Half-yearly report

2016

Belfius
Bank & Insurance

Contents

Management report

Key Figures and Ratings

Key figures

(In millions of EUR)	1H 2015	1H 2016
NET INCOME GROUP SHARE	272	249
Of which		
Franchise	330	312
Side	(58)	(63)

(In millions of EUR)	31/12/15	30/06/16
BALANCE SHEET		
Total assets	176,962	188,004
Total liabilities	168,302	179,322
Total equity	8,660	8,682

	FY 2015	1H 2016
SELECTED RATIOS		
Return on equity (ROE)	6.3%	6.0%
Return on assets (ROA)	0.27%	0.27%
Cost-income ratio (C/I ratio)	63.9%	64.0%
Asset quality ratio	2.29%	2.22%
Coverage ratio	57.1%	57.4%
Liquidity Coverage Ratio (LCR)	132%	121%
Net Stable Funding Ratio (NSFR)	108%	108%

	FY 2015	1H 2016
SOLVENCY RATIOS		
CET 1 ratio Phased In(1)	15.9%	15.7%
CET 1 ratio Fully Loaded(1)	14.9%	15.2%
Total capital ratio Phased In(1)	17.7%	18.6%
Total capital ratio Fully Loaded(1)	16.2%	17.7%
Leverage ratio Phased In	5.3%	5.2%
Leverage ratio Fully Loaded	4.9%	5.0%
Solvency II ratio(2)	209%(3)	206%

(1) For the determination of the Common Equity Tier 1 capital under Basel III, the regulatory authority asks Belfius to apply a prudential deconsolidation of Belfius Insurance and to apply a risk weighting of 370% on the participation. This is commonly known as "Danish compromise".
(2) Before dividend.
(3) As of 01/01/2016 (pro forma).

Ratings

As at 30 August 2016	Long-term rating	Outlook	Short-term rating
Fitch	A-	Stable	F2
Moody's	A3	Stable	P-2
Standard & Poor's	A-	Negative	A-2

Highlights

Strong 1H 2016 results achieved by Belfius

- In a very challenging environment, Belfius recorded a **net income 1H 2016 of EUR 249 million**.

- The **net result for the commercial business** in the first half of 2016 was **EUR 312 million**, which confirms the profitability of Belfius' commercial activities - even in the current very challenging economic environment and after deducting sector levies for the full year. The operational costs within the commercial activities remained stable thanks to a continued focus on processes that offer added value for the customer and despite intensive investments in digital, both at Belfius Bank and Belfius Insurance. Compared to the end of 2015, the cost-income ratio for the commercial franchise improved further to 59% and remains as such below the target of 60%.

- **Legacy activities** had a **negative impact of EUR 63 million** on the 1H 2016 net result due, among other things, to continued tactical de-risking towards the "target state" to be achieved end of 2016.

Dynamic commercial activities

- The **commercial franchise** at Belfius **performed well**, with y-o-y organic growth in client investments of EUR 2.1 billion, a 6% growth in written premiums for non-life insurance and EUR 6.6 billion in new long-term lending granted to the Belgian economy.

Retail and Commercial

- **Excellent organic growth in AUM**, particularly in balance sheet products such as current accounts and savings accounts, which are often preferred by customers in the current challenging macroeconomic context.
- **Strong production in mortgage and business loans** of EUR 2.5 billion and EUR 1.4 billion respectively during 1H 2016.
- **Further growth in the non-life banking and insurance footprint**, where non-life premiums collected from RC customers through the banking channel increased by 9% y-o-y.

Public and Corporate

- Belfius confirms its **sustained leadership** in the **Belgian public & social profit sector**.
- **Successful development** of **commercial activity with Belgian corporates**, with a strong production of long-term loans of EUR 1.5 billion during 1H 2016, due in part to establishing a clear position as a specialist in the "Business to Government" market.

Solid solvency and liquidity

- The continuation of the successful diversification strategy in funding, together with strong performances on the commercial side and in de-risking, underpin **Belfius' solid liquidity and solvency position**. In terms of solvency, this was also confirmed by the positive outcome of the recent EU-wide stress test conducted by the European Banking Authority (EBA).
  - **Fully loaded CET 1 ratio** stood at **15.2%** as of June 2016, up 39 bps vs December 2015.
  - **LCR** at **121%** and **NSFR** at **108%**.

- With a **Solvency II ratio** of **206%** at the end of June 2016, Belfius Insurance also displays a solid solvency.

- As a result of the strong financial results, profit reservations in equity and the improvement in the value of the bond portfolio, **total equity** amounted to **EUR 8.7 billion**, which is slightly higher than the level at the end of 2015.

"The solid results for the first half-year offer the opportunity this year to pay our shareholder an interim dividend of EUR 75 million, subject to the approval of the competent authorities. Nevertheless, we should continue the efforts we have been making over the last few years, and be vigilant as to costs and risk in an environment which will probably remain difficult. The financial solidity acquired in very little time, over recent years, and our commercial momentum create the investment margin required to continue, with our own means, to play a lasting role in the Belgian economy and society."

Jos Clijsters, Chairman of the Board of Directors

"Belfius has done great work in difficult circumstances. With double-digit performances in almost all commercial fields, it has proved its resistance and the solidity of its franchise. We are working relentlessly to implement our new business model, but we remain loyal to the strategic lines we defined almost five years ago, when Belfius was created. I would like to thank our employees in the head offices and networks, our independent agents and their staff members for the efforts they have made, and our customers for the confidence they have shown in Belfius."

Marc Raisière, CEO

Financial results

Preliminary notes to the condensed consolidated financial statements

1. Changes to the scope of consolidation

In 1H 2016, the Belgian fund management company Belfius Investment Partners was founded and is fully consolidated.

Copharma Industries and Eurco were deconsolidated in 1H 2016 as they are being liquidated.

Note that Belfius Insurance and Sepia were merged on 1 January 2016. This had no impact on the scope of the consolidation.

2. Fundamentals of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements of Belfius are prepared in accordance with the International Financial Reporting standards (IAS34) as adopted by the EU. The condensed consolidated interim financial statements are prepared on a going-concern basis.

Analysis of the condensed consolidated balance sheet

As at 30 June 2016, the **balance sheet** total amounted to EUR 188.0 billion, an increase of EUR 11.0 billion or 6.2% compared to 31 December 2015. The balance sheet is composed of EUR 164.3 billion contributed by the banking group (compared to EUR 152.9 billion

Condensed consolidated balance sheet

(In millions of EUR)	31/12/15	*Contribution Bank*[1]	*Contribution Insurance*[1]	30/06/16	*Contribution Bank*[1]	*Contribution Insurance*[1]	Evolution
TOTAL ASSETS	176,962	*152,889*	*24,073*	188,004	*164,296*	*23,708*	+11,042
Of which							
Loans and advances due from banks and central banks	24,894	*24,436*	*458*	27,055	*26,850*	*205*	+2,161
Loans and advances to customers	87,189	*81,285*	*5,904*	89,639	*83,961*	*5,678*	+2,450
Investments held to maturity	5,017	*5,017*	*0*	5,369	*5,369*	*0*	+352
Financial assets available for sale	19,734	*6,294*	*13,440*	19,481	*5,808*	*13,674*	-252
Derivatives	25,944	*25,941*	*2*	30,575	*30,575*	*0*	+4,631
Non current assets (disposal group) held for sale and discontinued operations	3,355	*15*	*3,339*	3,396	*21*	*3,375*	+41
TOTAL LIABILITIES	168,302	*145,063*	*23,240*	179,322	*156,346*	*22,976*	+11,020
Of which							
Due to banks	11,538	*11,206*	*332*	13,686	*13,622*	*64*	+2,149
Customer borrowings and deposits	68,163	*68,158*	*5*	71,647	*71,640*	*7*	+3,484
Debt securities	27,778	*27,778*	*0*	26,973	*26,973*	*0*	-804
Derivatives	30,060	*30,057*	*3*	35,096	*35,084*	*13*	+5,036
Subordinated debts	913	*909*	*4*	1,403	*1,403*	*0*	+490
Liabilities included in disposal group and discontinued operations	3,243	*0*	*3,243*	3,274	*0*	*3,274*	+31
TOTAL EQUITY	8,660	*7,826*	*833*	8,682	*7,950*	*732*	+22
Of which							
Core shareholders' equity	8,309	*8,370*	*(62)*	8,483	*8,532*	*(49)*	+174
Gains and losses not recognised in the statement of income	350	*(544)*	*894*	199	*(582)*	*781*	-151

(1) Information based on unaudited figures.

at the end of 2015) and EUR 23.7 billion contributed by the insurance group (compared to EUR 24.1 billion at the end of 2015). Note that these amounts represent the contribution of the banking or insurance group and do not reflect the stand-alone balance sheet totals.

The increase of the balance sheet total primarily results from the increase of the fair value of derivatives as well as the related cash collateral following the lower interest rates compared to year-end 2015.

1. Assets

Loans and advances due from banks and central banks increased by 8.7% or EUR 2.2 billion, to EUR 27.1 billion as at 30 June 2016. An increase can be noted following the increased cash collateral requirements due to the lower interest rates compared to year-end.

At the end of June 2016, **loans and advances to customers** amounted to EUR 89.6 billion, an increase of EUR 2.5 billion compared to the end of December 2015 following an increase in cash collateral following the decrease in interest rates compared to year-end for EUR 0.5 billion, an increase in commercial assets of EUR 0.8 billion (mainly mortgage and term loans) and an increase of EUR 0.7 billion due to the purchase of a bond as a result of the restructuring of a financial guarantee.

Investments held to maturity increased by EUR 0.4 billion to EUR 5.4 billion at the end of June 2016, mainly following purchases of covered bonds and Asset-Backed Securities (ABS) with an AA/AAA rating for the ALM portfolio of Belfius Bank.

Financial assets available for sale decreased by EUR 0.3 billion to EUR 19.5 billion as at 30 June 2016. The financial assets available for sale portfolio is mainly situated in the insurance group for EUR 13.7 billion (compared to EUR 13.4 billion at the end of 2015). For the banking group the portfolio amounts to EUR 5.8 billion (compared to EUR 6.3 billion at the end of 2015).

The total decrease is due to the sale of Spanish covered bonds within the banking group portfolio following further tactical de-risking and the sale of some Belgian Government bonds and positions in equity and funds within the insurance group portfolio.

The positive fair value of **derivatives** increased by EUR 4.6 billion to EUR 30.6 billion (+17.9% compared to the end of 2015) following lower interest rates compared to the end of 2015.

Non-current assets (disposal group) held for sale and discontinued operations amounted to EUR 3.4 billion and remained stable. This mainly concerns the subsidiary "International Wealth Insurer". In fact, Belfius Insurance has activated the sale of this subsidiary to concentrate its activities further on Belgium. In the meantime, International Wealth Insurer was sold in August 2016 (*See also the note on the subsequent events*).

2. Liabilities

Liabilities due to banks increased by EUR 2.1 billion to EUR 13.7 billion as at 30 June 2016, mainly stemming from an increase in cash collateral received for EUR 1.2 billion. In addition, on 10 March 2016, the ECB announced a new series of Targeted Long-Term Refinancing Operations (TLTRO II). At the end of 2015, Belfius had an outstanding TLTRO I participation of EUR 1.65 billion. In June 2016, TLTRO I was called by Belfius and replaced by TLTRO II. At the same time, Belfius drew an additional EUR 1.35 billion, resulting in a total participation in TLTRO II of EUR 3.0 billion.

At the end of June 2016, **customer borrowings and deposits** amounted to EUR 71.7 billion, up with EUR 3.5 billion compared to the end of 2015, entirely due to the growth of commercial deposits, mainly demand and savings accounts.

Debt securities decreased by EUR 0.8 billion to EUR 27.0 billion as at 30 June 2016. The decrease is mainly related to long-term debt securities coming to maturity, but was partially offset by the issuance of covered bonds.

The negative fair value of **derivatives** increased by EUR 5.0 billion to EUR 35.1 billion (+16.8% compared to the end of 2015) following lower interest rates compared to the end of 2015.

Subordinated debts increased by EUR 0.5 billion to EUR 1.4 billion following the inaugural issuance of a subordinated bond for EUR 500 million qualifying as additional regulatory capital Tier 2.

Liabilities included in disposal group and discontinued operations amounted to EUR 3.3 billion and remained stable. This concerns the subsidiary "International Wealth Insurer".

3. Equity

At the end of June 2016, **total equity** amounted to EUR 8.7 billion. The EUR 22 million increase is explained by the profit for the period of EUR 249 million, though offset by the dividend paid relative to the accounting year 2015 of EUR 75 million and the decrease of EUR 151 million of gains and losses not recognised in the statement of income.

The **core shareholders' equity** rose with EUR 174 million to EUR 8.5 billion due to the net income for the period of EUR 249 million, though partially offset by the dividend paid of EUR 75 million.

Gains and losses not recognised in the statement of income decreased by EUR 151 million to EUR 199 million as at 30 June 2016 from EUR 350 million at year-end 2015. The decrease is partially related to a significant decline of the re-measurement of the defined benefit plans due to the decrease of interest rates compared to year-end. Furthermore, the unrealized gains and losses on the available for sale financial instruments decreased, mainly following a decrease of shadow accounting (which became more negative) at Belfius Insurance due to the interest rate evolution combined with some methodological refinements. Note that the Available For Sale (AFS) reserve for the banking group amounts to EUR -561 million (an improvement by EUR 72 million) and for the insurance group EUR 735 million (a decrease of EUR 112 million).

Condensed consolidated statement of income

(In millions of EUR)	1H 2015	*Contribution Bank[1]*	*Contribution Insurance[1]*	1H 2016	*Contribution Bank[1]*	*Contribution Insurance[1]*	Evolution
INCOME	1,084	*791*	*293*	1,052	764	288	-2.9%
Of which							
Net interest income	1,020	*721*	*299*	956	*689*	*266*	-6.3%
Net income from financial instruments at fair value through profit or loss	77	*77*	*0*	(11)	*(11)*	*0*	-113.6%
Net income on investments and liabilities	22	*(57)*	*79*	58	*(11)*	*69*	+161.0%
Net fee and commission income	257	*254*	*2*	257	*252*	*5*	+0.1%
Other income and expense	(206)	*(210)*	*5*	(168)	*(160)*	*(7)*	-18.5%
EXPENSES	(673)	*(575)*	*(98)*	(673)	*(566)*	*(107)*	+0.1%
GROSS OPERATING INCOME	411	*216*	*195*	378	*198*	*180*	-7.9%
Cost of risk	(33)	*(39)*	*5*	(30)	*(32)*	*2*	-9.3%
Impairments on (in)tangible assets	0	*0*	*0*	3	*3*	*0*	n.s.
NET INCOME BEFORE TAX	378	*178*	*200*	351	*169*	*182*	-7.2%
Tax (expense) income	(106)	*(51)*	*(55)*	(101)	*(52)*	*(49)*	-4.0%
Attributable to non-controlling interests	0	*0*	*0*	0	*0*	*0*	n.s.
NET INCOME GROUP SHARE	272	*127*	*145*	249	*117*	*133*	-8.4%

(1) Information based on unaudited figures.

Analysis of the condensed consolidated statement of income

1. Net income group share

In 1H 2016, Belfius recorded a **net income group share** of EUR 249 million, against EUR 272 million in 1H 2015, down 8.4%. The bank's contribution to the consolidated net income amounted to EUR 117 million (compared to EUR 127 million in 1H 2015) and the insurance group EUR 133 million (compared to EUR 145 million in 1H 2015).

The net profit reflects a good performance of both Belfius Bank and Belfius Insurance and this in a difficult setting. The result of Belfius Bank decreased slightly following the low interest rate environment and the volatile financial markets. The result of Belfius Insurance was impacted by lower capital gains compared to 1H 2015 as well as the cost for claims related to the 1H 2016 terrorist attacks and storms.

2. Income

In 1H 2016, **total income** amounted to EUR 1,052 million, down 2.9% or EUR 32 million less than in 1H 2015. The low interest rate environment as well as further de-risking put further pressure on the interest margin. Despite the volatile financial markets, fee income remained relatively stable compared to 1H 2015. In addition, the terrorist attacks as well as the storms resulted in an additional negative impact on the result of Belfius Insurance.

The **net interest income** decreased by EUR 64 million to EUR 956 million following the low interest rate environment and realizations within the Belfius Insurance bond portfolio. This is mainly the result of the loss of interest income on covering assets for Branch 21-26 insurance contracts at Belfius Insurance following the decrease in outstanding in line with market trend.

The **net income from financial instruments at fair value through profit or loss** decreased from EUR 77 million in 1H 2015 to EUR -11 million in 1H 2016, explained by the low interest rate environment and additional negative fair value adjustments on derivatives, also due to Brexit-related market turmoil at the end of 1H 2016.

The **net income on investments and liabilities** increased by EUR 36 million to EUR 58 million in 1H 2016. During 1H 2015 higher de-risking losses were noted compared to 1H 2016.

The **net fee and commission income** amounted to EUR 257 million, and remained stable compared to the end of June 2015, despite low and volatile financial markets.

Other income and expense improved by EUR 38 million to EUR -168 million, mainly linked to realized gains on some real estate projects as well as a slight decrease in sector levies. Note that Belfius has recognized EUR -219 million in P&L 1H 2016 as sector levies, as well as an additional EUR 10 million payment commitment in off-balance-sheet. As such, Belfius has opted to pay part of its contribution of the Stability Resolution Fund through an Irrevocable Payment Commitment.

3. Expenses

In 1H 2016, **total expenses** amounted to EUR 673 million, and remained stable compared to 1H 2015. The increase in general expenses of EUR 15 million following higher IT as well as marketing costs (mainly due to the digital evolutions in our businesses) was offset by a decrease in staff expenses (of EUR 6 million) and in other (non-staff) expenses (of EUR 9 million).

4. Gross operating income

As a result, **gross operating income** decreased to EUR 378 million in 1H 2016, down EUR 33 million or 7.9% compared to 1H 2015. The banking group contributed EUR 198 million (compared to EUR 216 million in 1H 2015) and the insurance group EUR 180 million (compared to EUR 195 million in 1H 2015).

The consolidated cost-income ratio evolved as such from 62.1% in 1H 2015 to 64.0% in 1H 2016.

5. Cost of risk

The **cost of risk** decreased by EUR 3 million to EUR 30 million. This evolution stems from a lower cost of credit risk in the Side activities and stable cost of credit risk in the Franchise activities demonstrating the continued good credit quality.

6. Impairments on tangible and intangible assets

The **impairments on tangible and intangible assets** amounted to EUR 3 million due to write-backs of impairments on tangible assets that are no longer for sale.

7. Net income before tax

The **net income before tax** stood at EUR 351 million, down EUR 27 million or 7.2% compared to 1H 2015. The banking group contributed EUR 169 million (compared to EUR 178 million in 1H 2015) and the insurance group EUR 182 million (compared to EUR 200 million in 1H 2015).

8. Tax expense

Tax expense, including deferred taxes recorded in the profit and loss accounts, amounted to EUR 101 million in 1H 2016.

9. Net income group share

As a result, Belfius **net income group share** amounted to EUR 249 million for 1H 2016, compared to EUR 272 million in 1H 2015.

10. Dividend

The Board of Directors is considering the payment of an interim dividend of EUR 75 million on the current year profit of 2016. This dividend is also subject to approval of the ECB.

11. Solvency

The Phased In Common Equity Tier 1 capital ratio (CET 1 ratio) stood at 15.7% at the end of June 2016, compared to 15.9% at the end of 2015. With the application of the 2016 grandfathering rules, the CET 1 ratio pro forma for the end of 2015 would have amounted to 15.6% compared to the CET 1 ratio of 15.9% as reported for the end of 2015.

The decrease in reported CET 1 ratio is mainly the result of the shift in grandfathering (-35 bps) and higher regulatory risk exposure of EUR 806 million. The decrease in grandfathering was not entirely offset by Belfius Bank's net income for the period (note that a deduction of EUR 150 million was made for foreseeable dividends) nor by a lower deduction of the tax loss carry-forwards stemming from the application of CRR/CRD IV netting across different types of deferred taxes.

Tier 1 capital ratio of Belfius is equal to its CET 1 ratio, as Belfius has no additional Tier 1 capital.

The Phased In total capital ratio amounted to 18.6% as at 30 June 2016, compared to 17.7% at the end of 2015. The increase is mainly due to the inaugural Tier 2 bond successfully issued in May 2016 for EUR 500 million.

At the end of June 2016, regulatory risk exposure at Belfius amounted to EUR 47.8 billion, compared to EUR 47 billion at the end of 2015. The increase in regulatory credit risk exposure for EUR 1.3 billion is mainly due to the application of CRR/CRD IV netting across different types of deferred taxes (weighted by 250%) and greater exposure on short-term credit loans. Regulatory market risk exposure decreased by EUR 0.5 billion, mainly as a result of the new recalibration of S-VaR (internal model).

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

Segment reporting

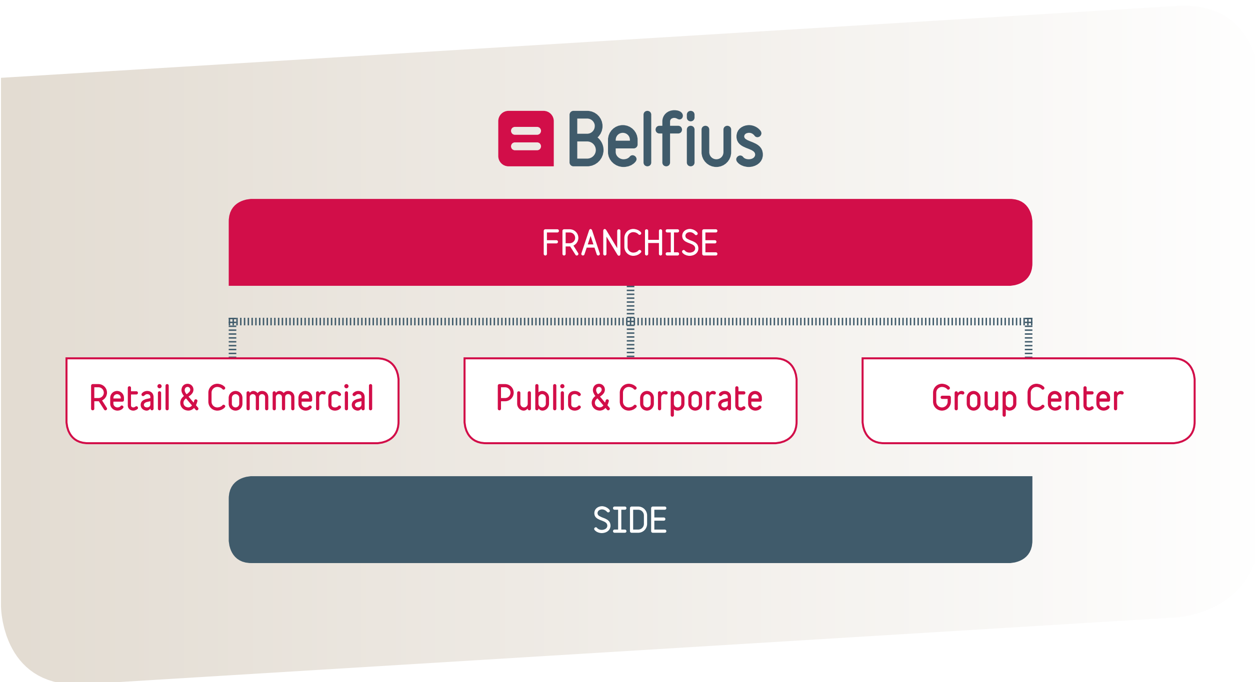
Analytically, Belfius splits its activities and accounts in two segments: Franchise and Side.

Franchise activities contain the key activities of the commercial business lines 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), principally containing the residual results not allocated to the two commercial segments of the Franchise and to the Side activities, as well as the residual interest rate and liquidity management results through the internal transfer pricing mechanism.

