RISK REPORT 2017

Belfius
Bank & Insurance

CONTENTS

SUMMARY OF RISK PROFILE

Ratios[1]	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017
Return on equity (ROE)	6.1%	6.0%	6.3%	6.4%	7.0%
Return on assets (ROA)	0.22%	0.24%	0.27%	0.30%	0.35%
Cost-income ratio (C/I ratio)	77.6%	69.9%	63.9%	60.5%	58.1%
Asset quality ratio	2.36%	2.33%	2.29%	2.54%	1.99%
Coverage ratio	53.6%	56.0%	57.1%	54.4%	63.3%
Liquidity Coverage Ratio (LCR)	120%	122%	132%	127%	130%
Net Stable Funding Ratio (NSFR)	N/A	100%	108%	110%	116%

Solvency ratios	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017
CET1-ratio Phased In[2]	13.8%	14.7%	15.9%	16.6%	16.1%
CET 1-ratio Fully Loaded[2]	11.5%	13.2%	14.9%	16.1%	15.9%
Total capital ratio Phased In[2]	15.1%	16.1%	17.7%	19.4%	18.6%
Total capital ratio Fully Loaded[2]	12.5%	14.3%	16.2%	18.4%	18.1%
Leverage ratio Phased In	N/A	N/A	5.3%	5.4%	5.6%
Leverage ratio Fully Loaded	N/A	N/A	4.9%	5.3%	5.5%
Solvency II (before dividend)	N/A	N/A	209%[3]	217%	230%
Solvency II (after dividend)	N/A	N/A	199%[3]	207%	219%

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

Regulatory Risk Exposure (Phased In) (In millions of EUR)	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017
TOTAL	52,938	49,512	47,026	46,730	50,620
Credit Risk	49,002	45,666	42,447	42,679	45,847
Market Risk	1,434	1,105	1,777	1,136	1,841
Operational Risk	2,502	2,741	2,802	2,915	2,932

Economic capital (In millions of EUR)	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017
TOTAL	5,360	5,761	5,575	5,683	5,792
Credit Risk	2,630	2,721	2,507	2,530	3,008
Market Risk (including price risk, interest rate risk ...)	1,548	1,711	1,947	1,886	1,624
Operational Risk	326	313	330	317	326
Underwriting Risk	392	350	433	429	503
Other Risks (prepayment, funding ...)	464	666	358	521	331

INTRODUCTION

1. MACROECONOMIC ENVIRONMENT IN 2017

The economic environment in 2017 differed quite sharply from that of 2016. Whereas the economy disappointed and was in essence marked by negative shocks last year, in 2017 the economy was mainly characterized by stronger than expected growth and no negative surprises.

The international environment in which Belgium operated was positive and conducive to a return to growth. The world economy recovered with a growth rate revised substantially upward thanks in particular to an economic rebound in the US, China and Japan. The outcome of the elections in France and the Netherlands dissipated fears of growing euroscepticism, thereby restoring confidence in European integration. Finally, the unchanged purchasing policy of the European Central Bank kept long-term interest rates at low levels, so investments were not held back.

This positive climate was reflected in a high level of confidence among consumers and producers and strong domestic demand in Belgium. Consumer spending was also up, driven by the strongly improving situation on the labour market and an increase in real income. The strong increase in the gross operating surplus and the strong international prospects fuelled corporate investments. Economic growth in Belgium is expected to rise from 1.2% in 2016 to 1.7% in 2017.

The government's financial situation improved also in the course of 2017. The debt to GDP ratio, which still stood at 105.7% in 2016, is expected to drop by 2 percentage points in 2017 owing to a positive primary balance, but also higher economic growth than the interest rate payable on government debt.

The improvement of the Belgian economy was however less pronounced than that of most other countries in the Eurogroup. This can be explained by three partially structural factors:

- The Belgian economy has registered the strongest growth of all Euro countries since the year 2000. It has therefore also suffered less from the financial crisis, so the recovery was naturally less strong than in other Euro countries.
- The growth of the real wage bill is less strong owing to wage moderation, a higher Belgian inflation and lower employment rate. The increase in consumption expenditure by households is therefore somewhat lower than in other eurozone member states.
- Public consumption grew more moderately due to the higher debt position of the Belgian government.

2. RATINGS

Between 1 January 2017 and 31 March 2018, rating agencies took the following decisions:

- In March 2017, Moody's upgraded Belfius' stand-alone Baseline Credit Assessment (BCA) to baa2 and its LT-rating to A2. The ST-rating has been upgraded from Prime-2 to Prime-1. The outlook has changed from stable to positive;
- In October 2017, S&P replaced the transitional notch with a notch for ALAC support as they believe Belfius will sustain its current capitalization and bail-in-able debt levels, hence affirming Belfius' ratings;
- In December 2017, Fitch affirmed Belfius' rating.

As of 31 March 2018, Belfius Bank's ratings are as follows:

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

(1) Intrinsic creditworthness

3. REGULATORY FRAMEWORK

Basel regulatory framework defines the capital requirements for banking institutions.

The main objectives of the capital agreement ("Basel framework") put in place by the Basel Committee on Banking Supervision are to improve the regulatory framework in order:
- to further strengthen the soundness and stability of the international banking system;
- to promote the adoption of stronger risk management practices by the banking industry; and
- to prevent any competitive regulatory inequality among internationally active banks.

In order to achieve these objectives, the Basel framework is based on three pillars:
- The first pillar – minimum capital requirements – defines the way banking institutions calculate their regulatory capital requirements in order to cover credit risk, market risk, operational risk and credit valuation adjustment (CVA). The framework provides different approaches for calculating credit risk (3 approaches: Standardised, Foundation Internal Rating-Based and Advanced Internal Rating-Based), market risk (2 approaches: Standardised Approach and Internal Model Approach) and operational risk (3 approaches: Basic Indicator Approach, Standardised Approach and Advanced Measurement Approach) and CVA (2 approaches: Standardized Approach and Internal Model Approach).
- The second pillar – supervisory review – provides the European regulators acting under the Single Supervisory Mechanism (SSM) with a framework to help them in assessing the adequacy of banks' capital to be used to cover either risks identified in the first pillar but not sufficiently covered by the Pillar 1, or other risks such as e.g. concentration risk or interest rate risk.
- The third pillar – market discipline – encourages market discipline by developing a set of qualitative and quantitative disclosures which will allow market participants to make a better assessment of capital, risk exposure, risk assessment processes, and hence the capital adequacy of the institution. The requirements of the third pillar are met by this publication.

Basel III was published in December 2010 as a response to the financial crisis. It is a global standard for bank capital adequacy, liquidity requirements and leverage ratio.

The Basel III requirements are translated into European law through the Capital Requirements Directive (CRD IV) and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR). The new regulation gradually entered into force starting on 1 January 2014, and will be fully implemented by 1 January 2019. Other elements of the Basel III agreement are however still not yet translated in the European Legislation and are currently under discussion in the CRR2 (see Equity and Capital Adequacy – 3.1.4. Impact CRR2 and finalisation of the Basel III package by Basel Committee).

While the objective of the CRR is to ensure level playing field in Europe, the CRR-CRD IV package still contains a number of national options and discretions (ONDs). At the end of 2015 the SSM launched a thorough work on ONDs in order to harmonize the ones in its remits whenever possible and to further foster the Single Rule book within the SSM.
This action led to the publication of an ECB Regulation and Guide on 24 March 2016. The ECB Regulation No. 2016/445 entered into force on 1 October 2016. The ECB has also published a guide, which is a non-binding text, immediately applicable. It aims to provide coherence, effectiveness and transparency regarding the supervisory policies that will be applied in supervisory processes within the SSM as far as the significant credit institutions are concerned.

4. IMPLEMENTATION OF THE REGULATORY FRAMEWORK

4.1. PILLAR 1

Belfius uses different approaches for the determination of its regulatory capital requirements under Basel III Pilar 1 in order to cover credit risk, counterparty credit risk (including Credit Valuation Adjustment (CVA)) market risk and operational risk.

Credit Risk

Since 1 January 2008, Belfius has been authorised to use the Advanced Internal Rating-Based Approach (AIRB Approach) for the determination of its regulatory capital requirements under Basel II Pillar 1 for credit risk and for the calculation of its solvency ratios.

Belfius has also decided to maintain a Standardised Approach for some portfolios for which this approach is specifically authorised by the Basel framework, such as small business units, non-material portfolios, portfolios corresponding to activities in run-off or to be sold or portfolios and entities for which Belfius has adopted a phased rollout of the AIRB Approach.

Under the CRR, a zero risk weight is applied in the standardised method to the debt of all Member States when it is denominated and funded in the currency of the Member State. However, a Belgian national discretion (Royal Decree of 10 April 2014) prohibits the permanent partial use of the standard method for sovereign exposures. Belfius already applies since 2008 the IRB approach to the sovereign exposures.

Market Risk
In terms of market risk, Belfius Bank calculates its capital requirements on the basis of the Internal Model Approach for general interest rate risk and foreign exchange risk and the Standardised Approach for specific interest rate risk, equity risk and commodity risk.

Counterparty Credit Risk
Belfius calculates its exposures on the basis of the Mark-to-market method (also known as Current Exposure Method). Capital requirements are calculated according to the same principles as for credit risk. The additional charge to cover the risk of mark-to-market losses on the expected counterparty risk is calculated according to the Standardised Method for CVA risk.

Operational Risk
For operational risk, Belfius Bank applies the Standardised Approach.

4.2. PILLAR 2

This ICAAP (Internal Capital Adequacy Assessment Process), applicable since the end of 2008, requires banks to demonstrate to the regulators the adequacy of their risk profile and their capital and aims at providing an overview of the internal consolidated Belfius process for assessing its Capital Adequacy in relation to its risk profile and organisation. In this context, appropriate governance has been put in place for the calculation and management of the risks and the assessment of the economic capital needs from a Risk Appetite perspective and a Capital Adequacy Statement (CAS) endorsed and signed by the management body has been communicated to regulators. Next to this ICAAP, an ILAAP (Internal Liquidity Adequacy Assessment Process) describing how Belfius monitors and assesses the adequacy of its liquidity and funding risk management has been drafted. Similarly, a Liquidity Adequacy Statement (LAS) endorsed and signed by the management body that demonstrates that Belfius Bank has an adequate management and monitoring of the liquidity and funding position and risk has also been communicated to regulators. A detailed description of the Belfius Liquidity and funding risk management framework can be found in the chapter 'Liquidity Risk'.

4.3. PILLAR 3 – DISCLOSURE POLICY

Scope of Application
The Pillar 3 disclosure requirements under the Basel capital framework are applicable to the upper level of Consolidation, Belfius Bank SA, based at Boulevard Pachéco 44, B-1000 Brussels, Belgium.

Belfius is considered a financial conglomerate, received a waiver from the National Bank of Belgium allowing it to use the Danish Compromise method. For the regulatory scope of reporting, the participation in Belfius Insurance is consequently weighted at 370%.

More information about the scope of consolidation and the list of subsidiaries and affiliated enterprises of Belfius can be found in the "Consolidated financial statements" section 10 of the 2017 Belfius Annual Report which is published along with the Risk Report at www.belfius.com.

Pillar 3 Contents
This report is in line with Circular NBB_2017_25 (based on the EBA Guideline of 14 December 2016 and Regulation (EU) No. 575/2013 (CRR)).

The required Pillar 3 disclosures are only incorporated if relevant and give a representative view of Belfius' risk profile. Therefore, Belfius Insurance figures have been included if relevant and the reporting scope is clearly indicated.

In addition, the report is also in line with Belfius' "Disclosure policy – Materiality Proprietary and Confidentiality":
- Belfius may omit one or more of the disclosures if the information provided by such disclosures is not regarded as material. Information in disclosures shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.
- Information shall be regarded as proprietary to Belfius if disclosing it publicly would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render Belfius' investments therein less valuable.

- Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

Part of the information provided within Pillar 3 is similar to the Annual Report of Belfius Bank or Belfius Insurance. In order to facilitate reading the present document, this information has been duplicated in the Risk Report.

A comparison with the previous year is included, unless this is not possible due to a change in scope or methodology.

Currency

The figures in the following tables are provided in millions of euros (EUR) unless otherwise stated.

Certain figures in this report may not tally exactly due to rounding.

Governance: approval and publication

The information provided in this report has not been subject to an external audit, but the quality of information is guaranteed by a strong process of validation within the Belfius Bank SA Management Board. In order to remain in line with the Basel III requirements, the Risk Report 2017 was also presented to the Risk Committee and Audit Committee (in joint session on 20 March 2018) and to the Board of Directors on 22 March 2018.

The decision to disclose or not to disclose some information (cf. Pillar 3 Contents) is finally taken by the Board of Directors taking into account the advice formulated by the Risk Committee and Audit Committee.

The Pillar 3 disclosures have been prepared in accordance with Regulation (EU) No. 575/2013 (CRR) and are organised on an annual basis. The next report's update is scheduled for April 2019. Nevertheless, intermediate updates will be published if considered relevant by Belfius due to significant changes in its risk profile.

This Risk Report is published in English on the Belfius website (www.belfius.com).

4.4. CROSS-REFERENCE TABLE FOR PILLAR 3 (CRR AND CRD 4)

Disclosure reference	Title	Page in Risk Report
EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories	59
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5. BELFIUS TOGETHER

Through Belfius Together, the Risk department is further enhancing the conglomerate dimension in the Risk department, aligned with the Strategy of the Group (Bank & Insurance).

During 2017, from a legal point of view, no significant changes in the organisation were made due to the regulatory obligations and constraints. However, a strong functional link was created between CRO Belfius Bank and CRO Belfius Insurance, resulting in a continuous collaboration between both CRO's.

Furthermore, in 2017 the Risk department focused on tasks where integration & cooperation was easily attainable ('low hanging fruits'). As such, several realisations were attained at different levels:
- Global Governance: the set up of a Common Risk & Underwriting Committee (Belfius Insurance) / Risk Committee (Belfius Bank) (RC-RUC);
- Risk Appetite & Capital: a group integrated Risk Appetite Framework (RAF), the alignment of Capital & Dividend Policies and Earnings at Risk;
- Stress tests on a consolidated level;
- Credit Risk: a group competence centre for internal credit risk systems & analysis for bonds, loans and mortgages, the common development of the IFRS 9 methodology and process of impairment under IFRS 9, centralised valuation prices for all bonds, the definition for group limits for Belgian corporates, International Corporates, Financials, ABS, Countries, Sovereigns, Supra-nationals & IPF and the allocation of these between Belfius Bank and Belfius Insurance;
- Regulatory: a new centralized regulatory cell covering bank and insurance risk regulation;

- Operational Risk Management, a group Information Security Steering (ISS), the execution of DRP IT incidents in 'Belfius Together' mode, the common realisation of BCP exercises, a globally designed GDPR approach at group level with local implementation and with a joint GDPR Steering Committee.

The realizations in 2017 were successful and conform with planned actions. Furthermore, there was more collaboration and exchanges over the teams and entities e.g. sharing best practices, made easier as well by the BeWoW facilities. Although there is, content wise, no one-to-one relationship possible between the teams of Belfius Bank and Belfius Insurance (as both departments are different in organization and responsibilities) a great effort was made to map tasks. This as well as the obtained better understanding and clarification of the regulatory leeway will add in pursuing further steps in 2018.

These good practices and experiences will be taken as starting point for 2018: Risk Management will tackle structural organizational changes, establishing a conglomerate vision and an efficient management of risks by both entities while ensuring quality, efficiency and expertise at all times. The expected benefits from a further alignment between Belfius Bank and Belfius Insurance are:

- Better management of risks by both entities and on conglomerate level;
- A better aligned culture: frameworks, methods and harmonized best practices;
- Better deployment of existing pool of talents; and
- More efficient use of means.

RISK MANAGEMENT GOVERNANCE

1. GOVERNANCE ARRANGEMENTS

1.1. BELFIUS GROUP

1.1.1. Governance of the Belfius Group

The general policy and strategy of the Belfius Group and the entities belonging to the Belfius Group are defined by the Board of Directors of Belfius Bank.

The different entities of the group carry on their activity following the guidelines set by Belfius Bank. The management bodies of the different subsidiaries must ensure that the implementation of the instructions of the parent company for the group's strategic orientation is in line with the rules and obligations to which the subsidiary is subject as an autonomous legal entity and, as the case may be, as a regulated institution.

In defining the group policy, Belfius Bank ensures that the interests of the various stakeholders are preserved.

1.1.2. Mediation Committee

In 2014 the Board of Directors decided to establish a Mediation Committee within the Belfius group.

1.1.2.1. Composition

The Mediation Committee is in principle composed of 3 members:
- the Chairman of the Board of Directors of Belfius Bank, who acts as Chairman;
- one independent non-executive director of Belfius Bank;
- one independent non-executive director of Belfius Insurance.

If the Chairman of the Board of Directors of Belfius Insurance is not the Chairman of the Board of Directors of Belfius Bank, the Mediation Committee will have 4 members, including the Chairman of the Board of Directors of Belfius Insurance.

As at 31 December 2017, the Mediation Committee consisted of the following members:

Chairman	**Jozef Clijsters** Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
Members	**Jean-Pierre Delwart** Independent Director Belfius Bank
	Johan Tack Independent Director Belfius Insurance

In 2017 the Mediation Committee met 4 times.

1.1.2.2. Remit

The Mediation Committee is responsible for passing opinions relating to material transactions or operations between, on the one hand, Belfius Bank and its subsidiaries and, on the other hand, Belfius Insurance and its subsidiaries, or between their respective subsidiaries. Such opinions are sent to the Board of Directors of the companies concerned, which will then take a definitive decision on the planned transaction or operation.

1.2. BELFIUS BANK

The Board of Directors established various advisory committees to assist in its task, i.e. a Nomination Committee, a Remuneration Committee, an Audit Committee and a Risk Committee. These committees are exclusively composed of non-executive directors. At least one member of each advisory committee (and the majority of the members for of the Audit Committee) is independent within the meaning of Article 526ter of the Companies Code. The members of these advisory committees sit at a maximum on three of these committees. A Mediation Committee has also been established within the Belfius group.

1.2.1. Number of directorships held by the members of the board of directors

As at 31 December 2017 the directors of Belfius Bank held 45 directorships in other commercial companies (including 16 directorships in commercial companies of Belfius Group).

1.2.2. Nomination Committee

The Nomination Committee plays an advisory role and prepares decisions of the Board of Directors of Belfius Bank in relation to appointments. It also ensures the application of provisions concerning corporate governance. With a view to efficiency and consistency regarding group policy, this committee also prepares decisions of the Board of Directors of Belfius Insurance, Corona and Belfius Investment Partners in this regard.

1.2.2.1. Composition

a) General aspects

As at 31 December 2017, the Nomination Committee for Belfius Bank consisted of the following members:

Chairwoman	**Lutgart Van den Berghe**
Members	**Jozef Clijsters** Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
	Carine Doutrelepont
	Johan Tack Director of Belfius Insurance, invited as representative of Belfius Insurance

b) Independence and expertise

All the members of the Nomination Committee are non-executive directors.

- Baroness Lutgart Van den Berghe, Doctor of Economics, is managing director at Guberna and extraordinary professor at the Vlerick Business School and at the University of Ghent. She is also member of the Koninklijke Vlaamse Academie van België voor Wetenschappen en Kunsten.
- Mr Jozef Clijsters, Master in Applied Economics, is Chairman of the Board of Directors of Belfius Bank and of Belfius Insurance.
- Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and extraordinary professor at the Université Libre de Bruxelles. She is also member of the Académie Royale des Sciences, des Lettres et des Beaux-Arts de Belgique.
- Mr Johan Tack, Master in Economics, is currently Director and advisor in the banking and insurance sector. Johan Tack is invited to the meetings of the Nomination Committee as representative of Belfius Insurance.

At least one member of the Nomination Committee (in this case, Mr Jozef Clijsters) must sit on the Board of Directors of Belfius Insurance.

Two of the three members of the Nomination Committee are independent directors within the meaning of Article 526ter of the Companies Code.

Two members have professional experience in the financial sector.

One of the members also sat on the Nomination and Remuneration Committee of a listed company.

All the members have professional experience as executive director and additional professional experience as non-executive directors in various sectors of activity.

Consequently, the members of the Nomination Committee have the required skills, on the basis of their education and professional experience, to give a competent and independent judgement on the composition and operation of the Bank's management bodies, in particular on the individual and collective skills of their members and their integrity, reputation, independence of spirit and availability.

1.2.2.2. Remit

The Nomination Committee:

- identifies and recommends, for the approval of the General Meeting of Shareholders or of the Board of Directors as the case may be, candidates suited to filling vacancies on the Board of Directors, evaluates the balance of knowledge, skills, diversity and experience within the Board of Directors, prepares a description of the roles and capabilities for a particular appointment and assesses the time commitment expected.
  The Nomination Committee also decides on a target for the representation of the underrepresented gender within the Board of Directors and prepares a policy on how to increase the number of underrepresented gender in order to meet that target;
- periodically, and at least annually, assesses the structure, size, composition and performance of the Board of Directors and makes recommendations to it with regard to any changes;
- periodically, and at least annually, assesses the knowledge, skills, experience, degree of involvement and in particular the attendance of members of the Board of Directors and advisory committees, both individually and collectively, and reports to the Board of Directors accordingly;
- periodically reviews the policies of the Board of Directors for the selection and the appointment of members of the Management Board, and makes recommendations to the Board of Directors;
- prepares proposals for the appointment or mandate renewal as the case may be of directors, members of the Management Board, the Chairman of the Board of Directors and the Chairman of the Management Board;
- assesses the aptitude of a director or a candidate director to meet the criteria set forth for being considered as an independent director;
- examines questions relating to problems with the succession of directors and members of the Management Board;
- establishes a general and specific profile for directors and members of the Management Board;
- ensures the application of provisions with regard to corporate governance;
- prepares proposals for amendments to the internal rules of the Board of Directors and the Management Board;
- assesses the governance memorandum and if necessary proposes amendments;
- checks compliance of corporate values;
- at least annually discusses and analyses the quantitative statement and qualitative analysis of communications regarding stress, burn-out and inappropriate behaviour at work and actions taken to remedy situations.

In performing its duties, the Nomination Committee ensures that decision-taking within the Board of Directors is not dominated by one person or a small group of persons, in a way which might be prejudicial to the interests of the Bank as a whole.

The Nomination Committee may use any types of resources that it considers to be appropriate to the performance of its task, including external advice, and receives appropriate funding to that end.

In 2017 the Nomination Committee met 5 times.

1.2.2.3. Recruitment policy

a) Requirements associated with the position of director / member of the Management Board

Each director / member of the Management Board must, on his or her appointment and for the entire term of his or her mandate, have the expertise and professional integrity required to perform his or her tasks. In this framework a position profile has been established by the Bank. Moreover, the Bank periodically makes an assessment of the aptitude of directors, members of the Management Board and members of the advisory committees.

In accordance with the applicable regulation, every director must, without being prompted to do so, notify the Bank about elements that may have an impact on his or her required expertise and professional integrity to exercise his or her function as a director.

b) Procedure for appointment / renewal of mandate

Directors

Directors are appointed by the General Meeting of Shareholders (or by the Board of Directors if a director is co-opted) on a proposal from the Board of Directors, after obtaining the opinion of the Nomination Committee. The appointment or renewal of the mandate of a director must be approved in advance by the regulator (ECB & NBB).

The Nomination Committee prepares proposals for appointments, co-opting or renewal of the mandate of directors.

On the renewal of a director's mandate, the Nomination Committee will make an assessment of his or her participation within the Board of Directors and ensure that there are no new elements liable unfavourably to impact the aptitude of the director to perform a new mandate. The Nomination Committee will also make sure, based on a competence matrix, that the Board of Directors has sufficient competencies within its ranks to be able to realise the strategy and to deal with future challenges. The Committee will then send an opinion to the Board of Directors.

On a first appointment or mandate renewal, the Chairman of the Board of Directors and the Nomination Committee will ensure that the Board of Directors and the General Meeting of Shareholders have sufficient information with regard to the candidate director to be able to assess whether the latter has the expertise and professional integrity required to perform these tasks.

Members of the Management Board

The Chairman and members of the Management Board are appointed by the Board of Directors from among the directors who have acquired professional experience in the banking and financial sector, on presentation by the Management Board, after obtaining the opinion of the Nomination Committee and the approval of the regulator (ECB & NBB).

As for the Chairman of the Management Board, his or her appointment will be on presentation by the Management Board, after consultation with the Chairman of the Board of Directors.

1.2.2.4. Diversity policy

A diverse Board of Directors includes differences in background, language, gender, age, professional skills relevant for Belfius. These differences are considered in determining the optimum composition of the Board of Directors and when possible should be balanced appropriately.

The Nomination Committee reviews and assesses Board of Directors' composition on behalf of the Board of Directors and recommends the appointment of new directors. In reviewing Board of Directors' composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background on the Board of Directors.

In identifying suitable candidates for appointment to the Board of Directors, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board of Directors.

The Nomination Committee also conducts the annual review of Board of Directors' effectiveness. As part of the annual performance evaluation of the effectiveness of the Board of Directors, Advisory Committees and individual directors, the Nomination Committee will consider the balance of skills, experience, independence and knowledge of Belfius Bank on the Board of Directors and the diversity representation of the Board of Directors.

Furthermore, at its meeting on 25 August 2015, the Nomination Committee set a target to be achieved with regard to gender representation on the Board of Directors and established a policy aimed at increasing the number of members of the currently under-represented gender in order to achieve that target.

In accordance with legal requirements (Article 518bis of the Companies Code) the Nomination Committee has set a target of achieving and maintaining a minimum of one-third representation of the other sex on the Board of Directors (Management Board included) as of 1 January 2019. For the application hereof, the required minimum number of members of the other sex will be rounded off to the nearest whole number.

Should the number of directors of the other sex be smaller than one third, the next ordinary general meeting will compose a Board of Directors that will meet this requirement.

The Nomination Committee discusses annually the evolution towards the objective for achieving diversity on the Board of Directors and makes recommendations to the Board of Directors for adoption.

As at 31 December 2017, the Board of Directors and the Management Board were composed as represented in the table below.

Board of Directors	Number of members	15
	Ratio of men to women	80% / 20%
	Independent directors	8
	Main degree qualifications (several people may have more than one degree)	Economics / Business Administration / Finance / Law / Engineering / Mathematics / Actuarial Sciences
Management Board	Number of members	6
	Ratio of men to women	100%/0%
	Main degree qualifications (several people may have more than one degree)	Engineering (commercial, civil) / Economics / Business Administration / Finance / Mathematics / Actuarial Sciences

1.2.3. Remuneration Committee

The Remuneration Committee plays an advisory role and prepares decisions of the Board of Directors of Belfius Bank regarding remuneration. With a view to efficiency and consistency regarding group policy, this committee also prepares decisions of the Board of Directors of Belfius Insurance, Corona and Belfius Investment Partners in this regard.

1.2.3.1. Composition

a) General aspects

As at 31 December 2017, the Remuneration Committee for Belfius Bank consisted of the following members:

Chairwoman	**Lutgart Van den Berghe**
Members	**Jozef Clijsters** Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
	Carine Doutrelepont
	Johan Tack Director of Belfius Insurance, invited as representative of Belfius Insurance

b) Independence and expertise

All the members of the Remuneration Committee are non-executive directors.

- Baroness Lutgart Van den Berghe, Doctor of Economics, is managing director at Guberna and extraordinary professor at the Vlerick Business School and at the University of Ghent. She is also member of the Koninklijke Vlaamse Academie van België voor Wetenschappen en Kunsten.
- Mr Jozef Clijsters, Master in Applied Economics, is Chairman of the Board of Directors of Belfius Bank and Belfius Insurance.
- Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and extraordinary professor at the Université Libre de Bruxelles. She is also member of the Académie Royale des Sciences, des Lettres et des Beaux-Arts de Belgique.
- Mr Johan Tack, Master in Economics, is currently Director and advisor in the banking and insurance sector. Johan Tack is invited to the meetings of the Remumeration Committee as representative of Belfius Insurance.

At least one member of the Remuneration Committee (in this case, Mr Jozef Clijsters) must sit on the Board of Directors of Belfius Insurance.

Two of the three members of the Remuneration Committee are independent directors within the meaning of Article 526ter of the Companies Code.

Two members have professional experience in the financial sector.

One of the members also sat on the Nomination and Remuneration Committee of a listed company.

All the members have professional experience as executive directors and additional professional experience as non-executive directors in various sectors of activity.

Consequently, the members of the Remuneration Committee have the required skills, on the basis of their education and professional experience, to give a competent and independent judgement on remuneration policies and practices and on the incentives created for managing risks, capital and liquidity of the Bank.

c) Collaboration and interaction with other advisory committees of the Board of Directors
In order to perform its tasks correctly (cf. also infra), in 2017 the Remuneration Committee interacted regularly with the Risk Committee and the Audit Committee.

The Risk Committee ensures that the Belfius group's risk management, capital requirements and liquidity position, as well as the probability and the spread in time of profit is correctly taken into consideration in decisions relating to remuneration policy.

Within Belfius Bank, this is reflected by the formulation of an opinion on a global "Risk Gateway" (cf. infra: Strategy guidelines approved by the Board of Directors in accordance with regulations) and by the establishment and assessment of Key Risk Indicators on an annual basis. Their preparation is undertaken by the Risks divisions, in collaboration with the Human Resources division.

The Audit Committee contributes to the establishment of objectives for the independent control function of the General Auditor.

The audit department at Belfius Bank will provide an independent and regular analysis of the remuneration policy and its practical implementation. In 2017, such a follow-up study was realised. The results of this study are also presented to the Remuneration Committee. The audit that took place in 2017 did not raise any particular comments.

1.2.3.2. Remit

The Remuneration Committee prepares the decisions of the Board of Directors by inter alia:
- developing the remuneration policy, as well as making practical remuneration proposals for the chairman, the non-executive members of the Board of Directors and the members of the advisory committees under the Board of Directors. The Board of Directors submits these remuneration proposals to the Ordinary General Meeting of Shareholders for approval;
- developing the remuneration policy, as well as making practical proposals for the remuneration of the chairman of the Management Board and, on his proposal, for the remuneration of the members of the Management Board. The Board of Directors then determines the remuneration of the chairman and the members of the Management Board;
- providing advice on the proposals made by the chairman of the Management Board of Belfius Bank in relation to the severance remuneration for members of the Belfius Bank Management Board. On the proposal of the Remuneration Committee, the Board of Directors of Belfius Bank determines the severance remuneration of the chairman and members of the Belfius Bank Management Board;
- advising the Board of Directors in relation to the remuneration policy for employees whose activity has a material impact on the risk profile of Belfius Bank (known as "Identified Staff") and in relation to the compliance of the allocation of remuneration to Identified Staff with regard to the remuneration policy put in place for such people;
- preparing the remuneration report approved by the Board of Directors and published in the annual report;
- periodically checking to ensure that the remuneration programmes are achieving their objective and are in line with applicable conditions;
- annually assessing the performance and objectives of the members of the Management Board;
- providing an opinion of the elaboration of a global "Risk Gateway" in consultation with the Risk Committee, containing various levers applied at various points in the performance management cycle, with an impact on determination of the variable remuneration.

The Remuneration Committee exercises direct supervision over the determination of objectives and remuneration of the individuals responsible for the independent control functions (Chief Risk Officer, General Auditor and Compliance Officer).

In 2017, the Remuneration Committee met 9 times.

1.2.3.3. Remuneration

a) Introduction

a.1) Decision-taking powers

The Board of Directors decides on the remuneration of the members of the Management Board at Belfius Bank based on the advice of the Remuneration Committee and the chairman of the Management Board.

The Management Board sets the remuneration of the senior managers who may have a material impact on the risk profile of Belfius Bank, subject to the nature or level of the positions in question and/or their remuneration, within the framework of the remuneration policy. The Remuneration Committee gives advice regarding this policy and takes note of the individual information.

a.2) Remuneration policy

The remuneration policy of Belfius Bank and its subsidiaries was developed by Human Resources and the Legal Department and submitted for advice to the Remuneration Committee. The Risk Committee was also involved in developing the remuneration policy.

The remuneration policy includes on the one hand general principles applicable to all Belfius Bank employees. On the other hand, taking the principle of proportionality agreed in advance with the NBB into account, it includes specific provisions exclusively applicable to the members of the Management Board and to employees whose activity has a material impact on the risk profile of Belfius Bank (i.e. "Identified Staff"), given the nature or level of the positions themselves and/or their remuneration.

When annually updating the list of Identified Staff, Belfius Bank takes account of European Directives. The Remuneration Committee and the Risk Committee are also informed of the result of such update.

a.3) Strategy guidelines approved by the Board of Directors in accordance with regulations

Fixed remuneration forms an appreciable part of total remuneration and is designed to reward the performance of employees, taking into account their experience, education and qualifications, their duties, responsibility and the level of their position.

Limiting the portion of remuneration related to performance is intended to discourage excessive risk taking. For 2017, the proportion between fixed and variable remuneration is 30% for members of the Management Board and 25% for senior management, if performance is normal. Exceptional performance can never result in that percentage being more than 50%.

The envelope for performance-related remuneration (performances in 2017) is determined in relation to the evolution of operating results.

The policy also includes a risk gateway, which is a mechanism (ex-ante) involving the total budget for the variable remuneration of senior management being reduced in the case of a material deterioration of solvency ratios (CET 1/RWA) or liquidity ratios (LCR) under the levels fixed in the risk framework.

The performance-related remuneration is paid individually depending on the available envelope, collective results and the achievement of individual objectives.

For performances in 2017, key risk indicators (KRI) have been included in the objectives of members of the Management Board and employees whose activity has a material impact on the risk profile of Belfius Bank. The aim is to take proper account of the different types of (current and future) risks at each point in the assessment cycle: an insufficient score on one or more of such risk indicators has a negative impact on the variable remuneration.

The establishment, monitoring and assessment of these risk indicators are coordinated by the Chief Risk Officer (CRO) and submitted to the Remuneration Committee and the Risk Committee. Where appropriate, the CRO will confer with the General Auditor and the Compliance Officer and will also consult regularly with the Human Resources division.

Belfius Bank may also reduce performance-related remuneration, or even drop it to zero, in the event of poor (collective or individual) performances, taking account of the level of seniority of the employee and/or the legal basis on which that performance-related remuneration is founded.

At the end of 2015, a policy in relation to deferred variable remuneration ("deferral") was established for employees whose activity has a material impact on the risk profile of Belfius Bank. This proposal was formulated by the Human Resources division, in collaboration with the Capital & Liquidity Management, Legal and Risk divisions. This policy has been retained for 2017.

In practical terms, for employees whose activity has a material impact on the risk profile of Belfius Bank, to the extent that their performance-related remuneration exceeds the amount agreed in advance with the NBB, 50% of the remuneration will be deferred over a period of 5 years (60% if the performance-related remuneration would be higher then EUR 200,000) for members of the Management Board and their direct reports and 3 years for the others. In addition, 50% of the total variable remuneration will be paid by a financial instrument which reflects the financial health of the business. The terms of this policy are integrated in the Belfius group's remuneration policy.

The risk gateway (see above) will also be applied at the end of the first quarter in order to determine whether the deferred variable remuneration payable in that year can also effectively be paid.

If appropriate, variable remuneration may be subject to an ex-post risk adjustment via a malus or clawback.

b) Remuneration of members of the Management Board

b.1) Fixed and performance-related remuneration

The remuneration of members of the Bank's Management Board consists of a fixed part and a performance-related part.

The fixed and performance-related remuneration of members of the Management Board constitutes a whole from which are deducted any attendance fees or directors' fees paid to a member of the Management Board by a third-party company for which the member performs a mandate on behalf of Belfius Bank.

The remuneration of the Management Board is approved by the Board of Directors. The chairman and members of the Management Board do not participate in the discussions, or make decisions in this regard.

When a member of the Management Board has several mandates in the Belfius Group, part of the remuneration can be re-invoiced internally, in which case only the part at the expense of Belfius Bank will be included in the figures.

b.2) Remuneration for 2017

Remuneration of the chairman of the Management Board

Fixed remuneration

The fixed remuneration of the chairman of the Management Board amounts to EUR 575,000.

In addition, the premium for his group insurance amounted to EUR 99,980, and for other insurance policies (mainly insurance against death and disability) EUR 35,368.

The other benefits (mainly reimbursement of expenses and company car costs) in 2017 amounted to EUR 9,255.

Performance-related remuneration

The Board of Directors decided to grant to the chairman of the Management Board a performance-related remuneration of EUR 190,423 for 2017. The acquisition of this amount is spread over 7 years, provided certain conditions are met. Half of the total (deferred) performance-related remuneration is awarded in cash and the other half in a financial instrument.

An initial payment of this performance-related remuneration for 2017 (EUR 47,606) will be made at the beginning of 2018.

The acquisition of the balance of this performance-related remuneration for 2017 will be spread over the coming 6 years.

The payment of the deferred performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause.

An amount of EUR 78,181, linked to the performance in 2015 and 2016, will be paid to the chairman of the Management Board at the beginning of 2018 (the second and third payments of the performance-related remuneration based on the performances in 2015 and 2016).

On the basis of the performance-related remuneration of 2015, 2016 and 2017, provided certain conditions are met in the coming 6 years, the chairman of the Management Board may receive a deferred performance-related remuneration as follows: EUR 95,585 in 2019; EUR 57,500 in 2020; EUR 57,500 in 2021; EUR 48,202 in 2022; EUR 28,972 in 2023 and EUR 9,522 in 2024.

It is worth reiterating that every payment of (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. supra: Strategy guidelines approved by the Board of Directors in accordance with regulations).

Remuneration of the other members of the Management Board

Fixed remuneration

The fixed remuneration of the members of the Management Board (divided among 5 persons) amounts to EUR 1,660,000.

In addition, the (aggregated) premium for their group insurance amounted to EUR 277,271 (divided among the 5 members) and for other insurance policies (mainly insurance against death and disability) to EUR 112,007 (divided among the 5 members).

The other benefits (mainly reimbursement of expenses and company car costs) in 2017 (divided among the 5 members) amounted to EUR 57,736.

Performance-related remuneration
The Board of Directors decided to grant to the members of the Management Board (5 persons) a performance-related remuneration totalling EUR 569,130. Half of the respective total (deferred) performance-related remuneration for each member of the Management Board is awarded in cash and the other half in a financial instrument.

The acquisition of this amount is spread over 7 years, provided certain conditions are met.

An initial payment of this performance-related remuneration for 2017 to the members of the Management Board (EUR 142,282 divided among the 5 members) will be made at the beginning of 2018.

The acquisition of the balance of this performance-related remuneration for 2017 will be spread over the coming 6 years.

The payment of the (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. supra: Strategy guidelines approved by the Board of Directors in accordance with regulations).

An amount of EUR 233,235, linked to the performance in 2015 and 2016, will be paid at the beginning of 2018 (the second and third payment of the performance-related remuneration based on the performance in 2015 and 2016), divided among the five members of the Management Board.

On the basis of the performance-related remuneration of 2015, 2016 and 2017, provided certain conditions are met in the coming 6 years, the members of the Management Board may receive a deferred performance-related remuneration as follows: EUR 284,926 in 2019; EUR 171,100 in 2020; EUR 171,100 in 2021; EUR 143,764 in 2022; EUR 86,676 in 2023 and EUR 28,459 in 2024.

It is worth reiterating that every payment of (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. supra: Strategy guidelines approved by the Board of Directors in accordance with regulations).

Option plans
Belfius Bank has no option plan. During 2017, no option was granted to members of the Management Board, nor exercised by the latter.

In accordance with Article 450 of Regulation No. 575/2013 Belfius Bank declares that no remuneration of more than EUR 1 million was allocated to any employee of Belfius Bank in 2017.

In 2017, no exceptional bonus was granted within the context of a recruitment and no severance remuneration was paid to members of the Management Board.

c) Remuneration of employees whose activity has a material impact on the risk profile of Belfius Bank (excluding the members of the Management Board and the members of the Board of Directors)
Fixed remuneration
The fixed remuneration paid in 2017 to the members of staff concerned (173 members of staff at the end of 2017) was EUR 21,941,346.

Performance-related remuneration for the year 2016
A total amount of EUR 6,001,219 was allocated to the members of staff concerned as performance-related remuneration for the year 2017. The entirety of this amount was paid in 2018 since none of those members of staff received performance-related remuneration for 2017 above the amount agreed in advance with the NBB.

This amount was granted for EUR 5,717,917 in warrants[1] and for EUR 283,302 in cash.

Option plans
Belfius Bank has no option plan. During 2017, no option was granted to employees whose activity has a material impact on the risk profile of Belfius Bank, or exercised by the latter.

1 Underlying security: Candriam Equities L Europe (SICAV) Capitalisation share.

Severance remuneration
In 2017, severance remuneration was paid to 1 employee whose activity has a material impact on the risk profile of Belfius Bank.
The total amount of this payment was EUR 374,836.
Severance remuneration was granted, on the following terms:
- Paid in cash: EUR 327,136;
- Paid in financial instruments: EUR 15,900;
- Deferred payment: EUR 31,800.

It is important to reiterate that any payment of deferred severance remuneration is dependent on the annual evaluation of the financial instrument and, if applicable, may be subject to an ex-post risk adjustment via a penalty or clawback clause.
The portion already paid is subject to a clawback clause (see b.1 above).

