.
(3) Of which EUR 477.8 million Gross Written Premiums and EUR 176.1 million transfers.

Retail and Commercial (In millions of EUR)	1H 2018	1H 2019
INCOME	859	864
Net interest income bank	424	423
Net fee and commissions bank	239	244
Life insurance contribution	153	147
Non-life insurance contribution	101	89
Other	(57)	(39)
COSTS	(509)	(525)
GROSS INCOME	350	339
Cost of risk	(16)	(19)
Impairments on (in)tangible assets	(1)	(1)
NET INCOME BEFORE TAX	333	319
Tax (expense) income	(92)	(83)
NET INCOME AFTER TAX	242	236
Non controlling interests	0	0
NET INCOME GROUP SHARE	241	236
ADJUSTED NET INCOME(1)	233	236

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

Ratios (in %)	1H 2018	1H 2019
Cost-income ratio(1)	59.3%	60.8%
RoNRE(2)	20.6%	17.9%

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

Normative regulatory equity & risk exposures (In millions of EUR)	30/06/18	31/12/18	30/06/19
Normative regulatory equity(1)	2,476	2,605	2,687
Regulatory risk exposures	18,568	19,519	20,120

(1) The Normative regulatory equity of the business line is calibrated. The business line's CET 1 - ratio is brought at 13.5% taking into account the regulatory risk exposures allocated to the business line and some CET 1 capital deductions allocated to the business line (to a very limited extent, since the most important part of CET 1 capital deductions are allocated to GC).

Tax expenses amounted to EUR 83 million in 1H 2019 compared to EUR 92 million in 1H 2018. This decrease is mainly due to lower profit before taxes.

Despite the pressure on net interest income and on non-life insurance income, Belfius' RC **net income group share** decreases by only 2.3% and amounts to EUR 236 million in 1H 2019.

In absence of any special item in 1H 2019, the **RC adjusted net income**(1) amounts also to EUR 236 million in 1H 2019, up 1.2% compared to 1H 2018.

RC cost-income ratio amounted to 60.8%, compared to 59.3% in 1H 2018. The Return on Normative Regulatory Equity (RoNRE) stood at 17.9%.

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

PUBLIC AND CORPORATE (PC)

1. Commercial performance PC in 1H 2019

On 30 June 2019, **total savings and investments** of PC customers stood at EUR 34.1 billion, an increase of 4.2% compared with the end of 2018. **On-balance sheet deposits** decreased by EUR 0.4 billion (-1.7%), to EUR 22.4 billion. The **off-balance sheet investments** of PC customers registered an increase of 19% to reach EUR 11.2 billion, following excellent activity in the corporate commercial paper business line. **Life insurance reserves for investment products** amounted to EUR 0.6 billion.

Total loans to PC customers increased by EUR 1.4 billion (+3.5%) to EUR 41.1 billion. Outstanding loans in Public and Social banking slightly decreased mainly due to continued low demand and the structural shift to more alternative financing sources through (Debt) capital markets. Belfius' commercial strategy towards Belgian corporates results in an increase of 12.3% (compared to December 2018) of outstanding loans to EUR 14.6 billion at the end of June 2019. Off-balance sheet commitments decreased with 2.3% to EUR 20.0 billion.

Belfius granted EUR 3.7 billion (+21%) of new long-term loans to Corporate customers and the Public sector in 1H 2019. Long-term loan production for Corporate customers increased by 13% to EUR 2.6 billion. This increase is a.o. the result of our growth ambition in this corporate segment and Belfius' pertinent and clear positioning as a "Business to Government" market specialist.

Despite continued low loan demand in 1H 2019, Belfius granted EUR 1.1 billion in new long-term funding to the Public sector. The bank is and remains uncontested market leader, and replies to every funding tender from Public sector entities. 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 2019, the bank has placed a total funding amount of EUR 3.9 billion short term and EUR 0.6 billion long term notes (allocated amount) for public and social sector clients and kept its level of participation rate at 86%. With a participation rate of 80% in new long term bond issuance, Belfius also confirmed during 1H 2019 its position as leader in bond issues for Belgian corporate clients.

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 2019. These mandates were executed in close cooperation with Kepler Cheuvreux, Europe's leading independent equity broker, with whom Belfius entered into a strategic partnership end 2017 to create a new equity franchise with strong local presence in Belgium.

With regard to **insurance activities**, total gross written premiums in the Public and Corporate segment amounted to EUR 218 million in 1H 2019. Gross written premiums in the life segment amounted to EUR 150 million in 1H 2019, an increase of 6.3% compared to 1H 2018, a good performance despite the historically low interest rate environment. Gross written premiums in the non-life segment amounted to EUR 68 million in 1H 2019, a decrease of almost EUR 17 million or -20% compared to 1H 2018. Please be reminded that in 2Q 2018, Belfius Insurance decided to focus its non-life insurance business on the segment of social sector through direct distribution and to put the non-lifeactivities towards other institutional and corporate customers through the brokerage and bank

Public and Corporate (Unaudited) (in billions of EUR)	30/06/18	31/12/18	30/06/19	Evolution 30/06/19 - 31/12/18
TOTAL SAVINGS AND INVESTMENTS	32.9	32.8	34.1	+4.2%
Deposits	22.6	22.8	22.4	-1.7%
Off-balance sheet investments	9.7	9.4	11.2	+19.0%
Life insurance reserves(1)	0.6	0.6	0.6	-3.1%

(1) Investment products

Public and Corporate (Unaudited) (in billions of EUR)	30/06/18	31/12/18	30/06/19	Evolution 30/06/19 - 31/12/18
OUTSTANDING LOANS	39.0	39.7	41.1	+3.5%
Public and Social	27.3	26.7	26.4	-0.8%
Corporate	11.8	13.0	14.6	+12.3%
OFF-BALANCE SHEET COMMITMENTS	21.2	20.5	20.0	-2.3%

Public and Corporate (Unaudited) (In millions of EUR)	1H 2018	1H 2019	Evolution
TOTAL GROSS WRITTEN PREMIUMS	225	218	-3.2%
Life	141	150	+6.3%
Non-life	85	68	-20.0%

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.

2. Financial results PC in 1H 2019

PC net income after tax decreased from EUR 127 million in 1H 2018 to EUR 117 million in 1H 2019, conceding 7.7% vs 1H 2018, despite very good commercial results of the Bank activity thanks to continued solid commercial dynamics, especially the higher volumes in corporate loans and a good contribution from Financial Management Services (DCM & ECM), in times of high pressure on the interest margin, specifically on non-maturing deposits.

Slightly lower gross income mainly due to the lower insurance contribution as a result of the run-off strategy of Insurance activity within PC (EUR -4 million vs 1H 2018), higher costs (EUR +3 million), cost of risk (EUR +2 million) and taxes (EUR +5 million).

In 1H 2019, **total income** remained nearly stable compared to 1H 2018 and amounts to EUR 292 million.

Net interest income of PC at the bank amounted to EUR 218 million, up 9.0% compared to 1H 2018, 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 slightly decreased in 1H 2019 and amounted to EUR 25 million.

Income from Life insurance contribution amounted to EUR 32 million, down EUR 6 million compared to 1H 2018, a.o. due to the above mentioned reassessment of life technical provision in 1H 2018. Lower income Non-Life due to deterioration of loss ratio in the PC Non-Life activities in run-off.

Financial Results PC (In millions of EUR)	1H 2018	1H 2019
INCOME	293	292
Net interest income bank	200	218
Net fee and commissions bank	26	25
Life insurance contribution	38	32
Non-life insurance contribution	6	1
Other	24	16
COSTS	(113)	(116)
GROSS INCOME	180	176
Cost of risk	(13)	(15)
Impairments on (in)tangible assets	0	0
NET INCOME BEFORE TAX	167	162
Taxes (expense) income	(40)	(45)
NET INCOME AFTER TAX	127	117
Non controlling interests	0	0
NET INCOME GROUP SHARE	127	117
ADJUSTED NET INCOME(1)	103	117

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

Ratios (in %)	1H 2018	1H 2019
Cost-income ratio(1)	38.5%	39.6%
RoNRE(2)	11.3%	9.5%

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

Normative regulatory equity & risk exposures (In millions of EUR)	30/06/18	31/12/18	30/06/19
Normative regulatory equity(1)	2,368	2,408	2,639
Regulatory risk exposures	17,763	18,056	19,762

(1) The Normative regulatory equity of the business line is calibrated. The business line's CET 1 - ratio is brought at 13.5% taking into account the regulatory risk exposures allocated to the business line and some CET 1 capital deductions allocated to the business line (to a very limited extent, since the most important part of CET 1 capital deductions are allocated to GC).

The consolidated other income amounted to EUR 16 million vs EUR 24 million in 1H 2018. This decrease is mainly stemming from the capital gain realized on the sale of "NEB Participation" in 1H 2018 (EUR 24 million) and from lower dividends in 1H 2019 compared to 1H 2018 (EUR -3 million), partially compensated by better results on financial market activities.

In 1H 2019, **total expenses** increased slightly, in line with Belfius' Group strategic development, digital and human investment programs and amounted to EUR 116 million, up 2.5% compared to 1H 2018. The cost-income ratio equals to 39.6%.

As a result, the **gross income** decreased with EUR 4 million compared to 1H 2018, to EUR 176 million in 1H 2019.

The **cost of risk** amounted to EUR 15 million in 1H 2019. An increase of EUR 2 million compared to 1H 2018 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 162 million, down EUR 5 million or -3.0% compared to 1H 2018.

Tax expenses increased to EUR 45 million in 1H 2019 compared to EUR 40 million in 1H 2018.

As a result, Belfius' **PC net income group share** amounted to EUR 117 million in 1H 2019, compared to EUR 127 million in the same period of last year.

In absence of any special items in 1H 2019, the **PC total adjusted net income**(1) also amounts to EUR 117 million in 1H 2019, up 13.4% compared to 1H 2018.

The Return on Normative Regulatory Equity (RoNRE) stood at 9.5%.

GROUP CENTER (GC)

Group Center operates through two sub-segments.

→ Run-off portfolios which are mainly comprised of
  - a portfolio of bonds issued by international issuers, especially active in the public and regulated utilities sector (which includes 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.

1. ALM Yield bond portfolio

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

At the end of June 2019, the ALM Yield bond portfolio stood at EUR 3.5 billion(2), down 2% compared to December 2018, mainly due to amortizations. End of June 2019, the portfolio was composed of corporates (71%), sovereign and public sector (13%), asset-backed securities (9%), 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.

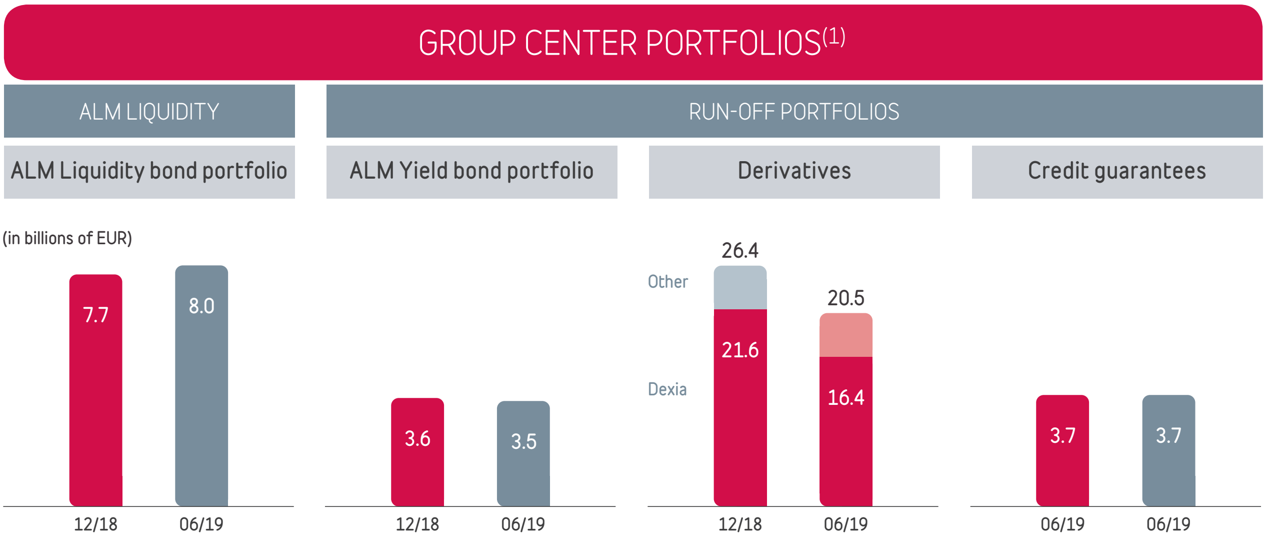
At the end of June 2019, the ALM Yield bond portfolio has an average life of 20.0 years and the average rating remained at A. 95% of the portfolio is investment grade (IG).

2. 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 20.5 billion(2) at the end of June 2019 (compared to EUR 26.4 billion at the end of December 2018), of which EUR 16.4 billion with Dexia entities (compared to EUR 21.6 billion at the end of December 2018). The fair value of those Dexia derivatives amounts to EUR 3.3 billion.

At the end of June 2019, the average rating of the portfolio stood at BBB+ and the average residual life of the portfolio stood at 13.0 years(3). The decrease in average rating (from A- as of year-end 2018) relates to a derisking action (novation of uncollateralized derivatives from a AAA-rated counterparty).

(1) Adjusted Results and Special items are Alternative Performance Measures and are defined and reconciled in the APM – document on the website : *www.belfius.com/results*.
(2) Nominal amount.
(3) Calculated on EaD.



(1) Nominal amount.

3. Credit guarantees

At the end of June 2019, the credit guarantees portfolio amounted to EUR 3.7 billion[1], down 2% compared to December 2018, mainly due to amortizations. It relates essentially to Financial Guarantees and Credit Default Swaps issued on corporate/public issuer bonds (86%) and ABS (14%). 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 2019, the average rating of the portfolio remained at A- and the average residual life of the portfolio stood at 9.9 years.

4. 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 2019, the ALM Liquidity bond portfolio stood at EUR 8.0 billion[1], up EUR 0.3 billion or 4% compared to December 2018, mainly due to a reinvestment program in LCR eligible bonds. End of June 2019 the portfolio was composed of sovereign and public sector bonds (62%), covered bonds (31%), asset-backed securities (4%) and corporates bonds (3%). The Belgian and the Italian government bonds in the ALM Liquidity bond portfolio amounted respectively to EUR 1.5 billion and to EUR 1.5 billion as of 30 June 2019.

At the end of June 2019, the ALM Liquidity bond portfolio has an average life of 8.2 years, and an average rating of BBB+ (100% of the portfolio being investment grade (IG)).

5. 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.

6. Financial results GC in 1H 2019

GC net income after tax stood at EUR -48 million in 1H 2019, compared to EUR -33 million in 1H 2018.

In 1H 2019, **total income** amounted to EUR -1 million, that is EUR 22 million less than in 1H 2018. This strong decrease results from :

- a lower margin (decrease with EUR 10 million) in a lower interest rates environment ;
- the realised gains on the sale of Italian government bonds in 1H 2018 (EUR 10 million), in line with Belfius' objective to manage down part of its concentration risk on Italian government exposure, and the analytical reallocation of the revaluation gain (EUR 15 million) of the previously held interest of Belfius Bank in Auxipar.

These items are partially offset by the positive impacts of market parameters evolutions on fair valuations in 1H 2019, i.a. the tightening of credit spreads.

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 2019 as well as in 1H 2018).

In 1H 2019, **total expenses** slightly increased from EUR 68 million in 1H 2018 to EUR 69 million, mainly as a result of Belfius' strategic development, digital and human investment programs. In 1H 2018, EUR 5 million restructuring costs were booked as special item at Belfius Insurance, for implementing its decision to run off its PC Non-life business through the broker channel.

The **gross income** decreased from EUR -46 million in 1H 2018 to EUR -70 million in 1H 2019.

The **cost of risk** stood at EUR +3 million, compared to EUR +19 million in 1H 2018 , which was positively impacted by the reversal of impairment (EUR 19 million) related to the Italian government bonds sold in 1H 2018.

Pre-tax income stood at EUR -66 million in 1H 2019 compared to EUR -27 million in 1H 2018.

Taxes amounted to EUR +18 million in 1H 2019 compared to EUR -6 million in 1H 2018. This evolution is mainly stemming from some negative impacts in 1H 2018 : next to having more taxable profit in Belgium, unfavourable financial markets had lead to some negative trading and hedge results in our ex-legacy book managed in Ireland, not translating into any deferred tax asset.

As a result, Belfius' **GC net income group share** amounted to EUR -49 million in 1H 2019, compared to EUR -34 million in 1H 2018.

Excluding the previously mentioned special items, the **GC adjusted net income**(1) amounts to EUR 30 million, up 139% compared to 1H 2018.

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

Financial Results GC
(In millions of EUR)

	1H 2018	1H 2019
INCOME	22	(1)
Net interest income bank	107	97
Net fee and commissions bank	1	(1)
Life insurance contribution	(9)	(8)
Non-life insurance contribution	0	0
Other	(77)	(88)
COSTS	(68)	(69)
GROSS OPERATING INCOME	(46)	(70)
Cost of risk	19	3
Impairments on (in)tangible assets	0	0
NET INCOME BEFORE TAX	(27)	(66)
Tax (expense) income	(6)	18
NET INCOME AFTER TAX	(33)	(48)
Non controlling interests	0	0
NET INCOME GROUP SHARE	(34)	(49)
ADJUSTED NET INCOME(1)	12	30

(1) Adjusted results are Alternative Performance Measures and are defined and reconciled in the APM-document on the website: *www.belfius.com/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);
- 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 had to comply for 2018 with a minimum CET 1 - ratio Phased In of 10.125% (without countercyclical capital buffer) and 10.195% including the countercyclical capital buffer.

The SREP review for 2019, finalized by the ECB in the beginning of 2019, resulted in a minimum CET 1 - ratio of 10.75% (without countercyclical capital buffer) and 10.82% including the countercyclical capital buffer.

The consolidated CET 1 - ratio of Belfius stood at 15.5% at the end of June 2019, well above the abovementioned 2019 applicable CET 1 - ratio requirement.

Also note that the ECB has notified Belfius of a Pillar 2 Guidance (P2G) of 1% CET 1 - ratio for 2019 (unchanged compared to 2018), a recommended buffer to be held over the minimum CET 1 requirements above.

Further to these regulatory requirements, in current market circumstances and under current regulations, Belfius has defined a minimum operational CET 1 - ratio of 13.5%, on solo and consolidated levels. This ratio is intended to safeguard Belfius' dividend distribution assessment and decision autonomy even under some stressed financial environments. In addition, Belfius will for the time being manage with a target CET 1 - ratio range of 15% to 15.5%, 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. These measures ended on 31 December 2017. Note that Belfius Bank has no Tier 2 instruments subject to the transitional measures applicable till 31 December 2021. Hence the calculations of the regulatory own funds are "fully loaded".

The regulator has authorised Belfius to apply article 49 of the CRR 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 2019, Belfius also complies with all requirements requested from a financial conglomerate point of view.

Minimum CET 1 Requirement

(In %)	2018	2019
Pillar I minimum	4.5%	4.5%
Pillar II requirement	2.25%	2.25%
Capital conservation buffer	1.875%	2.5%
Buffer for (other) domestic systemically important institutions	1.5%	1.5%
MINIMUM CET 1 - RATIO REQUIREMENT	**10.125%**	**10.75%**
Countercyclical buffer	0.07%	0.07%
MINIMUM CET 1 - RATIO REQUIREMENT (incl. CCyB)	**10.195%**	**10.82%**

2. Regulatory own funds on consolidated level

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

(In millions of EUR)	31/12/18	30/06/19	Evolution
ACCOUNTING CORE SHAREHOLDERS' EQUITY	9,055	9,095	40
Transformation of the insurance group in a third party exposure	(178)	(130)	48
Elimination DIA adjustments Belfius insurance group	0	0	0
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,877	8,965	88

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.

At the end of June 2019, the starting point for the regulatory core own funds amounted to EUR 8,965 million, an increase of EUR 88 million stemming from the net prudential result of 1H 2019 of EUR 362 million offset by the movements in reserves and retained earnings for the remaining dividend of EUR 263 million over the year 2018 paid in April 2019 (the dividend of EUR 363 million over the year 2018 net of EUR 100 million of 2018 interim dividend already paid in 3Q 2018) and the decrease of EUR 6 million (after tax) due (in April 2019) as payment of the dividend on the Additional Tier 1 - instrument.

Note that the net prudential result (EUR 362 million) differs from the consolidated net result (EUR 304 million) due to the regulatory consolidation scope, as described in the applied methodology . The scope change adjustments can be detailed as follows:

Regulatory net income

(In millions of EUR)	31/12/18	30/06/19
CONSOLIDATED NET INCOME	649	304
Elimination of Belfius Insurance	(204)	(126)
Scope changes:		
dividend (Belfius Insurance)	120	160
other	(24)	23
REGULATORY NET INCOME	541	362

CET 1 capital amounted to EUR 8,508 million, compared to EUR 8,329 million at the end of 2018. The increase in CET 1 capital of EUR 179 million results mainly from the inclusion of the net prudential result and the increase of the "gains and losses not recognized in the statement of income", partially offset by the correction for regulatory foreseeable dividend of EUR 182 million.

The deduction of regulatory foreseeable dividend of EUR 182 million in June 2019 is a regulatory adjustment of the prudential net profit of 1H 2019 based on a target dividend pay-out ratio range of 40% to 50% for 2019, as decided by the Board of Directors of 8 August 2019 (where for regulatory purposes a pay-out ratio of 50% is applied to the prudential net income) and the already accrued AT1 coupon cost (EUR 3 million). At the end of 2018, a deduction of a remaining dividend of EUR 266 million (including EUR 3 million of the accrued AT1 coupon cost) over the full year profit of 2018 was made (EUR 100 million was paid as interim dividend in 3Q 2018).

In addition, an increase of the "gains and losses not recognised in the statement of income" of EUR 13 million can be noted mainly following the remeasurement of Defined Benefit Plans due to:

- the positive return on plan assets and the remeasurement of a pension plan for which Belfius is now informed again of the fair value of the underlying asset portfolio of the segregated fund and
- change in pension plans parameters, partially offset by a lower discount curve compared to end 2018.

The deductions and prudential filters remain rather stable.

Tier 1 capital amounted to EUR 9,005 million, compared to EUR 8,826 million at the end of 2018.

Tier 2 capital decreased from EUR 1,404 million to EUR 1,402 million. The evolution is mainly related to the decrease in the prudential value of the Tier 2 debt instruments (EUR 10 million), and the increase of the excess of provisions over expected losses (EUR 11 million).

At the end of June 2019, the total regulatory own funds amounted to EUR 10,408 million, compared to EUR 10,230 million at the end of 2018.

Regulatory own funds

(In millions of EUR)	31/12/18	30/06/19
COMMON EQUITY TIER 1 CAPITAL (CET 1 CAPITAL)	8,329	8,508
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,877	8,965
DEDUCTION OF FORESEEABLE DIVIDEND	(266)	(182)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	99	112
Remeasurement defined benefit plans	39	54
OCI reserves - portfolios measured at FVTOCI	60	58
Other reserves	14	(45)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	(14)	45
DEDUCTIONS AND PRUDENTIAL FILTERS	(380)	(386)
Deferred tax assets on losses carried forward	(1)	(1)
Investments in securitisation positions	(21)	(20)
Changes in the value of own credit standing	(5)	(5)
Value adjustments due to the requirements for regulatory prudent valuation	(92)	(93)
Intangible fixed assets	(139)	(144)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses for IRB portfolios	(2)	(2)
Defined Benefit Pension Plan assets	0	0
Payment Commitments IPC	(17)	(17)
TIER 1 CAPITAL	8,826	9,005
Additional Tier 1 capital instruments	497	497
TIER 2 CAPITAL	1,404	1,402
Tier 2 capital instruments	1,120	1,110
Excess of provisions over expected losses for IRB portfolios	172	183
General credit risk adjustments SA (standard approach)	112	110
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT)	10,230	10,408

3. Regulatory risk exposure on consolidated level

The regulatory risk exposure includes risk-weighted exposures for credit risk, CVA 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 is also impacted by 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 2019, regulatory risk exposure of Belfius amounted to EUR 54,793 million, an increase with EUR 2,728 million compared to EUR 52,065 million at the end of 2018.