Side segment incorporates the Legacy, inherited from the Dexia era and that is managed under a tactical de-risking strategy and in natural run-off mode.
This segment consists of:

- (i) the Legacy portfolios (bonds and credit guarantees);
- (ii) transactions with Dexia Group entities (former related parties);
- (iii) some other run-off activities with clients, inherited from the Dexia era and no longer part of the commercial activities of Belfius.



Key figures of the segment reporting

Balance sheet	Assets		Liabilities		Equity	
(In billions of EUR)	31/12/15 PF(1)	30/06/16	31/12/15 PF(1)	30/06/16	31/12/15 PF(1)	30/06/16
FRANCHISE	135.7	141.3	143.1	149.0	6.1	6.4
RETAIL AND COMMERCIAL (RC)	52.5	53.1	76.3	77.9	2.0	1.9
of which banking activities	*35.8*	*36.9*	*60.1*	*62.3*	*0.9*	*0.9*
of which insurance activities	*16.7*	*16.1*	*16.2*	*15.6*	*1.0*	*1.0*
PUBLIC AND CORPORATE (PC)	41.8	42.1	24.8	25.2	0.8	0.8
of which banking activities	*38.4*	*38.4*	*21.6*	*22.0*	*0.6*	*0.6*
of which insurance activities	*3.4*	*3.7*	*3.2*	*3.3*	*0.2*	*0.2*
GROUP CENTER (GC)	41.3	46.2	42.0	45.9	3.4	3.7
of which banking activities	*37.4*	*42.3*	*38.2*	*41.8*	*3.1*	*3.4*
of which insurance activities	*3.9*	*3.9*	*3.9*	*4.1*	*0.3*	*0.3*
SIDE	41.3	46.7	25.2	30.3	2.5	2.3
TOTAL	177.0	188.0	168.3	179.3	8.7	8.7
of which banking activities	*152.9*	*164.3*	*145.1*	*156.3*	*7.2*	*7.1*
of which insurance activities	*24.1*	*23.7*	*23.2*	*23.0*	*1.5*	*1.6*

(1) Due to the decision to sell the subsidiary "International Wealth Insurer" at the end of 2015, the allocation of 2015 of the assets, liabilities and equity between Retail and Commercial and Group Center has been restated to allow the comparison with 1H 2016.

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 89% loan to deposit ratio at the end of June 2016.

Income statement	1H 2015					
(In millions of EUR)	Franchise	*RC PF(1)*	*PC*	*GC PF(1)*	Side	Belfius total
INCOME	1,157	*972*	*244*	*(59)*	(73)	1,084
EXPENSES	(666)	*(548)*	*(104)*	*(15)*	(6)	(673)
GROSS OPERATING INCOME	491	*424*	*140*	*(73)*	(80)	411
Cost of risk	(23)	*(10)*	*(14)*	*1*	(10)	(33)
Impairments on (in)tangible assets	0	*0*	*0*	*0*	0	0
NET INCOME BEFORE TAX	468	*414*	*126*	*(72)*	(90)	378
Tax (expense) income	(138)	*(129)*	*(42)*	*33*	32	(106)
NET INCOME AFTER TAX	330	*284*	*84*	*(39)*	(58)	272
Non-controlling interests	0	*0*	*0*	*0*	0	0
NET INCOME GROUP SHARE	330	*284*	*84*	*(39)*	(58)	272

(1) Due to the decision to sell the subsidiary "International Wealth Insurer" at the end of 2015, the allocation of 1H 2015 of the result between Retail and Commercial and Group Center has been restated to allow the comparison with 1H 2016, IWI results being allocated to GC.

Income statement	1H 2016					
(In millions of EUR)	Franchise	*RC*	*PC*	*GC*	Side	Belfius total
INCOME	1,130	*901*	*240*	*(11)*	(79)	1,052
EXPENSES	(668)	*(502)*	*(104)*	*(61)*	(5)	(673)
GROSS OPERATING INCOME	463	*398*	*136*	*(72)*	(84)	378
Cost of risk	(25)	*(16)*	*(9)*	*0*	(5)	(30)
Impairments on (in)tangible assets	3	*2*	*0*	*0*	0	3
NET INCOME BEFORE TAX	440	*385*	*127*	*(72)*	(90)	351
Tax (expense) income	(128)	*(119)*	*(39)*	*29*	27	(101)
NET INCOME AFTER TAX	312	*266*	*88*	*(42)*	(63)	249
Non-controlling interests	0	*0*	*0*	*0*	0	0
NET INCOME GROUP SHARE	312	*266*	*88*	*(42)*	(63)	249

Franchise

Financial results Franchise

Net income after tax (Franchise net income) at Belfius decreased from EUR 330 million in 1H 2015 to EUR 312 million in 1H 2016, down 5%. Belfius Bank part therein represented EUR 180 million, a decrease of 3% compared to 1H 2015. At EUR 133 million, Belfius Insurance maintained its high contribution, although decreasing by 9% compared to 1H 2015, mainly due to the cost of claims related to terrorist attacks and storms in 1H 2016.

Franchise net income stems for EUR 266 million from the Retail and Commercial (RC) segment, for EUR 88 million from the Public and Corporate (PC) segment and for EUR -42 million from Group Center (GC).

In 1H 2016, total income of Franchise amounted to EUR 1,130 million, down 2.3% or EUR 26 million less than in 1H 2015.

Net interest income of Franchise decreased by EUR 68 million or 6.6% to EUR 975 million, mainly due to the historically low interest rate environment, the lower volume of BR 21 products and the negative impact of mortgage loan prepayments.

Net fee and commission income of Franchise remained stable in 1H 2016 at EUR 256 million, despite lower and volatile financial markets during 1H 2016.

The technical margin on insurance activities was strongly impacted by the cost of terrorist attacks, storms and floods in 1H 2016.

Franchise net income on investments and liabilities, net income from financial instruments at fair value through profit or loss, dividend income and net income from equity method accounted companies decreased from EUR 175 million in 1H 2015 to EUR 148 million in 1H 2016, a decrease mainly stemming from fair value adjustments on derivatives as a result of the low interest rate environment, Brexit-related market turmoil at the end of 1H 2016 and fewer capital gains realised on the insurance ALM-portfolio.

Other income and expenses are mainly related to sector levies and are also impacted by realized gains on some real estate projects in 1H 2016.

In 1H 2016, total expenses of Franchise amounted to EUR 668 million, compared to EUR 666 million in 1H 2015. The increase in general expenses of EUR 15 million as a result of higher IT costs as well as marketing costs was offset by a decrease in staff expenses (for EUR 5 million), lower network costs (for EUR 5 million) and other (non-staff) expenses (for EUR 3 million).

Financial results Franchise (In millions of EUR)	1H 2015	1H 2016
INCOME	1,157	1,130
of which		
Net interest income	*1,043*	*975*
Net fee and commission income	*257*	*256*
Technical margin on insurance activities	*(124)*	*(90)*
Net income on investments and liabilities, net income from financial instruments at fair value through profit or loss, dividend income and net income from equity method companies	*175*	*148*
Other income & expenses	*(195)*	*(159)*
EXPENSES	(666)	(668)
GROSS OPERATING INCOME	491	463
Cost of risk	(23)	(25)
Impairments on (in)tangible assets	0	3
NET INCOME BEFORE TAX	468	440
Tax expense	(138)	(128)
NET INCOME AFTER TAX	330	312
Non-controlling interests	0	0
NET INCOME GROUP SHARE	330	312
of which		
Bank	*185*	*180*
Insurance	*145*	*133*

Ratios	1H 2015	1H 2016
Cost-income ratio (in %)	57.6%	59.1%
Normative Regulatory Equity (in millions of EUR)(1)	4,507	4,020
RoNRE (in %)(1)	14.4%	15.6%

(1) RoNRE is the Return on Normative Regulatory Equity, with Normative Regulatory Equity defined as the CET 1 capital that is required to bring Franchise (and its sub-segments) to a CET 1 ratio (Fully Loaded) of 10.5%.

As a result, gross operating income of Franchise decreased to EUR 463 million in 1H 2016, down EUR 28 million or 5.7% compared to 1H 2015.

The cost of risk of the commercial activities in RC as well as PC still remains at very low levels, demonstrating the continued good credit quality and amounts to EUR 25 million at the end of 1H 2016.

Pre-tax income of Franchise stood at EUR 440 million, down EUR 27 million or 5.9% compared to 1H 2015.

Tax expenses, including deferred taxes recorded in the profit and loss accounts, amounted to EUR 128 million in 1H 2016 compared to EUR 138 million in 1H 2015.

As a result, Belfius' Franchise net income group share amounted to EUR 312 million for 1H 2016, compared to EUR 330 million in 1H 2015.

Franchise cost-income ratio stood at 59.1%, below the 60% target. Return on Normative Regulatory Equity (RoNRE) increased from 14.4% in 1H 2015 to 15.6% in 1H 2016.

Retail and Commercial (RC)

Commercial performance in 1H 2016

In difficult market circumstances, the commercial activity remained solid. In the first half of 2016 **total savings and investments** grew by 0.9% to EUR 100.7 billion at the end of June 2016. After a strong increase in 2015, the organic growth further increased in the first half-year of 2016 by EUR 2.1 billion.

On-balance sheet deposits totalled EUR 62.3 billion at the end of 1H 2016, up 3.7% compared to the end of 2015. Customers adopted a rather wait-and-see attitude for deposits because of the historically low interest rates, which meant that less capital found its way to long-term capital investments. On the other hand, there was a very good growth in current and savings accounts, which reached EUR 10.2 billion (+15.4%) and EUR 38.7 billion (+3.6%) respectively.

Off-balance sheet investments on the other hand fell by 2.2% compared to the end of 2015, to EUR 27.4 billion. This decline was mainly caused by a negative market effect (EUR 1 billion), partially offset by a net inflow of asset management products (EUR 0.4 billion).

Life insurance reserves for investment products amounted to EUR 11.0 billion, down 5.9% compared to the end of 2015.

Retail and Commercial (In billions of EUR)	31/12/15	30/06/16	Evolution
TOTAL SAVINGS AND INVESTMENTS	99.8	100.7	+0.9%
DEPOSITS	60.1	62.3	+3.7%
Savings accounts	*37.3*	*38.7*	*+3.6%*
Savings certificates	*5.2*	*4.8*	*-7.5%*
Bonds issued by Belfius	*8.2*	*8.1*	*-1.2%*
Current accounts	*8.9*	*10.2*	*+15.4%*
Term accounts	*0.5*	*0.5*	*-3.8%*
OFF-BALANCE SHEET INVESTMENTS	28.0	27.4	-2.2%
LIFE INSURANCE RESERVES(1)	11.7	11.0	-5.9%
Life Branch 21	*9.4*	*8.5*	*-9.1%*
Life Branch 23	*0.7*	*0.8*	*+17.9%*
Life Branch 44	*1.7*	*1.7*	*+2.6%*

(1) Investment products

Total loans to customers rose to EUR 40.9 billion at the end of 1H 2016. The increase occurred in mortgage loans (+2.5%) and business loans (+2.9%). Mortgage loans, which account for two-thirds of all loans, amounted to EUR 27.9 billion at the end of 1H 2016, while consumer loans and business loans stood at EUR 1.4 billion and EUR 11.1 billion respectively.

New long-term loans granted to retail clients during 1H 2016 amounted to EUR 2.9 billion. In the first half-year of 2016, the new production of mortgage loans – excluding external refinancing – increased by 17% to EUR 2.2 billion. During the same period, EUR 1.4 billion in new long-term business loans were granted, up 22% compared to the first half of last year.

Retail and Commercial (In billions of EUR)	31/12/15	30/06/16	Evolution
TOTAL LOANS TO CUSTOMERS	39.9	40.9	+2.4%
Mortgage loans	*27.2*	*27.9*	*+2.5%*
Consumer loans	*1.3*	*1.4*	*+3.2%*
Other retail loans	*0.5*	*0.5*	*s.q.*
Business loans	*10.8*	*11.1*	*+2.9%*

The **total insurance premiums** from customers in the Retail and Commercial segment amounted to EUR 561 million in 1H 2016, compared with EUR 609 million in 1H 2015, down 7.8%, in line with market tendencies stemming from low client interest in Life Branch 21 insurance.

Life insurance premiums amounted to EUR 301 million, compared with EUR 359 million in 1H 2015, a 16% drop. Due to the historically low interest environment, a decline in Life Branch 21 premiums as well as in Life Branch 23 premiums can be noted.

Non-life insurance premiums amounted to EUR 260 million, up 4% compared to 1H 2015. This growth was possible thanks to the further development of bank channels, where we noticed an increase of almost 10% in non-life premiums. The 1H 2016 new production in non-life insurances increased by 16% compared to the same period last year.

Indeed, thanks to the "one-stop-shopping" concept of Belfius, the mortgage loan cross-sell ratio for fire insurance increased from 80% at the end of 2015 to 82% at the end of June 2016. The mortgage loan cross-sell ratio for credit balance insurance increased from 138% at the end of 2015 to 142% at the end of June 2016.

Retail and Commercial (In billions of EUR)	31/12/15	30/06/16	Evolution
TOTAL LIFE INSURANCE RESERVES(1)	14.1	13.5	-4.3%
Life Branch 21 and 26	*12.2*	*11.4*	*-6.6%*
Life Branch 23	*2.0*	*2.1*	*+5.0%*

(1) Investment products and insurance products.

Total life insurance reserves[2], in the Retail and Commercial segments, dropped by 4.3% to EUR 13.5 billion at the end of June 2016 as a result of a difficult context characterised by low interest rates. A clear shift between products can be noted in the reserves. Life Branch 23 reserves increased by 5%, whereas Life Branch 21 and 26 reserves fell by 6.6%.

Financial results RC

RC net income after tax declined from EUR 284 million in 1H 2015 to EUR 266 million in 1H 2016.

In 1H 2016, total income amounted to EUR 901 million, down 7% or EUR 71 million less than in 1H 2015, mainly due to the low interest environment.

Net interest income amounted to EUR 676 million, a decrease of 12.7%, mainly due to the low interest rate environment, the lower volume of Branch 21 products and the negative impact of mortgages prepayments. The lower net interest income was partially offset by higher lending activities.

Despite lower and volatile financial markets during 1H 2016, net fee and commission income remained stable thanks to the net inflow of asset management products and increased non-life insurance business through the bank channels.

The insurance business within RC generates around one-third of total RC income.

In 1H 2016, total expenses amounted to EUR 502 million, a decrease of EUR 46 million or 8.4% compared to 1H 2015. This decrease is the result of continued strict cost control.

(2) Investment products and insurance products.

Financial results RC (In millions of EUR)	1H 2015 PF(1)	1H 2016
INCOME	972	901
Of which		
Net interest income	*774*	*676*
Net fee and commission income	*235*	*234*
EXPENSES	(548)	(502)
GROSS OPERATING INCOME	424	398
Cost of risk	(10)	(16)
Impairments on (in)tangible assets	0	2
NET INCOME BEFORE TAX	414	385
Tax expense	(129)	(119)
NET INCOME AFTER TAX	284	266
Non-controlling interests	0	0
NET INCOME GROUP SHARE	284	266

(1) Due to the decision to sell the subsidiary "International Wealth Insurer" at the end of 2015, the allocation of 1H 2015 of the result between Retail and Commercial and Group Center has been restated to allow the comparison with 1H 2016.

Ratios	1H 2015 PF	1H 2016
Cost-income ratio (in %)	56.4%	55.8%
Normative Regulatory Equity (in millions of EUR)(1)	2,383	2,139
RoNRE (in %)(1)	23.6%	24.4%

(1) RoNRE is the Return on Normative Regulatory Equity, with Normative Regulatory Equity defined as the CET 1 capital that is required to bring RC to a CET 1 ratio (Fully Loaded) of 10.5%.

As a result, gross operating income decreased to EUR 398 million in 1H 2016, down EUR 25 million or 6% compared to 1H 2015.

The cost of risk still remains at very low levels demonstrating a good credit quality and amounted to EUR 15 million in 1H 2016.

Pre-tax income stood at EUR 385 million, down with EUR 29 million or 7% compared to 1H 2015.

Tax expenses amounted to EUR 119 million in 1H 2016 compared to EUR 129 million in 1H 2015. This decrease is mainly due to lower profit before taxes.

As a result, Belfius' RC net income group share amounted to EUR 266 million for 1H 2016.

RC cost-income ratio improved to 55.8%, compared to 56.4% in 1H 2015. The Return on Normative Regulatory Equity (RoNRE) increased from 23.6% in 1H 2015 to 24.4% in 1H 2016.

Public and Corporate (PC)

Commercial performance in 1H 2016

At the end of June 2016, **total savings and investments** amounted to EUR 30.1 billion, an increase of 1.9% compared with the end of 2015. **On-balance sheet deposits** rose by 1.9%, from EUR 21.6 billion to EUR 22.0 billion. **Off-balance sheet investments** registered growth of 1.8% to reach EUR 7.6 billion.

Public and Corporate (In billions of EUR)	31/12/15	30/06/16	Evolution
TOTAL SAVINGS AND INVESTMENTS	29.6	30.1	+1.9%
Deposits	*21.6*	*22.0*	*+1.9%*
Off-balance sheet investments	*7.5*	*7.6*	*+1.8%*
Life insurance reserves(1)	*0.5*	*0.6*	*+6.3%*

(1) Investment products

Total outstanding loans remained stable at EUR 38.4 billion. The decrease in Public and Social was due to lower demand, increased competition on the Public and Social Sector market and the increase in alternative financing. Outstanding loans for the Corporate segment increased to stand at EUR 9.3 billion at the end of 1H 2016. **Off-balance sheet commitments** remained stable at EUR 19.9 billion at the end of 1H 2016.

Despite the continued weak market demand in the public and social sector, Belfius granted EUR 0.8 billion in new long-term lending in the first half of 2016, up 24% compared to the same period of last year. Belfius also plays an active role in Debt Capital Markets business. During 1H 2016 the bank signed new funding agreements to the public and social sectors for a total amount of EUR 4.5 billion and increased its level of participation to 86% of the public issuers.

The production of long-term loans to corporate customers amounted to EUR 1.5 billion in the first half of 2016. With its level of participation rising to 73%, Belfius also confirmed its position as leader for bond issues and treasury certificates for corporate clients. In the first half of 2016, the bank launched EUR 0.8 billion of innovative funding to those clients.

Public and Corporate (In billions of EUR)	31/12/15	30/06/16	Evolution
OUTSTANDING LOANS	38.4	38.4	s.q.
Public and Social	*29.6*	*29.1*	*-1.6%*
Corporate	*8.9*	*9.3*	*+5.1%*
OFF-BALANCE SHEET COMMITMENTS	20.0	19.9	-0.5%

With regard to **insurance activities**, the Public and Corporate segment recorded a solid income, in particular for non-life insurance products.

Non-life insurance premiums increased by 12.3% to EUR 87 million. This demonstrates the success of the strategy developed for property and casualty insurance products (fire, accidents, other risks), i.e. through sales via specialised brokers, and is reflected in the increase in premium revenues for occupational accident cover and property damage cover.

Gross premiums received in the **life segment** amounted to EUR 159 million, an increase of 5.7% thanks to the strong position and expertise of Belfius in its niche market.

Public and Corporate (In millions of EUR)	31/12/15	30/06/16	Evolution
TOTAL PREMIUMS RECEIVED	228	246	+7.9%
Life	*150*	*159*	*+5.7%*
Non-life	*78*	*87*	*+12.3%*

Financial results PC

PC net income after tax rose from EUR 84 million in 1H 2015 to EUR 88 million in 1H 2016, up 5% thanks to continued solid commercial dynamics.

In 1H 2016, total income amounted to EUR 240 million, down 1% or EUR 4 million less than in 1H 2015.

Net interest income amounted to EUR 198 million, up 3% compared to 1H 2015, mainly benefiting from higher cross-sell ratios between lending and non-lending products.

Net fee and commission income remained stable in 1H 2016 and amounted to EUR 25 million despite the lower and volatile financial markets.

The insurance business within PC clients generates around 12% of total PC income.

In 1H 2016, total expenses amounted to EUR 104 million, stable compared to 1H 2015.

As a result, the gross operating income decreased to EUR 136 million in 1H 2016, down EUR 4 million or 3% compared to 1H 2015.

The cost of risk decreased from EUR 14 million in 1H 2015 to EUR 9 million in 1H 2016, and as such remains very low, demonstrating the good credit quality of the PC franchise.

Pre-tax income stood at EUR 127 million, stable compared to 1H 2015.

Tax expenses amounted to EUR 39 million in 1H 2016 compared to EUR 42 million in 1H 2015.

As a result, Belfius' PC net income group share amounted to EUR 88 million for 1H 2016, compared to EUR 84 million in 1H 2015.

The PC cost-income ratio remained strong at 43.4% in 1H 2016. The Return on Normative Regulatory Equity (RoNRE) increased from 18.6% in 1H 2015 to 22.6% in 1H 2016.

Financial results PC (In millions of EUR)	1H 2015	1H 2016
INCOME	244	240
Of which		
Net interest income	*193*	*198*
Net fee and commission income	*26*	*25*
EXPENSES	(104)	(104)
GROSS OPERATING INCOME	140	136
Cost of risk	(14)	(9)
Impairments on (in)tangible assets	0	0
NET INCOME BEFORE TAX	126	127
Tax expense	(42)	(39)
NET INCOME AFTER TAX	84	88
Non-controlling interests	0	0
NET INCOME GROUP SHARE	84	88

Ratios	1H 2015	1H 2016
Cost-income ratio (in %)	42.5%	43.4%
Normative Regulatory Equity (in millions of EUR)(1)	877	760
RoNRE (in %)(1)	18.6%	22.6%

(1) RoNRE is the Return on Normative Regulatory Equity, with Normative Regulatory Equity defined as the CET 1 capital that is required to bring PC to a CET 1 ratio (Fully Loaded) of 10.5%.

Group Center (GC)

At the bank, Group Center principally contains the residual results not allocated to the two commercial segments of Franchise and to Side activities, as well as the residual interest rate and liquidity management results through the internal transfer pricing mechanism.

The carry cost of the collateral needed by Franchise activities is also allocated to Group Center. The results on hedge solutions implemented for clients (Flow Management activities) and the results on treasury activities (Money Market) are also allocated to Group Center. Finally, Group Center also contains the result or carry costs of assets or liabilities not allocated to a specific business line or asset/liabilities that do not deliver or obtain interest (e.g. equity, property, equipment).

At the level of the insurer, Group Center contains income from assets not offered to and allocated to a specific business line, the cost of subordinated debt, the results of some subsidiaries and the costs not allocated to a specific business line.

Financial results GC

GC net income after tax stood at EUR -42 million in 1H 2016, compared to EUR -39 million in 1H 2015.

In 1H 2016, total income amounted to EUR -11 million, or EUR 48 million more than in 1H 2015. This increase came mainly from better non-allocated ALM results, partly offset by higher non-allocated financial sector levies.

In 1H 2016, total expenses increased from EUR 15 million in 1H 2015 to EUR 61 million in 1H 2016, mainly due to a one-off positive impact recognized in 1H 2015.

The gross operating income remained stable at EUR -72 million.

Taxes amounted to EUR +29 million in 1H 2016 compared to EUR +33 million in 1H 2015.

As a result, Belfius' GC net income group share amounted to EUR -42 million in 1H 2016, compared to EUR -39 million in 1H 2015.

Side

At the time of the separation from Dexia Group at the end of 2011, Dexia Bank owned an investment portfolio, inherited from its period within Dexia Group, totalling EUR 74 billion notional value:

- a Legacy bond portfolio of approximately EUR 18 billion;
- a Legacy credit guarantee (intermediation) portfolio of approximately EUR 12 billion;
- funding to other Dexia entities for approximately EUR 44 billion.

Since the end of 2011, Belfius has implemented a tactical de-risking plan leading to a significant reduction of the Side portfolios, including a reduction of funding to Dexia entities to almost zero by the end of February 2015.