For the year 2017, no individual (referred to point c) was awarded an exception sign-on bonus.

d) Remuneration of members of the Board of Directors (non executive directors)

The total remuneration paid to members of the Board of Directors, except the members of the Management Board (non-executive directors) for 2017 was 817,944 EUR for 48 meetings (compared with 683,492.48 EUR in 2016 for 43 meetings). This amount includes the remuneration for their mandate as directors (a fixed amount, which is identical for all members of the Board of Directors, except for the chairman), as well as their fees for attending the Board meetings and the various advisory committees (a fixed amount for each meeting attended, varying for the members of the meeting, on the one hand, and for the chairman, on the other).

The Board of Directors will propose to the 2018 ordinary general meeting that the remuneration paid for directors' mandates and the fees for attending meetings be brought back to the fees that applied prior to 1 July 2013. All of the conditions for doing so (including the financial and economic health of the company, core equity, etc.) have clearly and structurally been fulfilled.

The non executive directors do not receive a performance-related remuneration or options.

The chairman of the board has a company car at his disposal.

The chairman and the members of the Management Board do not receive any indemnity for attending the meetings of the Board of Directors.

Number of meetings and renumeration for each non executive director in 2017(1)

Name	Mediation Committee (2 meetings)	Board of Directors (17 meetings)	Risk Committee (9 meetings)	Audit Committee (9 meetings)	Appointments Committee (4 meetings)	Remuneration Committee (7 meetings)	Total remuneration (in EUR)
DOUTRELEPONT CARINE		15			4	6	66,600
DELWART JEAN-PIERRE	2	15					51,300
CLIJSTERS JOS	2(2)	17(2)			4	7	240,300
HEBNER GEORGES		17	8	9(2)			96,300
VAN DEN BERGHE LUTGART		17			4(2)	7(2)	90,000
SUNT CHRIS		16	8	8			76,500
BODART PAUL		16		9			65,700
VANDER VENNET RUDI		17	9(2)				81,000
BLATON ELS		6					18,294
ROSEN DIANE		10	2				31,950
							817,944

(1) 2017 also saw the organization of 4 days of training for non executive director, for which no remuneration was paid.
(2) President

1.2.4. Audit Committee

1.2.4.1. Composition

a) General aspects

As at 31 December 2017, the Audit Committee for Belfius Bank consisted of the following members:

Chairman	Georges Hübner
Members	Paul Bodart
	Chris Sunt

b) Independence and expertise

The Audit Committee must have at least one independent director with the individual expertise required in accountancy and/or audit. The majority of the members of the Audit Committee members must be independent directors. The chairman of the Committee is appointed by its members. Furthermore, the members of the Audit Committee must have collective expertise in the fields of banking as well as accountancy and audit.

The Audit Committee of Belfius Bank consists of three non-executive directors, all three are independent directors, namely Mr Georges Hübner, Mr Paul Bodart and Mr Chris Sunt.

Mr Georges Hübner, who holds a degree in Business Administration and a PhD in Management, is Full Professor in Finance at the HEC Liège, University of Liège and Associate Professor at the University of Maastricht. Inter alia he was a member of the college of experts appointed by Parliament following the financial crisis. He has professional experience in accountancy and audit acquired in his activities in education, expertise and chairmanship of qualifying examination boards for the Certified Auditors Institute (IRE/IBR).

Mr Paul Bodart, an engineer holding the degree of Master of Business Administration, is a Professor at the Solvay Business School. He has professional experience in accounting and audit acquired in particular in the tasks he performs as a member of the Audit Committee of the National Settlement Depository, Russia's central depository, and those he performed as chairman of the Audit Committee and a member of the Risk Committee of Dexia and of Dexia Crédit Local and as a member of the Audit Committee of Euroclear Bank. Moreover, he has considerable experience in the banking and finance sectors, in particular the executive functions (specifically, he was CEO of the Belgian banking subsidiary of the Bank of New York Mellon Group, responsible for group operations in the euro zone).

Mr Chris Sunt holds a law degree. In his capacity as a lawyer specialised in finance law for more than 30 years, he has also acquired relevant experience in accountancy and audit.

Consequently, the Audit Committee has had and has at least one independent director with the individual expertise required in accountancy and/or audit as well as the required collective expertise in the field of banking, accountancy and auditing.

1.2.4.2. Tasks and remit

The Audit Committee assists the Board of Directors in its task of carrying out prudential controls and exercising general supervision in a broad sense.

a) Financial reporting

The Audit Committee monitors the integrity of the financial information provided by the company, in particular by evaluating the accounting standards used including the criteria governing the scope of the consolidation. The Audit Committee's supervision also extends to the follow-up of regular financial information before its submission to the Bank's Board of Directors.

The Audit Committee monitors the process of establishing financial information and makes recommendations or proposals to guarantee its integrity.

b) Internal audit and risk management

At least once a year the Audit Committee examines the efficiency of the internal audit and risk management systems set up by the Management Board to ensure that the main risks (including the risks linked to compliance with current laws and regulations) are properly identified and managed. To that end the Management Board submits to the Audit Committee a report regarding the assessment of internal control.

During 2017, the Audit Committee took note of the reports on the outstanding legal disputes, the activities of the Compliance department, the activities of Audit and Control, the activities of the Legal department as well as the monitoring activities of the risks (e.g. credit, market, liquidity and operational risks and the risks with regard to ICT-security).

c) Functioning of internal audit

The Audit Committee assesses the operational efficiency and independence of the Internal Audit division. The Audit Committee also verifies the extent to which the management responds to the findings of the Audit department and its recommendations. In 2017, the Audit Committee examined and approved the annual business report for 2016, the audit plan for 2017 and also the audit plan 2018, and the half-year business report (1H) for 2017, as well as the half-yearly follow-up reports on the recommendations. The latest version of the Internal Audit Charter was validated on 22 January, 2018 by the Audit Committee.

d) Statutory audit

The Audit Committee provides the Board of Directors with information on the results of the legal audit of the statutory and consolidated financial statements as well as explanations as to the manner in which the legal audit of the statutory and consolidated financial statements contributed to the integrity of the financial information and as to the role played by the Audit Committee in that process.

The Audit Committee also monitors the legal audit of the statutory and consolidated financial statements, and this includes monitoring questions asked and recommendations made by the auditor.

In 2017, the Audit Committee reported to the Board of Directors on the statutory and consolidated financial statements of Belfius Bank at 31 December 2016, 31 March 2017, 30 June 2017 and 30 September 2017. After considering the comments received from the management of the Bank and the external auditors, the Audit Committee delivered a favourable opinion to the Board of Directors on the annual financial statements.

e) External audit function and monitoring of auditor's independence

The Audit Committee satisfies itself that the external auditor(s) carries (carry) out his (their) audits properly.

The Audit Committee monitors the independence of the external auditor(s) and his (their) auditing programme.

The Audit Committee makes a recommendation to the Board of Directors with regard to the appointment or renewal of the mandate of the auditor.

1.2.4.3. Functioning

The Audit Committee may demand to see any useful information or supporting evidence and may carry out any inspection it feels is necessary. To that end it calls on the services of the Internal Audit department of Belfius Bank, which reports to the President of the Management Board.

In 2017, the Audit Committee met 9 times.

The Audit Committee of Belfius Bank operates independently of the Audit Committee implemented at Belfius Insurance. The Audit Committee of Belfius Bank held jointly meetings with the Audit Committee of Belfius Insurance twice, in particular when the insurance company's annual financial statements for 2016 and the half-yearly financial statements at 30 June 2017 were presented.

During the meetings of the Audit Committee at Belfius Bank, which took place before those of the Board of Directors, the Audit Committee examined in particular the quarterly, half-yearly and annual financial statements.

The Audit Committee of Belfius Bank held 5 meetings jointly with the Risk Committee to examine the senior management report on the assessment of the internal control report 2016, the report on the risks linked to the use of valuation models, the follow-up of the implementation of the IT-security strategy, the risk management concerning the implementation of IFRS9 as of 1 January 2018, as well as the quarterly risk monitoring report.

1.2.4.4. Internal Audit

Belfius Bank has an internal audit function that meets the international standards on methodology and reporting.

The internal audit function is an independent and objective activity that provides the organisation with reasonable assurance regarding the extent to which its operations are controlled and supervised. As part of its work, the internal audit function provides recommendations for improvements and in doing so creates added value.

This means that the internal audit function helps the organisation to achieve its objectives. It does this by assessing the risk management, internal audit processes and governance processes in a systematic and disciplined manner and by making proposals designed to increase efficiency. This is done mainly by carrying out audit assignments and following up on audit recommendations.

The head of Internal Audit at Belfius Bank is responsible for internal audit on a group level (General Auditor). To this end, the head of Internal Audit at Belfius Insurance has a functional link to the General Auditor. In this way, the independence of the head of Internal Audit at Belfius Insurance vis-à-vis his/her governing bodies is combined with the use of uniform audit practices of high quality (audit planning, audit methodology, following up on audit recommendations, etc.) within the Belfius group.

1.2.5. Risk Committee

1.2.5.1. Composition

a) General aspects

As at 31 December 2017, the Risk Committee for Belfius Bank consisted of the following members:

Chairman	Rudi Vander Vennet
Members	Georges Hübner
	Diane Rosen
	Chris Sunt

Mrs Diane Rosen has been appointed a member of the Risk Committee as from 30 August 2017.

b) Independence and remit

The Risk Committee of Belfius Bank consists of four independent directors, namely Mr Rudi Vander Vennet, Mr Georges Hübner, Mrs Diane Rosen and Mr Chris Sunt.

The members of the Risk Committee must individually have the knowledge, skills, experience and aptitudes necessary to enable them to understand the Bank's risk strategy and appetite level.

- Mr Rudi Vander Vennet holds a degree in economics, an advanced master degree in finance and a PhD in economics and is currently full professor of economics and banking at Ghent University and also teaches banking and insurance at Solvay Business School (ULB). He has experience as a board member at various financial institutions, such as ASLK/CGER, NMKN/SNCI, CBHK/OCCH, Credibe and OBK Bank. He is a former member of the stakeholder group of the EBA.
- Mr Georges Hübner, who holds a degree in Business Administration and a PhD in Management, is Full Professor in Finance at the HEC Liège, University of Liège and Associate Professor at the University of Maastricht. Inter alia he was a member of the college of experts appointed by Parliament following the financial crisis.
- Mrs Diane Rosen holds a degree of Commercial Engineer and has professional experiences in Banking as well as in construction and real estate sectors. She is currently Finance Director of BAM Belgium
- Mr Chris Sunt holds a law degree. In his capacity as a lawyer specialised in finance law for more than 30 years, he has also acquired the relevant risk management experience.

The members of the Risk Committee have the individual expertise and professional experience required to define strategy regarding risk and the level of risk appetite of an institution. They have acquired the specialisation necessary in particular as directors with other institutions and/or in their university training. As a consequence, the Risk Committee has the required individual knowledge and expertise.

1.2.5.2. Remit

The Risk Committee has advisory powers and responsibilities with regard to the Board of Directors in the following areas:

- appetite and strategy regarding the Bank's current and future risks, more particularly the effectiveness of the risk management function and the governance structure to support them;
- monitoring implementation of risk appetite and strategy by the Management Board;
- allocating the risk appetite to various categories of risks and defining the extent and limits of risk in order to manage and restrict major risks;
- considering the risks run by the Bank with its customer tariffs;
- assessing activities which expose the Bank to real risks;
- supervising requirements in terms of capital and liquidity, the capital base and the Bank's liquidity situation;
- the guarantee that risks are proportional to the Bank's capital;

- formulating an opinion with regard to major transactions and new proposals for strategy activities that have a significant impact on the Bank's risk appetite;
- obtaining information and analysing management reports as to the extent and nature of the risks facing the Bank;
- monitoring the Internal Capital Adequacy Assessment Process (ICAAP) and the Recovery Plan.

1.2.5.3. Functioning

The Risk Committee meets at least once per quarter. It also meets on an ad hoc basis in relation to specific matters.

In 2017, the Risk Committee met 8 times and held 5 joint meetings with the Audit Committee and 1 joint meeting with the Risk & Underwriting Committee of Belfius Insurance.

The Risk Committee operates independently of the Risk & Underwriting Committee of Belfius Insurance. On the request of the Chairman of the Bank's committee, a joint Risk Committee of Belfius Bank and Belfius Insurance may be held. To promote sound remuneration policy and practices, subject to the tasks of the Nomination Committee and the Remuneration Committee, the Risk Committee examines whether incentives in the remuneration system take proper account of the institution's risk management, equity requirements and liquidity position, as well as the probability and distribution of profit over time.

The Risk Committee and the Audit Committee periodically exchange information in particular concerning the quarterly risk report, the senior management report on the assessment of internal control and the risk analyses performed by the Legal, Compliance and Audit Departments. The aim of this exchange of information is to enable the two committees to perform their tasks properly and to take the form of a joint meeting.

1.3. BELFIUS INSURANCE

1.3.1. Number of directorships held by the members of the board of directors

As at 31 December 2017 the directors of Belfius Insurance held 41 directorships in other commercial companies (including 28 directorships in companies of Belfius Group).

1.3.2. Nomination Committee

1.3.2.1. Introduction

On 16 February 2012 the board of directors of Belfius Bank established a Nomination Committee. All the members of this committee are non-executive directors of Belfius Bank. At least one of its members must be an independent director.

This advisory committee is also responsible for Belfius Insurance.

This committee must have the required expertise in the nomination policy.

1.3.2.2. Remit

The Nomination Committee:

- identifies and recommends, for the approval of the General Meeting of Shareholders or of the Board of Directors as the case may be, candidates suited to filling vacancies on the Board of Directors, evaluates the balance of knowledge, skills, diversity and experience within the Board of Directors, prepares a description of the roles and capabilities for a particular appointment and assesses the time commitment expected.
- periodically, and at least annually, assesses the structure, size, composition and performance of the Board of Directors and makes recommendations to it with regard to any changes;
- periodically, and at least annually, assesses the knowledge, skills, experience, degree of involvement and in particular the attendance of members of the Board of Directors and advisory committees, both individually and collectively, and reports to the Board of Directors accordingly;
- periodically reviews the policies of the Board of Directors for the selection and the appointment of members of the Management Board, and makes recommendations to the Board of Directors;
- prepares proposals for the appointment or mandate renewal as the case may be of directors, members of the Management Board, the Chairman of the Board of Directors and the Chairman of the Management Board;
- assesses the aptitude of a director or a candidate director to meet the criteria set forth for being considered as an independent director;
- examines questions relating to problems with the succession of directors and members of the Management Board;

- establishes a general and specific profile for directors and members of the Management Board;
- ensures the application of provisions with regard to corporate governance;
- prepares proposals for amendments to the internal rules of the Board of Directors and the Management Board;
- assesses the governance memorandum and if necessary proposes amendments;
- checks observance of corporate values;
- at least annually discusses and analyses the quantitative statement and qualitative analysis of communications regarding stress, burn-out and inappropriate behaviour at work and actions taken to remedy situations.

1.3.3. Remuneration Committee

1.3.3.1. Introduction

On 16 February 2012 the board of directors of Belfius Bank established a Remuneration Committee. All the members of this committee are non-executive directors of Belfius Bank. At least one of its members must be an independent director.

This advisory committee is also responsible for Belfius Insurance.

This committee must have the required expertise in the remuneration policy.

1.3.3.2. Remit

The Remuneration Committee prepares the decisions of the board of directors concerning:

- The remuneration policy of Belfius Insurance; and
- The remuneration of the chairman of the management committee and, on his proposal, the remuneration of the members of the management committee.

The Remuneration Committee checks periodically with management whether the remuneration programmes have reached their objective and are compliant with the applicable provisions.

1.3.4. Audit Committee

The Audit Committee is an advisory committee established within the ranks of the board of directors. It consists of three non-executive directors.

1.3.4.1. Composition

The Audit Committee for Belfius Insurance consists of the following members:

Chairman	**Johan Tack** Independent Director of Belfius Insurance
Members	**Chris Sunt** Independent Director of Belfius Insurance and Belfius Bank
	Johan Vankelecom Director of Belfius Insurance Member of the Management Board (Chief Financial Officer) of Belfius Bank

1.3.4.2. Independence and expertise

The Audit Committee consists of two independent directors, each of whom has the individual expertise required in accountancy and/or audit. In its current composition this committee has collective expertise in the fields of banking, accountancy and auditing.

Mr Johan Tack, who holds a degree in economics and an advanced degree in management, has professional experience in accountancy and audit acquired in particular as a director and as a member of the Audit Committee of various companies (City Hotels nv, Samsonite Corporation, Picanol nv and Quest for Growth nv), and as CEO of AON Belgium nv. He has the individual expertise required and sits on the committee as an "independent director" within the meaning of Article 526ter of the Companies Code.

Mr Chris Sunt holds a law degree. In his capacity as a lawyer specialized in finance law for more than 30 years, he has also acquired relevant experience in accountancy and audit. He has the individual expertise required and sits on the committee as an "independent director" within the meaning of Article 526ter of the Companies Code.

Mr Johan Vankelecom has experience in accountancy and audit acquired as a member of the management board of Belfius Bank nv, responsible for Finance, Tax and Legal (Chief Financial Officer).

Consequently, the Audit Committee has collective expertise in insurance, accountancy and auditing.

1.3.4.3. Tasks and remit

The Audit Committee assists the board of directors in its task of carrying out prudential controls and exercising general supervision.

a) Financial reporting

The Audit Committee monitors the integrity of the financial information provided by the company, in particular by evaluating the accounting standards used including the criteria governing the scope of the consolidation.

The Audit Committee's supervision also extends to the follow-up of regular financial information before its submission to the board of directors.

b) Internal audit and risk management

At least once a year the Audit Committee examines the efficiency of the internal audit and risk management systems set up by the management board to ensure that the main risks (including the risks linked to compliance with current laws and regulations) are properly identified and managed. To that end the management board submits to the Audit Committee a report regarding the internal control systems and risk management.

During 2017, the Audit Committee took note of the reports on the outstanding legal disputes, the activities of the Compliance department, and the activities of Audit and Control.

c). Operation of internal audit

The Audit Committee assesses the operational efficiency and independence of the Internal audit division. The Audit Committee also verifies the extent to which the management responds to the findings of the Audit department and its recommendations. In 2017, the Audit Committee examined and approved the annual business report as at 31 December 2016 and 30 June 2017, the audit risk assessment for 2017 and the audit plan for 2017-2018, as well as periodic reports on the recommendations. These reports were also approved by the Audit Committee.

d). Statutory audit of the interim and annual financial reporting

In 2017, the Audit Committee reported to the board of directors on the financial results of Belfius Insurance as at 31 December 2016 and 30 June 2017. After assessing the explanatory notes provided by the management of the company and the auditor, the Audit Committee gave a positive opinion to the board of directors on the financial results and the events which influence said results.

e) External audit function and monitoring of auditor's independence

The Audit Committee satisfies itself that the external auditor carries out his audits properly.

The Audit Committee advises the board of directors on the appointment or reappointment of the auditor by the general meeting of shareholders as well as their independence and remuneration.

The Audit Committee monitors the independence of the external auditor and his auditing programme.

f) Monitoring of the financial reporting process, the internal audit and risk management system, the annual financial statements and the independence of the auditor of Corona nv

In 2017 the Audit Committee of Belfius Insurance also assumed the role and obligations of the Audit Committee of Corona nv, a 100% subsidiary of Belfius Insurance, pursuant to CBFA (Belgian Banking, Finance and Insurance Commission) notification_2009_22 of 25 May 2009.

1.3.4.4. Operation of the Audit Committee

The Audit Committee may demand to see any useful information or supporting evidence and may carry out any inspection. To that end it calls on the services of the Internal audit department of Belfius Bank, which reports to the President of the management board.

In 2017, the Audit Committee met 8 times. During the ordinary meetings, which are held prior to the meetings of the board of directors, the Audit Committee analysed in particular the interim and annual financial data.

The Audit Committee of Belfius Bank met jointly with the Audit Committee of Belfius Insurance twice.

1.3.4.5. Internal audit

Belfius Insurance has an audit function to promote the internal supervision, see to the efficient operation, the adequacy and effective implementation of the existing audit systems, in accordance with National Bank of Belgium circular on the internal supervision and the internal audit function (circular NBB_2015_21 of 13 July 2015) and the National Bank of Belgium circular on the prudential expectations regarding the governance system for the insurance and reinsurance sector (circular NBB_2016_31 of 5 July 2016).

Through internal audit assignments and regular monitoring of the implementation of the recommendations, Internal Audit ensures that the risks that Belfius Insurance takes in the course of all its activities are duly identified, analysed and covered.

The audit function helps uphold the good reputation of Belfius Insurance and helps maintain the effectiveness and integrity of its structures and values to which it attaches particular importance.

1.3.5. Risk & Underwriting Committee

The board of directors has established a Risk & Underwriting Committee in its fold. This committee has been active since 2012.

1.3.5.1. Composition

The Risk & Underwriting Committee of Belfius Insurance consists of four non-executive directors.

Chairman	**Rudi Vander Vennet** Member of the Board of Directors of Belfius Insurance and Belfius Bank Professor
Members	**Cécile Coune** Independent Director of Belfius Insurance
	Eric Hermann Director of Belfius Insurance Member of the Management Board (Chief Risk Officer) of Belfius Bank
	Johan Vankelecom Director of Belfius Insurance Member of the Management Board (Chief Financial Officer) of Belfius Bank

1.3.5.2. Remit

The Risk & Underwriting Committee has advisory powers and responsibilities with regard to the Board of directors in the following areas:

- Assessing the risk appetite, limits and strategy of the company;
- Allocating the risk appetite to various categories of risk, and defining the extent and limits of risk in order to manage and restrict major risks;
- Assessing the insurer's risk profile in light of the performance in terms of risk appetite, trends and concentrations;
- Assessing the future-oriented management of the needs (relating to risk) and availability of capital (relating to finance) from a regulatory and economic perspective to support the corporate and risk strategy. The future-oriented management may in particular entail adjusting the business line concerning specific types and a mix of products of assets and liabilities;
- Formulating an opinion with regard to major transactions and new proposals for strategic new activities that have a significant impact on the Bank's risk appetite;
- Formulating an opinion with regard to major transactions for liabilities management when it comes to regulatory equity;
- Obtaining information and analysing management reports as to the extent and nature of the risks facing the bank, on which the committee can rely to perform its tasks, such as the:
  - quarterly risk report;
  - stress test results;
  - quarterly risk appetite indicators (including capital indicators) and the opinion relating thereto; and
  - Solvency II reporting;
- Supervising and providing advice to the board of directors on the current risk positions and future risk strategy, including the macroeconomic environment;
- Assessing the effectiveness of the risk management function, including the organizational structure and most important procedures, as well as the degree to which the risk analysis reflects the best practices in the sector and the general course of affairs;
- Formulating an opinion on the Own Risk and Solvency Assessment (ORSA) process, to ensure that it becomes a standard Risk/Finance process that is included also in the annual budgeting process;

- Analysing external risk and financial reports and studies; and
- Analysing reports on selected topics concerning risk/insurance, such as changes in the regulations which the committee should deem appropriate from time to time.

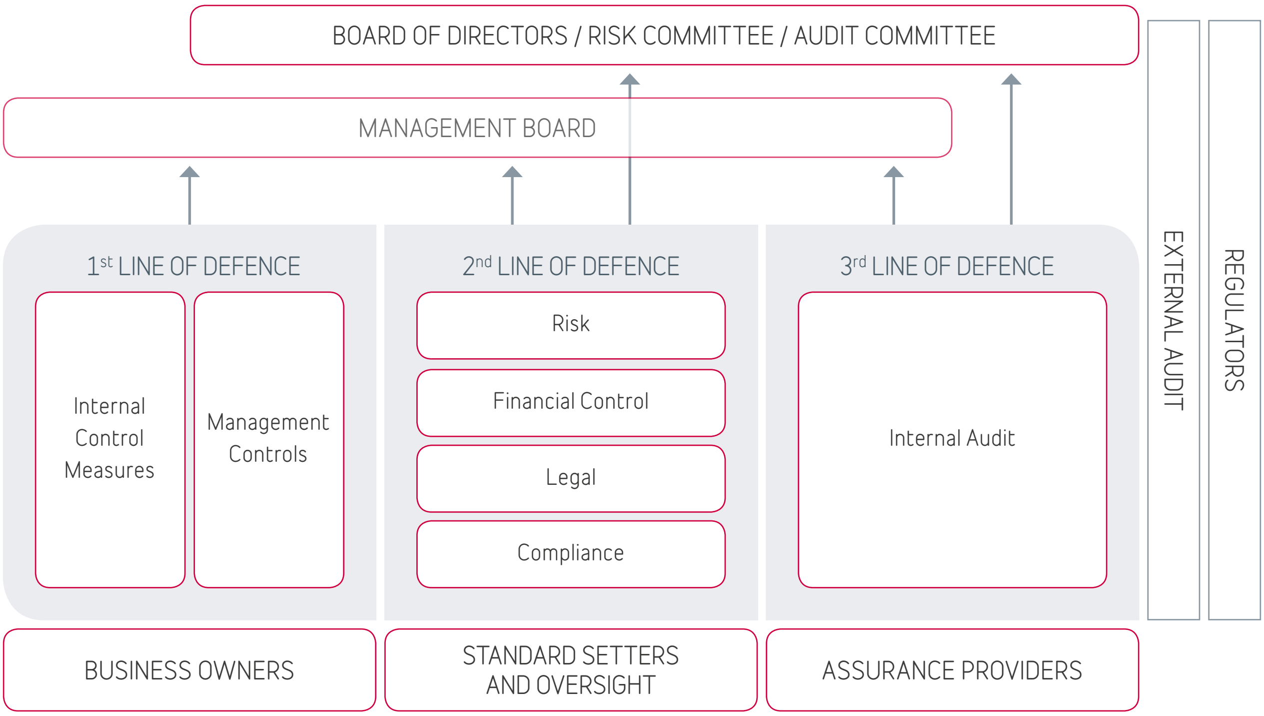
2. RISK GOVERNANCE MODEL AT BELFIUS BANK

2.1. THREE LINES OF DEFENCE MODEL

The Belfius risk management framework is based on the 3 Lines of Defence (3 LoD) model with a set of adapted and effective internal controls. The first line of defence is the responsibility of the business (& support lines when applicable) and their management as this is where the risks are taken (handled) or where the risks occur and where risks are potentially mitigated. Team members have (direct) impact on the risk profile by respecting the control environment and internal controls.

The second line of defence is the responsibility of the (transversal) control functions assured mainly but not exclusively by Risk and Compliance, which are independent from the business. The third line of defence is the responsibility of the internal audit function, which provides an independent review of the first two 'lines of defence".

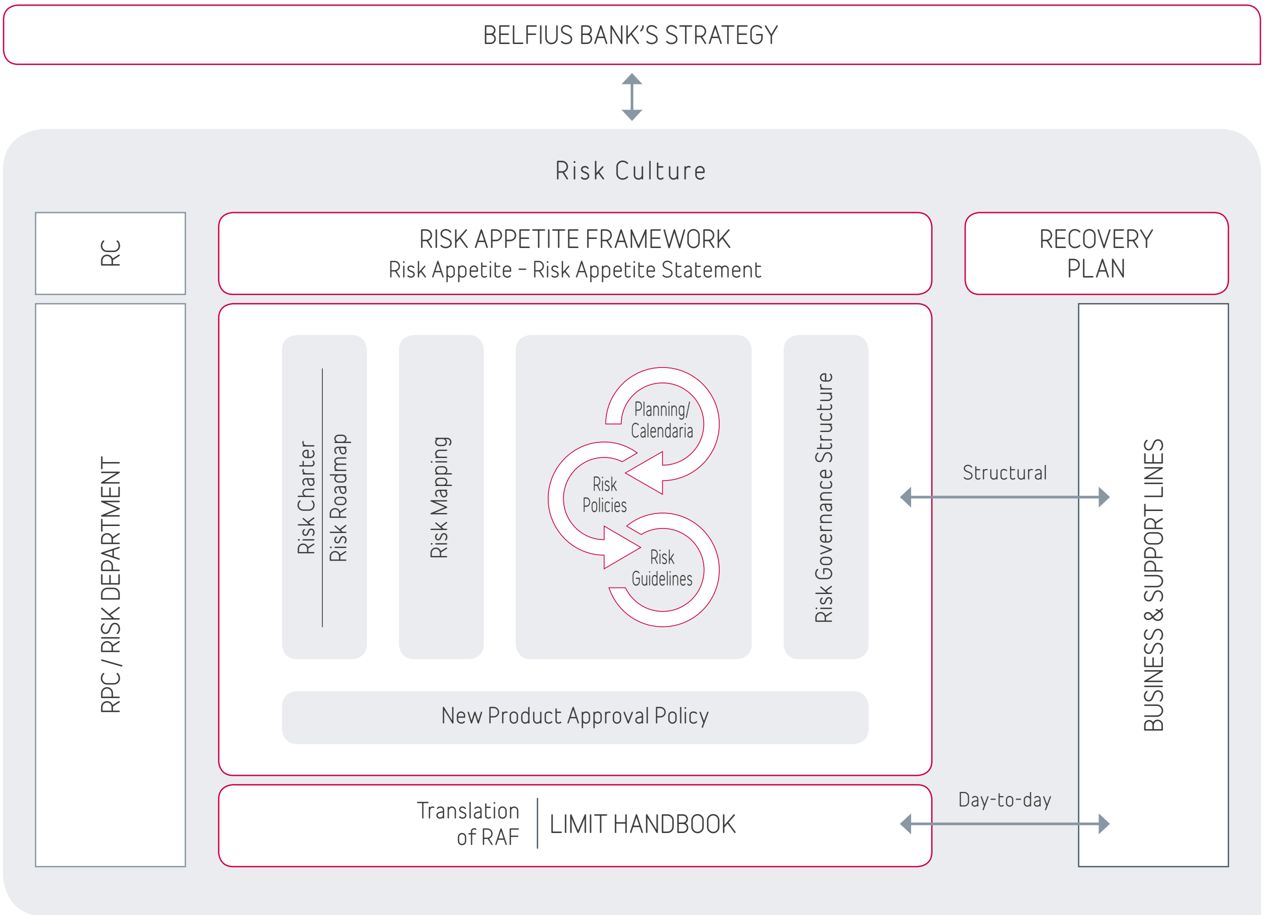
In concrete, the different roles are:
- 1st LoD: own, manage and control risk (Business Lines/Front)
- 2nd LoD: define the risk management framework (policies, guidelines, Risk Appetite Framework, ...), monitor and control risk in support of the 1st line (Risk, Financial control, Legal, Compliance)
- 3th LoD: provide independent assurance to the Board of Director and the Management Board of the effectiveness of Risk Management and Control (Internal audit)



With regards to the 3 LoD model, the Risk Mapping enables a good risk coverage as well as an enhanced ability to spot gaps and define action plans.

2.2. RISK MANAGEMENT FRAMEWORK

The risk management framework aims to implement sound, prudent and effective risk management and corporate governance (see figure below). It, composed of essential building blocks, aims to cover in a coherent way all elements needed for sound risk management. It mainly defines the interactions between the Risk department and Business.



2.2.1. The Risk Appetite Framework (RAF)

(see also Equity and Capital Adequacy – 3.3.1. Risk Appetite)

The Risk Appetite Framework is coherent with strategy and financial targets. The construction of the RAF is an iterative process where Key Risk Indicators (KRI's) and limits are checked against business strategies to see if it allows to meet financial targets. One of the key process is to ensure that the Financial Plan, which translate bank strategies into financial figures, respects the RAF limits, both in base case and in case of stress scenarios.

In concrete, the RAF:
- is the expression, at the highest consolidated level, of the risks Belfius is (not) prepared to take as a stand-alone company pursuing its own strategy and financial targets;
- applies group-wide and all (sub-)limits and risk guidelines have to be consistent with it;
- is composed of a series of quantitative and qualitative elements, designed to express the risk levels and types that are (not) acceptable, tolerated and targeted, in order to achieve the business strategy.

2.2.2. The Risk Charter

Belfius Bank has encoded the main risk principles and guidance for all stakeholders and departments involved, and more specifically for Belfius risk management in a Risk Charter.

This Risk Charter forms the backbone on which to address adequately customer needs, in order to:
- (i) provide a continuous qualitative service in a "sound partnership" (timely and adapted to the customer's needs);
- (ii) within an acceptable and desired risk profile; and

- (iii) taking into account legislation, regulation and the prescriptions of the prudential authorities. It is an essential part of a bigger picture that, based on sound risk management and corporate governance, is completed inter alia with policies and guidelines, a complete Risk Governance Structure as well as a Risk Appetite Framework (RAF) and a yearly updated Risk Roadmap document.

It gives guidance permitting management and staff members to prepare/take decisions, even when specific and adapted policies, guidelines or procedures have not yet been worked out.

The Belfius Risk Charter is summarised in "10 commandments":

1. The overall objective of the Risk department is to assure the implementation of a sound, prudent and effective risk management in a cost-effective way based on a full understanding of the risks and a swift and proactive identification of and alerting to potential risks.
2. The cornerstone of risk governance is a coherent and simple set of Belfius Risk Committees, where decisions are taken at the appropriate level, and a coherent set of up-to-date Risk Policies and Guidelines, covering all risks in their scope.
3. The Risk Appetite Framework (RAF) is the expression at the highest consolidation level of the risk Belfius is ready to take. The RAF is a key tool to monitor and limit risks and to support discussions at the highest level. It is furthermore declined in operational limits and measures.
4. The risk management function must be independent. It reports to the Management Board and to the Board of Directors through the Risk Committee.
5. Risk management is a key player in the management of the global balance between the Bank's solvency, liquidity and profitability.
6. An appropriate (global) Belfius risk culture is a key success factor of the risk management strategy. The Front Office is the Bank's first risk manager and must therefore have a common view on risk management and share the good practice (risk) principles.
7. Understanding the transaction and the customer are key risk features.
8. The New Product Approval Process is an important building block contributing to sound risk management.
9. Risk management ensures an effective process to identify, measure, monitor, assess or mitigate risk completed with timely and accurate reporting to make management aware of all the material risks and the overall risk profile in order to ensure appropriate decision-taking as well as clear risk recommendations.
10. The Risk Charter and the other essential building blocks of the risk management framework are presented to and evaluated by the adequate decision and advisory levels on an annual basis.

2.2.3. The Risk Roadmap

Via its risk roadmap, Belfius Bank fixes and communicates the overall objectives for the Risk department, its team members and its main stakeholders (Finance & Business).

The risk roadmap expresses the overall and the risk management objectives, actions and priorities of the Risk department with a focus on their implementation during the strategic/tactical plan (1-2 years time horizon) and stretches over the same horizon as the financial plan in order to achieve major progress in risk management.
It builds a strong and responsible risk culture as the main challenge and opportunity.

Strong risk management and fostering risk awareness throughout Belfius in a pragmatic way while respecting risk, business and regulatory expectations and new regulatory compliance strategy remains the core mission.

Concrete objectives have furthermore been defined and developed around 4 clusters:

- Business lines;
- Risk management function;
- Regulatory;
- Risk efficiency.

2.2.4. The Risk Mapping

- defines clear roles and responsibilities for all risk types and tasks in the Bank;
- ensures better Risk, Compliance and Audit coordination based on common risk assessment and coordinated roadmap:
- optimised framework, guaranteeing full risk coverage and redundancy avoidance;
- enhanced ability to spot gaps and optimise risk coverage: increased stakeholder confidence and better targeted resources on key risks (while avoiding redundancy).

Breaking down silos to create value: a more interconnected and consistent approach across Internal Control Functions and 3 Lines of Defence (3 LoD).

2.2.5. The Risk Governance Structure

- defines a robust set-up of Risk Committees incorporating effective communication and reporting lines with clear and consistent assignment of responsibilities and authority;
- consistently assigns roles and responsibilities to both Risk/Risk & Business Committees;
- positions decision taking (and their monitoring) at an adequate management level in a coherent way (Strategic/Tactical - Operational Committees);
- optimises committees and encourages a double signature process where possible.

2.2.6. Risk Policies & Guidelines

- an aggregated set of specific risk policies and guidelines to concretize the desired global risk management governance and culture;
- defining strategies, roles and responsibilities, concepts and objectives of an activity;
- gives clear instructions for stakeholders to be applied in a day-to-day business context.

2.2.7. New Product Approval Policy (NPAP)

The process of developing a "product, activity, process or system" involves a number of steps that must be completed before the new product can be introduced to the market. The policy establishes the overall process and the accountability of the parties involved in this process. Therefore, it defines the governance and describes the new product approval process.

The objectives of the process are the following:

- ensure that the development of a "product, activity, process or system" fits within the strategy of Belfius;
- ensure the risk acceptance (in function of the risk tolerance/appetite);
- ensure that necessary resources are available;
- ensure customer satisfaction;
- avoid unknown or unwanted risks in the future.

2.2.8. The Recovery Plan

Following the implementation of the Bank Recovery and Resolution Directive (BRRD)[2] and the Belgian Banking Law, Belfius Bank has to prepare a recovery plan, which is updated on a yearly basis. As part of the crisis management framework, the recovery plan outlines how the Bank can react to a financial stress to avoid the resolution. In this context, it aims at preparing the Bank to develop recovery measures to restore the financial strength under various types of stress scenarios. The plan is fully integrated in Belfius' Risk management framework.

The current plan includes a.o:

- various stress scenarios which cover a wide range of vulnerabilities (idiosyncratic and systemic risks or both);
- identification of impediments for the recovery and preliminary actions needed to allow for the recovery;
- a list of recovery measures to restore liquidity, capital and profitability. It also encompasses an in-depth impact assessment on Belfius.

The recovery plan is approved by the Management Board and the Board of Directors.

2.2.9. The Limit Handbook

- aims to cluster all major limits applicable within Belfius Bank in one sole document.

2.2.10. The Risk Culture

- is a policy approved by Belfius Bank which sets out the vision, strategy and responsibilities;
- is about standards, attitudes, behaviours and judgements, playing an important role in influencing the actions and decisions taken by individuals within the Bank, related to risk awareness, risk taking and risk management all within a strong risk governance;
- determines the collective ability to identify and understand, openly discuss and act on the current and future risks.

Everyone in the Bank has a role and responsibility and should be aware of and consider risk in his/her daily business (first line of defence). Issues related to risk culture are of interest to all stakeholders: from Board of Directors, Management Board and senior management to middle management and all individuals who are active in the Bank.

By making risk responsibilities more transparent within the various levels and by holding every employee accountable for his acts, risk culture and awareness are embedded in the Bank.

2 Directive 2014/59/EU

2.3. RISK GOVERNANCE STRUCTURE

A performant risk governance structure is considered as a central cornerstone to sound risk management. A robust risk committee set-up incorporates effective communication and reporting lines and a clear delineation of responsibilities and competences. Such a set-up ensures a two-way process of risk management instructions and feedback enabling senior management to execute its management and supervisory obligations.

2.3.1. Risk Committee operating within the Board of Directors: Risk Committee (RC)

(see also 1.2.5. Risk Committee)

The Risk Committee (RC) is one of the advisory committees operating within the Board of Directors. It has been established in accordance with Article 27 and Article 29 of the law on the status and supervision of credit institutions.

To promote sound compensation practices and a healthy remuneration policy, the RC examines the incentives defined in the remuneration practices in order to verify whether or not these practices take into account sound risk management principles, the capital needs and the liquidity position of the Bank, as well as the probability of profits and the spread in time of these profits.

When deemed necessary and without restrictions, the CRO can go straight to the chairman of the Risk Committee and/or the Audit Committee.

2.3.2. Risk Committees on strategic level operating within the Management Board

Three risk committees have been set up within the Management Board of Belfius Bank, prepared by the Risk department and meeting 3 to 4 times a year:

- the Risk Policy Committee (RPC) surveys the definition and the implementation of the Bank's principal risk management and measurement policies, processes and methodologies, and supervises their validation status. Its prime responsibility is to provide a risk governance that is commensurate with the risk appetite and strategy ("Risk Appetite Framework or RAF") of the Bank compliant with regulatory requirements and is in line with best practices;
- the Risk Appetite Committee (RAC) surveys Belfius' risk appetite, capital adequacy and capital allocation. It manages the economic capital and stress test framework, ensures the adequacy of this framework against the nature and complexity of the risk and business composition and supervises its practical implementation;
- the Regulatory Steering Committee surveys the Finance and Risk regulatory reform status's of Belfius Bank.

In addition to these three risk committees, two functional areas also report to the Management Board without a separate committee being set up for them. These two areas deal with credit-related topics and non-financial risks.

2.3.3. Risk Committees on tactical/operational level

The Management Board delegates certain decisions to a tactical/operational level. The details of this delegation are set out in the applicable committee charters. For matters that fall outside the jurisdiction of this delegation, the tactical/operational level provides information or puts forward opinions to the Management Board, which then decides.

The committees that are part of the tactical/operational level are committees on which the Risk department generally participates alongside business divisions. Risk committees which are steered by the Risk department focus mainly on risk appetite and methodology. Risk/Business committees which are steered jointly by the Risk department/Business focus mainly on guidelines, transactions and risks on counterparty risks. The Risk department has a veto right in many of these committees, as well as the right to bring files for decision to a higher governance level.