The regulatory credit risk exposure increased by EUR 2,640 million to EUR 41,571 million. This evolution is mainly driven by the higher commercial loan production (essentially in business and corporate banking) and by market evolutions (lower interest rates especially) leading to higher exposure values.

The regulatory CVA exposure increased with EUR 344 million following positive fair value evolutions, hence increasing exposures on derivatives.

The regulatory market risk exposure decreased with EUR 364 million to EUR 1,437 million which is mainly due to the closing and hedging of some foreign exchange and interest rate positions resulting in an overall lower Value at Risk.

The regulatory operational risk exposure – based on the standardized approach – remained stable at EUR 2,975 million.

The regulatory risk exposure for Belfius Insurance under the Danish Compromise, increased by EUR 109 million to EUR 6,860 million due to the increased fair value of some subordinated loans granted by Belfius Bank to Belfius Insurance.

Regulatory Risk Exposure

(In millions of EUR)	31/12/18	30/06/19	Evolution
Regulatory credit risk exposure	38,931	41,571	2,640
Regulatory CVA exposure	1,606	1,950	344
Regulatory market risk exposure	1,801	1,437	-364
Regulatory operational risk exposure	2,975	2,975	0
Danish Compromise	6,751	6,860	109
REGULATORY RISK EXPOSURE	52,065	54,793	2,728

4. Solvency ratios for Belfius Bank on consolidated level

At the end of June 2019, CET 1 - ratio amounted to 15.5%, a decrease of 47 bps compared to the end of 2018. Note that this CET 1 - ratio takes into account a deduction for regulatory foreseeable dividend of EUR 182 million.

The decrease in CET 1 - ratio to 15.5% is the result of positive effects in CET 1 capital (+34 bps) offset by negative effects in total risk exposure (-81 bps). We refer to the comments above for further information.

At the end of June 2019, Tier 1 capital ratio amounted to 16.4%, a decrease of 52 bps compared to the end of 2018.

The total capital ratio amounted to 19.0%, a decrease of 65 bps compared to end of 2018.

Applying the deduction method for capital instruments of Belfius Insurance (equity deducted from CET 1 capital, restricted Tier 1 - instruments deducted from Tier 1 capital and subordinated debt instruments deducted from Tier 2 capital) compared to the "Danish Compromise" has the following impacts: using the deduction method would result in an increase of 51 bps on the CET 1 - ratio and a decrease of 25 bps on the Total Capital ratio.

5. Solvency ratios for Belfius Bank on statutory level

At the end of June 2019, CET 1 - ratio on Belfius Bank statutory level (before inclusion of the statutory net result of EUR 356 million) amounts to 15.4%.

At the end of June 2019, the available distributable items on statutory level amounted to EUR 3,598 million, unchanged compared to end of 2018.

6. Leverage ratio 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).

The leverage requirement became a binding requirement with CRR 2, published in the EU Official Journal on 7 June 2019 and is applicable from June 2021. The CRR 2 integrates the leverage ratio in the Pillar I requirement and sets the level of minimum requirement at 3%, a surcharge for banks considered as G-SIB or O-SIB has also been introduced, the EBA has fixed this surcharge for G-SIB and has a mandate to analyse whether some O-SIB should get this buffer requirement.

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 regulatory consolidation perimeter, i.e. for Belfius without consolidation of the Belfius insurance group.

At the end of June 2019, the Belfius' leverage ratio – based on the current CRR/CRD IV legislation - stood at 5.8%, a decrease of 11 bps compared to the end of 2018. This decrease is due to the higher level of the total leverage exposure measure, partially offset by the higher regulatory Tier 1 capital (see table below).

Solvency ratios

(in %)	31/12/18	30/06/19	30/06/19
CRR/CRD IV	Danish Compromise	Danish Compromise	Deduction method
Common Equity Tier 1 ratio (CET 1 - ratio)	16.0%	15.5%	16.0%
Tier 1 - capital ratio (T1 - ratio)	17.0%	16.4%	16.7%
TOTAL CAPITAL RATIO	19.6%	19.0%	18.8%

Leverage ratio

(In millions of EUR)	31/12/18	30/06/19
TIER 1 CAPITAL	8,826	9,005
Total assets	164,165	171,692
Deconsolidation of Belfius Insurance	(17,400)	(17,671)
Adjustment for derivatives	(17,649)	(19,564)
Adjustment for securities financing transactions exposures	3,683	4,318
Adjustment for prudential corrections in calculation of Tier 1 capital	(266)	(271)
Off-balance sheet exposures	15,782	15,662
LEVERAGE RATIO EXPOSURE	148,315	154,166
LEVERAGE RATIO (in %)	6.0%	5.8%

7. Impact of upcoming regulatory reforms

In the coming years, different regulatory reforms could impact the financial position of the banks.

7.1. EU Banking reform

The final versions of CRR 2, CRD 5, BRRD 2 and SRMR 2 (together the Banking reform package) were published in the EU's Official Journal on 7 June 2019.

CRR 2 entered into force on June 29 while CRD 5 and BRRD 2 must be transposed by Members States before 28 December 2020.

The table above gives an overview of the implementation timeline of the major changes included In the banking reform package

7.2. Basel III finalisation

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 finalisation package on its solvency. 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. LGD floor for mortgage loans) and;
- → the risk profile and the structure of the balance sheet and off-balance sheet of Belfius at the time of the entry into force of the finalisation of the revised standards (2022).
- → Besides, before being applicable to Belfius, the revised capital standards need to be implemented into EU regulations.

Timeline Banking Reform Package

27 June 2019	New permission regime for redemption, call and repurchase of MREL eligible liabilities
December 2020	Reporting requirement to supervisory authorities under a revised market risk framework (Fundamental Review of the Trading Book);
28 December 2020	Full Pillar-1 MREL for Top-Tier banks : MREL subordinated levels obligatory
27 June 2021	Binding leverage ratio, including a surcharge for the Banks considered as G-SIBs and O-SII
	Binding NSFR ratio
	New method for the measurement of counterparty credit risk (SA-CCR)
	Broader application of the SME supporting factor
	Revision of the treatment of large exposures
	Enhanced framework for the interest rate risk in the Banking book, including public disclosure
January 2024	Full MREL compliance for all banks

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 on 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

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, implemented in order to better protect insurance clients and to restore the confidence in the financial sector.

Within Belfius Insurance, the capital management process is a key management process and aims at reaching an optimal balance between regulatory requirements, market expectations and management ambitions.

The regulatory own funds (after foreseeable dividend) of Belfius Insurance amounted to EUR 2,319 million at the end of June 2019. It was composed for 86% of the highest quality capital (Tier 1). Tier 2 capital equalled EUR 377 million and consisted mainly of two subordinated loans.

Compared to December 2018 (EUR 2,231 million), the regulatory own funds of Belfius Insurance slightly increased, even after the payment of the dividend of EUR 160 million in the second quarter of 2019 and taking into account a new foreseeable dividend (over 1H 2019) of EUR 60 million.

3. Solvency requirement

(In millions of EUR)	31/12/18	30/06/19
SOLVENCY CAPITAL REQUIREMENT	1,097	1,255
Market risk	1,024	1,049
Credit Risk	170	163
Insurance Risk	640	699
Operational Risk	94	97
Diversification	(511)	(540)
Loss absorbing capacity of technical provisions and deferred taxes	(318)	(212)

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 1,255 million at the end of June 2019, higher compared to the end of 2018 (EUR 1,097 million). This mainly results from the change in tax rate (from 29.58% to 25%) leading to a lower loss absorbing capacity of deferred taxes and the review of the Life liability assumptions with lower lapse rate in a context of low interest rates. Market Risk remains 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 ALM management of Belfius Insurance, targeting a limited global duration mismatch between the assets and liabilities.

Regulatory own funds Belfius Insurance

(In millions of EUR)	31/12/18	30/06/19
AVAILABLE FINANCIAL RESOURCES BEFORE FORESEEABLE DIVIDEND	2,391	2,379
Tier 1	1,859	1,832
IFRS Equity	1,794	1,970
Valuation difference (after tax)	65	(138)
Restricted Tier 1	170	171
Tier 2	362	377
Subordinated debt	351	366
Others	11	11
AVAILABLE FINANCIAL RESOURCES AFTER FORESEEABLE DIVIDEND	2,231	2,319
AFR before foreseeable dividend	2,391	2,379
Foreseeable dividend	(160)	(60)

4. Solvency ratios for Belfius Insurance

Solvency II – ratio

(in %)	31/12/18	30/06/19
Solvency II – ratio (before dividend)	219%	190%
Solvency II – ratio (after dividend)	203%	185%

The Solvency II – ratio at 30 June 2019 amounted to 185%, after foreseeable dividend. The decrease in the Solvency II – ratio compared to year-end 2018 (203%) is due mainly to:

- the lower positive effect of the Loss Absorbing Capacity (-8pp) due to the change of corporate tax rate (from 29.58% to 25%);
- the review of the Life liability assumptions with lower lapse rate in a context of low interest rates (-10 pp).

The positive stock market return over 1H, leading to higher SCR for equity risk, was compensated by a decreasing equity risk exposure due to some divestments, in line with the risk appetite of Belins.

Applying some sensitivities on the Solvency II – ratio leads to the solvency ratio sensitivities as shown in the table below.

Solvency II regulations also require a yearly self- assessment. As a component of this process an integrated forward looking plan in which the strategy, finance, treasury and risk perspectives are collectively taken into account is estimated. The resulting future capital buffers are highlighted and a number of sensitivities are performed. This analysis shows that Belfius Insurance, under the assumptions used in such plan, disposes of adequate capital margins required to absorb shocks, as stated in the risk appetite approved by the Board of Directors.

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 2018).

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.

Solvency II – ratio sensitivities

	Shock	Solvency II – ratio (in %)
Base case (after dividend)		185%
Stress scenarios		
Interest rate	-50 bps	178%
Equity	-30%	174%
Credit Spread		
Credit spread on corporate bonds	*+50 bps*	*175%*
Credit spread on government bonds	*+50 bps*	*169%*
Credit spread on corporate & government bonds	*+50 bps*	*161%*
Real Estate	-15%	179%
Volatily Adjustment (VA)	no	174%
Ultimate forward rate (UFR)	3%	177%

2. Economic capital adequacy

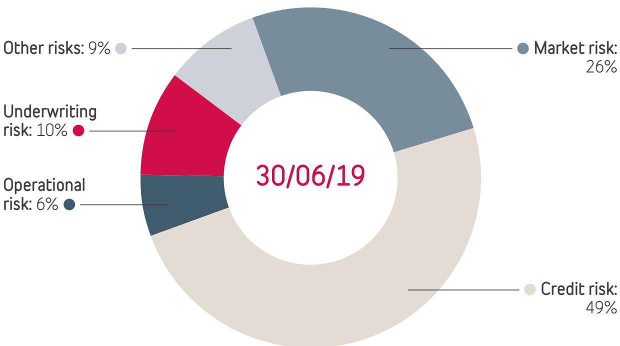
The Management Board, which also acts as the Risk Appetite Committee (RAC), is responsible for managing the capital level and allocation process and has authority in all matters relating to economic capital. The RAC analyses among others the various models involved in calculating the economic capital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

Belfius economic capital was EUR 5,424 million at the end of June 2019 (against EUR 5,319 million at the end of 2018).

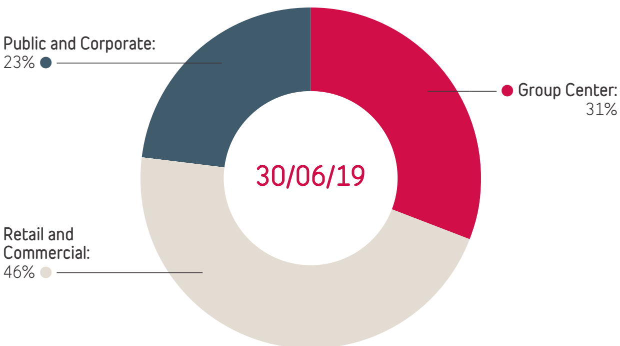
Credit risk represented approximately 49% of the economic capital and was the main contributor; market risk (inter alia including interest rate risk, foreign-exchange rate risk, spread risk and equity risk) was 26%, underwriting risk 10%, operational risk 6% and other risks (prepayment, funding,...) 9%.

By business line, the economic capital was allocated as follows: Retail and Commercial and Public and Corporate represented 46% and 23% respectively of Belfius' economic capital; the balance was made up of 31% 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 prudential foreseeable dividend without any other prudential filter or deduction and amounts to EUR 8,783 million at the end of June 2019 compared to EUR 8,611 million end 2018.

The normative regulatory equity of the business line is calibrated. The business line's CET 1 - ratio is brought at 13.5% taking into account the regulatory risk exposures allocated to the business line and some CET 1 capital deductions allocated to the business line (to a very limited extent, since the most important part of CET 1 capital deductions are allocated to GC). The delta with the total normative regulatory equity is allocated to Group Center.

Normative Regulatory Equity

(In millions of EUR)	31/12/18	30/06/19
REGULATORY CORE OWN FUNDS	8,877	8,965
Deduction of foreseeable dividend	(266)	(182)
TOTAL NORMATIVE REGULATORY EQUITY	8,611	8,783
of which allocated to		
Retail and Commercial Banking	2,605	2,687
Public and Corporate Banking	2,408	2,639
Group Center	3,598	3,457

RISK MANAGEMENT

INTRODUCTION

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

Risk management governance and data are more in detail described in Belfius' annual report and dedicated risk report which is available at *www.belfius.com*.

1. Macroeconomic environment in the first half of 2019

1.1. Sharp industrial slow down

The escalation of the trade dispute between the U.S. and its major trading partners, and the lack of progress regarding Brexit have continued to weigh on economic growth prospects in the eurozone.

The activity in the service sector remained solid but the industrial sector experienced a decline of output in the first half of the year. Weakness in factory orders suggest that industrial activity will potentially not pick up strongly in the second half of the year. Business sentiment remains depressed by the risk of U.S. tariffs on European imports. Furthermore, the probability of a hard and disorderly Brexit has increased.

In Germany, the government has substantially lowered German GDP projections for 2019 and 2020 in response to the industrial recession and the falling growth of world trade. Because of the high trade exposure of the Belgian economy and its strong economic relationship with Germany, GDP growth projections for Belgium have also been lowered. Based on the current macro-economic conditions, GDP growth in 2019 is projected at 1.0% in Belgium and in the euro area.

Demand on the labour market remained strong in the first half of 2019 and has pushed down the harmonised Belgian unemployment rate to 5.5%. Consumer demand has also been solid, supported by the creation of new jobs and a softening of consumer inflation, which fell from 2.3% at the end of 2018 to 1.7% in June 2019.

1.2. Monetary policy

In response to the weakening of the global demand outlook, central banks in developed economies have recently signaled a relaxation of their monetary policy. In the U.S., money markets are anticipating the Federal Reserve to lower the central bank rate during the second half of 2019. In the euro area, with headline inflation falling to 1.2% and the economic outlook worsening, the ECB has declared to be open to further implementing quantitative easing whenever deemed necessary.

The prospect of monetary easing in the U.S. and the euro area has been largely supportive for equity markets in the first half of the year. In bond markets, long term interest rates have fallen sharply in May and June , on the back of falling GDP growth, lower inflation and the policy declarations of the central banks. During the month of July 2019, the yield on the 10-year Belgian OLO headed into negative territory for the first time in Belgian history.

2. Ratings

Since 1 January 2019 rating agencies took the following decision:

→ In May 2019, Moody's upgraded Belfius' Baseline Credit Assessment (BCA) to baa1 from baa2 and its long-term deposit and senior unsecured debt ratings to A1 from A2. The short-term deposit ratings were affirmed at Prime-1. The outlook has changed from positive to stable.

Ratings of Belfius Bank as at 8 August 2019

	Stand-alone rating(1)	Long-term rating	Outlook	Short-term rating
Fitch	a-	A-	Stable	F2
Moody's	baa2	A1	Stable	Prime-1
Standard & Poor's	a-	A-	Stable	A-2

(1) Intrinsic creditworthiness.

CREDIT RISK

1. Exposure to credit risk

The definition of Full Exposure at Default "FEAD" is determined as follows:

- for balance sheet assets (except for derivatives): the gross carrying amounts (before credit risk adjustments);
- for derivatives: the fair value of derivatives after netting, increased with the potential future exposure calculated under the current exposure method (add-on);
- for Securities Financing Transactions (repo's and reverse repo's): the carrying amount as well as the excess collateral provided for repurchase agreements;
- for off-balance sheet commitments: either the undrawn part of credit facilities or the maximum commitment of Belfius for guarantees granted to third parties.

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

At 30 June 2019, the total credit risk exposure within Belfius reached EUR 170.8 billion, an increase of EUR 4.0 billion or 2.4 % compared to the end of 2018.

At bank level the credit risk exposure increased with 2.6 % to EUR 156.7 billion. At the level of Belfius Insurance, the credit risk exposure went up by 1% to EUR 14.1 billion at 30 June 2019.

The credit risk exposure on public sector entities and institutions that receive guarantees of these public sector entities (27% of the total) and on individuals, self-employed and SMEs (29% of the total) constitute the two main categories. The credit risk exposure on public sector entities was stable, while the credit risk exposure on individuals, self-employed and SMEs increased by EUR 1.5 billion due to increasing commercial activities. The expansion of Belfius' corporate activities is also reflected in higher credit risk exposure (+EUR 2.6 billion) for this segment leading to an increase of its relative proportion from 20% by the end of 2018 to 21% by June 2019.

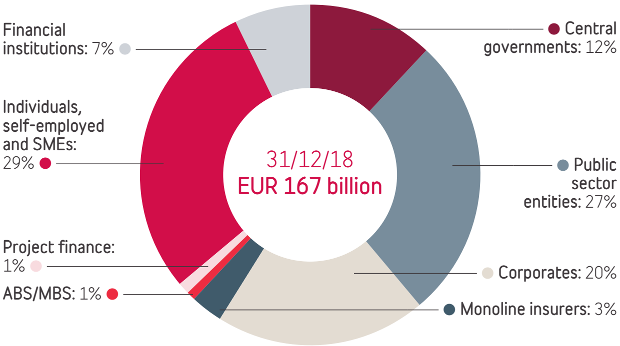
The relative proportion of the segment central governments remained stable at 12%. Half (50%) of the government bonds portfolio is invested in Belgian government bonds at the Group level. While at bank level the Belgian government bonds represents 39% of the total government bond portfolio, the relative proportion at Belfius Insurance stood at 58%.

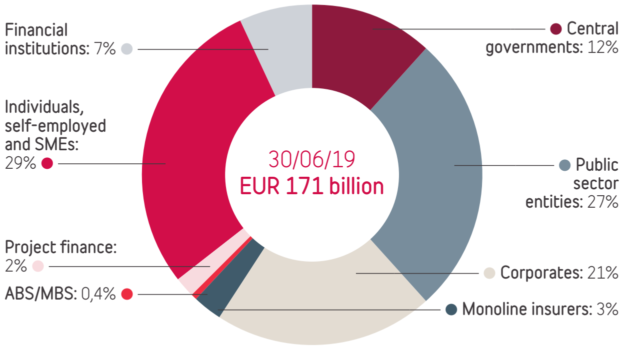
The credit risk exposure on financial institutions remained stable during the first half of 2019 (at 7% on 30 June 2019). The credit risk on monoline insurers on bonds issued by issuers principally active in infrastructure and public utilities projects is predominantly an indirect risk arising from credit guarantees written by Belfius Bank and reinsured with monoline insurers. During the first half of 2019, their relative proportion was stable at 2.7%.

Breakdown of credit risk by counterparty

(FEAD, in EUR million)			Of which	
	31/12/18	30/06/19	Bank	Insurer
Central governments	20,488	20,281	14,397	5,885
of which government bonds	*9,625*	*9,782*	*4,107*	*5,675*
Public sector entities	45,694	45,549	43,699	1,850
Corporate	32,904	35,527	34,089	1,439
Monoline insurers	4,519	4,576	4,576	-
ABS/MBS	840	764	667	97
Project Finance	2,222	2,596	2,596	-
Individuals, self-employed and SME's	47,917	49,397	45,677	3,720
Financial institutions	12,145	12,105	10,999	1,105
Other	-	-	-	-
TOTAL	166,729	170,794	156,699	14,096

Breakdown of credit risk by counterparty





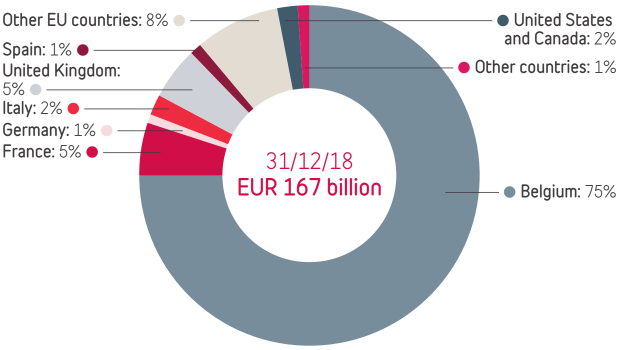
Belfius' positions are mainly concentrated in the European Union: 96% or EUR 150.5 billion at bank level and 98% or EUR 13.8 billion for Belfius Insurance. The total relative credit risk exposure on counterparties situated in Belgium is 75%, 6% in the United Kingdom, 4% in France, 2.4% in the United States and Canada and 1.4% both in Spain and in Italy.

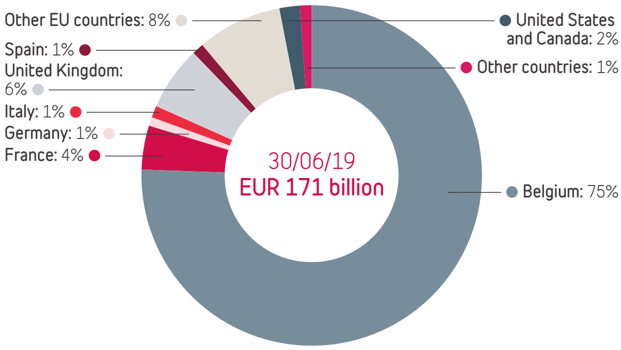
The credit risk exposure to counterparties in the United Kingdom amounted to EUR 9.6 billion as of end June 2019. About half of this credit risk exposure concerns bonds, of which close to two-third are inflation-linked, issued by utilities and infrastructure companies in the United Kingdom that operate 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.

The risks linked to a hard Brexit for Belfius have decreased compared to last year due to the temporary recognition of LCH as a Qualified Central Clearing Counterparty. This implies that the clearing services can be continued without interruption until December 2020 which should leave sufficient time for a full recognition. Belfius has also become direct clearing member of Eurex as an additional mitigant.

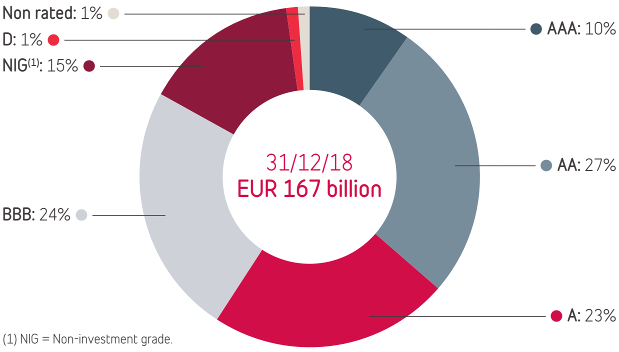
At 30 June 2019, 82% of the total credit risk exposure had an internal credit rating of investment grade (IG).

Breakdown of credit risk by geographical region

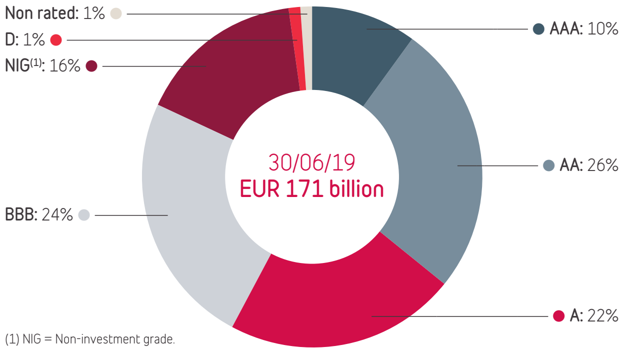




Breakdown of credit risk by rating



(1) NIG = Non-investment grade.