In the light of Belfius' ambitions towards a still somewhat lower risk profile, the bank continues its tactical de-risking efforts in order to bring the Side portfolios, by the end of 2016, to target state with a risk profile in line with Franchise's risk profile. As such, the Side portfolios' risk profile targeted by Belfius shows the following key characteristics:

- an average rating of the portfolios of A-;
- a non-investment grade (NIG) share of maximum 2%;
- concentration limits in line with Belfius corporate portfolios within the Franchise.

The Legacy bond portfolio

At the end of June 2016, the Legacy bond portfolio stood at EUR 7.1 billion, down EUR 1 billion compared to December 2015, mainly due to the tactical de-risking (EUR 0.3 billion) and the natural amortization of the portfolio. At the end of June 2016, the portfolio was composed of sovereign and public sector (14%), corporate (48%), financial institutions bonds (20%) and asset-backed securities (18%).

Since 2011, the Legacy bond portfolio has been decreased by almost two-thirds (61%) or EUR 11.2 billion of which two-thirds due to tactical de-risking and one-third to natural amortizations. Tactical de-risking has been mainly executed in the asset categories of

Financial results GC
(In millions of EUR)

	1H 2015 PF(1)	1H 2016
INCOME	(59)	(11)
EXPENSES	(15)	(61)
GROSS OPERATING INCOME	(73)	(72)
Cost of risk	1	0
Impairments on (in)tangible assets	0	0
NET INCOME BEFORE TAX	(72)	(72)
Tax expense	33	29
NET INCOME AFTER TAX	(39)	(42)
Non-controlling interests	0	0
NET INCOME GROUP SHARE	(39)	(42)

(1) Due to the decision to sell the subsidiary "International Wealth Insurer" at the end of 2015, the allocation of 1H 2015 of the result between Retail and Commercial and Group Center has been restated to allow the comparison with 1H 2016.

financial institutions (-83%), covered bonds (-77%), asset backed securities (-74%) and international sovereigns and public sector (-53%).

The Legacy bond portfolio has an average life of 15 years. With an average rating of A- and 94% of the portfolio being investment grade, the portfolio remains of good credit quality.

The Legacy credit guarantee (intermediation) portfolio

At the end of June 2016, the credit guarantee portion of Belfius' Legacy portfolio amounted to EUR 4.3 billion, down EUR 1.1 billion compared to December 2015, mainly due to amortizations. It relates essentially to Credit Default Swaps and Financial Guarantees issued on corporate/public issuer bonds (83%), ABS (15%) and covered bonds (2%). 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 from various monoline insurers (US reinsurance companies, essentially Assured Guaranty) result in a portfolio that is 100% investment grade. The average rating of the portfolio remains at A-. At the end of June 2016, the average residual life of the portfolio stood at 7.1 years. Since the end of 2011, the Legacy credit guarantee portfolio has been reduced by EUR 7.4 billion or 63%.

Funding to Dexia

Since February 2015, the funding to Dexia has been reduced to below EUR 100 million. As at 30 June 2016, the remaining funding relates mainly to a loan to Dexia Crediop (EUR 4.5 million) for which Dexia Crediop has made a deposit of the same amount with Belfius and the co-financing of a loan (EUR 51.1 million) granted by DCL to a very creditworthy British real estate (social housing) company that passes through the accounts of DCL.

Please note also that, while it was still part of the Dexia Group, the former Dexia Bank (now Belfius Bank) was the Dexia Group's "competence centre" for derivatives (mainly interest rate swaps): this meant that all Dexia entities could cover their market risks with derivatives with Dexia Bank, mainly under the standard contractual terms related to cash collateral. The former Dexia Bank systematically covered these derivative positions externally, as a result of which these derivatives broadly appear twice in Belfius accounts: once in relation to Dexia and once for the hedging. The remaining outstanding notional amount[1] of derivatives with Dexia amounted to approximately EUR 43.3 billion at the end of June 2016, a decrease of EUR 5.6 billion compared to the end of 2015.

Other Side

Other run-off activities consist mainly of derivatives with (non-Franchise) foreign counterparties and of transactions with former related parties, inherited from the Dexia era.

Financial results Side

Side net income after tax amounted to EUR -63 million in 1H 2016 compared to EUR -58 million in 1H 2015.

In 2015, total income amounted to EUR -79 million in 1H 2016 compared to EUR -73 million in 1H 2015. Total income was impacted by the de-risking programme (EUR -16 million losses before taxes) and negative fair value adjustments in more volatile 1H 2016 financial markets.

In 1H 2016, total expenses amounted to EUR 5 million, a decrease of EUR 1 million compared to 1H 2015.

As a result, gross operating income amounted to EUR -84 million in 1H 2016 compared to EUR -80 million in 1H 2015.

Cost of risk lowered to EUR 5 million compared to EUR 10 million in 1H 2015. To recall, in 1H 2015 the cost of risk was mainly impacted by the increase of collective provisions, due to additional (incurred but not reported (IBNR)) provisioning for some UK/US Legacy assets.

Pre-tax income stood at EUR -90 million in 1H 2016, stable compared to 1H 2015.

Taxes amounted to EUR +27 million in 2015 compared to EUR +32 million in 2014.

As a result, Side net income group share amounted to EUR -63 million in 1H 2016 compared to EUR -58 million in 1H 2015.

(1) For more information, please refer to note 5.9 in the disclosures.

Financial results Side (In millions of EUR)	1H 2015	1H 2016
INCOME	(73)	(79)
EXPENSES	(6)	(5)
GROSS OPERATING INCOME	(80)	(84)
Cost of risk	(10)	(5)
Impairments on (in)tangible assets	0	0
NET INCOME BEFORE TAX	(90)	(90)
Tax expense	32	27
NET INCOME AFTER TAX	(58)	(63)
Non-controlling interests	0	0
NET INCOME GROUP SHARE	(58)	(63)

Capital management

Capital management at the bank

1. Prudential supervision

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

As a result of the annual "Supervisory Review and Evaluation Process" (SREP) conducted by the ECB, as from December 2015 Belfius must maintain a minimum CET 1 ratio of 11.25%, which is composed of a minimum SREP CET 1 ratio of 10.75% (including capital conservation buffer) and a buffer for domestic systemically important institutions of 0.50%.

2. Regulatory own funds

The regulator has authorised Belfius to apply article 49 of the CRR and hence to cease deducting the capital instruments of Belfius Insurance from regulatory own funds, but rather to include these in the total risk exposure by applying a weighting of 370% (the so-called "Danish Compromise").

For regulatory reporting purposes, the Belfius insurance group is not consolidated by Belfius Bank and is treated as a financial fixed asset. As a result, there are some differences between the equity in the consolidated financial statements and in the regulatory calculations.

At the end of June 2016, the base for the regulatory core own funds amounted to EUR 8,515 million, an increase of EUR 168 million stemming from the regulatory result of EUR 243 million for 1H 2016 offset by a dividend paid of EUR 75 million. Note that the regulatory result (EUR 243 million) differs from the consolidated result (EUR 249 million) due to the "scope change adjustments" following the different consolidation scope, as described above. The scope change adjustments can be detailed as follows:

(In millions of EUR)	31/12/15	30/06/16
Consolidated result	506	249
Elimination of Belfius Insurance	(216)	(133)
RESULT OF BELFIUS BANKING GROUP	290	116
Scope changes:		
dividend (Belfius Insurance)	141	120
other	14	7
PRUDENTIAL RESULT	445	243

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

(In millions of EUR)	31/12/15	30/06/16
ACCOUNTING CORE SHAREHOLDERS' EQUITY	8,309	8,483
Transformation of the insurance group in a financial fixed asset	38	32
Base for the regulatory core own funds	8,347	8,515

In the regulatory own funds calculation under the Basel III regulations, the transitional measures provided for in CRR/CRD IV are taken into account as set out in the applicable national regulations.

Regulatory own funds

(In millions of EUR)	31/12/15	30/06/16
COMMON EQUITY TIER 1 CAPITAL (CET 1 CAPITAL)	7,479	7,523
BASE FOR THE REGULATORY CORE OWN FUNDS	8,347	8,515
DEDUCTION OF FORESEEABLE DIVIDEND	(75)	(150)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	(43)	(187)
Remeasurement defined benefit plans	119	49
Remeasurement available-for-sale reserve on securities and frozen fair value adjustments of reclassified financial assets	(623)	(552)
Other reserves	(30)	(71)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	30	71
Transitional measures	461	316
DEDUCTIONS AND PRUDENTIAL FILTERS	(750)	(655)
Deferred tax assets on losses carried forward	(218)	(25)
Investments in securitisation positions	(303)	(293)
Changes in the value of own credit standing	(27)	(7)
Value adjustments due to the requirements for regulatory prudent valuation	(158)	(154)
Intangible fixed assets	(70)	(81)
Goodwill	(104)	(104)
Transitional measures	131	10
TIER 2 CAPITAL	849	1,365
Tier 2 capital instruments	475	987
Excess of provisions over expected losses IRB	154	156
General credit risk adjustments SA (standard approach)	16	20
Transitional measures	204	201
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT)	8,328	8,888

CET 1 capital amounted to EUR 7,523 million, compared with EUR 7,479 million at the end of 2015. The increase in CET 1 capital of EUR 44 million results from the regulatory profit, the improvement of the remeasurements of AFS reserves and the significant decrease of the deduction of tax loss carry forward following the application of CRR/CRD IV netting across types of deferred taxes. However, this was partially offset by a decrease of the remeasurement of defined benefit plans and a decrease of the transitional measures. Note that the CET 1 capital was reduced by the foreseeable dividend of EUR 150 million (EUR 75 million interim 2016 dividend under analysis and a possible additional dividend of EUR 75 million on full year 2016 profit in 1H 2017).

Tier 1 capital is equal to the CET 1 capital given that the bank does not hold any additional Tier 1 capital.

Tier 2 capital increased from EUR 849 million to EUR 1,365 million. This improvement was the result of a new Tier 2 issue in May 2016 with a nominal value of EUR 500 million.

At the end of June 2016, the total regulatory own funds amounted to EUR 8,888 million, compared to EUR 8,328 million at the end of 2015.

3. Regulatory risk exposure

Regulatory risk exposure includes risk-weighted exposures for credit risk, market risk and operational risk. Each of the underlying risks is detailed in the section on Risk Management in this report. Some risk-weighted exposures also stem from the Danish Compromise, whereby the equity capital instruments of Belfius Insurance and held by Belfius Bank are included in the regulatory risk exposure via a weighting of 370%.

At the end of June 2016, regulatory risk exposure at Belfius amounted to EUR 47.8 billion, compared to EUR 47 billion at the end of 2015.

The increase in regulatory credit risk exposure is mainly due to the application of CRR/CRD IV netting across different types of deferred taxes (weighted by 250%) and more exposure for short term credit loans.

Regulatory market risk exposure decreased by EUR 0.4 billion, mainly as a result of the new recalibration of S-VaR (internal model).

Regulatory operational risk exposure remained stable (no half-yearly update).

(In millions of EUR)	31/12/15	30/06/16	Evolution
Regulatory credit risks exposure	36,345	37,606	+3.5%
Regulatory market risks exposure	1,777	1,322	-25.6%
Regulatory operational risks exposure	2,802	2,802	s.q.
Danish Compromise	6,102	6,102	s.q.
REGULATORY RISK EXPOSURE	47,026	47,832	

4. Solvency ratios for Belfius Bank

At the end of June 2016, the CET 1 ratio Phased In amounted to 15.7%, a decrease of 17 bps compared to the end of 2015. With the application of the grandfathering rules of 2016, the CET 1 ratio for 2015 would have amounted to 15.6% compared to the CET 1 ratio of 15.9% as reported.

The decrease in reported CET 1 ratio is mainly the result of the shift in grandfathering rules (-35 bps) in the regulatory own funds calculation and higher regulatory risk exposure of EUR 806 million. The decrease in grandfathering was not entirely offset by Belfius Bank net income for the period (note that a deduction of EUR 150 million was made for foreseeable dividends) or by a lower deduction of the tax loss carry-forwards stemming from the application of CRR/CRD IV netting across different types of deferred taxes.

The Tier 1 capital ratio is equal to the CET 1 ratio because Belfius does not hold any additional Tier 1 capital.

The Phased In total capital ratio amounted to 18.6%, an increase of 87 bps compared to the end of 2015, also mainly thanks to the new Tier 2 issue.

	31/12/15	30/06/16
BASEL III (PHASED IN)		
Common Equity Tier 1 ratio (CET 1 ratio)	15.9%	15.7%
Tier 1-capital ratio (T 1 ratio)	15.9%	15.7%
Total capital ratio	17.7%	18.6%
BASEL III (FULLY LOADED)		
Common Equity Tier 1 ratio (CET 1 ratio)	14.9%	15.2%
Tier 1-capital ratio (T 1 ratio)	14.9%	15.2%
Total capital ratio	16.2%	17.7%

At the end of June 2016, the CET 1 ratio Fully Loaded stood at 15.2% compared to 14.9% at the end of 2015. Total capital ratio Fully Loaded increased from 16.2% to 17.7%.

5. Leverage ratios for Belfius Bank

In December 2010, the Basel Committee on Banking Supervision (BCBS) published guidelines for calculating the leverage ratio as a simple, transparent, non-risk based ratio which intends to discourage the use of excessive leverage.

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

The Basel Committee is testing a 3% minimum requirement during the parallel run period (i.e. from 1 January 2013 to 1 January 2017) with Quantitative Impact Studies (QIS).

The EU implementation of the Basel III Leverage Ratio Framework is provided in the CRR/CRD IV regulations, amended by the Delegated Act No 62/2015 of 10 October 2014.

Any further adjustments to the definition of the leverage ratio and its final calibration will be completed after an observation period until 2017, for a potential migration to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018.

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

(In millions of EUR)	30/06/16
TIER 1 CAPITAL	7,523
Total assets	188,004
Deconsolidation of Belfius Insurance	(23,336)
Adjustment of derivatives	(36,004)
Adjustment for securities financing transactions exposures	1,616
Adjustment for prudential corrections in calculation of Tier 1 capital	(493)
Off-balance sheet exposures	15,188
LEVERAGE RATIO EXPOSURE	144,975
LEVERAGE RATIO (PHASED IN)	5.2%

At the end of June 2016, the Belfius leverage ratio Phased In - based on the current CRR legislation - stood at 5.2%, the leverage ratio Fully Loaded stood at 5.0%.

Capital management at Belfius Insurance

1. Prudential supervision

Belfius Insurance reports to its regulator, NBB, both at a consolidated and at a statutory level. For the insurance subsidiaries, statutory supervision is retained in those countries where they are located, i.e. Belgium (Corona) and Luxembourg (IWI)[(1)].

Belfius Insurance reports on a quarterly basis to the NBB on its solvency margin and liquidity. As part of prudential supervision over systemic insurers, highly detailed information is also provided to the NBB about the company's strategy, its ALM policy and the sufficiency of its technical reserves.

2. Regulatory own funds

Since 1 January 2016, the Solvency II directive has been applicable for insurance companies. 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. Whereas Solvency I requirements were volume-based, the Solvency II requirements pursue a risk-based approach.

The regulatory own funds of Belfius Insurance amounted to EUR 2,428 million at the end of June 2016. It was composed for 90% of Tier 1 capital. Tier 2 capital was EUR 255 million and consisted mainly of a subordinated loan from Belfius Bank. Compared to December 2015, the own funds of Belfius Insurance decreased slightly mainly due to the payment of a dividend of EUR 120 million to Belfius Bank in the first half of 2016. The moderate negative impact of lower interest rates and market volatility has been offset by the tightening of credit spreads i.e. on Belgian government bonds.

(1) At the end of June 2016, as the Luxembourgian subsidiary IWI was in a sales process, it has been treated as a non-consolidated participation for Solvency II purposes.

Own funds (in millions of EUR)	31/12/15 PF[(1)]	30/06/16
OWN FUNDS	2,511	2,428
TIER 1	2,253	2,174
IFRS Equity	2,296	2,075
Dividend pay-out	(120)	
Valuation difference (after tax)	(39)	(8)
Others	(36)	(53)
Subordinated liabilities	152	160
TIER 2	258	255
Subordinated liabilities	247	244
Others	11	11

(1) 2015 Figures have been slightly restated to fit with regulatory submission.

3. Solvency requirements

The Solvency Capital Requirement (SCR) is calculated based on the consolidated asset and liability portfolio of Belfius Insurance, Corona and the investment entities that are fully consolidated for Solvency II purposes. The SCR is calculated using the "Standard Formula" as defined in the Solvency II regulation.

Belfius Insurance's required capital stood at EUR 1,179 million at the end of June 2016, almost stable compared to the end of 2015.

Solvency Capital Requirement (in millions of EUR)	31/12/15 PF[(1)]	30/06/16
Market risk	1,099	1,054
Counterparty default risk	205	196
Life underwriting risk	254	304
Health underwriting risk	64	67
Non-life underwriting risk	221	230
Diversification	(478)	(505)
Other	(166)	(167)
SOLVENCY CAPITAL REQUIREMENT	1,199	1,179

(1) 2015 Figures have been slightly restated to fit with regulatory submission.

4. Solvency ratios at Belfius Insurance

The Solvency II ratio of Belfius Insurance stood at 206% at the end of June 2016, in line with the ratio as of December 2015.

Solvency II ratio (in %)	31/12/15 PF[(1)]	30/06/16
Solvency II ratio (before dividend)	209%	206%
Solvency II ratio (after dividend)	199%	201%[(2)]

(1) 2015 Figures have been slightly restated to fit with regulatory submission.
(2) For 2016, an accrued possible (but not yet approved) dividend of EUR 60 million is taken into account for the calculation of the Solvency II ratio (after dividend).

The resistance of own funds to adverse market developments combined with stable solvency capital requirements resulted in a strong solvency ratio of 206% as of June 2016 compared to 209% at the end of 2015.

Risk management

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

Risk management governance and data are described in Belfius annual reports and dedicated risk reports which are available at *www.belfius.com*.

Introduction

1. Macroeconomic environment

The first half of 2016 was characterized by strong fluctuations in the financial markets in a context of moderate growth in Europe. Various shocks and rumors hit the markets and caused strong movements in stock and bond markets.

→ **Fear of a global slowdown**
In the first months of the year, fear of a global slowdown caused panic reaction and strong turbulence on the stock market. In Belgium, this even led at one point to a stock market correction of more than 20% on the BEL 20 index compared to the beginning of the year. Rumours about a hard landing of the Chinese economy and a possible recession in the emerging markets as a consequence of an appreciation of the USD were at the root of these market turbulences. In the end, the Chinese downturn has been rather limited and, as the US did not increase its rates, the USD did not materially appreciate against the EUR. However, the stock market did not completely recover and throughout the first half of the year remained approximately 6% below the level of early January.

→ **Terrorist attacks in Belgium and social conflicts**
On 22 March 2016, there were major terrorist attacks in Belgium which had a negative economic impact on the catering and tourism industry. The National Bank of Belgium assessed that such terror attacks could negatively impact the growth by 0.1% of GDP. However, Belgian consumer and producer confidence remained unaffected.
The first half of the year was also marked by social conflicts and strikes in the public sector.

→ **ECB policy**
On 11 March 2016, in view of slowing growth and inflation, the ECB decided to develop its quantitative easing program further. More bonds can be bought each month (i.e. EUR 80 billion instead of EUR 60 billion) and corporate bonds are now also eligible for the purchase programme. As a consequence, interest rates came under pressure and credit spreads tightened. However, the euro did not weaken against the USD as the interest rate differential between the eurozone and the US did not increase, because the Federal Reserve decided not yet to raise its policy interest rates.

→ **Brexit**
On 23 June 2016, in a referendum the UK expressed its wish to leave the European Union. This outcome was unexpected by the financial markets and led to strong declines in the stock markets as well as a depreciation of the euro and especially the sterling against the US dollar. Due to the rush of investors to high quality assets, interest rates also fell. The 10-year German bund even became negative and traded at approximately -13 bps at the end of June. How the exit from the European Union will work out, in which time frame, and which economic sectors will be impacted, is for the time being unknown. This again increases uncertainty and volatility.
The UK is also one of Belgium's most important export markets. According to the National Bank of Belgium, business with the UK represents approximately EUR 3 billion of added value. What effect the Brexit may have on these trade relations is currently unknown.

From an economic point of view, Europe continued its moderate growth whereby the Belgian economy in particular suffered from a weak first quarter. Most international institutions and independent research agencies lowered their growth prospects for the EU and the eurozone. However, as mentioned, despite the market turbulences, Belgian consumer and producer confidence remained on track and the labour market as a whole improved throughout the EU.

2. EU-wide EBA Stress Test

Belfius Bank was subject to the 2016 EU-wide stress test conducted by the European Banking Authority, in cooperation with the National Bank of Belgium, the European Central Bank, the European Commission and the European Systemic Risk Board.

The stress test applied to 51 European banks and its aim was to assess the resilience of selected institutions when confronted by severe financial and economic stress over a three-year time horizon (2016-2018). The stress test was carried out applying a static balance sheet assumption as at December 2015, and therefore does not take into account any future business strategies and management actions. The final outcome of this exercise is translated into the relevant banks' solvency figures as per the end of 2018. The 2016 stress test does not contain a pass-fail solvency threshold (as was the case in the 2014 stress test), but instead was designed to be used as crucial information for the 2016 supervisory review process that will continue during the second half of the year.

Starting from a very comfortable CET 1 Phased In ratio of 15.9% as at the end of 2015, the CET 1 ratio increased to 17.6% under the baseline stress scenario (in Fully Loaded format) as per the end of 2018. Under the 2016 EBA adverse stress scenario, Belfius still achieves a solid CET 1 Fully Loaded ratio of 11.4%. Based upon this result, Belfius ranks among the best capitalized European banks and scores substantially better than the average of 9.4% of the 51 European banks for which EBA published the stress test result.

This outcome confirms the appropriateness of our strategy over recent years, the long-term vision of our shareholder, our solidity and our resilience, all of which are crucial in the current challenging macroeconomic environment.

Credit risk

1. Exposure to credit risk(1)

As at 30 June 2016, the total credit risk exposure, within Belfius reached EUR 175.2 billion, an increase of EUR 3.3 billion or 2% compared to the end of 2015. This slight increase is mainly due to the higher commercial activities in the first half-year of 2016 and short-term investments on French region bonds. At bank level, credit risk exposure amounted to EUR 156.6 billion, up 2.6% compared to the end of 2015. At the level of Belfius Insurance, credit risk exposure decreased by 3.8% to EUR 18.6 billion at the end of June 2016.

The credit risk exposure on public sector entities and the institutions that receive guarantees from these public sector entities (30% of the total), and on individuals, self-employed and SMEs (24% of the total) constitute the two main categories. The relative proportion of the central governments segment amounted to 11% at the end of June 2016. Inside this segment, the credit risk on government bonds increased by 3% from EUR 13.9 billion at the end of 2015 to EUR 14.3 billion at the end of June 2016. More than half (59%) of the government bonds portfolio is invested in Belgian government bonds. While at bank level the Belgian government bonds represent 37% of the total government bond portfolio, the relative proportion at Belfius Insurance stood at almost 80%.

At the end of June 2016, credit risk exposure on financial institutions and on corporates was 16% and 15% respectively. The credit risk on monoline insurers (2% of the total) 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.

Belfius' positions are mainly concentrated in the European Union: 94% or EUR 147 billion at bank level and 98% or EUR 18.1 billion for Belfius Insurance.

70% of the total credit risk exposure is on counterparties categorised in Belgium country exposures, 7% in France, 6% in the United Kingdom, 4% in Italy and 3% in Spain. The credit risk exposure of Belfius counterparties in the United Kingdom amounted to EUR 11 billion. Almost three-quarters of this credit risk exposure concerns bonds, of which close to 60% are inflation-linked, issued by utilities and infrastructure companies in the United Kingdom that operate in regulated sectors such as water and electricity distribution. These bonds are of good credit quality (98% investment grade), and moreover the majority of the outstanding bonds are covered with a credit protection issued by a credit insurer that is independent from the bond issuer. The remainder concerns the bond portfolio of Belfius Insurance, a short-term credit portfolio for treasury management of Belfius Bank and receivables on clearing houses. The credit risks on those portfolios are also of good credit quality.