The Risk Executive Committee (Risk ExCom) is responsible for the day-to-day deployment of the Risk Appetite Framework of Belfius Bank as defined by the Board of Directors (RC) and/or the Management Board (RPC, RAC & Regulatory Steering Committee) and bear the ultimate responsibility of the implementation of Belfius Bank's risk roadmap.

The Assets & Liabilities Committee (ALCo): while the Management Board and the Board of Directors have the ultimate responsibility for setting the strategic risk appetite and business objectives, they delegate to the ALCo the effective ALM management within the regulatory framework. The Liquidity Management Committee has been mandated by the ALCO to take care of all aspects relating to liquidity management and steering as well as the reporting on the liquidity situation.

The Portfolio Investment Committee (PIC) acts as the central supervisory and decision body on all matters regarding the portfolio management. Its principal missions consist of approving (de-)investment transactions, reviewing portfolio strategy and performance and ensuring the alignment of portfolio management with the strategy and business objectives, set forward by FM RM and validated by the Management Board and the RC.

The Investment Committee gives advice to the Management Board regarding the acquisition of participations (equity investments) by the business lines PC, RC and FM.

The Risk Committee RCB is a platform for structural consultation and dialogue, in order to increase the involvement of all stakeholders in the strategy and the functioning of risk management RC. This includes the discussion of general and transversal items such as inter alia governance, watch list and impairment cycle, analysis and decision making process, risk projects, and so on.

The Risk Committee PCB is a platform for structural consultation and dialogue, in order to increase the involvement of all stakeholders in the strategy and the functioning of risk management PC. This includes the discussion of general and transversal items such as inter alia governance, watch list and impairment cycle, analysis and decision making process, risk projects, and so on.

The FM Risk Committee (FM RC): the prime function of the FM Risk Committee is to provide effective risk management oversight and steering of the Financial Markets activities. This includes reviewing business, risk and P/L reports and providing for an appropriate risk management and governance framework, aligned to the risk appetite and business objectives put forward by the Management Board.

In its capacity of Fair Value assessor, the FM RC acts as a body in charge of "Fair Value Validation" with a focus on validation of market parameters and modelling.

The Prudential Watch Committee (PWaC): the prime function of the PWaC is to anticipate, to understand, to follow up and to steer the implications of (evolving) prudential guidelines. This role requires a proactive assessment of new and changing regulations on the Bank's governance, capital basis, business conduct and profitability. Although PWaC principally focuses on risk and finance related regulation, its follow-up covers all banking domains.

The CDC Central: the main Credit Committee, the CDC Central (specific delegations have been given to various lower credit committees):
→ approves new credit transactions PC and RC and annual reviews of existing credit files (based on updated financial statements, i.e. without any adjustment of the current risk), that do not exceed its delegation limits and/or that do not lead to an exceeding of the prevailing credit limits;
→ advises on new deals or limits that must be presented to the Management Board.

The FM Credit Limits Committee (FM CLC):
→ approves specific limit requests for all FM business lines and PC Trade Finance, and this within the global Credit Limit Framework approved by the Management Board for Financial institutions, Sovereigns and International Public Finance;
→ approves a possible decrease of current (effective) Country limits;
→ develops various activities in relation to risk monitoring, such as the optimisation of FM lines per activity line, the review of the list of frozen limits, the follow-up of limits being exceeded and the drawing-up of the relevant imperative action plans.

The CDC International Trade Finance makes decisions with regard to transactions managed by the International Trade Finance department of Distribution ITF.

The Rating Committee: the main aim of the Rating Committee is to supervise the correct and coherent application of the various Internal Rating Systems within Belfius Bank and its subsidiaries, together with an assessment of their performance.

The CDC Leasing handles new credit applications, extension of lines with a specific duration as well as the periodic review of files.

The CDC Commercial Finance handles new credit applications, extension of lines with a specific duration as well as the periodic review of files.

Crefius handles new credit applications and the review of mortgage loans.

The Regional Risk Committee RCB monitors the regional loan portfolio, with a special focus on the counterparties whose credit profile is weakened (watch list). Organised by region (NO, NW, SE, SO and Centrum).

The Regional Risk Committee PCB monitors the regional loan portfolio, with a special focus on the counterparties whose credit profile is weakened (watch list). Organised by region (NO, NW, SE, SO and Centrum).

The Watch List Committee FM closely monitors counterparties for which there is evidence that their credit profile has (severely) deteriorated.

The Default Committee (DC): the objective of the DC is to decide on and follow up the default status of counterparties, i.e. being a necessary condition for an impairment to be recognised.

The Impairment Committees: the need of Belfius to oversee and govern IFRS 9 Impairments resulted in a committee structure, consisting of one Expert Panel and two dedicated Impairment Committees, beside the Watchlist & Default Committees.

Information Security Steering (ISS): ensures a well governed and coordinated information security strategy whereby an adequate "prevention", "detection", "protection" and "reaction" in line with regulatory requirements towards information security is guaranteed with Belfius.

3. RISK GOVERNANCE MODEL AT BELFIUS INSURANCE

3.1. RISK APPETITE

Risk appetite is the level of risk that an institution is prepared to take in order to achieve its growth objectives.

One of the biggest challenges of the risk management function is therefore to chart an effective risk appetite policy. This entails an independent measurement of the different types of risks.

A risk measurement requires a coherent and overall quantification to ascertain whether the risk levels to which Belfius Insurance is exposed are in line with the predetermined risk appetite. The risk management department ensures that the advanced nature of the risk measurement system is in line with the scale, scope and complexity of the various business lines.

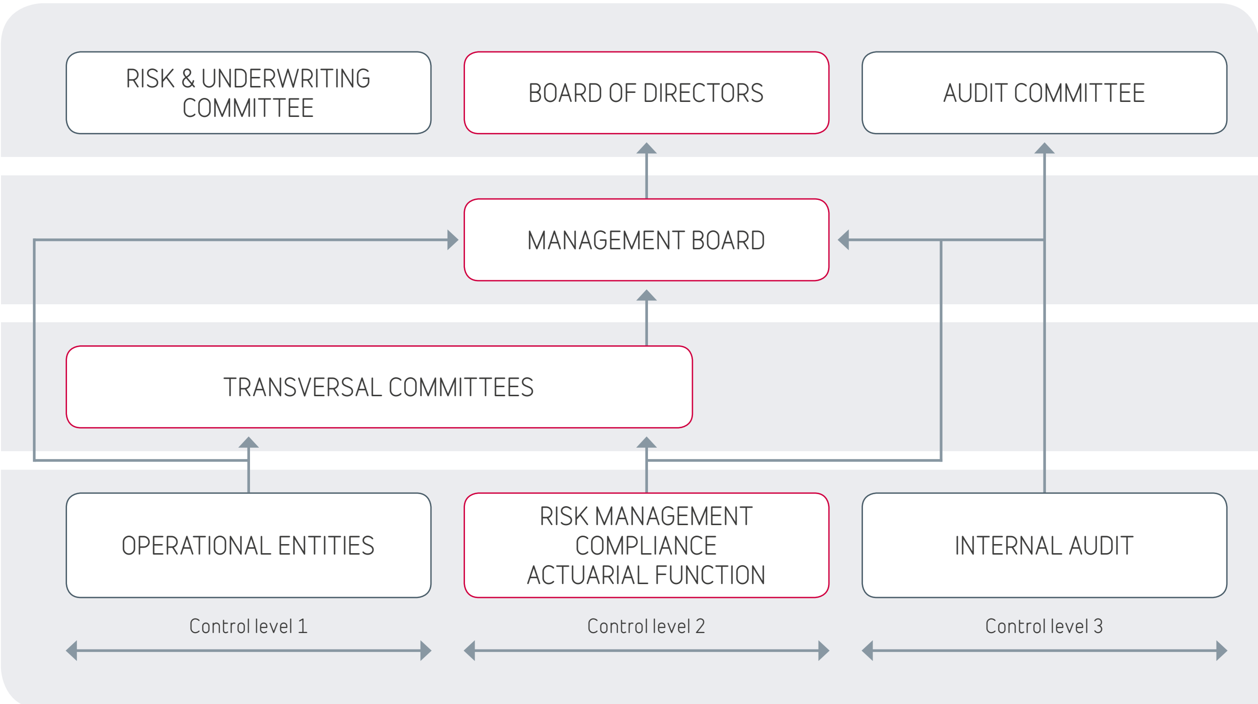
The risk management department is responsible for developing the calculation methodology and for the integrated implementation thereof. Once the risk measurements have been identified and determined on the basis of the scale and complexity of the business lines, a global frame of reference links the authorized limits in the various local entities to the Belfius risk profile. The risk limits represent the levers used to put the risk strategy and risk appetite into practice and are communicated to the various entities and business lines.

In addition, the risk appetite and the according rules and limits are subject to the approval of the Board of directors, which is responsible for the risk strategy.

The most important objectives of the risk appetite statement are:
- Consistency must be guaranteed between the risk appetite framework of Belfius Insurance and Belfius Bank;
- Belfius Insurance wants to comply to the most important regulating ratios, even after a severe (but possible) shock;
- Belfius Insurance certainly wants to remain financially solvent, even if extreme losses should occur, so that it can meet all its obligations (policyholders, savers, etc.);
- Belfius Insurance wants to limit the potential volatility in the income statement to a reasonable level; and
- Belfius Insurance wants to limit concentrations, so that serious stress events on part of the portfolio do not lead to inordinate losses.

3.2. RISK MANAGEMENT GOVERNANCE

At Belfius Insurance, the management board is mandated by the board of directors (which delegates its relevant powers to the former) with the management of Belfius Insurance, the various segments of which it controls and coordinates.



To ensure the proper operation and development of Belfius Insurance, the management board is responsible for establishing and maintaining an appropriate risk management. It defines and coordinates the policy of Belfius Insurance in line with the strategy laid down by the Board of directors. It allocates the means and resources and sets the deadlines for the implementation of actions defined under that policy. It verifies whether the objectives are attained and whether the risk management is tailored to all the needs. Finally, it adapts the needs to internal and external developments.

The internal control in the operational entities (control level 1) comprises the follow-up of the execution of key controls and ensures the implementation of established action plans to improve these key controls.

The teams that must specifically ensure effective risk management are the:
- Risk Management team (control level 2) under the responsibility of the Chief Risk Officer, member of the Management Board, tasked with the supervision of the risk management policy. This team defines lines of action for limits and delegated powers, monitors and measures the total risks, and awakes the implementation of harmonized methods in the different entities
- Chief Compliance Officer (CCO) (control level 1 and 2) ensures compliance with the integrity policy and the development of the ethics policy in Belfius Insurance. The CCO reports to the CRO of Belfius Insurance and works closely with the Chief Compliance Officer of Belfius Bank; and the
- Internal Audit (control level 3) reports directly to the chief executive officer, chairman of the management board. Internal audit monitors the implementation and proper application of the internal control process (level 1 and level 2). The transversal committees see to the follow-up of the various aspects of the management of risks to which Belfius Insurance is exposed.

The Asset and Liability Management Committee ("ALCo") takes the tactical decisions that have an impact on the balance sheet of Belfius Insurance and on its profitability, taking account of the group's risk appetite. It verifies compliance with the guidelines and limits for the management of the investment portfolio (hedging transactions, diversifications, etc). The local ALCos manage the specific risks on the balance sheet of the subsidiaries.

In addition, the board of directors of Belfius Insurance can rely on an Audit Committee that consists of three non-executive directors.

Furthermore, the board of directors can rely on the Risk & Underwriting Committee for advice on the various fields of risk management such as risk appetite, material exposure to the risks, the strategy and the impact thereof on the capital, the structure of risk management and the alignment to the nature of the existing risks.

The cooperation on risk management between Belfius Insurance and Belfius Bank is based on the following principles:
- the risk management governance must be in line with the specific characteristics and responsibilities of each entity, and must remain light, simple and transparent;
- the risk management governance must lead to a mutual understanding of the risks, an optimal application of the available means and resources, and an efficient decision-making process;
- for the sake of simplicity, the risk appetite of Belfius Bank and Belfius Insurance as well as the limits are combined during the consolidation (they are not offset); and
- transfers of limits are authorized if both parties agree. The CROs of Belfius Bank and Belfius Insurance coordinate the applications jointly. If they cannot agree, the Risk Committees (RCs) of the bank and the Risk & Underwriting Committee of Belfius Insurance are consulted jointly and solutions are proposed to the respective boards of directors.

4. RISK DEPARTMENT ORGANISATION, ROLE AND RESPONSIBILITIES

4.1. GENERAL MISSION

The mission and role of the Risk department is to define and implement a robust risk management framework based inter alia on the following cornerstones:
- an acceptable risk appetite in line with the commercial and financial objectives;
- a set of independent and integrated risk measures for different types of risk (credit, concentration, market, liquidity, operational and other non-financial risks), enhanced by internal limits that are themselves consistent with the approved risk appetite;
- an effective process to identify, measure, monitor, assess or mitigate risks to which Belfius Bank is or might be exposed, enhanced by timely and accurate reporting to make management aware of all the material risks and the overall risk profile, in order to ensure appropriate decision-taking.

The Risk department has the responsibility to establish a set of risk policies and guidelines defining the risk governance structure and management including an adequate committee set-up with clear and consistent assignment of responsibilities.

The overall objective of the Risk department is to ensure the implementation of sound, prudent and effective risk management based on the basis of a full understanding of the risks and based on a swift and proactive identification of and alerting to potential risks.

4.2. RISK ORGANISATION

4.2.1. At Belfius' level

In line with Art. 194 of the "Banking Law", Belfius is managing risks based on a group-wide (Belfius Bank + Belfius Insurance) coordinated and integrated risk management framework. The overall objective is to have a risk management coordination, ensuring consistency while respecting the entities' specificities, responsibilities and legal/regulatory obligations. The main pillars of this risk management are an appropriate risk governance structure, risk monitoring and decision taking process.

At the level of the Risk departments of Belfius Bank and Belfius Insurance, the CRO's, assisted by their Risk Executive Committees (Risk ExCom), ensure adequate integration and coherence regarding methodologies, tools and risk management.

In terms of risk governance structure Belfius implements:
- a similar Committee governance and decision taking process: Board of Directors, Risk Committee (Belfius Bank) - Risk & Underwriting Committee (Belfius Insurance), Risk ExComs Belfius Bank – Belfius Insurance, ..;
- the presence of Belfius Bank Board of Directors' members in Belfius Insurance Committees assuring enhanced coherence;
- the possible organisation of a common Belfius Bank Risk Committee / Belfius Insurance Risk & Underwriting Committee.

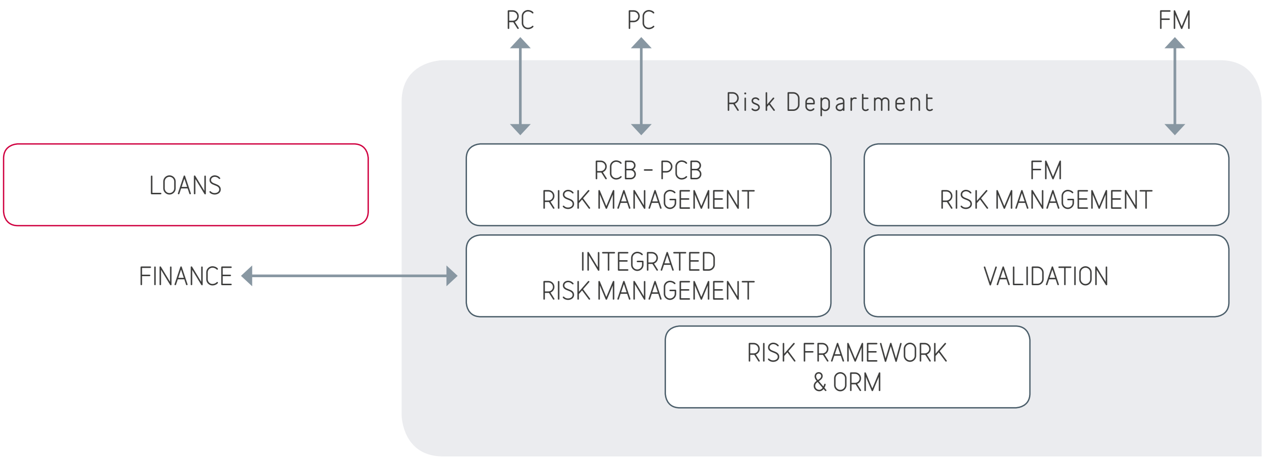
Both entities have a similar risk policies & guidelines framework and approach:
- risk policies with focus on risk drivers, governance and decision making process;
- risk policies decided at Management Board level (with the formal approval of the Belfius Insurance Board of Directors);
- steered by the Risk department;
- the aim is to implement best practices: mutual exchange & implementations.

Both entities use similar and/or common tools ensuring consistency and enabling coherence as well as an integrated management of risks and internal controls:
- Risk Appetite Framework: defined and validated group-wide by Belfius Bank and cascading down to subsidiaries;
- Risk Management & Control executed through the "Senior Management Report on the Assessment of the Internal Control";
- ICAAP & Recovery Plan (Belfius Bank) and ORSA (Own Risk and Solvency Assessment; Belfius Insurance).

More information regarding the risk governance of Belfius Insurance can be found in the annual report of Belfius Insurance.

4.2.2. At Belfius Bank's level

At Belfius Bank, the Risk department is organised in the following way:
- business line oriented;
- enforced integration of transversal functions in the Risk department.



This risk organisation takes into account:
- Belfius Bank as a major actor in the Belgian financial sector/context serving Belgian society/economy;
- the size of Belfius Bank;

- the strategic objectives of Belfius Bank;
- the needed cooperation between methodological and operational risk teams;
- the extension and reinforcement of regulations (Basel III) and additional (inter)national regulatory control;
- the liquidity, solvency and profitability challenges;
- the necessary promotion of a risk culture at Belfius Bank.

These are the missions of the various divisions of the Risk department:

4.2.2.1. RCB-PCB Risk Management

The goal pursued by RCB-PCB Risk Management is the development and maintenance of an efficient and robust risk management framework for the RC and PC activities, based on proactive risk control and risk-challenger view, putting into perspective all of the risks present in these segments ("business risk expertise centre"). Basically, the focus is on credit risk, which does not exclude also giving due consideration to other types of risk.

4.2.2.2. FM Risk Management

The focus of FM Risk Management is to develop and maintain an efficient and robust risk management framework for treasury, portfolio and financial markets activities including advice, supervision and support in terms of risk assessment (credit, market and portfolio), in strict compliance with the risk appetite and the business strategy of Belfius Bank.

4.2.2.3. Integrated Risk Management

Integrated Risk Management is in charge of establishing a consolidated view of risks and its interdependencies (credit, market, liquidity, business and operational risks) and define/manage the framework for risk appetite.

Integrated Risk Management is also in charge of proposing strategies and tools to help optimise the financial balance (risk capital vs. return vs. liquidity) while meeting the objectives of appetite for risk as well as the objectives of Belfius Bank.

4.2.2.4. Validation

The primary task of Validation is to ensure quality, reliability, proper functioning and adequate use of the models developed by Belfius Bank as well as their compliance with regulatory requirements during their entire life cycle.

Validation also plays an important role in the assessments/communication of the strengths and weaknesses of models to help all stakeholders to improve their use and understanding.

4.2.2.5. Risk Framework & ORM

The Risk Framework & ORM division is aiming to maintain an efficient and robust risk management framework meeting the requirements of all supervisory authorities (ECB, NBB, EBA, ...) while keeping an overview at all times of the regulatory contacts (ECB/NBB).

It is responsible for the calculation, analysis and reporting of risk figures consistent with Finance in view of both internal and external communication. Furthermore it acts as the 2nd line of defence for all ORM items (information security included) and acts as a corporate crisis-, BCP- and GDPR manager within Belfius.

4.2.2.6. Corporate Office (Deputy CRO)

The team closely monitors regulatory environment in order to assure a holistic view on all new regulations and requirements. It also assures that actions and decisions are taken for a timely implementation with regard to regulatory changes. The team supports the business lines and other departments with regulatory implementation. The Corporate Office also manages strategic transversal projects and risk items.

5. BELFIUS RISK CARTOGRAPHY

The following table illustrates the risk identification process within Belfius. It represents the risk cartography of Belfius as at 31 December 2017, which aims at screening all risks to ensure they are identified, quantified and/or monitored.

			Pillar 1	Pillar 2	Covered by Capital
Financial Risks	Credit Risk	Solvency Risk	x	x	Yes
		Country Risk	x	x	Yes
		Residual/Recovery Risk		x	Yes
		Setllement Risk		x	Yes
	Market and Balance-Sheet Management Risk	Interest Rate Risk – Banking		x	Yes
		Interest Rate Risk – Trading	x	x	Yes
		Price Risk(1)	x	x	Yes
		Currency Risk – Banking		x	Yes
		Currency Risk – Trading	x	x	Yes
		Spread Risk – Banking		x	Yes
		Spread Risk – Trading	x	x	Yes
		Funding Risk		x	Yes
		Liquidity Risk		x	No
		Behavioural Risk (incl. Prepayment Risk)		x	Yes
		Other Market Risks		x	Yes
	Other Risks	Insurance Specific Risks		x	Yes
		Model Risk		x	Yes
Non Financial Risks	Operational Risk	Operational Risk	x	x	Yes
	Other Risks	Business Risk (incl. Strategic Risk)		x	No
		Reputation Risk		x	No
		Compliance Risk		x	No
		Legal Risk		x	No

(1) Price Risk includes risk on Equity exposure and Property exposure in the Banking Book.

The RICAP (Risk Identification and Cartography Assessment Process) was implemented in 2011. The RICAP consists of a series of meetings with key business representatives to ensure all risks are identified. The profitability of business lines and volatility of earnings are also analysed to identify risks that could be beneath the radar. All risk types are classified in financial and non financial risks. Financial risks are capitalised. Within non financial risks, a further distinction between quantified and not quantified risks can be made. The later category consists of those risks which are managed and monitored through appropriate processes.

Credit risk, market risk and operational risk are subject to the Pillar 1 framework and are also included in the Pillar 2 framework.

The Pillar 1 and Pillar 2 approaches to the same risks might differ at four levels:
- → the perimeter;
- → the methodology;
- → the risk parameters used;
- → the level of severity.

The perimeter of Pillar 2 risks is larger as Pillar 2 aims at exhaustiveness. Other risks than those included in the Pillar 1 framework are then specifically included in the Belfius Pillar 2 framework i.e. settlement risk interest rate risk (banking book), currency risk, spread risk banking book, funding risk, liquidity risk, behavioural risk, insurance risk, model risk, business risk, strategic risk, reputation risk, and legal risk.

Methodologies and risk parameters used by Belfius lead to the calculation of economic capital. It is defined as the potential deviation of the Group's economic value in relation to the value expected at a determined interval of confidence and time horizon. The choice made by Belfius is to estimate its risks at a severity level of (99.94%, 1 year) instead of (99.9%, 1-year) for Credit and Operational and (99%, 10-day) and for Market as required by the Pillar 1.

Several risks such as reputation, strategic, liquidity, currency and legal risks are part of the Pillar 2 but are not capitalised, either because they are considered as non material (currency and securitisation risks) or because they are managed by other means than qualification.

6. DECLARATION APPROVED BY THE MANAGEMENT BODY ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

Belfius Bank is a Belgian banking and insurance group fully owned by the Belgian Federal State through the Federal Holding and Investment Company (FHIC). Belfius Bank shares are not listed.

Belfius Bank is a locally anchored autonomous banking and insurance group serving individuals, professionals, companies, social profit institutions and public authorities in Belgium.

With a mainly Belgian balance sheet in its commercial Businesses and customers from all segments, Belfius is committed to deliver value-added products and services through a modern proximity model. It aims at a healthy financial profile, reflected in a prudent investment strategy and a carefully managed risk profile, resulting into sound liquidity and solvency positions.

The Belfius risk management framework is based on the 3 Lines of Defence (3 LoD) model with a set of adapted and effective internal controls. Belfius Bank has centralised risk data and systems supporting regulatory reporting and disclosures as well as internal management reporting on a regular or ad hoc basis for the various risk types (credit risk, market risk, liquidity risk, operational risk, …). The various reports are presented to the appropriated committees as indicated in the risk governance structure. The most relevant key ratios and figures are incorporated in the "Summary of risk profile".

In accordance with art 435 of Regulation No. 575/2013, the Management Board is of the opinion that the risk management system is adequate with regard to Belfius' profile and strategy.

The Management Board considers that this Risk Report demonstrates the assurance of the adequacy of the risk management system.

This declaration is also approved by Belfius Bank's Board of Directors of 22 March 2018.

EQUITY AND CAPITAL ADEQUACY

1. EQUITY

1.1. PRUDENTIAL SUPERVISION

1.1.1. Minimum Requirement

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

As a result of the annual "Supervisory Review and Evaluation Process" (SREP) finalized by the ECB at the end of 2016, Belfius must comply for 2017 with a minimum CET1 ratio Phased In of 9%, which is composed of:

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

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

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

As a result of the annual "Supervisory Review and Evaluation Process" (SREP) finalized by the ECB at the end of 2017, Belfius must comply for 2018 with a minimum CET1 ratio Phased In of 10.125%, which is composed of:

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

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

Further to these regulatory requirements, in current market circumstances and under current regulations, Belfius has defined a minimum operational CET1 ratio of 13.5 per cent, on solo and consolidated levels. This ratio is intended to maintain Belfius' distribution assessment and decision autonomy under stressed financial environments. In addition, Belfius will for the time being manage with a target CET1 ratio that will be 2 per cent higher than this minimum operational level to take into account additional unforeseeable elements. Belfius intends to manage its solvency in line with this target ratio in normal times and on a steady state basis, unless the above mentioned buffer is (partially or entirely) used, and as long as regulations on statutory and/or consolidated capital ratios would not materially change.

1.1.2. Applied methodology

In line with CRR/CRD IV regulations part X, Belfius is authorised to apply transitory measures in the calculation of its regulatory own funds with limited impact on the regulatory risk exposure. The Belgian application of these measures is described in the Royal Decree of 10 April 2014 (published on 15 May 2014) and is referenced as the "phased in" calculation. The measures impacting the CET1 capital end on 31 December 2017.
Without transitory measures on CET1 capital, on regulatory own funds and on regulatory risk exposure the calculation is referenced as "fully loaded".

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

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

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

1.2. REGULATORY OWN FUNDS ON CONSOLIDATED LEVEL

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

Comparison of accounting core shareholders' equity (consolidated financial statements) and the base for the regulatory core own funds	31/12/2016	31/12/2017
Accounting core shareholders' equity	8,694	9,085
Transformation of the insurance group into a third party exposure	0	(46)
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,694	9,039

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

	31/12/2016	31/12/2017
Consolidated net income	535	606
Elimination of Belfius Insurance	(168)	(171)
Scope changes:		
dividend (Belfius Insurance)	120	120
other	11	5
REGULATORY NET INCOME	498	560

In the regulatory own funds calculations using the CRR/CRD IV regulations, the "phased in" calculation includes all the transitional measures. Note that the transitional measures on CET1 capital are applicable till 31 December 2017, while the transitional measures on Tier2 capital are applicable till 31 December 2021.

Regulatory own funds

	31/12/2016	31/12/2017
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL) PHASED IN	7,767	8,141
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL) FULLY LOADED(1)	7,516	8,037
Starting point for the regulatory core own funds	8,694	9,039
Deduction of foreseeable dividend	(140)	(288)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	(215)	(221)
Remeasurement defined benefit plans	86	112
Remeasurement available-for-sale reserve on securities and frozen fair value adjustments of reclassified financial assets	(546)	(437)
Other reserves	(34)	(14)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	34	14
Transitional measures	246	104
DEDUCTIONS AND PRUDENTIAL FILTERS	(573)	(389)
Deferred tax assets on losses carried forward	(13)	0
Investments in securitisation positions	(234)	(23)
Changes in the value of own credit standing	(9)	(4)
Value adjustments due to the requirements for regulatory prudent valuation	(120)	(99)
Intangible fixed assets	(96)	(127)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses for IRB portfolios	(2)	(2)
Defined Benefit Pension Plan assets	0	(12)
Payment Commitments IPC(2)	0	(17)
Transitional measures	5	0
TIER 2 CAPITAL PHASED IN	1,309	1,288
TIER 2 CAPITAL FULLY LOADED(1)	1,101	1,097
Tier 2 capital instruments	928	939
Excess of provisions over expected losses for IRB portfolios	152	138
General credit risk adjustments SA (standard approach)	22	20
Transitional measures	207	191
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) PHASED IN	9,076	9,429
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) FULLY LOADED(1)	8,618	9,134

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

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

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

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

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

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

Tier 1 capital is equal to the CET 1 capital given that the bank did not hold any additional Tier 1 capital as at the end of 2017. Note that Belfius has issued an inaugural Additional Tier 1 bond of EUR 500 million beginning 2018, please also refer to the note on "capital instruments main features" (see further, in the section "Appendices").

Tier 2 capital decreased from EUR 1,309 million to EUR 1,288 million. This decrease is mainly related to (i) the currency rate impacts (GBP and JPY) on Tier 2 instruments for EUR -57 million, and (ii) a smaller excess of provisions over expected losses (EUR -14 million). Note that the decrease is partially offset by the Tier 2 issue (private placement) of EUR 50 million in the first half of 2017. Please also note that The Governing Council of the European Central Bank (ECB) has decided to grant Belfius permission to reduce its own funds in the amount of EUR 191 million (value on 31 December 2017) through the call of three Tier 2 callable instruments in the first half year of 2018, please refer to the note on "capital instruments main features" (see further, in the section "Appendices").

Without the transitional measures the Tier2 capital (Fully Loaded) amounted to EUR 1,097 million, compared with EUR 1,101 million at the end of 2016.

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

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

2. CAPITAL REQUIREMENTS BY TYPE OF RISK

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

	31/12/2016	31/12/2017	Evolution
Regulatory credit risk exposure	35,955	39,073	3,118
Regulatory market risk exposure	1,136	1,841	705
Regulatory operational risk exposure	2,915	2,932	18
Danish Compromise	6,728	6,769	40
Transitional measures	(4)	5	9
REGULATORY RISK EXPOSURE PHASED IN	**46,730**	**50,620**	**3,890**
REGULATORY RISK EXPOSURE FULLY LOADED(1)	**46,734**	**50,615**	**3,881**

(1) Excluding the line "transitional measures".

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

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

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

Regulatory operational risk exposure remained stable.

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

The following table shows the weighted risks and capital requirements for each type of risk at year-ends 2016 and 2017. The minimum capital requirements correspond to 8% of the total regulatory risk exposure[3].

Overview of RWAs

			RWAs		Minimum capital requirements
			31/12/2017	31/12/2016	31/12/2017
	1	Credit risk (excluding CCR)	39,965	36,105	3,197
Article 438(c)(d)	*2*	*Of which the standardised approach*	*13,314*	*13,032*	*1,065*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*0*	*0*	*0*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*(1)	*25,168*	*21,734*	*2,013*
Article 438(d)	*5*	*Of which equity IRB under the simple risk-weighted approach or the IMA*	*204*	*166*	*16*
Article 107 Article 438(c)(d)	6	CCR	5,824	6,506	466
Article 438(c)(d)	*7*	*Of which mark to market*	*0*	*0*	*0*
Article 438(c)(d)	*8*	*Of which original exposure*	*0*	*0*	*0*
	9	*Of which the standardised approach*	*165*	*556*	*13*
	10	*Of which internal model method (IMM)*	*3,630*	*3,594*	*290*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*91*	*65*	*7*
Article 438(c)(d)	*12*	*Of which CVA*	*1,938*	*2,291*	*155*
Article 438(e)	13	Settlement risk	0	0	0
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	58	68	5
	15	*Of which IRB approach*	*58*	*68*	*5*
	16	*Of which IRB supervisory formula approach (SFA)*	*0*	*0*	*0*
	17	*Of which internal assessment approach (IAA)*	*0*	*0*	*0*
	18	*Of which standardised approach*	*0*	*0*	*0*
Article 438 (e)	19	Market risk	1,841	1,136	147
	20	*Of which the standardised approach*	*452*	*354*	*36*
	21	*Of which IMA*	*1,389*	*782*	*111*
Article 438(e)	22	Large exposures	0	0	0
Article 438(f)	23	Operational risk	2,932	2,915	235
	24	*Of which basic indicator approach*	*0*	*0*	*0*
	25	*Of which standardised approach*	*2,932*	*2,915*	*235*
	26	*Of which advanced measurement approach*	*0*	*0*	*0*
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
Article 500	28	Floor adjustment	0	0	0
	29	TOTAL	50,620	46,730	4,050

(1) Excluding 5% risk weighted add-on for macro prudential measure Belgian Real Estate.

Regulatory operational risk exposure and the regulatory risk exposure for Danish Compromise remained globally stable. The following table shows the impact on regulatory risk exposure for Danish Compromise at the end of 2017.

Non-deducted participations in insurance undertakings

31/12/2017	Value
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	1,829
TOTAL RWAs	6,769

3 Regulatory Risk Exposure (RRE) also known as Risk Weighted Assets (RWA).

3. CAPITAL ADEQUACY

3.1. BELFIUS BANK

3.1.1. Solvency ratios

3.1.1.1. On consolidated level

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

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

Tier 1 capital ratio is equal to CET 1 ratio as Belfius did not hold any additional Tier 1 instruments at 31 December 2017. Note that Belfius has issued an inaugural Additional Tier 1 bond of EUR 500 million beginning 2018, we also refer to the note on "capital instruments main features" (see further, in the section "Appendices").

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

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

CRR/CRD IV (Phased In)	31/12/2016	01/01/2017 (PF)(1)	31/12/2017
Common Equity Tier 1 ratio (CET 1 ratio)	16.6%	16.4%	16.1%
Tier 1 capital ratio (T1 ratio)	16.6%	16.4%	16.1%
Total capital ratio	19.4%	19.2%	18.6%

CRR/CRD IV (Fully Loaded)(2)	31/12/2016	31/12/2017
Common Equity Tier 1 ratio (CET 1 ratio)	16.1%	15.9%
Tier 1 capital ratio (T1 ratio)	16.1%	15.9%
Total capital ratio	18.4%	18.1%

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

Applying the "Danish Compromise" compared to the deduction method for capital instruments of Belfius Insurance (equity deducted from CET 1 capital and subordinated debt instruments deducted from Tier 2 capital) has the following impacts:

- → Using the deduction method Phased in results in an increase of 15 bps on the CET1 ratio and a decrease of 35 bps on the Total Capital ratio.
- → Using the deduction method Fully Loaded results in an increase of 11 bps on the CET1 ratio and a decrease of 42 bps on the Total Capital ratio.

3.1.1.2. On statutory level

End 2017, CET 1 ratio Phased In and Fully Loaded on Belfius Bank statutory level before inclusion of the statutory net result amount to 15.3%. If the statutory net result of EUR 793 million, after deduction of dividends for EUR 363 million, is included, the CET1 ratio (Phased In and Fully Loaded) amounts to 16.1%.

3.1.2. Leverage ratios on consolidated level[4]

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

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

4 Unaudited.

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

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

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

	31/12/2016	31/12/2017
TIER 1 CAPITAL (PHASED IN)	7,767	8,141
TIER 1 CAPITAL (FULLY LOADED)(1)	7,516	8,037
Total assets	176,721	167,959
Deconsolidation of Belfius Insurance	(19,377)	(19,098)
Adjustment of derivatives	(30,003)	(21,670)
Adjustment for securities financing transactions exposures	1,810	3,729
Adjustment for prudential corrections in calculation of Tier 1 capital	(443)	(268)
Off-balance sheet exposures	14,381	14,959
LEVERAGE RATIO EXPOSURE	143,088	145,611
LEVERAGE RATIO (PHASED IN)	5.4%	5.6%
LEVERAGE RATIO (FULLY LOADED)(1)	5.3%	5.5%

(1) Excluding the transitional measures for regulatory capital.

At the end of 2017, the Belfius leverage ratio Phased In – based on the current CRR/CRD IV legislation - stood at 5.6%, the leverage ratio Fully Loaded stood at 5.5%.

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

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

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

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

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

ACCOUNTING CORE SHAREHOLDERS' EQUITY 31/12/17	9,085
Impact IFRS 9 – First Time Adjustments	(281)
ACCOUNTING CORE SHAREHOLDERS' EQUITY 01/01/18	8,804
Transformation of the insurance group into a third party exposure	(46)
Elimination FTA adjustments Belfius Insurance group	(15)
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,743

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

Regulatory own funds	31/12/2017	01/01/2018
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL) FULLY LOADED	8,037	8,262
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	9,039	8,743
DEDUCTION OF FORESEEABLE DIVIDEND	(288)	(288)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	(325)	195
Remeasurement defined benefit plans	112	112
Remeasurement available-for-sale reserve on securities and frozen fair value adjustments of reclassified financial assets	(437)	83
Other reserves	(14)	(19)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	14	19
DEDUCTIONS AND PRUDENTIAL FILTERS	(389)	(388)
Deferred tax assets on losses carried forward	0	0
Investments in securitisation positions	(23)	(23)
Changes in the value of own credit standing	(4)	(4)
Value adjustments due to the requirements for regulatory prudent valuation	(99)	(98)
Intangible fixed assets	(127)	(127)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses for IRB portfolios	(2)	(2)
Defined Benefit Pension Plan assets	(12)	(12)
Payment Commitments IPC	(17)	(17)
TIER 2 CAPITAL FULLY LOADED	1,097	1,097
Tier 2 capital instruments	939	939
Excess of provisions over expected losses for IRB portfolios	138	138
General credit risk adjustments SA (standard approach)	20	20
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT) FULLY LOADED	9,134	9,360

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

The impact on regulatory risk exposures is twofold: (i) an increase on the portfolio hedge and (ii) a decrease following lower exposures after reclassification and remeasurement on certain assets.

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

The impacts can be summarized as follows:

	31/12/2017	01/01/2018
Regulatory credit risk exposure	39,073	39,463
Regulatory market risk exposure	1,841	1,841
Regulatory operational risk exposure	2,932	2,932
Danish Compromise	6,769	6,828
REGULATORY RISK EXPOSURE FULLY LOADED	50,615	51,065

As such, after FTA under IFRS 9 the CET1 ratio (pro forma 1 January 2018) would amount to:

CRR/CRD IV (Fully Loaded)	31/12/2017	01/01/2018	Delta
Common Equity Tier 1 ratio (CET 1 ratio)	15.9%	16.2%	30 bps
Tier 1-capital ratio (T1 ratio)	15.9%	16.2%	30 bps
Total capital ratio	18.1%	18.3%	30 bps

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

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

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

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

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

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

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

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

In the context of these non finalized frameworks, Belfius has estimated the potential impacts of the Basel III finalization package on its solvency based on the tests of the final agreement. Based on current assessments, Belfius expects a moderate impact and considers that its solvency will be sufficiently robust in normal market circumstances to successfully comply with the provisions of this new regulatory landscape in 2022. This estimate is still subject to uncertainties related among others to (1) the transposition of the international agreements in EU legal framework (including use of national discretions foreseen in the international agreement), (2) the possibility of the macro prudential authority (for Belfius the NBB) to mitigate positive impacts of different measures foreseen in the final Basel agreement (e.g. lower LGD floor for mortgage loans) and (3) the risk profile and the structure of the balance sheet and off balance sheet at the time of the entry into force of the finalization of the revised standards (2022).

3.2. BELFIUS INSURANCE

3.2.1. Prudential supervision

Belfius Insurance reports to its regulator, the NBB. Amongst others a quarterly report concerning its solvency margin and liquidity is required, both at a consolidated and at a statutory level.
As part of prudential supervision over systemic insurers, highly detailed information is also provided to the NBB about the company's strategy, its ALM policy and the sufficiency of its technical provisions.

3.2.2. Regulatory own funds

Solvency II, introduced on 1 January 2016, aims to implement requirements which better reflect the risks that Belfius Insurance faces and looks for a supervisory system that is consistent across all EU-Member States, in order to better protect our clients and to restore the confidence in the financial sector.
The own funds of Belfius Insurance are determined according to the valuation and eligibility principles defined in the Solvency II regulation, Directive 2009/38/EU.

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

Available Financial Ressources (AFR)	31/12/2016	31/12/2017
AFR	2,501	2,469
Tier 1	2,140	2,110
IFRS Equity	2,147	2,173
Foreseeable dividends	(120)	(120)
Valuation difference (after tax)	(58)	(113)
Subordinated debt	170	170
Tier 2	361	358
Subordinated debt	350	347
Others	11	11

3.2.3. Solvency requirements

The Solvency II Capital Requirement (SCR) is calculated based on the consolidated asset and liability portfolio of Belfius Insurance, Corona and those investment entities that are fully consolidated for Solvency II purposes.
The SCR for Belfius Insurance is determined using the "Standard Formula" as defined in the Solvency II regulation, taking into account a volatility adjustment and making use of the transitional measure for equities and it includes the application of the restriction on the use of Loss Absorbing Capacity of Deferred Taxes as prescribed by the NBB.

Belfius Insurance's required capital amounted to EUR 1,128 million at the end of December 2017, lower compared to the end of 2016. The decrease is driven by the new LAC DT regulation specified by the NBB (towards more EU harmonization) partially compensated by the effect of the new lower company tax rate.
Market Risk is the main contributor to the required capital due to the spread and equity risk. The SCR linked to the interest risk is very limited thanks to the good global duration match between assets and liabilities of Belfius Insurance.