(1) NIG = Non-investment grade.

Asset Quality[1]

(In millions of EUR. except where indicated)	31/12/18	30/06/19
Gross outstanding loans and advances to customers (measured at amortised cost)	90,786	92,758
Impaired loans and advances to customers. (measured at amortised cost)	1,863	1,806
Stage 3 impairments on loans and advances to customers	1,147	1,121
Asset quality ratio[2]	2.05%	1.95%
Coverage ratio[3]	61.6%	62.1%
Stage 1 & 2 impairments on loans and advances to customers	337	369

(1) Belfius Insurance included.
(2) The ratio between impaired loans and advances to customers and the gross outstanding loans and advances to customers.
(3) The ratio between the Stage 3 impairments and impaired loans and advances to customers.

2. Asset quality

At the end of June 2019, the amount of impaired loans was EUR 1,806 million, a decrease of 3.1% compared to year-end 2018, driven by pruning, write-offs and files returning to performing. During the same period, the gross outstanding loans to customers increased by 2.2% and amounted to EUR 92,758 million as the end of June 2019. As a consequence, the asset quality ratio improved from 2.05% at year-end 2018 to 1.95% at the end of June 2019. The stage 3 impairments on loans decreased by 2.3%. As such, the coverage ratio increased to 62.1% at the end of June 2019 compared to 61.6% at the end of 2018. The stage 1 & 2 impairments on loans and advances to customers increased by EUR 32 million from end 2018 to EUR 369 million at the end of June 2019, as a result of the growth of the portfolio and underlying evolutions.

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 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 -15 million per 10 bps at 30 June 2019 (compared to EUR -15 million per 10 bps at 31 December 2018), excluding interest rate 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 +51 million of the next book year and an estimated cumulative effect of EUR +254 million over a three year period, whereas a 35 bps decrease would lead to an estimated negative impact of EUR -38 million of the next book year and an estimated cumulative effect of EUR -194 million over a three year period (compared to EUR +60 million, resp. EUR +175 million and EUR -44 million, resp. EUR -189 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 lowering continuously following markets rates and competitive pressures. On the other hand, customers continue to refinance and prepay some 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 16 million per 10 bps as of 30 June 2019 (against EUR 11 million per 10 bps as of 31 December 2018). 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 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)	31/12/18	30/06/19
BELFIUS BANK		
Sensitivity (+10 bp)	(15,441)	(14,795)
Earnings at Risk (+50 bp)	59,864	51,135
BELFIUS INSURANCE		
Sensitivity (+10 bp)	10,874	15,690
Earnings at Risk (+50 bp)	2,347	1,322

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.

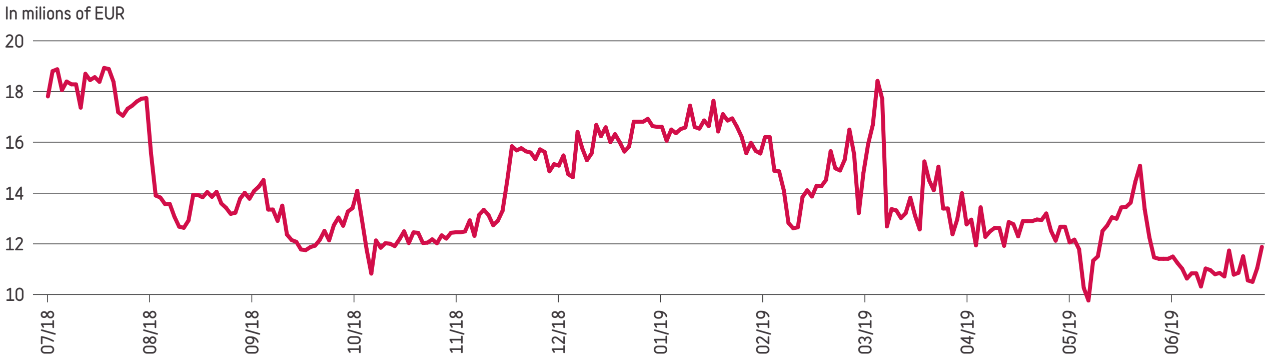
The financial market activities of Belfius Bank manage both the financial markets services rendered to our two business segments RC and PC, as well as to Group Center portfolios and activities like the ALM of the bank and the non-core portfolios. Within the latter, Belfius Bank remains sensitive for credit spread movement within its derivatives portfolio and GBP real rate movements within its non-core ALM yield bond portfolio.

Value-at-Risk by activity

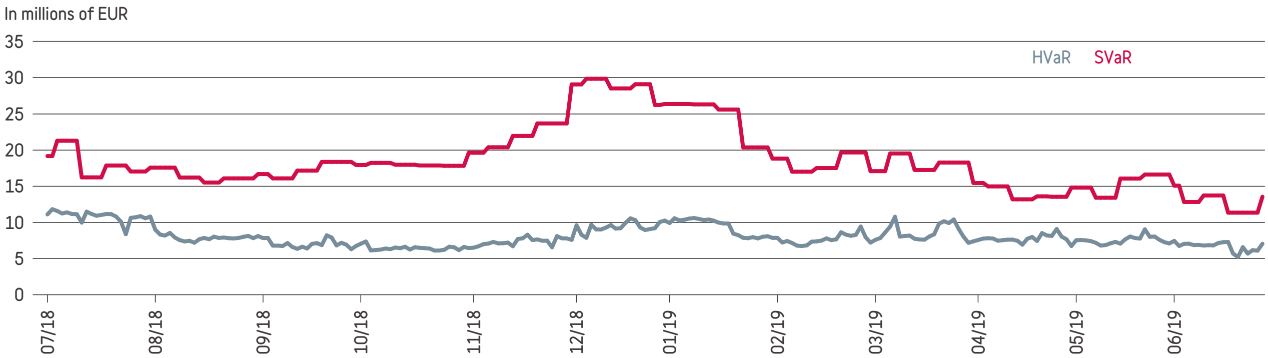
VaR(1) (99% 10 days) (In millions of EUR)	31/12/18				30/06/19			
	IR(2) & FX(3)	Equity	Spread	Other risks(4)	IR(2) & FX(3)	Equity	Spread	Other risks(4)
By activity								
Average	9.0	5.6	2.5	1.0	7.2	5.3	0.9	0.7
End of Year	9.2	6.8	0.5	0.8	4.9	5.1	0.8	1.0
Maximum	15.5	7.6	6.1	2.2	11.4	7.6	2.2	1.5
Minimum	4.2	4.4	0.2	0.4	3.5	3.7	0.2	0.5
Global								
Average	18.1				14.1			
End of Year	17.3				11.9			
Maximum(5)	29.5				18.9			
Minimum	10.9				9.8			
Limit	26.5				26.5			

(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.
(5) Maximum reached before the reduction of limit to 26.5m.

Evolution of global VaR in 2H 2018 - 1H 2019



Evolution of HVaR and SVaR (Internal Model) in 2H 2018 - 1H 2019



3.1. Market risk exposure

At the end of June 2019, the global VaR level of Financial Market activities amounts EUR 11.9 million, a decrease of EUR 5.4 million compared to end 2018. This decrease is mainly due to the lower risk profile in interest rate Financial Markets activities.

The market RWA decreased by EUR 360 millions down to EUR 1.4 billion consistently with lower IR VaR computed on these Financial Markets activities.

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 forum 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 assumptions 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 entities 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 2019, 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
- → collecting short and medium-term (CP/CD/EMTN) deposits from institutional investors.

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

Belfius Bank reached end of June 2019 a 12 month average Liquidity Coverage Ratio (LCR) of 132%[1]. The LCR of the Bank has remained above 100% during the first semester of 2019.

The Net Stable Funding Ratio (NSFR), based on our current interpretation of current Basel III rules, stood at 115% end of June 2019.

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

In April 2019, 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 10.56% of its total liabilities and own funds, to be met at all times and taking into account an evolving balance sheet. Based upon data as of 30 June 2019, the MREL requirement of 10.56% of TLOF amounts to EUR 14.08 billion.

Following the current SRB methodology, Belfius Group exceeded the MREL requirement based on data 31 December 2017, and hence no transitional period has been defined by the SRB for Belfius.

As mentioned in the 2018 SRB Policy for the second wave of resolution plans, the SRB has also set out a subordination benchmark for O-SIIs[3]. Applying this benchmark, using current CBR applicable to Belfius, would lead to a level of 18.07%[4] of the total risk exposures.

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, following the publication of the Banking Package in the Official Journal of the EU on 7 June 2019 and the CRR2 that came into force on 27 June 2019.

1.5. Liquidity reserves

At the end of June 2019, Belfius Bank had readily realisable liquidity reserves of EUR 29.5 billion. These reserves consisted of EUR 8.6 billion in cash, EUR 11.7 billion in ECB eligible bonds (of which EUR 8 billion are CCP-eligible[5]), EUR 6.8 billion in other assets also eligible at the ECB and EUR 2.4 billion in other liquid bonds.

These liquidity reserves represent 4.5 times the Bank's institutional funding outstanding end of June 2019 and having a remaining maturity of less than one year.

(1) 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) Other Systemically Important Institutions.
(4) 18.07% = 14% + CBR.
(5) CCP = Central Counterparties.

1.6. Funding diversification at Belfius Bank

Belfius Bank has a historical stable volume of commercial funding that comes from its RC and PC customers. RC and PC funding equals EUR 93.9 billion of which EUR 70.4 billion is from RC. The increase of EUR 3.7 billion commercial funding compared to end of 2018 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, remained rather stable and stands at 93% at the end of June 2019.

Belfius Bank also receives medium-to-long-term wholesale funding, including EUR 8.0 billion from covered bonds (EUR 5.6 billion backed by mortgage loans and EUR 2.4 billion by public sector loans), EUR 1.4 billion from Senior Unsecured, and EUR 4.0 billion in TLTRO funding from ECB as at 30 June 2019.

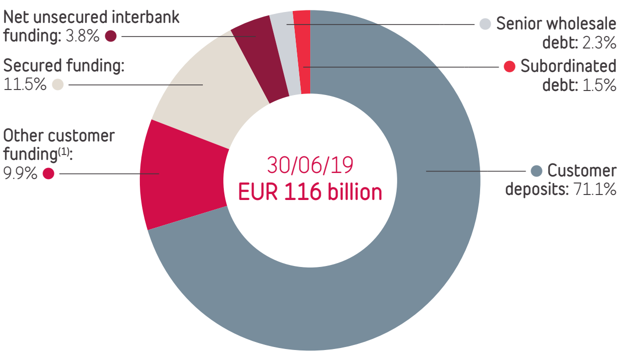
The Non Preferred Senior Bonds of EUR 1.25 billion have enabled Belfius to further contribute to the regulatory requirement of MREL.

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.

Funding sources



(1) Retail bonds and savings certificates.

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 34 billion in June 2019 and represent 21.6% of total bank balance sheet and collateral received under securities format, which amounts to EUR 158.2 billion (EUR 154.0 billion assets and EUR 4.1 billion collateral received). This represents a slight decrease of the encumbrance ratio of -0.2% compared to end 2018.

Belfius is active on the covered bond market since the set-up of the first covered bond programme in 2012. In June 2019, the total amount issued was EUR 8.0 billion. End June 2019, the assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amount to EUR 10.0 billion (increase of EUR 0.1 billion compared to end 2018).

The Bank is also collecting funding through repo markets for a limited amount and other collateralised deposits. End June 2019, the total amount of assets used as collateral for this activity amounts to EUR 6.0 billion, of which EUR 4.6 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 14.3 billion (increase of EUR 1.8 billion compared to end 2018), 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 engages mainly in 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 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, for which 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 – NON FINANCIAL RISKS (NFR)

1. General principles

The operational risk framework has been extended to "Non-Financial Risk" framework. The term Non-Financial Risk (NFR) has to be understood as a broad umbrella covering all risks except "financial risks" (such as market, ALM, liquidity, credit and insurance risks). NFR covers among others operational risks (including fraud, HR, IT, IT security, business continuity, outsourcing, data-related risks, privacy …) as well as reputational, compliance, legal risks, etc.

The NFR framework determines the principles that ensure an effective management of Belfius' non financial risks. The principles are further elaborated in specific Policies/Guidelines adapted to the business activities. These general principles are in compliance with the applicable legal requirements.

The framework is based on four axes:

- → a risk mapping and taxonomy in order to ensure consistency within the organization, including a regular review of this mapping and taxonomy to identify emerging risks;
- → clear roles and responsibilities, as well as a well-defined way of working together for all the risks based on the 3 LoD model;
- → a strong governance/committee structure involving the appropriate level of management, and;
- → transversal risk processes and related policies, such as: self assessment of risks and internal controls, incident monitoring, risk reporting, risk appetite definition and follow up, business continuity and crisis management.

2. Risk appetite

The formal definition of a Risk Appetite Framework (RAF) is the key reference for the group Risk Management practice and covers not only Financial Risk but also Non Financial Risk (NFR).

The RAF for NFR has been reviewed in depth end 2018. It contains qualitative and quantitative statements and is articulated around three concepts on which limits are defined:

- → "Risks": What are the risks? How to appreciate the risk level?
- → "Returns": What are the potential losses/gains related to those risks?
- → "Capacity": What is the capacity to absorb/manage the risks?

For NFR, there are two levels of limits: the highest level of risk limits is part of the RAF (with limits and follow-up at BoD/Risk Committee level), and these are further declined into consistent sub-limits with a follow up at NFR Committee level (Management Board level).

3. Measuring and managing NFR

Managing NFR is based on the following principles:

3.1. Decentralised responsibility

Each of the Bank's line management organizations has the primary responsibility for monitoring the NFRs in its individual sphere of activity (first line of defence). It establishes the way its activities are organised, including the checks that need to be implemented to limit NFRs. It also defines the corrective measures required to counter significant incidents or major risks identified. Risk/NFR team ensures the regular monitoring of NFRs and incidents and establishes a quarterly report for all activities (second line of defence). This process allows the internal control system to be improved on an ongoing basis and ensures that the main risks are effectively managed.

3.2. Managing operational incidents

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 include an action plan for avoiding, mitigating or limiting risks in the future. This action plan is developed under the responsibility of the relevant line management.

Belfius' losses stemming from operational incidents remain stable and limited. The main areas of operational losses were essentially due to incidents associated with external fraud and incidents in relation to execution, delivery and process management. Other categories remain limited in amount even if material in number of events.

For Belfius Insurance and Belfius Investment Partners, the establishment of an overview of operational incidents is also crucial to achieve a better understanding of the operational risk associated with each activity. This constitutes a relevant source of information for management (for example, the annual loss). The major operational incidents are investigated thoroughly and are subject to a specific action plan and appropriate follow-up.

3.3. Self Assessment of Risks and Internal Controls

Another important task of risk management is the analysis of the overall main potential risks and related key controls, performed within Belfius Group's main entities. This is achieved through a bottom-up Self Assessment of Risks and Internal Controls in all departments and subsidiaries of Belfius, using the COSO methodology. These exercises may result in the development of additional action plans to further reduce potential risks and they provide an excellent overview of the main risk areas in the various businesses. These self-assessments are conducted annually and use the same methodology both for the Risk Control Self Assessment (RCSA) and for the yearly reports submitted to the respective Boards of Directors regarding the assessment of internal control. Belfius Bank submits the senior management report on the assessment of the internal control also to its regulator.

3.4. New Product Approval

The process of developing a "product, activity, process or system" – the new product approval process - involves a number of steps and ex-ante risk analyes that must be completed before the new product can be introduced to the market.

3.5. Managing insurance policies

The possible financial impact of Belfius' operational risks are also mitigated by taking out insurance policies, principally covering professional liability, fraud, theft and interruption of business and cyber risk. This is standard practice in the financial services' industry.

4. Focus on specific risks

4.1. Information Security

For Belfius, the purpose of information security is to protect Belfius' information that has a value for the organization: i.e. the information generated by the business, the information belonging/pertaining to our clients, and also the information, derived from freely accessible or publicly available data, which has acquired a value as a result of the treatment carried out by or on behalf of Belfius. The threats against data and the information are: their loss of integrity; their loss of confidentiality; and their unplanned unavailability. The mission of information security is to guard against these threats.

An information security strategy derived from these principles has been approved. The organization has a framework applicable to all actions pertaining to information security.

Belfius' Risk Appetite accompanies and supports the information security strategy. It includes qualitative statements and quantitative Key Risk Indicators (KRI) explicitly related to information security translating that Belfius wants to meet high standards with regard to information security. The KRI will monitor the matching between Belfius' Risk appetite and the reality on the field.

The information security strategy has four major ambitions translated into strategic objectives:

- be mature: maintain an information security maturity level throughout Belfius on par with peers, covering all Belfius Bank's information regardless of location;
- be aware: ensure Belfius Bank employee and agent awareness results in proper responses to threats and attacks;
- be resilient: be resilient to cyber attacks: prevent attacks through identification and appropriate mitigation of vulnerabilities to prevent data breaches;
- be compliant: be compliant with applicable information security laws and regulations and resolve applicable audit recommendations in due time.

In order to guarantee the information security within Belfius, the Information Security Steering (ISS) ensures a well governed and coordinated information security strategy whereby an adequate system of "prevention", "detection", "protection" and "reaction" is put in place, in line with regulatory requirements towards information security. The ISS is chaired by the Chief Risk Officer (CRO).

For information security, Belfius follows a risk-based approach. This means that, based upon risk assessments, decisions are made on where improvements are most needed to effectively realize the stated ambitions and to align the actual risk posture with the risk appetite. This approach is used by the individual teams to define priorities and areas that need improvement whilst adhering to a defence in depth principle. 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. Such tests help in determining the effectiveness of existing controls, identifying new risks, checking compliance with regulatory requirements or measuring the maturity of security related processes. If deemed necessary, actions plans are established to grade up the level of information security.

4.2. Data privacy

On 25 May 2018, the General Data Protection Regulation (GDPR) became applicable. This introduced a number of new aspects compared to the old European directive from 1995. In general, the GDPR grants more rights to natural persons - such as Belfius' customers - and imposes more obligations on processors and controllers of personal data - including Belfius and its partners/suppliers.

The respect for privacy and the protection of personal data is a key commitment at Belfius. GDPR conformity is integrated into the processes to offer products, innovative digital tools, services and information sharing to its clients.

Information to data subjects & exercise of their rights

- Privacy charters and information to clients and staff: Belfius published a revised privacy charter and informed its customers via messages in its online channels, letters, video and radio spots. Also towards the staff, an HR-privacy charter has been published and the staff has been informed via the internal media.

Internal Governance, processes and tools

- Privacy risk policy and guidelines: Belfius set up a privacy risk policy and associated guidelines.
- Privacy Steering: a dedicated steering related to GDPR has been setup and reports to the Management Board/NFR Committee.
- Incident and breach management of personal data: Belfius is very committed to avoid breaches and to manage any incident as quickly as possible. Belfius has developed a multi-stakeholder governance and tool to deal with incidents involving personal data incidents.
- Set up and maintain a record of processing activities: activities treating personal data are all centrally documented by the business lines in a privacy register.

Internal organisation & Internal awareness

- Data Privacy Officer (DPO) is part of the 2nd line of defence, within NFR team.
- Privacy correspondents: privacy correspondents in the business and operational lines, regularly informed on GDPR, are relays between the DPO and the business line to foster the continuous attention for GDPR in the business and operational lines.
- GDPR-awareness to all employees: regular internal communications are developed to have and keep GDPR and privacy top of mind. A GDPR e-learning has been rolled-out for employees.

4.3. Fraud

In collaboration with Internal Audit and Compliance, a fraud risk policy has been established. In line with the overall commitment to deliver value-adding products and services, Belfius sets high standards when assessing capacities with regards to fraud. A zero-tolerance policy is applicable for all forms of fraud (internal, external as well as mixed fraud).

The Anti-Fraud Steering Committee, chaired by the CRO, is defining and monitoring the fraud risk management on strategic and tactical level. It is the platform to reflect on and organize a dialogue between the internal control functions and the stakeholders mainly operating in the decentralized expert units (safeguarding against specific types of fraud).

The Anti-Fraud Officer, acting in its 2nd LoD challenger role is key to steer and coordinate, harmonize, monitor and challenge, and consolidate the knowledge of the decentralized expert units.

Each year, a fraud report is submitted to the Management Board/NFR Committee and the Audit Committee to provide senior management with relevant information to be able to review and assess the evolution of fraud risk.

Based on the actual figures, Belfius' fraud losses remain limited. However, fraud risks are in constant evolution and require continuos attention.

4.4. Business continuity

The policy on business continuity (BC) requires the various departments to analyse the business impact on critical activities, to develop recovery plans and to provide the necessary documentation, as well as to ensure that the plans regarding business continuity are tested and if necessary adjusted at least once a year on the occasion of the yearly evacuation exercise of the main building.

Based on regular reporting, the Management Board approves the strategies, any residual risks and action plans aimed at achieving further improvements if necessary. The policies of Belfius Bank's main subsidiaries are fully in line with the one of Belfius Bank.

CORPORATE GOVERNANCE

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

1. Management Board

On 30 June 2019 and since 1 January 2019, the Management Board of Belfius Bank consists of five members:

Chairman	Marc Raisière
Members	Marianne Collin
	Dirk Gyselinck
	Olivier Onclin
	Johan Vankelecom

In addition, the Management Board appointed three associated members. They took up their position on 1 January 2019. These are Mr. Patrick Devis, IT manager, Mrs. Camille Gillon, HR & Building Management manager and Mr. Geert Van Mol, Data & Digital manager. The associated members attend the meetings of the Management Board in an advisory capacity.

A Group Management Committee was also established from 1 January 2019. This Committee is made up of the 5 members of the Management Board of Belfius Bank and the chairman of the Management Board of Belfius Insurance (Mr. Dirk Vanderschrick). Each of them has the right to vote. The associated members attend the Group Management Committee again having an advisory role. The purpose of this Committee is to deal with various strategic group files and important issues for a bankinsurer.

On 24 April 2019, the directorships of Mr. Olivier Onclin and Mr. Johan Vankelecom were renewed for a period of 4 years to end at the close of the Ordinary Shareholders' Meeting in 2023.

2. Board of Directors

On 30 June 2019, the Board of Directors had fifteen members, five of whom are members of the Management Board.

The Ordinary Shareholders' Meeting of 24 April 2019 appointed Mrs. Martine De Rouck as independent director for a period of 4 years to end at the close of the Ordinary Shareholders' Meeting in 2023.

The Ordinary Shareholders' Meeting of 24 April 2019 also renewed the directorships of Messrs Jean-Pierre Delwart, Georges Hübner, Olivier Onclin and Johan Vankelecom for a period of 4 years to end at the close of the Ordinary Shareholders' Meeting in 2023.

BOARD OF DIRECTORS OF BELFIUS BANK (30 June 2019)	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		★						
Marianne Collin	Member of the Management Board of Belfius Bank SA Chief Risk Officer, Responsible for Risk Management and Compliance		■						
Dirk Gyselinck	Member of the Management Board of Belfius Bank SA Responsible for Public and Corporate Banking, Financial Markets, Wealth Management, Customer Loan Services		■						
Olivier Onclin	Member of the Management Board of Belfius Bank SA Responsible for Retail & Commercial Banking, Customer Transaction Services		■						
Johan Vankelecom	Member of the Management Board of Belfius Bank SA Chief Financial Officer, Responsible for Accounting, Strategic Planning & Performance Management, Socio-Economic Research, Strategic Corporate Development, 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	■		■					■
Martine De Rouck	Independent Director of Orange Belgium SA	■		■					
Carine Doutrelepont	Lawyer and part-time Professor at the Université Libre de Bruxelles	■		■		■	■		
Georges Hübner	Full Professor at the HEC Liège, Liège University	■		■	★			■	
Diane Rosen	Director of Exochange SPRL	■		■				■	
Chris Sunt	Lawyer	■		■	■			■	
Lutgart Van den Berghe	Part-time 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.