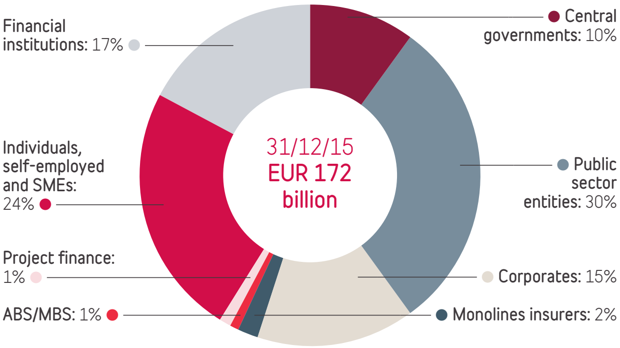
At the end of June 2016, 85% of the total credit risk exposure had an internal credit rating investment grade (IG), compared to 84% at the end of December 2015.

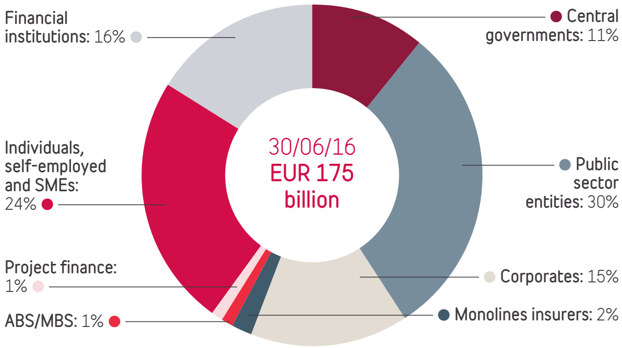
(1) Credit risk exposure is expressed as Full Exposure at Default – FEAD, as used in the Pillar 3-report. See also note 9.2 of this report. Belfius credit risks are based on a consolidation scope that includes its fully consolidated subsidiaries, Belfius Insurance included.

Breakdown of credit risk by counterparty

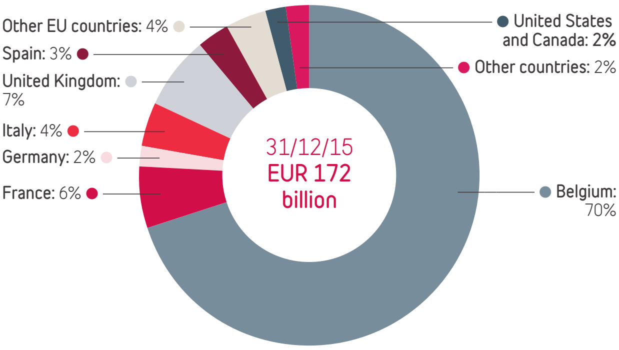
(In billions of EUR)	31/12/15	30/06/16	Of which Bank	Of which Insurer
Central governments	17.2	18.1	9.5	8.6
of which government bonds	*13.9*	*14.3*	*6.5*	*7.8*
Public sector entities	51.5	52.3	50.1	2.2
Corporate	26.1	26.5	25	1.5
Monoline insurers	3.6	4.1	4.1	0
ABS/MBS	1.8	2.3	2.2	0.1
Project finance	1.8	2.0	2	0
Individuals, self-employed and SMEs	40.5	41.4	37.5	3.9
Financial institutions	29.2	28.5	26.2	2.3
TOTAL	171.9	175.2	156.6	18.6

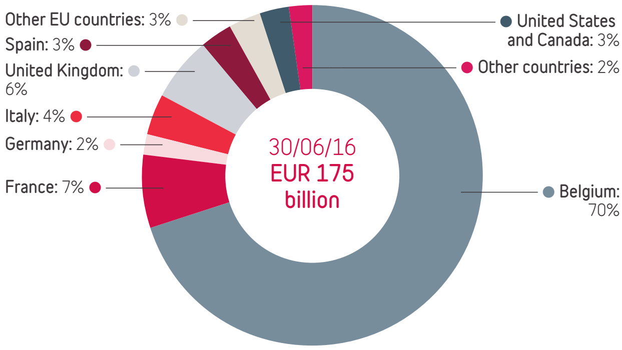
Breakdown of credit risk by counterparty



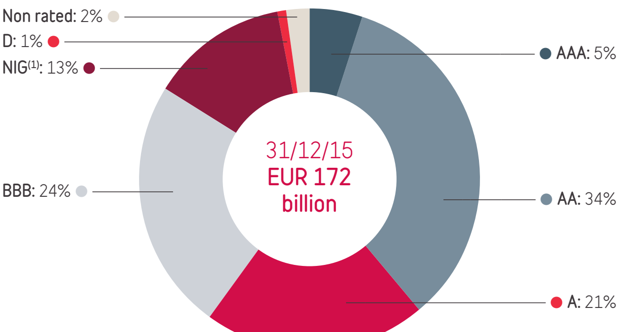


Breakdown of credit risk by geographical region

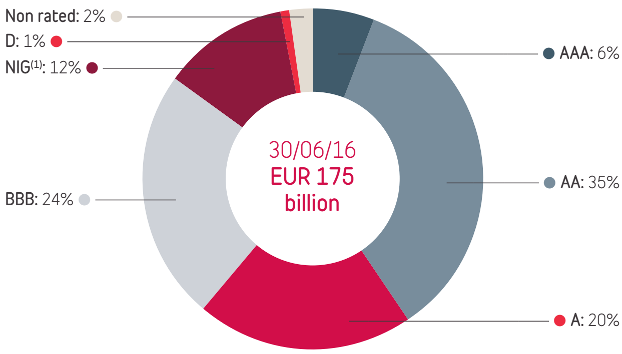




Breakdown of credit risk by rating



(1) NIG = Non-investment grade.



2. Asset quality

At the end of June 2016, the amount of impaired loans and advances to customers amounted to EUR 2,027 million, stable compared to the end of 2015. In the first half of 2016, the asset quality ratio slightly improved from 2.29% at the end of 2015 to 2.22% at the end of June 2016. The coverage ratio further strengthened to 57.4% at the end of June 2016.

In June 2016, collective impairments on loans and advances to customers amounted to EUR 359 million.

Asset quality(1)

(In millions of EUR, except where indicated)	31/12/15	30/06/16
Gross outstanding loans and advances to customers	88,717	91,161
Impaired loans and advances to customers	2,029	2,027
Specific impairments on loans and advances to customers	1,158	1,163
Asset quality ratio(2)	2.29%	2.22%
Coverage ratio(3)	57.1%	57.4%
Collective impairments on loans and advances to customers	369	359

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

Market risk

1. Overview

Overall, the 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 to changes in the correlations between the levels of market prices.

Management of the market risk within Belfius is focused on all Financial Markets activities of the bank and encompasses the interest rate risk, the spread risk and the associated credit risk/ liquidity risk, the foreign-exchange risk, the equity risk (or price risk), the inflation risk and the commodity price risk.

The market risk of Belfius Insurance is separately managed by its ALCo's. Belfius Insurance's strategic ALCo makes strategic decisions affecting the balance sheets of the insurance companies and their financial profitability taking into consideration the risk appetite pre-defined with the Belfius Bank and Insurance group (i.e. directional ALM position in interest rate risks, equity and real estate risks, volatility and correlation risks).

2. Non-Financial Markets activities

2.1. Interest rate risk of the banking activities

In respect to the interest rate risk, Belfius Bank pursues prudent risk management of its interest rate positions in the banking book within a well defined internal and regulatory limit framework, with a clear focus on generating stable earnings and preserving the economic value of the balance sheet and this in a macro-hedging approach, thoughtfully considering natural hedges available in the bank balance sheet.

The management of non-maturing deposits (such as sight and savings accounts) and non-interest-bearing products uses replicating portfolio 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. Optional risk like prepayment risk is integrated through behavioural models.

Interest rate risk has two forms – economic value volatility and earnings volatility. The measurement of both of them is complementary in understanding the complete scope of interest rate risk in the banking book.

Economic value indicators capture the long-term effect of 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 24 million per 10 bps as at 30 June 2016 (compared to EUR 20 million per 10 bps at 31 December 2015), excluding interest positions of Belfius Insurance and of the pension funds of Belfius Bank. Yield curve risk and basis risk are also monitored and limited, to apprehend the effects of non-parallel shifts of the interest rate curve.

Earnings at Risk indicators capture the short-term effect of interest rate changes on the earnings of the bank. Therefore, indirectly through profitability, interest rate changes can also have a short-term solvency effect. A 25 bps increase of interest rates has a positive impact on net interest income (before tax) of EUR 47 million of the next book year and a cumulative effect of EUR 197 million over a three year period, whereas a 25 bps decrease would lead to a negative impact of EUR -47 million of the next book year and a cumulative effect of EUR -198 million over a three year period.

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 basis points while the interest received on commercial loans is constantly lowered following markets rates and competitive pressures. On the other hand, customers continue to refinance and prepay their mortgages, further reducing the bank's interest income. 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 for the insurance activities

For Belfius Insurance, the ALM objective is to try to have a natural matched position in asset and liability durations. The long-term sensitivity of the Net Asset Value of Belfius Insurance to interest rates was EUR 15 million per 10 bps as of 30 June 2016 (against EUR 11 million per 10 bps as of 31 December 2015). The earnings have a low sensitivity to interest rates for the next book year.

2.3. Aggregate interest rate risk for the Belfius group

The figures below show the impact on the Belfius group Net Asset Value of a 10 basis points parallel upward shift of the yield curve.

(In millions of EUR)	31/12/15	30/06/16
Bank – ALM banking book	+20	+24
Insurance	+11	+15

3. Financial Markets activities

Financial Markets activities encompass client-oriented activities and hedge activities at Belfius Bank. No Financial Markets activities are undertaken at Belfius Insurance. For their needs in Financial Markets products, they turn to Belfius Bank or other banks.

3.1. Financial Markets (excluding bond portfolio)

At the end of June 2016, the global VaR level of Financial Market activities is at EUR 26.6 million, an increase of EUR 7.5 million compared to the end of 2015. This increase is mainly observed at the end of June 2016 as consequence of the market movements with the Brexit vote. The average global VaR level remains rather stable with EUR 20.4 million compared to a level EUR 20.9 million at the end of 2015. The limit on the global VaR remains at EUR 32 million. Please note that at the end of July 2016, market spreads returned to pre-Brexit levels.

The increase in the VaR observed in April 2016 results from a methodological change in the calculation of the spread and rate sensitivity and not from market effects.

Value-at-Risk by activity

VaR(1) (99% 10 days) (In millions of EUR)	31/12/15				30/06/16			
	IR(2) & FX(3)	Equity	Spread	Other risks(4)	IR(2) & FX(3)	Equity	Spread	Other risks(4)
By activity								
Average	9.5	2.6	7.5	1.3	10.5	2.9	6.1	0.9
End of period	9.7	2.5	5.7	1.3	15.0	3.6	7.2	0.9
Maximum	24.4	8.0	9.5	2.1	17.8	5.1	7.2	1.1
Minimum	3.6	1.3	5.4	0.7	6.1	1.8	4.2	0.6
Global								
Average	20.9				20.4			
End of period	19.2				26.6			
Maximum	33.8				29.5			
Minimum	14.9				14.1			
Limit	32.0				32.0			

(1) The Value at Risk (VaR) is a measure of the potential change in market value with a probability of 99% and over a period of 10 days.
(3) IR: interest rate risk.
(3) FX: foreign exchange risk.
(4) Inflation and CO_2 risk.

Evolution of global VaR in the first semester of 2016

Liquidity risk

1. Liquidity risk at Belfius Bank

1.1. Liquidity management framework

Belfius Bank manages its liquidity with a view to complying 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. Available liquidity reserves also play a key role regarding liquidity: at any time, Belfius Bank ensures it has sufficient quality assets to cover any temporary liquidity shortfalls, both in normal markets and under stress scenarios. All this is laid down in the liquidity guideline.

Liquidity and Capital Management (LCM), a division situated within the remit of the Chief Financial Officer (CFO), is the front-line manager for the liquidity requirements of Belfius Bank. It identifies, analyses and reports on current and future liquidity positions and risks, and defines and coordinates funding plans and actions under the operational responsibility of the CFO and under the general responsibility of the Management Board. The CFO also bears final operational responsibility for managing the interest rate risk contained in the banking balance sheet via the ALM department and the ALCo, meaning that total bank balance sheet management lies within its operational responsibility.

LCM organises a weekly Liquidity Management Committee (LMC), in presence of the CFO or its representative, the Risk Department, the Treasury Department of the Financial Markets and the Retail & Commercial (RC) and Public & Corporate (PC) business lines. This committee implements the decisions taken by LCM in relation to obtaining short-term and long-term funding on the institutional markets and through the commercial franchise.

LCM also monitors the funding plan to guarantee Belfius Bank will continue to comply with its internal and regulatory liquidity ratios.

LCM reports on a daily and weekly basis to the Management Board on the bank's liquidity situation.

Second-line controls for monitoring the liquidity risk are performed by the Risk department which ensures the accuracy of published reports, challenges the retained hypothesis and models, realises simulations over stress situations and oversees compliance with limits, as laid down in the Liquidity Guideline.

1.2. Exposure to liquidity risk

The liquidity risk at Belfius Bank mainly stems from:

- the variability of the amounts of commercial funding collected from Retail and Private customers, small, medium-sized and large companies, public and similar customers and the way these funds are allocated to customers through all type of loans;
- the volatility of the collateral that is to be deposited with counterparties as part of the CSA framework for derivatives and repo transactions (so called cash and securities collateral);
- the value of the liquid reserves by virtue of which Belfius Bank can collect funding on the repo market and/or from the ECB;
- the capacity to obtain interbank and institutional funding.

1.3. Consolidation of the liquidity profile

During the first half-year of 2016, Belfius Bank continued its efforts to keep a diversified liquidity profile by:

- managing its funding surplus within the commercial balance sheet;
- continuing to obtain and diversify long-term funding from institutional investors by issuing, inter alia, covered bonds backed by quality loans, and senior unsecured debt;
- collecting short and medium-term (CP/CD/EMTN) deposits from institutional investors;
- continuing its downsizing of the Legacy portfolio.

At the end of June 2016, Belfius Bank participated in the European Central Bank's second TLTRO funding programme in a total amount of EUR 3 billion and repaid early its EUR 1.65 billion participation in the first TLTRO funding programme. The participation in the second TLTRO is aimed at financing the investment need of SMEs, social sector and retail clients. The TLTRO is partially used to finance the call of DSFB 4. This funding vehicle, secured with public sector loans, was sold externally. As the funding cost was higher than the actual funding cost in the market, Belfius Bank decided to call DSFB 4 with value date in July 2016.

In April 2016, Belfius Bank launched its first subordinated benchmark issue. This Tier 2 transaction was highly successful. The EUR 500 million notes, with a maturity of 10 years, bear an annual coupon of 3.125%. With this Tier 2 transaction Belfius is climbing up the ladder of juniority, after several benchmarks in covered bonds and senior unsecured notes. Additionally, this subordinated transaction fits well within the strategy of diversification of funding sources and investor base as well as the further optimisation of the maturity profile.

The Liquidity Coverage Ratio (LCR), introduced within the framework of the Basel III reforms, became a pillar I requirement for European banks on 1 October 2015 (at a level of 60%). In Belgium the law already requires banks to respect a LCR of 100% from that date onwards. Belfius Bank closed the first half-year of 2016 with an LCR ratio of 121%. The bank's LCR ratio has remained above 100% since the beginning of the year.

The Net Stable Funding Ratio (NSFR), based on our current interpretation of current Basel III rules, stood at 108% at the end of June 2016.

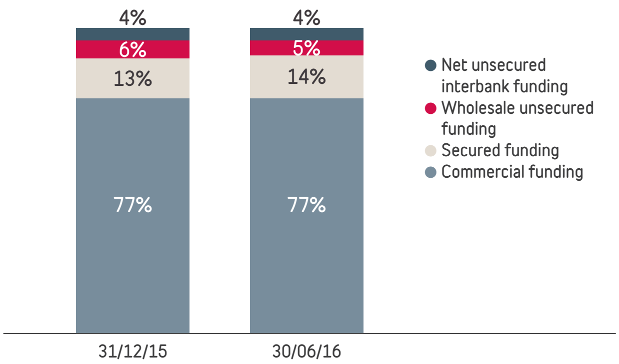
1.4. Liquidity reserves

At the end of June 2016, Belfius Bank had quickly mobilisable liquidity reserves of EUR 32.0 billion. These reserves consisted of EUR 0.6 billion in cash, EUR 20.4 billion in ECB eligible bonds (of which EUR 15.7 billion are CCP-eligible[1]), EUR 9.2 billion in other assets also eligible at the ECB and EUR 1.8 billion in other liquid bonds.

These reserves represent six times the bank's unsecured (senior unsecured) institutional funding outstanding at the end of June 2016 and having a remaining maturity of less than one year.

1.5. Funding diversification at Belfius Bank

Evolution of main funding sources[1]



(1) Relative to the balance sheet of Belfius Bank excluding collateral, mark-to-market of derivatives and capital.

Belfius Bank has a historically stable volume of commercial funding that comes from its RC and PC customers. This funding increased from EUR 81 billion at the end of December 2015 to EUR 84 billion at the end of June 2016, of which EUR 62 billion is from RC. The commercial funding represents 77% of the total funding sources.

Following the issue of new mortgage covered bonds and the participation of Belfius Bank in the second TLTRO programme, the secured funding, which still includes DSFB 4 at the end of June 2016, increased to EUR 15 billion or 14% of the total funding sources.

The wholesale unsecured funding remained stable at EUR 5.7 billion.

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.

The collected funding is used, firstly and most importantly, to finance the granting of loans to RC and PC clients.

Next to that, Belfius Bank also has a historical bond portfolio, including an ALM portfolio for liquidity management purposes, with highly liquid assets, and a historical bond portfolio (Legacy bond portfolio) that was set up between 2003 and 2008.

(1) CCP = Central Counterparts

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 historically low interest rates, in net terms, Belfius Bank posts more collateral than it receives.

The loan to deposit ratio, which indicates the proportion between assets and liabilities of the commercial balance sheet, stood at 89% at the end of June 2016 versus 91% at the end of 2015.

1.6. Brexit

In a cautious attempt to anticipate the potential adverse negative effect of the Brexit referendum of 23 June 2016, Belfius covered its GBP liquidity gap until end of August. So far, markets have remained fairly liquid. Nevertheless, the total liquidity requirement increased slightly for Belfius bank following the fall of interest rates and additional collateral to be posted for derivatives, for which Belfius can use its solid liquidity buffer.

1.7. Encumbered assets

According to our current interpretation of the EBA guideline on the matter, the encumbered assets at Belfius Bank level amounted to EUR 41.3 billion at the end of June 2016 and represented 23.9% of total bank balance sheet and collateral received under securities format, which amounted to EUR 173 billion (EUR 165 billion assets and EUR 8 billion collateral received). This represents a limited increase of the encumbrance ratio of 0.4% compared to the end of 2015.

Since the establishment of the first covered bond programme in 2012, the bank has issued covered bonds for a total amount of EUR 7.9 billion. At the end of June, the assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amounted to EUR 9.9 billion. Public and mortgage loans encumbered in securitisations (DSFB 4 and Penates 5) amounted to EUR 2.9 billion at the end of June.

The bank is also collecting funding through repo markets and other collateralised deposits. At the end of June 2016, the total amount of assets used as collateral for this activity amounted to EUR 5.2 billion, of which EUR 3.4 billion linked to the ECB funding of EUR 3 billion. It is worth mentioning that during 1H 2016, the volume of assets encumbered for ECB funding source increased by EUR 1.5 billion following the additional participation of Belfius Bank to the TLTRO. This negative impact will be offset by the call of DSFB 4 in July that will generate a decrease of encumbered assets for EUR 2.2 billion.

The balance of encumbered assets is mainly linked to collateral pledged (gross of collateral received) for the derivatives exposures for EUR 21.9 billion under the form of cash or securities. The collateral pledged increased by EUR 2.7 billion compared to the end of 2015. A significant part of collateral pledged is financed through collateral received from other counterparties with whom the bank concluded derivatives in the opposite direction.

2. Liquidity risk at Belfius Insurance

As an insurance company, Belfius Insurance has a limited funding requirement. The premiums paid by policyholders are placed in long-term investments in order to guarantee the insured capital and related interests on the contract's maturity date. Thanks to various indicators regarding risk appetite and regulatory requirements, Belfius Insurance always holds sufficient 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 properties of the liabilities;
- policies and procedures that are put in place to assess the liquidity of new investments;
- follow up of the short-term treasury needs.

In addition, Belfius Insurance also holds a significant amount of unencumbered assets which are eligible at the ECB. In fact, the company invests at least 40% of its bond portfolio in state bonds that can be used for repos in the context of its liquidity management.

The Investments department is responsible for liquidity and cash-flow management. It does so by, on the one hand, basing itself on long-term projections of the cash-flow of assets and liabilities, which are simulated in normal and in stress situations and, on the other hand, on projections of cash-flow requirements for twelve months.

Operational risk

Regarding operational risks, Belfius' policy requires various operational risks and controls to be regularly identified, in order to check compliance of the operational risk level by activity. Specific attention is also paid to more new types of operational risk, such as those associated with cybercrime.

Managing operational risk is based on the following elements:

- decentralised responsibility, close to the activity generating the operational risk;
- gathering data about operational risks;
- yearly Risk and Control Self-Assessments;
- information security and business continuity;
- managing insurance policies;
- coordination with other functions involved in the internal control system;
- implementing Fraud policy;
- calculating regulatory capital requirements.

Corporate Governance

Composition of the Management Board and the Board of Directors of Belfius Bank

1. Management Board

On 30 June 2016, the Management Board of Belfius Bank consists of six members, namely:

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

On 27 April 2016, the directorships of Messrs Eric Hermann and Dirk Vanderschrick were renewed by the ordinary general meeting of shareholders for a period of maximum 4 years to end at the close of the ordinary General Meeting of Shareholders in 2020.

2. Board of Directors

On 30 June 2016, the Board of Directors had thirteen members, six of whom are members of the Management Board (cf. table on the following page).

On 21 January 2016, Messrs Georges Hübner and Jean-Pierre Delwart were (definitively) appointed as directors and independent directors for a period of maximum 4 year to end at the close of the ordinary General Meeting of Shareholders in 2019.

On 27 April 2016, the directorships of Mrs Carine Doutrelepont and Lutgart Van den Berghe and Messrs Jozef Clijsters, Chris Sunt and Rudi Vander Vennet were renewed by the ordinary general meeting of shareholders for a period of maximum 4 years to end at the close of the ordinary General Meeting of Shareholders in 2020. The directorships of Mrs Marie Gemma Dequae and Mr Wouter Devriendt were not renewed.

Mr. Chris Sunt was appointed as a member of the Risk Committee on 23 June 2016.