Solvency Capital Requirement (SCR)	31/12/2016	31/12/2017
SOLVENCY CAPITAL REQUIREMENT	**1,207**	**1,128**
Market Risk	1,097	1,111
Credit Risk	209	157
Insurance Risk	545	603
Operational Risk	100	97
Diversification	(483)	(491)
Loss absorbing capacity of technical provisions and deferred taxes	(261)	(350)

3.2.4. Solvency ratios at Belfius Insurance

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

Solvency II ratio (in %)	31/12/2016	31/12/2017
Solvency II ratio (before dividend)	217%	230%
Solvency II ratio (after dividend)	207%	219%

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

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

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

3.3. INTERNAL CAPITAL ADEQUACY

3.3.1. Risk Appetite

Risk appetite is the level of risk that an institution is prepared to take given the expectations of the main stakeholders (shareholders, creditors, regulators, rating agencies, customers, employees ...), in order to achieve its strategic and financial objectives. This risk appetite is above all defined by the Board of Directors, on proposals from the Management Board. The Risk Department prepares the Management Board's proposals and the Board of Directors' decisions, and also sets the rules and the framework for implementation of those rules.

Based on a holistic approach, risk appetite is a central reference point:
- for guiding strategy and planning;
- for framing performance in terms of growth and value creation;
- for facilitating day-to-day operating and commercial decisions.

The Bank's risk appetite consists of a series of quantitative elements (target Key Risk Indicators or KRI) and qualitative elements (statements) that are designed to express the risk levels and types that are not acceptable, that are tolerated and targeted in order to achieve business strategy. The quantitative framework is based on a mix of accounting ratios (gearing), regulatory ratios (solvency, liquidity) and economic ratios (economic capital, Earnings at Risk). The different metrics cover a wide range of risks (credit risks, solvency, liquidity, marker risks, operational risks, concentration risks, ...).

Limits have been defined on each of these ratios with different zones, which lead to different governance and measures in case of breach. They are validated each year by the competent bodies. The Risk and Finance departments are responsible for monitoring these ratios and, if there are discrepancies, for proposing measures to the Management Board to ensure the limits are met.

Belfius Bank has actually a very limited risk appetite outside its domestic market (Belgium).

3.3.2. Economic Capital

3.3.2.1. Definition

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

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

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

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

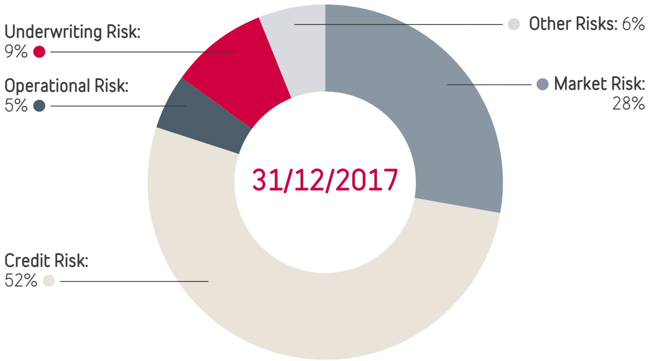
3.3.2.2. Economic Capital Adequacy

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

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

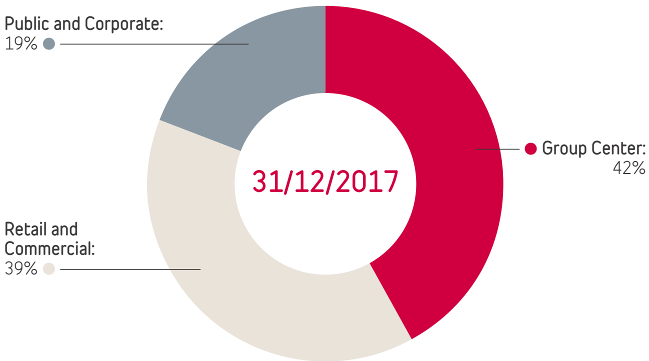
In 2017, the ranking between the main categories of risks remained the same as in 2016: credit risk represented approximately 52% of the economic capital and was the main contributor; market risk (inter alia including interest rate risk, foreign exchange rate risk, spread risk and equity risk) was 28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

Breakdown of economic capital by type of risk



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

Breakdown of economic capital by business line



3.3.2.3. Stress Tests

Stress tests are designed to measure the Bank's sensitivity, in terms of losses, additional weighted risks, liquidity needs or equity capital requirements that could impact Belfius in scenarios featuring significant unexpected shocks on the financial markets and/or in the own financial situation of Belfius.

Belfius performed an internal stress testing programme with its financial Plan 2018-2022. The Bank developed a set of alternative and severe macroeconomic scenarios designed to anticipate the Bank's main weaknesses and to simulate how Belfius might be affected under these circumstances. These different stress tests measure the potential deviations from the "base case" Financial Plan and from Risk Appetite targets set by the management in terms of solvency, liquidity and profitability. These stress tests were submitted to the Management Board as well as to the Board of Directors.

3.3.2.4. Recovery plan

An update of Belfius Recovery Plan has been submitted to the ECB during the second half of 2017. This plan provides a set of recovery measures that would be taken to restore the Bank's long-term viability in the event of a significant deterioration of its financial situation due to severe general macroeconomic and/or idiosyncratic stress situations.

3.3.2.5. Resolution

Resolution is defined as the restructuring of a bank within the Single Resolution Mechanism (SRM) issued by the Single Resolution Board (SRB) through the use of resolution tools. The objective of the SRB is therefore to ensure an orderly resolution of failing banks with minimum impact on the real economy and on public finances of the participating Member States and beyond.

Belfius, being considered as significant financial institution in Belgium, has to ensure that all necessary information will be provided to the SRB, responsible for preparing a resolution plan that would be available in case of a severe crisis leading to an hypothetical failure of the bank.
Belfius resolution therefore consists of the application of identified resolution tool(s) to the bank which best achieve resolution objectives.

4. DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPE

The following table represents the differences between accounting and regulatory scopes and the mapping of financial statements with regulatory risk categories. The columns (a) and (b) enable to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation. Columns (c) to (g) break down how the amounts disclosed in column (b) are to be allocated to the different risk frameworks. The sum of amounts disclosed in columns (c) to (g) may not equal the amounts disclosed in column (b), as some items may be subject to capital requirements for more than one risk framework.

Bank	a	b	c	d	e	f	g
31/12/2017	Carrying values of items						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS							
Cash and balances with central banks	10,237	10,237	10,237	0	0	0	
Loans and advances due from banks	14,121	14,002	649	13,353	0	0	
Loans and advances to customers	90,057	86,615	84,460	2,155	0	0	
Investments held to maturity	5,442	5,442	4,783	0	659	0	23
Financial assets available for sale	17,983	6,138	6,138	0	0	0	
Financial assets measured at fair value through profit or loss	3,240	643	4	0	0	639	
Derivatives	20,303	20,303	0	20,303	0	0	
Gain/Loss on the hedged item in portfolio hedge of interest rate risk	3,721	3,721	3,721	0	0	0	
Investments in equity method companies	31	22	22	0	0	0	
Tangible fixed assets	1,059	655	655	0	0	0	
Intangible assets	162	127	0	0	0	0	127
Goodwill	104	0	0	0	0	0	104
Current tax assets	20	8	8	0	0	0	
Deferred tax assets	235	230	230	0	0	0	
Other assets	1,224	703	703	0	0	0	
Non current assets (disposal group) held for sale and discontinued operations	19	19	19	0	0	0	
TOTAL ASSETS	167,959	148,861	111,626	35,811	659	639	254
LIABILITIES							
Due to banks	11,110	11,078					
Customer borrowings and deposits	76,274	76,603					
Debt securities	22,027	22,077					
Financial liabilities measured at fair value through profit or loss	8,893	6,295					
Technical provisions of insurance companies	15,150	0					
Derivatives	21,264	21,264					
Gain/Loss on the hedged item in portfolio hedge of interest rate risk	105	105					
Provisions and contingent liabilities	425	263					
Subordinated debts	1,199	1,199					
Current tax liabilities	51	35					
Deferred tax liabilities	177	9					
Other liabilities	1,762	1,235					
Liabilities included in disposal group and discontinued operations	0	0					
TOTAL LIABILITIES	158,438	140,162					

The main sources of differences (other than those due to different scopes of consolidation) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes are provided in the following table:

31/12/2017	Items subject to			
	Total	Credit risk framework	CCR framework	Securitisation framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	148,096	111,626	35,811	659
Off-balance-sheet amounts	32,520	30,312	2,208	0
Differences due to different netting rules	(24,532)	(7,575)	(16,957)	0
Differences due to consideration of provisions	1,494	1,494	0	0
Exposure amounts considered for regulatory purposes	157,578	135,797	21,062	659

CREDIT RISK

1. CREDIT RISK MANAGEMENT AND GOVERNANCE

1.1. DEFINITION

Credit risk represents the potential loss (decrease of asset value or payment default) which Belfius may incur as a result of deterioration in the solvency of any counterparty.

1.2. GOVERNANCE AND COMMITTEES

Belfius has a structure of credit committees, which is organised hierarchically. The delegation of powers is contained in detailed procedures. It implies that as the amount of the credit transaction increases and / or the rating quality of the counterparty declines, decisions are made by a senior committee level.

The LMTR (Limite Maximale Théorique de Risque, or Maximum Theoretical Risk Limit) is the main instrument to concretize the limitation of risk concentrations and forms the backbone of the counterparty limit framework, which is a part of the global Risk Appetite Framework (RAF).

By its directive character, Belfius' counterparty limit framework is also contributory to the delegation rules in the Belfius group. The Maximum Theoretical Risk Limit serves as a reference point to determine the risk levels for which the Management Board and the Board of Directors are qualified, and consequently establish the delegation limits of the credit committees.

The assignment of counterparty limits exceeding the LMTR can be recommended by the Risk Committee and belongs to the authority of the Management Board and/or the Board of Directors.

The general principle is that credit committees have equal numbers of Risk or Credit department and Business representatives. The credit committees are chaired by a Risk or Credit department team member. Mainly for the credit decisions in the Retail and Commercial segment (RC), Belfius relies increasingly on an advanced and automated decision-taking process with behavioural or financial indicators as cornerstones. The parameters leading to decisions in these systems are of course determined by Risk.

In addition, a very important role is assigned to the risk control function. Once Belfius has credit commitments on a counterparty, it is essential to monitor and control the risk evolution, possibly to take the necessary corrective measures in case of quality deterioration and, where appropriate, to establish provisions for foreseen credit losses.

To this end, Belfius has a system of indicators based on behavioural or financial indicators. Counterparties showing signs of weakness are followed by the Watchlist Committee. Its main task is to detect emerging risks as quickly as possible and to monitor them. The business units play a very important role because they maintain the closest contact with customers. In this sense, they fulfil the role of first line risk controller.

Belfius Bank also applies the EBA formulated directives regarding Forbearance. Loans giving rise to application of this principle are those where the borrower, in serious financial difficulties, asks a concession from the Bank regarding the credit liabilities and to which the Bank agrees by adapting the contractual credit conditions.

If a counterparty fails seriously to meet its obligations towards the Bank, it is put in a default status. The formal decision is the competence of the Default Committee, composed of Risk team members. The default status is laid down, on the one hand, by a series of automatic criteria, such as the bankruptcy of the counterparty, but also on the other hand, by a discretionary decision on the basis of qualitative criteria. For each party in a default status, the Bank must then verify that, given the value of any guarantees provided by the counterparty, there is good reason to make provisions for impairment. This evaluation is performed by the Impairment Committee.

Methodological committees have a special place in the functioning of Belfius. Their main aim is to validate internal rating systems and quality control, points to be discussed later in this report.

2. CREDIT RISK EXPOSURE

2.1. OVERVIEW

The tables in the following chapter provide an overview of the overall credit risk. As prescribed in the EBA-guideline, different metrics are used referring either to accounting or to risk concepts.

The following metrics are used in this Risk Report:
- → gross carrying value: the exposure at default (EAD), before application of credit conversion factors (CCF);
- → net carrying value: gross-carrying value less the exposure at default of specific and general provisions;
- → exposure value for counterparty credit risk: the exposure at default (EAD) after Credit Risk Mitigation Techniques;
- → exposure amount: gross carrying value less the physical collateral.

In addition to these metrics, Belfius uses also the term of Full EAD or FEAD. Full Exposure At Default (FEAD) is the total exposure at default (EAD), including the total amount of a free credit line and other off-balance-sheet transactions (with the exception of derivatives), before application of credit conversion factors (CCF). EAD is hence seen in this report as an estimation of the maximum extent to which a bank may be exposed to a counterparty in the event of, and at the time of, that counterparty's default.
Please note that, for regulatory purposes, the credit conversion factor converts (0-100%) the current amount of a free credit line and other off-balance-sheet transactions to an exposure at default. But exposures mentioned in this report assume 100% CCF for all off-balance sheet exposures.

As in the Risk Report 2016, exposures to derivatives, including securities financing transactions are reported separately in a dedicated section.

a) Standardised approach

The exposures at year-ends 2016 and 2017 and the evolution illustrates the effect of CRM techniques.

Bank		a	b	c	d	e	f
Pro forma 31/12/2016		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	922	0	922	0	0	0%
2	Regional government or local authorities	662	10	666	5	237	35%
3	Public sector entities	70	350	24	345	178	48%
4	Multilateral development banks	88		108	1	0	0%
5	International organisations	4,866		4,866		0	0%
6	Institutions	7	0	7	0	2	33%
7	Corporates	3,628	2,437	3,300	1,950	3,977	76%
8	Retail	613	66	472	29	288	58%
9	Secured by mortgages on immovable property	546	187	546	90	234	37%
10	Exposures in default	86	74	71	0	97	136%
11	Exposures associated with particularly high risk	132		132		198	150%
12	Covered bonds	31		31		3	10%
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings	3		3		5	143%
15	Equity	1,868		1,868		6,860	367%
16	Other items	5,096		5,096		953	19%
17	TOTAL	18,620	3,124	18,112	2,420	13,032	63%

Bank	a	b	c	d	e	f
31/12/2017	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1 Central governments or central banks	930		984		0	0%
2 Regional government or local authorities	344	11	347	5	170	48%
3 Public sector entities	23	289	23	289	149	48%
4 Multilateral development banks	79		79		0	0%
5 International organisations	9,864		9,864		0	0%
6 Institutions	7	3	7	1	4	45%
7 Corporates	3,671	2,380	3,315	1,752	3,956	78%
8 Retail	673	75	561	35	341	57%
9 Secured by mortgages on immovable property	251	287	251	145	144	36%
10 Exposures in default	67	37	54	32	119	138%
11 Exposures associated with particularly high risk	138		138		207	150%
12 Covered bonds	56		56		6	10%
13 Institutions and corporates with a short-term credit assessment						
14 Collective investment undertakings	4		4		5	144%
15 Equity	1,879		1,879		6,893	367%
16 Other items	5,344		5,344		1,320	25%
17 TOTAL	23,330	3,081	22,907	2,258	13,314	53%

Bank	a	b	c	d	e
Evolution 31/12/2017 - 31/12/2016	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs
1 Central governments or central banks	8	0	62	0	0
2 Regional government or local authorities	(318)	0	(319)	0	(67)
3 Public sector entities	(47)	(61)	0	(56)	(29)
4 Multilateral development banks	(9)	0	(29)	(1)	0
5 International organisations	4,998	0	4,998	0	0
6 Institutions	1	3	1	1	2
7 Corporates	43	(57)	15	(198)	(21)
8 Retail	60	9	89	5	52
9 Secured by mortgages on immovable property	(296)	101	(296)	55	(90)
10 Exposures in default	(19)	(37)	(16)	31	22
11 Exposures associated with particularly high risk	6	0	6	0	9
12 Covered bonds	25	0	25	0	3
13 Institutions and corporates with a short-term credit assessment	0	0	0	0	0
14 Collective investment undertakings	0	0	0	0	0
15 Equity	11	0	11	0	33
16 Other items	248	0	248	0	367
17 TOTAL	4,710	(43)	4,795	(162)	282

The tables show that out of the total exposure amount in 2017 of EUR 26,411 million, approximately 88% of the exposure is on-balance exposure (vs. 86% in 2016).
There was an important increase in exposure related to the exposure class 'International organisations' linked to the higher cash amounts deposited at the ECB.

The exposures post CCF and CRM are further broken down by risks weights and exposure class:

Pro forma 31/12/2016	Risk weight											Total	Of which unrated
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	370%	Others		
1 Central governments or central banks	922											922	
2 Regional government or local authorities			348		311		12					671	1
3 Public sector entities			23		345		1					369	2
4 Multilateral development banks	108											108	
5 International organisations	4,866											4,866	0
6 Institutions	0		4		3		0					7	
7 Corporates	0		828		786		3,637	0				5,250	452
8 Retail	0					502						502	42
9 Secured by mortgages on immovable property				506	127	3	0					637	13
10 Exposures in default	0						20	51				71	0
11 Exposures associated with particularly high risk								132				132	2
12 Covered bonds		31										31	
13 Institutions and corporates with a short-term credit assessment												0	
14 Collective investment undertakings							0	3				3	0
15 Equity							0		43	1,825		1,868	2
16 Other items	4,144						953					5,096	4,621
17 TOTAL	10,041	31	1,202	506	1,571	505	4,622	186	43	1,825	0	20,533	5,136

31/12/2017	Risk weight											Total	Of which unrated
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	370%	Others		
1 Central governments or central banks	984											984	0
2 Regional government or local authorities			32		311		8					352	1
3 Public sector entities			23		289							312	1
4 Multilateral development banks	79											79	
5 International organisations	9,864											9,864	0
6 Institutions	0		4		3		2					9	0
7 Corporates	2		673		695		3,697	0				5,066	380
8 Retail	0					596						596	44
9 Secured by mortgages on immovable property				266	129							396	7
10 Exposures in default	0						21	66				86	0
11 Exposures associated with particularly high risk								138				138	7
12 Covered bonds		56										56	56
13 Institutions and corporates with a short-term credit assessment												0	
14 Collective investment undertakings							0	4				4	0
15 Equity							0		50	1,829		1,879	
16 Other items	680						944				3,721	5,344	4,755
17 TOTAL	11,609	56	732	266	1,427	596	4,671	207	50	1,829	3,721	25,165	5,251

Evolution 31/12/2017 - 31/12/2016	Risk weight											Total	Of which unrated
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	370%	Others		
1 Central governments or central banks	62	0	0	0	0	0	0	0	0	0	0	62	0
2 Regional government or local authorities	0	0	(315)	0	0	0	(4)	0	0	0	0	(319)	0
3 Public sector entities	0	0	0	0	(56)	0	(1)	0	0	0	0	(57)	(1)
4 Multilateral development banks	(29)	0	0	0	0	0	0	0	0	0	0	(29)	0
5 International organisations	4,998	0	0	0	0	0	0	0	0	0	0	4,998	0
6 Institutions	0	0	0	0	1	0	1	0	0	0	0	2	0
7 Corporates	2	0	(155)	0	(91)	0	61	0	0	0	0	(184)	(71)
8 Retail	0	0	0	0	0	95	0	0	0	0	0	95	1
9 Secured by mortgages on immovable property	0	0	0	(240)	2	(3)	0	0	0	0	0	(241)	(7)
10 Exposures in default	0	0	0	0	0	0	1	14	0	0	0	15	0
11 Exposures associated with particularly high risk	0	0	0	0	0	0	0	6	0	0	0	6	5
12 Covered bonds	0	25	0	0	0	0	0	0	0	0	0	25	56
13 Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0
14 Collective investment undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0
15 Equity	0	0	0	0	0	0	0	0	7	4	0	11	(2)
16 Other items	(3,464)	0	0	0	0	0	(9)	0	0	0	3,721	248	133
17 TOTAL	1,568	25	(470)	(240)	(144)	91	49	21	7	4	3,721	4,633	115

The total exposure amount at year end 2017 was EUR 25,165 million, of which EUR 5,251 million was unrated.

b) Internal rating based approach

The tables show the total exposure calculated within the IRB approach and broken down by exposure class at year-end 2016 and 2017.

Pro forma 31/12/2016	Central governments and central banks	Institutions	Corporates - Specialised Lending	Corporates - SME	Corporates - Other	Retail - Secured by immovable property SME	Retail - Secured by immovable property non-SME	Retail - Other SME	Retail - Other non-SME	Other	Total
Exposure	17,436	30,601	1,874	9,555	18,453	5,926	18,905	7,792	4,636	139	115,317
RWA	2,709	1,306	455	4,252	9,857	661	1,849	1,071	746	169	23,075

31/12/2017	Central governments and central banks	Institutions	Corporates - Specialised Lending	Corporates - SME	Corporates - Other	Retail - Secured by immovable property SME	Retail - Secured by immovable property non-SME	Retail - Other SME	Retail - Other non-SME	Other	Total
Exposure	20,117	25,342	1,800	9,505	19,449	6,404	20,721	8,584	4,767	153	116,842
RWA	4,884	930	464	4,659	10,787	701	2,037	1,232	750	206	26,650

The tables below include for the relevant exposure classes exposures by exposure class and PD range under the foundation (FIRB) and advanced (AIRB) IRB approaches.

The columns a and b are based on the original counterparty. As from column d, the figures are based on final counterparty. Concerning the number of obligors, it is to be mentioned that concerning the non-retail classes the number is expressed in number of final counterparties, while retail figures are expressed in number of contracts.

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Central governments and central banks												
0.00 to <0.15	8,477	8,506	0.75	19,933	0.02%	143	5%	3	808	4%	0	0
0.15 to <0.25		0	0.75	0	0.18%	3	35%	1	0	23%	0	0
0.25 to <0.50	98	0		98	0.34%	4	25%	5	49	50%	0	0
0.50 to <0.75	3,000	0		3,000	0.71%	3	50%	5	3,946	132%	11	0
0.75 to <2.50	0	0		0	0.88%	4	35%	2	0	63%	0	0
2.50 to <10.00	27			27	3.95%	1	60%	5	65	239%	1	0
10.00 to <100.00	3	4	0.75	6	14.32%	9	56%	1	16	270%	0	0
100.00 (Default)	1	1	0.75	2	100.00%	1	60%	1	0	0%	0	0
TOTAL	11,606	8,511	0.75	23,066	0.13%	168	11%	3	4,884	21%	12	0

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Institutions												
0.00 to <0.15	18,536	2,532	0.76	18,052	0.04%	2,321	4%	4	467	3%	0	4
0.15 to <0.25	2,538	482	0.75	2,955	0.20%	240	4%	4	180	6%	0	0
0.25 to <0.50	554	51	0.75	596	0.34%	38	9%	3	97	16%	0	0
0.50 to <0.75	470	73	0.70	527	0.65%	82	6%	4	75	14%	0	0
0.75 to <2.50	28	60	0.52	58	0.88%	64	58%	3	80	139%	0	0
2.50 to <10.00	0	1	0.50	0	4.54%	9	65%	1	1	197%	0	0
10.00 to <100.00	0	16	0.51	8	29.45%	43	66%	1	29	362%	2	0
100.00 (Default)	0	0		0	100.00%	4	71%	1	0	0%	0	0
TOTAL	22,127	3,215	0.75	22,196	0.10%	2,801	4%	4	930	4%	3	4

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates – Specialised Lending												
0.00 to <0.15	254	49	0.98	186	0.05%	3	19%	4	26	14%	0	1
0.15 to <0.25	225	4	0.75	228	0.18%	10	13%	2	22	10%	0	0
0.25 to <0.50	99	6	0.76	103	0.34%	9	14%	4	28	27%	0	1
0.50 to <0.75	210	98	0.83	291	0.71%	18	18%	3	115	40%	0	2
0.75 to <2.50	527	209	0.77	690	0.94%	42	17%	3	244	35%	1	7
2.50 to <10.00	46	4	0.75	49	4.10%	20	43%	1	29	59%	1	3
10.00 to <100.00	0	0	0.75	0	30.87%	6	19%	1	0	108%	0	0
100.00 (Default)	66	1	0.74	67	100.00%	18	85%	1	0	0%	33	36
TOTAL	1,427	373	0.81	1,615	4.83%	126	20%	3	464	29%	36	49

This class contains exposures under AIRB and slotting criteria approach. A more detailed view of this latter is provided in annex 3.7.

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Corporates – SME												
0.00 to <0.15	2,147	270	0.64	766	0.11%	426	31%	3	155	20%	0	0
0.15 to <0.25	112	2	0.94	74	0.16%	30	21%	4	17	23%	0	0
0.25 to <0.50	593	187	0.47	669	0.34%	493	35%	3	265	40%	1	0
0.50 to <0.75	75	48	0.75	110	0.67%	109	20%	4	37	34%	0	0
0.75 to <2.50	2,420	675	0.52	2,797	1.36%	1,821	43%	3	2,176	78%	16	7
2.50 to <10.00	1,641	306	0.51	1,797	4.04%	1,457	41%	3	1,813	101%	29	22
10.00 to <100.00	136	19	0.54	149	28.67%	1,493	35%	3	196	132%	15	5
100.00 (Default)	862	11	0.51	868	100.00%	574	29%	1	0	0%	623	621
TOTAL	7,985	1,520	0.54	7,230	14.18%	6,403	38%	3	4,659	64%	685	656

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Corporates – Other												
0.00 to <0.15	3,985	2,911	0.75	5,719	0.08%	302	35%	4	1,525	27%	1	52
0.15 to <0.25	678	525	0.84	1,108	0.24%	69	44%	3	609	55%	1	46
0.25 to <0.50	1,279	1,431	0.66	2,274	0.40%	257	40%	3	1,388	61%	4	9
0.50 to <0.75	70	36	0.75	96	0.67%	58	27%	3	53	56%	0	0
0.75 to <2.50	3,610	2,491	0.52	4,948	1.21%	1,018	48%	2	4,882	99%	29	17
2.50 to <10.00	1,420	568	0.53	1,718	3.92%	616	41%	2	2,143	125%	28	56
10.00 to <100.00	71	45	0.45	89	30.90%	201	28%	2	134	151%	8	13
100.00 (Default)	316	14	0.57	323	100.00%	142	46%	1	52	16%	239	237
TOTAL	11,428	8,021	0.66	16,276	3.04%	2,663	41%	3	10,787	66%	309	429

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Retail – Secured by immovable property SME												
0.00 to <0.15	1,459	28	1.00	1,488	0.05%	24,718	10%	5	69	5%	0	0
0.15 to <0.25	1,526	38	1.00	1,565	0.16%	22,870	10%	5	98	6%	0	0
0.25 to <0.50	941	22	1.00	963	0.31%	12,985	11%	5	78	8%	0	0
0.50 to <0.75	1,014	20	1.00	1,033	0.66%	13,578	11%	5	118	11%	1	1
0.75 to <2.50	645	11	1.00	657	1.84%	8,501	11%	5	125	19%	1	1
2.50 to <10.00	579	8	1.00	587	4.73%	7,971	11%	5	177	30%	3	1
10.00 to <100.00	66	0	1.00	66	21.00%	833	11%	5	35	53%	2	0
100.00 (Default)	46	0	1.00	46	100.00%	549	11%	5	0	0%	5	5
TOTAL	6,276	128	1.00	6,404	1.77%	92,005	11%	5	701	11%	12	9

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Retail - Secured by immovable property non-SME												
0.00 to <0.15	12,827	218	1.00	13,044	0.03%	244,078	10%	5	780	6%	0	1
0.15 to <0.25	2,802	48	1.00	2,850	0.16%	35,256	10%	5	243	9%	0	1
0.25 to <0.50	2,210	35	1.00	2,245	0.43%	24,797	10%	5	277	12%	1	1
0.50 to <0.75												
0.75 to <2.50	1,589	32	1.00	1,621	1.29%	16,202	10%	5	337	21%	2	2
2.50 to <10.00	635	7	1.00	642	5.20%	9,042	10%	5	259	40%	3	2
10.00 to <100.00	215	1	1.00	216	25.83%	2,907	10%	5	140	65%	6	1
100.00 (Default)	101	0	1.00	101	100.00%	1,341	10%	5	2	2%	12	12
TOTAL	20,379	342	1.00	20,720	1.11%	333,623	10%	5	2,037	10%	26	19

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Retail - Other SME												
0.00 to <0.15	1,404	483	0.82	1,800	0.08%	121,509	22%	3	68	4%	0	0
0.15 to <0.25	174	198	0.92	356	0.16%	45,685	27%	2	29	8%	0	0
0.25 to <0.50	1,246	309	0.84	1,506	0.37%	98,665	21%	3	157	10%	1	0
0.50 to <0.75	889	240	0.86	1,096	0.70%	85,676	23%	3	172	16%	2	1
0.75 to <2.50	1,482	344	0.77	1,748	1.69%	105,065	21%	3	362	21%	6	6
2.50 to <10.00	953	279	0.77	1,168	5.58%	83,581	22%	3	316	27%	14	7
10.00 to <100.00	293	55	0.79	337	25.02%	21,726	21%	3	129	38%	17	5
100.00 (Default)	219	14	0.76	230	100.00%	17,247	27%	2	0	0%	128	128
TOTAL	6,661	1,923	0.82	8,240	5.15%	579,154	22%	3	1,232	15%	170	147

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2017 PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Retail - Other non-SME												
0.00 to <0.15	673	2,062	0.99	2,711	0.04%	710,553	32%	2	129	5%	0	0
0.15 to <0.25	181	349	0.98	522	0.16%	152,141	33%	2	68	13%	0	0
0.25 to <0.50	188	237	0.98	421	0.44%	126,669	34%	2	104	25%	1	0
0.50 to <0.75												
0.75 to <2.50	223	402	0.99	622	1.36%	176,914	27%	3	217	35%	2	0
2.50 to <10.00	218	100	0.97	315	4.74%	114,077	37%	2	183	58%	6	0
10.00 to <100.00	47	8	0.97	55	22.00%	18,364	38%	2	49	88%	5	0
100.00 (Default)	65	14	0.89	77	100.00%	36,678	41%	3	0	0%	47	47
TOTAL	1,595	3,172	0.99	4,723	2.46%	1,335,396	32%	2	750	16%	60	47

c) Total and average net amount of exposures by exposure class

The following figures are based on the original counterparty and expressed in net carrying value.
The average net exposure over the period is the average of the net exposures observed at the end of each quarter of 2017.

Bank		a	b
31/12/2017		Net value of exposures at the end of the period	Average net exposures over the period
1	Central governments or central banks	19,894	18,856
	DTA	222	312
2	Institutions	25,338	26,862
3	Corporates	29,799	28,909
4	*Of which: Specialised lending*	*1,750*	*1,770*
5	*Of which: SMEs*	*8,856*	*8,553*
	Of which: Other	*19,193*	*18,587*
6	Retail	40,280	39,016
7	Secured by real estate property	27,097	26,233
8	*SMEs*	*6,396*	*6,204*
9	*Non-SMEs*	*20,701*	*20,029*
10	Qualifying revolving	27	29
11	Other retail	13,157	12,754
12	*SMEs*	*8,437*	*8,064*
13	*Non-SMEs*	*4,720*	*4,691*
14	Equity	125	109
15	**TOTAL IRB APPROACH**	**115,659**	**114,065**
16	Central governments or central banks	930	943
17	Regional governments or local authorities	354	378
18	Public sector entities	312	334
19	Multilateral development banks	79	83
20	International organisations	9,864	9,762
21	Institutions	10	11
22	Corporates	6,037	6,108
23	*Of which: SMEs*		
24	Retail	746	733
25	*Of which: SMEs*		
26	Secured by mortgages on immovable property	536	642
27	*Of which: SMEs*		
28	Exposures in default	103	138
29	Items associated with particularly high risk	138	136
30	Covered bonds	56	43
31	Claims on institutions and corporates with a short-term credit assessment		
32	Collective investments undertakings	4	4
33	Equity exposures	1,878	1,872
34	Other exposures	5,344	4,901
35	**TOTAL STANDARDISED APPROACH**	**26,392**	**26,088**
36	TOTAL	142,051	140,152

The exposure under IRB approach increased in 2017 with EUR 1,569 million. The increase of Central governments or central banks (EUR +2,834 million), the Mortgage Loans activity (EUR +2,295 million) and other activities to SMEs (EUR +803 million) was counterbalanced by the decrease of Institutions (EUR -5,257 million EUR).

The exposure under standardised approach increased considerably with EUR 4,670 million essentially due to the exposure class of International Organisations.

d) Contribution Belfius Bank – Belfius Insurance

Note: The figures in the following table are expressed in EAD pre CCF, after elimination of intra-group exposures and exclusion of equity positions and other assets not qualified as credit exposure, but with inclusion of credit exposure of trading activities and counterparty credit risk.

Belfius	31/12/2016	31/12/2017	Of which	
			Bank	Insurer
Central Governments or Central Banks	20,326	24,799	17,799	7,000
of which Government bonds	13,381	12,860	6,107	6,753
Public sector entities	50,332	47,375	45,392	1,983
Corporates	27,532	29,509	28,124	1,385
Monolines	4,175	3,517	3,517	0
ABS/MBS	1,403	997	873	124
Project Finance	2,102	2,034	2,034	0
Individuals, self-employed and SME’s	42,336	45,169	41,657	3,512
Financial Institutions	23,558	19,656	18,009	1,647
Others	662	745	250	495
TOTAL	172,426	173,801	157,655	16,146

2.2. INTERNAL RATING BASED APPROACHES

2.2.1. Competent Authority’s Acceptance of Approach

By letter sent on 21 December 2007 by the Banking, Finance and Insurance Commission (CBFA), the Belgian Regulator, Dexia SA was authorised to use the Advanced Internal Rating-Based Approach (AIRB Approach) for the calculation and the reporting of its capital requirements for credit risk starting from 1 January 2008. This acceptance was applicable to all entities and subsidiaries consolidated within the Dexia Group, which are established in a Member State of the European Union and are subject to the Capital Requirement Directive, and among them Belfius Bank (formerly Dexia Bank Belgium). The teams at the Bank have also been among the main contributors of this approval, and its risk management is in perfect continuity with the know-how developed so far.

2.2.2. Internal Rating Systems

The internal rating systems used by Belfius Bank are set up to evaluate the three Basel parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For each counterparty type in the advanced method, a set of two models, one for PD and one for LGD, has been developed. Regarding the CCF parameter, Belfius makes a distinction between retail and non retail counterparties: an advanced model is applied for retail counterparties, while non-retail counterparties use the regulatory values.

The PD models estimate the one-year probability of default on a through-the-cycle basis. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed during the yearly back testing and adjusted when necessary. The number of ratings on each scale depends on the characteristics of the underlying portfolio (the number of counterparties, their homogeneity, whether it is a low default portfolio or not) and varies between 6 and 17 non-default classes. In addition each scale has been attributed two default classes (named D1 and D2).

For non-retail, LGD models estimate the ultimate loss incurred on a defaulting counterparty before taking the credit risk mitigants into account. The unsecured LGD depends on various factors such as the product type, the level of subordination or the rating of the counterparty. The granularity of the estimate is a function of the quantity and quality of data available. For retail, LGD is mainly determined by product type based on workout recoveries. Professional loans are segmented in 5 classes subject to collateral value.

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

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

The control mechanisms for Internal Rating Systems (IRS) are organised on two levels.

Validation, that encompasses both Model Validation and Operational Control, is an independent Direction within the Risk department. It reports directly to the CRO and is not involved in any model development in order to guarantee its objectivity. Validation performs a global control on all the aspects of the production of results by the models, from a methodological but also an operational (implementation, usage) viewpoint. It intervenes prior to the first use of the models and afterwards performs a regular monitoring of their functioning.
Audit is responsible for auditing the general consistency and compliance with the regulation of the IRS. According to the CRD minimal requirement 131, Annex VII Part 4, "Internal Audit has to include in its plan, at least once a year, a review of the IRS and its functioning, including credit scoring and estimation of PD, LGD, expected loss (EL) and CCF. Compliance with all the minimum requirements has also to be verified. Within Belfius Bank, this annual review has been delegated to the Validation Direction. Audit acts then as an additional level of control, given that the correct functioning of Validation is included in its Audit plan.

Refer to Appendix 1 for more details regarding Internal Rating Systems.

2.2.3. Back testing

The purpose of the back test is to assess the performance of the internal rating system ensuring an appropriate balance between capital and risk. As the formulas to calculate the Bank's capital are provided by the Basel Committee on Banking Supervision, the internal back test relating to Pillar 1 rating systems is based on the back test of the input parameters PD, LGD and CCF in the Basel credit risk portfolio model. Please note that even if the non-retail CCF parameters are not the result of a dedicated model, they are subject to a monitoring in order to ensure the used values are suited.

The back test is the evaluation of the predictive power of the rating system and the assessment of its time evolution to detect any reduced performance in an early stage. Decreased performance of the rating system may reduce the Bank's profitability and will impact the risk assessments of the defined risk buckets. The performance is tracked by analysing the ability to discriminate between high and low risk and the stability of the data inputs into the rating system.

The back test procedure aims at assessing the following:

→ Calibration
  Calibration normally denotes the mapping of the Probability of Default (PD) to the rating grades. A rating system is well calibrated if the estimated PDs (or LGDs) deviate only marginally from the actual default rates (or loss) and show an adequate level of conservatism.

→ Discriminatory Power
  The discriminatory power of rating systems denotes their ex-ante ability to identify borrowers in danger of defaulting. A rating system with maximum power would be able to classify all borrowers such that defaulters would be ranked strictly worse than all non defaulters. In practice, however, such perfect rating systems do not exist. A rating system demonstrates a high discriminatory power if the "good" grades subsequently turn out to contain only a small percentage of defaulters and a large percentage of non-defaulters, with the converse applying to the "poor" grades. Regarding LGD model, discriminatory power relates to its ability to recognise between high and low loss levels.

→ Stability
  The stability of the population and its data characteristics are analysed in order to make sure that the model applied is in line with the reference data sets used for construction, and that the population characteristics do not change significantly over time.

The results of the back testing are assessed using statistical significance tests. The outcome of the significance tests will drive required action plans.

The additional part of the back test procedure is related to the impact of judgemental aspects i.e. the importance of judgemental qualitative variables in the final rating and the effect of expert overruling.

The following table gives an overview of the Probability of Default (PD) and the Default Rates (DR) on the Bank's portfolio under advanced method. It is based on a 5 year history of our advanced portfolios (average of the 5-yearly PD and DR).