Belfius recognises provisions for such litigations when, in the opinion of its management taking into account all available elements, including an analysis by its company lawyers and external legal advisors as the case may be,

- → a present obligation has arisen as a result of past events,
- → it is probable that Belfius will have to make a payment, and
- → the amount of such payment can be estimated reliably.

With respect to certain other litigations against Belfius, of which management is aware, no provision has been made according to the principles outlined here above, as the 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.

In the opinion of Belfius, 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. Note that, apart from the cases listed below, a vigilance has been observed in the prevention of money laundering (AML) in the Belgian financial sector. In this context, as is customary, Belfius is collaborating with the Belgian authorities and monitors this closely.

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 million. 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. 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 has submitted 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. All parties requested the Court to transfer this case to the Court of First Instance of Brussels. The Court decided on 19 November 2018 to grant the requested transfer and this procedure is now joined with the procedure before the Court of First Instance of 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 end June 2019, approximately 5.380 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.

3. Ethias

Ethias is managing one of Belfius' pension plans under an insurance agreement whereby Ethias must provide a guaranteed return on the pension reserves. Given the fact that the plan is managed in a segregated fund and that 100% of the financial gains on the underlying assets were contractually allocated to the plan, Belfius had to value these assets at their market value according to IFRS rules (IAS 19). In the course of 2016, Ethias claimed a significant increase in costs. Following Belfius' refusal, Ethias notified its intent to transfer the plan to a "main fund". If that were to occur Belfius would no longer be able to book the plan at the market value of the assets but would rather have to calculate the present value of the reserves based upon Ethias guaranteed return. In order to prevent this, Belfius summoned Ethias before the Court (tribunal de l'entreprise de Bruxelles/ondernemingsrechtbank Brussel) on 12 January 2017.

In 2019, Belfius and Ethias concluded an out of court settlement. The end of the judicial procedure will be acted by the Court. As part of the agreement, the abovementioned pension plan remains segregated. Belfius also received from Ethias the necessary financial information about the plan's assets as to allow a valuation of the plan using the market value of its assets.

4. 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.

5. 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 2019, 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, 8 August 2019

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 2019

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)		Notes	31/12/18	30/06/19
I.	Cash and balances with central banks	5.1.	8,314,303	9,018,450
II.	Loans and advances due from credit institutions	5.2.	13,106,846	14,528,612
	A. Measured at amortised cost		13,106,846	14,528,612
	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.	91,122,512	93,004,976
	A. Measured at amortised cost		89,302,446	91,267,939
	B. Measured at fair value through other comprehensive income		0	0
	C. Measured at fair value through profit or loss		1,820,067	1,737,036
IV.	Debt securities & equity instruments	5.4.	28,568,766	29,194,852
	A. Measured at amortised cost		21,610,561	22,256,069
	B. Measured at fair value through other comprehensive income		5,216,152	5,168,702
	C. Measured at fair value through profit or loss		1,742,052	1,770,081
V.	Unit linked products insurance activities		2,837,971	3,418,324
VI.	Derivatives	5.5.	12,767,585	14,334,966
VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	5.5.	4,590,806	5,111,548
VIII.	Investments in equity method companies		47,949	56,769
IX.	Tangible fixed assets		1,065,607	1,118,982
X.	Intangible assets		191,497	202,578
XI.	Goodwill		103,966	103,966
XII.	Tax assets		378,192	395,499
	A. Current tax assets		77,683	75,728
	B. Deferred tax assets		300,508	319,771
XIII.	Technical insurance provisions - part of the reinsurer		99,902	108,802
XIV.	Other assets	5.6.	950,202	1,073,325
XV.	Non current assets (disposal group) held for sale and discontinued operations		19,047	20,627
TOTAL ASSETS			164,165,152	171,692,275

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

Liabilities

(In thousands of EUR)		Notes	31/12/18	30/06/19
I.	Cash and balances from central banks	6.1.	3,962,322	3,954,278
II.	Credit institutions borrowings and deposits	6.2.	5,866,810	7,138,529
	A. Measured at amortised cost		5,866,810	7,138,529
	B. Measured at fair value through profit or loss		0	0
III.	Borrowings and deposits	6.3.	79,661,310	83,287,482
	A. Measured at amortised cost		79,609,747	83,233,917
	B. Measured at fair value through profit or loss		51,563	53,565
IV.	Debt securities issued and other financial liabilities	6.4.	26,686,872	26,398,536
	A. Measured at amortised cost		19,274,694	18,006,875
	B. Measured at fair value through profit or loss		7,412,178	8,391,661
V.	Unit linked products insurance activities		2,837,971	3,418,324
VI.	Derivatives	5.6.	17,740,280	20,202,999
VII.	Gain/loss on the hedged item in portfolio hedge of interest rate risk	5.6.	165,078	366,764
VIII.	Provisions for insurance activities	6.5.	13,907,770	13,360,413
IX.	Provisions and contingent liabilities	6.6.	626,752	548,310
X.	Subordinated debts	6.7.	1,219,469	1,213,610
	A. Measured at amortised cost		1,219,469	1,213,610
	B. Measured at fair value through profit or loss		0	0
XI.	Tax liabilities		30,825	114,380
	A. Current tax liabilities		22,301	70,633
	B. Deferred tax liabilities		8,524	43,747
XII.	Other liabilities		1,500,070	1,530,477
XIII.	Liabilities included in disposal group and discontinued operations		0	0
TOTAL LIABILITIES			154,205,529	161,534,102

Equity

(In thousands of EUR)		31/12/18	30/06/19
XIV.	Subscribed capital	3,458,066	3,458,066
XV.	Additional paid-in capital	209,232	209,232
XVI.	Treasury shares	0	0
XVII.	Reserves and retained earnings	4,738,565	5,123,319
XVIII.	Net income for the period	649,028	304,430
SHAREHOLDERS' CORE EQUITY		**9,054,891**	**9,095,048**
XIX.	Fair value changes of debt instruments measured at fair value through other comprehensive income	218,588	312,017
XX.	Fair value changes of equity instruments measured at fair value through other comprehensive income	75,031	166,106
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	13,679	(45,225)
XXIII.	Remeasurement pension plans	42,170	47,937
XXIV.	Discretionary participation features of insurance contracts	41,850	61,743
XXV.	Other reserves	212	212
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		**391,530**	**542,790**
TOTAL SHAREHOLDERS' EQUITY		9,446,422	9,637,838
XXVI.	Additional Tier 1 - instruments included in equity	497,083	497,083
XXVII.	Non-controlling interests	16,118	23,252
TOTAL EQUITY		9,959,623	10,158,173
TOTAL LIABILITIES AND EQUITY		164,165,152	171,692,275

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

(In thousands of EUR)		Notes	30/06/18	30/06/19
I.	Interest income	7.1.	1,650,880	1,728,736
II.	Interest expense	7.1.	(705,574)	(783,666)
III.	Dividend income		49,241	44,080
IV.	Net income from equity method companies		1,229	4,149
V.	Net income from financial instruments at fair value through profit or loss	7.2.	14,105	57,842
VI.	Net income on investments and liabilities(1)	7.3.	96,418	54,390
VII.	Fee and commission income	7.4.	367,292	367,801
VIII.	Fee and commission expenses	7.4.	(90,245)	(91,584)
IX.	Technical result from insurance activities	7.5.	(2,551)	(26,366)
	A. Gross earned premiums		729,640	738,284
	B. Other technical income and charges		(732,191)	(764,650)
X.	Other income	7.6.	100,278	111,241
XI.	Other expenses	7.7.	(307,478)	(311,441)
INCOME			**1,173,594**	**1,155,183**
XII.	Staff expenses		(293,944)	(305,487)
XIII.	General and administrative expenses		(244,293)	(246,557)
XIV.	Network costs		(105,988)	(104,066)
XV.	Depreciation and amortisation of fixed assets		(45,984)	(53,892)
EXPENSES			**(690,210)**	**(710,002)**
GROSS INCOME			483,384	445,181
XVI.	Impairments on financial instruments and provisions for credit commitments(1)		(9,664)	(30,481)
XVII.	Impairments on tangible and intangible assets		(658)	(417)
XVIII.	Impairments on goodwill		0	0
NET INCOME BEFORE TAX			473,063	414,282
XIX.	Current tax (expense) income		(110,685)	(102,231)
XX.	Deferred tax (expense) income		(27,328)	(7,472)
TOTAL TAX (EXPENSE) INCOME			**(138,013)**	**(109,702)**
NET INCOME AFTER TAX			335,050	304,580
XXI.	Discontinued operations (net of tax)		0	0
NET INCOME			335,050	304,580
Attributable to non-controlling interests			(428)	150
Attributable to equity holders of the parent			334,622	304,430

(1) For comparability purposes, Belfius presents a proforma for the Statement of Income end June 2018. Where a shift between "Net income on investments and liabilities" and "Impairments on financial instruments and provisions for credit commitments" was made.

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(In thousands of EUR)	30/06/18 Before-tax amount	Tax (expense) income	Net-of-tax amount
RESULT RECOGNISED IN THE STATEMENT OF INCOME	473,063	(138,013)	335,050
OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
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 OR LOSS	(26,244)	181	(26,062)
OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS			
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

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

(In thousands of EUR)	30/06/19 Before-tax amount	30/06/19 Tax (expense) income	30/06/19 Net-of-tax amount
RESULT RECOGNISED IN THE STATEMENT OF INCOME	414,282	(109,702)	304,580
OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Fair value changes of equity instruments measured at fair value through other comprehensive income(1)	102,578	(9,993)	92,585
Remeasurement pension plans(2)	7,775	(2,008)	5,767
TOTAL OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	110,353	(12,001)	98,352
OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS			
Fair value changes of debt instruments measured at fair value through other comprehensive income(3)	102,975	(9,518)	93,457
Gains (losses) on cash flow hedges	(76,619)	17,715	(58,904)
Discretionary participation features of insurance contracts(4)	25,421	(5,528)	19,894
TOTAL OF OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	51,777	2,670	54,447
OTHER COMPREHENSIVE INCOME	162,130	(9,331)	152,799
TOTAL COMPREHENSIVE INCOME	576,412	(119,034)	457,379
Attributable to equity holders of the parent	574,689	(118,999)	455,691
Attributable to non-controlling interests(5)	1,723	(35)	1,688

(1) The fair value of equity instruments measured at fair value through other comprehensive income increased with EUR 93 million due to market evolution, partially offset by sales in the equity portfolio.
(2) The remeasurement of defined benefit plans increased with EUR 6 million compared to year end 2018 mainly due to
→ the positive return on plan assets and the remeasurement of a pension plan for which Belfius is now informed again of the fair value of the underlying asset portfolio of the segregated fund and
→ change in pension plans parameters. These increases were partially offset by a lower discount curve compared to end 2018.
(3) The fair value of debt instruments measured at fair value through other comprehensive income increased with EUR 93 million. This positive movement stems from lower credit spreads and lower interest rates compared to end 2018 despite realised gains resulting from divestments from Belfius Insurance.
(4) The discretionary participation feature of insurance contracts increased to EUR 62 million as at 30 June 2019 compared to EUR 42 million at 31 December 2018. The provision for future discretionary participation remained stable at EUR 179 million.
(5) The non-controlling interests are mainly related to the minority stake within Auxipar, Jaimy and Charlin.

Belfius realised an income before tax of EUR 414 million, a decrease of EUR 59 million compared to 1H 2018. Notwithstanding the continuous pressure on the interest margin, Belfius realised good results thanks to a strong growth of commercial volumes. Despite a continous cost containment, the costs increased following further investments in human capital and new activities within our newly consolidated companies Jaimy and Charlin. Impairments on financial instruments and provision for credit commitments evolves in line with the growth of the loan portfolio. An exceptional positive impact of EUR 19 million could be noted in 1H 2018 due to the sale of some Italian government bonds. As a result, the net income after tax decreased with EUR 30 million.

The notes on pages 69 to 118 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	Treasury shares	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 31 DECEMBER 2017	3,458,066	209,232	0	5,417,038	0	9,084,337
IFRS 9 DATE OF INITIAL APPLICATION IMPACT	0	0	0	(296,675)	0	(296,675)
AS AT 1 JANUARY 2018(1)	3,458,066	209,232	0	5,120,363	0	8,787,661
Movements of the period						
Dividends(2)	0	0	0	(288,000)	0	(288,000)
Dividends Additional Tier 1	0	0	0	(3,685)	0	(3,685)
Net income for the period	0	0	0	0	334,622	334,622
Transfers from other comprehensive income due to sale of equity instruments	0	0	0	1,180	0	1,180
AS AT 30 JUNE 2018	3,458,066	209,232	0	4,829,858	334,622	8,831,778

(1) The impact of IFRS 9 in retained earnings is mainly related to
→ the new calculation methodology for impairment of EUR 257 million (expected credit loss model) and
→ the remeasurement of non basic financial assets.
(2) Belfius paid EUR 288 million as dividend over 2017, as well as an interim dividend of EUR 75 million in 2H 2017.

The notes on pages 69 to 118 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)	Other comprehensive income that may be reclassified to profit or loss			Other comprehensive income that will not be reclassified to profit and loss			Total gains and losses not recognised in profit and loss – Group share
	Fair value changes of debt instruments measured at fair value through other comprehensive income	Gains (losses) on cash flow hedges	Discretionary participation features of insurance contracts	Unrealised result of property revaluation	Fair value changes of equity instruments measured at fair value through other comprehensive income	Remeasurement pension plans	
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
Gross amount	133,186	(4,540)	0	0	(52,607)	0	76,039
Deferred taxes	136,077	0	0	0	7,629	0	143,706
AS AT 1 JANUARY 2018[1]	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 instruments	(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)
Remeasurement pension plans	0	0	0	0	0	3,594	3,594
Transfers to retained earnings due to sale of equity instruments irrevocably measured through other comprehensive income	0	0	0	0	(1,180)	0	(1,180)
Transfers	0	0	0	0	(616)	0	(616)
AS AT 30 JUNE 2018	279,167	(22,757)	13,979	215	157,275	116,592	544,469

(1) The impact of IFRS 9 in other comprehensive income 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 69 to 118 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 Additional Tier 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 analyzed in respect with IAS 32 and should be considered as an equity instrument. This inaugural AT1 issue was executed in the context of further diversification of funding sources and investor base. Furthermore, the AT1 securities increase the going concern loss absorption capital, and contribute to the expected MREL level, as well as to the leverage ratio of Belfius. In general, this transaction increases Belfius' financial and regulatory flexibility, accessing a new layer of instruments within its capital structure.

The issuance was done in the form of EUR denominated Perpetual AT1 Securities. The securities are callable 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)	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
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)	
Core shareholders'equity	8,831,778
Gains and losses not recognised in the statement of income	544,469
Additional Tier 1 - instruments included in equity	497,083
Non-controlling interests	14,901
AS AT 30 JUNE 2018	9,888,231

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

Core shareholders' equity (In thousands of EUR)	Subscribed capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 31 DECEMBER 2018	3,458,066	209,232	0	4,738,565	649,028	9,054,891
Movements of the period						
Transfers to reserves	0	0	0	649,045	(649,045)	0
Dividends[1]	0	0	0	(263,000)	0	(265,697)
Dividends Additional Tier 1	0	0	0	(6,382)	0	(3,685)
Variation of scope of consolidation	0	0	0	0	17	17
Other movements[2]	0	0	0	(2,810)	0	(2,810)
Net income for the period	0	0	0	0	304,430	304,430
Transfers from other comprehensive income due to sale of equity instruments	0	0	0	7,900	0	7,900
AS AT 30 JUNE 2019	3,458,066	209,232	0	5,123,319	304,430	9,095,048

(1) Belfius paid EUR 263 million as dividend over 2018, as well as an interim dividend of EUR 100 million in 2H 2018.
(2) Other movements relate to the first-time application IFRS16. We refer to note 3 "Accounting policies".

The notes on pages 69 to 118 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)	Other comprehensive income that may be reclassified to profit or loss			Other comprehensive income that will not be reclassified to profit and loss			Total gains and losses not recognised in profit and loss – Group share
	Fair value changes of debt instruments measured at fair value through other comprehensive income	Gains (losses) on cash flow hedges	Discretionary participation features of insurance contracts(1)	Unrealised result of property revaluation	Fair value changes of equity instruments measured at fair value through other comprehensive income(2)	Remeasurement pension plans	
AS AT 31 DECEMBER 2018	218,588	13,679	41,850	212	75,031	42,170	391,530
Movements of the period							
Net change in fair value through other comprehensive income - debt instruments(3)	178,168	0	19,894	0	0	0	198,062
Transfer to income due to impairments - debt instruments	462	0	0	0	0	0	462
Transfer to income due to disposals - debt instruments(4)	(57,201)	0	0	0	0	0	(57,201)
Net change in fair value through other comprehensive income - equity instruments	0	0	0	0	104,551	0	104,551
Net change in fair value through equity – derivatives - hedging reserve	0	(58,911)	0	0	0	0	(58,911)
Net change in cash flow hedge reserve due to transfers to income	0	7	0	0	0	0	7
Foreign exchange adjustments	0	0	0	0	7	0	7
Transfers to technical provisions of insurance companies(5)	(28,001)	0	0	0	(5,582)	0	(33,583)
Remeasurement pension plans(6)	0	0	0	0	0	5,767	5,767
Transfers to retained earnings due to sale of equity instruments irrevocably measured through other comprehensive income	0	0	0	0	(7,900)	0	(7,900)
AS AT 30 JUNE 2019	312,017	(45,225)	61,743	212	166,106	47,937	542,790

(1) Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return on insurance contracts (life). The discretionary participation feature of insurance contracts increased to EUR 62 million as at 30 June 2019 stemming from higher volumes that, in accordance with the profit-sharing plan, may give rise to a discretionary participation right in the future.
(2) The fair value of equity instruments measured at fair value through other comprehensive income increased with EUR 105 million due to market evolution and sales.
(3) The fair value of debt instruments measured at fair value through other comprehensive income increased with EUR 178 million. This positive movement stems from lower credit spreads and lower interest rates compared to end 2018.
(4) The fair value of debt instruments measured at fair value through other comprehensive income decreased with EUR 57 million resulting from divestments of Belgian government bonds within Belfius Insurance.
(5) These transfers concern amounts after tax following the application of Shadow Accounting, whereby part of the unrealised profits from financial assets measured at fair value through other comprehensive income 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.
(6) The remeasurement of defined benefit plans increased with EUR 6 million compared to year end 2018 mainly due to
→ the positive return on plan assets and the remeasurement of a pension plan for which Belfius is now informed again of the fair value of the underlying asset portfolio of the segregated fund and
→ change in pension plans parameters. These increases were partially offset by a lower discount curve compared to end 2018.

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

Additional Tier 1 - instruments included in equity (In thousands of EUR)	
AS AT 31 DECEMBER 2018	497,083
Movements of the period	
AS AT 30 JUNE 2019	497,083

Non-controlling interests (In thousands of EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 31 DECEMBER 2018	14,326	1,792	16,118
Movements of the period			
Dividends	(465)	0	(465)
Net income for the period	150	0	150
Net change in fair value through equity	0	1,539	1,539
Transfer to income due to impairments - debt instruments	0	(1)	(1)
Variation of scope of consolidation	(13)	0	(13)
Other movements[1]	5,923	0	5,923
AS AT 30 JUNE 2019	19,921	3,331	23,252

(1) Other movements relate to third party capital increases in the companies Jaimy and Charlin. We refer to note 10.1.

The non-controlling interests are mainly related to the minority stake within Auxipar, Jaimy and Charlin.

(In thousands of EUR)	
Core shareholders'equity	9,095,048
Gains and losses not recognised in the statement of income	542,790
Additional Tier 1 - instruments included in equity	497,083
Non-controlling interests	23,252
AS AT 30 JUNE 2019	10,158,173

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

Equity	30/06/18	30/06/19
BY CATEGORY OF SHARE		
Number of shares authorised and not issued	0	0
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	0,93	0,85
Diluted	0,93	0,85
NOMINAL VALUE PER SHARE	no nominal value	no nominal value
Outstanding as at 1 January	359,412,616	359,412,616
Number of shares issued	0	0
Number of shares cancelled	0	0
Outstanding as at 31 December	359,412,616	359,412,616
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital	0	0
Number of treasury shares	0	0
Number of shares reserved for issue under stock options and contracts for the sale of share	0	0

For the explanation of the evolution of regulatory own funds and the solvency of the company, we refer to the chapter "Capital Management" in the management report.

Shared-based payments

There are no option plans with Belfius shares as underlying asset.

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

Belfius uses the indirect method for the cash flow statement. The presentation of this statement begins with net income or loss, with subsequent additions to or deductions from that amount for non-cash revenue and expense items, resulting in net income provided by operating activities.

(In thousands of EUR)	30/06/18	31/12/18	30/06/19
CASH FLOW FROM OPERATING ACTIVITIES			
Net income attributable to equity holders of the parent	334,622	649,028	304,430
Net income attributable to non-controlling interests	428	962	150
ADJUSTMENT FOR NON CASH ITEMS:	57,879	190,106	(52,186)
Depreciation, amortisation and other impairment	54,369	114,222	64,904
Impairment on bonds, loans and other assets	(12,462)	(47,023)	(14,127)
Net (gains) or losses on investments	(25,639)	(32,258)	(1,428)
Net (gains) or losses on tangible & intangible assets	(2,038)	(7,719)	(1,428)
Net (gains) or losses on consolidated shares & equity method companies	(23,601)	(24,539)	0
Increase / (decrease) of provisions (mainly insurance provision)	(10)	67,812	(29,295)
Unrealised (gains) or losses(1)	14,019	16,453	(76,115)
Net unrealised gains from cash flow hedges	(49)	(87)	0
Income from equity method companies	(1,229)	(1,745)	(4,149)
Dividends from equity method companies	1,552	1,352	552
Deferred taxes	27,328	71,381	7,472
Deferred tax income	(68,368)	(50,305)	(10,418)
Deferred tax charges	95,695	121,685	17,890
Other adjustments	0	0	0
CHANGES IN OPERATING ASSETS	(356,340)	(2,791,939)	(4,125,036)
Balances with central banks	0	0	0
Loans and advances due from credit institutions	1,331,315	1,542,700	(1,950,647)
Loans and advances	(2,204,745)	(5,791,150)	(1,795,196)
Debt securities and equity instruments	1,073,146	1,532,453	(278,703)
Assets from insurance companies	(9,806)	164,340	8,837
Tax asset	(78,013)	(63,615)	1,230
Accrued income from financial assets	123,181	(112,863)	18,176
Other assets	(590,710)	(63,915)	(128,152)
Assets held for sale-other assets	(707)	111	(581)
CHANGES IN OPERATING LIABILITIES	328,268	(343,832)	3,898,404
Balances from central banks	0	0	0
Loans and advances due to credit institutions	118,970	(1,265,425)	1,272,150
Customer borrowings and deposits	1,807,854	3,315,938	3,633,844
Debt securities and other financial liabilities	(1,231,635)	(1,596,318)	(327,877)
Technical provisions of insurance companies	(249,413)	(637,258)	(564,286)
Provisions and contingent liabilities	()	0	0
Tax liabilties	(12,508)	(36,000)	28,550
Accrued expenses on financial instruments	(112,074)	134,456	(161,177)
Other liabilities specific to insurance companies	(6,560)	(181,290)	(22,667)
Other liabilities	13,634	(77,934)	39,868
Liabilities held for sale-other liabilities	0	0	0
OTHER OPERATING FLOWS	836,917	675,512	(635,230)
DERIVATIVES	479,098	878,198	888,137
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,680,872	(741,966)	278,668

(1) This line item includes the fair value valuation on financial instruments at fair value through profit or loss.

The notes on pages 69 to 118 are an integral part of these condensed consolidated interim financial statements.