Board of Directors 30/06/2016

Board of Directors 30/06/2016	Main function	Non-executive director	Member of the Management Board	Independent director	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Jozef Clijsters	Chairman of the Board of Directors of Belfius Bank SA	★				■	■	
Marc Raisière	Chairman of the Management Board of Belfius Bank SA		★					
Dirk Gyselinck	Member of the Management Board of Belfius Bank SA Responsible for Public & Corporate Banking		■					
Eric Hermann	Member of the Management Board of Belfius Bank SA Chief Risk Officer		■					
Olivier Onclin	Member of the Management Board of Belfius Bank SA Chief Operating Officer, Responsible for Operations, IT, Purchasing & Facility Management and Organisation		■					
Dirk Vanderschrick	Member of the Management Board of Belfius Bank SA Responsible for Retail & Commercial Banking		■					
Johan Vankelecom	Member of the Management Board of Belfius Bank SA Chief Financial Officer, Responsible for Finance Reporting, Research, Liquidity & Capital Management, Finance Corporate Advisory & Participations, Asset & Liability Management, Legal and Tax		■					
Jean-Pierre Delwart	Chairman of the Board of Directors of Eurogentec	■ (1)		■ (1)				
Carine Doutrelepont	Lawyer and Full Professor at the Université Libre de Bruxelles	■		■		■	■	
Georges Hübner	Full Professor of Finance at the HEC Liége, University of Liège and Associate Professor at the University of Maastricht, School of Business & Economics	■		■ (1)	★			■
Chris Sunt	Lawyer	■			■			■ (2)
Lutgart Van den Berghe	Executive Director at Guberna and part-time professor at the Vlerick Business School	■		■		★	★	
Rudi Vander Vennet	Full Professor in Financial Economics and Banking at the University of Ghent	■		■				★

★ Chairman

(1) As of 21 January 2016.
(2) As of 23 June 2016.

Litigations

Belfius (Belfius Bank and its consolidated subsidiaries) is involved as a defendant in a number of litigations in Belgium, arising in the ordinary course of its business activities, including those where it is acting as an insurer, capital and credit provider, employer, investor and tax payer.

In accordance with the IFRS rules, Belfius makes provisions for such litigations when, in the opinion of its management, after analysis by its company lawyers and external legal advisors as the case may be, it is probable that Belfius will have to make a payment and when the amount of such payment can be reasonably determined.

With respect to certain other litigations against Belfius of which management is aware (and for which, according to the principles outlined above, no provision has been made), 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 Belfius Consolidated Financial Statements.

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 opposing parties, they could eventually have monetary consequences for Belfius. Such impact remains unquantifiable at this stage.

Furthermore, with regard to Belfius Insurance, no specific provision was made for significant litigation.

1. Housing Fund of the Brussels Capital Region

On 9 October 2012, the Housing Fund of the Brussels Capital Region summoned Belfius Bank before the Brussels Commercial Court. The Housing Fund subscribed in a total amount of EUR 32,000,000 to 4 treasury notes issued by Municipal Holding between July and September 2011. Following the liquidation of Municipal Holding, the Housing Fund was only able to receive repayment of EUR 16,000,000. It 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 admitted the claim application by the Housing Fund, but declared it unfounded. The Housing Fund lodged an appeal against this judgement on 3 June 2014.

There was no significant evolution in this claim during the first half of 2016.

No provision has been made for this claim.

2. BBTK and ACLVB

On 8 May 2014, two trade unions represented within Belfius Bank, BBTK and ACLVB, summoned Belfius Bank before the Brussels Labour Tribunal. They demand the annulment of the collective bargaining agreements that Belfius Bank signed in 2013 with two other trade unions of the bank. BBTK and ACLVB are of the opinion that, without their consent, these collective bargaining agreements amend previous collective bargaining agreements Belfius Bank also concluded with them. In addition, they are of the opinion that an employer can only sign a collective bargaining agreement with some of the existing trade unions within the firm, if the said employer has not signed previous collective bargaining agreements with other trade unions. The bank rejects this claim as the previous collective bargaining agreements have not been amended and because the law provides in general that a collective bargaining agreement can be signed with only one trade union.

On 26 November 2015, the Labour Tribunal adjourned the hearing for oral pleadings to 20 October 2016 for procedural reasons having no impact on the merits of the case.

There was no further significant evolution in this claim during the first half of 2016.

No provision has been made for this claim.

3. Arco

On 30 September 2014, 737 shareholders of 3 companies in the Arco Group (Arcopar, Arcoplus and Arcofin) summoned Belfius Bank, together with the 3 aforementioned Arco companies, before the Brussels Commercial Court. Principally, they demand the annulment of their agreement to join the capital of these 3 companies as share-holders, based on deception or fallacy. They demand that the Court orders Belfius Bank in solidum with each of the 3 above mentioned Arco companies to repay their capital contributions, increased by interest and compensation. On an ancillary basis, they applied to the Commercial Court to order Belfius Bank to pay compensation based on alleged shortcoming in its information duty towards them. Because the file submitted by them lacks information with respect to proof and assessment of damages, Belfius cannot assess the content of the claim and has to reject it.

On 16 December 2014, 1,027 shareholders and on 15 January 2016, 466 other shareholders of the 3 aforementioned Arco companies joined the summons on a voluntary basis. Belfius has asked for their files so that it can evaluate the content of their claim.

On 17 December 2015, 2,169 shareholders of the 3 aforementioned Arco companies issued a writ to the Belgian State for compulsory intervention. They demand that the Commercial Court orders the Belgian State to pay compensation based on the alleged illegality of the guarantee scheme the Belgian State enacted in favour of Arco shareholders. This demand is subordinated to their claims against Belfius Bank and has no negative impact on Belfius Bank.

There was no further significant evolution in this claim during the first half of 2016.

No provision has been made for this claim.

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 2016, 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 (i) important events that have occurred during the first six months of the financial year, (ii) their impact on the condensed set of financial statements, (iii) a description of the principal risks and uncertainties for the remaining six months of the financial year.

Brussels, 30 August 2016

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 2016

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	31/12/15	30/06/16
I.	Cash and balances with central banks	5.1.	576,276	967,764
II.	Loans and advances due from banks	5.2.	24,318,002	26,087,498
III.	Loans and advances to customers	5.3.	87,189,152	89,638,800
IV.	Investments held to maturity	5.4.	5,017,155	5,369,328
V.	Financial assets available for sale	5.5.	19,733,565	19,481,353
VI.	Financial assets measured at fair value through profit or loss		3,222,991	4,001,697
VII.	Derivatives	5.6.	25,943,567	30,574,745
VIII.	Fair value revaluation of portfolio hedge		4,372,902	5,344,386
IX.	Investments in equity method companies		106,775	105,913
X.	Tangible fixed assets		1,199,789	1,169,027
XI.	Intangible assets		81,941	94,004
XII.	Goodwill		103,966	103,966
XIII.	Current tax assets		6,116	2,680
XIV.	Deferred tax assets		565,622	537,829
XV.	Other assets		1,169,777	1,129,313
XVI.	Non current assets (disposal group) held for sale and discontinued operations	5.7.	3,354,528	3,395,878
TOTAL ASSETS			176,962,124	188,004,182

Liabilities

	(In thousands of EUR)	Notes	31/12/15	30/06/16
I.	Due to banks	6.1.	11,537,622	13,686,468
II.	Customer borrowings and deposits	6.2.	68,162,754	71,646,578
III.	Debt securities	6.3.	27,777,552	26,973,455
IV.	Financial liabilities measured at fair value through profit or loss		6,916,469	7,058,440
V.	Technical provisions of insurance companies	6.4.	16,688,571	16,564,021
VI.	Derivatives	5.6.	30,060,085	35,096,431
VII.	Fair value revaluation of portfolio hedge		226,472	406,413
VIII.	Provisions and contingent liabilities	6.5.	405,543	503,394
IX.	Subordinated debts	6.6.	913,004	1,403,193
X.	Current tax liabilities		42,369	64,161
XI.	Deferred tax liabilities		271,967	277,205
XII.	Other liabilities		2,056,561	2,368,247
XIII.	Liabilities included in disposal group and discontinued operations	6.7.	3,243,438	3,274,131
TOTAL LIABILITIES			168,302,407	179,322,137

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Equity

(In thousands of EUR)	31/12/15	30/06/16
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	4,135,228	4,566,303
XVIII. Net income for the period	506,076	249,154
CORE SHAREHOLDERS' EQUITY	**8,308,602**	**8,482,756**
XIX. Remeasurement available-for-sale reserve on securities	757,329	705,305
XX. Frozen fair value of financial assets reclassified to loans and advances	(544,177)	(531,204)
XXI. Remeasurement defined benefit plan	119,611	39,865
XXII. Discretionary participation features of insurance contracts	28,788	28,199
XXIII. Other reserves	(11,462)	(43,066)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	**350,089**	**199,100**
TOTAL SHAREHOLDERS' EQUITY	**8,658,691**	**8,681,856**
XXIV. Non-controlling interests	1,026	188
TOTAL EQUITY	**8,659,717**	**8,682,044**
TOTAL LIABILITIES AND EQUITY	**176,962,124**	**188,004,182**

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated interim statement of income

(In thousands of EUR)		Notes	30/06/15 PF[1]	30/06/16
I.	Interest income	7.1.	2,410,282	2,022,573
II.	Interest expense	7.1.	(1,390,439)	(1,066,694)
III.	Dividend income		34,789	46,590
IV.	Net income from equity method companies		2,754	2,177
V.	Net income from financial instruments at fair value through profit or loss	7.2.	77,241	(10,540)
VI.	Net income on investments and liabilities	7.3.	22,162	57,833
VII.	Fee and commission income	7.4.	308,446	309,132
VIII.	Fee and commission expense	7.4.	(51,883)	(52,388)
IX.	Premiums and technical income from insurance activities	6.4.	736,187	765,019
X.	Technical expense from insurance activities	6.4.	(860,284)	(854,528)
XI.	Other income[1]	7.5.	67,397	145,005
XII.	Other expense[1]	7.6.	(273,121)	(312,587)
INCOME			**1,083,531**	**1,051,591**
XIII.	Staff expense		(300,449)	(294,518)
XIV.	General and administrative expense		(195,402)	(210,255)
XV.	Network costs		(138,000)	(132,997)
XVI.	Depreciation and amortisation of fixed assets		(38,722)	(35,415)
EXPENSES			**(672,573)**	**(673,184)**
GROSS OPERATING INCOME			410,958	378,407
XVII.	Impairments on financial instruments and provisions for credit commitments	7.7.	(33,363)	(30,250)
XVIII.	Impairments on tangible and intangible assets		120	2,516
XIX.	Impairments on goodwill		0	0
NET INCOME BEFORE TAX			377,715	350,673
XX.	Current tax (expense) income[1]		(22,267)	(37,889)
XXI.	Deferred tax (expense) income[1]		(83,415)	(63,609)
NET INCOME AFTER TAX			272,033	249,174
XXII.	Discontinued operations (net of tax)		0	0
NET INCOME			272,033	249,174
Attributable to non-controlling interests			0	20
NET INCOME Attributable to equity holders of the parent			**272,033**	**249,154**

(1) Certain line items were aggregated in 1H 2015 and have been detailed further in 1H 2016 to facilitate the reading of the condensed consolidated interim statement of income.

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Analysis of the consolidated statement of income

We refer to the chapter "Financial results" of the management report for a detailed description.

Condensed consolidated interim statement of comprehensive income

(In thousands of EUR)	30/06/15 Before-tax amount	30/06/15 Tax (expense) income	30/06/15 Net-of-tax amount	30/06/16 Before-tax amount	30/06/16 Tax (expense) income	30/06/16 Net-of-tax amount
RESULT RECOGNISED IN THE STATEMENT OF INCOME	377,715	(105,682)	272,033	350,673	(101,498)	249,174
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS						
Unrealised result of property revaluation	0		0	0		0
Remeasurement defined benefit plan[1]	20,213	(6,871)	13,342	(120,809)	41,063	(79,746)
TOTAL OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS	20,213	(6,871)	13,342	(120,809)	41,063	(79,746)
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS						
Unrealised gains (losses) on available-for-sale financial investments and "frozen" fair value amortisation of financial assets reclassified to Loans and Advances[1]	(79,654)	29,917	(49,737)	(27,377)	(11,674)	(39,051)
Gains (losses) on cash flow hedges	(910)	(966)	(1,876)	(42,427)	1,641	(40,786)
Discretionary participation features of insurance contracts	24,300	(6,862)	17,438	607	(1,195)	(589)
TOTAL OF OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS	(56,264)	22,089	(34,175)	(55,863)	(15,380)	(71,243)
OTHER COMPREHENSIVE INCOME	(36,051)	15,218	(20,833)	(176,672)	25,683	(150,989)
TOTAL COMPREHENSIVE INCOME	341,664	(90,464)	251,200	174,001	(75,815)	98,185
TOTAL COMPREHENSIVE NET INCOME Attributable to equity holders of the parent			**251,201**			**98,165**
Attributable to non-controlling interests			(1)			20

(1) A significant decrease in Other Comprehensive Income can be noted of the remeasurement of the defined benefit plans due to the decrease of interest rates compared to 1H 2015. While a decrease of interest rates would generally result in an increase of the unrealised gains (losses) on available-for-sale financial investments, it remained relatively stable compared to 1H 2015 following further de-risking and a decrease of the shadow accounting (became more negative) due to the interest rate evolution combined with some methodological refinements.

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated interim statement of change in equity

Core shareholders' equity (In thousands of EUR)	Subscribed capital	Additional paid-in capital	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 31 DECEMBER 2014	3,458,066	209,232	3,675,506	461,642	7,804,446
Movements of the period					
Transfers to reserves	0	0	461,642	(461,642)	0
Other movements	0	0	(853)	0	(853)
Net income for the period	0	0	0	272,033	272,033
AS AT 30 JUNE 2015	3,458,066	209,232	4,136,295	272,033	8,075,626

Gains and losses not recognised in the statement of income	Unrealised result that may be reclassified subsequently to profit and loss					Unrealised result that will not be reclassified to profit and loss		Total gains and losses not recognised in profit and loss – Group share
(In thousands of EUR)	Remeasurement available-for-sale reserve on securities	Frozen fair value of financial assets reclassified to loans and advances	Derivatives – Cash Flow Hedge (CFH)	Share of other comprehensive income of investments in equity method companies	Discretionary participation features of insurance contracts[1]	Unrealised result of property revaluation	Remeasurement defined benefit plan	
AS AT 31 DECEMBER 2014	604,176	(585,455)	(9,887)	0	12,346	221	97,975	119,376
Movements of the period								
Net change in fair value through equity – Available-for-sale investments	(55,330)	0	0	(5,436)	17,438	0	0	(43,328)
Transfers to income of available-for-sale reserve amounts due to disposals	(46,502)	7,478	0	(579)	0	0	0	(39,603)
Amortisation of net fair value on reclassified portfolio in application of IAS 39 amended	0	(33,871)	0	0	0	0	0	(33,871)
Net change in fair value through equity – Cash flow hedges	0	0	(1,834)	0	0	0	0	(1,834)
Net change in cash flow hedge reserve due to transfers to income	0	0	(42)	0	0	0	0	(42)
Transfers to technical provisions of insurance companies[2][3]	78,489	0	0	6,015	0	0	0	84,504
Provisions booked from/to equity	0	0	0	0	0	0	13,342	13,342
Transfers[4]	3,432	(3,432)	0	0	0	0		0
AS AT 30 JUNE 2015	584,265	(615,280)	(11,763)	0	29,784	221	111,317	98,544

(1) Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return on insurance contracts (life).
(2) These transfers concern amounts after tax as a result of the application of Shadow Accounting, whereby part of the unrealised profits from financial assets available for sale is used as cover value for the payments of the obligations for insurance contracts and is therefore transferred to the technical reserves for insurance contracts.
(3) The technical provisions of associates are not included in the consolidated balance sheet.
(4) On January 1, 2015, Belfius decided to reclass EUR 1.5 billion bonds from "Financial assets available for sale" to "Investments held to maturity". It concerns mainly bonds issued by the Belgian and French governments. This reclassification was the result of a change in management intention.

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Non-controlling interests

(In thousands of EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 31 DECEMBER 2014	2,775	0	2,775
Movements of the period			
Dividends	(859)		(859)
Variation of scope of consolidation	(916)		(916)
Other movements	26		26
AS AT 30 JUNE 2015	1,026	0	1,026

(In thousands of EUR)	
Core shareholders' equity	8,075,626
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	98,544
Non-controlling interests	1,026
TOTAL EQUITY AS AT 30 JUNE 2015	8,175,196

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Core shareholders' equity (In thousands of EUR)	Subscribed capital	Additional paid-in capital	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 31 DECEMBER 2015	3,458,066	209,232	4,135,227	506,076	8,308,602
Movements of the period					
Transfers to reserves	0	0	431,076	(431,076)	0
Dividends	0	0	0	(75,000)	(75,000)
Net income for the period	0	0	0	249,154	249,154
AS AT 30 JUNE 2016	3,458,066	209,232	4,566,303	249,154	8,482,756

Gains and losses not recognised in the statement of income	Unrealised result that may be reclassified subsequently to profit and loss					Unrealised result that will not be reclassified to profit and loss		Total gains and losses not recognised in profit and loss – Group share
(In thousands of EUR)	Remeasurement available-for-sale reserve on securities	Frozen fair value of financial assets reclassified to loans and advances	Derivatives – Cash Flow Hedge (CFH)	Other comprehensive income from assets held for sale (1)	Discretionary participation features of insurance contracts(2)	Unrealised result of property revaluation	Remeasurement defined benefit plan	
AS AT 31 DECEMBER 2015	757,329	(544,177)	(29,765)	18,084	28,788	219	119,611	350,089
Movements of the period								
Net change in fair value through equity – Available-for-sale investments	374,066	0	0	6,657	(589)	0	0	380,134
Transfers to income of available-for-sale reserve amounts due to impairments	4,007	0	0	0	0	0	0	4,007
Transfers to income of available-for-sale reserve amounts due to disposals	(48,654)	2,680	0	0	0	0	0	(45,975)
Amortisation of net fair value on reclassified portfolio in application of IAS 39 amended	0	10,346	0	0	0	0	0	10,346
Net change in fair value through equity – Cash flow hedges	0	0	(40,741)	0	0	0	0	(40,741)
Net change in cash flow hedge reserve due to transfers to income	0	0	(45)	0	0	0	0	(45)
Transfers to technical provisions of insurance companies(3)	(381,442)	(53)	0	2,526	0	0	0	(378,969)
Provisions booked from/to equity(4)	0	0	0	0	0	0	(79,746)	(79,746)
AS AT 30 JUNE 2016	705,305	(531,204)	(70,551)	27,266	28,199	219	39,865	199,100

(1) The "Other comprehensive income from assets held for sale" includes the other comprehensive income of the insurance subsidiary "International Wealth Insurer". This company has been classified as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" at the end of 2015 as Belfius Insurance has activated the sale of this subsidiary following the change in strategy to further concentrate the activities in Belgium.
(2) Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return on insurance contracts (life).
(3) These transfers concern amounts after tax as a result of the application of Shadow Accounting, whereby part of the unrealised profits from financial assets available for sale is used as cover value for the payments of the obligations for insurance contracts and is therefore transferred to the technical reserves for insurance contracts. A significant decrease in shadow accounting (became more negative) can be noted due to the interest rate evolution combined with some methodological refinements.
(4) A decrease can be noted of the remeasurement of the defined benefit plan following the lower discount rates compared to year end (resulting from the decrease in interest rates).

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Non-controlling interests

(In thousands of EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 31 DECEMBER 2015	1,026	0	1,026
Movements of the period			
Dividends	(3)		(3)
Net income for the period	20		20
Variation of scope of consolidation	(855)		(855)
AS AT 30 JUNE 2016	188	0	188

(In thousands of EUR)	
Core shareholders' equity	8,482,756
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	199,100
Non-controlling interests	188
TOTAL EQUITY AS AT 30 JUNE 2016	8,682,044

Equity

Equity	30/06/15	30/06/16
BY CATEGORY OF SHARE		
Number of shares issued and fully paid	359,412,616	359,412,616
Number of shares issued and not fully paid	0	0
Earnings per share (EUR)	0,76	0,69
NOMINAL VALUE PER SHARE	no nominal value	no nominal value
Outstanding as at 1 January	359,412,616	359,412,616
Number of shares issued	0	0
Number of shares cancelled	0	0
Outstanding as at 30 June	359,412,616	359,412,616
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital	0	0
Number of treasury shares	0	0
Number of shares reserved for issue under stock options and contracts for the sale of share	0	0

Share-based payments

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

The notes on pages 51 to 84 are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated interim cash flow statement

(In thousands of EUR)	30/06/15 (PF[1])	31/12/15[2]	30/06/16
CASH FLOW FROM OPERATING ACTIVITIES			
Net income after tax	272,033	506,075	249,174
Adjustment for:			
Depreciation, amortisation and other impairment	45,369	104,685	40,485
Impairment on bonds, equities, loans and other assets	3,492	(3,522)	5,276
Net gains or (losses) on investments	(33,137)	(73,144)	(37,884)
Charges for provisions (mainly insurance provision)	(635,016)	(842,412)	(609,194)
Unrealised gains or (losses)	(49,192)	(6,271)	32,516
Income from equity method companies	(2,754)	(8,292)	(2,177)
Dividends from equity method companies	5,029	5,029	3,039
Deferred taxes	83,415	114,738	63,609
Changes in operating assets and liabilities[1]	5,527,584	4,908,909	(58,208)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES[1]	5,216,825	4,705,795	(313,363)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(75,094)	(144,538)	(61,095)
Sales of fixed assets	47,063	157,806	37,505
Acquisitions of unconsolidated equity shares	(134,834)	(391,325)	(248,350)
Sale of unconsolidated equity shares	146,724	316,879	272,023
Acquisitions of subsidiaries and of business units	(3,606)	(8,651)	(3)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(19,747)	(69,829)	80
CASH FLOW FROM FINANCING ACTIVITIES			
Issuance of subordinated debts	0	0	500,000
Reimbursement of subordinated debts	(299,858)	(315,000)	(4,321)
Dividends paid	(2,085)	(2,084)	(75,003)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(301,943)	(317,084)	420,676
NET CASH PROVIDED	4,895,135	4,318,882	107,392
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD[1]	3,009,728	3,009,728	7,328,610
Cash flow from operating activities[1]	5,216,825	4,705,795	(313,363)
Cash flow from investing activities	(19,747)	(69,829)	80
Cash flow from financing activities	(301,943)	(317,084)	420,676
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD[1]	7,904,863	7,328,610	7,436,002
ADDITIONAL INFORMATION			
Income tax paid (included in line net cash provided (used) by operating activities)	(19,149)	(42,116)	(11,909)
Dividends received (included in line net cash provided (used) by operating activities)	39,818	66,741	49,629
Interest received (included in line net cash provided (used) by operating activities)	2,546,314	4,847,579	2,235,223
Interest paid (included in line net cash provided (used) by operating activities)	(1,897,564)	(3,093,551)	(1,378,663)

(1) The amounts of 1H 2015 were revised for the adjusted presentation of financial instruments with an original maturity less than or equal to 90 days.
(2) Represents a full year movement of cash and cash equivalents for 2015.

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

The notes on pages 51 to 84 are an integral part of the 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 2016) and the publication of this report.

1. Dividend

The Board of Directors considers paying an interim dividend of EUR 75 million on the current year profit of 2016. Note that the decision is subject to approval of the ECB.

2. Possible conversion of the documentation of subordinated debt instruments held by Arcopar

Belfius Bank and Arcopar are examining the conversion of documentation of the bilateral subordinated perpetual loans (issued by Belfius Bank and held by Arcopar), for EUR 85 million notional in total to a documentation under a public EMTN program, in order to increase the marketability and liquidity of these instruments.

3. Sale of International Wealth Insurer

In 2015, Belfius Insurance has decided to sell its participation in "International Wealth Insurer" following the strategy of Belfius to concentrate its activities on Belgium. As a result, Belfius has classified the participation as "Assets held for sale". End of June 2016, Belfius Insurance has signed a share purchase agreement with Foyer S.A. and the deal was closed on 9 August 2016.

4. EU-wide EBA Stress test: Belfius among well capitalized European banks

On 29 July 2016, the EU-wide EBA stress test results were published. Starting from a very comfortable CET1 capital ratio of 15.9% (Phased In) as per the end of 2015, Belfius still achieves a solid CET1 ratio of 11.4% (Fully Loaded) after the 2016 EBA stress test. Based upon such result, Belfius ranks among the well capitalized European banks for which EBA published the stress test result and Belfius scores substantially better than the average stress test result of 9.4%.