Model	PD average	DR average
Corporates	2.28%	1.80%
Financial Institutions	0.69%	0.17%
Sovereigns & Belgian Regions and Communities	0.47%	0.70%
Insurance Companies	1.74%	0.00%
Local Authorities & Satellites	0.13%	0.07%
Retail Individuals & Small Professionals	0.97%	0.85%
Retail Small Compagnies	3.46%	3.17%

The following table shows an overview of the relation between IRB models as used above and the implicated asset classes:

Asset Classes	IRB models						
	Corporates	Financial Institutions	Sovereigns & Belgian Regions and Communities	Insurance Companies	Local Authorities & Satellites	Retail Individuals & Small Professionals	Retail Small Compagnies
Central governments and central banks			●				
Institutions		●			●		
Corporates	●			●	●		
Corporates - SME	●				●		
Retail - SME						●	●
Retail - non-SME						●	

For the relevant classes, the weighted average PD and arithmetic PD by obligors at year-ends 2016 and 2017 by PD range are further detailed in the tables below:

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2016)	Weighted average PD (31/12/2017)	Arithmetic average PD by obligors (31/12/2016)	Arithmetic average PD by obligors (31/12/2017)
Central governments and central banks					
[0-0.015]	AAA	0	0.02	0	0.00
[0.045-0.055]	A+		0.05		0.05
[0.055-0.065]	A	0.06	0.06	0.06	0.03
[0.065-0.125]	A-	0.07	0.07	0.07	0.07
[0.125-0.260]	BBB+	0.18	0.70	0.18	0.39
[0.525-0.795]	BBB-	0.71	0.88	0.36	0.80
[1.915-3.315]	BB-	2.68	3.95	2.68	3.95
[6.510-11.455]	B	9.07	13.84	7.26	13.84
[11.455-22.355]	B-		13.84		13.84

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2016)	Weighted average PD (31/12/2017)	Arithmetic average PD by obligors (31/12/2016)	Arithmetic average PD by obligors (31/12/2017)
Corporates - Other					
[0.025-0.035]	AA	0.03	0.03	0.03	0.03
[0.035-0.045]	AA-	0.06	0.06	0.06	0.06
[0.045-0.055]	A+	0.05	0.05	0.06	0.03
[0.055-0.065]	A	0.06	0.07	0.07	0.08
[0.065-0.125]	A-	0.11	0.14	0.22	0.24
[0.125-0.260]	BBB+	0.23	0.21	0.27	0.39
[0.260-0.525]	BBB	0.43	0.44	0.65	0.71
[0.525-0.795]	BBB-	0.79	0.91	1.09	1.20
[0.795-1.015]	BB+	0.96	0.95	0.79	0.97
[1.015-1.915]	BB	1.59	1.76	1.92	2.35
[1.915-3.315]	BB-	3.23	3.12	3.49	3.78
[3.315-6.510]	B+	5.14	8.52	5.77	7.36
[6.510-11.455]	B	11.75	12.25	10.73	12.09
[11.455-22.355]	B-	17.34	25.26	17.75	15.53
[22.355-100[	CCC	35.33	35.93	17.83	28.61
100	D	100.00	100.00	95.45	89.10

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2016)	Weighted average PD (31/12/2017)	Arithmetic average PD by obligors (31/12/2016)	Arithmetic average PD by obligors (31/12/2017)
Corporates - SME					
[0.055-0.065]	A	0.06	0.08	0.10	0.10
[0.065-0.125]	A-	0.18	0.19	0.27	0.29
[0.125-0.260]	BBB+	0.16	0.31	0.36	0.44
[0.260-0.525]	BBB	0.39	0.49	0.75	0.80
[0.525-0.795]	BBB-	0.89	1.08	1.26	1.56
[0.795-1.015]	BB+	0.87	2.15	0.35	1.44
[1.015-1.915]	BB	1.87	2.15	2.24	2.64
[1.915-3.315]	BB-	3.31	4.81	3.72	5.43
[3.315-6.510]	B+	5.63	11.36	5.91	8.11
[6.510-11.455]	B	9.72	10.78	12.73	14.11
[11.455-22.355]	B-	19.87	22.89	24.09	20.94
[22.355-100[	CCC	43.36	38.18	40.09	35.40
100	D	100.00	98.33	98.46	82.10

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2016)	Weighted average PD (31/12/2017)	Arithmetic average PD by obligors (31/12/2016)	Arithmetic average PD by obligors (31/12/2017)
Corporates – Specialised Lending					
[0.045-0.055]	A+	0.05	0.05	0.05	0.05
[0.055-0.065]	A	0.06	0.06	0.06	0.06
[0.065-0.125]	A-	0.07	0.07	0.07	0.07
[0.125-0.260]	BBB+	0.20	0.18	0.22	0.19
[0.260-0.525]	BBB	0.34	0.34	0.34	0.23
[0.525-0.795]	BBB-	0.71	0.67	0.67	0.65
[0.795-1.015]	BB+	0.88	0.86	0.90	0.91
[1.015-1.915]	BB	1.15	0.98	1.08	0.99
[1.915-3.315]	BB-	2.68	2.44	2.93	3.14
[3.315-6.510]	B+	3.95	3.90	3.95	2.61
[11.455-22.355]	B-	13.84	9.07	13.84	9.07
100	D	100.00	100.00	100.00	94.74

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2016)	Weighted average PD (31/12/2017)	Arithmetic average PD by obligors (31/12/2016)	Arithmetic average PD by obligors (31/12/2017)
Institutions					
[0-0.015]	AAA	0.03	0.03	0.03	0.03
[0.015-0.012]	AA+	0.03	0.04	0.03	0.03
[0.025-0.035]	AA	0.03	0.04	0.03	0.04
[0.035-0.045]	AA-	0.04	0.04	0.04	0.03
[0.045-0.055]	A+	0.05	0.05	0.05	0.05
[0.055-0.065]	A	0.06	0.10	0.07	0.06
[0.065-0.125]	A-	0.08	0.08	0.08	0.10
[0.125-0.260]	BBB+	0.20	0.23	0.22	0.23
[0.260-0.525]	BBB	0.34	0.22	0.34	0.40
[0.525-0.795]	BBB-	0.69	0.58	0.57	0.57
[0.795-1.015]	BB+	0.90	0.88	0.78	0.55
[1.015-1.915]	BB	1.48	1.02	1.52	0.79
[1.915-3.315]	BB-	3.18	2.49	4.81	2.61
[3.315-6.510]	B+	3.95	3.95	2.63	1.32
[6.510-11.455]	B	9.07	6.70	6.05	7.36
[11.455-22.355]	B-	13.84	16.11	7.12	12.51
[22.355-100[	CCC	30.87		30.87	
100	D	100.00	100.00	100.00	50.00

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2016)	Weighted average PD (31/12/2017)	Arithmetic average PD by obligors (31/12/2016)	Arithmetic average PD by obligors (31/12/2017)
Retail – Other non-SME					
[0.035-0.045]	AA-	0.04	0.04	0.03	0.03
[0.125-0.260]	BBB+	0.16	0.04	0.11	0.21
[0.260-0.525]	BBB		0.44		0.44
[1.015-1.915]	BB	1.36	0.73	1.35	0.75
[3.315-6.510]	B+		3.59		3.59
100	D	100.00	100.00	33.33	100.00

2.2.4. Stress Testing

Pillar 1 stress tests are defined within Basel to deal with minimum capital requirements. They assess how the risk parameter levels may vary in the credit portfolio during periods of stress, in order to draw conclusions on individual asset classes and portfolios, as well as on the whole portfolio itself.

The focus of the stress testing Pillar 1 lies on a univariate analysis and the application of realistic and meaningful expert scenarios.

During the univariate analysis, the distribution of the model variables is investigated in order to detect if a significant part of the portfolio gets a value equal to the cap or floor. When this is the case, conclusions must be drawn in terms of the capability of the model to perform in such a scenario.

Expert scenarios can essentially be designed in two distinct ways:

- testing the robustness of the model by computing PD/LGD in an alternative (stressed) manner and comparing the results to the model outputs: the purpose is to challenge the model;
- stressing model results: this measures the impact on risk measures given the assumption that the model is correct.

These stress tests are performed on an annual basis on a firm-wide basis. Stress test reports are presented initially to the Validation Direction. After validation of the overall process of the stress test implementation, a report on the main portfolio weaknesses and strengths is produced in order to allow proposals for management actions. The final files are submitted to the Risk ExCom.

2.3. STANDARDISED APPROACHES

2.3.1. Introduction

Belfius Bank uses the Advanced Internal Rating-Based Approach (AIRB Approach) to calculate its capital requirements for credit risk. Nevertheless, it applies the Standardised Approach for some portfolios corresponding to cases specifically authorised by regulation such as:

- small business units;
- non-material portfolios;
- portfolios corresponding to activities in run-off or to be sold;
- portfolios for which it has adopted a phased roll-out of the AIRB Approach.

2.3.2. Roll-Out Plan

Within the Basel homologation process, Belfius Bank informed the regulator of the models to be developed or changed in coming years on business segments and Basel parameters.

The majority of models have been validated internally and have already been sent to the regulator. In the meantime, Belfius Bank maintains the corresponding exposures under the Basel Standardised Approach, except for the CCF calculation for the non-retail segment where the regulator agreed in 2014 on continuing the use of the Foundation IRB approach.

2.3.3. Nominated External Credit Assessment Institutions (ECAI)

The Standardised Approach provides weighted risk figures based on external ratings. In order to apply the Standardised Approach for risk weighted exposure, Belfius Bank uses the external ratings assigned by the following rating agencies: Standard & Poor's, Moody's and Fitch.

If two ratings are available, the rating used for the regulatory capital calculation is the lower of the two ratings. If three ratings are available, Belfius will take the lower of the best two ratings. If no external rating is available, the Standardised Approach provides specific risk weights.

2.4. EXPOSURE BY GEOGRAPHIC AREA

Preliminary remark

The exposure to "Others", "Equities" and "Deferred Tax Assets" are not included in the tables of the sections 2.4., 2.5., 2.6. and 2.7.

The tables below show the exposures expressed in gross carrying value and the credit risk adjustments (specific as well as general) with a breakdown by geographic area at year-ends 2016 and 2017 as well as the evolution between 2016 and 2017.

Bank	a	b	c	d	e
Pro forma 31/12/2016	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
Belgium	1,950	104,720	1,120	135	105,416
France	3	3,343	2	8	3,336
Italy	0	3,137		0	3,137
Rest of Eurozone	113	6,909	74	7	6,941
United Kingdom	0	3,320	0	119	3,201
Rest of Europe	0	1,452	0	14	1,438
US & Canada	105	1,756	14	5	1,843
Rest of the World	28	3,224	14	26	3,211
TOTAL	2,200	127,861	1,224	314	128,523

Bank	a	b	c	d	e
31/12/2017	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
Belgium	1,718	107,821	1,072	148	108,319
France	5	3,078	4	7	3,072
Italy		3,098		0	3,098
Rest of Eurozone	106	11,864	76	8	11,886
United Kingdom	0	3,006	0	108	2,899
Rest of Europe	0	856	0	0	856
US & Canada	56	1,368	10	4	1,410
Rest of the World	29	3,123	14	21	3,118
TOTAL	1,914	134,214	1,175	296	134,657

Bank	a	b	c	d	e
Evolution 31/12/2017 - 31/12/2016	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
Belgium	(232)	3,101	(48)	14	2,903
France	2	(265)	2	(1)	(264)
Italy	0	(39)		0	(39)
Rest of Eurozone	(8)	4,955	2	1	4,944
United Kingdom	0	(314)	0	(12)	(302)
Rest of Europe	0	(596)	0	(14)	(582)
US & Canada	(49)	(389)	(4)	(1)	(433)
Rest of the World	1	(101)	0	(5)	(94)
TOTAL	(286)	6,353	(48)	(18)	6,134

Out of total net value, Belgium represents still over 80% at year-end 2017 while the total net values increased in 2017 by EUR 6,135 million.

2.5. EXPOSURE PER ECONOMIC SECTOR

The following tables show the exposure, the credit risk expressed in gross carrying value (columns a and b), adjustments (c and d) and the net values (e) with a breakdown by economic sector at year-ends 2016 and 2017 as well as the evolution between 2016 and 2017. The breakdown is based on NACE codes (statistical classification codes of economic activities in the EU).

Bank		a	b	c	d	e
Pro forma 31/12/2016		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
1	Agriculture, forestry and fishing	11	78	8	1	80
2	Mining and quarrying	0	398	0	1	398
3	Manufacturing	255	2,565	163	8	2,648
4	Electricity, gas, steam and air conditioning supply	87	3,455	15	17	3,510
5	Water supply	2	2,636	2	53	2,584
6	Construction	120	4,320	73	10	4,357
7	Wholesale and retail trade	160	4,599	106	44	4,609
8	Transport and storage	117	3,610	64	56	3,607
9	Accommodation and food service activities	35	447	13	4	464
10	Information and communication	21	802	13	2	807
11	Real estate activities	267	31,387	86	24	31,544
12	Professional, scientific and technical activities	89	3,059	55	20	3,072
13	Administrative and support service activities	29	1,377	15	3	1,387
14	Public administration and defence, compulsory social security	4	38,067	4	3	38,065
15	Education	3	520	3	0	520
16	Human health services and social work activities	26	5,958	9	7	5,968
17	Arts, entertainment and recreation	14	666	5	2	672
18	Financial and Insurance Activities	839	17,746	508	58	18,018
19	Other services	122	6,169	80	1	6,210
20	TOTAL	2,200	127,861	1,224	314	128,523

Bank		a	b	c	d	e
31/12/2017		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
1	Agriculture, forestry and fishing	10	93	8	0	95
2	Mining and quarrying	0	361	0	0	360
3	Manufacturing	210	3,252	154	12	3,297
4	Electricity, gas, steam and air conditioning supply	47	3,223	14	15	3,242
5	Water supply	7	2,299	4	51	2,251
6	Construction	113	4,634	69	12	4,666
7	Wholesale and retail trade	160	4,904	102	35	4,928
8	Transport and storage	107	3,292	64	45	3,289
9	Accommodation and food service activities	26	543	12	4	553
10	Information and communication	20	895	13	1	900
11	Real estate activities	244	33,850	75	25	33,994
12	Professional, scientific and technical activities	75	3,423	55	22	3,421
13	Administrative and support service activities	26	1,474	14	4	1,483
14	Public administration and defence, compulsory social security	5	37,294	3	1	37,295
15	Education	3	513	3	0	513
16	Human health services and social work activities	26	5,750	9	5	5,762
17	Arts, entertainment and recreation	10	647	5	2	650
18	Financial and Insurance Activities	693	21,462	497	61	21,598
19	Other services	130	6,303	73	0	6,359
20	TOTAL	1,914	134,214	1,175	296	134,657

Bank	a	b	c	d	e
Evolution 31/12/2017 – 31/12/2016	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
1 Agriculture, forestry and fishing	(1)	15	(1)	0	14
2 Mining and quarrying	0	(38)	0	0	(38)
3 Manufacturing	(44)	687	(9)	3	649
4 Electricity, gas, steam and air conditioning supply	(40)	(232)	(1)	(3)	(268)
5 Water supply	5	(337)	3	(2)	(332)
6 Construction	(7)	314	(4)	2	309
7 Wholesale and retail trade	0	305	(4)	(9)	318
8 Transport and storage	(11)	(319)	0	(11)	(318)
9 Accommodation and food service activities	(8)	96	(1)	0	89
10 Information and communication	(1)	93	0	(1)	93
11 Real estate activities	(23)	2,463	(11)	1	2,449
12 Professional, scientific and technical activities	(14)	364	0	2	349
13 Administrative and support service activities	(2)	98	(1)	1	95
14 Public administration and defence, compulsory social security	2	(774)	0	(2)	(770)
15 Education	0	(7)	0	0	(7)
16 Human health services and social work activities	1	(208)	0	(2)	(206)
17 Arts, entertainment and recreation	(4)	(19)	0	0	(22)
18 Financial and Insurance Activities	(146)	3,717	(11)	2	3,580
19 Other services	8	134	(7)	(1)	149
20 TOTAL	**(286)**	**6,353**	**(48)**	**(18)**	**6,134**

The sector 'Public administration and defence, compulsory social security' had the largest share of the total net values. Together with 'Real Estate activities' and 'Financial and Insurance activities', they accounted in 2017 for 69% of the total net values. Only 1.4% of the exposure was defaulted. The industry sectors with the highest part of defaulted exposure rate are 'Agriculture, forestry and fishing' (9.6%, but very limited in impact) and Manufacturing (6.1%).

2.7. EXPOSURE BY EXPOSURE CLASS AND RESIDUAL MATURITY

The following tables show the total exposure with a breakdown by exposure class and residual maturity at year-ends 2016 and 2017 as well as the evolution between 2016 and 2017. The net exposure value is expressed in net carrying value and based on the original counterparty.

Bank		a	b	c	d	e	f
Pro forma 31/12/2016		Net exposure value					
		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	7,365	1,175	1,188	6,927	404	17,060
2	Institutions	1,107	3,896	3,863	19,778	1,951	30,595
3	Corporates	717	6,563	4,586	11,324	5,709	28,900
4	Retail	1,699	1,068	3,720	27,134	3,432	37,052
5	Equity		0	0		106	106
6	**TOTAL IRB APPROACH**	**10,888**	**12,702**	**13,358**	**65,163**	**11,603**	**113,714**
7	Central governments or central banks		0	917	0	5	922
8	Regional governments or local authorities	9	312	16	332	1	670
9	Public sector entities		52	17	7	345	420
10	Multilateral development banks			8	81		88
11	International organisations		3,683	183		1,000	4,866
12	Institutions	0	0	1		5	7
13	Corporates	68	905	800	1,565	2,711	6,050
14	Retail	21	39	303	256	58	678
15	Secured by mortgages on immovable property	0	187	87	355	102	732
16	Exposures in default	5	34	5	15	101	160
17	Items associated with particularly high risk					132	132
18	Covered bonds		31				31
19	Claims on institutions and corporates with a short-term credit assessment						0
20	Collective investments undertakings		0	0		3	3
21	Equity exposures		2	4	1	43	50
23	**TOTAL STANDARDISED APPROACH**	**104**	**5,246**	**2,342**	**2,612**	**4,505**	**14,809**
24	TOTAL	10,992	17,948	15,700	67,775	16,107	128,523

Bank		a	b	c	d	e	f
31/12/2017		Net exposure value					
		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	7,400	1,116	696	9,533	1,149	19,894
2	Institutions	811	1,746	5,075	16,094	1,612	25,338
3	Corporates	571	7,500	5,006	10,942	5,780	29,799
4	Retail	1,715	1,250	4,015	29,763	3,538	40,280
5	Equity		0	10	5	110	125
6	**TOTAL IRB APPROACH**	**10,497**	**11,613**	**14,801**	**66,337**	**12,189**	**115,436**
7	Central governments or central banks		1	888	35	7	930
8	Regional governments or local authorities	10	3	21	319	1	354
9	Public sector entities		4	17	2	289	312
10	Multilateral development banks		8	12	60		79
11	International organisations		8,840	180		844	9,864
12	Institutions	0	0	2		8	10
13	Corporates	65	791	875	1,500	2,807	6,037
14	Retail	22	48	363	238	76	746
15	Secured by mortgages on immovable property	0	173	127	60	176	536
16	Exposures in default	4	25	7	17	50	103
17	Items associated with particularly high risk		0			138	138
18	Covered bonds			21	35		56
19	Claims on institutions and corporates with a short-term credit assessment						0
20	Collective investments undertakings		0			4	4
21	Equity exposures			1		49	50
23	**TOTAL STANDARDISED APPROACH**	**100**	**9,893**	**2,514**	**2,265**	**4,448**	**19,220**
24	**TOTAL**	**10,597**	**21,506**	**17,315**	**68,602**	**16,637**	**134,657**

Bank		a	b	c	d	e	f
Evolution 31/12/2017 – 31/12/2016		Net exposure value					
		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	35	(59)	(493)	2,606	744	2,834
2	Institutions	(296)	(2,150)	1,212	(3,684)	(339)	(5,257)
3	Corporates	(146)	937	420	(382)	71	899
4	Retail	16	183	295	2,629	106	3,228
5	Equity	0	0	10	5	4	18
6	**TOTAL IRB APPROACH**	**(391)**	**(1,089)**	**1,443**	**1,173**	**586**	**1,723**
7	Central governments or central banks	0	0	(29)	35	2	8
8	Regional governments or local authorities	1	(308)	5	(13)	0	(316)
9	Public sector entities	0	(47)	0	(5)	(56)	(108)
10	Multilateral development banks	0	8	4	(21)	0	(9)
11	International organisations	0	5,157	(3)	0	(156)	4,998
12	Institutions	0	0	0	0	3	3
13	Corporates	(4)	(115)	75	(65)	96	(13)
14	Retail	1	9	60	(19)	17	68
15	Secured by mortgages on immovable property	0	(14)	40	(295)	74	(195)
16	Exposures in default	(2)	(9)	2	2	(50)	(57)
17	Items associated with particularly high risk	0	0	0	0	6	6
18	Covered bonds	0	(31)	21	35	0	25
19	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0
21	Equity exposures	0	(2)	(3)	(1)	7	0
23	**TOTAL STANDARDISED APPROACH**	**(4)**	**4,647**	**171**	**(347)**	**(57)**	**4,411**
24	**TOTAL**	**(395)**	**3,558**	**1,614**	**827**	**529**	**6,134**

At year-end 2017, about 51% of the net exposure value was in the more than 5 years bucket. For Central governments or central banks treated under IRB approach, most exposures were in the on demand category whereas International organisations exposure is predominantly in the less than 1 year bucket.

2.8. EXPOSURE BY EXPOSURE CLASS AND INSTRUMENT

The following table provides an overview of the credit quality of on-balance-sheet and off-balance-sheet exposures at year-end 2017:

	Bank	a	b	c	d	e
	31/12/2017	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
1	Central governments or central banks	2	19,893	0	0	19,894
2	Institutions	0	25,342	0	4	25,338
3	Corporates	1,270	29,666	895	242	29,799
4	*Of which: Specialised lending*	*67*	*1,733*	*36*	*14*	*1,750*
5	*Of which: SMEs*	*873*	*8,640*	*621*	*35*	*8,856*
	Of which: Other	*330*	*19,294*	*238*	*193*	*19,193*
6	Retail	460	40,042	192	31	40,280
7	Secured by real estate property	148	26,977	17	11	27,097
8	*Of which: SMEs*	*46*	*6,358*	*5*	*3*	*6,396*
9	*Of which: Non-SMEs*	*101*	*20,619*	*12*	*7*	*20,701*
10	Qualifying revolving		27	0		27
11	Other retail	312	13,039	174	20	13,157
12	*Of which: SMEs*	*234*	*8,350*	*128*	*20*	*8,437*
13	*Of which: Non-SMEs*	*79*	*4,689*	*47*	*0*	*4,720*
14	Equity	18	128	21	1	125
15	**TOTAL IRB APPROACH**	**1,750**	**115,072**	**1,107**	**278**	**115,436**
16	Central governments or central banks		930	0		930
17	Regional governments or local authorities		354	0	0	354
18	Public sector entities		312	0		312
19	Multilateral development banks		79	0		79
20	International organisations		9,864	0		9,864
21	Institutions		10	0	0	10
22	Corporates		6,052	0	15	6,037
23	*Of which: SMEs*					
24	Retail		747	0	1	746
25	*Of which: SMEs*					*0*
26	Secured by mortgages on immovable property		538	0	2	536
27	*Of which: SMEs*					*0*
28	Exposures in default	164		60	0	103
29	Items associated with particularly high risk	0	144	7		138
30	Covered bonds		56	0		56
31	Claims on institutions and corporates with a short-term credit assessment					0
32	Collective investments undertakings		5	1		4
33	Equity exposures		50	0		50
34	Other exposures		5,345	1		5,344
35	**TOTAL STANDARDISED APPROACH**	**164**	**24,537**	**69**	**18**	**24,614**
36	TOTAL	1,914	139,609	1,177	296	140,051
37	*Of which: Loans*	*1,896*	*126,131*	*1,086*	*167*	*126,774*
38	*Of which: Debt securities*		*13,377*	*1*	*116*	*13,261*
39	*Of which: Off-balance-sheet exposures*	*94*	*30,369*	*4*	*26*	*30,432*

The total net value exposure et year-end 2017 amounted to EUR 140,051 million, of which EUR 115,436 million (or 82%) was treated under the IRB approach and EUR 24,614 million (or 18%) under standardised approach. Defaulted exposures were mainly registered in the corporate portfolio and more specifically in the corporate SME portfolio.

3. IMPAIRMENT, PAST-DUE AND RELATED PROVISIONS

3.1. DEFINITIONS OF PAST-DUE/IMPAIRED AND ADJUSTMENTS/PROVISIONS

Belfius records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events occurring after initial recognition and evidencing:

- (a) a decline in the expected cash flows; and
- (b) an impact on the estimated future cash flows that can be reliably estimated.

Financial assets measured at amortised cost

Belfius first assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Determination of the impairment

- Specific impairments – If there is objective evidence that loans or other receivables or financial assets classified as held to maturity are impaired, the amount of the impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated recoverable amount, being the present value of expected cash flows, including estimations of the amounts recoverable from guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). Assets with small balances that share similar risk characteristics follow the principles as described below.
- Collective impairments – Collective impairments cover losses "incurred but not yet reported" on segments (portfolios) where there is objective evidence of losses. The estimations of these impairments are based on historical patterns of losses in each segment and the credit ratings allocated to the borrowers and reflect the current economic environment in which the borrowers operate. For that purpose, credit-risk models are developed using an approach that combines appropriate default probabilities and loss-given defaults that are subject to regular back-testing and risk models, consistently with the "incurred-loss" model. Assumptions are made when defining the way inherent losses are modelled and to determine the required parameters, based on historical experience.

Accounting treatment of the impairment

Belfius recognises changes in the amount of impairment losses in the statement of income and reports them as "Impairments on loans and advances and provisions for credit commitments". The impairment losses are reversed through the statement of income if the increase in future cash flows relates objectively to an event occurring after the impairment was recognised. Write-offs occur when Belfius considers the outstanding amounts as uncollectible and the additional loss is reported as "Impairments on loans and advances and provisions for credit commitments".

Reclassified financial assets

In specific circumstances, Belfius can reclassify financial assets initially classified as held for trading or available for sale into held to maturity or loans and receivables categories. If this is the case, the fair value at the date of transfer becomes the new amortised cost of these financial assets.

Regarding the calculation of impairment, reclassified financial assets are governed by the same estimates, judgements and accounting principles as financial assets initially measured at amortised cost. If there is objective evidence that reclassified financial assets are impaired, the amount of impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset and the net present value of the expected cash flows discounted at the recalculated effective yield at the time of reclassification.

Financial assets available for sale

Belfius recognises the impairment of financial assets available for sale on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

Determination of the impairment

- Equity instruments – For equity instruments quoted in an active market, objective evidence of impairment are a significant (more than 40%) or prolonged (more than 3 years) decline in fair value compared to the acquisition price. In addition, management can decide to recognise impairment losses should other objective evidence be available. An impairment is recognised for non quoted equities when objective evidence is available such as financial difficulties of the issuer or an increased probability of bankruptcy.
- Interest-bearing financial instruments – For interest-bearing financial instruments, impairment is triggered based on the same criteria as applied to individually impaired financial assets valued at amortised cost (see above).

Accounting treatment of the impairment

When financial assets available for sale are impaired, the total AFS reserve is recycled and these impairment losses are reported in the statement of income under the line item "Net income on investments and liabilities". Write-offs occur when the outstanding amounts are considered as uncollectible and the additional loss is reported as "Net income on investments and liabilities".

Impairments on equity instruments cannot be reversed through the statement of income and all subsequent increases in fair value are recognised through equity.

Off-balance-sheet exposures

Belfius usually converts off-balance sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments into on-balance sheet items when called. However, there may be circumstances such as uncertainty about the counterparty, where the off-balance sheet exposure should be regarded as impaired. Belfius considers loan commitments as impaired if the credit worthiness of the client has deteriorated to such an extent that the repayment of the loan to be granted under the loan commitment and associated interest payments have become doubtful.

Application of IFRS 9 at Belfius

IFRS 9 "Financial instruments" (Not yet applicable as from 1 January 2017)
The transition from IAS 39 to IFRS 9 has been performed in January 2018 with 1 January 2018 as initial date of application. We refer to the first time adoption transition disclosures with opening balance as of 1 January 2018 included below for a high level review of the financial impact. The transition disclosures use the accounting principles IFRS 9 as mentioned in the section "Accounting principles on a consolidated basis" of Belfius Bank's annual report.

3.2. PAST-DUE EXPOSURE BY LARGE CATEGORY OF PRODUCT

The following table shows the amount of past-due credit risk exposure at year-end 2017. The gross carrying values correspond to the accounting values before impairment and provisioning but after the write-offs.

Bank	Gross carrying values						
31/12/2017	Unlikely to pay that are not past-due or past-due < 90 days	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	434,1	354,7	44,4	11,0	75,6	117,4	1.180,4
Debt securities	1,8	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL EXPOSURES	435,8	354,7	44,4	11,0	75,6	117,4	1.180,4

Past-due exposures amounted to EUR 1,8 billion at the end of 2017. 66% of the total past-due loans are in the bucket of more than 1 year, while on the other side 20% are within the interval of at most 30 days.

3.3. PROVISIONS FOR IMPAIRED EXPOSURE TO CREDIT RISK BY TYPE OF ASSET

The following table shows the accumulated amounts of specific and general credit risk adjustments for impaired and defaulted loans and debt securities at year-end 2017 and the changes in the stock of general and specific credit risk adjustments.

31/12/2017	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	(1,257)	(329)
Increases due to amounts set aside for estimated loan losses during the period	(492)	(42)
Decreases due to amounts reversed for estimated loan losses during the period	434	48
Decreases due to amounts taken against accumulated credit risk adjustments	150	0
Transfers between credit risk adjustments	0	0
Impact of exchange rate differences	0	0
Business combinations, including acquisitions and disposals of subsidiaries	0	0
Other adjustments	16	13
Closing balance	(1,150)	(310)

At the end of 2017, the accumulated specific and general credit risk adjustment had a closing balance of EUR 1,460 million, a decrease with EUR 126 million compared to end 2016.

4. FORBEARANCE

4.1. DEFINITION

During the year of 2014, the European Banking Authority (EBA) refined and clarified its guidelines on Forbearance. In practical terms, forbearance boils down to the granting of concessions to borrowers in financial difficulties. These concessions may take the form of modifications to the loan contract or some refinancing. The introduction of Forbearance as a general and uniform reporting concept is designed to enable the analysis of the quality of credit portfolios and hence also the risk profile of all European banks in a better and more structured way.

4.2. EXPOSURE, IMPAIRMENT AND COLLATERAL AND FINANCIAL GUARANTEES RECEIVED

The European Banking Authority's Forbearance guidelines - designed to enable the analysis of the quality of credit portfolios and hence also the risk profile of all European banks in a more proactive and consistent way - are already since 2014 transposed into a Belfius guideline and integrated into the Bank's risk and financial reporting. In practical terms, forbearance boils down to the granting of concessions to borrowers in financial difficulties. These concessions may take the form of modifications to the loan contract or some refinancing. Specific criteria are established for each business segment. These provide a practical interpretation of the concepts of "financial difficulties" and "concession". When granting a concession, the Bank is always led by a number of mainly business-related and economic factors. The fact that concessions are made is one of the watchlist indicators at Belfius.

The following table shows on overview of non-performing forborne exposures:

31/12/2017	Gross carrying values of performing and non-performing exposures						
		Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of which non-performing			
					Of which defaulted	Of which impaired	Of which forborne
Debt securities	14,275	0	0	2	2	2	0
Loans and advances	107,368	55	368	1,808	1,787	1,787	225
Off-balance-sheet exposures	28,770	0	24	126	126		2

31/12/2017	Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
		Of which forborne		Of which forborne		
Debt securities	(105)	0	(1)	0	0	0
Loans and advances	(205)	0	(1,149)	(122)	257	301
Off-balance-sheet exposures	0	0	8	0	25	22

At the end of 2017, the non-performing loans amounted at EUR 1,808 million. An amount of EUR 593 million of loans at Belfius Bank complied with the forbearance definition. The total accumulated impairments and provisions and negative fair value adjustments to credit risk amounted to EUR 1,451 million.

5. CREDIT RISK MITIGATION TECHNIQUES

5.1. DESCRIPTION OF THE MAIN TYPES OF CREDIT RISK MITIGANTS (CRM)

The Basel regulation recognises three main types of CRM:
→ collateral;
→ guarantees and credit derivatives;
→ netting agreements (applicable to on-balance-sheet and off-balance-sheet netting agreements – refer to part 5.2.).

Main Types of Collateral
Collateral is a financial product or a physical object set to hedge an exposure. Belfius Bank manages a wide range of collateral types. From a regulatory point of view, three main categories of collateral exist:
→ pledges on financial assets: cash, blocked accounts, term deposits, bonds and equity portfolios;
→ pledges on real estate (residential mortgages, commercial mortgages, mortgage mandates);
→ pledges on commercial assets.

Main Types of Guarantees
Guarantees refer to personal guarantees, first demand guarantees, support commitments and "tripartite conventions". The credit assessment concentrates on the quality of the underlying loan or asset (refer to part 5.4.).

Main Types of Netting Agreements
Netting agreements consist of a technique for mitigating credit risk. Banks have legally enforceable netting arrangements for loans and deposits by which they may calculate capital requirements on the basis of net credit exposures subject to specific regulatory conditions.

Types of netting are payment netting, novation netting, close-out netting or multilateral netting.

5.2. POLICIES AND PROCESSES

Collaterals and Guarantees/Credit Derivatives

Within Belfius, managing the CRM involves the following tasks:

- analysis of the eligibility of all CRM under the Standardised and Advanced Approaches;
- collateral valuation in mark-to-market;
- description of all CRM characteristics in internal Risk Systems, such as:
  - mortgage: rank, amount and maturity,
  - financial collateral: valuation frequency and holding period,
  - guarantee/credit derivative: identification of the guarantor, analysis of the legal mandatory conditions, check whether the credit derivative covers restructuring clauses,
  - security portfolio: description of each security.

Detailed procedures for collateral eligibility, valuation and management are documented in line with the Basel III standards.

At an operational level, various IT tools are used to manage collateral. These IT tools are used to record any relevant data needed precisely to identify collateral characteristics, eligibility criteria and estimated value, in accordance with the Basel III framework.

On and Off-Balance-Sheet Netting

Belfius does not make use of on or off-balance-sheet netting for regulatory purposes, except for over-the-counter (OTC) derivative products and securities financing transactions (SFT).

For these products, internal policies document the eligibility criteria and minimum requirements that netting agreements need to meet in order to be recognised for regulatory purposes under Basel III. Appropriate internal procedures and minimum requirements have been implemented in the internal management process.

5.3. REGULATORY TREATMENT

For netting agreements (and subject to eligibility conditions), Belfius recognises their impact by applying the netting effect of these agreements on the calculation of its Exposure at Default (EAD).

For guarantees and credit derivatives, Belfius recognises the impact by substituting the PD, LGD and risk weight formula of the guarantor to those of the borrower (i.e. the exposure is considered to be directly towards the guarantor) if the risk weight of the guarantor is lower than the risk weight of the borrower.

For collateral (both financial and physical), Belfius methodology relating to eligible CRM depends on the approach:

- IRB Approach:
  - for retail exposures, CRM are incorporated into the calculation of LGD based on internal loss data and calculated by the AIRB Approach models;
  - for non-retail exposures, an unsecured LGD is used, CRM (after regulatory haircuts) are taken into account directly through the EAD.
- Standardised Approach: eligible CRM (after regulatory haircuts) are directly taken into account in the EAD.

5.4. OVERVIEW OF CREDIT RISK MITIGATION TECHNIQUES

This section provides an overview of the exposure after deduction of general and specific provisions at year-ends 2016 and 2017. The mitigation impacts of the Credit Conversion Factors is not taken into account. Exposures secured by financial guarantees take into account the regulatory haircuts.

Pro forma 31/12/2016	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	69,985	49,111	36,567	12,544	
Total debt securities	12,908	1,746		1,746	
Other	2,062	0			
TOTAL EXPOSURES	84,955	50,857	36,567	14,290	
Of which defaulted	*574*	*414*	*326*	*88*	

31/12/2017	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	78,069	48,631	39,000	9,631	
Total debt securities	11,635	1,626		1,626	
Other	2,090	0			
TOTAL EXPOSURES	91,794	50,257	39,000	11,257	
Of which defaulted	*439*	*312*	*296*	*16*	

Evolution 31/12/2017 – 31/12/2016	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	8,084	(480)	2,432	(2,913)	
Total debt securities	(1,273)	(121)	0	(121)	
Other	28	0	0	0	
TOTAL EXPOSURES	6,840	(601)	2,432	(3,033)	
Of which defaulted	*(135)*	*(102)*	*(30)*	*(72)*	

6. COUNTERPARTY CREDIT RISK

6.1. MANAGEMENT OF THE RISK

A counterparty risk on derivatives exists in all Over-The-Counter (OTC) transactions such as interest rate swaps, foreign exchange swaps, inflation or commodity swaps, credit default swaps and securities financing transactions.

Counterparty risk is measured and monitored according to the general principles described in the Belfius credit risk policies. The credit risk equivalent for derivative transactions is based on the mark-to-market value of the derivatives plus the application of an add-on, which is a function of the complexity, the maturity, and the underlying of the derivative.

To reduce the counterparty risk, Belfius OTC derivatives are in most cases concluded within the framework of a master agreement (i.e. the model master agreement recommended by the International Swap and Derivative Association – ISDA) taking into account the general rules and procedures set out in the Belfius credit risk policies. Collateral postings for derivative contracts are regulated by the terms and rules stipulated in the Credit Support Annex (CSA).

These terms might depend on the credit rating of the counterparties. The impact of potential downgrades is managed by the Belfius Collateral Management team.

All OTC transactions are monitored within the credit limits set up for each individual counterparty. Sublimits may be put in place for each type of product.

On non-collateralised derivatives (concluded with a very limited number of counterparties, such as local authorities, project SPVs, some corporates, monoline insurers), as well as for collateralised derivatives (although limited in credit risk amount due to the daily exchange of collateral), the counterparty risk is managed through a Credit Value Adjustment (CVA). This holdback reserve is updated, monthly, on the basis of the evolution of the value of the derivatives and the credit quality of the counterparty.

6.2. COUNTERPARTY CREDIT RISK EXPOSURES

The metric used in this section is the exposure value for counterparty credit risk. As such, it includes the potential future exposure on derivatives but does not take into consideration the financial collateral received.

This table provides a breakdown of the CCR exposures by exposure class and by risk weight (riskiness attributed according to the standardised approach) at year-end 2017.

31/12/2017	Risk weight					Total	Of which unrated
Exposure classes	0%	2%	20%	50%	100%		
Central governments or central banks	221			127		348	127
Regional government or local authorities			1			1	0
Multilateral development banks	39					39	0
International organisations	17					17	17
Institutions	0	1,390	0	1	0	1,391	1,390
Corporates	0		0	0	78	78	78
TOTAL	278	1,390	1	128	78	1,875	1,612

The total CCR exposure under standardised approach decreased form EUR 2,256 million by year-end 2016 to EUR 1,875 million by year-end 2017, and essentially in the 50% and 100% buckets (Institutions respectively Corporates). The 2% bucket represents the most important part of the CCR exposure.

The following tables show the total exposure calculated within the IRB approach and broken down by exposure class at year-end 2017.

31/12/2017	Central governments and central banks	Institutions	Corporates - SME	Corporates - Other	Retail	Total
Exposure	235	5,814	42	4,438	0	10,529
RWA	1	1,327	26	2,275	0	3,630

The exposure of CCR increased in 2017 with 2.7%.

The following tables provide the relevant parameters used for the calculation of CCR capital requirements for the most relevant IRB models at year-end 2017:

Bank	a	b	c	d	e	f	g
31/12/2017 PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions							
0.00 to <0.15	5,212	0%	699	14%	4	1,083	21%
0.15 to <0.25	510	0%	76	8%	4	132	26%
0.25 to <0.50	2	0%	12	2%	1	2	65%
0.50 to <0.75	89	1%	19	38%	3	111	124%
0.75 to <2.50	0	1%	3	65%	4	0	222%
2.50 to <10.00							
10.00 to <100.00	0	14%	2	68%	1	0	370%
100.00 (Default)							
TOTAL	5,814	0%	811	13%	4	1,327	23%

Bank	a	b	c	d	e	f	g
31/12/2017 PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates							
0.00 to <0.15	2,767	0%	44	27%	3	795	29%
0.15 to <0.25	1,185	0%	22	42%	5	850	72%
0.25 to <0.50	210	0%	33	29%	5	135	64%
0.50 to <0.75	33	1%	8	19%	5	17	51%
0.75 to <2.50	96	1%	126	56%	4	133	139%
2.50 to <10.00	95	3%	57	54%	4	215	226%
10.00 to <100.00	52	26%	9	50%	5	131	254%
100.00 (Default)	0	100%	2	61%	5	0	0%
TOTAL	4,438	0%	301	31%	4	2,275	51%

6.3. REGULATORY TREATMENT

For swap and derivative products, the mark-to-market method is used, while for securities financing transactions, the financial collateral comprehensive method is used.

The following table shows the impact of credit risk mitigation techniques on the exposure amount at year-end 2017.

Bank	a	b	c	d	e	f	g
31/12/2017	Notional	Replacement cost/current market value (1)	Potential future credit exposure(2)	EEPE(3)	Multiplier	EAD post CRM (4)	RWAs
1 Mark to market		18,086	4,750			7,641	3,036
2 Original exposure							
3 Standardised approach							
4 IMM (for derivatives and SFTs)							
5 Of which securities financing transactions							
6 Of which derivatives and long settlement transactions							
7 Of which from contractual cross-product netting							
8 Financial collateral simple method (for SFTs)							
9 Financial collateral comprehensive method (for SFTs)						1,834	227
10 VaR for SFTs							
11 TOTAL	0	18,086	4,750	0	0	9,475	3,263

(1) The Replacement cost (RC) is the current exposure value, meaning the larger of zero and the fair value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty and, assuming no recovery on the value of those transactions in insolvency or liquidation.
(2) The potential future exposure (PFE) is the product of the notional amounts or underlying values as applicable by specific percentages set out in Article 274 of the CRR (Gross Add-on).
(3) The Effective Expected Positive Exposure is the weighted average of effective expected exposure over the first year of a netting set or, if all the contracts within the netting set mature within less than 1 year, over the period of the longest maturity contract in the netting set; where the weights are the proportion of the entire time period that an individual expected exposure represents.
(4) EAD post CRM refers to the amount relevant for the capital requirements calculation having applied CRM techniques, including financial collateral.

The table below contains the impact of netting and collateral held on exposure values at year-end 2017:

Bank	a	b	c	d	e
31/12/2017	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	36,148	20,898	15,250	8,862	6,388
SFTs	5,046	601	4,445	2,610	1,834
Cross-product netting					
TOTAL	41,194	21,499	19,695	11,472	8,223

The netted current credit exposure (column c) is the balance of net carrying amount (column a) and the netting benefits (column b). The collateral held (column d) is the residual between this netted current credit exposure and the net credit exposure (column e). The current net credit exposure at year-end 2017 was EUR 8,223 million.

The following table provides a overview of Belfius Bank's exposures to central counterparties at year-ends 2016 and 2017.

Bank	Pro forma 31/12/2016		31/12/2017	
	a	b	c	d
	EAD post CRM	RWAs	EAD post CRM	RWAs
EXPOSURES TO QCCPS (TOTAL)	1,255	89	1,461	119
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	241	5	678	14
(i) OTC derivatives	224	4	283	6
(ii) Exchange-traded derivatives				
(iii) SFTs	17	0	395	8
(iv) Netting sets where cross-product netting has been approved				
Initial margin	955	19	712	14
Prefunded default fund contributions	59	65	71	91
Alternative calculation of own funds requirements for exposures				
EXPOSURES TO NON-QCCPS (TOTAL)	0	0	0	0

6.4. CREDIT DERIVATIVES EXPOSURES

The table below illustrates the exposure to credit derivatives transactions in the trading portfolio, broken down between derivatives bought or sold..