(In thousands of EUR)	30/06/18	31/12/18	30/06/19
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(68,481)	(134,461)	(76,134)
Sales of fixed assets	8,074	23,119	(583)
Acquisitions of unconsolidated equity shares	(84,640)	(128,841)	(44,680)
Sale of unconsolidated equity shares[1]	47,379	142,241	132,112
Acquisitions of subsidiaries and of business units[2]	(29,379)	(39,336)	0
Sale of subsidiaries and of business units	0	0	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(127,048)	(137,278)	10,715
CASH FLOW FROM FINANCING ACTIVITIES			
Issuance of new shares[3]	0	0	5,916
Reimbursement of capital	0	0	0
Issuance of subordinated debts[4]	198,952	198,952	0
Reimbursement of subordinated debts[4]	(190,919)	(190,254)	0
Issuance of Additional Tier 1 - instruments[5]	497,083	497,083	0
Reimbursement of Additional Tier 1 - instruments	0	0	0
Purchase of treasury shares	0	0	0
Sale of treasury shares	0	0	0
Dividends paid[6]	(291,500)	(397,482)	(269,847)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	213,616	108,300	(263,932)
NET CASH PROVIDED	1,767,440	(770,944)	25,452
of which cash outflow for leases			(3,009)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD	11,609,025	11,609,025	10,838,068
Cash flow from operating activities	1,680,872	(741,966)	278,668
Cash flow from investing activities	(127,048)	(137,278)	10,715
Cash flow from financing activities	213,616	108,300	(263,932)
Effect of exchange rate changes on cash and cash equivalents	(57)	(13)	219
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	13,376,408	10,838,068	10,863,738
ADDITIONAL INFORMATION			
Income tax paid (included in line net cash provided (used) by operating activities)	(204,067)	(228,927)	(84,937)
Dividends received (included in line net cash provided (used) by operating activities)	50,793	72,333	44,632
Interest received (included in line net cash provided (used) by operating activities)	1,772,224	3,285,666	1,744,382
Interest paid (included in line net cash provided (used) by operating activities)	(808,182)	(1,394,880)	(927,130)

(1) During 2018 and 1H 2019 Belfius Insurance has sold certain equity positions for risk and ALM purpose. Note that in 1H 2018 Belfius Bank sold its investments in "NEB participations", an associate evaluated through the equity method, for EUR 37 million.
(2) On March 29 2018, Belfius acquired 35,3% of the shares of Auxipar. On October 11 2018, Belfius Insurance acquired 100% of the shares of Offico Immo.
(3) Issuance of new shares relate to third party capital increases in the companies Jaimy and Charlin. We refer to note 10.1.
(4) Belfius issued a 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 qualifing as AT1 under CRR/ CRD IV.
(6) Includes the dividend paid to the shareholder as well as the interest on the Additional Tier 1 which is considered as a dividend under IFRS.

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

The notes on pages 69 to 118 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 2019) and the publication of this report.

1. Dividend

The Board of Directors of 8 August 2019 has decided to pay out an interim dividend of EUR 100 million to be paid in 3Q, 2019.

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 8 August 2019.

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 Financial Reporting.

The Royal Decree of 5 December 2004 requires Belfius to publish its consolidated financial statements in accordance with the IFRS as endorsed by the European Union.

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 2018.

Since the previous publication in the annual report of Belfius, the accounting policies have been adapted for lease accounting because IFRS 16 has replaced IAS 17 as from 1 January 2019. Except for these changes, the accounting policies remained unchanged.

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

2.1. First-time application IFRS16

Compliant with the transitional provisions, Belfius as a lessee used the modified retrospective application and has exempted lease agreements with a remaining lease term less than 12 months. Accordingly, Belfius did not restate comparative information and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings.

At the date of initial application, a right-of-use asset and a lease liability were recognised in the balance sheet with a limited negative impact of 2,8 Mio Euro in retained earnings. The right-of-use assets are measured as if IFRS 16 had been applied since start date.

For Belfius acting as a lessor, the accounting approach under IFRS 16 remains unchanged and the transition had no impact.

For Belfius acting as a lessor, the accounting approach under IFRS 16 remains unchanged and the transition had no impact.

Assets (In millions of EUR)		Balance sheet 31 December 2018	IFRS 16 impact	Balance sheet 1 January 2019
IX.	Tangible fixed assets – Right-of-use assets	Nihil	52,166	52,166
XII.B.	Deferred tax assets	300,508	936	301,444
TOTAL ASSETS		164,165,152	53,102	164,218,254

Liabilities (In millions of EUR)		Balance sheet 31 December 2018	IFRS 16 impact	Balance sheet 1 January 2019
IV.A.	Debt securities issued and other financial liabilities - Measured at amortised cost	79,609,747	55,910	79,665,657
TOTAL LIABILITIES		154,205,529	55,910	154,261,439

Equity (In millions of EUR)		Balance sheet 31 December 2018	IFRS 16 impact	Balance sheet 1 January 2019
XVII.	Reserves and retained earnings	4,738,565	(2,808)	4,735,757
TOTAL EQUITY		9,959,623	(2,808)	9,956,815

The lease liabilities are measured at the present value of the remaining lease payments, discounted using the best estimate of the incremental borrowing rate of Belfius as of 1 January 2019. This resulted in incremental borrowing rates applied to the lease liabilities ranging between 0.32% and 1.73% depending on the maturity of the contract.

2.2. IFRS 16 Accounting policies for Belfius as a lessee as from 1 January 2019.

IFRS 16 fundamentally changes the manner in which lessees account for leases by introducing a single lessee accounting model. The adoption of IFRS 16 by lessors retains the IAS 17 lease accounting treatment.

Belfius as a lessee recognises leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

Lease liabilities are not presented separately, but are included within the line item "IV.A Debt securities issued and other financial liabilities - Measured at amortised cost" in the statement of financial position.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

The right-of-use assets are included within the same line item "IX. Tangible fixed assets" as that within which the corresponding underlying assets would be presented if they were owned.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

2.3. IASB and IFRIC texts endorsed by the European Commission and applied as from 1 January 2019

The IASB has published IFRIC 23 and several limited amendments and improvements to existing IFRS. They will be applied, if necessary, but with the exception of the amendment to IAS 12 and IFRIC 23, the impact on the financial statements is estimated to be negligible.

- "Annual Improvements to IFRSs 2015-2017 Cycle", contains amendments to four standards: IFRS 3 "Business combinations", IFRS 11 "Joint arrangements", IAS 23 "Borrowing costs" and IAS 12 "Income taxes". Only the amendments to IAS 12 have impacted Belfius for the tax treatment on the additional Tier-1 issuance where tax consequences were recognised in the line item "XVII Reserves and retained earnings". The amendment to IAS 12 states that income tax consequences of dividends should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated the distributable profit were recognised. The amendment should be applied to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.
- 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.
- Amendment to IAS 28 "Long term Interests in Associates and Joint Ventures" clarifies that an entity is required to apply IFRS 9 Financial Instruments, including its impairment requirements, to long-term interests in associates or joint ventures that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- 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 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. Furthermore, the amendment confirms that a modification of a financial liability will result in the immediate recognition of a gain or loss. There is no impact for Belfius.
- IFRIC 23 "Uncertainty over income tax" provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. A tax uncertainty is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. IFRIC 23 clarifies that if an entity concludes that it is not probable that the taxation authority will accept a tax uncertainty, the entity shall reflect the effect of the uncertainty in determining the related taxable profit (or loss) or tax base. For Belfius, the initial application of IFRIC 23 consisted merely in a reclassification from provisions for uncertain tax treatments to current tax liabilities.

2.4. IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2019

Nihil

2.5. New IFRS standards, IFRIC interpretations and amendments issued during the current year but not yet endorsed by the European Commission

Nihil

2.6. Ongoing projects

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 features. The new standard supersedes IFRS 4 and should be applied retrospectively unless impracticable, in which case alternative approaches can be applied.

In June 2019 the IASB issued an Exposure Draft of amendments to IFRS 17. Although narrow in scope, the amendments aim to ease implementation of the Standard by reducing implementation costs and making it easier for companies to explain the results of applying IFRS 17 to investors and others. The key proposals are a one-year deferral of the effective date of IFRS 17 to 1 January 2022 and changes to the standard's requirements in seven important areas.

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.

IV. OPERATING SEGMENTS REPORTING

(some amounts may not add up due to rounding)

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.

1. Balance sheet

	31/12/18		
(In thousands of EUR)	Assets	Liabilities	Equity
Retail and Commercial	58,784,532	80,082,093	2,605,197
Public and Corporate	42,429,521	25,250,888	2,407,693
Group Center	62,951,097	48,872,547	4,946,734
TOTAL	**164,165,151**	**154,205,529**	**9,959,623**
of which banking group	146,355,548	137,307,451	9,048,097
of which insurance group(1)	17,809,603	16,898,077	911,526

(1) Note that the assets, liabilities and equity 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 94% loan to deposit ratio at the end of December 2018.

Note that there are no internal sales or purchases between segments, these assets and liabilities within a segment are those generated and originated by the business lines.

The equity allocated to Retail and Commercial and Public and Corporate is a normative regulatory equity. The normative regulatory equity of the business line is calibrated. The business line's CET 1 - ratio is brought at 13.5% taking into account the regulatory risk exposures allocated to the business line and some CET 1 capital deductions allocated to the business line (to a very limited extent, since the most important part of CET 1 capital deductions are allocated to GC). 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.

	30/06/19		
(In thousands of EUR)	Assets	Liabilities	Equity
Retail and Commercial	60,452,441	83,253,129	2,687,301
Public and Corporate	42,500,247	24,917,188	2,639,042
Group Center	68,739,587	53,363,785	4,831,830
TOTAL	**171,692,275**	**161,534,102**	**10,158,173**
of which banking group	153,745,466	144,513,462	9,232,004
of which insurance group(1)	17,946,809	17,020,640	926,169

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

2. Statement of income

A. Segmentation by business line

	30/06/18			
(In thousands of EUR)	Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	**858,917**	**292,742**	**21,934**	**1,173,594**
Net interest income bank	423,830	199,776	106,908	730,513
Net Fee and commissions bank	238,513	25,971	810	265,294
Life insurance contribution(1)	152,950	37,693	(8,958)	181,686
Non-life insurance contribution(1)	100,947	5,581	(109)	106,419
Other	(57,324)	23,721	(76,716)	(110,319)
EXPENSES	**(509,280)**	**(112,666)**	**(68,264)**	**(690,210)**
GROSS INCOME	**349,637**	**180,077**	**(46,329)**	**483,384**
Impairments on financial instruments and provisions for credit commitments	(15,674)	(13,200)	19,210	(9,664)
Impairments on tangible and intangible assets	(635)	(23)	0	(658)
NET INCOME BEFORE TAX	333,328	166,854	(27,119)	473,063
Total tax (expense) income	(91,815)	(39,849)	(6,348)	(138,013)
NET INCOME AFTER TAX	241,513	127,005	(33,468)	335,050
Attributable to non-controlling interests	180	0	248	428
Attributable to equity holders of the parent	241,333	127,004	(33,716)	334,622
of which banking group	118,025	108,049	(40,703)	185,371
of which insurance group(2)	123,309	18,955	6,987	149,251

(1) For comparability purposes, Belfius presents a proforma for the Statement of Income end June 2018. Where a shift between "Net income on investments and liabilities" and "Impairments on financial instruments and provisions for credit commitments" was made.
(2) Note that the statement of income represents the contribution of the Belfius insurance group to the consolidated statement of income.

	30/06/19			
(In thousands of EUR)	Retail and Commercial	Public and Corporate	Group Center	Total
INCOME	**864,054**	**291,676**	**(549)**	**1,155,183**
Net interest income bank	422,821	217,849	97,066	737,736
Net Fee and commissions bank	243,767	25,132	(894)	268,005
Life insurance contribution	147,491	32,036	(8,298)	171,229
Non-life insurance contribution	89,466	981	(1)	90,447
Other	(39,491)	15,678	(88,422)	(112,234)
EXPENSES	**(525,225)**	**(115,508)**	**(69,270)**	**(710,002)**
GROSS INCOME	**338,829**	**176,168**	**(69,818)**	**445,181**
Impairments on financial instruments and provisions for credit commitments	(19,410)	(14,525)	3,454	(30,481)
Impairments on tangible and intangible assets	(578)	161	0	(417)
NET INCOME BEFORE TAX	318,841	161,804	(66,364)	414,282
Total tax (expense) income	(83,242)	(44,544)	18,084	(109,702)
NET INCOME AFTER TAX	235,599	117,260	(48,280)	304,580
Attributable to non-controlling interests	(88)	1	236	150
Attributable to equity holders of the parent	235,687	117,259	(48,517)	304,430
of which banking group	134,220	102,371	(57,832)	178,759
of which insurance group(1)	101,466	14,888	9,316	125,671

(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)	30/06/18 Contribution Bank into group(1)	Contribution Insurance into group(1)	Total
INCOME	**865,832**	**307,761**	**1,173,594**
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(2)	43,064	53,354	96,418
Net fee and commission income	265,294	11,753	277,047
Technical result from 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	**288,946**	**194,438**	**483,384**
Impairments on financial instruments and provisions for credit commitments(2)	(14,037)	4,374	(9,664)
Impairments on tangible and intangible assets	(658)	0	(658)
NET INCOME BEFORE TAX	274,251	198,812	473,063
Total tax (expense) income	(88,880)	(49,133)	(138,013)
NET INCOME AFTER TAX	185,371	149,679	335,050
Attributable to non-controlling interests	0	428	428
Attributable to equity holders of the parent	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).
(2) For comparability purposes, Belfius presents a proforma for the Statement of Income end June 2018. Where a shift between "Net income on investments and liabilities" and "Impairments on financial instruments and provisions for credit commitments" was made.

(In thousands of EUR)	30/06/19 Contribution Bank into group(1)	Contribution Insurance into group(1)	Total
INCOME	**872,176**	**283,007**	**1,155,183**
Net interest income	737,736	207,335	945,071
Dividend income	7,687	36,393	44,080
Net income from equity method companies	3,220	929	4,149
Net income from financial instruments at fair value through profit or loss	54,305	3,537	57,842
Net income on investments and liabilities	(2,042)	56,432	54,390
Net fee and commission income	268,005	8,212	276,217
Technical result from insurance activities	0	(26,366)	(26,366)
Other income & expense	(196,736)	(3,464)	(200,200)
EXPENSES	**(588,574)**	**(121,428)**	**(710,002)**
GROSS INCOME	**283,601**	**161,579**	**445,181**
Impairments on financial instruments and provisions for credit commitments	(34,404)	3,923	(30,481)
Impairments on tangible and intangible assets	(417)	0	(417)
NET INCOME BEFORE TAX	248,780	165,502	414,282
Total tax (expense) income	(70,015)	(39,687)	(109,702)
NET INCOME AFTER TAX	178,765	125,815	304,580
Attributable to non-controlling interests	6	144	150
Attributable to equity holders of the parent	178,759	125,671	304,430

(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 WITH CENTRAL BANKS

Refers to table 5.2. of the annual report 2018

Analysis by nature

(In thousands of EUR)	31/12/18	30/06/19
Cash in hand	608,350	454,169
Balances with central banks other than mandatory reserve deposits	6,868,843	7,707,281
Mandatory reserves deposits(1)	837,110	857,000
TOTAL	8,314,303	9,018,450
Of which included in cash and cash equivalents	8,314,379	9,018,704

(1) The "Mandatory reserves deposits" includes the minimum reserve deposits that Belfius has with European Central Bank or with other central banks.

Cash and balances with central banks increased by EUR 0.7 billion, or 8.5%, to EUR 9.0 billion as at 30 June 2019, compared to EUR 8.3 billion as at 31 December 2018. In view of its liquidity management Belfius deposits part of its cash at the National Bank of Belgium.

5.2. LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS

Refers to table 5.3. of the annual report 2018

1. Summary totals

(In thousands of EUR)	31/12/18	30/06/19
Measured at amortised cost	13,106,846	14,528,612
Measured at fair value through other comprehensive income	0	0
Measured at fair value through profit and loss	0	0
TOTAL	13,106,846	14,528,612

2. Analysis by nature

Not measured at fair value through profit or loss

(In thousands of EUR)	31/12/18 Amortised Cost	31/12/18 Measured at fair value through other comprehensive income	30/06/19 Amortised Cost	30/06/19 Measured at fair value through other comprehensive income
Cash collateral	10,743,231	0	12,461,674	0
Sight accounts	133,433	0	178,075	0
Reverse repurchase agreements	2,134,333	0	1,546,121	0
Financial lease	68,865	0	72,863	0
Other loans and advances	27,177	0	270,160	0
Impaired loans stage 3	0	0	0	0
Less :				
Impairment stage 1 2 3	(191)	0	(281)	0
TOTAL	13,106,846	0	14,528,612	0
Of which included in cash and cash equivalents	2,208,919	0	1,673,014	0

Loans and advances due from credit institutions increased with 10,8% or EUR 1.4 billion to EUR 14.5 billion as at 30 June 2019 compared to EUR 13.1 billion as at 31 December 2018, due to an increase in cash collateral paid of EUR 1.7 billion in line with the fair value evolution of derivatives and EUR 0.3 billion term loans, partially offset by a decrease of EUR 0.6 billion reverse repurchase agreements.

3. Analysis of quality

See note 9.2.

4. Analysis of the fair value

See note 9.1.

5.3. LOANS AND ADVANCES

Refers to table 5.4. of the annual report 2018

1. Summary totals

(In thousands of EUR)	31/12/18	30/06/19
Measured at amortized cost	89,302,446	91,267,939
Measured at fair value through other comprehensive income	0	0
Measured at fair value through profit and loss	1,820,067	1,737,036
TOTAL	91,122,512	93,004,976

2. Analysis by nature

A. Not measured at fair value through profit or loss

(In thousands of EUR)	31/12/18 (PF) Amortised Cost	31/12/18 (PF) Measured at fair value through other comprehensive income	30/06/19 Amortised Cost	30/06/19 Measured at fair value through other comprehensive income
Cash collateral	709,274	0	915,261	0
Reverse repurchase agreements	536,808	0	636,930	0
Financial lease	3,358,007	0	3,371,511	0
Other Loans and advances(1)	84,318,640	0	86,028,471	0
of which bills and own acceptances	77,339	0	65,368	0
of which consumer loans	1,634,396	0	1,757,969	0
of which mortgage loans(2)	32,423,496	0	33,416,353	0
of which term loans(3)	47,531,051	0	48,208,364	0
of which current accounts	1,507,887	0	1,411,312	0
of which other loans and advances(4)	1,144,472	0	1,169,105	0
Impaired loans stage 3	1,863,493	0	1,805,535	0
Less:				
impairment stage 1 2 3	(1,483,775)	0	(1,489,770)	0
TOTAL	**89,302,446**	**0**	**91,267,939**	**0**

(1) The underlying pool of loans of the covered bonds (Pandbrieven) amount to EUR 10.3 billion end June 2019 (versus EUR 10.9 billion end December 2018). This covered pool guarantees the outstanding covered bonds, of which EUR 5.6 billion mortgage covered bonds (versus EUR 6.2 billion end December 2018) and EUR 2.5 billion public covered bonds (versus EUR 2.5 billion end December 2018). This decrease is explained by the 2013 issue of EUR 0.6 billion covered bonds that came to maturity in the first half of 2019.
(2) End 2018, EUR 5.5 billion "mortgage loans" were securitised, in June 2019, this decreased to EUR 5.1 billion.
(3) End 2018, EUR 2.2 billion "term loans" were securitised, in June 2019, this decreased to EUR 2.0 billion.
(4) Concerns mainly factoring activities.

PF concerns a shift from "other loans and advances" to "term loans".

Loans and advances measured at amortized cost increased by EUR 2.0 billion, or 2.2%, to EUR 91.3 billion as at 30 June 2019, compared to EUR 89.3 billion as at 31 December 2018. The increase in loans was due to an increase in commercial assets of EUR 1.7 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 include an increase in cash collateral paid of EUR 0.2 billion in line with the fair value evolution of derivatives and an increase in reverse repurchase agreements of EUR 0.1 billion.

B. Measured at fair value through profit and loss

(In thousands of EUR)	31/12/18 Financial assets held for trading(1)	Financial assets designated at fair value through profit or loss	Non-trading financial assets mandatorily measured at fair value through profit or loss(2)	Total
Loans and advances	32,133	0	1,787,934	1,820,067

(In thousands of EUR)	30/06/19 Financial assets held for trading(1)	Financial assets designated at fair value through profit or loss	Non-trading financial assets mandatorily measured at fair value through profit or loss(2)	Total
Loans and advances	22,831	0	1,714,205	1,737,036

(1) Belfius warehouses mortgage loans, for a limited period of time, before transferring these mortgage loans to a non-related party.
(2) It mainly concerns loans to the public and social sector with specifically structured interest rate features that do not pass the SPPI-test and are therefore measured at fair value through profit and 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

Refers to table 5.5. of the annual report 2018

1. Summary totals

(In thousands of EUR)	31/12/18	30/06/19
Measured at amortized cost	21,610,561	22,256,069
Measured at fair value through other comprehensive income	5,216,152	5,168,702
Measured at fair value through profit and loss	1,742,052	1,770,081
TOTAL	28,568,766	29,194,852

The debt securities and equity instruments portfolio is situated in Belfius's Banking Group for EUR 17.4 billion (versus EUR 16.7 billion at 31 December 2018), and in Belfius Insurance for EUR 11.8 billion (versus EUR 11.8 billion at 31 December 2018).

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, except for some positions that were classified as "held to collect and sell". 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 its balance sheet.

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.

2. Analysis by nature

A. Not measured at fair value through profit or loss

	31/12/18		30/06/19	
(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	10,794,385	2,367,208	10,763,121	2,313,081
Other debt securities	11,010,727	1,504,313	11,682,173	1,485,749
Equity instruments	0	1,365,896	0	1,390,164
Impaired debt securities stage 3	1,782	0	1,782	0
Less:				
impairment stage 1 2 3	(196,333)	(21,265)	(191,008)	(20,291)
TOTAL	21,610,561	5,216,152	22,256,069	5,168,702
of which included in cash and cash equivalents	314,770	0	172,020	0

The debt securities measured at amortised cost increased with 0.7 billion or 3.0% to 22.3 billion as at 30 June 2019 compared to EUR 21.6 billion as at 31 December 2018 following investments in corporate bonds within the liquidity portfolio at Belfius Bank as well as reinvestments in government bonds at Belfius Insurance.

The financial assets measured at fair value through other comprehensive income slightly decreased to EUR 5.1 billion as at 30 June 2019 compared to EUR 5.2 billion as at 31 December 2018. Redemptions and some divestments of Belgian government bonds, in order to manage the duration gap and to decrease the concentration risk, within the balance sheet of Belfius Insurance was partially offset by positive fair value adjustments on debt and equity instruments.

B. Measured at fair value through profit and loss

(In thousands of EUR)	31/12/18 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	164,922	0	128,204	293,125
Other debt securities	366,886	0	956,835	1,323,722
Equity instruments	124,824	0	380	125,205
TOTAL	656,633	0	1,085,420	1,742,052

(In thousands of EUR)	30/06/19 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	212,305	0	126,206	338,511
Other debt securities	368,150	0	910,043	1,278,193
Equity instruments	153,376	0	0	153,376
TOTAL	733,832	0	1,036,249	1,770,081

The debt securities measured at fair value through profit or loss slightly increased with EUR 0.03 billion, or 1.6%, to EUR 1.8 billion as at 30 June 2019 compared to EUR 1.7 billion as at 31 December 2018.

C. Measured at fair value through other comprehensive income - Equity

(In thousands of EUR)	30/06/19 Reason for designation	Fair Value	Dividend income recognised
Investments designated as at fair value through other comprehensive income			
TOTAL	Investment portfolio	1,390,164	39,407

(In thousands of EUR)	30/06/19 Reason for disposal	Fair Value at derecognition date	Transfer of cumulative gain or loss within equity	Dividend income recognised
Investments derecognised as at fair value through other comprehensive income				
TOTAL	Investment portfolio	149,203	(7,900)	3,745

The sale of these equity positions was mainly situated at Belfius Insurance for 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 5.6. of the annual report 2018

1. Analysis by nature

(In thousands of EUR)	31/12/18 Assets	31/12/18 Liabilities	30/06/19 Assets	30/06/19 Liabilities
Derivatives held for trading	11,117,705	10,666,692	12,541,042	12,548,023
Derivatives designated as fair value hedges	182,889	2,325,442	157,668	2,611,181
Derivatives designated as cash flow hedges	294,588	271,754	265,006	332,131
Derivatives designated as portfolio hedge	1,172,402	4,476,392	1,371,249	4,711,663
TOTAL	12,767,585	17,740,280	14,334,966	20,202,999

An increase in the fair value of derivatives can be noted due to the lower interest rate environment compared to year-end 2018. Note that the netting on the balance sheet of the fair value of the derivatives with LCH amounted to EUR 7.4 billion as at 30 June 2019, compared to EUR 6.6 billion end 2018.