5. New tax legislation for credit institutions

A legislation regarding a new annual tax for credit institutions has been published in the Belgian Official Gazette on 11 August 2016. This is under analysis by Belfius, but no major impacts are expected.

6. Call DSFB 4

The securitisation vehicle DSFB 4 was called in July 2016; it concerned loans granted to Belgian public entities. As at end of June 2016, an amount of EUR 2,128 million was outstanding. The underlying loans from DSFB 4 will be used as part of the collateral for the Targeted Longer-Term Refinancing Operation II (TLTRO II).

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 Bank on 30 August 2016.

Accounting Policies

1. Basis of accounting – statement of compliance

1.1. General

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

The condensed consolidated interim financial statements of Belfius have therefore been prepared "in accordance with all IFRS as adopted by the EU" and endorsed by the European Commission up to 30 June 2016 including the conditions applicable to interest-rate portfolio hedging.

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with Belfius annual financial statements as at 31 December 2015.

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

There have been no changes in accounting policies since the previous publication in the annual report of Belfius apart from those mentioned below.

The overview of the texts below is made until the reporting date of 30 June 2016.

2.1. IASB and IFRIC texts endorsed by the European Commission and applied as from 1 January 2016

Standards with impact for Belfius

Nil.

Standards with no impact for Belfius

- Amendment to "IFRS 11: Accounting for Acquisitions of Interests in Joint Operations". This amendment requires an investor to apply the principles of business combination accounting when acquiring an interest in a joint operation that constitutes a business. This amendment has no impact for Belfius.
- Amendments to "IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation" prohibit the use of revenue based depreciation methods. This amendment has no impact for Belfius.
- "Annual Improvements to IFRSs 2012-2014 Cycle", which are a collection of amendments to existing International Financial Reporting Standards. These amendments have no impact for Belfius.
- Amendments to "IAS 1 Presentation of Financial Statements – Disclosure Initiative". This amendment is part of the IFRS Disclosure Initiative and includes narrow-focus improvements in the following areas: materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. This amendment has no immediate impact for Belfius.

Standards not applicable for Belfius

- Amendments to "IAS 27: Equity Method in Separate Financial Statements" . This amendment restores the option to account for interests in subsidiaries, joint ventures and associates using the equity method in the separate financial statements.

2.2. IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2016

Nil.

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

Standards under analysis

- IFRS 16 "Leases" eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. According to this model, a lessee is required to recognise
  - assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  - depreciate lease assets separately from interest on lease liabilities in the income statement.

  IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and account for those two types of leases differently. IFRS 16 will be effective from 1 January 2019 and is not expected to have a material impact for Belfius.
- "Clarifications to IFRS 15 Revenue from Contracts with Customers" adds clarifications in the areas of identifying performance obligations, principal versus agent, licensing application guidance and introduces additional practical expedients for entities transitioning to IFRS 15. The amendments will be effective from 1 January 2018 and might impact Belfius.

Standards with impact for Belfius

- Amendments to "IAS 12: Recognition of Deferred Tax Assets for Unrealised Loss" clarify how to account for deferred tax assets related to debt instruments measured at fair value. This amendment will be effective from 1 January 2017 and might impact Belfius.
- Amendments to "IAS 7: Disclosure Initiative" require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment will be effective from 1 January 2017 and may impact Belfius.

2.4. IFRS 9 "Financial instruments"

IFRS 9 "Financial Instruments" was published in 2014 and combines all aspects of accounting for financial instruments: classification and measurement, impairment and micro hedge accounting. IFRS 9 also introduces a package of improved disclosures. The standard will be effective from 1 January 2018.

A multidisciplinary Project Team has been set up to analyse the impact of IFRS 9 and prepare its implementation. The sponsors of the implementation of IFRS 9 are both the CFO and the CRO. Workgroups have been set up as well as an IT analysis for the implementation. Recurrent status meetings are organized to allow all stakeholders and all major subsidiaries an overview of the status of the project. Belfius cannot communicate, at this stage, the impacts of IFRS 9 as there are still a significant number of ongoing analysis and possibilities. As such, there is not yet a sufficiently accurate impact analysis of IFRS 9.

2.5. Changes in presentation

Nil.

IV. Operating segments reporting

(Some amounts may not add up due to roundings)

An operating segment (or business line) is a distinguishable component of Belfius that is engaged in providing either products or services (business segment) to a homogeneous group of clients and/or through a homogeneous set of operations.

The segmentation of Belfius can be described as follows:

→ Franchise – contains the key activities of the commercial business lines 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 mainly the residual results not allocated to the two commercial segments of the Franchise and to the Side activities, as well as the residual interest rate and liquidity management results through the internal transfer pricing mechanism.

→ Side – incorporates the Legacy, inherited from the Dexia-era and is managed under a tactical de-risking strategy and in natural run-off mode
- Includes the Legacy portfolio (bonds and credit guarantees), derivatives with foreign counterparties (non Franchise), and transactions with former related parties.

Note that there are no internal sales or purchases between segments: the assets and liabilities presented within a segment are those that are also reported to management and are generated and originated by the business lines.

1. Segmentation – Balance sheet

	31/12/15 PF		
(In thousands of EUR)	Assets	Liabilities	Equity
Retail and Commercial[1]	52,514,924	76,269,752	1,962,606
Public and Corporate	41,810,525	24,762,543	807,521
Group Center[1]	41,349,409	42,020,174	3,379,157
FRANCHISE	**135,674,858**	**143,052,469**	**6,149,283**
SIDE	**41,287,266**	**25,249,938**	**2,510,434**
TOTAL	**176,962,124**	**168,302,407**	**8,659,717**
of which banking activities	152,889,131	145,062,791	7,181,539
of which insurance activities[2]	24,072,993	23,239,616	1,478,178

(1) Due to the decision to sell the subsidiary "International Wealth Insurer" at the end of 2015, the allocation of the assets, liabilities and equity between "Retail and Commercial" and "Group Center" has been restated to allow the comparison with 1H 2016.
(2) Note that the assets and liabilities represent the contribution of the Belfius Insurance group to the consolidated balance sheet.

	30/06/16		
(In thousands of EUR)	Assets	Liabilities	Equity
Retail and Commercial	53,080,948	77,874,367	1,918,566
Public and Corporate	42,059,944	25,242,829	817,155
Group Center	46,208,421	45,916,595	3,663,418
FRANCHISE	**141,349,314**	**149,033,791**	**6,399,139**
SIDE	**46,654,868**	**30,288,346**	**2,282,906**
TOTAL	**188,004,182**	**179,322,137**	**8,682,044**
of which banking activities	164,295,729	156,346,110	7,115,278
of which insurance activities	23,708,453	22,976,027	1,566,767

The allocation of equity is performed based on the normative regulatory equity consumption for each business line, any excess capital is allocated to Group Center. The normative Regulatory Equity is defined as the CET 1 capital that is required to bring Franchise (and its sub-segments) to a CET 1 ratio (Fully Loaded) to 10.5%.

The increase in balance sheet total of "Group Center" is due to the positive fair value changes on derivatives.

Note that while further de-risking was performed in the "Side" segment, the Side balance sheet increased due to the increase in fair value of derivatives in light of lower interest rate environment.

2. Segmentation – Statement of income

	30/06/15 PF					
(In thousands of EUR)	Retail and Commercial[1]	Public and Corporate	Group Center[1]	Franchise	Side	Total
INCOME	971,725	243,906	(58,692)	1,156,940	(73,409)	1,083,531
of which						
Net interest income	774,057	192,628	76,724	1,043,409	(23,566)	1,019,843
Net fee and commission income	234,737	25,571	(3,018)	257,290	(728)	256,563
Technical margin on insurance activities	(87,645)	(26,939)	(9,513)	(124,097)	0	(124,097)
Dividend income, Net income from equity method companies, Net income from financial instruments at fair value through profit or loss, and Net income on investments and liabilities	113,887	49,031	12,160	175,079	(38,132)	136,946
Other income & expense	(63,311)	3,615	(135,045)	(194,742)	(10,983)	(205,724)
EXPENSES	(547,910)	(103,584)	(14,599)	(666,092)	(6,482)	(672,573)
Gross operating income	423,816	140,322	(73,290)	490,848	(79,891)	410,958
COST OF RISK	(10,242)	(13,961)	1,040	(23,163)	(10,200)	(33,363)
Impairments on (in)tangible assets	120	0	0	120	0	120
NET INCOME BEFORE TAX	413,694	126,361	(72,250)	467,806	(90,092)	377,715
Tax (expense) income	(129,386)	(42,040)	33,385	(138,041)	32,359	(105,682)
NET INCOME AFTER TAX	284,308	84,321	(38,864)	329,765	(57,733)	272,033
Non-controlling interests	0	0	0	0	0	0
NET INCOME GROUP SHARE	284,308	84,321	(38,864)	329,765	(57,733)	272,033
of which banking activities	145,895	79,325	(40,657)	184,563	(57,733)	126,830
of which insurance activities[2]	138,413	4,996	1,793	145,202	0	145,202

(1) Due to the decision to sell the subsidiary "International Wealth Insurer" at the end of 2015, the allocation of 1H 2015 of the result between "Retail and Commercial" and "Group Center" has been restated to allow the comparison with 1H 2016.
(2) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

	30/06/16					
(In thousands of EUR)	Retail and Commercial	Public and Corporate	Group Center	Franchise	Side	Total
INCOME	**900,513**	**240,478**	**(10,524)**	**1,130,468**	**(78,877)**	**1,051,591**
of which						
Net interest income	675,913	197,613	101,148	974,675	(18,796)	955,879
Net fee and commission income	234,245	24,859	(3,128)	255,975	769	256,744
Technical margin on insurance activities	(62,524)	(29,422)	2,437	(89,509)	0	(89,509)
Dividend income, Net income from equity method companies, Net income from financial instruments at fair value through profit or loss, and Net income on investments and liabilities	107,306	27,482	13,039	147,827	(51,768)	96,059
Other income & expense	(54,427)	19,946	(124,019)	(158,501)	(9,082)	(167,583)
EXPENSES	**(502,048)**	**(104,455)**	**(61,208)**	**(667,712)**	**(5,472)**	**(673,184)**
Gross operating income	398,465	136,023	(71,732)	462,756	(84,349)	378,407
COST OF RISK	**(15,799)**	**(9,120)**	**54**	**(24,865)**	**(5,385)**	**(30,250)**
Impairments on (in)tangible assets	2,389	127	0	2,516	0	2,516
NET INCOME BEFORE TAX	**385,055**	**127,030**	**(71,678)**	**440,407**	**(89,735)**	**350,673**
Tax (expense) income	(118,858)	(38,744)	29,391	(128,211)	26,712	(101,498)
NET INCOME AFTER TAX	**266,198**	**88,286**	**(42,287)**	**312,196**	**(63,022)**	**249,174**
Non-controlling interests	0	0	20	20	0	20
NET INCOME GROUP SHARE	**266,198**	**88,286**	**(42,307)**	**312,176**	**(63,022)**	**249,154**
of which Banking activities	141,723	84,091	(46,279)	179,535	(63,022)	116,512
of which Insurance activities	124,475	4,195	3,972	132,642	0	132,642

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 roundings-off)

5.1. Cash and balances with central banks

(refers to table 5.2. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Cash in hand	443,291	409,391
Balances with central banks other than mandatory reserve deposits	19,693	0
Mandatory reserves deposits	113,292	558,374
TOTAL	576,276	967,764
Of which included in cash and cash equivalents	576,234	967,764

5.2. Loans and advances due from banks

(refers to table 5.3. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Cash collateral	16,157,815	18,341,587
Sight accounts	385,215	415,155
Reverse repurchase agreements	6,319,577	5,701,292
Loans and other advances	1,076,933	1,245,581
Bonds	383,895	392,925
Impaired loans	5,353	0
Less:		
Specific impairment on impaired loans or impaired bonds	(2 677)	0
Collective impairment	(8 109)	(9 042)
TOTAL	24,318,002	26,087,498
Of which included in cash and cash equivalents	6,752,377	6,459,991
Of which included in financial lease	50,115	49,354

An increase can be noted in the "loans and advances due from banks" following the increased collateral requirements due to the lower interest rates compared to year-end.

5.3. Loans and advances to customers

(refers to table 5.4. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Cash collateral	1,637,111	2,128,865
Reverse repurchase agreements	153,510	487,487
Loans and other advances	78,246,240	79,176,651
Of which bills and own acceptances	25,736	30,441
Of which finance lease	3,049,284	3,136,169
Of which consumer loans	1,386,972	1,407,626
Of which mortgage loans	27,118,460	27,788,453
Of which term loans	43,625,438	43,892,618
Of which current accounts	1,725,619	1,548,397
Of which other loans and advances	1,314,731	1,372,946
Bonds	6,651,217	7,341,625
Impaired loans	2,025,934	2,023,602
Impaired bonds	2,703	2,915
Less:		
Specific impairment on impaired loans or impaired bonds	(1,158,443)	(1,163,001)
Collective impairment	(369,120)	(359,344)
TOTAL	87,189,152	89,638,800

The increase in "loans and advances to customers" is due to

- (i) an increase in cash collateral following the decrease in interest rates compared to year-end,
- (ii) an increase in commercial assets (mortgage and term loans) and
- (iii) bonds.

5.4. Investments held to maturity

(refers to table 5.5. of the annual report)

Analysis by counterparty

(In thousands of EUR)	31/12/15	30/06/16
Public entities	3,941,259	3,952,869
Banks	832,266	1,022,509
Corporate & SME	243,630	393,950
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT	5,017,155	5,369,328
Less:		
Specific impairment on impaired financial investments	0	0
TOTAL	5,017,155	5,369,328

Belfius owns high quality bonds (AAA/AA) for its Bank ALM portfolio and classifies these in "Investments held to maturity".

5.5. Financial assets available for sale

(refers to table 5.6. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Bonds issued by public sector	11,883,285	12,369,766
Other bonds and fixed-income instruments	5,823,829	4,995,718
Equity and variable-income instruments	2,097,132	2,187,728
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT	**19,804,246**	**19,553,211**
Specific impairment on impaired financial investments	(70,681)	(71,858)
TOTAL	19,733,565	19,481,353

Whereas a low interest rate environment, generally, leads to an increase of the fair value of the bonds, a decrease of the "Financial Assets available for sale" can be noted. This is due to continued de-risking at the level of Belfius Bank (during 1H 2016, mainly Spanish covered bonds in the legacy bond portfolio) as well as sales within the Belfius Insurance portfolio (during 1H 2016, mainly Belgian Government bonds and equity and fund positions).

5.6. Derivatives

(refers to table 5.9. of the annual report)

1. Analysis by nature

	31/12/15		30/06/15	
(In thousands of EUR)	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading	23,352,089	21,352,831	27,902,139	25,415,343
Derivatives designated as fair value hedges	100,006	245,797	119,363	379,775
Derivatives designated as cash flow hedges	12,943	44,813	24,065	84,146
Derivatives designated as portfolio hedge	2,478,529	8,416,644	2,529,178	9,217,166
TOTAL	25,943,567	30,060,085	30,574,745	35,096,431

A significant increase in the fair value of derivatives can be noted following the lower interest rates compared to year-end 2015. Note also that the notional amount of derivatives continues to reduce significantly through active management of the derivatives book (f.e. via netting operations in TriReduce).

2. Detail of derivatives held for trading

	31/12/15				30/06/16			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	26,759,263	26,660,609	2,583,221	2,389,622	23,305,580	23,114,347	3,508,730	3,219,578
Interest rate derivatives	422,638,134	435,669,767	20,299,995	18,625,013	384,337,687	395,304,765	23,957,228	21,883,574
of which option/cap/floor/collar/swaption	205,107,535	218,708,502	3,088,894	3,494,594	194,067,082	205,797,564	4,142,758	4,683,084
of which interest rate swaps	204,690,317	204,932,511	17,210,775	15,130,141	184,352,238	184,595,970	19,814,342	17,199,930
of which other interest rate	12,840,282	12,028,754	326	278	0	0	0	0
Credit derivatives	7,175,051	6,913,927	319,261	207,079	6,072,080	5,880,613	314,058	217,947
Equity derivatives	3,071,878	3,053,689	149,612	131,116	3,386,320	3,270,165	122,122	94,245
TOTAL	459,644,326	472,297,992	23,352,089	21,352,830	417,101,668	427,569,890	27,902,139	25,415,343

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 with Dexia Group entities remained after the sale of Belfius to the Belgian State in 2011. The credit risk is mitigated through the use of collateral (CSA). Note that the market risk limits are quite restrictive for the market risks.

3. Detail of derivatives designated as fair value hedges

	31/12/15				30/06/16			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	630,403	598,595	93,982	242,467	597,473	591,579	117,399	367,176
Interest rate derivatives	540,051	244,955	6,024	3,330	277,011	40,000	1,965	12,600
TOTAL	1,170,454	843,550	100,006	245,797	874,484	631,579	119,363	379,775

4. Detail of derivatives of portfolio hedge(1)

	31/12/15				30/06/16			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	74,071,602	74,071,602	2,478,529	8,416,644	66,680,230	66,680,230	2,529,178	9,217,166
TOTAL	74,071,602	74,071,602	2,478,529	8,416,644	66,680,230	66,680,230	2,529,178	9,217,166

(1) Concerns mainly "plain vanilla" interest rate swaps and is used only in fair-value hedge strategy.

5.7. Non current assets (disposal group) held for sale and discontinued operations

(refers to table 5.16. of the annual report)

(In thousands of EUR)	31/12/15	30/06/16
Assets of subsidiaries held for sale(1)	3,339,266	3,374,690
Tangible and intangible assets held for sale	13,761	20,066
Other assets	1,501	1,121
TOTAL	3,354,528	3,395,878

(1) As at 31 December 2015 International Wealth Insurer SA was recorded as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations".

In 2015, Belfius Insurance has decided to activate the sale of its participation in "International Wealth Insurer" following the strategy of Belfius to concentrate its activities on Belgium. Foyer S.A., the largest privately owned financial group of Luxembourg, has reached an agreement in June 2016 with Belfius Insurance on the acquisition of "International Wealth Insurer". The transaction was closed on 9 August 2016, there was a positive impact in result of EUR 8 mio which will be recorded in 2H 2016.

Seeing that the sale was highly likely, the assets and liabilities of IWI have been reclassified to "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" and presented separately from other assets and liabilities. The assets classified as "held for sale" are valued at their carrying amount or at their fair value less costs to sell.

Based on IFRS5, the sale of IWI should not be considered as a "disposal group".

A description is provided in note 10.2.

VI. Notes on the liabilities of the condensed consolidated interim balance sheet

(some amounts may not add up due to roundings-off)

6.1. Due to banks

(refers to table 6.1. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Demand deposits	124,907	505,613
Term deposits	442,161	365,252
Repurchase agreements	1,349,114	563,129
Central banks	1,652,590	3,111,039
Cash collateral received	7,919,944	9,086,537
Other borrowings	48,906	54,898
TOTAL	11,537,622	13,686,468

A significant increase can be noted in the cash collateral received following the decrease in interest rates compared to year-end.

On 10 March 2016, the ECB announced a new series of four targeted longer-term refinancing operations (TLTRO II). These TLTRO's are designed to further enhance the functioning of the monetary policy transmission mechanism by supporting bank lending to the real economy. At the end of 2015, Belfius had an outstanding TLTRO I participation of EUR 1.65 billion. In June 2016, TLTRO I was called by Belfius and replaced by TLTRO II. At the same time Belfius drew an additional amount of EUR 1.35 billion, resulting in a total participation in TLTRO II of EUR 3.0 billion.

6.2. Customer borrowings and deposits

(refers to table 6.2. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Demand deposits	19,732,552	21,727,352
Saving deposits	32,687,112	33,651,507
Term deposits	9,518,130	9,696,889
Other customer deposits	6,134,534	6,509,533
TOTAL CUSTOMER DEPOSITS	**68,072,328**	**71,585,280**
Repurchase agreements	70,082	33,246
Other borrowings	20,344	28,053
TOTAL CUSTOMER BORROWINGS	**90,426**	**61,298**
TOTAL	68,162,754	71,646,578

An important increase in commercial funding can be noted, especially demand and savings deposits.

6.3. Debt securities

(refers to table 6.3. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Certificates of deposit	3,985,301	3,869,962
Customer savings certificates	5,323,551	4,977,309
Non-convertible bonds	11,096,725	10,190,818
Covered bonds(1)	7,371,975	7,935,366
TOTAL	27,777,552	26,973,455

(1) The covering assets of the Mortgage Pandbrieven (covered bonds) are mainly Belgian mortgage loans granted in accordance with the law on mortgage loans, through the branch network of Belfius.

Belfius launched in 2014 its first Belgian Public Pandbrieven programme with a cover pool composed of loans granted to Belgian public sector entities (municipalities, provinces, etc).

The underlying pool of loans of the covered bonds (Pandbrieven) amount to EUR 10.7 billion at the end of June 2016 (and EUR 10.2 billion at the end of 2015). This cover pool guarantees the outstanding covered bonds: EUR 6.1 billion mortgage covered bonds (versus EUR 5.5 billion at the end of 2015) and EUR 1.8 billion public covered bonds (versus EUR 1.8 billion at the end of 2015).

A detailed description of the covering assets (including the outstanding amount and the characteristics of the loans in the cover pool) can be consulted on the website of Belfius in the section "Debt issuance" and in the management report "Risk management".

For more information, we also refer to the prospectus on Belfius' website www.belfius.com/EN.

6.4. Insurance contracts

(refers to table 6.5. of the annual report)

1. General overview Life/Non-Life contracts

	31/12/15				30/06/16			
(In thousands of EUR)	Life branch 21 and 26	Life branch 23	Non-Life	Total	Life branch 21 and 26	Life branch 23	Non-Life	Total(2)
GROSS RESERVES(1)	15,572,361	0	1,116,210	16,688,571	15,405,330	0	1,158,691	16,564,021
Gross reserves – Share of reinsurers	224,274	0	93,945	318,219	232,365	0	86,604	318,969
Gross earned premiums	789,371	0	587,042	1,376,413	401,303	0	307,346	708,649
Claims incurred and other technical expenses	(1,136,579)	18,941	(334,520)	(1,452,158)	(521,005)	9,169	(165,603)	(677,439)
Acquisition commissions	(62,801)	(14,797)	(110,866)	(188,464)	(29,690)	(7,939)	(59,803)	(97,432)
Technical result from ceded reinsurance	(2,028)	(23)	(19,621)	(21,672)	(2,662)	(12)	(20,613)	(23,287)
TOTAL TECHNICAL RESULT(2)	(412,037)	4,121	122,035	(285,881)	(152,054)	1,218	61,327	(89,509)

(1) Liabilities V. "Technical provisions of insurance companies"
(2) Statement of income IX. Premiums and technical income & X. Technical expense from insurance activities. The technical margin on insurance activities was strongly impacted by the cost of terrorist attacks, storms and floods in 1H 2016.

2. Insurance contracts Life

Assets and Liabilities

Gross reserves

(In thousands of EUR)	31/12/15	30/06/16
Life insurance reserves	15,258,293	14,577,044
Reserves due to shadow accounting adjustments(1)	603,231	1,156,109
Variation due to variation of scope of consolidation IFRS 5(2)	(533,661)	(499,653)
TOTAL LIFE INSURANCE RESERVES	15,327,863	15,233,500
Claims reserves	131,316	77,778
Profit sharing reserve	124,077	101,681
Other technical reserves	396	854
Variation due to variation of scope of consolidation IFRS 5(2)	(11,290)	(8,483)
TOTAL GROSS TECHNICAL RESERVES LIFE	15,572,362	15,405,330

(1) A significant increase in shadow accounting can be noted due to the interest rate evolution, this was combined with some methodological refinements.
(2) The change in consolidation scope is linked to the decision to classify the Insurance subsidiary "International Wealth Insurer" as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" at the end of 2015 as Belfius Insurance has activated the sale of this subsidiary following the change in strategy to concentrate the activities more in Belgium.