The exposure is expressed in notional amount.

Bank	Pro forma 31/12/2016		31/12/2017		Evolution 31/12/2017 - 31/12/2016	
31/12/2017	Credit derivative hedges		Credit derivative hedges		Credit derivative hedges	
	Protection bought	Protection sold	Protection bought	Protection sold	Protection bought	Protection sold
Notionals						
Single-name credit default swaps	884	591	328	156	(556)	(435)
Index credit default swaps		149		143	0	(6)
Total return swaps	474	474	421	421	(54)	(54)
TOTAL NOTIONALS	**1,358**	**1,214**	**749**	**720**	**(610)**	**(494)**
Fair values						
Positive fair value (asset)	11	11	7	12	(3)	1
Negative fair value (liability)	15	44	12	51	(3)	7

The positions' paid-off and an unwinding are the essential key drivers of the changes over de reporting period.

In the following tables, the covered bonds collateral and securitisations are excluded as it is not considered as SFT.
Pursuant to Article 3(11) of the Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (SFTR) 'securities financing transaction' or 'SFT' is:
- (a) a repurchase transaction (including reverse repurchase transaction);
- (b) securities or commodities lending and securities or commodities borrowing;
- (c) a buy-sell back transaction or sell-buy back transaction;
- (d) a margin lending transaction (including margin borrowing transaction).

Bank	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
Pro forma 31/12/2016	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	7,505	0	21,069	34	26
Securities		21	291	979	6,050	2,482
Loans						3,643
TOTAL	0	7,526	291	22,048	6,084	6,151

Bank	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
31/12/2017	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	5,564	0	18,122	22	34
Securities	173	8	695	804	3,476	5,238
Loans						2,379
TOTAL	173	5,572	695	18,926	3,498	7,651

Bank	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
Evolution 31/12/2017 – 31/12/2016	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	(1,941)	0	(2,947)	(12)	8
Securities	173	(13)	404	(175)	(2,574)	2,756
Loans						(1,264)
TOTAL	173	(1,954)	404	(3,122)	(2,586)	1,500

7. CREDIT VALUATION ADJUSTMENT

7.1. DEFINITION

The Credit Valuation Adjustment (CVA) is the price of the default risk for a derivative or portfolio of derivatives with a particular counterparty considering the effect of offsetting collateral. In other words, it is the difference between the risk-free portfolio value and the true value portfolio value that takes into consideration the possibility of a counterparty's default.

As such, the CVA represents an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk of the counterparty due to any failure to perform on contractual agreements.

7.2. CAPITAL CHARGE

The following table reflects the situation at year-ends 2016 and 2017. The capital charge is calculated following the standardised method.

Bank	Pro forma 31/12/2016		31/12/2017		Evolution 31/12/2017 – 31/12/2016	
	a	b	a	b	a	b
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
Total portfolios subject to the advanced method						
(i) VaR component (including the 3× multiplier)						
(ii) SVaR component (including the 3× multiplier)						
All portfolios subject to the standardised method	2,268	2,291	1,947	1,939	(321)	(352)
Based on the original exposure method						
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE	2,268	2,291	1,947	1,939	(321)	(352)

8. FOCUS ON EQUITY EXPOSURE

8.1. REGULATORY TREATMENT AND ACCOUNTING RULES

8.1.1. Regulatory Treatment

For the calculation of the capital requirement for equity exposure, Belfius Bank applies the PD/LGD method. If the PD/LGD method can not be applied (e.g. no ratings), the standardized method is used.

Besides:
- at the beginning of 2014, the NBB granted the Danish Compromise option (financial conglomerate) to Belfius allowing a new prudential treatment for Belfius Insurance participation and subordinated debts (370% risk weight);
- items classified as significant investments according to Article 48 of Regulation 575/2013 are weighted at 250%.

8.1.2. Accounting Rules

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices and/or bid prices derived from available market spreads or amounts derived from internal valuation models in the case of inactive markets. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised within equity.

Available-for-sale quoted equities are measured at fair value through "Gains and losses on securities not recognised in the statement of income" or within the statement of income in the case of impairment. Belfius analyses all quoted equities in an active market that show a significant decline in fair value (more than 40% compared to the acquisition price) or when a risk is identified by Management that takes the decision to assess and impair when there is an objective evidence of impairment according to IAS 39. A prolonged (more than 3 years) decline in fair value below its cost also constitutes objective evidence of impairment. Impairments on equity securities cannot be reversed in the statement of income in the case of later recovery of quoted prices.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an organised market (such as a recognised stock exchange) are to be used as fair value, as they are the best evidence of the fair value of a financial instrument. Quoted market prices are not available for all financial assets and liabilities held or issued by Belfius.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. A valuation model reflects the transaction price on the measurement date in an at arm's length exchange and motivated by normal business considerations, i.e. the price that would be received by the holder of the financial asset in an orderly transaction that is not a forced liquidation or forced sale or the price to transfer the liability.

The valuation model takes into account all factors that market participants consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they are incorporated into the model.

8.2. EQUITY EXPOSURE

The following tables provide Belfius Bank's equity exposures at year-end 2017 using the simple-risk weighted approach and the PD/LGD approach..

	31/12/2017					
Bank	Equities under the simple risk-weighted approach					
Categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Capital requirements
Private equity exposures	34	0	190%	34	64	5
TOTAL	34	0		34	64	5

	31/12/2017					
Bank	Equities under the PD/LGD approach					
Categories	On-balance-sheet amount	Off-balance-sheet amount		Exposure amount	RWAs	Capital requirements
	92			92	139	11
TOTAL	92	0		92	139	11

For the equity exposure under standardised approach, please see section 2.1. Overview – Standardised approach.

9. SECURITISATION RISK

9.1. FOCUS ON SECURITISATION ACTIVITIES

9.1.1. Objectives and Roles of Belfius Bank

Objectives Pursued

Depending on the role played by Belfius Bank regarding securitisation transactions, the objectives can vary from bringing differentiation in the long-term funding mix, reduction of the economic capital requirement, to improvement of the risk-return ratio.

Belfius Bank currently has two kind of transactions. Belfius Bank has retained asset-backed securities which can be used as collateral for repurchase agreements. In other transactions, the senior tranches were placed with external investors to raise long-term funding.

Roles

→ **Belfius Bank as Originator**
Belfius Bank, as originator, carries out securitisation transactions related to various asset classes: mainly residential mortgage loans, public finance loans and loans to SMEs. These transactions are in general carried out with a view to optimising the liquidity and funding profile.
The securitisation activity as originator is described in the part Liquidity Risk - 10. Securitisation Activity as Originator.

→ **Belfius Bank as Servicer**
In transactions where Belfius Bank is the originator, Belfius Bank in general continues to service the assets being securitised.

→ **Belfius Bank as Arranger of Securitisation Transactions for Customers**
Belfius Bank acts as arranger or advisor on securitisation transactions for customers. In these instances, Belfius Bank will structure or advise on the securitisation transaction (or part of a transaction), and could take up other roles such as hedging counterparty, account bank or liquidity provider at arm's length market rates. In general Belfius Bank receives fees for structuring or advising on transactions.

→ **Belfius Bank in another Role**
Depending upon the specific details of a transaction, Belfius Bank may undertake various roles in securitisation transactions ranging from account bank to hedging provider or liquidity facility provider. Belfius Bank may also act as calculation agent, paying agent or corporate services provider.

Belfius Bank does not act as a sponsor for ABCP, third party assets or multi-seller programmes, and it does not provide liquidity facilities to such programmes.

Involvement of Belfius Bank in each Securitisation Transaction

Depending upon the role Belfius Bank plays in the securitisation transactions, the involvement can vary. When Belfius Bank acts solely as an investor, the extent of the involvement in the transaction is limited. However when Belfius Bank is acting as an originator or where several roles are played by Belfius Bank, the extent of this involvement can become significantly more important.

9.1.2. Management of the Risk - Securitisation Activity as Investor

The following table shows the outstanding amount and RWA of Belfius Bank' securitisation positions retained or purchased, separately for the trading and the non-trading book, broken down by type of securitisation and risk-weight class at year-ends 2016 and 2017.

Type of securitisation	Reference year		AAA/AA	A	BBB	BB	below BB	Total	Trading[2]
ABS	2016	Exposure	192					192	
		RWA	15					15	
	2017	Exposure	104	36				140	
		RWA	8	4				12	
MBS	2016	Exposure	448	115			298	862	75
		RWA	35	18			(1)	53	
	2017	Exposure	357	140			23	520	59
		RWA	28	18			(1)	46	
CDO	2016	Exposure						0	
		RWA						0	
	2017	Exposure						0	
		RWA						0	
TOTAL	**2016**	**Exposure**	**640**	**115**	**0**	**0**	**298**	**1.053**	**75**
		RWA	**50**	**18**	**0**	**0**	**0**	**68**	**0**
	2017	**Exposure**	**461**	**176**	**0**	**0**	**23**	**660**	**59**
		RWA	**36**	**22**	**0**	**0**	**0**	**58**	**0**

(1) Exposures deducted from CET1.
(2) The figures under "Trading" include exposures subject to specific risk under the market risk framework.

At the end of 2017 the Belfius Bank's investment portfolio was only composed of senior granular ABS transactions.

The table below gives a more precise overview of the underlying risks and their geographical location at year-end 2017.

Underlying assets	31/12/2017					
	RMBS	CMBS	Auto loans	Student loans	Other	Total
Italy	45					45
France	21				13	34
Germany			39			39
Netherlands	171		1			172
Portugal	18					18
Spain	133					133
UK	98	12				110
USA	23			85		108
Other			1			1
TOTAL	**508**	**12**	**42**	**85**	**13**	**660**

10. SETTLEMENT RISK

Definition

Settlement risk is defined as the risk that the credit institution will deliver the sold asset or cash to the counterparty, and will not receive the purchased asset or cash as expected.

This risk is not to be confused with the operational risk classified under "Execution, delivery and process management risk". The settlement risk only refers to the situation where the delivery process fails because of a solvency issue.

Organisation and Management of the Risk

The most general way to reduce the settlement risk is to proceed through an intermediary performing Delivery Versus Payment (DVP). For Forex in particular, there is one main agent: Continuous Linked Settlement (CLS). With DVP one can say that the risk becomes negligible. Belfius intends then to generalise the recourse to DVP.

Historically, there has been no instance of loss related to this risk at Belfius and very few externally (the best known example is the one that resulted from the failure of a small German bank, Herstatt, in 1974). In fact, losses would only occur if Belfius simultaneously faces a mismatch in the delivery against settlement process and the default of the counterparty bearing the resulting temporary exposure. Of course both events can be strongly correlated: a bank close to bankruptcy is much more likely to fail in its settlement duties.

Capitalisation

Settlement risk capital is currently not computed via a statistical model but rather results from the occurrence of a single settlement problem (a presumably very rare event). It therefore consists of a fixed amount set a priori on the basis of a judgemental assessment.

MARKET RISK

1. OVERVIEW

1.1. MARKET RISK DEFINITION

Overall, market risk can be understood as the potential adverse change in the value of a portfolio of financial instruments due to movements in market price levels, to changes of the instrument's liquidity, to changes in volatility levels for market prices or changes in the correlations between the levels of market prices.

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

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

1.2. RISK TYPES

The sources of market risk are changes in the levels of:
- interest rates;
- credit spreads (specific interest rate risk) and liquidity;
- inflation;
- foreign exchange rates;
- equity prices;
- commodity prices;

and their related risk factors like volatility or correlation for example.

Interest rate risk may be understood as the variation of the value of assets or liabilities of the Bank following changes in interest rates quoted on the markets. It is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset and other derivatives whose values are linked to market interest rates.

Credit spread and liquidity risks are the risks that the value of a certain portfolio can change as the result of movements in credit spreads even if the credit quality (rating) remains the same. The spread of a position is that single spread that has to be added to the whole zero-coupon curve (swap) in order to obtain discount factors that lead to a present value of expected cash flows equal to the current fair value of the position.

Foreign exchange risk is the potential risk that movements in exchange rates may adversely affect the value of a financial instrument or portfolio. Despite exchange rates being a distinct market risk factor, the valuation of foreign exchange instruments generally requires knowledge of the behaviour of both spot exchange rates and interest rates.

Equity price risk is the potential risk for adverse changes in the value of an institution's equity-related holdings. Price risks associated with equities are often classified into two categories: general (or non-diversifiable) equity risk and specific (or diversifiable) equity risk.

Commodity price risk is the potential risk for adverse changes in the value of an institution's commodity-related holdings. Price risks associated with commodities differ considerably from other market risk factors since most commodities are traded on markets in which the concentration of supply can magnify price volatility. Belfius only has some commodity price risk on CO_2 certificates holdings.

2. NON FINANCIAL MARKETS ACTIVITIES

2.1. POLICY ON ASSET & LIABILITY MANAGEMENT

Managing structural exposure to market risks (including interest rate risk, equity risk, real estate risk and foreign exchange risk) is also known as Asset & Liability Management (ALM). The structural exposure at Belfius results from the imbalance between its assets and liabilities in terms of volumes, durations and interest rate sensitivity.

Belfius' Board of Directors has the ultimate responsibility for setting the strategic risk tolerance, including the risk tolerance for market risks in non financial markets activities. The Management Board of Belfius Bank and Belfius Insurance have the ultimate responsibility for managing the interest rate risks of Belfius within the above set risk tolerance and within the regulatory framework.

The real operational responsibility of the effective asset & liability management (ALM) is delegated to the Asset & Liability Committee (ALCo). The ALCo manages interest rate risk, foreign exchange risk, and liquidity risk of the Bank's respectively Insurer's balance sheet within a framework of normative limits and reports to the Management Board. Important files at a strategic level are submitted for final decision to the Management Board, that has the final authority before any practical implementation.

The ALCo of the Bank is responsible for guiding and monitoring balance sheet and off-balance sheet commitments and, doing so, places an emphasis on:
→ the creation of a stable income flow;
→ the maintenance of economic value;
→ the insurance of robust and sustainable funding.

The ALCo meets regularly, chaired by the Chief Financial Officer (CFO), with meetings attended by the Chief Risk Officer (CRO) and members of the Management Board responsible for commercial business lines (or their mandatees).

The ALCo of Belfius Insurance plays the same role for the insurance company pursuing the same objectives but with a focus on the economic value and solvency according to the Solvency II regulation. The risk indicators are calculated based on a harmonised risk method for Belfius, supplemented by factors specific to Belfius Insurance relating to their risk management.

2.2. INTEREST RATE RISK

2.2.1. Interest Rate Definition

General definition

Interest rate risk can be defined as the potential decrease of the Bank's value due to interest rate movements increasing the cost of interest rate liabilities or decreasing the value of interest rate assets.

Capitalisation

The methodology for computing interest rate risk Economic Capital consists of a one year 99.94% simulation VaR on the basis of interest rate curve scenarios applied to ALM sensitivities.

2.2.2. Interest rate risk of the banking activities

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

The management of non-maturing deposits (such as sight and savings accounts) and non-interest-bearing products use portfolio replication techniques. The underlying hypotheses concerning expected duration, rate-fixing period and tariff evolution are subject to constant monitoring and, if necessary, they are adjusted by the ALCo. Implicit interest rate options like prepayment risk are integrated through behavioural models.

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

Banks' ALM objective is to protect the net interest income for downward pressures in current historically low interest rate environment, while respecting the limits on variation of economic value.

Economic value indicators capture the long-term effect of the interest rate changes on the economic value of the Bank. Interest rate sensitivity of economic value measures the net change in the ALM balance sheet's economic value if interest rates move by 10 bps across the entire curve. The long-term sensitivity of the ALM perimeter was EUR -34 million per 10 bps at 31 December 2017 (compared to EUR -16 million per 10 bps at 31 December 2016), excluding interest positions of Belfius Insurance and of the pension funds of Belfius Bank.

Earnings at Risk indicators capture the more shorter term effect of the interest rate changes on the earnings of the Bank. Therefore, indirectly through profitability, interest rate changes can also have a shorter term solvency effect. A 50 bps increase of interest rates has an estimated positive impact on net interest income (before tax) of EUR +37 million of the next book year and an estimated cumulative effect of EUR +111 million over a three year period, whereas a 35 bps decrease would lead to an estimated negative impact of EUR -29 million of the next book year and an estimated cumulative effect of EUR -141 million over a three year period.

Besides directional interest rate risk also curvature risk, due to steepening or flattening of the interest rate curve, is followed up within a normative framework by the ALCo. The same goes for basis spread risk between Euribor and Eonia and cross-currency spread risk.

The low interest rate environment puts considerable pressure on the Bank's standard transformation model. On the one hand, the interest paid to depositors remains close to zero or is even legally prohibited to go below 11 bps while the interest received on commercial loans is constantly lowered following markets rates and competitive pressures. On the other hand, customers continued to refinance and prepay their mortgages. Furthermore, the negative interest rate policy of the ECB increases the collateral cost for derivative contracts used to hedge the Bank's exposure to interest rate risk.

2.2.3. Interest rate risk for the insurance activities

For Belfius Insurance, the ALM objective is to limit the volatility of the P&L and the economic value of the company induced by potential changes in the interest rates. The long-term sensitivity of the Net Asset Value of Belfius Insurance to interest rates was EUR 17 million per 10 bps as of 31 December 2017 (against EUR 11 million per 13 bps as of 31 December 2016). The earnings have a low sensitivity to interest rates for the next years, thanks to good matching in terms of duration.

2.2.4. Aggregate interest rate risk for the Belfius group

The figures below show the impact on the Belfius group Net Asset Value and the Earnings at Risk for the next book year of a parallel upward shift of the yield curve of 10, resp. 50 basis points.

	31/12/2016	31/12/2017
Belfius Bank		
Sensitivity (+10 bps)	-16	-34
Earnings at risk (+50 bps)	+38	+37
Belfius Insurance		
Sensitivity (+10 bps)	+13	+17
Earnings at risk (+50 bps)	+3	+3

2.3. CREDIT SPREAD RISK

The credit spread risk of the non financial market activities is dealt with in the "Credit risk" section.

The sovereign and credit portfolio is managed by the investment departments under supervision of the respective ALCo's of Belfius Bank and Belfius Insurance. Its management is carried out according to a risk framework monitored by the risk department. The framework provides risk guidance for the investments. It sets risk appetite and operational limits for ensuring the credit quality of the credit portfolio within the well defined limits and a sound diversification (e.g. among industry sectors or countries). Sensitivity analysis and stress testing are regularly performed.

At Belfius Insurance, the credit spread risk has been fully integrated in the ALM and Market Risk Management. Indeed, moving toward Solvency II, the credit spread risk became more than before a key driver of the solvency position of the insurance company both for the net asset value's sensitivity and for the capital requirement.

2.4. EQUITY RISK

The major part of Belfius' equity risk stems from the insurance perimeter, given that the equity portfolio of the Bank is very small.

The equity risk is also a key contributor to the net asset value's sensitivity and the capital requirement of the insurance company. The equity portfolio is managed by a dedicated Investment team under supervision of the ALCo. The investments are again framed by risk guidance and operational limits according to the risk appetite of Belfius Insurance.

Among other risk measures, a VaR calculation is also used to assess the portfolio's sensitivity to negative movements of equity and real estate prices. Market risk management tools include Earnings at Risk and stress test measurements that provide an indication of the potential accounting loss under different scenarios and the solvency ratio's resilience.

The table below shows the price sensitivity of Belfius' equities portfolio to a downward shock of 30%:

	31/12/2016	31/12/2017
Belfius Insurance		
Market value - quoted shares & assimilated	+611	+584
Market value - quoted real estate	+457	+502
Shock 30% (negative)	(320)	(337)
VaR (99%, 10 days)	+84	+36

2.5. REAL ESTATE RISK

Besides investing in Real Estate Investment Trusts (REITs), Belfius invests also in direct property. The property investments are made of deals offering long-term stable returns mostly on the Belgian market. As such, these property investments must be viewed as a way of optimising the risk/return of the investment portfolio. Within Belfius, they are mostly held by the insurance company and allocated to its long-term life insurance business.

The table below shows the price sensitivity of Belfius Insurance real estate risk to a downward shock of 15%:

	31/12/2016	31/12/2017
Belfius Insurance		
Market value	709	593
Shock 15% (negative)	(102)	(89)

2.6. FOREIGN EXCHANGE RISK

Although Belfius uses the euro as its reporting currency, part of its assets, liabilities, income and expenses are also generated in other currencies. The elements of the profit & loss accounts which are generated in foreign currencies are systematically and on an ongoing basis converted in euro, resulting in only limited net FX positions[5].

2.7. PENSION FUNDS

Specific reports on the pension funds are submitted to the investment committees of those funds as a result of the delegation given by the ALCo. These investments committees analyse the impacts of the funds' position on interest rate, inflation and equity risk.

5 For more information, please refer to the note 9.7. in the disclosures of the annual report.

2.8. BEHAVIOURAL RISK

Definition

Behavioural risk is defined as the potential change of exposure to interest rate and funding risks due to the uncertain behaviour of customers.

On the asset side it mainly consists of the uncertainty arising from mortgage prepayment schedules i.e. prepayment risk.

The uncertain amortisation of non-maturing liabilities, such as certain types of deposits, forms the outflow risk and is integrated within the funding risk approach. For example, customers may decide to reduce their savings or their sight accounts impacting the Bank's interest rate position.

Organisation and Management of the Risk

Behavioural risk is managed through sensitivity and convexity measures in reporting to the members of the Belfius ALM Committee. In addition, this risk is included in the Belfius Economic Capital reporting.

Capitalisation

Behavioural risk is capitalised through a prepayment risk capital approach which consists of a statistical model.

2.9. SPREAD RISK BANKING BOOK

Definition

Spread Risk Banking Book relates to the risk that the value of Belfius' AFS bond portfolio might decrease because of adverse movements in market drivers (mainly spreads). Such a decrease can negatively impact the amount of available Tier I capital since Basle III requires -partial- deduction of negative AFS reserves (20% in 2014, 40% in 2015, 60% in 2016, 80% in 2017 and 100% from 2018 on).

Organisation and Management of the Risk

The AFS Spread Risk is monitored and reported on a monthly basis by FM Risk Management, through a 99%, 10day VaR.

Capitalisation

This value volatility will only materialize (if not because of fundamental credit deterioration) if these banking book positions, or part of them, would have to be sold in adverse market conditions. Nevertheless, Belfius decided to cover the risk by capital in line with the Basle III phase-in (2017: 80%).

3. FINANCIAL MARKETS ACTIVITIES

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

3.1. MARKET RISK GOVERNANCE

With the purpose of effectively managing the market risks Belfius Bank is facing, FM Risk Management has identified the following cornerstones as key pillars of the risk management of the risks Belfius Bank is confronted with for its Financial Market (FM) activities:

→ An efficient organisation fostering an accurate identification, analysis and reporting of the different risks Belfius Bank is bearing, as well as a continued training of people in order to remain up to date with the latest evolutions in theories, regulatory issues, metrics or market changes.
→ A robust limit framework with differentiated limits by activity or risk factor that is to be respected by all parties involved in market activities. On top of the VaR limits or P&L triggers, several other metrics have been identified as key controlling tools in the risk management process:
  - limits on notional amounts;
  - limits on maturities;
  - limits on type of products;
  - limits on sensitivities (known as "Greeks": delta, etc.);
  - back testing;
  - stress tests.

- Finally, this framework is regularly submitted for revision to the FM Risk Committee in order to be commensurate to the risk appetite defined by the Board of Directors of Belfius Bank.

Committees

The FM Risk Committee (FM RC) is responsible for a wide range of topics such as: risk and statement of income trigger reporting analysis[6] and related decisions, definition and revision of limits, proposals for the approval of new products, discussion of guidelines, risk governance and standards, risk concepts and measurement methodology and the quality of valuation processes.

Ad hoc FM RC can be organised to decide on specific issues when required from a business and/or a risk management perspective.

The Risk Policy Committee validates all major changes in risk governance.

3.2. MARKET RISK MEASURES

The Value-at-Risk (VaR) concept is used as the principal metric for proper management of the market risk Belfius Bank is facing. The VaR measures the maximum loss in Net Present Value (NPV) the Bank might be facing in normal and/or historical market conditions over a period of 10 days with a confidence interval of 99%. The following risks are monitored at Belfius using a VaR computation:

- The interest rate and foreign exchange (forex) rate risk: this category of risk is monitored via an historical VaR based on an internal model approved by the National Bank of Belgium.
  The historical simulation approach consists of managing the portfolio through a time series of historical asset yields. These revaluations generate a distribution of portfolio values (yield histogram) on the basis of which a VaR (% percentile) may be calculated.
  The main advantages of this type of VaR are its simplicity and the fact that it does not assume a normal but a historical distribution of asset yields (distributions may be non-normal and the behaviour of the observations may be non-linear).
- The general and specific equity risks are measured on the basis of a historical VaR with full valuation based on 300 scenarios.
- The spread risk and the inflation risk are measured via a historical approach, applying 300 observed variations on the sensitivities.

Since the end of 2011, Belfius has computed a Stressed Value-at-Risk (SVaR) on top of its regular VaR, which also enters into the computation of weighted risks for Market Risk. This SVaR measure consists of calculating a historical VaR on 250 consecutive business days observation period which generates the largest negative variations of Net Present Value in the Bank's current portfolio of financial instruments.

3.3. MARKET RISK EXPOSURE

To remain in line with the risk appetite adopted by Belfius, the Financial Markets VaR limit was reduced from EUR 65 million in 2011 to EUR 41 million in 2013 and to EUR 32 million since 2014. The overall average VaR of Financial Markets activities decreased at EUR 17.7 million in 2017 vs EUR 21.7 million in 2016. End 2017, the VaR level was EUR 18.4 million.

6 Statement of income triggers warn of a deterioration of results and is expressed as a percentage of VaR limits: typically at 50%, 75% and 100% for triggers 1, 2 and 3 and stop the activity at 300% of VaR.

Value-at-Risk by activity

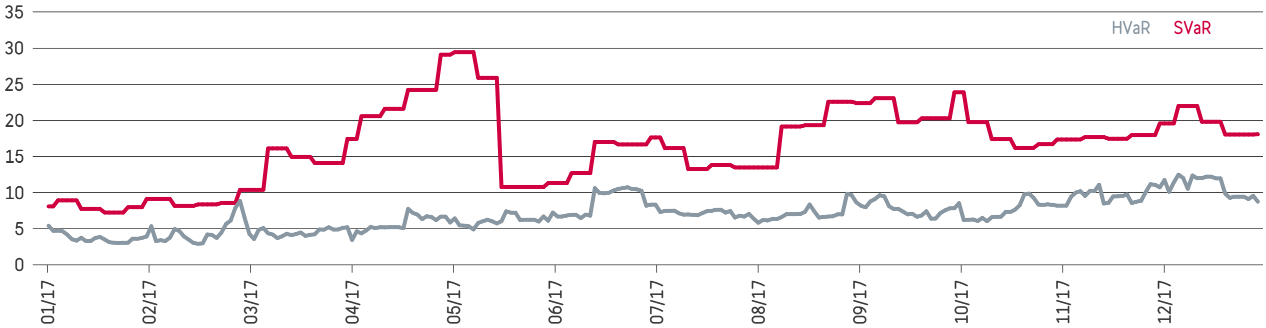
VaR(1) (99%, 10 days)	2016				2017			
(In millions of EUR)	IR(2) & FX(3)	Equity	Spread	Other risks(4)	IR(2) & FX(3)	Equity	Spread	Other risks(4)
By activity								
Average	11.3	3.1	6.4	0.9	8.1	4.3	3.8	1.5
End of Year	12.1	2.5	6.9	1.2	8.9	5.8	2.7	1.1
Maximum	19.1	5.1	7.9	1.2	13.0	6.3	7.1	2.1
Minimum	6.1	1.8	4.2	0.6	4.4	2.3	2.1	1.1
Global								
Average	21.7				17.7			
End of Year	22.7				18.4			
Maximum	31.1				24.1			
Minimum	14.1				13.2			
Limit	32.0				32.0			

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

Evolution of global VaR in 2017

The regulatory capital is calculated by using both the VaR and the Stressed VaR. In 2017, the Internal Model VaR[7] amounted to EUR 6.9 million in average versus EUR 16.5 million for the SVaR. Following graph shows the evolution of HVaR and SVaR in 2017:

Evolution of HVaR and SVaR (Internal Model) in 2017



The Internal Model HVaR shows a slight and steady increase during 2017 from EUR 5.6 million to EUR 8.7 million mainly due to the incorporation of basis curves in August 2017.

7 Contains IR (trading book) and FX (trading and banking book)

The Internal Model SVAR shows a highly volatile evolution during 2017. Up to May 2017, the SVAR increased from EUR 8 million to almost EUR 30 million. This increase was mainly caused by the next two elements:
- extension of Internal Model scope;
- review of historical data series of USD curves.

The other market risks are treated under the Basel Standardised approach.

Bond Portfolio

Belfius Bank manages bond portfolios amounting to EUR 11.7 billion as at 31 December 2016 (against EUR 13.0 billion as at 31 December 2015). The sensitivity in economic value of these bond portfolios is very limited, as the interest rate risk is hedged.

Within IFRS9, the OCI reserve sensitivity to market evolutions will not be material.

Given the illiquidity and the reduced possibility of having "observable" prices/spreads, for certain categories of bonds or markets, in the valuation process, a mark-to-model valuation development was carried out.

3.4. STRESS TESTING

Although the VaR is a very useful risk management tool for controlling day-to-day loss-risk exposures, it does not fully withstand the test of abnormal market movements, and it does not always give a total accurate picture of market exposure. Stress tests reveal sometimes better such information by gauging Belfius' vulnerability of the market position to exceptional events and hence by providing additional information about market risks alongside the information embedded in the VaR. These risks include those associated with extreme price movements and those associated with scenarios not reflected in recent history or implied by the parameters used to compute the VaR. Consequently, Belfius Bank uses stress tests in addition to the VaR approach.

The stress testing framework applied to Financial Market activities of Belfius Bank can be described as follows:
- Sensitivity tests are run on the following risk factors: interest rates, foreign exchange risk, volatilities, credit spreads, correlation, IR basis (difference between the Eonia rate and the Euribor 3-month rate) and dividends/share prices.
- Historical scenarios, which consist of simulations mirroring simultaneous significant historical market movements on several risk factors. More specifically, the following scenarios are applied:
  - equity crash of 1987;
  - monetary crisis of 1992;
  - market movements of 2001;
  - financial crisis of 2008.
- Combined scenarios where shocks on interest rates and credit spreads are simultaneously applied.

The stress tests containing banking and trading books are presented at least on a quarterly basis to the FM Risk Committee (FM RC).

3.5. REGULATORY INTERNAL MODEL AND BACK TESTING

Belfius Bank uses its internal VaR model for the regulatory capital requirement calculation on foreign exchange risk and general interest rate risk within the trading scope (see part Equity and Capital Adequacy – 3. Capital Adequacy for figures on market risk capital requirements).

Beside the VaR described above, Belfius Bank calculates a Stressed VaR (SVaR). The SVaR is computed on a weekly basis using parameters from the period May 2008-June 2009. As from November 2017, the period of the SVAR has changed from 300 business days, to 250 business days, for regulatory consistency.

The regulatory capital is calculated by using both the VaR and the SVaR. In 2017, the Internal Model VaR amounted to EUR 6.9 million on average versus EUR 16.5 million for the SVaR.

The other market risks are treated under the Basel Standardized approach.

The aim of back testing is to test the accuracy and the mathematical soundness of the internal market risk measurement methodologies by comparing the calculated market risk figures with the volatility of the actual results. Back testing is a prerequisite for Belfius Bank since we use internal models to calculate the regulatory capital requirement for market risks.

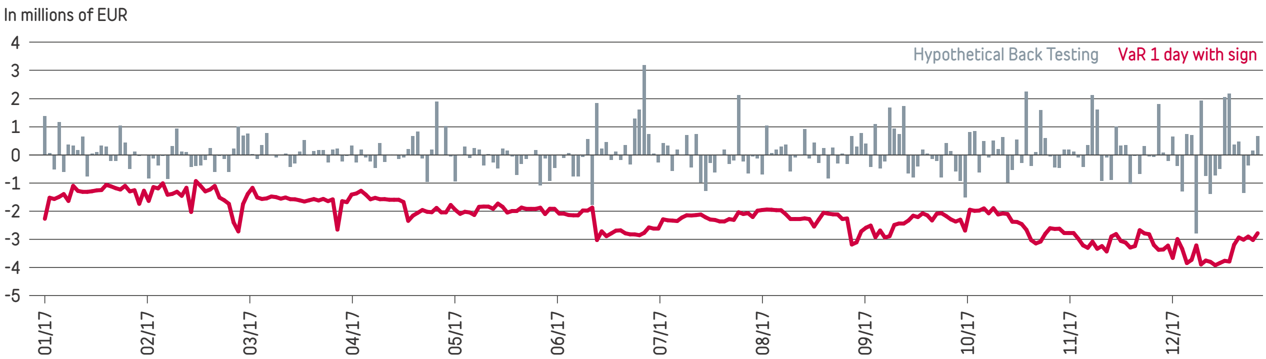
The result of the back test is the number of actual market losses greater than their corresponding VaR figures (i.e. "the number of exceptions"). According to this number, the regulators among others will also decide on the multiplier to be applied for determining the regulatory capital requirement for market risks.

Currently, two types of back testing are processed at Belfius Bank:
→ Hypothetical back testing compares the hypothetical results, of the portfolio's end- of-day value and, assuming unchanged positions, its value at the end of the subsequent day. This result is therefore without any provisions adjustments and other non-involved risk factors. The holding period is one day. In 2017, there was no exception to the hypothetical back testing.
→ Real back testing compares the portfolio's end-of-day value and its actual value at the end of the subsequent day excluding fees, commissions, and net interest income. In 2017, only 1 exception was observed in the real back testing on 31 May 2017. This was mainly due to a very severe shift in the GBP-BOR-OIS basis.

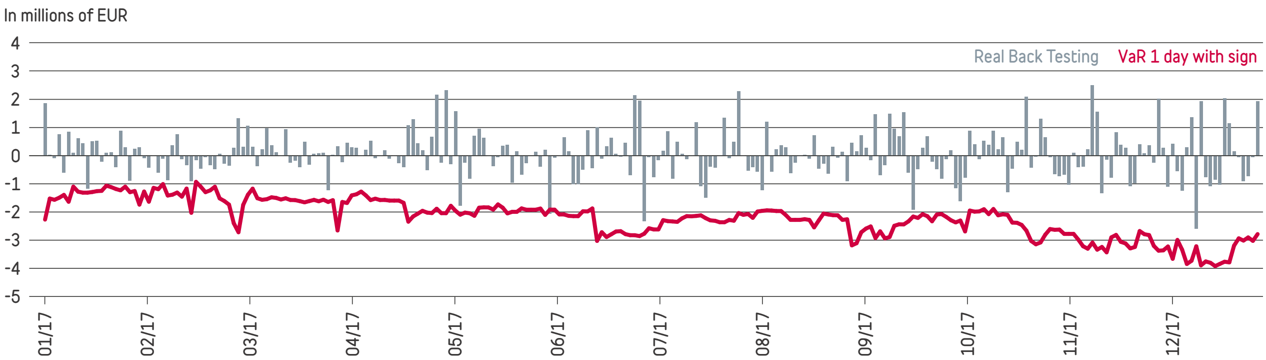
The back testing processes provide therefore a view of the number of (hypothetical and real) exceptions. The maximum between these two numbers is taken into account to adjust the multiplier used for calculating the Bank's risk capital requirements for market risk under the internal model approved by the regulator.

The following charts show real and hypothetical back testing in 2017 on interest rate and foreign exchange perimeters:

Hypothetical Back Testing



Real Back Testing



3.6. VALIDATION

Validation is responsible for the overall assessment of the market risk and valuation models. The process set up to endorse the validation of models deployed within Belfius Bank is multi-layered, ensuring compliance with regulatory requirements. Validation controls the models from a methodological but also an operational (implementation, usage) viewpoint. It intervenes prior to or shortly after the first use of a new model or of any significant change of an existing model. It also reviews periodically the performance of the models. Validation works are summarised in reports indicating the controls that were performed, their findings, proposed corrective actions and a validation status.

The decisions regarding the Market models are taken by the FM RC acting as a body in charge of "Fair Value Validation", composed of the CRO, the CFO, the Board Member in charge of Financial Markets and their direct reports in charge of Market activities.

- green light to put new models or model updates in production;
- endorsement of the corrective action plans recommended by Validation.

Twice a year the FM RC decisions are further presented to the Risk Policy Committee.

3.7. SYSTEMS AND CONTROLS

On a daily basis, FM Risk Management follows up, analyses and reports the risks and results of the FM desks. On a monthly basis, the FM Risk Committee (FM RC) meets to discuss the risks and results, the market limits, procedures, guidelines and policies and approves or amends new valuation methodologies.

All market activities are backed by specific guidelines describing the objectives, the authorised products, sensitivity, VaR and/or outstanding limits. The systems and controls that are established within Belfius are described in various procedures to ensure a complete and formal framework that is established to support all that are the market risk responsibilities.

LIQUIDITY RISK

1. OVERVIEW

Definition
Liquidity risk consists of the risk that the Bank will not be able to meet both expected and unexpected current and future cash flows and collateral needs.

Capitalisation
Liquidity risk is actively monitored and managed through gap limits and stress tests and is therefore actually not capitalised.

2. LIQUIDITY MANAGEMENT FRAMEWORK AT BELFIUS BANK

Belfius Bank manages its liquidity with a view to comply with internal and regulatory liquidity ratios. In addition, limits are defined for the balance sheet amount that can be funded over the short term and on the interbank market. These limits are integrated in the Risk Appetite Framework (RAF) approved by the Board of Directors and reported on a quarterly basis. Available liquidity reserves also play a key role regarding liquidity: at any time, Belfius Bank ensures it has sufficient quality assets to cover any temporary liquidity shortfalls, both in normal markets and under stress scenarios. Belfius Bank defined specific guidelines for the management of LCR eligible bonds and non LCR eligible bonds, both approved by the Management Board. All this is laid down in the liquidity guideline, approved by the ALCo.

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

ALM organises a weekly Liquidity Management Committee (LMC), in presence of the Risk department, the Treasury department of the Financial Markets and representatives of the commercial business lines. This committee coordinates the implementation of the funding plan validated by ALCo.

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

ALM reports on a daily basis to the CFO and CRO and on a monthly basis to the Board of Directors about the Bank's liquidity situation.

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

A monthly Asset Encumbrance Committee, mandated by the LMC, takes care of all aspects relating to asset encumbrance:
- Analysis of the potential regulatory and economic impacts of asset encumbrance;
- Coordination of all projects that impact asset encumbrance;
- Optimisation of the asset allocation.

3. EXPOSURE TO LIQUIDITY RISK

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

4. LIQUIDITY RISK MANAGEMENT

Strategies, scope and processes of liquidity risk management

The Liquidity report covers Belfius Bank on a consolidated level, i.e. the bank with its subsidiaries and branches, incl. companies for securitization, excluding Belfius Insurance.

The strategy of the liquidity risk management is described in the Liquidity Risk Management Guidelines and in the RAF. Monitoring is done through internal and regulatory liquidity Key Risk Indicators (KRI), with respective internal limits set up in the RAF. The liquidity KRI are reported on a regular basis and any exceeding of the limit is reported to the LMC. Respect of those KRI is also tested under stress scenarios.

In addition, a series of Early Warnings indicators are monitored daily to identify as soon as possible liquidity tension on the markets.

In addition to the regulatory indicators, liquidity risk management focusses on:
- Internal liquidity ratio: a new ratio approved by the ALCo in 2017. This daily ratio measures if Belfius Bank can survive a severe crisis for a minimum period of 3 months without recovery options (excluding repos on liquidity buffer and a limited amount of ECB funding).
- Funding Gap: a daily follow up of the maximum funding gap limits by currency and by maturity bucket.
- Funding Plan and stress testing: development of a strategic Funding Plan with the projection of the funding sources and requirements over the next 5 years giving a projection of the liquidity reserves, LCR ratio, NSFR ratio and Asset Encumbrance ratio. A severe stress scenario, combining Belfius specific and market specific events is applied on this Funding Plan: all RAF limits on liquidity KRI have to be respected.
- Collateral management: daily monitoring of collateral position and collateral needs of the bank and their respective impact on liquidity and asset encumbrance.
- Intraday liquidity risk: in order to meet payment and settlement obligations on a timely basis under both normal and stressed conditions Belfius must have a sufficient buffer for operational and stressed outflows. The intraday liquidity is managed by the Treasury desk and controls are performed by Operations and Risk Management with a monthly reporting of these tests to the LMC.
- Contingency Funding Plan (CFP): through a daily dashboard Belfius Bank created an adequate early warning system to detect market specific or Belfius specific liquidity events. A set of recovery measures is defined and regularly tested in the market with realistic amounts of funding, time to market and pricing. The CFP is consistent with the crisis management organization of Belfius Bank and has a clear decision process about responsibilities and organization of an ad-hoc LMC to decide to activate the recovery measures.
- Recovery Plan (RP): in the RP a number of stress scenarios are defined that could bring the bank near to failure. Recovery measures that can be launched to avoid this failure are tested in various scenarios.