2. Detail of derivatives held for trading

	31/12/18			
	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver		
Foreign exchange derivatives	17,641,072	17,665,255	1,464,578	1,449,294
Interest rate derivatives	202,678,607	210,835,235	9,414,950	9,006,023
of which option/cap/floor/collar/swaption	82,998,404	89,112,770	1,447,806	1,766,503
of which interest rate swaps	118,997,914	119,062,522	7,966,678	7,239,459
of which interest rate swaps - held for trading	0	0	0	0
of which interest rate swaps - designated as economic hedges	48,288	0	404	0
of which interest futures	634,000	2,659,943	63	61
Credit derivatives	1,539,085	1,565,194	133,776	116,390
Equity derivatives	4,510,024	4,322,251	104,401	94,985
TOTAL	226,368,788	234,387,936	11,117,705	10,666,692

	30/06/19			
	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver		
Foreign exchange derivatives	20,853,928	20,785,126	1,521,436	1,396,736
Interest rate derivatives	198,384,004	205,446,994	10,679,512	10,907,019
of which option/cap/floor/collar/swaption	79,468,885	85,333,323	1,731,766	2,142,147
of which interest rate swaps	115,268,135	115,196,285	8,941,335	8,764,835
of which interest rate swaps - held for trading	175,793	0	0	0
of which interest rate swaps - designated as economic hedges	564,403	0	6,382	0
of which interest futures	2,906,787	4,917,386	30	37
Credit derivatives	2,024,480	1,483,865	138,161	138,844
Equity derivatives	5,272,111	5,014,236	201,933	105,424
TOTAL	226,534,523	232,730,222	12,541,042	12,548,023

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of a derivative financial instrument and 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 thereon is mitigated through the use of collateral (Credit Support Annex).

3. Fair Value Hedges

Detail of derivatives designated as fair value hedges

	31/12/18				30/06/19			
	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	807,802	678,950	152,939	727,461	811,098	686,977	154,269	806,989
Interest rate derivatives	4,516,407	4,516,407	1,786	1,597,981	5,362,714	5,362,714	902	1,802,207
of which interest rate swaps	4,516,407	4,516,407	1,786	1,597,981	5,362,714	5,362,714	902	1,802,207
Credit derivatives[2]	1,322,285	0	28,165	0	1,322,285	0	2,497	1,985
TOTAL	6,646,494	5,195,357	182,889	2,325,442	7,496,097	6,049,691	157,668	2,611,181

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of a derivative financial instrument and 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. Note that a forward sale contract mentions only one notional amount.
(2) Belfius Insurance has concluded "spreadlock" derivatives in order to hedge the asset swap spread on certain bond positions, the purpose of these transactions is to protect the Solvency 2 ratio from downward risk. Seeing that this spreadlock is defined to hedge the asset swap spread (i.e. all risks except changes in fair value due to benchmark interest rate) of specific bond positions, the derivative is presented as a credit derivative on which fair value hedge accounting has been set up.

Belfius applies fair value hedging to interest rate and foreign exchange risks on certain bonds (micro hedge). Belfius mainly uses plain vanilla interest rate swaps except for non EUR bonds where plain vanilla interest rate & currency swaps are used.

The fair value used for the measurement of hedge effectiveness is based on the fair value movements of the derivatives in the balance sheet and the fair value movement of the hedged risk of the hedged item (generally through a hypothetical derivative).

4. Cash flow hedges

Detail of derivatives designated as cash flow hedges

	31/12/18				30/06/19			
	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	5,870,832	5,855,582	294,588	271,754	6,797,883	6,795,234	265,006	332,131
of which cross currency swaps	5,870,832	5,855,582	294,588	271,754	6,797,883	6,795,234	265,006	332,131
TOTAL	5,870,832	5,855,582	294,588	271,754	6,797,883	6,795,234	265,006	332,131

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of a derivative financial instrument and 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 has restructured certain derivative contracts by eliminating certain optionalities. In particular, in some derivative contracts, Belfius does not have the option to choose the currency for its collateral posting anymore. As a result, Belfius needs to pay more collateral in GBP instead of in EUR. In order to hedge this additional collateral demand in GBP, Belfius has entered into some Cross Currency Swaps whereby GBP is received 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.

Belfius decided to cover the risk of variability of cash flows and foreign currency changes stemming from incoming invoices charging Belfius for services in foreign currencies. In order to hedge this risk, Belfius concluded Cross Currency Swaps which are recorded in a cash flow hedge relationship for the currency risk on a "highly probable forecasted transaction". Belfius demonstrates that the invoiced amounts are higher than the amounts received through the Cross Currency Swaps.

Estimated cashflows from cashflow hedging derivatives per time bucket

(In thousands of EUR)	Inflow	Outflow
Not more than three months	2,831,937	(4,092,510)
More than three but not more than six months	2,831,937	(4,089,125)
More than six months but not more than one year	2,831,937	(4,081,497)
More than one but not more than two years	2,552,399	(3,973,137)
More than two but not more than five years	2,412,631	(3,896,497)
More than five years	2,198,183	(3,282,335)

5. Detail of derivatives of portfolio hedge

	31/12/18				30/06/19			
	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	47,294,180	47,286,669	1,172,402	4,476,392	41,141,003	41,134,563	1,371,249	4,711,663
TOTAL	47,294,180	47,286,669	1,172,402	4,476,392	41,141,003	41,134,563	1,371,249	4,711,663

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of a derivative financial instrument and 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 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 5.1 million assets and EUR 0.4 million liabilities on 30 June 2019 compared to EUR 4.6 million assets and EUR 0.2 million liabilities at year-end 2018.

5.6. OTHER ASSETS

Refers to table 5.12. of the annual report 2018

(In thousands of EUR)	31/12/18	30/06/19
OTHER ASSETS	**771,861**	**903,821**
Accrued income	134,028	137,012
Deferred expenses	37,613	45,031
Payments in transit from clients	565,044	685,885
Inventories	18	11
Operational taxes	35,157	35,882
OTHER ASSETS SPECIFIC TO INSURANCE COMPANIES	**178,341**	**169,504**
Receivables resulting from direct insurance transactions	81,460	72,114
Other insurance assets[1]	96,881	97,391
Impaired insurance assets	407	407
Less:		
Impairment	(407)	(407)
TOTAL	950,202	1,073,325

(1) 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 CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(some amounts may not add up due to rounding)

6.1. CASH AND BALANCES FROM CENTRAL BANKS

Refers to table 6.1. of the annual report 2018

1. Analysis by nature

Not measured at fair value through profit or loss

(In thousands of EUR)	31/12/18	30/06/19
Deposits	3,962,322	3,954,278
TOTAL	3,962,322	3,954,278

Cash and balances from central banks remained stable at EUR 4.0 billion as at 30 June 2019.

2. Analysis of the fair value

See note 9.1.

6.2. CREDIT INSTITUTIONS BORROWINGS AND DEPOSITS

Refers to table 6.2. of the annual report 2018

1. Summary Totals

(In thousands of EUR)	31/12/18	30/06/19
Measured at amortised cost	5,866,810	7,138,529
Measured at fair value through profit and loss	0	0
TOTAL	5,866,810	7,138,529

2. Analysis by nature

A. Not measured at fair value through profit or loss

	Amortised Cost	
(In thousands of EUR)	31/12/18	30/06/19
Demand deposits	95,167	234,911
Term deposits	800,624	1,166,901
Repurchase agreements	0	12,962
Cash collateral received	4,421,154	4,884,307
Other borrowings	549,865	839,449
TOTAL	5,866,810	7,138,529

B. Measured at fair value through profit or loss

Nihil

Credit Institutions borrowings and deposits increased with EUR 1.3 billion, or 21.7%, to EUR 7.1 billion as at 30 June 2019 compared to EUR 5.9 billion as at 31 December 2018, following an increase of EUR 0.8 billion in deposits and an increase of EUR 0.5 billion in cash collateral received in line with the fair value evolution of derivatives.

2. Analysis of the fair value

See note 9.1.

6.3. BORROWINGS AND DEPOSITS

Refers to table 6.3. of the annual report 2018

1. Summary totals

(In thousands of EUR)	31/12/18	30/06/19
Measured at amortised cost	79,609,747	83,233,917
Measured at fair value through profit and loss	51,563	53,565
TOTAL	79,661,310	83,287,482

1. Analysis by nature

A. Not measured at fair value through profit or loss

	Amortised Cost	
(In thousands of EUR)	31/12/18	30/06/19
Demand deposits	26,008,153	26,679,020
Saving deposits	38,131,900	40,191,073
Term deposits	7,984,047	8,108,921
Cash collateral	20,153	33,288
Non-regulated savings accounts	7,450,482	8,199,861
TOTAL DEPOSITS	**79,594,736**	**83,212,163**
Other borrowings	15,011	21,754
TOTAL BORROWINGS	**15,011**	**21,754**
TOTAL	79,609,747	83,233,917

Borrowings and deposits increased by EUR 3.6 billion, or 4.6%, to EUR 83.3 billion as at 30 June 2019, compared to EUR 79.7 billion as at 31 December 2018. The increase in customer borrowings and deposits was due to the organic growth of saving and sight accounts.

B. Measured at fair value through profit or loss

	Financial liabilities designated at fair value through profit and loss	
(In thousands of EUR)	31/12/18	30/06/19
Deposits	51,563	53,565
TOTAL	51,563	53,565

2. Analysis of the fair value

See note 9.1.

6.4. DEBT SECURITIES ISSUED AND OTHER FINANCIAL LIABILITIES

Refers to table 6.4. of the annual report 2018

1. Summary totals

(In thousands of EUR)	31/12/18	30/06/19
Measured at amortised cost	19,274,694	18,006,875
Measured at fair value through profit and loss	7,412,178	8,391,661
TOTAL	26,686,872	26,398,536

2. Analysis by nature

A. Not measured at fair value through profit or loss

	Amortised Cost	
(In thousands of EUR)	31/12/18	30/06/19
Certificates of deposit	3,091,780	3,438,457
Customer saving certificates	1,754,812	1,553,867
Non-convertible debts	5,697,953	4,863,772
Covered bonds(1)	8,730,149	8,094,849
Lease liabilities(2)		55,930
TOTAL	19,274,694	18,006,875

(2) Lease liabilities recognised under IFRS 16. We refer to note 3 "accounting policies".

Debt securities measured at amortised cost decreased by EUR 1.3 billion, or 6.6%, to EUR 18.0 billion as at 30 June 2019 compared to EUR 19.3 billion as at 31 December 2018, due to the maturity of EUR 0.6 billion covered bonds and EUR 1.0 billion other debt securities, partially offset by an increase of EUR 0.3 billion certificates of deposit.

(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" 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 10.3 billion in June 2019 (versus EUR 10.9 billion in December 2018). This decrease is explained by the 2013 issue of EUR 0.6 billion covered bonds that came to maturity in the first half of 2019. The carrying value of the cover pool is accounted for in loans and advances. We also refer to note 5.3.

B. Measured at fair value through profit or loss

(In thousands of EUR)	31/12/18 Financial liabilities held for trading	31/12/18 Financial liabilities designated at fair value through profit or loss	31/12/18 Total	30/06/19 Financial liabilities held for trading	30/06/19 Financial liabilities designated at fair value through profit or loss	30/06/19 Total
Debt securities		7,322,359	7,322,359		8,239,949	8,239,949
Debt securities issued by public sector (trading positions)	89,748		89,748	151,362		151,362
Other debt securities (trading positions)	71		71	77		77
Equity instruments (trading positions)	0		0	273		273
TOTAL	89,819	7,322,359	7,412,178	151,712	8,239,949	8,391,661

The debt securities measured at fair value through profit and loss increased with EUR 1.0 billion, or 13.2%, to EUR 8.4 billion as at 30 June 2019 compared to EUR 7.4 billion as at 31 December 2018, following new issuances of (structured) debt securities for retail customers.

2. Analysis of the fair value

See note 9.1.

6.5. PROVISIONS FOR INSURANCE ACTIVITIES

Refers to table 6.5. of the annual report 2018

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 Belfius Insurance pays to Belfius Bank.

(In thousands of EUR)	31/12/18	30/06/19
GROSS RESERVES		
In the consolidated balance sheet (as presented on balance sheet)	13,907,770	13,360,413
Intragroup transactions	12,592	10,308
Gross reserves including intragroup transactions	13,920,361	13,370,720

1. General overview Life/Non-Life contracts

(In thousands of EUR)	31/12/18 Life	31/12/18 Non-Life	31/12/18 Total	30/06/19 Life	30/06/19 Non-Life	30/06/19 Total
GROSS RESERVES	12,643,869	1,276,492	13.920.361	12,054,948	1,315,772	13.370.720
Gross reserves – Share of reinsurers	12,390	87,513	99.902	12,995	95,807	108.802

2. Insurance contracts Life

Gross reserves

(In thousands of EUR)	31/12/18	30/06/19
LIFE INSURANCE RESERVES	12,373,665	11,804,242
Reserves due to shadow accounting adjustments	21,902	38,818
TOTAL LIFE INSURANCE RESERVE	12,395,568	11,843,060
Claims reserves	102,259	83,960
Profit sharing reserve[1]	145,904	127,493
Other technical reserves	139	435
TOTAL GROSS TECHNICAL RESERVES LIFE	12,643,869	12,054,948

(1) Discretionary profit sharing is a contractual but conditional right to receive additional benefits in addition to a guaranteed return. At the moment when the annual business plan is drawn up, an estimate is made of the total conditional profit sharing, decided to include on the balance sheet. The valuation rules stipulate that for the part of this estimate for which no technical provisions have been booked through the profit and loss account, this is presented on balance in a separate category of equity.

The gross technical reserves for Life decreased by EUR 589 million to EUR 12.1 billion as at 30 June 2019 compared to EUR 12.6 billion as at 31 December 2018. In current low interest rate environment, we note a continued shift from Branch 21 products towards alternative investment forms such as Branch 23 or mixed Branch 44 products. As a result, a substantial part of the Branch 21 investment contracts coming at maturity are not reinvested in new Branch 21 investment contracts.

The dedicated reserves due to shadow accounting adjustments increased by EUR 17 million in line with the evolution of the asset portfolio.

The profit sharing reserve decreased by EUR 18 million from EUR 146 million as at 31 December 2018 to EUR 127 million as at 30 June 2019. The provision for future discretionary participation remained stable at EUR 179 million as at 30 June 2019 compared to 31 December 2018. As at 30 June 2019 EUR 96 million was included in the technical provisions through the income statement and EUR 83 million was processed through equity.

Belfius has used the results of the liability adequacy test (LAT) to assess the adequacy of its technical provisions for low interest rates and other risks which demonstrated that the technical provisions were sufficient.

3. Insurance contracts Non-Life

Gross reserves

(In thousands of EUR)	31/12/18	30/06/19
GROSS RESERVES	1,099,735	1,110,299
Other technical reserves	36,799	36,760
Profit sharing reserves	1,701	1,366
Unearned premium reserves (UPR)	138,256	167,348
TOTAL GROSS RESERVES NON-LIFE	1,276,492	1,315,772

The technical provision for non-life products increased slightly with EUR 39 million to EUR 1.3 billion as at 30 June 2019 due to the growth in non-life activity. In addition, an increase in the claims provisions can be noted due to the storms in the first semester, partially offset by a release of EUR 5 million of claims provisions in line with the decrease of uncertainties above our risk appetite framework.

6.6. PROVISIONS AND CONTINGENT LIABILITIES

Refers to table 6.6. of the annual report 2018

1. Analysis by nature

(In thousands of EUR)	31/12/18 (PF[1])	30/06/19
Pensions and other employment defined benefit obligations	275,898	271,760
Other long term employee benefits	26,604	27,031
Restructuring[2]	49,044	34,951
Provisions for litigations	50,511	56,686
Onerous contracts	4,624	4,431
Commitments and guarantees given (off-balance sheet)[3]	139,595	107,411
Other provisions[1]	80,476	46,040
TOTAL	626,752	548,310

(1) As from January 1st 2019 uncertainties with respect to income taxes (IFRIC 23) are reflected as a liability under "Tax Liabilities" and thus no longer presented under other provisions.
(2) 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.
(3) We refer to table 9.2. movements in allowances for credit losses for further information.

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. Since 2018, Belfius does not make use of this option anymore. 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.

Belfius recognises provisions for such litigations when, in the opinion of its management taking into account all available elements, including an analysis by its company lawyers and external legal advisors as the case may be,

- a present obligation has arisen as a result of past events,
- it is probable that Belfius will have to make a payment, and
- the amount of such payment can be estimated reliably.

With respect to certain other litigations against Belfius, of which management is aware, no provision has been made according to the principles outlined here above, as the 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.

In the opinion of Belfius, 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. Note that, apart from the cases listed below, a vigilance has been observed in the prevention of money laundering (AML) in the Belgian financial sector. In this context, as is customary, Belfius is collaborating with the Belgian authorities and will monitor this closely.

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 million. 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.

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 has submitted 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. All parties requested the Court to transfer this case to the Court of First Instance of Brussels. The Court decided on 19 November 2018 to grant the requested transfer and this procedure is now joined with the procedure before the Court of First Instance of 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 end June 2019, approximately 5,380 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.

Ethias

Ethias is managing one of Belfius' pension plans under an insurance agreement whereby Ethias must provide a guaranteed return on the pension reserves. Given the fact that the plan is managed in a segregated fund and that 100% of the financial gains on the underlying assets were contractually allocated to the plan, Belfius had to value these assets at their market value according to IFRS rules (IAS 19). In the course of 2016, Ethias claimed a significant increase in costs. Following Belfius' refusal, Ethias notified its intent to transfer the plan to a "main fund". If that were to occur Belfius would no longer be able to book the plan at the market value of the assets but would rather have to calculate the present value of the reserves based upon Ethias guaranteed return. In order to prevent this, Belfius summoned Ethias before the Court (tribunal de l'entreprise de Bruxelles/ondernemingsrechtbank Brussel) on 12 January 2017.

In 2019, Belfius and Ethias concluded an out of court settlement. The end of the judicial procedure will be acted by the Court. As part of the agreement, the abovementioned pension plan remains segregated. Belfius also received from Ethias the necessary financial information about the plan's assets as to allow a valuation of the plan at the market value of its assets.

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 2018

1. Not measured at fair value through profit or loss

	Amortised Cost	
(In thousands of EUR)	31/12/18	30/06/19
CONVERTIBLE SUBORDINATED DEBT	0	0
NON-CONVERTIBLE SUBORDINATED DEBT	1,219,469	1,213,610
Loan capital perpetual subordinated notes	159,385	161,594
Loan capital non-perpetual subordinated notes	1,060,084	1,052,016
TOTAL	1,219,469	1,213,610
HYBRID CAPITAL AND REDEEMABLE PREFERENCE SHARES	0	0

Subordinated debts remained stable at EUR 1.2 billion as at 30 June 2019, compared to year-end 2018.

2. Measured at fair value through profit or loss

Nihil

3. Analysis cash flows and non-cash changes

(In thousands of EUR)	31/12/18	30/06/19
OPENING BALANCE	1,198,968	1,219,469
CASH FLOWS		
Issuance of subordinated debts	198,952	0
Repayments of subordinated debts	(190,254)	0
NON-CASH CHANGES		
Foreign exchange adjustments	10,341	4,097
Effective Interest rate	1,461	(9,956)
CLOSING BALANCE	1,219,469	1,213,610

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)

Significant items included in the statement of income

We refer to the chapter "Financial results" in the management report.

7.1. INTEREST INCOME – INTEREST EXPENSE

Refers to table 7.1. of the annual report 2018

(In thousands of EUR)	30/06/18	30/06/19
INTEREST INCOME	1,650,880	1,728,736
INTEREST INCOME OF FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,249,275	1,257,987
Loans and advances due from credit institutions	10,776	10,503
Loans and advances	952,994	958,304
Debt securities issued by public sector	182,444	181,517
Other debt securities	101,964	107,076
Other	1,097	587
INTEREST INCOME OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OCI	61,094	51,366
Debt securities issued by public sector	39,240	31,683
Other debt securities	21,854	19,684
INTEREST INCOME OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	307,584	391,234
Financial assets held for trading	3,646	4,434
Non-trading financial assets mandatorily measured at fair value	52,170	48,314
Loans and advances	*38,387*	*29,681*
Debt securities issued by public sector	*663*	*525*
Other debt securities	*13,119*	*18,108*
Derivatives held for trading	71,878	90,759
Derivatives as hedging instruments	179,891	247,727
INTEREST INCOME ON FINANCIAL LIABILITIES (NEGATIVE YIELD)	32,927	28,149
MODIFICATION GAIN ON FINANCIAL LIABILITIES	0	0
INTEREST EXPENSE	(705,574)	(783,666)
INTEREST EXPENSE OF FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(180,194)	(174,965)
Cash and balances with central banks	0	0
Credit institutions borrwings and deposits	(6,986)	(6,449)
Customers borrowings and deposits	(49,829)	(60,113)
Debt securities issued	(105,717)	(91,399)
Lease liabilities(1)		(430)
Subordinated debts	(16,706)	(15,488)
Other	(956)	(1,087)
INTEREST EXPENSE OF FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(482,679)	(575,038)
Financial liabilities held for trading	(2,257)	(1,368)
Financial liabilities designated at fair value	(47,017)	(49,541)
Derivatives held for trading	(77,524)	(84,167)
Derivatives as hedging instruments	(355,882)	(439,963)
INTEREST EXPENSE ON FINANCIAL ASSETS (NEGATIVE YIELD)	(42,701)	(33,663)
MODIFICATION LOSS ON FINANCIAL ASSETS	0	0
NET INTEREST INCOME	945,305	945,071

(1) Relates to the finance cost recognised under IFRS 16. We refer to note 3 "accounting policies".

Net interest income remained stable at EUR 945 million as at 30 June 2019 thanks to higher volumes in commercial assets, and this despite the pressure due to the lower interest rate environment within a highly competitive market as well as lower outstandings in Branch 21 and reinvestments at lower market yields.

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

Refers to table 7.4. of the annual report 2018

(In thousands of EUR)	30/06/18	30/06/19
Net trading income	181,713	44,521
Net result of financial assets designated at fair value through profit or loss and result from the related derivatives	0	0
Result of financial assets non-trading mandatorily measured at fair value through profit or loss	(27,525)	18,508
Loans and advances	*(24,437)*	*17,344*
Debt securities issued by public sector	*2,874*	*(1,843)*
Other Debt securities	*(5,962)*	*2,987*
Equity instruments	*0*	*20*
Net result of financial liabilities designated at fair value through profit or loss and result from the related derivatives (except own credit risk)	135	(1,078)
Net result of hedge accounting	(140,218)	(4,109)
TOTAL	14,105	57,842

Net income from financial instruments measured at fair value through profit or loss increased with EUR 43.7 million to EUR 57.8 million in June 2019, compared to EUR 14.1 million in June 2018.

The net result from financial instruments was positively impacted by lower credit spreads more than offsetting some negative impact of the lower interest rates. Note that 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), partially offset by positive net trading income. Belfius is managing basis risks through 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 -86 million end June 2019 (compared to EUR -84 million end June 2018), whereas total amount on the balance sheet of the debit value adjustment amounts to EUR 5 million end June 2019 (EUR 4 million end June 2018). The total amount on the balance sheet related to funding value adjustments amounts to EUR -53 million end June 2019 (compared to EUR -38 million end June 2018).

The total P&L impact for credit value adjustments amounted to EUR +11 million in June 2019 (compared to +1 million in June 2018), for debit value adjustments EUR -0.4 million in June 2019 (compared to -0.4 million in June 2018) and for funding value adjustments EUR -8 million in June 2019 (compared to EUR +4 million in June 2018).

All hedge effectiveness tests were respected at all times.