3. Insurance contracts Non-Life

Assets and Liabilities

Gross reserves

(In thousands of EUR)	31/12/15	30/06/16
GROSS RESERVES NON-LIFE	955,619	969,265
Other technical reserves	38,265	37,492
Unearned premium reserves (UPR)	122,327	151,934
TOTAL GROSS RESERVES NON-LIFE	1,116,211	1,158,691

6.5. Provisions and contingent liabilities

(refers to table 6.6. of the annual report)

1. Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
Pensions and other employment defined benefit obligations(1)	167,532	291,669
Other long-term employee benefits	18,113	18,789
Restructuring(2)	119,649	104,172
Provisions for legal litigations(3)	44,436	37,227
Commitments and guarantees given (off-balance sheet)	11,895	11,863
Onerous contracts	4,768	2,824
Other Provisions	39,150	36,851
TOTAL	405,543	503,394

(1) The increase of "pensions and other employment defined benefit obligations" is mainly recorded through Other Comprehensive Income. The increase in pension obligations is mainly related to the decrease of discount rates (following the decrease of the interest rates compared to year-end).
(2) On 1 October 2013 an agreement was reached within Belfius Bank on a set of measures to reduce the cost and the number of employees. Note that the restructuring plan for staff is reassessed frequently. The decrease is mainly related to the use of the provision following payments to employees that left the bank.
(3) The "Provision for legal litigations" contains mainly disputes with third parties.

2. Contingent liabilities

Belfius (Belfius Bank and its consolidated subsidiaries) is involved as a defendant in a number of litigations in Belgium, arising in the ordinary course of its business activities, including those where it is acting as an insurer, capital and credit provider, employer, investor and tax payer.

In accordance with the IFRS rules, Belfius makes provisions for such litigations when, in the opinion of its management, after analysis by its company lawyers and external legal advisors as the case may be, it is probable that Belfius will have to make a payment and when the amount of such payment can be reasonably determined.

With respect to certain other litigations against Belfius of which management is aware (and for which, according to the principles outlined above, no provision has been made), 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 Belfius Consolidated Financial Statements.

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.

Furthermore, with regard to Belfius Insurance, no specific provision was made for significant litigation.

A. Housing Fund of the Brussels Capital Region

On 9 October 2012, the Housing Fund of the Brussels Capital Region summoned Belfius Bank before the Brussels Commercial Court. The Housing Fund subscribed in a total amount of EUR 32,000,000 to 4 treasury notes issued by Municipal Holding between July and September 2011. Following the liquidation of Municipal Holding, the Housing Fund could only receive repayment for EUR 16,000,000. It demands the payment by Belfius Bank of the non-repaid capital. As the loss incurred on this investment is the result of a voluntary waiver of the claim by the Housing Fund, which matches half of the investment, Belfius Bank rejects the demand from the Housing Fund.

On 27 March 2014, the Brussels Commercial Court accepted the claim application by the Housing Fund, but declared it unfounded. The Housing Fund lodged an appeal against this judgement on 3 June 2014.

There was no significant evolution in this claim during the first half of 2016.

No provision has been made for this claim.

B. BBTK and ACLVB

On 8 May 2014, two trade unions represented within Belfius Bank, BBTK and ACLVB, summoned Belfius Bank before the Brussels Labour Tribunal. They demand the annulment of the collective bargaining agreements that Belfius Bank signed in 2013 with two other trade unions of the bank. BBTK and ACLVB are of the opinion that these collective bargaining agreements amend, without their consent, previous collective bargaining agreements Belfius Bank concluded also with them. In addition, they are of the opinion that an employer can only sign a collective bargaining agreement with some of the existing trade unions within the firm, if the said employer has not signed previous collective bargaining agreements with other trade unions. The bank rejects this claim as the previous collective bargaining agreements have not been amended and because the law provides in general that a collective bargaining agreement can be signed with only one trade union.

On 26 November 2015, the Labour Tribunal adjourned the hearing for oral pleadings to 20 October 2016 for procedural reasons having no impact on the merits of the case.

There was no further significant evolution in this claim during the first half of 2016.

No provision has been made for this claim.

C. Arco

On 30 September 2014, 737 shareholders from 3 companies of the Arco Group (Arcopar, Arcoplus and Arcofin) summoned Belfius Bank, together with the 3 aforementioned Arco companies, before the Brussels Commercial Court. Principally, they demand the annulment of their agreement to join the capital of these 3 companies as shareholder, based on deception or fallacy. They demand that the Court orders Belfius Bank in solidum with each of the 3 above mentioned Arco companies to repay their capital contributions, increased by interest and compensation. On an ancillary basis, they applied to the Commercial Court to order Belfius Bank to pay compensation based on an alleged shortcoming in its information duty towards them. Because the file submitted by them lacks information with respect to proof and assessment of damages, Belfius cannot assess the content of the claim and has to reject it.

On 16 December 2014, 1,027 shareholders and on 15 January 2016, 466 other shareholders of the 3 above mentioned Arco companies joined the summons on a voluntary basis. Belfius has asked for their files so that it can evaluate the content of their claim.

On 17 December 2015, 2,169 shareholders of the 3 above mentioned Arco companies issued a writ to the Belgian State for compulsory intervention. They demand that the Commercial Court orders the Belgian State to pay compensation based on the alleged illegality of the guarantee scheme the Belgian State enacted in favour of Arco shareholders. This demand is subordinated to their claims against Belfius Bank and has no negative impact on Belfius Bank.

There was no further significant evolution in this claim during the first half of 2016.

No provision has been made for this claim.

6.6. Subordinated debts

(refers to table 6.7. of the annual report)

Analysis by nature

(In thousands of EUR)	31/12/15	30/06/16
NON-CONVERTIBLE SUBORDINATED DEBT		
Loan capital perpetual subordinated notes	365,468	362,829
Other	547,536	1,040,364
TOTAL	913,004	1,403,193
Hybrid capital and redeemable preference shares	0	0

Belfius has issued in May 2016 a subordinated bond for EUR 500 million qualifying as additional regulatory capital Tier 2. It concerns a ten year fixed bond issue at 3.125% with no call nor coupon deferral.

6.7. Liabilities included in disposal group and discontinued operations

(refers to table 6.9. of the annual report)

(In thousands of EUR)	31/12/15	30/06/16
Liabilities of subsidiaries held for sale(1)	3,243,438	3,274,131
Discontinued operations	0	0
TOTAL	3,243,438	3,274,131

(1) As at 31 December 2015 International Wealth Insurer SA was recorded as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations".

In 2015, Belfius Insurance has decided to activate the sale of its participation in "International Wealth Insurer" following the strategy of Belfius to concentrate its activities on Belgium. Foyer S.A., the largest privately owned financial group of Luxembourg, has reached an agreement in June 2016 with Belfius Insurance on the acquisition of "International Wealth Insurer". The transaction was closed on 9 August 2016, there was positive impact in result of EUR 8 mio which will be recorded in 2H 2016.

Seeing that the sale was highly likely, the assets and liabilities of IWI have been reclassified to "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" and presented separately from other assets and liabilities. The assets classified as "held for sale" are valued at their carrying amount or at their fair value less costs to sell.

Based on IFRS 5, the sale of IWI should not be considered as a "disposal group".

A discription is provided in note 10.2.

VII. Notes on the condensed consolidated interim statement of income

(some amounts may not add up due to roundings-off)

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)

(In thousands of EUR)	30/06/15	30/06/16
INTEREST INCOME	2,410,282	2,022,573
INTEREST INCOME OF ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	1,737,813	1,562,578
Cash and balances with central banks	204	138
Loans and advances due from banks	19,125	13,475
Loans and advances to customers	1,330,025	1,212,137
Financial assets available for sale	324,351	271,489
Investments held to maturity	42,202	45,202
Interest on impaired assets	16,819	14,094
Other	5,087	6,042
INTEREST INCOME OF ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	672,469	459,995
Financial assets held for trading	19,252	9,226
Financial assets designated at fair value	0	0
Derivatives held for trading	225,010	181,424
Derivatives as hedging instruments	428,207	269,345
INTEREST EXPENSE	(1,390,439)	(1,066,694)
INTEREST EXPENSE OF LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(354,428)	(325,382)
Due to banks	(6,866)	(4,873)
Customer borrowings and deposits	(81,458)	(73,662)
Debt securities	(252,587)	(196,313)
Subordinated debts	(10,313)	(12,476)
Other	(3,204)	(38,059)
INTEREST EXPENSE OF LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	(1,036,011)	(741,312)
Financial liabilities held for trading	(34)	(507)
Financial liabilities designated at fair value	(94,075)	(59,269)
Derivatives held for trading	(151,976)	(138,280)
Derivatives as hedging instruments	(789,926)	(543,255)
NET INTEREST INCOME	1,019,843	955,879

The net interest income decreased with EUR 64 million following the lower interest rates (with even more negative interest rates in certain domains) compared to 1H 2015 and lower interest revenues of Belfius Insurance in line with a decreasing Branch 21 portfolio.

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

(refers to table 7.4. of the annual report)

(In thousands of EUR)	30/06/15	30/06/16
Net trading income	41,345	9,061
Net result of hedge accounting	49,143	(32,568)
Net result of financial instruments designated at fair value through profit or loss and result from the related derivatives (1)	4,631	(2,723)
Forex activity and exchange differences	(17,878)	15,690
TOTAL	77,241	(10,540)
(1) Among which trading derivatives included in a fair value option strategy	(17,688)	28,023

Fair value adjustments had globally a negative impact on the result of 1H 2016, following the low interest rate environment and stressed credit spreads compared to 1H 2015. The total amount recorded on the balance sheet as credit value adjustments stands at EUR -246 million end June 2016 (compared to EUR -200 million end June 2015), whereas total amount on the balance sheet of the debit value adjustment recorded amounts to EUR 7 million end June 2016 (and EUR 27 million end June 2015). The total amount on the balance sheet related to funding value adjustments amounts to EUR -68 million end June 2016 (compared to EUR -56 million end June 2015).

Following the changes in the basis risk (between among others, OIS and BOR3M) and the low interest environment, the net result from hedge accounting has decreased significantly. Nevertheless, the efficiency tests were respected at all times.

Belfius applies mainly Fair value Hedges for establishing a hedge relationship between the hedged items and hedging instruments for the interest rate risk. It applies this on a macro basis on the asset side and on the liability as well as on a micro hedge basis for certain bonds on asset and liability side.

7.3. Net income on investments and liabilities

(refers to table 7.5. of the annual report)

(In thousands of EUR)	30/06/15	30/06/16
Gains on Loans and advances	11,003	6,388
Gains on Financial assets available for sale	161,787	85,560
Gains on Tangible fixed assets	4,927	4,235
Gains on Liabilities	0	1
Other gains	3,121	12,234
TOTAL GAINS	180,838	108,418
Losses on Loans and advances	(6,536)	(4,565)
Losses on Financial assets available for sale	(103,378)	(34,414)
Losses on Investments held to maturity	0	(1)
Losses on Tangible fixed assets	(128)	(239)
Losses on Assets held for sale	(25)	(48)
Losses on Liabilities	(449)	(102)
Other losses	(49,605)	(10,031)
TOTAL LOSSES	(160,121)	(49,400)
NET IMPAIRMENT	1,445	(1,185)
TOTAL	22,162	57,833

The result of 1H 2015 was significantly impacted by de-risking in the "Side" portfolio. In addition to a more limited de-risking in 1H 2016, the "Net income on investments and liabilities" was positively impacted by more capital gains on the bond, funds and equities portfolio of Belfius Insurance.

Net impairment

(In thousands of EUR)	Specific risk		Total
	Allowances	Write-backs	
AS AT 30 JUNE 2015			
Securities available for sale	(121)	1,566	1,445
TOTAL	**(121)**	**1,566**	**1,445**

(In thousands of EUR)	Specific risk		Total
	Allowances	Write-backs	
AS AT 30 JUNE 2016			
Securities available for sale	(4,502)	3,317	(1,185)
TOTAL	**(4,502)**	**3,317**	**(1,185)**

7.4. Fee and commission income – expense

(refers to table 7.6. of the annual report)

(In thousands of EUR)	30/06/15			30/06/16		
	Income	Expense	Net	Income	Expense	Net
Commissions on unit trusts and mutual funds managed by third parties	92,576	(2,273)	90,303	108,786	(2,732)	106,055
Insurance activity	56,421	(2,011)	54,410	61,306	(4,692)	56,614
Credit activity	17,537	(5,586)	11,951	17,591	(4,623)	12,968
Purchase and sale of securities	12,600	(686)	11,914	10,292	(696)	9,596
Purchase and sale of unit trusts and mutual funds	35,103	(379)	34,724	15,712	(165)	15,547
Payment services	66,815	(23,716)	43,099	70,482	(26,582)	43,900
Commissions to not exclusive brokers	1,060	(6,058)	(4,998)	1,017	(5,726)	(4,709)
Services on securities other than safekeeping	2,706	(353)	2,353	1,651	(276)	1,375
Custody	9,132	(4,373)	4,759	8,972	(2,132)	6,839
Issues and placements of securities	2,669	(443)	2,226	390	(337)	53
Servicing fees of securitisation	196	0	196	147	0	147
Private banking	7,907	(2,962)	4,945	8,630	(1,679)	6,951
Clearing and settlement	3,650	(3,030)	620	4,132	(2,742)	1,390
Securities lending	74	(13)	61	25	(7)	18
TOTAL	**308,446**	**(51,883)**	**256,563**	**309,132**	**(52,388)**	**256,744**

7.5. Other income

(refers to table 7.7. of the annual report)

(In thousands of EUR)	30/06/15	30/06/16
Operational taxes	320	8
Rental income from investment property	11,576	11,252
Other rental income	5,401	4,088
Write-back of provisions for litigations	5,390	7,611
Other income on other activities(1)	44,710	122,046
OTHER INCOME	**67,397**	**145,005**

(1) "Other income on other activities" includes other operational income from operating lease and other operational income. The increase of "Other income on other activities" is linked to the realised gains on some real estate projects. Note that the costs on these projects are recorded in "Other expense on other activities".

7.6. Other expense

(refers to table 7.8. of the annual report)

(In thousands of EUR)	30/06/15	30/06/16
Sector levies[1]	(212,809)	(219,124)
Repair and maintenance on investment properties that generated income during the current financial year	(2,330)	(938)
Provisions for litigations	(731)	(205)
Other expense on other activities[2]	(57,251)	(92,320)
OTHER EXPENSE	**(273,121)**	**(312,587)**

(1) Sector levies are specific taxes for financial institutions, it includes (i) the Deposit Guarantee Scheme contributions (ii) Subscription tax, (iii) Financial Stability Contribution and (iv) the contributions to the Single Resolution Fund. Belfius has opted to pay part of its contribution of the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment is fully covered by cash collateral. Belfius has recorded EUR 10 million in its off balance sheet accounts.
(2) "Other expenses on other activities" includes other operational expenses for operating lease (other than rental expenses and contingent rents), depreciation and amortization on office furniture and equipment given in operational lease, other operational expenses, depreciation and amortization on investment property, and other operational taxes. The significant increase in "Other expense on other activities" is mainly linked to the realization of some real estate projects.

7.7. Impairments on financial instruments and provisions for credit commitments

(refers to table 7.12. of the annual report)

1. Collective impairment

(In thousands of EUR)	30/06/15	30/06/16
TOTAL OF COLLECTIVE IMPAIRMENT ON LOANS	(1,450)	(4,350)

2. Specific impairment

(In thousands of EUR)	30/06/15	30/06/16
Loans and advances to customers[1]	(27,592)	(25,436)
Other receivables	(100)	(505)
Commitments	(4,221)	41
TOTAL	(31,913)	(25,900)

(1) The result of 1H 2016 contains the positive effects of a favorable recovery outcome in a number of defaulted files.

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 roundings-off)

8.1. Regular way trade

(refers to table 8.1. of the annual report)

(In thousands of EUR)	31/12/15	30/06/16
Loans to be delivered and purchases of assets	3,253,049	2,213,161
Borrowings to be received and sales of assets	4,399,154	4,322,302

8.2. Guarantees

(refers to table 8.2. of the annual report)

(In thousands of EUR)	31/12/15	30/06/16
Guarantees given to credit institutions	1,263,913	1,245,704
Guarantees given to customers	4,349,497	3,880,073
Guarantees received from credit institutions(1)	1,236,105	1,089,591
Guarantees received from customers	29,550,054	29,779,423

(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)

(In thousands of EUR)	31/12/15	30/06/16
Unused lines granted to credit institutions	266,883	761,422
Unused lines granted to customers	22,595,235	22,470,595
Unused lines obtained from credit institutions	0	1,469

8.4. Other commitments to financing activities
(refers to table 8.4. of the annual report)

(In thousands of EUR)	31/12/15	30/06/16
Insurance activity – Commitments received	74,764	74,764
Banking activity – Commitments given(1)	23,404,829	25,273,374
Banking activity – Commitments received	69,159,763	62,127,527

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

The section "Banking activity- commitments given" also includes the underlying assets of the covered bond program.

The special estate of the mortgage covered bond program contains mainly residential mortgage loans for a total amount of EUR 7.3 billion (nominal) at the end of 2015 and 7.3 billion (nominal) at the end of June 2016.

See also note 6.3 "Debt securities".

8.5. Bond lending and bond borrowing transactions
(refers to table 8.5. of the annual report)

(In thousands of EUR)	31/12/15	30/06/16
Securities lending	7,272	933
Securities borrowing	333,743	334,705

IX. Notes on risk exposure

(some amounts may not add up due to roundings-off)

9.1. Fair value

(refers to table 9.1 of the annual report)

1. Fair value of financial instruments

A. Breakdown of fair value of assets

	31/12/15			30/06/16		
(In thousands of EUR)	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and balances with central banks	576,276	576,276	0	967,764	967,764	0
Loans and advances	111,507,154	117,415,514	5,908,360	115,726,298	122,659,588	6,933,290
Investments held to maturity	5,017,155	5,090,770	73,615	5,369,328	5,604,480	235,152
Financial assets measured at fair value through profit or loss	3,222,991	3,222,991	0	4,001,697	4,001,697	0
Financial assets available for sale	19,733,565	19,733,565	0	19,481,353	19,481,353	0
Derivatives	25,943,567	25,943,567	0	30,574,745	30,574,745	0
Non current assets (disposal group) held for sale and discontinued operations	3,354,528	3,366,748	12,220	3,395,878	3,412,139	16,261

B. Breakdown of fair value of liabilities

	31/12/15			30/06/16		
(In thousands of EUR)	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Borrowings and deposits	79,700,376	79,884,719	184,343	85,333,046	85,562,897	229,851
Financial liabilities measured at fair value through profit or loss	6,916,469	6,916,469	0	7,058,440	7,058,440	0
Derivatives	30,060,085	30,060,085	0	35,096,431	35,096,431	0
Debt securities	27,777,552	28,430,570	653,018	26,973,455	27,614,216	640,761
Subordinated debts	913,004	994,683	81,679	1,403,193	1,506,973	103,780
Liabilities included in disposal group and discontinued operations	3,243,438	3,243,438	0	3,274,131	3,274,131	0

For some assets and liabilities, Belfius estimates that the fair value approximates their carrying value.

Also, Belfius estimates that the own credit risk has not changed significantly.

The carrying amount does not include the "Fair value revaluation of portfolio hedge" as it is presented separately on the balance sheet. In 2015, the value of the hedged interest rate risk amount is EUR 4,373 million on the asset side and EUR 226 million on the liability side. End june 2016, EUR 5,344 million on the asset side and EUR 406 million on the liability side are recognised on the balance sheet.

2. Analysis of fair value of financial instruments

A. Assets

	31/12/15			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	2,351,704	595,944	275,343	3,222,991
Financial assets available for sale	17,746,604	473,375	1,513,586	19,733,565
Derivatives	1,191	24,517,592	1,424,784	25,943,567
Non current assets (disposal group) held for sale and discontinued operations(1)	3,292,786	66,854	7,108	3,366,748
TOTAL	23,392,285	25,653,765	3,220,821	52,266,871

(1) The "non current assets (disposal group) held for sale and discontinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer.

	30/06/16			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	2,481,294	1,009,711	510,692	4,001,697
Financial assets available for sale	17,166,440	697,397	1,617,516	19,481,353
Derivatives	1,014	29,010,072	1,563,659	30,574,745
Non current assets (disposal group) held for sale and discontinued operations(1)	3,323,950	81,153	7,036	3,412,139
TOTAL	22,972,698	30,798,333	3,698,903	57,469,934

(1) The "non current assets (disposal group) held for sale and discontinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer.

B. Liabilities

	31/12/15			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value through profit or loss	2,018,093	2,345,307	2,553,069	6,916,469
Derivatives	5,908	28,910,713	1,143,464	30,060,085
Liabilities included in disposal groups and discontinued operations(1)	3,243,438			3,243,438
TOTAL	5,267,439	31,256,020	3,696,533	40,219,992

(1) The "non current assets (disposal group) held for sale and discontinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer..

	30/06/16			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value through profit or loss	2,134,756	2,395,919	2,527,765	7,058,440
Derivatives	2,270	33,854,070	1,240,091	35,096,431
Liabilities included in disposal groups and discontinued operations(1)	3,266,807	7,324		3,274,131
TOTAL	5,403,833	36,257,313	3,767,856	45,429,002

(1) The "non current assets (disposal group) held for sale and discontinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer..

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

	31/12/15		30/06/16	
(In thousands of EUR)	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1
Financial assets measured at fair value through profit or loss				
Financial assets available for sale	10,510	67,761	179,936	5,641
TOTAL	10,510	67,761	179,936	5,641

B. Liabilities at fair value in the balance sheet

Nil

4. Reconciliation Level 3

A. Assets

	31/12/15									
(In thousands of EUR)	Opening balance	Total of realised gains and losses in P&L	Total of unrealised gains and losses in P&L	Total gains/losses in other comprehensive income	Purchases	Sale	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial assets measured at fair value through profit or loss	361,667	0	(24,300)	0	95,856	(147,867)	0	31	(10,044)	275,343
Financial assets available for sale	1,449,321	(54)	9,718	26,925	521,924	(514,276)	(23,313)	66,405	(23,064)	1,513,586
Derivatives	1,625,729		(98,373)		203,869		(339,333)	33,278	(386)	1,424,784
TOTAL	3,436,717	(54)	(112,955)	26,925	821,649	(662,143)	(362,646)	99,714	(33,494)	3,213,713

	30/06/16									
(In thousands of EUR)	Opening balance	Total of realised gains and losses in P&L	Total of unrealised gains and losses in P&L	Total gains/losses in other comprehensive income	Purchases	Sale	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial assets measured at fair value through profit or loss	275,343	0	41,397	0	291,689	(95,571)	0	930	(3,096)	510,692
Financial assets available for sale	1,513,586	0	2,686	43,733	124,049	(43,724)	(2,498)	125	(20,441)	1,617,516
Derivatives	1,424,784		90,942		171,222	(103,220)			(20,069)	1,563,659
TOTAL	3,213,713	0	135,025	43,733	586,960	(242,515)	(2,498)	1,055	(43,606)	3,691,867

B. Liabilities

(In thousands of EUR)	31/12/15 Opening balance	Total of unrealised gains and losses in P&L	Purchases	Sale	Direct origination	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial liabilities measured at fair value through profit or loss	93,848	(97)	99	(17,855)	633,136	0	1,858,921	(14,983)	2,553,069
Derivatives	1,387,030	(142,006)	160,545			(307,968)	46,463	(600)	1,143,464
TOTAL	1,480,878	(142,103)	160,644	(17,855)	633,136	(307,968)	1,905,384	(15,583)	3,696,533

(In thousands of EUR)	30/06/16 Opening balance	Total of unrealised gains and losses in P&L	Purchases	Sale	Direct origination	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial liabilities measured at fair value through profit or loss	2,553,069	83	0	(98)	0	(25,289)	0	0	2,527,765
Derivatives	1,143,464	83,916	137,687			(105,921)		(19,055)	1,240,091
TOTAL	3,696,533	83,999	137,687	(98)	0	(131,210)	0	(19,055)	3,767,856

The column "total of realised gains and losses in P&L" and "total of unrealised gains and losses in P&L" cannot be analysed on a stand alone basis, as some assets or liabilities classified at amortized cost or some assets and liabilities classified in level 1 or 2 may be hedged by derivatives classified in level 3.