Belfius Bank developed the Liquidity Risk Management Guidelines and the RAF limits in order to remain sufficiently liquid in stress situations, without resorting to recovery actions which would generate significant costs or which would interfere with the core banking business of Belfius Bank.

5. CONSOLIDATION OF THE LIQUIDITY PROFILE

During 2017, Belfius consolidated its diversified liquidity profile by:
- maintaining a funding surplus within the commercial balance sheet;
- continuing to obtain diversified long-term funding from institutional investors by issuing, amongst others, two first successful issuances of Non Preferred Senior bonds (NPS) anticipating the future final MREL objectives;
- issuance of a retained RMBS (Penates VI);
- collecting short and medium-term (CP/CD/EMTN) deposits from institutional investors.

In March 2017, Belfius Bank increased its participation to the ECB TLTRO funding programme with EUR 1.0 billion, amounting to 4.0 billion end 2017 with a purpose to finance investment needs of SMEs, social sector and retail clients (mortgage loans excluded).

The Liquidity Coverage Ratio (LCR), introduced within the framework of the Basel III reforms, has become a Pillar 1 requirement for European banks on 1st of October 2015 (at a level of 60%). Belfius Bank closed the year 2017 with a LCR of 130% (yearly average of 132%). The LCR of the Bank has remained above 100% during the whole year 2017.

The Net Stable Funding Ratio (NSFR), based on our current interpretation of current Basel III rules, stood at 116% at year-end 2017.

6. MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES

It is expected that a formal Minimum Requirement for own funds and Eligible Liabilities (MREL) level will be given to Belfius by SRB in 2018. At this stage, no formal MREL target has been communicated to Belfius. Based on the recent disclosures on MREL published by SRB on December 20th of 2017, Belfius' mechanical target would potentially amount to 27.25 % of risk exposures (in Fully Loaded format).

		For Belfius
Loss Absorption Amount	(Pillar 1 + Pillar 2 requirement) + Combined Buffer (CBR)	8% + 2.25% + 4%
+ Recapitalisation Amount	+ (Pillar 1 + Pillar 2 requirement)	8% + 2.25%
+ Market Confidence Buffer	+ CBR -1.25%	4% - 1.25%
= MREL REQUIREMENT		= 27.25%

This target is surrounded by uncertainties as the European Commission published a revised legislative proposal related to MREL requirements on 23 November 2016 (BRRD). This proposal is still under negotiation at the European level at the time of the finalization of this Report.

As of today the SRB has not yet fully clarified which unsecured long term funding will be MREL-eligible. If (part of) our unsecured funding would no longer be MREL eligible, this can be rolled, at maturity during the coming years, into MREL-eligible instruments.

7. LIQUIDITY RESERVES

At the end of 2017, Belfius Bank had quickly mobilisable liquidity reserves of EUR 34.3 billion. These reserves consisted of EUR 9.6 billion in cash, EUR 12.7 billion in ECB eligible bonds (of which EUR 8.2 billion are CCP-eligible[8]), EUR 10.1 billion in other assets also eligible at the ECB and EUR 1.8 billion in other liquid bonds.

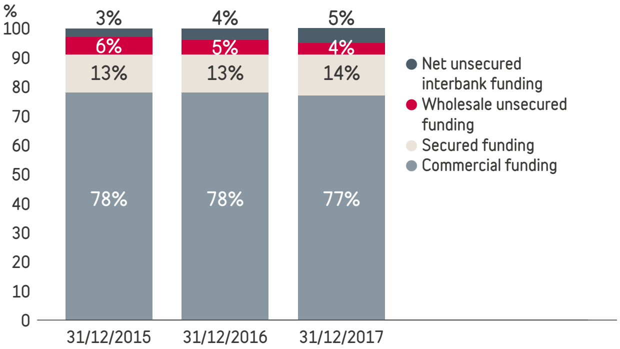
Note that during 2017 Belfius placed a public Residential Mortgage Backed Security, Penates VI for a total of EUR 6.0 billion. Penates IV was called and these transactions had a positive impact on the liquidity Buffer of over EUR 3.6 billion.

These liquidity reserves represent 4.7 times the Bank's institutional funding outstanding end 2017 and having a remaining maturity of less than one year.

8 CCP = Central Counterparties

8. 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 historical stable volume of commercial funding that comes from its RC and PC customers. Seeing the reduction of wholesale funding, this source of funding represents an increasing part of total funding of Belfius Bank. RC and PC funding equals EUR 86.7 billion of which EUR 63.8 billion is from RC. The increase of EUR 1.6 billion commercial funding compared to 2016 is used to finance the increase of commercial loans.
The loan-to-deposit ratio, which indicates the proportion between assets and liabilities of the commercial balance sheet, was 92% at the end of 2017.

Belfius Bank also receives medium-to-long-term wholesale funding, including EUR 7.2 billion from covered bonds (EUR 4.9 billion backed by mortgage loans and EUR 2.3 billion by public sector loans), Asset Backed Securities (ABS) issued for EUR 0.5 billion and EUR 4.0 billion in TLTRO funding from ECB as at 31 December 2017.

Note that during 2017 Belfius Bank issued its first Non Preferred Senior Bonds after Belgian law was voted. These Non Preferred Senior Bonds of EUR 1.25 billion have enabled Belfius to further contribute to the new expected regulatory requirement of MREL.

The remainder of the Bank's funding requirements comes from institutional short-term deposits (Treasury) mainly obtained through placement of Certificates of Deposit and Commercial Paper.

Next to that, Belfius Bank also has a historical bond portfolio, including an ALM portfolio for liquidity management purposes, with highly liquid assets.

As a result of derivative contracts to cover interest rate risk of its activities, Belfius Bank has an outstanding position in derivatives for which collateral must be posted and is being received (cash & securities collateral). Against the background of historical low interest rates, in net terms, Belfius Bank posts more collateral than it receives.

9. COVERED BOND ACTIVITY

On 3 August 2012, the Belgian legislation on covered bonds was adopted (the "covered bond act"), as well as an act on the use of receivables for financing purposes (the "mobilisation act"). A special feature of Belgian covered bonds lies in the fact that the underlying assets are ring-fenced in a special estate – on the balance sheet of the issuer (no SPV) – within the general estate of the issuer. Ring-fencing within the estate of the issuing credit institution will increase the protection for the covered bond holders. In case of insolvency, the bond holders will have a dual recourse: one against the issuer's general estate, and one against the cover pool.

Under the Belgian legislation, eligible assets are residential mortgage loans, commercial mortgage loans or public sector exposures. Belgian covered bonds that meet certain criteria are called Pandbrieven/Lettres de Gage.

Belgian law permits the issuance of Belgian covered bonds only to those institutions which are authorised by the NBB after an assessment inter alia of the internal organisation and proven ability to risk follow-up. A cover pool monitor must be appointed who will verify compliance with the legal framework and report to the NBB.

Belfius Bank has set up two programmes for the continuous offer of Belgian pandbrieven (Belgische pandbrieven/lettres de gage belges) in accordance with the legal framework for Belgian covered bonds, i.e. a Mortgage Pandbrieven and a Public Pandbrieven programme.

The NBB, in its capacity as Belgian prudential supervisory authority of financial institutions, has admitted both programmes to the list of authorised programmes for the issuance of covered bonds under the category Belgian pandbrieven (Belgische pandbrieven/lettres de gage belges). Ernst & Young has been appointed as cover pool monitor for both programmes.

The pandbrieven constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank at all times pari passu, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Bank, present and future.

9.1. THE BELGIAN MORTGAGE PANDBRIEVEN PROGRAMME

All Mortgage Pandbrieven issued under the Programme are covered by the same special estate (bijzonder vermogen/patrimoine spécial) (the "Special Estate"). The main asset class of the Special Estate consists of residential mortgage loans that were originated by Belfius Bank (the "Residential Mortgage Loans", and together with any other assets registered as cover assets (dekkingswaarden/actifs de couverture), the "Cover Assets").

As issuer, Belfius Bank ensures that the value of the residential mortgage loans calculated in accordance with the Covered Bond Regulations (and including any collections in respect thereto) will at all times represent at least 105% of the aggregate nominal outstanding amount of the Mortgage Pandbrieven. The issuer maintains a cover register in which both the issued Mortgage Pandbrieven and the Cover Assets are registered (the "Cover Register").

The Programme limit is set at EUR 10,000,000,000.

At the end of 2017 Belfius had EUR 4,890 million of outstanding Mortgage Pandbrieven.

Total Amount Outstanding (in EUR)	4,890,000,000.00
Current Weighted Average Fixed Coupon	1.460%
Weighted Average Remaining Average Life	6.38

The Belfius Mortgage Pandbrieven were rated AAA (stable outlook) by Fitch and AAA (stable outlook) by S&P at the end of 2017.

Characteristics of Cover Assets as at 31 December 2017

a/ Residential Mortgage Loans	
Outstanding balance of residential mortgage loans	5,857,296,901,34
Number of borrowers	83,442
Number of loans	131,726
Average outstanding balance per borrower	70,196
Average outstanding balance per loan	44,466
Weighted average original loan to initial value	78.51%
Weighted average current loan to current value	47.05%
Weighted average seasoning (in months)	55.67
Weighted average remaining maturity (in years, at 0% CPR)	12.71
Weighted average initial maturity (in years, at 0% CPR)	17.41
Remaining average life (in years, at 0% CPR)	6.89
Remaining average life (in years, at 2% CPR)	6.20
Remaining average life (in years, at 5% CPR)	5.34
Remaining average life (in years, at 10% CPR)	4.26
Remaining average life to interest reset (in years, at 0% CPR)	6.09
Percentage of fixed-rate loans	83.76%
Percentage of resettable-rate loans	16.24%
Weighted average interest rate	2.709%
Weighted average interest rate fixed rate loans	3.014%
Weighted average interest rate resettable-rate loans	1.065%

b/ Registered Cash	
Registered cash proceeds under the residential mortgage loans	230,722,351.98

c/ Public Sector Exposure	
ISIN	FR0010347989
Issuer name	CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE MINISTÈRE DE L'ECONOMIE
Currency	EUR
Nominal amount	84,000,000.00

Currently no derivatives are included in the special estate. All assets and liabilities are euro denominated, so there is no currency risk.

9.2. THE BELGIAN PUBLIC PANDBRIEVEN PROGRAMME

In 2014, Belfius launched its second pandbrieven programme, the Public Pandbrieven programme.

All Public Pandbrieven issued under the Programme are covered by the same special estate (bijzonder vermogen/patrimoine spécial) (the "Special Estate"). The main asset class of the Special Estate consists of public sector loans that were originated by Belfius Bank (the "Public Sector Loans", and together with any other assets registered as cover assets (dekkingswaarden/actifs de couverture), the "Cover Assets").

As issuer, Belfius Bank ensures that the value of the public sector loans calculated in accordance with the Covered Bond Regulations (and including any collections in respect thereto) will at all times represent at least 105% of the aggregate nominal outstanding amount of the Public Pandbrieven. The issuer maintains a cover register in which both the issued Public Pandbrieven and the Cover Assets are registered (the "Cover Register").

The Programme limit is set at EUR 10,000,000,000.

At the end of 2017 Belfius had EUR 2.3 billion of outstanding Public Pandbrieven.

Total Amount Outstanding (in EUR)	2,300,000,000.00
Current Weighted Average Fixed Coupon	0.484%
Weighted Average Remaining Average Life	4.74

The Belfius Public Pandbrieven were rated AAA (stable outlook) by S&P and Aaa by Moody's at the end of 2017.

Characteristics of Cover Assets as at 31 December 2017

a/ Public Finance Assets	
Outstanding Balance of Public Sector Assets	3,273,185,154.65
Number of borrowers	1,002
Number of loans	32,446
Average Outstanding Balance per borrower	3,266,652
Average Outstanding Balance per loan	100,881
Weighted average seasoning (in months)	90.61
Weighted average remaining maturity (in years, at 0% CPR)	12.76
Weighted average initial maturity (in years, at 0% CPR)	20.36
Remaining average life (in years, at 0% CPR)	7.10
Remaining average life (in years, at 1% CPR)	6.78
Remaining average life (in years, at 3% CPR)	6.09
Remaining average life (in years, at 5% CPR)	5.50
Remaining average life to interest reset (in years, at 0% CPR)	7.10
Percentage of Fixed Rate Loans	100.00%
Percentage of Resettable Rate Loans	0.00%
Weighted average interest rate	3.402%
Weighted average interest rate Fixed Rate Loans	3.402%
Weighted average interest rate Resettable Rate Loans	N/A

b/ Registered Cash	
Registered cash proceeds under the Public Sector Exposures	67,205,213.48

c/ Liquid Bonds	
ISIN	FR0010347989
Issuer name	CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE MINISTÈRE DE L'ECONOMIE
Currency	EUR
Nominal amount	11,000,000.00

Currently no derivatives are included in the special estate. All assets and liabilities are euro denominated, so there is no currency risk.

9.3. KEY POINTS RISK

These key points apply to both pandbrieven programmes.

1. Key points on risk based on the Legal Framework

A. 85% test: the value of cover assets from one of the 3 main categories must represent at least 85% of the nominal amount of the outstanding Pandbrieven. This test serves two purposes: it prevents mixed asset cover bond programmes and limits the so-called "substitution assets".
B. 105% test: the value of cover assets must represent at least 105% of the nominal amount of the outstanding Pandbrieven. This test determines the legal minimum over-collateral level, from a regulatory "value calculation" point of view. Due to the concept of value for residential mortgage loans, this will in practice result in an even higher over-collateral level from a nominal amount point of view.
C. Amortisation test: the sum of revenues stemming from the cover assets must be equal to or higher than the amount of interest, principal and costs related to the outstanding Pandbrieven and their management.
D. Liquidity test: the cover assets must generate sufficient liquidity or contain sufficient liquid assets to meet all unconditional payments over a 6 month horizon.
E. Additional stress tests to cover interest rate and currency risk: the cover asset tests and liquidity test must be met also in the case of sudden and unexpected movements in interest rates and exchange rates. For the simulation, the issuer can use internal stress tests or the option to simulate an immediate increase or decrease of interest rates with 2% and of exchange rates with 8%.The issuer and the cover pool monitor must regularly report to the NBB on compliance with the regulations and whether all of the above tests have been met. In case of breach the cover pool monitor has to inform the NBB immediately.
F. Asset encumbrance limit: the Belgian legal framework is one of the few to include an asset encumbrance limit with respect to covered bonds. A credit institution can no longer issue new Belgian pandbrieven if the amount of cover assets exceeds 8% of the credit institution's total non-consolidated assets. This asset encumbrance limit is monitored by an Asset Encumbrance Committee.

2. Additional Key Points on Risk in the Belfius Framework

In addition to the legal requirements, Belfius Bank has implemented internal risk guidelines to monitor the programme that go beyond the legal requirements, both in terms of asset coverage as well as liquidity. The internal guidelines include early warning triggers and inter alia are aimed at ensuring that the current ratings are maintained as far as possible. To prevent large distortions between asset and issuance profile, rating agencies estimate the over-collateral at higher levels than the legal limit.

Through issuer covenants, which are disclosed in the prospectus of each programme, Belfius Bank has taken the commitment to adhere to some programme-specific additional requirements. For example the limit under 1.A. as described above (85% in the law) is set at 105% for each of both programmes. In terms of liquidity, liquid bonds will be added to the special estate to cover all interest payments due under the Pandbrieven programme over a specified period for each programme. For the Mortgage Pandbrieven this period is 1 year, for the Public Pandbrieven this period is 6 months.

10. SECURITISATION ACTIVITY AS ORIGINATOR

The steering of the set-up for securitisation transactions is performed by the Structured Finance department with the support of the dedicated organisation/project management departments. As such, both prior to and after the closing of a transaction, transversal task forces are set up including all relevant departments, such as accounting, asset and liability management, credit risk, market risk, back-office, transaction processing, etc.

Post closing, the transaction follow-up concerns the efficiency and effectiveness of the servicing, the appropriate monitoring of the transaction from a credit, market and liquidity risk perspective as well as the reliability of the reporting being produced.

All outstanding transactions were carried out with a view of obtaining long-term funding or establishing a liquidity buffer.

No assets have been originated with the intention to securitise. The underlying assets have been originated in the regular course of lending business to retail, public and corporate customers of Belfius Bank. Hence no assets on the balance sheet awaiting securitisation can be identified as such. Only performing assets are included in the securitisation transactions, and no profit or losses are realised upon sale of the assets to the SPV.

Engaged ECAIs include Moody's, Fitch Ratings, Standard & Poor's and DBRS.

The following table shows the securitisation activity (Belfius Bank as originator): amount of exposure securitised, and gains and losses on sales during the period, the amount of underlying assets (amount of defaulted assets disclosed separately) originated by Belfius Bank by nature of securitisation and type of underlying assets.

Exposure at 2016 year-end	Residential mortgage loans	Public sector loans	Corporate & SME exposures	ABS/MBS	Total
TRADITIONAL SECURITISATIONS					
Underlying assets	2,816	1,032	2,191	NA	6,039
Defaulted assets(1)	92	0	23	NA	116
of which exposures securitised in 2016(2)	0	0	0	NA	0
Gains and losses on sales in 2016	0	0	NA	NA	NA
SYNTHETIC SECURITISATIONS	NA	NA	NA	NA	NA
Underlying assets					
Defaulted assets(1)					
of which exposures securitised in 2016(2)					
RELATED SPVs	Penates Funding (Penates-4, Penates-5)	Dexia Secured Funding Belgium (DSFB-2)	Atrium-2, Mercurius Funding (Mercurius-1)	NA	

(1) Amount of defaulted assets (as of the date of default) using the definitions used in the securitisation transaction.
(2) Gross amount of exposure (as of year-end based on reference obligations).

Exposure at 2017 year-end	Residential mortgage loans	Public sector loans	Corporate & SME exposures	ABS/MBS	Total
TRADITIONAL SECURITISATIONS					
Underlying assets	6,294	960	1,755	NA	9,008
Defaulted assets(1)	1	0	13	NA	15
of which exposures securitised in 2017(2)	5,631	NA	NA	NA	5,631
Gains and losses on sales in 2017	0	NA	NA	NA	0
SYNTHETIC SECURITISATIONS	NA	NA	NA	NA	NA
Underlying assets					
Defaulted assets(1)					
of which exposures securitised in 2017(2)					
RELATED SPVs	Penates Funding (Penates-5, Penates-6)	Dexia Secured Funding Belgium (DSFB-2)	Mercurius Funding (Mercurius-1)	N/A	

(1) Amount of defaulted assets (as of the date of default) using the definitions used in the securitisation transaction.
(2) Gross amount of exposure (as of year-end based on reference obligations).

Belfius Bank has not yet securitised any revolving exposures or liquidity facilities which are shared between investors and Belfius Bank as originator. The main changes impacting 2017 in comparison to 2016 relate to:

→ the exercise of the Optional Redemption Call of Penates-4;

- the amortisation in full of Atrium-2;
- the closing of the Penates-6 transaction, whereby a portfolio of EUR 5,999,999,990.14 Belgian residential mortgage loans was securitised; and
- the amortisation in the underlying portfolios of assets securitised.

11. ENCUMBERED ASSETS

Narrative information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model, which provides users with the context of the disclosures required in Template A to C.

The regulatory consolidation scope used for the purpose of the disclosures on asset encumbrance is the same than the scope retained for the application of the liquidity requirements on a consolidated basis as defined in Part II, Chapter 2 of Regulation (EU) No. 575/2013.

Following the EBA instructions, the unused part of pledged assets (i.e. the part above the minimum amount required by the counterparty) should not be considered as encumbered. It's the case, for instance, for the collateral pledged to the ECB. End 2017, the total assets pledged amounted (and accounted) to EUR 7.0 billion, of which EUR 4.4 billion is considered as encumbered for TLTRO II funding purposes (EUR 4 billion funding).

Template A - Encumbered and unencumbered assets

As at 31 december 2017		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	ASSETS OF THE REPORTING INSTITUTION	30,378		118,522	
030	Equity instruments	0		1,738	
040	Debt securities	3,029	3,387	11,741	23,502
050	*of which: covered bonds*	*8*	*9*	*1,744*	*1,764*
060	*of which: asset-backed securities*	*103*	*99*	*2,077*	*767*
070	*of which: issued by general governments*	*2,475*	*2,507*	*6,313*	*6,422*
080	*of which: issued by financial corporations*	*250*	*461*	*3,796*	*13,868*
090	*of which: issued by non-financial corporations*	*304*	*418*	*1,604*	*3,212*
120	Other assets	27,349		105,043	
121	*of which: Mortgage loans*	*8,876*		*20,617*	
122	*of which: other loans (incl. public loans)*	*6,188*		*68,903*	
123	*of which loans to credit institutions (cash collateral)*	*12,284*		*0*	

Template B - Collateral received

As at 31 december 2017		Fair value of encumbered collateral received or own debt securities issued	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	COLLATERAL RECEIVED BY THE REPORTING INSTITUTION	730	2.866
140	Loans on demand	0	0
150	Equity instruments	0	108
160	Debt securities	730	2.757
170	*of which: covered bonds*	0	0
180	*of which: asset-backed securities*	13	618
190	*of which: issued by general governments*	717	848
200	*of which: issued by financial corporations*	13	107
210	*of which: issued by non-financial corporations*	0	1.803
220	Loans and advances other than loans on demand	0	0
230	Other collateral received	0	0
240	OWN DEBT SECURITIES ISSUED OTHER THAN OWN COVERED BONDS OR ASSET-BACKED SECURITIES	0	327
241	OWN COVERED BONDS AND ASSET-BACKED SECURITIES ISSUED AND NOT YET PLEDGED		4.569
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	31.108	

Template C - Sources of encumbrance

As at 31 december 2017		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	CARRYING AMOUNT OF SELECTED FINANCIAL LIABILITIES	25,694	29,068

Data contained in following tables and in the explanations hereunder are based on the median values of the encumbrance reportings of the last four quarters.

According to the EBA guideline based on the median values, the encumbered assets at Belfius Bank amounted to EUR 35.3 billion end 2017 and represented 22.4% of total bank balance sheet and collateral received under securities format, which amounted to EUR 157.1 billion (EUR 152.7 billion assets and EUR 4.4 billion collateral received). This represents a decrease of the encumbrance ratio of 1% compared to end 2016 (following median values calculation).

The encumbered assets are located within Belfius Bank, which is the only banking entity of the group generating encumbrance. The main sources of encumbrance for funding purposes are loans in cover pools underlying covered bonds issues (EUR 10.6 billion median) and assets blocked for ECB funding (EUR 4.4 billion median).

The Bank is also collecting funding through repo markets and other collateralised deposits. End 2017, the total median amount of assets used as collateral for this activity amounts to EUR 7.4 billion, of which EUR 4.4 billion is linked to the ECB funding. In 2017, the volume of TLTRO II funding is EUR 4.0 billion. The median over-collateralisation of the ECB funding is 10%.

The balance of encumbered assets is mainly linked to collateral pledged (gross of collateral received) for the derivatives exposures for EUR 14.1 billion (decrease of EUR 7.3 billion compared to end 2016), under the form of cash or securities. A significant part of collateral pledged is financed through collateral received from other counterparties with whom the Bank concluded derivatives in the opposite direction.

The total amount of covered bonds issued was EUR 8.4 billion. The assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amounted to EUR 10.6 billion (EUR 10.6 billion end 2016). Over-collateralisation of both mortgage and public covered bonds is 125% and is well above the levels requested by regulator (5%) and by rating agencies.

The bank also issued ABS/MBS. End 2017, the total issued amount of retained ABS/MBS was EUR 8.8 billion. This amount was partially used to for secured funding. The amount of retained ABS/MBS still available for encumbrance was EUR 4.5 billion.

Seen there is no currency representing more than 5% of total Belfius liabilities, all encumbrance figures are computed in EUR only.

Regarding the "Other assets" (unencumbered) on balance sheet, they are composed of an important part of assets that would not deem available for encumbrance in the normal course of business. It's the case for derivative assets (EUR 18.5 billion), Hedge accounting assets (EUR 5.6 billion), Property, Plant & Equipment (EUR 0.6 billion) and Tax assets (EUR 0.2 billion).

Template A - Encumbered and unencumbered assets

As at 31 december 2017		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	ASSETS OF THE REPORTING INSTITUTION	34,396		118,084	
030	Equity instruments	0		1,719	
040	Debt securities	4,122	4,474	11,748	23,503
050	*of which: covered bonds*	*346*	*348*	*1,442*	*1,461*
060	*of which: asset-backed securities*	*99*	*95*	*1,580*	*977*
070	*of which: issued by general governments*	*3,148*	*3,211*	*6,358*	*6,483*
080	*of which: issued by financial corporations*	*632*	*846*	*3,924*	*13,980*
090	*of which: issued by non-financial corporations*	*258*	*366*	*1,657*	*3,202*
120	Other assets	29,956		104,765	
121	*of which: Mortgage loans*	*9,765*		*19,374*	
122	*of which: other loans (incl. public loans)*	*6,309*		*41,568*	
123	*of which loans to credit institutions (cash collateral)*	*13,027*		*0*	

Template B - Collateral received

As at 31 december 2017			Unencumbered
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	COLLATERAL RECEIVED BY THE REPORTING INSTITUTION	870	3,530
140	Loans on demand	0	0
150	Equity instruments	0	52
160	Debt securities	870	3,478
170	*of which: covered bonds*	*0*	*31*
180	*of which: asset-backed securities*	*27*	*522*
190	*of which: issued by general governments*	*834*	*1,072*
200	*of which: issued by financial corporations*	*13*	*143*
210	*of which: issued by non-financial corporations*	*14*	*2,026*
220	Loans and advances other than loans on demand	0	0
230	Other collateral received	0	0
240	OWN DEBT SECURITIES ISSUED OTHER THAN OWN COVERED BONDS OR ASSET-BACKED SECURITIES	0	327
241	OWN COVERED BONDS AND ASSET-BACKED SECURITIES ISSUED AND NOT YET PLEDGED		4,536
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	35,427	

Template C - Sources of encumbrance

As at 31 december 2017		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	CARRYING AMOUNT OF SELECTED FINANCIAL LIABILITIES	29,284	32,816
011	Derivatives	13,373	14,110
012	ECB funding	4,000	4,417
013	Covered Bonds	8,407	10,601

12. LIQUIDITY RISK AT BELFIUS INSURANCE

As an insurance company, Belfius Insurance bears mainly insurance liabilities at relatively long term that are largely stable and predictable. Consequently, funding requirement is quite limited. The premiums paid by policyholders are placed in long-term investments in order to guarantee the insured capital and committed interests at the contract's maturity date. Several regulatory and internal liquidity indicators demonstrate that Belfius Insurance constantly holds enough liquid assets to cover its commitments on the liability side of the balance sheet.

In order to ensure that all short-term liquidity requirements can be met, Belfius Insurance has embedded liquidity management in its day-to-day activities through:

- investment guidelines that limit investments in illiquid assets;
- Asset Liability Management, ensuring that investment decisions take into account the specific features of the liabilities;
- policies and procedures that are put in place to assess the liquidity of new investments;
- follow up of the short-term treasury needs.

In addition, Belfius Insurance also holds a significant amount of unencumbered assets that are eligible at the ECB. More specific, the company invests at least 40% of its bond portfolio in government bonds eligible for repos in the context of its liquidity management.

The Investment department is responsible for Belfius Insurance's liquidity and cash-flow management. Therefore, it uses long-term projections of the cash-flows of assets and liabilities. These cash flows are simulated under both normal and stressed situations. Projections of cash-flow requirements for next twelve months are also used.

13. FUNDING RISK

Definition

Funding risk is the risk that the refinancing cost for Belfius increases.

Organisation and Management of the Risk

For more details regarding the Organisation and Management of funding risk, please refer to Risk Managemenet Governance - 4.2. Risk organisation.

Capitalisation

Funding risk capital is not computed via a statistical model. Its calculation is based on a scenario analysis, with a severe liquidity Stress Test considering a combined systemic and severe lack of confidence of the market about Belfius solvency during a global liquidity crisis and affecting its income statement.

This liquidity stress scenario will generate a funding risk which can be defined as the sum of P&L impacts resulting from, on the one hand, the cost linked to the replacement of the existing funding that left the balance sheet by funding obtained through pledging the assets from liquidity buffer at ECB and, on the other hand, the capital losses due to sales of non-ECB-eligible bonds to close the potential liquidity gap.

In line with economic capital standards, the loss incurred over one year is measured and the confidence interval of the considered scenario (a presumably very rare event) is assumed to be 99.94%.

Note that the various outflow scenarios included within the liquidity stress test scenario materialise the outflow risk which is considered to be integrated within the funding risk calculation.

NON-FINANCIAL RISKS

1. OPERATIONAL RISK

1.1. POLICY

Regarding operational risks, Belfius' policy requires various operational risks and controls to be regularly identified, in order to check compliance of the operational risk level by activity. Specific attention is also paid to more new types of operational risk, such as cyber risk, conduct risk, sourcing risk, cloud risk, privacy risk, reputation risk, …
The Operational Risk Framework will be updated in 2018 in order to move towards Non Financial Risk.

1.2. RISK APPETITE

The operational risk Risk Appetite contains 9 qualitative statements. They cover the following: NPAP, RCSA, fraud, operational incidents, business continuity, information security, risk culture, insurance policies and physical security (new since this year).
Two new quantitative operational risk appetite indicators have been validated and added this year as well: an 'operational loss' indicator and a 'composite indicator' of 8 different operational risk indicators, covering the 3 Operational Risk domains: Operational Risk Monitoring, Business Continuity & Crisis Management and Information Risk Management.

1.3. MEASURING AND MANAGING RISK

Managing operational risk is based on the following elements:

1.3.1. Decentralised responsibility

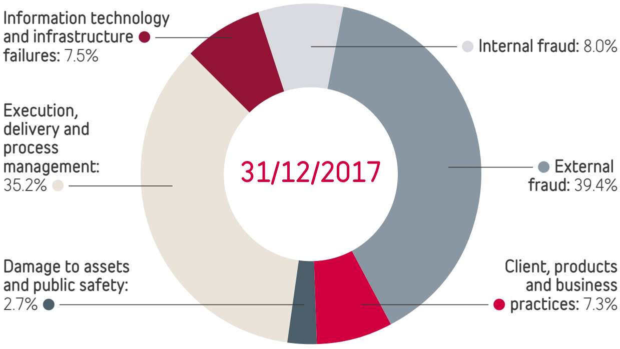
Each of the Bank's line management organisations has the primary responsibility for monitoring the operational risk in its individual sphere of activity (first line of defence). It establishes the way its activities are organised, including the checks that need to be implemented to limit operational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

1.3.2. Gathering data about operational risks

The systematic collection and control of data on operational incidents is one of the main requirements of the Basel Committee regarding operational risk management, whatever the approach adopted for capital calculation ("Standardised Approach" or "Advanced Measurement Approach") may be.

The reporting mechanisms ensure that the responsible parties are notified quickly if incidents occur. Major incidents are also reported to the CRO/Management Board, and these reports always include an action plan for avoiding or limiting risks in the future. This is developed under the responsibility of the relevant line management.

Breakdown of potential net losses by standard category of incidents over the past three years at Belfius Bank



For the period 2015-2017, Belfius Bank's average annual potential net losses stemming from operational incidents amounted to EUR 4.7 million.

The main areas of operational losses were essentially due to incidents associated with external fraud and incidents in relation to execution, delivery and process management. Other categories remain limited in number and amount.

The most important part of the financial impact resulting from operational incidents comes from the Bank's Retail business.

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

1.3.3. Risk and Control Self-Assessment

Another important task of operational risk management is the analysis of the overall main potential risks for Belfius, performed at Belfius Bank, Belfius Insurance and Belfius Investment Partners. This is achieved through bottom-up Risk and Control Self-Assessment exercises held in all departments and subsidiaries at Belfius. These exercises may result in additional action plans being developed to limit the potential risks further. They provide an excellent overview of the main risk areas in the various businesses and the results are reported to management throughout the whole organisation. These Risk and Control Self-Assessments are conducted annually and form the basis for the yearly reports submitted to the respective Boards of Directors regarding the assessment of internal control. Belfius Bank submits the senior management report on the assessment of the internal control also to its regulator..

1.3.4. Information Security

Belfius' Risk Appetite, approved by the Board of Directors, includes a qualitative statement explicitly related to Information Security stipulating Belfius wants to meet the highest standards with regards to information security.

Governance and Strategy

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

The ISS is chaired by the Chief Risk Officer (CRO) / Chief Operations Officer (COO) of Belfius Bank. The quorum requires the presence of the CRO or the COO. Belfius Insurance also participates in the ISS.

The information security strategy has four major ambitions:

- Aware: Work "risk based" and ensure that identified internal & external risks are in line with the defined risk appetite; Managing risks in line with the risk appetite allows Belfius to tailor the Information Security risk posture to fully support the overall business strategy. By applying the risk-based principle Belfius ensures that investments are only done in those areas where they are needed and defendable;
- Mature: Become more mature and by making information security measurable and by benchmarking performance against industry standards. A solid basic security level acts as an enabler for secure innovations within the bank;
- Compliant: Comply with regulatory requirements by being compliant with internal as well as regulatory requirements, processes and procedures are executed in a predictable way. Furthermore, it will avoid potential regulatory penalties resulting from non-compliances;

- Resilient: Ensure Business Continuity & Disaster Recovery. By focusing on availability, business disruptions can be avoided and assurance can be given that key business processes can be adequately restored in case of calamities.

These ambitions are monitored on a monthly basis by the ISS through:
- a regularly updated information security road map which is compliant with regulations and in line with Belfius' risk appetite;
- a periodic dash boarding of information security;
- an incident and threat analysis;
- an approval and follow-up of information security projects.

The policy relating to securing information and its associated guidelines, norms and practices are aimed at safeguarding the information assets[9] of Belfius.

Belfius outsources its ICT infrastructure to IS4F, a subsidiary of IBM. The formalization of what Belfius expects from IS4F with regard to information security is defined in the Information Security Controls (ISEC) document.

Main evolutions of Information Security projects

For information security, Belfius follows a risk-based approach. This means that based upon risk assessments decisions are made on where improvements are most needed to effectively realize the stated ambitions and to align the actual risk posture with the risk appetite. This approach is used by the individual teams to define priorities and areas that need improvement whilst adhering to a defence in depth principle.

The high-level priorities and goals are translated in concrete projects. To effectively face cyber attacks that become ever so complex, Belfius focusses on projects that increase the capabilities of 3 types of controls: technology, process and people.

Large security projects are grouped together in a security roadmap which typically spans the course of two years. The current security roadmap which is now coming to an end (2016-2017) was defined in 2015 and encompassed multiple individual projects which are grouped together in three main streams:
- Avoid: Implement controls that further decrease the impact or the likelihood of an attack;
- Trace: Improve resilience of systems and humans to detect and prevent attacks better and faster;
- Act: Embed security mechanisms in the environment helping to stop attacks.

Of course, the ever-evolving security threat landscape requires organizations to be resilient and anticipate on existing and future threats. A new security roadmap (2018-2019) has been approved by the board of directors which will focus on:
- Boost the Cyber Immune System: Provide or improve tools and education to repel cyber security threats;
- Assume Compromise: Detect, observe and respond to advanced cyber attacks;
- Disappearing Perimeter: Protect a continuously changing interconnected environment.

Belfius frequently performs internal and independent tests to provide assurance about all aspects of the security organization. Such tests help in determining the effectiveness of existing controls, identifying new risks, checking compliance with regulatory requirements or measuring the maturity of security related processes. If deemed necessary, actions plans are established to grade up the level of information security.

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

In the area of the information security, the 2017 certification process of the existing accesses by information owners and functional responsible, based on 'the need to know need to have' principle and ensuring that employees at all times have proper access to their required information, is finalized.

Data Leakage Program

In 2016, Belfius started up a specific program to increase the protection level of information and data (Data Leakage Program), which continued in 2017. Until now the focus was on Governance and the building and testing of the platform. As from 2018 a phased roll-out will be started up supporting the protection of Privacy Data.

The New Product Approval Policy integrates a specific Cloud Risk Assessment (CRA). Depending upon the result of this risk assessment the ISS is informed or decides on the implementation of the possible cloud solutions.

9 Information or data that is value to the company and that needs to be protected accordingly.

Security awareness

In order to enhance the skills and the awareness with regard to information security of the staff members of Belfius, awareness- and formation initiatives are set up regularly. The security governance ensures the coordination of the different processes and initiatives through a security awareness working group. A foreseen E-Learning module will be made compulsory for all present and new internal and external colleagues from Belfius and Belins, able to connect to the Belfius' network. The E-Learning will as such as well be part of the intake-process for new colleagues.

Data privacy

With respect to the protection of personal data, the project management has been assigned to Risk. The project management aligns the GDPR implementation with the existing Data Governance and data protection projects into a holistic program for Belfius Group in order to obtain an integrated and sustainable data management. The GDPR or General Data Protection Regulation entered into force in May 2016 and will become applicable as of May 25 2018. It has a significant impact on the entire organization and customer relationship management of Belfius Bank & Insurances.
The project is organized in workstreams: Vision & strategy; Data register; IT & Security; Third Party; Data Subject Rights; Communication.

1.3.5. Business continuity

The policy on business continuity (BC) requires the various departments to analyse the business impact on critical activities, to develop recovery plans and to provide the necessary documentation, as well as to ensure that the plans regarding business continuity are tested and if necessary adjusted at least once a year on the occasion of the yearly evacuation exercises of the two main buildings. Based on regular reporting, the Management Board approves the strategies, any residual risks and action plans aimed at achieving further improvements if need be. Belfius Insurance and Belfius Investment Partners are fully in line with Belfius Bank concerning business continuity.

Following events in 2017 are noteworthy:

- → On the occasion of the yearly evacuation exercise of the main buildings, the BC Plan were successfully deployed and all KPI's are compliant with regulations; unlike 2016 (terror attacks in Brussels in March) no crisis triggered Belfius to deploy the BC Plan;
- → The threat analysis has been updated as the threats have evolved and may be more disruptive and persistent in time. Accordingly, sensitization and preventive measures have been taken to lower further the likelihood or to decrease the impact (e.g. by creating additional stress scenarios);
- → Update and further formalization of the overall governance where appropriate; the technical supports and communication tools have been professionalized;
- → Update of the Business Impact Analysis and the relocation strategies due to the digitization strategy, the development of new products and services and due to different internal reorganization projects;
- → Expansion of "Dual Office": gradually all systemic activities will be executed on at least two geographical distinct locations so that in the event of a major disruption on one place, these activities are simply continued in the other place without any disruption to the clients;
- → All action plans are being executed according to plan in order to fully comply in time with new regulation and laws on Business Continuity & Security (e.g. the law on "Sécurité et protection des infrastructures critiques" of the 1st of July 2011 and the circular NBB-2015-32);
- → Finally on the occasion of each BCP deployment, "lessons-learned" and action plans to improve the resilience of Belfius have been drawn-up.

1.3.6. Managing insurance policies

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

1.3.7. New Product Approval Policy

This aspect of operational risk was already treated in part Risk Management governance – 2.2.7. New Product Approval Policy (NPAP)

1.3.8. Fraud policy

In collaboration with Audit and Compliance, a global fraud policy was formally established at Belfius Bank. This has been materialised in a Directive concerning Fraud Policy. This Directive specifies the governance and shapes the framework of internal control aimed at preventing and detecting fraud as well as taking the necessary corrective measures.

Fraud management is the responsibility of the CRO, member of the Management Board. A fraud consultation body coordinates fraud policy and consists of participants from Audit, Compliance and ORM.

Nevertheless, each line of defence remains responsible for the assigned areas and must ensure compliance with the framework of internal control.

Each year, a fraud report is submitted to the Management Board and Audit Committee from which any corrective measures, if required, are taken.

1.3.9. Calculating regulatory capital requirements

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

This calculation consists of applying a percentage (called the Beta factor, between 12% and 18%) to the gross income calculated for each of the eight business lines defined by the Basel Committee (Corporate Finance, Commercial Banking, Retail Banking, Trading and Sales, Asset Management, Agency Services, Retail Brokerage, Payment and Settlement).

Profit consists mainly of the operating profit from the underlying businesses, including net interest and commission income. Income from the insurance business is not included because Belfius Insurance is considered prudentially as a third-party (under the Danish Compromise).

The total regulatory capital for each business line is then aggregated to calculate the total capital requirements for operational risk in the form of an average over the past three years, a calculation that is updated annually.

2. BUSINESS RISK AND STRATEGIC RISK

2.1. BUSINESS RISK

Definition

Business risk reflects the unexpected decrease of profitability from the expected (or budgeted) one resulting from deviations from Financial Plan, changes in competitive environment, lack of responsiveness to changes in the business environment or adverse/ improper implementation of business decisions. Business Risk includes inter alia Strategic Risk.

Organisation and Management of the Risk

The business risk is at the heart of the daily management of the bank. Indeed, management control as an independent department is responsible for the consolidation of data necessary to calculate income, expenses and profitability, as well as related reporting.
The steering of future profitability is operated through the various business line committees and ultimately by the Board of Directors: the latter defines any strategic decisions to achieve the levels of expected profitability as announced to the market and ensures the survival of the Group and its business lines.

Capitalisation

Business risk is not capitalized through Economic Capital but treated through Earnings at Risk and Stress Testing frameworks.

2.2. STRATEGIC RISK

Definition

Strategic risk is defined as the current or prospective loss of value arising from adverse business decisions, the improper implementation of decisions or lack of responsiveness to changes in the business environment.