Result of hedge accounting

(In thousands of EUR)	30/06/18	30/06/19
FAIR VALUE HEDGES	(127,985)	5,223
Fair value changes of the hedged item attributable to the hedged risk	(401,399)	454,775
Fair value changes of the hedging derivatives	273,414	(449,552)
CASH FLOW HEDGES	0	0
DISCONTINUATION OF CASH FLOW HEDGE ACCOUNTING (CASH FLOWS NO LONGER EXPECTED TO OCCUR)	0	0
HEDGES OF NET INVESTMENTS IN A FOREIGN OPERATION	0	0
PORTFOLIO HEDGE	(12,233)	(9,332)
Fair value changes of the hedged item	(194,187)	445,900
Fair value changes of the hedging derivatives	181,954	(455,231)
TOTAL	(140,218)	(4,109)

(In thousands of EUR)	30/06/18	30/06/19
DISCONTINUATION OF CASH FLOW HEDGE ACCOUNTING (CASH FLOWS STILL EXPECTED TO OCCUR) – AMOUNTS RECORDED IN INTEREST MARGIN	49	0

For more details, we refer to note 5.5. Derivatives.

7.3. NET INCOME ON INVESTMENTS AND LIABILITIES

Refers to table 7.5. of the annual report 2018

(In thousands of EUR)	30/06/18 (PF)	30/06/19
FINANCIAL ASSETS AT AMORTISED COST (NOT IMPAIRED)[(1)]	**923**	**2,288**
Realised gains on debt securities issued by public sector	0	1
Realised gains on other debt securities	923	2,288
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (NOT IMPAIRED)	**286,013**	**56,547**
Realised gains on debt securities issued by public sector	283,921	55,302
Realised gains on other debt securities	2,092	1,246
ASSETS HELD FOR SALE	**46,857**	**0**
Realised gains on Assets Held for Sale[(2)]	46,857	0
OTHER	**2,049**	**2,065**
Realised gains on Tangible fixed assets	2,048	1,433
Other realised gains	1	632
FINANCIAL LIABILITIES AT AMORTISED COST	**1**	**0**
Realised gains on financial Liabilities	1	0
TOTAL GAINS	**335,843**	**60,900**
FINANCIAL ASSETS AT AMORSISED COST (NOT IMPAIRED)[(1)]	**(8,031)**	**(6,354)**
Realised losses on other debt securities	(8,031)	(6,354)
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (NOT IMPAIRED)	**(231,374)**	**(139)**
Realised losses on debt securities issued by public sector	(231,197)	(18)
Realised losses on other debt securities	(177)	(121)
ASSETS HELD FOR SALE	**(1)**	**(10)**
Realised losses on Assets Held for Sale	(1)	(10)
OTHER	**(10)**	**(5)**
Realised losses on Tangible fixed assets	(10)	(5)
FINANCIAL LIABILITIES AT AMORTISED COST	**(8)**	**(4)**
Realised losses on financial Liabilities	(8)	(4)
TOTAL LOSSES	**(239,425)**	**(6,510)**
TOTAL NET INCOME ON INVESTMENTS AND LIABILITIES	**96,418**	**54,390**

(1) For comparability purposes, Belfius presents a proforma for the Statement of Income end June 2018. Where a shift between "Net income on investments and liabilities" and "Impairments on financial instruments and provisions for credit commitments" was made.
(2) This line item contains the proceeds of the sale of NEB participations and the capital gain on the acquisition of Auxipar in 1H 2018.

Net income on investments and liabilities decreased by EUR 42.0 million, or 43.6%, to EUR 54.4 million in June 2019, compared to EUR 96.4 million in June 2018.

In 1H 2018 the net income on investments and liabilities was mainly impacted by the sale of the equity stake of Belfius in "NEB Participations" with realised gain of EUR 23.6 million, and the revaluation of its historical stake in Auxipar following step up acquisition, with revaluation impact of EUR 23 million. In 1H 2018 Belfius Insurance realised gains on divestments in bonds for EUR 44 million, part of these capital gains (EUR 9 million) were realized following the settlement of a segregated fund which was (almost entirely) compensated by an opposite movement in the technical result from insurance activities life. In 1H 2018, the Belfius' Banking Group realized a gain of EUR 10 million following the sale of certain Italian government bond and swap packages, for a notional amount of EUR 0.8 billion, in line with Belfius' objective to decrease its related concentration risk.

In 1H 2019, a lower amount of Belfius group-wide gains has been realized, with Belfius Insurance realizing EUR 54 million of gains on sold bonds in order to manage its duration gap and to somewhat decrease its concentration risk on Belgian government bonds.

The table below provides a summary of the realised gains and losses from derecognition on not impaired and impaired financial instruments. These realised gains and losses can be accounted for in the line-item "Net income on investments and liabilities" (note 7.3.) or in in the line-item "Impairments on financial instruments and provisions for credit commitments".

1. 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 (PF)	30/06/19
REALISED GAINS FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	**1,876**	**3,336**
Realised gains on loans and advances	629	839
Realised gains on debt securities issued by public sector	1	90
Realised gains on other debt securities	1,246	2,407
REALISED GAINS ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	**100**	**8,282**
Realised gains on impaired loans and advances	100	8,282
REALISED LOSSES ARISING FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	**(9,448)**	**(10,357)**
Realised losses on Loans and advances	(1,322)	(1,471)
Realised losses on other debt securities	(8,126)	(8,887)
REALISED LOSSES ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT AMORTISED COST	**(78)**	**(8,195)**
Realised losses on impaired Loans and advances	(78)	(8,195)

2. Realised gains or losses arising from derecognition of financial assets measured at fair value through other comprehensive income (impaired and not impaired)

(In thousands of EUR)	30/06/18 (PF)	30/06/19
REALISED GAINS FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**286,013**	**56,547**
Realised gains on debt securities issued by public sector	283,921	55,302
Realised gains on other debt securities	2,092	1,246
REALISED GAINS ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**0**	**0**
REALISED LOSSES ARISING FROM DERECOGNITION OF NOT IMPAIRED FINANCIAL ASSETS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**(231,374)**	**(139)**
Realised losses on debt securities issued by public sector	(231,197)	(18)
Realised losses on other debt securities	(177)	(121)
REALISED LOSSES ARISING FROM DERECOGNITION OF IMPAIRED FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**0**	**0**

7.4. FEE AND COMMISSION INCOME – EXPENSE

Refers to table 7.6. of the annual report 2018

	30/06/18			30/06/19		
(In thousands of EUR)	Income	Expense	Net	Income	Expense	Net
Commissions on unit trusts and mutual funds managed by third parties	148,084	(33,001)	115,083	143,506	(30,716)	112,790
Insurance activity	60,871	(4,166)	56,706	57,522	(3,789)	53,732
Credit activity	17,682	(4,690)	12,992	19,428	(4,356)	15,072
Purchase and sale of securities	8,800	(319)	8,481	8,859	(332)	8,527
Purchase and sale of unit trusts and mutual funds	12,007	(17)	11,990	11,300	(27)	11,273
Payment services	79,101	(30,514)	48,587	85,087	(32,790)	52,297
Commissions to not exclusive brokers	886	(5,205)	(4,319)	882	(7,355)	(6,473)
Financial engineering	0	0	0	0	0	0
Services on securities other than safekeeping	3,306	(631)	2,675	3,020	(578)	2,442
Custody	13,139	(1,390)	11,749	13,795	(1,599)	12,195
Issues and placements of securities	1,494	(2,137)	(643)	2,027	(2,519)	(492)
Servicing fees of securitisation	114	0	114	105	(125)	(21)
Private banking	12,281	(3,271)	9,010	13,129	(2,478)	10,651
Clearing and settlement	3,526	(1,920)	1,607	3,590	(2,193)	1,397
Securities lending	3,609	0	3,609	3,162	(3)	3,160
Financial guarantees	2,392	(2,983)	(592)	2,391	(2,723)	(332)
TOTAL	367,292	(90,245)	277,047	367,801	(91,584)	276,217

Net fee and commission income remained rather stable, at EUR 276.2 million in June 2019, compared to EUR 277.0 million in June 2018. Slightly declining insurance and asset management fees, were almost entirely offset by an increase in commission income on payment services and private banking services.

7.5. INSURANCE RESULTS

Refers to table 7.7. of the annual report 2018

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 Belfius Insurance pays to Belfius Bank.

(In thousands of EUR)	30/06/18	30/06/19
GROSS EARNED PREMIUMS		
In the consolidated income statement (as presented on statement of income)	729,640	738,284
Intragroup transactions	11,042	5,945
Gross earned premiums including intragroup transactions	740,682	744,229

1. Consolidated statement of income

	30/06/18				30/06/19			
(In thousands of EUR)	Life	Non-Life	Non-Technical	Total	Life	Non-Life	Non-Technical	Total
INCOME	**181,686**	**106,419**	**19,656**	**307,761**	**171,229**	**90,447**	**21,330**	**283,007**
Technical result(1)	(87,892)	85,341	0	(2,551)	(96,597)	70,255	(24)	(26,366)
Gross earned premiums	395,509	345,173	0	740,682	390,292	353,937		744,229
Other technical income and charges	(483,401)	(259,832)	0	(743,233)	(486,889)	(283,682)	(24)	(770,595)
Financial result	259,009	20,581	18,969	298,560	260,599	19,918	20,644	301,161
Interest income , Interest expense , Dividend income	221,202	20,148	14,097	255,447	209,774	19,391	14,563	243,728
Net income on investments and liabilities(2)	47,583	47	5,724	53,354	54,501	(3)	1,935	56,432
Net income from equity method companies, Net income from financial instruments at fair value through profit or loss, Other income, Other expense	(9,776)	386	(851)	(10,241)	(3,676)	531	4,146	1,001
Fee and commission income, Fee and commission expense	10,569	497	687	11,753	7,228	274	710	8,212
EXPENSES	**(32,744)**	**(75,568)**	**(5,011)**	**(113,323)**	**(34,710)**	**(80,036)**	**(6,682)**	**(121,428)**
Impairments on loans and advances and provisions for credit commitments, Impairments on goodwill(2)	3,391	225	758	4,374	2,871	463	589	3,923
Impairments on tangible and intangible assets	0	0	0	0	0	0	0	0
NET INCOME BEFORE TAX	**152,333**	**31,076**	**15,403**	**198,812**	**139,391**	**10,875**	**15,237**	**165,502**
Tax (expense) income	(38,651)	(8,390)	(2,092)	(49,133)	(34,355)	(2,684)	(2,648)	(39,687)
NET INCOME	**113,682**	**22,685**	**13,311**	**149,679**	**105,035**	**8,191**	**12,589**	**125,815**
Attributable to non-controlling interests	180	0	248	428	425	0	(281)	144
Attributable to equity holders of the parent	113,502	22,685	13,063	149,251	104,610	8,191	12,870	125,671

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

(2) For comparability purposes, Belfius presents a proforma for the Statement of Income end June 2018. Where a shift between "Net income on investments and liabilities" and "Impairments on financial instruments and provisions for credit commitments" was made.

2. Consolidated balance sheet

	30/06/18				30/06/19			
(In thousands of EUR)	Life	Non-Life	Non-Technical	Total	Life	Non-Life	Non-Technical	Total
TECHNICAL PROVISIONS OF INSURANCE COMPANIES								
Technical provisions -insurance activities	13,058,470	1,275,380	0	14,333,850	12,054,948	1,315,772	0	13,370,720
Technical provisions unit-linked	2,824,305	0	0	2,824,305	3,418,324	0	0	3,418,324
Technical provisions - share of reinsurers	192,157	88,846	0	281,003	12,995	95,807	0	108,802

Technical result from insurance activities decreased with EUR 23.8 million to a loss of EUR 26.4 million for 30 June 2019, compared to a loss of EUR 2.6 million for 30 June 2018.

The technical result from insurance activities Life decreased with EUR 9 million. The allocation of technical interests decreased with EUR 29 million following the declining outstanding in Life Branch 21 and a decreasing average guaranteed interest rate on the remaining volumes. 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 sufficient. Belfius assessed these life technical provisions, in line with this RAF, taking into account the remaining uncertainties, model risks and sensitivities, resulting in 1H 2018 in a release (and hence positive impact) of EUR 45 million. In 1H 2019, the reassessment resulted in no release.

In Non-Life, the technical margin decreased with EUR 15 million, mainly stemming from an increase in the claim cost natural catastrophes of EUR 11 million. Following the reassessment of the technical provisions non-life in line with the decrease of uncertainties above our risk appetite framework, EUR 5 million release of claims provisions was booked in 1H 2019 compared to EUR 10 million in 1H 2018.

7.6. OTHER INCOME

Refers to table 7.8. of the annual report 2018

(In thousands of EUR)	30/06/18	30/06/19
Rental income from investment property	14,223	18,872
Other rental income	1,963	1,888
Other banking income	355	461
Write-back of provisions for litigations	6,333	4,529
Real estate projects	2,399	4,921
Asset Finance activities(1)	51,620	40,149
Other income on other activities(1)(2)	23,384	40,423
OTHER INCOME	**100,278**	**111,241**

(1) Asset finance activities have been detailed further and are presented as a specific line item. The presentation for June 2018 changed to be aligned with the June 2019 presentation.
(2) An increase in other income on other activities can be noted due to the derecognition of certain old liabilities.

7.7. OTHER EXPENSE

Refers to table 7.9. of the annual report 2018

(In thousands of EUR)	30/06/18	30/06/19
Sector levies[(1)]	(221,919)	(222,353)
Repair and maintenance on investment properties that generated income during the current financial year	(1,123)	(456)
Provisions for litigations[(2)]	(897)	(10,703)
Real estate projects	(1,541)	(4,466)
Asset Finance activities[(3)]	(47,115)	(36,186)
Other expense on other activities[(4)]	(34,883)	(37,275)
OTHER EXPENSE	(307,478)	(311,441)

(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 2018).
(2) An additional provision for potential settlements of ongoing disputes with third parties, recognised since 2017, is recognised in 1H 2019.
(3) Asset finance activities have been detailed further and are presented as a specific line item. The presentation for June 2018 changed to be aligned with the June 2019 presentation.
(4) "Other expenses on other activities" includes other operational expenses, depreciation and amortization on investment property, and other operational taxes.

OTHER NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

VIII. NOTES ON THE CONSOLIDATED INTERIM OFF-BALANCE SHEET ITEMS

(some amounts may not add up due to rounding)

8.1. REGULAR WAY TRADE

Refers to table 8.1. of the annual report 2018

(In thousands of EUR)	31/12/18	30/06/19
Loans to be delivered and purchases of assets	1,484,815	2,662,531
Borrowings to be received and sales of assets	6,998,340	5,852,774

8.2. GUARANTEES

Refers to table 8.2. of the annual report 2018

(In thousands of EUR)	31/12/18	30/06/19
Guarantees given to credit institutions	1,180,557	1,139,661
Guarantees given to customers	4,075,552	4,225,434
Guarantees received from credit institutions(1)	902,575	1,294,750
Guarantees received from customers	30,133,568	30,236,929

(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 2018

(In thousands of EUR)	31/12/18	30/06/19
Unused lines granted to credit institutions	213,660	210,946
Unused lines granted to customers	26,071,945	26,386,498
Unused lines obtained from credit institutions	11,775	9,327
Unused lines obtained from customers	0	0

8.4. OTHER COMMITMENTS TO FINANCING ACTIVITIES

Refers to table 8.4. of the annual report 2018

(In thousands of EUR)	31/12/18	30/06/19
Insurance activity – Commitments given	0	0
Insurance activity – Commitments received	67,520	67,520
Banking activity – Commitments given(1)	22,783,793	22,456,202
Banking activity – Commitments received	75,903,870	77,412,483

(1) Mainly related to repurchase agreements and collateralisation of loans with the European Central Bank and other central banks.

For more details regarding the liquidity position, we refer to the "Risk Management" section in the Management Report.

The section "Banking activity- commitments given" also includes the underlying assets of the covered bond programs. The special estate of the mortgage covered bond program contains mainly residential mortgage loans for a total amount of EUR 8.7 billion (nominal) at the end of 2018 and 8.1 billion (nominal) at the end of June 2019. See also note 6.4 "Debt securities issued and other financial liabilities".

8.5. COMMITMENTS – CONTINGENT LIABILITIES

Refers to table 8.5. of the annual report 2018

(In thousands of EUR)	31/12/18	30/06/19
Single Resolution Fund– Commitments given(1)	17,473	17,473
Other contingent lialibities	143	143

(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 2018).

8.6. BOND LENDING AND BOND BORROWING TRANSACTIONS

Refers to table 8.6. of the annual report 2018

(In thousands of EUR)	31/12/18	30/06/19
Securities lending	1,622,279	2,154,708
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 2018

1. Fair value of financial instruments

A. Breakdown of fair value of assets

	31/12/18		
(In thousands of EUR)	Carrying amount	Fair value	Difference
Cash and balances with central banks	8,314,303	8,314,303	0
Loans and advances due from credit institutions	13,106,846	13,106,404	(442)
Measured at amortised cost	13,106,846	13,106,404	(442)
Loans and advances	91,122,512	96,690,717	5,568,204
Measured at amortised cost	89,302,446	94,870,650	5,568,204
Measured at fair value through profit or loss	1,820,067	1,820,067	0
Debt securities	27,077,665	27,865,078	787,413
Measured at amortised cost	21,610,561	22,397,974	787,413
Measured at fair value through other comprehensive income	3,850,257	3,850,257	0
Measured at fair value through profit or loss	1,616,847	1,616,847	0
Equity instruments	1,491,101	1,491,101	0
Measured at fair value through other comprehensive income	1,365,896	1,365,896	0
Measured at fair value through profit or loss	125,205	125,205	0
Unit linked products insurance activities	2,837,971	2,837,971	0
Derivatives	12,767,585	12,767,585	0
Gain/loss on of the hedged item in portfolio hedge of interest rate risk	4,590,806	4,590,806	0
Non current assets (disposal group) held for sale and discontinued operations	19,047	29,761	10,714
TOTAL	161,327,837	167,693,726	6,365,889

	30/06/19		
(In thousands of EUR)	Carrying amount	Fair value	Difference
Cash and balances with central banks	9,018,450	9,018,450	0
Loans and advances due from credit institutions	14,528,612	14,528,717	106
Measured at amortised cost	14,528,612	14,528,717	106
Loans and advances	93,004,976	100,458,290	7,453,315
Measured at amortised cost	91,267,939	98,721,254	7,453,315
Measured at fair value through profit or loss	1,737,036	1,737,036	0
Debt securities	27,651,312	29,190,302	1,538,990
Measured at amortised cost	22,256,069	23,795,059	1,538,990
Measured at fair value through other comprehensive income	3,778,539	3,778,539	0
Measured at fair value through profit or loss	1,616,704	1,616,704	0
Equity instruments	1,543,540	1,543,540	0
Measured at fair value through other comprehensive income	1,390,164	1,390,164	0
Measured at fair value through profit or loss	153,376	153,376	0
Unit linked products insurance activities	3,418,324	3,418,324	0
Derivatives	14,334,966	14,334,966	0
Gain/loss on of the hedged item in portfolio hedge of interest rate risk	5,111,548	5,111,548	0
Non current assets (disposal group) held for sale and discontinued operations	20,627	32,801	12,174
TOTAL	168,632,354	177,636,939	9,004,584

B. Breakdown of fair value of liabilities

(In thousands of EUR)	31/12/18		
	Carrying amount	Fair value	Difference
Cash and balances from central banks	3,962,322	3,940,904	(21,418)
Borrowings and deposits	85,528,120	85,657,094	128,973
Measured at amortised cost	85,476,557	85,605,530	128,973
Measured at fair value through profit or loss	51,563	51,563	0
Debt securities issued and other financial liabilities	26,686,872	27,231,576	544,705
Measured at amortised cost	19,274,694	19,819,398	544,705
Measured at fair value through profit or loss	7,412,178	7,412,178	0
Unit linked products insurance activities	2,837,971	2,837,971	0
Derivatives	17,740,280	17,740,280	0
Gain/loss on the hedged item in portfolio hedge of interest rate risk	165,078	165,078	0
Subordinated debts	1,219,469	1,310,888	91,420
Measured at amortised cost	1,219,469	1,310,888	91,420
Measured at fair value through profit or loss	0	0	0
Liabilities included in disposal group and discontinued operations	0	0	0
TOTAL	138,140,112	138,883,791	743,679

(In thousands of EUR)	30/06/19		
	Carrying amount	Fair value	Difference
Cash and balances from central banks	3,954,278	3,945,949	(8,328)
Borrowings and deposits	90,426,011	90,599,192	173,181
Measured at amortised cost	90,372,447	90,545,627	173,181
Measured at fair value through profit or loss	53,565	53,565	0
Debt securities issued and other financial liabilities	26,398,536	27,182,201	783,666
Measured at amortised cost	18,006,875	18,790,540	783,666
Measured at fair value through profit or loss	8,391,661	8,391,661	0
Unit linked products insurance activities	3,418,324	3,418,324	0
Derivatives	20,202,999	20,202,999	0
Gain/loss on the hedged item in portfolio hedge of interest rate risk	366,764	366,764	0
Subordinated debts	1,213,610	1,363,617	150,007
Measured at amortised cost	1,213,610	1,363,617	150,007
Measured at fair value through profit or loss	0	0	0
Liabilities included in disposal group and discontinued operations	0	0	0
TOTAL	145,980,522	147,079,047	1,098,525

The increase in fair value of the loan portfolio is mainly linked to the lower interest rate environment compared to year-end 2018. 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 on in the valuation techniques). In addition, Belfius estimates that the own credit risk has not changed significantly and has thus not taken into account a revaluation of the own credit risk.