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, available for sale, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available (level 1)

If the market is active – meaning that reliable bid-offer prices are available representing effective transactions for meaningful amounts concluded on an arm's length basis between willing counterparties – these market prices provide for reliable evidence of fair value and are therefore used for fair value measurement (f.e. interest rate futures, high liquid bonds, etc).

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, which is not the case for the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques (level 2 and 3)

Financial instruments for which no quoted market prices in active markets are available, are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume, bid- offer spread and the number of price/spread contribution. 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 is subject to changes based on specific events and general conditions in the financial markets.

Once a financial instrument is not classified as level 1, Belfius requires that two conditions are met for inclusion in level 2 (f.e. currency swaps, swaptions, cap/floors, foreign exchange contracts/options, and less liquid bonds):

- the model must have either passed a successful validation by the Validation department or comply with the price reconciliation process run by the Market Risk department that has been installed to test the reliability of valuations.
- the data that Belfius incorporates in its valuation models are either directly observable data (prices) or indirectly observable data (spreads).

Fair value measurements that do not fall under level 1 or do not comply with the two conditions for level 2 mentioned above, are reported as part of the level 3 disclosure. In that respect, the following parameters are within Belfius not considered to be observable: Belgian inflation, CMS spread, equity correlations (such as equity baskets, illiquid bonds, total return swaps, credit default obligations and credit default swaps).

Bonds traded in inactive markets are valued using valuation techniques. To price its portfolio of illiquid bonds, Belfius uses modelled spreads on a mix of fundamental (or "through-the-cycle") information and information from the market (or "point-in-time"). In line with continuous market evolutions, Belfius continues to refine its calculation methodologies for the determination of market-derived spreads (mark-to-model) by means of a method based on cross-sections on a large universe of bonds and CDS spreads.

A regular back testing of the Belfius Mark-to-Model is based on the comparison between model spreads and (as good as it gets) market information (even if illiquid and/or potentially less relaible) for illiquid positions which are fair valued in mark-to-model. A comparable exercise is also done on model spreads through a market challenging. Model spreads and (assumed) market spreads are compared on a monthly basis across different risk dimensions such as the rating, maturity and sectors.

Derivatives are valued at mid-market prices for which, again, the former described cascade (level 1, 2, 3) is applied. For level 2 fair values, Belfius uses observable market parameters and valuation models that are in line with the market practices. The discount interest rate curve takes account of any collateral agreements.

Following additional value adjustments are also applied within Belfius:

- Unearned credit spread: this value adjustment takes account of the possibility that a counterparty might default and part of the fair value cannot be recovered (Credit Value Adjustment) and of the creditworthiness of Belfius (Debit Value Adjustment). The Unearned credit spread is calculated both on collateralized and non collateralized derivatives. For collateralized derivatives with standard ISDA/CSA agreements, the unearned credit spread is calculated taking into account the Margin Period of Risk and the collateral exchanged. For uncollateralized derivatives an estimation is made of the expected exposures, by forecasting the future fair value of the derivative in line with market practice. These expected exposures are then multiplied by an expected loss indication. Seeing that the majority of these expected losses are not directly observable in the market, Belfius uses market-derived spreads on a mix of fundamental (or "through-the-cycle") information and information from the market (or "point-in-time"). These spreads are determined by means of a method based on cross-sections on a large universe of bonds and CDS spreads.
- Close-Out Costs: 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 so that the valuation will be closer to the exit price.
- 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 and corresponding derivatives.

Financial instruments measured at amortised cost (having valuations at fair value in IFRS disclosures)

This item relates to financial instruments reclassified from trading or AFS to L&R. As a response to the financial crisis, the IASB issued on 13 October 2008 an amendment to IAS 39 allowing for the reclassification of certain illiquid financial assets. Belfius decided to benefit from this opportunity to reclassify assets for which no active market, nor reliable quoted prices, were at that time no longer available.

Financial instruments classified in Held to Maturity and Loans and Advances since inception (having valuations at fair value in IFRS disclosures)

The fair value of loans and advances, including mortgages loans and Held to Maturity instruments, is determined using the following valuation principles.

General principles:

- the carrying amount of loans maturing within 12 months is assumed to reflect their fair value;
- for bonds the valuation is done in the same way as bonds classified in AFS.

Interest-rate part:

- the fair value of fixed-rate loans and mortgage loans reflects interest-rate movements since inception;
- loans with an adjustable rate are priced using the corresponding forward rates increased with the contractual margin;
- market or model values for caps, floors and prepayment options are included in the fair value of loans and receivables;
- the fair value of variable-rate loans (f.i. 3M euribor) is assumed to be approximated by their carrying amounts;
- a correction for the credit risk is also included in the fair value;
- the future potential prepayment rate has been approximated by taking into account an internal estimate.

A. Quantitative information on significant unobservable data (level 3)

If the fair value of a financial instrument is determined based on valuation techniques using inputs that are not based on observable market data, alternative assumptions may impact the own funds and the result.

Financial instrument	Non-observable items	Difference with alternative assumptions	Impact in P&L or equity of alternative assumptions (in millions of EUR)
OTC swaps on Belgian inflation	Expectations in Belgian inflation	+30 bps	-3.89
OTC derivatives on CMS spread	Correlation between CMS interest rates	+10%	0.54
OTC swaps Bermudian Feature	Mean Reversion	1%	0.94
Collateralised Debt Obligation	Credit spread	-10 bps	-3.25
Credit Default Swap	Credit spread	-10 bps	+1.11
Illiquid bonds	Credit spread	-10 bps	+7.15

B. Valuation process

The market risk department determines the fair value level for each transaction. Seeing that the market risk department provides all market data, it has the expertise with respect to observability. In addition, the market risk department has a clear view on the validation status and the reliability of the models used.

C. Transfers between valuation levels

Transfers between valuation levels may occur if the observability of the input data has changed or the observability of the instrument itself or when a model becomes validated.

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 2015 nor in 1H 2016.

More specifically, as Belfius sells plain vanilla products, like Interest Rate Swaps (IRS) or complex products (like structured transactions) which are hedged in the market in line with market risk limits and framework, the resulting day one profit is recognized up-front. Only a few transactions of non material amounts have non observable parameters, consequently the Deferred DOP is immaterial.

9.2. Credit risk exposure

(refers to table 9.2 of the annual report)

1. Analysis of total credit risk exposure

The definition of Maximum Credit Risk Exposure "MCRE" is completely in line with our risk management measure FEAD – Full Exposure At Default, as used in our Pillar 3 report, and is determined as follows:

- → for balance sheet assets (except for derivatives): the gross carrying amounts (before impairment);
- → for derivatives: the fair value of derivatives increased with the potential future exposure (calculated under the current exposure method or add-on);
- → for reverse repurchase agreements: the carrying amount complemented by the excess collateral provided for repurchase agreements;
- → for off-balance sheet commitments: either the undrawn part of liquidity facilities or the maximum commitment of Belfius for guarantees granted to third parties (including financial guarantees given).

A. Exposure by geographical region

(In thousands of EUR)	31/12/15	30/06/16
Belgium	119,556,446	121,790,582
France	11,081,262	12,297,639
Germany	3,510,893	4,059,685
Greece(1)	419	459
Ireland	465,388	234,642
Italy	6,973,909	6,978,971
Luxembourg	748,577	804,183
Spain	5,021,690	4,690,583
Portugal	147,832	151,412
Other EU countries(2)	3,691,041	3,342,172
Rest of Europe	1,091,849	1,053,955
Turkey	169,607	123,641
United Kingdom	11,614,379	11,119,007
United States and Canada	4,203,377	5,065,835
South and Central America	560,953	526,176
Southeast Asia	502,088	488,503
Japan	674,494	460,721
Other	1,865,520	1,971,595
TOTAL	171,879,724	175,159,761

(1) The exposure on Greece mainly concerns a small number of retail loans granted to residents in Greece having economical ties to Belgium and displaying good credit stance.
(2) Includes supranational entities, such as the European Central Bank.

B. Exposure by category of counterparty

(In thousands of EUR)	31/12/15	30/06/16
Central governments	17,182,908	18,147,205
Public sector entities	51,509,503	52,252,840
Corporate	26,147,585	26,458,549
Monoline insurers	3,613,271	4,103,159
ABS/MBS	1,834,341	2,272,937
Project finance	1,807,263	2,004,587
Individuals, SME, self-employed	40,548,548	41,430,649
Financial institutions	29,197,658	28,489,835
Other	38,647	0
TOTAL	171,879,724	175,159,761

2. Credit quality of financial assets not impaired

(In thousands of EUR)	31/12/15 AAA to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	9,869,785	7,616,908	666,979	49,180	18,202,852
Financial assets designated at fair value (excluding variable income securities)	0	324,668	0	0	324,668
Financial assets held for trading (excluding variable income securities)	588,668	553,305	943	477	1,143,393
Loans and advances (at amortised cost)	36,577,777	39,116,089	15,996,223	2,066,649	93,756,738
Investments held to maturity	2,739,761	2,268,192	9,202	0	5,017,155
Derivatives	2,634,870	14,226,493	284,164	38,828	17,184,355
Other financial instruments – at cost	396,368	129,900	9,050	827,385	1,362,703
Loan commitments granted	13,015,335	7,348,422	3,594,084	258,456	24,216,297
Guarantee commitments granted	1,707,541	5,907,989	966,434	49,032	8,630,996
TOTAL	67,530,105	77,491,966	21,527,079	3,290,007	169,839,157

(In thousands of EUR)	30/06/16 AAA to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	10,230,313	7,406,509	137,485	106,971	17,881,278
Financial assets designated at fair value (excluding variable income securities)	0	348,558	0	0	348,558
Financial assets held for trading (excluding variable income securities)	1,217,276	571,133	1,197	1,668	1,791,274
Loans and advances (at amortised cost)	37,795,291	38,908,943	15,778,535	1,941,857	94,424,626
Investments held to maturity	2,975,763	2,384,239	9,326	0	5,369,328
Derivatives	3,354,139	15,884,444	307,737	41,429	19,587,749
Other financial instruments – at cost	563,928	102,270	18,251	792,131	1,476,580
Loan commitments granted	13,352,372	7,121,548	3,714,001	242,151	24,430,072
Guarantee commitments granted	1,782,853	5,160,692	855,353	48,539	7,847,437
TOTAL	71,271,935	77,888,336	20,821,885	3,174,746	173,156,902

The indicated ratings are either internal or external based. In fact, Belfius applies the AIRBA (Advanced Internal Ratings Based Approach) for the calculation of capital requirements for credit risk within the context of Pillar 1 of Basel III. Except for Asset Backed Securities (ABS) positions for which the credit risk is calculated based on external ratings (Fitch, Standard & Poors or Moody's).

3. Information on past-due or impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. This is considered on a contract by contract basis. For example, if a counterpart fails to pay the required interests at due date, the entire loan is considered as past due.

	31/12/15			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(In thousands of EUR)	≤ 90 days	> 90 days ≤ 180 days	> 180 days	
Financial assets available for sale (excluding variable income securities)	0	0	0	2,460
Loans and advances (at amortised cost)	493,278	13,663	19,566	2,033,990
Other financial instruments – at cost	0	0	0	4,811
TOTAL	493,278	13,663	19,566	2,041,261

(In thousands of EUR)	30/06/16			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	≤ 90 days	> 90 days ≤ 180 days	> 180 days	
Financial assets available for sale (excluding variable income securities)	0	0	0	1,783
Loans and advances (at amortised cost)	451,437	18,032	26,641	2,026,517
Other financial instruments – at cost	0	0	0	5,818
TOTAL	451,437	18,032	26,641	2,034,118

Past due outstandings relate mainly to retail and corporate assets. Financial assets are considered as impaired according to the accounting policies "Impairments on financial assets".

4. Forbearance

(In thousands of EUR)	31/12/15			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
			Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
Debt Instruments at Amortised cost	740,970	(104,088)	244,947	8,159
Loan commitments – given	37,694		14,833	160

(In thousands of EUR)	30/06/16			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
			Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
Debt Instruments at amortised cost	738,867	(111,577)	228,791	1,805
Loan commitments – given	26,652		2,575	38

9.3. Information on asset encumbrance and collateral received

(refers to table 9.3 of the annual report)

1. Assets

(In thousands of EUR)	31/12/15 Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	0	0	1,722,323	1,722,323
Debt securities	3,039,508	3,286,030	15,016,520	16,416,513
Loans and advances	33,839,087	33,839,087	66,585,010	66,585,010
of which cash collateral given	17,795,000	17,795,000		

(In thousands of EUR)	30/06/16 Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	0	0	1,698,120	1,698,120
Debt securities	2,662,708	2,921,569	16,697,243	18,567,338
Loans and advances	37,713,718	37,713,718	66,633,994	66,633,994
of which cash collateral given	20,470,433	20,470,433		

2. Collateral received

	As at 31 December 2015		As at 30 June 2016	
(In thousands of EUR)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	1,220,459	7,320,320	957,397	7,313,860
Equity instruments	0	263,145	0	0
Debt securities	1,220,459	7,057,175	957,397	7,313,860
Own debt securities issued other than own covered bonds or ABS	0	462,287	0	365,123

The amount of EUR 2.7 billion debt securities encumbered is composed of EUR 1.2 billion "Financial assets available for sale", EUR 0.2 billion "Investments held to maturity", EUR 0.9 billion "Loans and advances" and EUR 0.4 billion "Financial assets measured at fair value through profit or loss".

The encumbered assets of Belfius have increased compared to 2015 due to the increase of the cash collateral pledged and to the increase of the ECB funding (TLTRO).

This information on asset encumbrance was determined according to the current Belfius interpretation of the EBA definition and scope.

An asset is considered as "encumbered" if it cannot be freely withdrawn when given as pledge to secure debts or as collateral for issuances.

It includes assets that were pledged as a result of repurchase agreements, loans granted by the central banks, guarantees for the issuance of covered bonds and securitisations, the assets given under bond lending transactions and cash collateral posted under the "Credit Support Annex" (CSA) agreements.

The collateral pledged to the European Central Bank amounts to EUR 9.3 billion by the end of June 2016 (EUR 8.0 billion at the end of 2015). The increase is mainly linked to the additional participation of Belfius to the new targeted longer-term refinancing operations (TLTRO II).

This amount of assets pledged is composed of EUR 3.4 billion to collateralise the TLTRO funding of EUR 3 billion and EUR 6 billion which is available.

The assets pledged to collateralise the TLTRO funding are composed of EUR 3 billion public and mortgage loans (through securitisation vehicle Penates) and of EUR 0.4 billion bonds.

On 10 March 2016, the ECB announced a new series of four targeted longer-term refinancing operations (TLTRO II). These new operations will be conducted from June 2016 to March 2017 at a quarterly frequency. All the new operations will have four-year maturity, with the possibility of repayment after two years. The TLTRO's are designed to further enhance the functioning of the monetary policy transmission mechanism by supporting bank leding to the real economy.

Counterparties participating in a TLTRO are subject to borrowing limits based on "eligible loans". Loans that are eligbile include loans granted in the Euro area to either non-financial corporations (including non-profit organizations) and households (though excluding loans for house purchase). Loans granted to financial entities or the public sector are excluded.

At the end of 2015, Belfius had an outstanding TLTRO I participation of EUR 1.65 billion. In June 2016, TLTRO I was called by Belfius and replaced by TLTRO II. At the same time Belfius drew an additional amount of EUR 1.35 billion, resulting in a total participation in TLTRO II of EUR 3 billion.

In addition, an amount of EUR 21.9 billion of collateral is pledged for derivatives (cash + securities) at the end of 1H 2016. Securities pledged amount to EUR 1.4 billion, of which EUR 0.6 billion of AFS securities. End of June 2016, an amount of approximately EUR 16.1 billion of assets is pledged for funding purposes, of which EUR 12.8 billion loans (EUR 8.1 billion Mortgage loans and EUR 4.7 billion Public loans) are pledged for covered bonds and ABS issues.

Among the EUR 3.9 billion securities encumbered, EUR 1.5 billion are used for repo and other non-ECB collateralised deposits.

The underlying pool of loans of the covered bonds (Pandbrieven) amount to EUR 9.9 billion at the end of June 2016 (and EUR 10.2 billion at the end of 2015). This cover pool guarantees the outstanding covered bonds: EUR 6.1 billion mortgage covered bonds (versus EUR 5.5 billion at the end of 2015) and EUR 1.8 billion public covered bonds (versus EUR 1.8 billion at the end of 2015).

We refer to the chapter "Risk management" from the management report for further information.

3. Encumbered assets/collateral received and associated liabilities

	As at 31 December 2015		As at 30 June 2016	
(In thousands of EUR)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered
Carrying amount of selected financial liabilities	32,403,964	36,351,549	36,584,278	39,860,312

X. Notes on the significant changes in scope of consolidation

10.1. Significant changes in scope of consolidation

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

1. As at 31 december 2015

The real estate company Immo Zeedrift was purchased end 2014 and is fully consolidated from the beginning of 2015. The securitization vehicles Penates 7, Penates 8, Penates 9 and Penates 10 also joined the scope of consolidation.

As from 2015, Sepia is fully consolidated (previously a joint venture). Belfius Insurance has purchased on 17 August 2015, the 50% stake in Sepia from KBC Insurance and has signed a reinsurance contract whereby KBC will retain half of the risks of the Sepia insurance portfolio; as such the historical risk sharing on the portfolio continues. Note that Belfius Insurance and Sepia were merged during 1H 2016, this had no impact on the scope of the consolidation.

The company AIS Consulting was liquidated during 2015. Companies Eurco Ireland Ltd (previously Eurco Re) and IBRO Holdings Unltd were deconsolidated as they are being liquidated. In addition, Belfius Insurance has decided to activate the sale of its participation in "International Wealth Insurer" (subject to certain conditions), this had no impact on the scope in 2015.

Ecetia Finances is no longer evaluated through the equity method in 2015 because the largest part of the equity participation has been converted into a loan.

2. As at 30 June 2016

The companies Copharma Industries and Eurco Ltd were deconsolidated as they are being liquidated.

The company Belfius Investment Partners was founded on 20 May 2016 and is fully consolidated.

10.2. Acquisitions and disposals of consolidated companies

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

As at 31 December 2015 International Wealth Insurer SA was recorded as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations". There was a positive impact in result of EUR 8 mio which will be recorded in 2H 2016. We refer to note 5.7. and 6.7.

The transferred assets and liabilities were as follows:

	International Wealth Insurer (IWI) SA	
(In thousands of EUR)	31/12/15	30/06/16
Cash and cash equivalents	15,181	12,024
Loans and advances due from banks	3,583	3,583
Loans and advances to customers	10,091	9,405
Financial assets measured at fair value through profit or loss	2,631,080	2,701,232
Financial investments	662,092	632,132
Tangible fixed assets	707	640
Other assets	16,532	15,674
Customer borrowings and deposits	(7,450)	(7,324)
Financial liabilities measured at fair value through profit or loss	(2,631,080)	(2,701,232)
Technical provisions of insurance companies	(544,951)	(508,136)
Other liabilities	(59,957)	(57,439)

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)	31/12/15	30/06/16	31/12/15	30/06/16
Loans[3]	1,752	1,696	0	0
Interest income	45	21	1	0
Deposits and debt securities[3][4]	4,296	4,438	10,802	3,394
Interest expense	(10)	(4)	(20)	(1)
Net commission	0	0	113	35
Guarantees issued and commitments provided by the Group[5]	0	0	19,605	2,485
Guarantees and commitments received by the Group	3,521	2,945	0	0

	Associates		Joint ventures in which the entity is a venturer	
(In thousands of EUR)	31/12/15	30/06/16	31/12/15	30/06/16
Loans[3]	337,206	331,570	6,952	6,066
Interest income	11,149	5,099	326	24
Deposits and debt securities[3][4]	114,033	115,679	10,242	9,663
Interest expense	(416)	(123)	(3)	(1)
Net commission	21,415	5,948	66	29
Guarantees issued and commitments provided by the Group[5]	185,886	194,492	3,888	3,892
Guarantees and commitments received by the Group	70,824	71,105	14,538	14,538

(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) The figures of 2015 have been restated to include the debt securities issued by Belfius.
(5) Unused lines granted.

No impairments were recorded on loans given to related parties.

2. Dexia Real Estate Capital Markets

Dexia Real Estate Capital Markets (DRECM) was sold by Belfius in July 2010 to Dexia Holdings, Inc. (Delaware). In June 2011, DRECM was sold by Dexia Holdings, Inc. to its parent, Dexia Crédit Local SA.

Although 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 waranties.

A. The purpose and context of the comfort letters

In the framework of three Commercial Real Estate Mortgage Loans securitisation operations in which DRECM is 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 has given 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 is a kind of operational ongoing obligation of DRECM and DRECM is 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. has 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 DRECM. It is only in case 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 Dexia Holdings Inc.(Delaware) on 16 July 2010, these comfort letters are still in place. However, we believe that the risks for Belfius are extremely remote, since only one repurchase demand is outstanding (and being contested by DRECM), no previous transactions have led to any repurchases, and DRECM is sufficiently capitalized to meet its contractual obligations.

Belfius Bank NV/SA
Report on review of the condensed consolidated interim financial statements for the six-month period ended 30 June 2016

To the Board of Directors

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 2016, 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 NV/SA ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting* as adopted by the European Union.

The condensed consolidated interim balance sheet shows total assets of 188,004 million EUR and the condensed consolidated interim statement of income shows a consolidated profit (group share) for the period then ended of 249 million EUR.

The Board of Directors of the company is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with IAS 34 – *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review of the condensed consolidated interim financial statements in accordance with International Standard on Review Engagements (ISRE) 2410 – *Review of interim financial information performed by the independent auditor of the entity.* A review of interim financial 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 condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Belfius Bank NV/SA have not been prepared, in all material respects, in accordance with IAS 34 – *Interim Financial Reporting* as adopted by the European Union.

Diegem, 30 August 2016

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
SC s.f.d. SCRL
Represented by

Philip Maeyaert

Bart Dewael

Additional information

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Company number
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FSMA number
19649 A

Website
www.belfius.be
www.belfius.com

Complaints

If you encounter a problem, you can take it initially to your branch or your relationship manager. If your problem is not resolved, then contact the Complaints department:

Belfius Bank
Complaints department – RT 15/14
Boulevard Pachéco 44
B-1000 Brussels
E-mail: *claim@belfius.be*

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

Belfius Bank
Negotiation department – RT 15/14
Boulevard Pachéco 44
B-1000 Brussels
E-mail: *negotiationclaims@belfius.be*

If you are a natural person acting in a private capacity and you are not satisfied with the responses you have received from the bank's official bodies mentioned above, you can take your complaint to the Ombudsman in financial conflicts if it relates to banking products:

Ombudsman in financial conflicts
North Gate II
Boulevard du Roi Albert II 8, boîte 2
B-1000 Brussels
Tel.: +32 2 545 77 70
Fax: +32 2 545 77 79
E-mail: *Ombudsman@Ombudsfin.be*

For insurance products, you can take your complaint to the Insurance Ombudsman:

Insurance Ombudsman
Square de Meeûs 35
B-1000 Brussels
E-mail: *info@ombudsman.as*

Abbreviations

Acronym	Definition
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
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
SREP	Supervisory Review and Evaluation Process
T-LTRO	Targeted Long-Term Refinancing Operations
VaR	Value at Risk

Contact

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

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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