2. Analysis of fair value of financial instruments

A. Assets

	31/12/18			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Loans and advances	0	32,133	1,787,934	1,820,067
Measured at fair value through profit or loss	0	32,133	1,787,934	1,820,067
Debt securities	3,931,214	805,967	729,923	5,467,104
Measured at fair value through other comprehensive income	3,265,291	299,277	285,688	3,850,257
Measured at fair value through profit or loss	665,923	506,689	444,235	1,616,847
Equity instruments	1,191,888	0	299,213	1,491,101
Measured at fair value through other comprehensive income	1,067,064	0	298,832	1,365,896
Measured at fair value through profit or loss	124,824	0	381	125,205
Unit linked products insurance activities	2,837,971	0	0	2,837,971
Derivatives	594	12,052,792	714,199	12,767,585
Non current assets (disposal group) held for sale and discontinued operations	0	28,700	1,061	29,761
TOTAL	7,961,667	12,919,591	3,532,330	24,413,588

	30/06/19			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Loans and advances	0	24,441	1,712,596	1,737,036
Measured at fair value through profit or loss	0	24,441	1,712,596	1,737,036
Debt securities	3,799,185	896,043	700,016	5,395,243
Measured at fair value through other comprehensive income	3,186,608	368,518	223,412	3,778,539
Measured at fair value through profit or loss	612,577	527,524	476,603	1,616,704
Equity instruments	1,239,310	0	304,230	1,543,540
Measured at fair value through other comprehensive income	1,086,213	0	303,951	1,390,164
Measured at fair value through profit or loss	153,097	0	279	153,376
Unit linked products insurance activities	3,418,324	0	0	3,418,324
Derivatives	268	13,488,074	846,624	14,334,966
Non current assets (disposal group) held for sale and discontinued operations	0	31,159	1,642	32,801
TOTAL	8,457,087	14,439,716	3,565,108	26,461,911

B. Liabilities

	31/12/18			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Borrowings and deposits	0	51,563	0	51,563
Measured at fair value through profit or loss	0	51,563	0	51,563
Debt securities issued and other financial liabilities	102,803	4,753,369	2,556,005	7,412,178
Measured at fair value through profit or loss	102,803	4,753,369	2,556,005	7,412,178
Unit linked products insurance activities	2,837,971	0	0	2,837,971
Derivatives	122	17,059,286	680,871	17,740,280
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	2,940,897	21,864,218	3,236,876	28,041,992

	30/06/19			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Borrowings and deposits	0	53,565	0	53,565
Measured at fair value through profit or loss	0	53,565	0	53,565
Debt securities issued and other financial liabilities	151,636	5,450,275	2,789,750	8,391,661
Measured at fair value through profit or loss	151,636	5,450,275	2,789,750	8,391,661
Unit linked products insurance activities	3,418,324	0	0	3,418,324
Derivatives	411	19,447,347	755,240	20,202,999
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	3,570,371	24,951,188	3,544,990	32,066,549

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

	31/12/18		30/06/19	
(In thousands of EUR)	From level 1 to 2	From level 2 to 1	From level 1 to 2	From level 2 to 1
Debt securities	75,100	145,108	123,935	69,117
Measured at fair value through other comprehensive income	75,097	125,617	123,931	69,117
Measured at fair value through profit or loss	3	19,490	4	0
TOTAL	75,100	145,108	123,935	69,117

B. Liabilities at fair value in the balance sheet

	31/12/18		30/06/19	
(In thousands of EUR)	From level 1 to 2	From level 2 to 1	From level 1 to 2	From level 2 to 1
Debt securities issued and other financial liabilities	0	0	13,371	0
Measured at fair value through profit or loss	0	0	13,371	0
TOTAL	0	0	13,371	0

4. Reconciliation Level 3

A. Assets

(In thousands of EUR)	31/12/18 Opening balance on 01/01/18	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sales	Settlements	Transfers in Level 3	Transfer out of Level 3	Foreign exchange adjustments	Closing balance
Loans and advances	2,313,898	(155,892)		22,600	(392,671)	0	0	0	0	1,787,934
Measured at fair value through profit or loss	2,313,898	(155,892)		22,600	(392,671)	0	0	0	0	1,787,934
Debt securities	966,939	(1,356)	(7,152)	199,463	(184,116)	(46,007)	22	(197,870)	0	729,923
Measured at fair value through other comprehensive income	395,032	(150)	(7,152)	2,450	(2,251)	(5,197)	0	(97,045)	0	285,688
Measured at fair value through profit or loss	571,907	(1,207)		197,013	(181,864)	(40,810)	22	(100,825)	0	444,235
Equity instruments	219,006	0	38,137	14,501	(20,465)	(1,754)	59,508	(9,720)	0	299,213
Measured at fair value through other comprehensive income	216,437	0	38,137	14,120	(20,464)	(1,754)	59,508	(7,152)	0	298,832
Measured at fair value through profit or loss	2,569	0		380	(1)	0	0	(2,568)	0	381
Derivatives	782,518	20,959		108,743	0	(116,089)	4,566	(86,127)	(372)	714,199
TOTAL	4,282,361	(136,289)	30,985	345,306	(597,252)	(163,850)	64,096	(293,717)	(372)	3,531,269

(In thousands of EUR)	30/06/19 Opening balance	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sales	Settlements	Transfers in Level 3	Transfer out of Level 3	Foreign exchange adjustments	Closing balance
Loans and advances	1,787,934	(32,192)		14,716	(57,863)	0	0	0	0	1,712,596
Measured at fair value through profit or loss	1,787,934	(32,192)		14,716	(57,863)	0	0	0	0	1,712,596
Debt securities	729,923	(7,766)	3,482	188,337	(125,989)	(10,167)	0	(77,804)	0	700,016
Measured at fair value through other comprehensive income	285,688	1,342	3,482	15,000	0	(5,653)	0	(76,447)	0	223,412
Measured at fair value through profit or loss	444,235	(9,109)		173,337	(125,989)	(4,514)	0	(1,357)	0	476,603
Equity instruments	299,213	0	1,827	5,089	(1,898)	0	0	0	0	304,230
Measured at fair value through other comprehensive income	298,832	0	1,827	4,811	(1,517)	0	0	0	0	303,951
Measured at fair value through profit or loss	381	0		279	(380)	0	0	0	0	279
Derivatives	714,199	77,721		115,936	0	(54,855)	0	(6,380)	2	846,624
TOTAL	3,531,269	37,763	5,308	324,079	(185,750)	(65,021)	0	(84,184)	2	3,563,466

The "purchases" and "sales" of debt securities measured at fair value through profit or loss is mainly linked to belgian regional bonds.

B. Liabilities

(In thousands of EUR)	31/12/18									
	Opening balance on 01/01/18	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sales	Direct origination	Settlements	Transfers in Level 3	Transfer out of Level 3(1)	Closing balance
Debt securities issued and other financial liabilities	3,325,724	(6,057)		5	(50,734)	617,189	(115,328)	0	(1,214,794)	2,556,005
Measured at fair value through profit or loss	3,325,724	(6,057)		5	(50,734)	617,189	(115,328)	0	(1,214,794)	2,556,005
Derivatives	812,448	13,106		91,079	0	0	(146,871)	2,859	(91,750)	680,871
TOTAL	4,138,171	7,049		91,084	(50,734)	617,189	(262,198)	2,859	(1,306,545)	3,236,876

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

(In thousands of EUR)	30/06/19									
	Opening balance	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sales	Direct origination	Settlements	Transfers in Level 3	Transfer out of Level 3	Closing balance
Debt securities issued and other financial liabilities	2,556,005	44,274		0	0	253,259	(54,705)	31,180	(40,263)	2,789,750
Measured at fair value through profit or loss	2,556,005	44,274		0	0	253,259	(54,705)	31,180	(40,263)	2,789,750
Derivatives	680,871	(22,767)		132,220	0	0	(31,270)	0	(3,814)	755,240
TOTAL	3,236,876	21,507		132,220	0	253,259	(85,976)	31,180	(44,077)	3,544,990

The column "total of realised gains and losses in P&L" and "total of unrealized gains and losses in P&L" cannot be analysed on a stand alone basis, as some assets or liabilities classified at 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 en 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 calculates spreads based on a cross section method using a large universe of bonds and CDS spreads. The calculated spreads are challenged (backtesting) every quarter by mean of comparisons with observable market spreads.

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 which 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 equity and the result.

Financial instrument	Non-observable items	Difference with alternative assumptions	Impact in P&L of alternative assumptions (in millions of EUR)	Impact in equity of alternative assumptions (in millions of EUR)
OTC swaps on Belgian inflation	Expectations in Belgian inflation	+30 bp	-2,7	
OTC derivatives on CMS spread	Correlation between CMS interest rates	+10%	-0,17	
OTC swaps Bermudian Feature	Mean Reversion	+1%	+0,58	
Collateralised Debt Obligation	Credit spread	-10 bps	-3,85	
Credit Default Swap	Credit spread	-10 bps	+1,77	
Illiquid bonds	Credit spread	-10 bps		+1,70

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 does not influence the distribution of L1, L2 or L3. A few bonds are nevertheless close to the border of illiquidity and can change from L1 to L2 or L3. The main events in 2019 (commercial threats between China and USA, dovish monetary decisions from central banks) did not change the liquidity scores that much. For derivatives products, we have not seen any significant 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 recognized as deferred Day One Profit or Loss (DOP) in 2018 or 2019.

As Belfius deals in plain vanilla products (like Interest Rate Swaps (IRS)) and some more complex products (like structured transactions) which are hedged in the market in line with market risk limits and framework, the resulting day one profit is recognized up-front. Only a few transactions of insignificant amounts have unobservable parameters, consequently the Deferred DOP is immaterial.

9.2. CREDIT RISK EXPOSURE

Refers to table 9.2. of the annual report 2018

1. Movements in allowances for credit losses

	31/12/18			
(In thousands of EUR)	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	(1,064)	(1)	0	(1,065)
Decrease due to derecognition	1,321	31	0	1,352
Changes due to credit risk(1)	(295)	(13)	0	(309)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	5	(5)	0	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	0	0	0	0
Foreign exchange and other movements	(42)	1	0	(42)
BALANCE AT 31 DECEMBER	(173)	(19)	0	(191)
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	(188,101)	(181,793)	(32,351)	(402,246)
Decrease due to derecognition	147,714	172,167	30,031	349,912
Changes due to credit risk(1)	62,335	(30,962)	(31,411)	(38)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	14,848	(13,002)	(1,846)	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	(53,421)	67,046	(13,626)	0
Transfer from stage 3 (lifetime ECL credit impaired) to stages 1 & 2	(7,367)	(2,862)	10,229	0
Decrease in allowance due to write off	0	0	55,491	55,491
Foreign exchange and other movements	(545)	(47)	(10,892)	(11,485)
BALANCE AT 31 DECEMBER	(162,877)	(173,662)	(1,147,237)	(1,483,775)

(1) Includes movements in expected credit losses (ECL) following transfers from higher or lower stages.

(In thousands of EUR)	31/12/18 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	(641)	(7,976)	0	(8,617)
Decrease due to derecognition	383	6,950	0	7,332
Changes due to credit risk(1)	450	(6,776)	3	(6,323)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	21	(18)	(3)	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	(767)	767	0	0
Foreign exchange and other movements	(1)	72	0	71
BALANCE AT 31 DECEMBER	(1,388)	(194,105)	(840)	(196,333)
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	(290)	(739)	0	(1,029)
Decrease due to derecognition	169	19,948	0	20,117
Changes due to credit risk(1)	2,028	1,318	0	(3,346)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	96	(96)	0	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	(2,223)	2,223	0	0
BALANCE AT 31 DECEMBER	(1,818)	(19,446)	0	(21,265)
OFF-BALANCE SHEET EXPOSURE				
BALANCE AT 1 JANUARY	51,080	57,272	12,913	121,266
Increase due to origination and acquisition	38,912	49,081	0	87,993
Decrease due to derecognition	(24,111)	(34,351)	(3,622)	(62,085)
Changes due to credit risk(1)	(23,203)	1,894	13,349	(7,959)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	(9,834)	9,626	208	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	10,472	(28,548)	18,075	0
Transfer from stage 3 (lifetime ECL credit impaired) to stages 1 & 2	417	5,099	(5,516)	0
Foreign exchange and other movements	(33)	269	144	380
BALANCE AT 31 DECEMBER	43,701	60,342	35,552	139,595

(1) Includes movements in expected credit losses (ECL) following transfers from higher or lower stages.

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).

Some additional impairments were recorded during 2018 as a result of the growth of the loan portfolio, increased forward looking provisioning for real estate exposures and increased risk profile of certain subportfolios. Certain reversals have been noted from the sale of certain Italian government bonds in line with Belfius' objective to decrease its related concentration risk as well as from portfolio management and positive evolutions in credit files.

(In thousands of EUR)	30/06/19 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	(173)	(19)	0	(191)
Increase due to origination and acquisition	(631)	(2)	0	(633)
Decrease due to derecognition	569	0	0	569
Changes due to credit risk(1)	5	(131)	0	(126)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	7	(7)	0	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	(4)	4	0	0
Foreign exchange and other movements	1	99	0	100
BALANCE AT 30 JUNE	(226)	(55)	0	(281)
LOANS AND ADVANCES				
Measured at amortised cost				
BALANCE AT 1 JANUARY	(162,877)	(173,662)	(1,147,237)	(1,483,775)
Increase due to origination and acquisition	(106,393)	(113,285)	(75)	(219,753)
Decrease due to derecognition	72,353	91,354	6,557	170,263
Changes due to credit risk(1)	32,287	(1,268)	(31,661)	(642)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	11,117	(6,513)	(4,604)	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	(23,588)	34,742	(11,154)	0
Transfer from stage 3 (lifetime ECL credit impaired) to stages 1 & 2	(3,353)	(19,517)	22,870	0
Decrease in allowance due to write off	0	0	39,447	39,447
Foreign exchange and other movements	(41)	4	4,727	4,690
BALANCE AT 30 JUNE	(180,496)	(188,144)	(1,121,130)	(1,489,770)

(1) Includes movements in expected credit losses (ECL) following transfers from higher or lower stages.

(In thousands of EUR)	30/06/19			
	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	(1,388)	(194,105)	(840)	(196,333)
Increase due to origination and acquisition	(188)	(37)	0	(225)
Decrease due to derecognition	119	1,517	0	1,635
Changes due to credit risk(1)	(83)	4,389	0	4,307
Transfer from stage 1 (12-month ECL) to stages 2 & 3	1	(1)	0	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	(40)	40	0	0
Foreign exchange and other movements	(5)	(387)	0	(392)
BALANCE AT 30 JUNE	(1,584)	(188,584)	(840)	(191,008)
Measured at fair value through other comprehensive income				
BALANCE AT 1 JANUARY	(1,818)	(19,446)	0	(21,265)
Increase due to origination and acquisition	(429)	(722)	0	(1,152)
Decrease due to derecognition	111	696	0	807
Changes due to credit risk(1)	548	770	0	(1,318)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	24	(24)	0	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	(631)	631	0	0
BALANCE AT 30 JUNE	(2,196)	(18,096)	0	(20,291)
OFF-BALANCE SHEET EXPOSURE				
BALANCE AT 1 JANUARY	43,701	60,342	35,552	139,595
Increase due to origination and acquisition	24,030	22,008	0	46,038
Decrease due to derecognition	(21,372)	(23,333)	(1,754)	(46,459)
Changes due to credit risk(1)	(12,937)	(2,008)	(16,863)	(31,808)
Transfer from stage 1 (12-month ECL) to stages 2 & 3	(1,130)	1,071	59	0
Transfer from stage 2 (lifetime ECL not credit impaired) to stages 1 & 3	10,166	(10,874)	708	0
Transfer from stage 3 (lifetime ECL credit impaired) to stages 1 & 2	327	3,804	(4,131)	0
Foreign exchange and other movements	5	36	3	45
BALANCE AT 30 JUNE	42,791	51,046	13,575	107,411

(1) Includes movements in expected credit losses (ECL) following transfers from higher or lower stages.

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).

Some additional expected losses were recorded during 1H 2019, in stage 1 as well as in stage 2, as a result of the growth of the portfolio and underlying evolutions; stage 3 impairment levels are positively impacted by the sale of loans (pruning) , write-offs and files returning to performing.

Note that the impact on the P&L (Impairments on financial instruments and provisions for credit commitments) is EUR 30.5 million in 1H 2019, compared to EUR 9.7 million in 1H 2018.

X. NOTES ON THE SIGNIFICANT CHANGES IN SCOPE OF CONSOLIDATION AND LIST OF SUBSIDIARIES AND AFFILIATED ENTERPRISES OF BELFIUS

10.1. SIGNIFICANT CHANGES IN SCOPE OF CONSOLIDATION

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

1. As at 31 December 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 finalisation of the liquidation, in the interest of all stakeholders. This agreement listed a combination of actions to finalise towards end of liquidation, including the takeover by Belfius of the Auxipar shares held by the Arco companies.

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 as a business combination achieved in stages. IFRS 3 is applied 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 (recognised end March 2018 at EUR 33 million) resulted in a capital gain of EUR 23 million recorded in "Net income on investments and liabilities". The difference between the restatement of the balance sheet and the consideration paid, resulted in a goodwill of EUR 0.1 million.

One of the investments made by Auxipar is a 82.7% stake in EPC, a pharmaceutical group. While Auxipar as such owns the majority of the shares in EPC, it does not have 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.

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 recorded in "Net income on investments and liabilities".

Belfius started consolidating the new entity Bancontact Payconiq Company in 2018 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.

The companies Jaimy and Charlin are fully consolidated as from date of establishment in 2018. Jaimy aims to provide a platform where users can request small home repairs. Charlin aims to offer a solution for the elderly whereby they'll be able to stay longer in their own homes without special assistance.

The digital innovation companies The Studio, Spencr, Brightknight and Smart Belgium Services are fully consolidated as from 2018. The Studio and Spencr develop and promote digital banking solutions such as Pengo and blockchain related applications. Brightknight offers services around robotisation and artificial intelligence to the Public and Corporate segment. Smart Belgium Services facilitates the dialogue between the local authorities and the entrepreneurial world.

The real estate company Offico Immo is fully consolidated as from December 2018. The investment in the holiday park De Haan and investment company M80 Capital are consolidated through the equity method as from 2018 in accordance with the shares held by Belfius Insurance in these companies. The acquisition of these latter participations fits in the long-term diversified investment strategy of Belfius Insurance.

C. Simplification of the group structure

The Board of Directors of Belfius Bank approved the closure of the Dublin branch on 26 April 2018, thereby centralising the Irish portfolio in Belfius Ireland (BIRL), a subsidiary of Belfius Bank, and simplifying the group structure of Belfius. At the end of 2018, all bonds and their corresponding hedge derivatives were transferred at market price from Dublin branch to Belfius Ireland. The final legal closing occurred on 28 January 2019. This closure had a positive impact on the current tax position of Belfius Bank of EUR 31 million.

2. As at 30 June 2019

On 5 March 2019, the companies Jaimy (original name BI New Co) and Charlin performed a capital increase of respectively EUR 11,6 million and EUR 15,1 million by incorporating the software that Belfius Insurance internally developed specifically for those companies in 2018. Following the contribution in cash by its partner The Boston Consulting Group, Belfius Insurance's share in equity decreased from 100% to 78.5% at Jaimy and 77.4% at Charlin. Jaimy aims to provide a platform where users can request small home repairs. Charlin aims to offer a sensor enabled monitoring solution for the elderly whereby they'll be able to stay longer in their own homes without special assistance. The capital increases ensure that these entities can further develop their activities and can commercially expand in their respective markets.

There were no significant acquisitions and disposals as at 30 June 2019.

10.2. ACQUISITIONS AND DISPOSALS OF CONSOLIDATED COMPANIES

1. Main acquisitions

A. Year 2018

On March 29, 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. Its investment in EPC is consolidated through the equity method even though Auxipar owns the majority of the shares in EPC; it does not have control over the investment as

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

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

Since the merger of Payconiq with Bancontact in June 2018, Belfius consolidates the new entity Bancontact Payconiq Company using the equity method.

The companies Jaimy and Charlin are fully consolidated as from date of establishment in 2018.

The digital innovation companies The Studio, Spencr, Brightknight and Smart Belgium Services are fully consolidated as from 2018. The real estate company Offico Immo is fully consolidated as from December 2018. The investment in the holiday park De Haan and investment company M80 Capital are consolidated using the equity method as from 2018.

The assets and liabilities acquired were as follows:

(In thousands of EUR)	2018		
	Group Auxipar	Caring People	Equity method companies
Loans and advances due from credit institutions	2,130	1,662	0
Debt securities & equity instruments	84,684	0	0
Investments in equity method companies	27,707	0	18,605
Tax assets	647	0	0
Other assets	504	194	0
Provisions and contingent liabilities	(32,351)	0	0
Tax liabilities		(10)	0
Other liabilities	(63)	(633)	0
NET ASSETS	**83,257**	**1,212**	**18,605**
Group share	62,431	1,212	18,605
Already in possession of the Group	33,051	1,212	7,587
Purchase price (in cash)	29,379	0	11,018
Less: cost of the transaction	0	0	0
Less: cash and cash equivalents in the subsidiary acquired	0	0	0
NET CASH OUTFLOW THROUGH ACQUISITION	**29,379**	**0**	**11,018**

	2018		
(In thousands of EUR)	Jaimy and Charlin	Digital Innovation companies	Offico Immo
Loans and advances due from credit institutions	124	2,306	403
Debt securities & equity instruments	0	1,998	0
Investments in equity method companies	0	0	0
Tangible fixed assets	0	352	30,371
Tax assets	0	203	282
Other assets	0	1,956	562
Borrowings and deposits	0	0	(21,224)
Tax liabilities	(1)	(24)	0
Other liabilities	0	(1,805)	(386)
NET ASSETS	124	4,985	10,008
Group share	124	4,985	10,008
Already in possession of the Group	124	4,985	0
Purchase price (in cash)	0	0	10,008
Less: cost of the transaction	0	0	0
Less: cash and cash equivalents in the subsidiary acquired	0	0	(51)
NET CASH OUTFLOW THROUGH ACQUISITION	0	0	9,957

B. 30 June 2019

There were no significant acquisitions as at 30 June 2019.

2. Main disposals

A. Year 2018

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 recorded in "Net income on investments and liabilities".

The assets and liabilities disposed were as follows:

	2018
(In thousands of EUR)	NEB Participations
Investments in equity method companies	13,900
NET ASSETS	13,900
Proceeds from sale (in cash)	37,500
Less: cost of the transaction	0
Less: Cash and cash equivalents in the subsidiary sold	0
NET CASH INFLOW ON SALE	37,500

B. 30 June 2019

There were no significant disposals as at 30 June 2019.

3. Assets and liabilities included in disposal groups held for sale and discontinued operations

A. Year 2018

As at 31 December 2018 no subsidiaries were recorded as "Non current assets (disposal group) held for sale and discontinued operations"..

B. 30 June 2019

As at 30 June 2019 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)	31/12/18	30/06/19	31/12/18	30/06/19
Loans[3]	2,786	2,467	6,381	7,223
of which impaired loans stage 3	0	0	0	0
Interest income	53	23	143	124
Deposits and debt securities[3]	11,737	13,935	8,750	8,618
Interest expense	(5)	(2)	0	0
Net commission	0	0	(9)	1
Guarantees issued and commitments provided by the Group[4]	0	0	1,973	1,978
Guarantees and commitments received by the Group	5,199	4,544	0	0

	Associates		Joint ventures in which the entity is a venturer	
(In thousands of EUR)	31/12/18	30/06/19	31/12/18	30/06/19
Loans[3]	249,469	272,944	5,425	5,463
of which impaired loans stage 3	0	0	0	0
Interest income	6,105	2,798	145	57
Deposits and debt securities[3]	68,034	106,954	1,323	2,216
Interest expense	(35)	(19)	0	0
Net commission	2,409	(734)	289	148
Guarantees issued and commitments provided by the Group[4]	240,906	280,629	25,297	12,750
Guarantees and commitments received by the Group	59,551	59,524	24,155	55

(1) Key management includes the Board of Directors and the Managing 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 two 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 July 16, 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.

REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF BELFIUS BANK SA FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

In the context of our appointment as the company's statutory auditor, we report to you on the condensed consolidated interim financial statements. These condensed consolidated interim financial statements comprise the condensed consolidated interim balance sheet as at 30 June 2019, 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 171 692 million EUR and the condensed consolidated interim statement of income shows a consolidated profit (group share) for the period then ended of 304 million EUR.

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 consolidated interim financial information based on our review.

Scope of review

We conducted our review of the consolidated interim financial information 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 information 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 consolidated interim financial information.

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 has not been prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

Zaventem, 8 August 2019

The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises CVBA/SCRL
Represented by

Bernard De Meulemeester		Franky Wevers

ABBREVIATIONS

Acronym	
ABS	Asset-Backed Securities
AFS	Available For Sale
ALM	Asset-Liability Management
AUM	Assets Under Management
B/S	Balance Sheet
bp	Basis Point
C/I	Cost-Income
CET 1	Common Equity Tier 1
CoR	Cost of Risk
CVA	Credit Value Adjustment
CRD	Capital Regulative Directive
CRR	Capital Regulative Regulation
DCL	Dexia Crédit Local
DSFB	Dexia Secured Funding Belgium
EAD	Exposure at Default
EBA	European Banking Authority
ECB	European Central Bank
GDP	Gross Domestic Product
GIPS-countries	Greece, Ireland, Portugal and Spain
IRB	Internal Rate Based
LCM	Liquidity and Capital Management
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LT	Long Term
LTRO	Long-Term Refinancing Operations
MCRE	Maximum Credit Risk Exposure
MREL	Regulatory Technical Standards on minimum requirement for own funds and eligible liabilities
NBB	National Bank of Belgium
NIG	Non-Investment Grade
NSFR	Net Stable Funding Ratio
P&L	Profit and Losses
RoNRE	Return on Normative Regulatory Equity
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
T-LTRO	Targeted Long-Term Refinancing Operations
VaR	Value at Risk

ADDITIONAL INFORMATION

GENERAL INFORMATION ABOUT BELFIUS BANK

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19649 A

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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
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E-mail: claim@belfius.be

If you are not satisfied with the response you receive, you can turnto the Negotation department of Belfius Bank

Belfius Bank
Negotiation department – RT 23/17
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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
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For insurance products, you can take your complaint to the Insurance Ombudsman.

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CONTACT

For further general info over Belfius Bank & Insurance, feel free to surf *www.belfius.com*.

Got a question about Belfius Bank's results or strategy? Then please e-mail *financialcommunication@belfius.be*.

Any other queries? Then call +32 2 222 12 01 (Mon-Fri: 8 am-10 pm/Sat: 9 am-5 pm).

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Bank & Insurance

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