Organisation and Management of the Risk

A strategic decision (Banking law of 25 April 2014, Art.3,63°) is a decision of a certain importance, that can therefore have a more global impact on an institution, in so far as various functions of the institution would be involved or affected by such a decision, and with a bearing on all investments, divestments, participations or strategic collaborations of the institution, in particular a decision to acquire or establish another institution, to establish a joint venture, to establish in another State, to enter into a cooperation agreement, to contribute or acquire a branch of activity, or to embark on a merger or division. By means of a regulation pursuant to Article 12bis § 2 of the Law of 22 February 1998, the supervisory authority can further stipulate which decisions shall be considered strategic within the meaning of this provision, in particular bearing in mind the risk profile and the nature of the institutions' activity. The supervisory authority shall publish these further stipulations.

Capitalisation

This risk is not covered by capital but is handled and managed through an appropriate governance process at Belfius.

3. REPUTATION RISK

Definition

Reputation risk is the potential decrease in the value of Belfius arising from the adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors, regulators and other stakeholders.

Organisation and Management of the Risk

Due to its very broad definition, the reputation risk is managed by various departments such as:

→ Communication;
→ Operational Risk Management;
→ Legal.

These key internal control actors have set up appropriate risk management frameworks and policies to prevent, detect and monitor potential reputation impacts on the risks of which they are primarily in charge.

They each assess risks relating to their areas of expertise on a regular basis, in order to identify areas that might not yet be sufficiently covered and accordingly to define corrective actions. This exercise is performed on a consolidated basis within the Bank using harmonised methodologies and tools.

Meetings between the different departments are organised on a regular basis in order to share information and to ensure a consistent and exhaustive risk management approach within the Bank.

Capitalisation

The risk is not capitalised and is managed through strong corporate governance and compliance rules within Belfius as described above.

4. COMPLIANCE RISK

Definition

Compliance risk is associated to any financial institution's failure to comply with laws, regulations, rules … that can result in financial sanctions or loss of reputation.

Organisation and Management of the Risk

Compliance is organised around a central Compliance department based on 3 pillars: Business Advisors (advisory function), the Compliance Risk Control team (control function) and the anti-money laundering unit. These three teams are supported by a specific unit which frames projects at an IT and an organisational level.

The central Compliance department may also call on the services of a large network of Compliance Correspondents within the Bank's various divisions, as well as a network of Compliance Managers with the branch network. This network plays an important role, particularly in the introduction of Compliance policy and procedures as well as training and awareness in that regard.

A Compliance Officer accredited by the FSMA is at the head of the Compliance organisation. The Compliance Officer reports directly to the Chairman of the Management Board and to the Audit Committee, and if necessary may directly approach the Chairman of the Board of Directors and the Regulator.

As provided by the regulations, the department also has a Money Laundering Reporting Officer and a Privacy Officer.

The Money Laundering Reporting Officer (MLRO) is head of the anti-money laundering team, which combats money laundering practices. Belfius does all it can not to be involved in laundering money from illegal activities, the organisation of tax fraud, financing terrorism or circumventing international embargos. To underline this commitment, the MLRO has established preventive measures and broadened controls. Proper knowledge of the customer and their identification, verification of the origin of financial flows on accounts and detection of dubious transactions are all vital elements in the prevention of such practices.

In particular, the Privacy Officer ensures that personal data obtained by the Bank in providing its services to its customers are processed and retained with necessary prudence and confidentiality, observing applicable regulations.

The Compliance Officer of Belfius Bank ensures that a coherent and effective Compliance policy is applied within all the subsidiary companies of Belfius Group. Belfius Bank traces out the group policy and defines the Compliance methodology to be used. Each regulated subsidiary company disposes of a Compliance Officer who is responsible for the application of the adapted policy within his/her company. These Compliance officers report functionally to the Compliance Officer of Belfius Bank.

Capitalisation

This risk is not covered by capital. The reasons behind the absence of quantification of Compliance risk are primarily driven by the absence of data and/or history to support robust quantification. In that context, capital is not the adequate answer to cover Compliance risk. We therefore consider more relevant to monitor this risk through procedures and processes and to set aside 'ad hoc' provisions for this type of specific events which are most of the time characterized by long term procedures.

5. LEGAL RISK

Definition

Legal risk consists of the possibility that lawsuits, adverse judgments from courts, or contracts that turn out to be unenforceable, disrupt or adversely affect the operations or condition of Belfius. Part of legal costs can be an operational loss; exposure in the press may lead to reputation damage[10].

Organisation and Management of the Risk

Legal risk is managed as follows:

- → All legislative expertise is centralized in the Legal Department. All law areas are treated by the department. Each lawyer is specialized in certain domains and several lawyers collaborate on the same subject, which implies that, when responding to a request for an opinion, it is always possible to request a second opinion or verification of the opinion given;
- → Active interaction between lawyers and internal clients;
- → Establishment of a daily legal watch including recommendations;
- → The management of the departments concerned can examine the changes in legislation that affect their area;
- → Legal risk mapping: potential legal risks are proactively listed, as well as the actions needed to reduce them;
- → Risk and provisions database: events are stored in different databases, reviewed and analysed, and actions are taken to limit specific legal risks in the future;
- → Provisions Committee: during this consultation, all important legal disputes are processed. Measures to limit legal risk may result;
- → A summary of general principles is established by the Legal Department and makes employees aware of legal risks and rules of conduct. Furthermore, trainings are organised in collaboration with the departments concerned;
- → Regular and ad-hoc reports and communications are presented to the Management Board.

Capitalisation

This risk is not covered by capital. The reasons behind the absence of quantification of Legal risk are primarily driven by the absence of data and/or history to support robust quantification. In that context, capital is not the adequate answer to cover Legal risk. We therefore consider more relevant to monitor this risk through procedures and processes and to set aside 'ad hoc' provisions for this type of specific events which are most of the time characterized by long term procedures.

10 Note that securitization risk, corresponding to the risk that the structure is not correctly implemented preventing from real transfer of risk, is considered as part of Legal risk.

MODEL RISK

Definition

Model risk is defined as the potential risk assessment errors resulting from inadequate methodology and models, and/or data uncertainty or from the inappropriate use of models.

The major issues that should be addressed by model risk are the following:
→ risk of poor model development;
→ risk of incorrect model calibration;
→ wrong data use and/or data problems;
→ inadequate model usage;
→ risk of population and/or performance non-stationarity.

Organisation and Management of the Risk

In addition to the Economic Capital assessment that is carried out for model risk, the risk of each issue described above is mitigated by a process-oriented handling of model risk.

Without being exhaustive, the following practices are considered for containing model risk:
→ allocating experienced professionals to the development of risk models;
→ providing a systematic "four eyes approach" via model validation;
→ monitoring and capitalising model risk within the Belfius Economic Capital framework.

Capitalisation

For each risk type and each Risk Capital calculation methodology, the potential increase (not decrease) of Risk Capital resulting from model risk is assessed using a unified scorecard approach. It includes the result of quantitative and qualitative assessments of the models, and is also linked to the outstanding validation recommendations. This judgement results in an "uncertainty coefficient" depending on the perceived comfort "with which the model has been developed and implemented, and is being fed and used".

PENSION RISK

Definition

Pension risk is the risk stemming from commitments on employee pensions and benefits.

The risk for an employee benefits plan is the risk that the actual value of future commitments (liabilities of the plan) will change on the basis of changing market parameters (interest rates and inflation risk). A pension fund is created to meet the future commitments. The contributions paid into the plan are invested in assets (the pension fund).

The risk for a pension fund is the risk that the net present value of its liabilities (future commitments) is higher than the net present value of its assets (existing investments plus future contribution investments).

As a result, pension risk is not one risk but a set of risks. It is handled by its main specific risks: market risk (interest rate risk, equity risk, inflation risk), credit risk (solvency risk) and behavioural risk (turnover, mortality).

Organisation and Management of the Risk

A three-level structure constituting the governing body of the pension plan, ranging from strategic through tactical to the operational management level, establishes a rigorous process by which investment activities are carried out.

A dedicated committee approves the investment mandates and grants them to the pension fund asset manager. These investment mandates establish clear investment objectives for the pension fund consistent with the characteristics of the pension fund and the acceptable degree of risk for the pension fund.

The approach for achieving these objectives takes into account the need for proper risk management, diversification needs, liquidity requirements and asset allocation limitations.

Capitalisation

Pension risk is capitalised. The risk capital is the aggregation of various calculations by type of risk.

BELFIUS INSURANCE'S RISKS

RISK CARTOGRAPHY

The risks are mapped out as follows at Belfius Insurance:

FINANCIAL RISKS
Credit Risk
Markt- and ALM-Risk
Liquidity Risk
INSURANCE RISK
Underwriting Risk for Life
Underwriting Risk for Non-Life
Underwriting Risk for Health
OPERATIONAL RISK
Fraud Risk
Human Resources Risk
Legal and Compliance Risk
Electronic Data Processing Risk
Business Continuity Risk
Outsourcing Risk
OTHER RISKS
Business Risk
Strategic Risk
Reputation Risk
Model Risk

The paragraphs below describe the different risks to which Belfius Insurance is exposed in greater detail.

1. FINANCIAL RISKS

The financial risks of Belfius Insurance stem from the financial commitments under liabilities, such as guaranteed interest in life insurance policies, and to investments under assets to hedge the insurance reserves.

1.1. CREDIT RISK

The credit risk arises out of the uncertainty concerning a debtor's capacity to meet his obligations. It has three components:
- the default risk: every failure or delay in payment of the principal and/or interests that leads to a loss for the financial institution;
- the risk that the credit quality worsens, reflected in a drop of the financial valuation of the debt concerned; and
- uncertainty concerning the amount to be recovered in the event of default.

Belfius Insurance is exposed to the credit risk at various levels:
- loans to companies and private individuals;
- bonds in the investment portfolio;
- transactions with derivatives; and
- share of reinsurers in the technical provisions (net deposits of the reinsurers).

The credit risk of Belfius Insurance is controlled in cooperation with the Credit Risk Management ("CRM") teams of Belfius Bank. An operational system has been developed under the Investment Framework of Belfius Insurance to manage the risks and limits.

The risk management department of Belfius Insurance provides a Risk framework to the investment department. These specific guidelines are taken into account in the asset management activities and in turn take account of the company's risk appetite.

1.1.1. Global overview of the Credit Risk

The tables below show the breakdown of the portfolio (market value) excluding Branch 23 per type of investment and per country as at 31 December 2016 and 31 December 2017. The development in bond market values is the accumulated reflection of the movement in interest rates, credit spreads, purchases and sales and maturity dates.

Market value at 31/12/2016

	Cash	Property	Actions	Govern-ment bonds	Covered bonds	Financial bonds	Corporate bonds and credits	Mortgage loans	Deriva-tives	Total
Belgium	610	555	596	7,561	0	173	989	3,985	(10)	14,459
France	0	0	252	243	605	146	1,079	0	0	2,325
Italy	0	0	10	764	7	21	164	0	0	965
Spain	0	0	1	269	135	17	105	0	0	528
United Kingdom	0	0	16	0	297	21	152	0	0	486
Germany	0	0	173	23	11	40	112	0	0	359
Netherlands	0	0	146	5	16	115	103	0	0	385
Luxembourg	0	0	6	2	0	0	376	0	0	384
United States	0	0	0	0	0	53	152	0	0	205
Poland	0	0	0	179	0	0	0	0	0	179
Ireland	0	0	1	34	25	0	34	0	0	94
Denmark	0	0	0	0	0	0	73	0	0	73
Others	0	0	9	197	1	119	86	0	0	413
TOTAL	610	555	1,210	9,277	1,097	705	3,425	3,985	(10)	20,856

Market value at 31/12/2016

	Cash	Property	Actions	Govern-ment bonds	Covered bonds	Financial bonds	Corporate bonds and credits	Mortgage loans	Deriva-tives	Total
Belgium	374	592	594	6,707	0	114	1,116	3,696	0	13,193
France	0	0	245	381	515	153	947	0	0	2,241
Italy	0	0	1	733	6	20	117	0	0	878
Spain	0	0	1	360	115	20	100	0	0	596
United Kingdom	0	0	13	0	287	23	163	0	0	485
Germany	0	0	171	22	10	31	92	0	0	327
Netherlands	0	0	176	9	11	92	80	0	0	367
Luxembourg	0	0	10	17	0	53	669	0	0	749
United States	0	0	0	0	0	49	186	0	0	236
Poland	0	0	0	180	0	0	0	0	0	180
Ireland	0	0	0	37	24	0	32	0	0	93
Denmark	0	0	0	0	0	0	172	0	0	172
Others	0	0	9	292	1	60	65	0	0	428
TOTAL	374	592	1,220	8,739	970	615	3,739	3,696	0	19,945

The overall market value of the portfolio decreased in 2017 as a result of the decrease of the branch 21 products given the maturing amounts compared to the new production over 2017. Note that in 2017 production mainly focused on branch 23 products.

A large part of the portfolio (66,1%) is invested in Belgium. Belfius Insurance endeavours to comply with its self-imposed credit risk framework.

The government bond portfolio declined by EUR 539 million to EUR 8,739 million. Reinvestments were mainly in corporate bonds that offer a higher return. The corporate bond portfolio increased by EUR 314 million to EUR 3,739 million. At the end of 2017, the outstanding amounted to EUR 3,696 million.

The decrease in mortgage loans over 2017 is explained by the refinancing caused by the fall in interest rates.

The following tables show the ten largest exposures of Belfius Insurance per counterparty on 31 December 2016 and 31 December 2017:

Issuer	Category	Market value at 31/12/2016
Belgian Govenment	Government Bonds	5,678
Italian Government	Government Bonds	764
Belfius Bank sa	Cash	576
Caisse française de financement local	Covered Bonds	427
Communauté française de Belgique	Government Bonds	393
Société wallonnne du logement	Government Bonds	300
Spanisch Government	Government Bonds	269
Région wallonne	Government Bonds	250
Vlaamse gemeenschap	Government Bonds	233
Woningfonds van de Grote Gezinnen	Government Bonds	189
TOTAL		9,080

Issuer	Category	Market value at 31/12/2017
Belgian Govenment	Government Bonds	4,866
Italian Government	Government Bonds	724
Caisse française de financement local	Covered Bonds	407
Belfius Bank sa	Cash	374
AXA sa	Fund	357
Candriam Investors Group	Fund	351
Communauté française de Belgique	Government Bonds	351
Spanisch Government	Government Bonds	325
Société wallonnne du logement	Government Bonds	283
French Government	Government Bonds	249
TOTAL		8,289

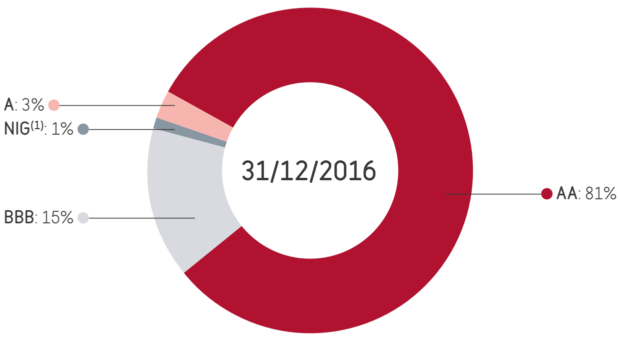
Belfius Insurance remains mainly exposed to Belgian government bonds. Although the exposure decreased with EUR 812 million in 2017.

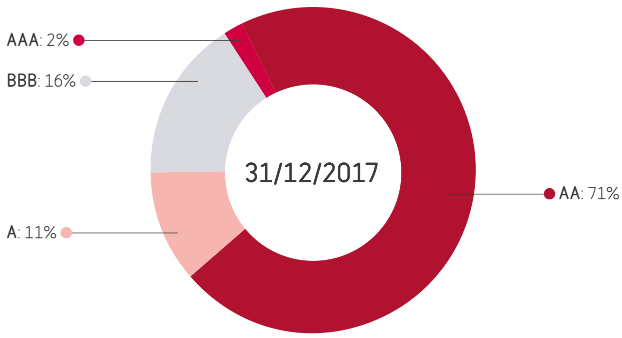
1.1.2. Additional information on the quality of the portfolio

Belfius Insurance wants to obtain a good credit quality for its bond portfolio overall. The outstanding credit risk is closely monitored in cooperation with the Credit Risk Management teams of Belfius Bank. The graphs below show the breakdown of the ratings per type of assets as at 31 December 2016 and 31 December 2017.

The weighted average rating of the portfolio decreased in 2017 from A to A-. This was mainly caused by the inclusion of the "Fixed Income Funds" and the downgrade of the internal rating of Italy.

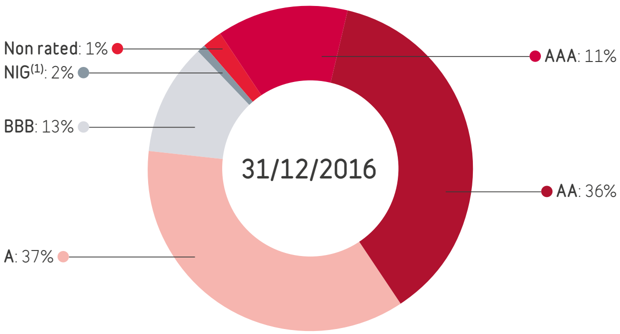
Goverment bonds



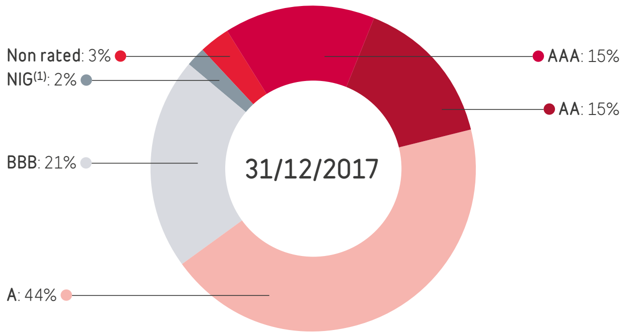


(1) NIG = Non-investment grade.

Loans (ex RMBS)



(1) NIG = Non-investment grade.



(1) NIG = Non-investment grade.

1.1.3. Forbearance report on the mortgage loan portfolio

The Forbearance report is drawn up for the portfolio of mortgage loans granted by Belfius Insurance through its network of agents and by Elantis, its subsidiary that is specialized in such loans. It contains the list of contracts for which the customer has had problems and for which the lender has added additional conditions to the initial terms and conditions of the contract.

The reported estimates were stated on 31 December 2017. The outstanding mortgage loans that meet the Forbearance conditions amounted to approximately EUR 34 million or 1% of the outstanding volume of mortgage loans under management. The amount of these credits is fully guaranteed with a mortgage registration. An impairment of EUR 0.5 million, being 1.5% of the outstanding Forbearance, was booked on the basis of internal rules. This amount of write-downs can be explained by the large number of credits with a loan to value (ie the amount of credit in relation to the value of the property bought and guaranteed) of less than 75%, as well as by the regular requirement of an external guarantee for the credits with a quota of more than 75%.

31/12/2017	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	33.7	0.5	14.4	18.7
Loan commitments - given				

1.2. MARKET RISK

The market risk is the risk that a loss can result from fluctuations in the prices of financial instruments held in a portfolio. The various risk factors include interest, the exchange rate, share prices or real estate prices. Fluctuations in these elements are at the root of the market risk.

The Risk Monitoring Team is responsible for following up the market risk.

The Risk Management department is responsible in particular for defining the Investment framework in accordance with the risk appetite and risk limits. It is also responsible for defining the Strategic Asset Allocation (SAA), which consists of determining the suitable allocations for the various assets to the insurance liabilities. The technical reserves are subdivided into portfolios that are homogeneous in terms of the nature of products and embedded options.

The risk appetite and strategy relating to the market risk are determined at the level of Belfius Insurance. The local correspondents are responsible for the implementation thereof in their own entity. A representative of the Risk Management and Investments departments in the local ALCos assures to the requisite consistency for the management of the market risk at the local level.

1.2.1. Foreign Exchange Risk

The foreign exchange rate risk is not significant at Belfius Insurance, where less than 1% of the portfolio's total market value is denominated in foreign currencies. The possibilities of holding exposures in foreign currencies is moreover deliberately limited by the Investment Framework.

The current exchange rate risk mainly comes from positions in Danish krone (Danish mortgage bonds), whose value is strongly linked to the Euro. The exposure to the Danish krone increased in 2017 by EUR 99 million.

31/12/2016	Exchange rate risk
	Market value
EUR	20,779
DKK	73
GBP	4
TOTAAL	20,856

31/12/2017	Exchange rate risk
	Market value
EUR	19,504
DKK	172
GBP	1
TOTAAL	19,677

1.2.2. Interest Rate Risk

The aim is to manage and limit the net volatility in the income statement that can be caused by interest rate fluctuations and to safeguard the economic value of the shareholders' capital. Belfius Insurance will therefore, as a matter of policy, not hold any exposure with a high interest rate risk.

The duration that reflects the interest rate sensitivity of the balance sheet, is considered to be the leading measuring instrument for interest rate risk. The partial and global sensitivities of the interest rate risk per time bucketl are more precise indicators that are monitored by the ALCo.

The limits for the interest rate risk are approved by the management board and the board of directors. They are translated to the Investment Framework and monitored by the ALCo for asset management purposes.

Belfius Insurance maintained its ALM strategy which is geared to keep the duration between assets and liabilities pretty much balanced. The current low interest rates therefore have a limited impact on the existing assets and liabilities.

If the historically low interest rates persist for a longer period, Belfius Insurance will be forced to revise its current product range substantially, as with the low interest rates and the current taxation rules we are unable to offer customers attractive investment insurance products in Branch 21 and Branch 26, taking the Solvency II capital requirements also into account. In the meantime, there are several initiatives on which we give customers an opportunity to foresee security in their investment in Branch 23 through the Branch 44 concept.

1.2.3. Equity Risk and Real Estate Risk

Various methods are used in the Belfius Group to monitor the price risk (shares and real estate): the Value at Risk ("VaR") represents the maximum potential loss in a portfolio (with a given probability) in a set time period; sensitivity tests and stress tests. A limit is set on the basis of these indicators for the assets in which to invest.

In order to ensure diversified management, global and specific limits are also set in terms of diversification, concentration and counterparties.

1.3. SENSITIVITIES

The interest rate risk can assume 2 forms: the risk that the insurer's economic value fluctuates, and the risk that the insurer's earnings fluctuates. Both risks have to be measured in order to gauge the full scope of the interest rate risk on the balance sheet (exclusive of financial markets).

The economic value indicators measure the long-term effect of changes in the interest rate. The interest rate sensitivity of the economic value measures the change of the ALM economic value if the entire interest rate curve changes by 10 basis points.

→ The interest rate risk remains low, thanks to a limited duration gap;
→ The real estate risk rises slightly as a result of an increase in the value of the real estate portfolio.

Impact on available financial means

Event	31/12/2016	31/12/2017
INTEREST RATE RISK		
Sensitivity (+10 bps)	13	19
Earnings at risk (+50 bps)	3	3
EQUITY RISK		
Schock 30% (negatif)	(320)	(337)
VaR (99%, 10 days)	84	36
PROPERTY		
Schock 12.5% (negatif)	(89)	(74)
SENSIBILTY TO CREDIT SPREAD		
Increase spread with 1 bp	(8)	(9)

The interest rate risk in insurance is limited. For Belfius Insurance, the ALM target comes down to having a natural match for the position in the asset and liability durations.

Changes in equity prices and the impact of credit spreads are immediately translated into Belfius Insurance's regulatory own funds. Only in case of sale, the change will lead to lower realized results. Significant downward shocks on equities may, however, result in write-downs (application of the "significant decrease" principle according to the valuation rules).

The interest rate sensitivity of Belfius Insurance's income statement is very limited considering the limited duration gap. The impact of an interest rate increase on the regulatory own funds will largely be neutralized due to the current latent capital gains and the related use of shadow loss recognition. Just as it would be the case with real estate, a change in valuation will only have a significant accounting impact through the income statement if Belfius Insurance, due to e.g. liquidity needs, would be required to sell the assets.

1.4. LIQUIDITY RISK

As an insurance company, Belfius Insurance bears mainly insurance liabilities at relatively long term that are largely stable and predictable. Consequently, funding requirement is quite limited. The premiums paid by policyholders are placed in long-term investments in order to guarantee the insured capital and committed interests at the contract's maturity date. Several regulatory and internal liquidity indicators demonstrate that Belfius Insurance constantly holds enough liquid assets to cover its commitments on the liability side of the balance sheet.

In order to ensure that all short-term liquidity requirements can be met, Belfius Insurance has embedded liquidity management in its day-to-day activities through:

- investment guidelines that limit investments in illiquid assets;
- Asset Liability Management, ensuring that investment decisions take into account the specific features of the liabilities;
- policies and procedures that are put in place to assess the liquidity of new investments;
- follow up of the short-term treasury needs.

In addition, Belfius Insurance also holds a significant amount of unencumbered assets that are eligible at the ECB. More specific, the company invests at least 40% of its bond portfolio in government bonds eligible for repos in the context of its liquidity management.

The Investment department is responsible for Belfius Insurance's liquidity and cash-flow management. Therefore, it uses long-term projections of the cash-flows of assets and liabilities. These cash flows are simulated under both normal and stressed situations. Projections of cash-flow requirements for next twelve months are also used.

2. INSURANCE RISK

2.1. DEFINITION

Belfius Insurance, as a part of Belfius, takes up risk through the insurance contracts that it underwrites. The risks within the underwriting risk category are associated with both the exposure covered by the specific line of insurance (Life, Non-Life, Health) and the specific processes associated with insurance business (claims processing, premium collection, pricing, selection, etc.).

The risks that apply to all lines of the insurance business can be globally categorised as follows:

Life underwriting risk: is the risk arising from the underwriting of life insurance contracts. It is split up into:
- Mortality risk, which is the risk that mortality occurs when increases. It applies to all undertakings for which the pay-outs are expected to be paid out increase when there is a rise in mortality.
- Longevity risk is the opposite of the mortality risk. It applies to policies for which a fall in mortality would result in an increase in the expected payouts (e.g. pension policies). Improvements in medical treatments that prolong life without restoring the ability to work could cause these risks to materialise at a greater frequency than currently observed.
- Morbidity or disability risk relates to the risk of loss or disadvantageous movement in expected benefits caused by changes in the level, nature, trend or volatility of the degree of disability.
- Lapse risk for Life is described as the risk of loss or increase in pay-out caused to a difference between the effective exercise rate of the contractual options by the policyholder and the expected exercise rate. The term "options" should be viewed in the broad sense of the word: this submodule contains options in relation to redemption, cancellation or premium reduction, as well as the expansion of the guarantees. For some policies, exercise may be at the benefit of the insurance company, while for others it may result in a loss. As a result, this submodule features two scenarios: one in which the options are exercised more frequently than expected and another where they are exercised less frequently.
- The risk relating to management costs corresponds with the risk that those management costs are higher than expected or that they subdue to higher inflation than expected.
- Revision risk only applies for the annuities whose amounts may be valued negatively for the insurer as the result of a change in the statutory environment or in the policyholder's health situation.
- Catastrophe risk is restricted to policies where an immediate and dramatic rise in mortality would result in an increase in benefits.

Non-Life underwriting risk: is the specific insurance risk arising from Non-Life insurance contracts. Uncertainty about the results of the insurer's underwriting could be defined as:
- Premium risk which is the risk where the amount of premiums received is not sufficient to pay claims that occur during the coverage period to which the premiums relate to.
- Reserve risk is the risk of loss or unfavourable change in the value of the insurance undertakings arising from changes in the frequency and severity of the insured events, as well as in the date and amount of the claims to be paid.
- Catastrophe risk is the risk arising from unpredictable events including, but not limited to, windstorms, coastal inundation, floods, severe winter weather, and other weather-related events, pandemics, large-scale fires, industrial explosions, earthquakes and other man-made disasters such as civil unrest and terrorist attacks, that is not covered by the premiums or reserves.

2.2. MANAGING THE INSURANCE RISK

Organisation and Management of the Risk

Risk Management within Belfius Insurance is aligned with Belfius best practices and guidelines, subject to specific insurance governance for underwriting, reserving and reinsurance. The risk appetite of the company is integrated into the global Belfius approach, and Belfius Bank is represented in the main risk committees. The methodology and governance for using risk concepts in management decisions are approved by the company's Management Board.

The Risk & Underwriting Committee gives recommendations about strategy in the area of underwriting and reserves for the insurance companies within Belfius Insurance and the resulting policy, in particular with regard to the following points:
- types and characteristics of the insurance business that Belfius Insurance is willing to manage;
- selection criteria for the risks that match the risk appetite;
- the way in which the actual underwriting is monitored;
- the managing between, on the one hand, the insurance premiums collected and, on the other, the claims to be paid out when costs are borne;

- identification of the risks arising from the undertakings of Belfius Insurance, including the implicit options and the capital that is guaranteed by the insurance products;
- making provisions for claims.

The overall strategy is developed by each concerned entity and is follow-up by the local persons in charge.

Reinsurance is one of the methods used to limit the insurance risk. The main objective of reinsurance is to reduce volatility in capital requirements and profits, and to diminish the uncertainty associated with the risk in the insurer's valuation.

The drivers of reinsurance are:
- capacity: reinsurance gives insurers greater flexibility in terms of scope, type of risk and business volume that they can safely accept. This enables insurers to embark on new business or to expand their activities for a short period.
- stability: structured reinsurance programmes enable insurers to stabilise their operating income.
- protection: reinsurance provides protection against cumulative financial losses caused by a succession of events (such as poor weather) or against significant financial losses arising from a single event.
- funding: reinsurance can be an alternative to a capital increase.
- expertise: reinsurers assist insurers in their area of expertise. The qualified staff of reinsurance companies offer their services, for instance in establishing a new business.

Capitalisation

For each category of Life/Non-Life underwriting risks the Solvency 2 framework is implemented that assures to meet economic capital prescriptions

2.3. SENSITIVITIES

Belfius Insurance evaluates the effect of sensitivities on available economic capital. The technical reserves are expressed in market value.

Given the low market rates the value of the technical reserves is higher than the redemption value, which results in a negative impact on capital in the event of a reduction in the redemption rate. The sensitivity to the redemption rate decreases in 2017 given a decrease in the volume of branch 21.

The insured capital on death is higher than the fair value of technical reserves, which results in a positive impact on available financial resources if there is a decrease in mortality rates.

In non-life, lower administrative costs lead to a higher result, while an increase of claims leads to a lower result.

Underwriting risk for Life: scenario corresponding to[1]

	Impact on available financial resources before tax	
	31/12/2016	31/12/2017
An increase of 15% in mortality rates	(35)	(35)
An increase of 10% of charges + 1% inflation	(101)	(126)
A decrease of 10% in the redemption rate	(24)	(21)

(1) Scope Belfius Insurance SA, branch 23 included.

Underwriting risk for Non-Life: scenario corresponding to[1]

	Impact on available financial resources before tax	
	31/12/2016	31/12/2017
A 10% decrease in administrative costs	7	9
A 5% increase in claims incurred	(18)	(18)

(1) Scope Belfius Insurance SA and Corona SA.

2.4. DEVELOPMENT OF CLAIMS

The claims triangle is the usual method for expressing the settlement of claims stretched out over a number of years. Inter alia it enables actuaries to assess the appropriateness of the technical provisions. In Non-Life insurance, between the event and closing date of a claim, the insurer can in general not determine the exact amount on total cost of the claim. During this period, the insurer establishes a reserve that equals to the estimated amount of future payments for the claim.

Given the reserve is only an estimate, there is a risk that the amount effectively paid is higher. To assess that risk, it is necessary to study the variation of two amounts:

- the total of payments made prior to that date;
- the reserve established on that date for future payments.

The sum of these two components is called the total incurred claims cost.

The table below shows the evolution for Belfius Insurance SA and Corona SA since 2007 of the sum at the end of each year, of the total incurred claims cost per year of occurrence.

Claims development (excluding reinsurance and internal costs)

Year of settlement	Year of occurrence										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Estimation at the end of the year of occurrence	226	284	332	377	368	366	366	415	390	428	417
1	254	286	315	378	366	351	325	393	361	403	
2	240	276	303	376	355	334	313	381	354		
3	232	267	302	371	350	330	306	375			
4	229	267	300	371	353	328	303				
5	232	267	299	363	351	324					
6	229	268	297	361	351						
7	227	267	294	358							
8	226	264	294								
9	225	264									
10	224										
Actual estimation	**224**	**264**	**294**	**358**	**351**	**324**	**303**	**375**	**354**	**403**	**417**
Accumulated payments	**204**	**227**	**267**	**298**	**295**	**268**	**246**	**304**	**257**	**261**	**164**
Actual provisions	**20**	**38**	**27**	**60**	**56**	**56**	**57**	**71**	**97**	**142**	**253**

Provisions (> 2007)	876
Provisions (< 2007)	129
Internal costs	43
Accepted deals	27
TOTAL	1,075

3. OPERATIONAL RISK

The framework of the operational risk management is based on strong governance with clearly described tasks and responsibilities. The management board, which meets on a weekly basis, analyses the development of the risk profile of the various activities of Belfius Insurance regularly and takes the necessary decisions.

The head of the operational risks department translates the policy that was approved by the management committee in detail into recommendations for the commercial activity, and sees to the transversal supervision of the operational incidents and the analyses carried out.

The managers of the various departments are responsible for the management of the operational risks (first line of defence). They assign a correspondent for the operational risks of their activities. The latter coordinates the gathering of data about operational risks and sees to the self-assessment of the risk, with support of the function for operational risk management.

3.1. METHODOLOGY

3.1.1. Establishment of an overview

Drafting an overview of the operational incidents is crucial to gaining a better understanding of the operational risk entailed by each activity and constitutes a relevant source of information for management (e.g. the estimated annual loss). The major operational incidents are investigated thoroughly and a specific action plan and appropriate follow-up are organized.

3.1.2. Self Assessment of risks and related controls

A self-assessment of the risks and the related controls is conducted every year for the various activities of Belfius Insurance.

3.2. FRAUD RISK

The fraud risk is scaled as acceptable in all processes, with a limited number of specific points of attention in certain processes.

The fraud prevention policy is charted and disseminated, internally and to the network of agents of DVV Insurance.

The necessary arrangements concerning fraud prevention in bank branches are governed by Belfius Bank. Sufficient attention is paid to fraud prevention in the training to managers and agents. The staff involved have undergone training in the "code of ethics" and have been given guidelines and procedures for fraud treatment and prevention.

Appropriate e-mail and internet security systems have been installed to limit the fraud risk on this front to the maximum. Various levels of permissions and authorizations are set in the IT system. Prevention and detection controls are also built in (manual and automatic) to prevent unauthorized payments.

Purchasing is carried out through the central purchasing department. Orders are placed and paid via a procedure with strict separation between ordering, approval and payment.

Belfius Insurance also has a separate cell with specialized inspectors for fraud prevention in the insurance field.

3.3. HR-RISK

The general and budgetary framework for staffing is established and approved in the business planning exercises and the positions are filled with internal and external staff for the various processes.
A wide range of external and internal training programmes are offered to employees to that end.

Each employee has a remit, where the annual performance reviews help to define the tasks and responsibilities of everyone. Individual follow-up interviews in the course of the year see to adjustments where necessary.

3.4. LEGAL & COMPLIANCE RISK

The relevant legislation is systematically monitored by the Legal department. The follow-up of the implementation of new legal developments is carried out through very close consultation between the Legal department and the service(s) concerned. Furthermore, the Legal department provides advice on various legal matters and regularly reports to the management board on the developments concerning the legal risk at Belfius Insurance.

Legal and Compliance follow up jointly the legislation on privacy and see to the drafting of the privacy clauses in insurance documents and the declaration required by law to the privacy commission for all processing of personal data by Belfius Insurance and by the agents of DVV (in the applications of Belfius Insurance).

Finally, the departments Compliance and Life form the Acceptance Committee for assessing risky transactions or customers.

Assuralia's code of conduct for complaints management was adopted by Belfius Insurance and is available on the intranet. Pursuant to that code of conduct, systematic reporting is carried out on the quality of complaint handling and the content of the complaints.

3.5. ELECTRONIC DATA PROCESSING RISK

The IT organization structure is geared to provide utmost service thanks to the IT accounts for optimal management of existing applications and the development of new applications.

The IT project portfolio is managed centrally by the Portfolio & Project Management. This selecting and reporting process aims to optimize the allocation of means and resources to strategic projects on the basis of a number of criteria.

The IT environment for the back office is highly automated with efficient application controls.

DIGIS (Global Imaging System) is geared to the user-friendly digitization of paper documents.

3.6. BUSINESS CONTINUITY RISK

The continuity of business activity is of vital importance in securing a timely delivery of Belfius Insurance products and services. Legal, contractual and regulatory obligations must moreover show that Belfius Insurance is capable of guaranteeing the service to its customers and of limiting to a minimum the interruption of its operations in case of an unforeseeable event.

The same approach is used in all activities for the charting and maintaining of the business continuity plan, in line with the approach that is used in Belfius Bank as well.

This entails providing, where possible, a number of workstations at disaster recovery sites, depending on the critical nature of the various activities. The effectiveness of the BCP plan is tested regularly and the implementation of any action plans is monitored.

The other activities of Belfius Insurance have their own continuity plan.

3.7. OUTSOURCING RISK

Belfius Insurance calls on various external partners for certain, primarily technical, IT activities (such as Innovative Solutions for Finance (IS4F) for the management of the IT infrastructure, Hexaware for certain developments, and other external suppliers). This cooperation is monitored continuously and action plans are defined and implemented to tackle any points requiring further attention. In that respect, a series of measures have been taken with IS4F to improve the performance and stability of the systems. The efforts will in future be continued with a view to ongoing improvement.

An important component of the Anti-Money-Laundering monitoring was outsourced to Belfius Bank (Compliance). In that respect, an SLA was concluded in which all working conditions are defined.

The roles and responsibilities of each party are described in the various agreements concerning discretionary management and the service for financial management of the insurance portfolios of Belfius Insurance and its subsidiaries.

The final decision for the management of financial instruments lies with the ALCo. The instructions of the ALCo are to be carried out by Candriam and are monitored closely by the ALCo.

4. OTHER RISKS

4.1. BUSINESS RISK

Described as the risk of lower profitability for the various business lines of Belfius Insurance, the business risk is a central element in the day-to-day management of the company and its strategic orientations.

The Strategic Planning and Control department is responsible for consolidating all data needed for the follow-up of the profitability and the overall performance of the company through various indicators.

The management of the future profitability is handled by various committees and lies ultimately with the management board and the board of directors. The latter bodies determine the strategic decisions to be taken in order to achieve the expected profitability and to safeguard the competitiveness of Belfius Insurance in the long term.

4.2. STRATEGIC RISK

The strategic risk is the potential cost of the loss of existing customers, or the cost of the possibility that potential customers will be lost because of external changes and ill-advised decisions, insufficient implementation of decisions and a failure to respond to changes in the business environments.

The measures for limiting the strategic risks are based on the following principles:
- ascertain that the strategic risk of Belfius insurance is attuned to its commercial environment;
- react effectively to the changed economic environment or to development possibilities; and
- ascertain that the decisions taken by the management of Belfius Insurance and its entities are properly implemented in the business lines/entities.

The strategic risk is managed by a sound governance system implemented at Belfius Insurance and its entities.

4.3. REPUTATION RISK

The reputation risk is the potential loss of value for Belfius Insurance due to a negative perception of the company by customers, counterparties, shareholders, investors, supervisors and other stakeholders.

Belfius Insurance attaches great importance to the satisfaction of its leading stakeholders and organizes satisfaction surveys for customers and its staff on a regular basis. These are useful instruments for identifying any decline in trust among important stakeholders.

The reputation risk is managed by corporate governance, thanks to sound compliance rules at Belfius Insurance. Various departments are involved in this process: Compliance, Risk management, Legal and Tax department, and Communication.

The key internal control players have created a framework to manage risks and to manage a policy geared to preventing, detecting, and monitoring the potential impact to the reputation risk in the fields for which they are responsible. A corrective measure is taken for every shortcoming that is detected.

4.4. MODEL RISK

At Belfius Insurance, the model risk is described as an assessment error risk that arises out of a methodology that is not effective, uncertainty concerning the data and/or the inappropriate use of models.

As is the case with every other risk, the model risk is managed. The success factors are:
- a good development of the model by various experts (in statistics, finance and insurance), in cooperation with the various business lines, who have extensive experience in the activity on which the modelling is applied;
- clear documentation of the models to expose weak points in a simple manner;
- thorough back-testing;
- a comparative study, insofar as possible;
- quality control of the data used; and
- an in-depth internal validation when the model is implemented and then during the entire lifecycle.

APPENDICES

1. INTERNAL RATING SYSTEMS

1.1. DESCRIPTION OF THE INTERNAL RATING PROCESS

General Organisation of the Internal Rating Process

The internal rating process is organised in three stages: the model development, the maintenance and the control of the internal rating.

The model manager is responsible for the entire process of developing and maintaining a model, whereas the control of the internal rating is dispatched through several control functions within the Bank (validation, audit, quality control, …).

Development of the Models

The model management process is coordinated by the Model Management team within Belfius Bank. Model managers perform the model management activities enhancing both consistency and efficiency.

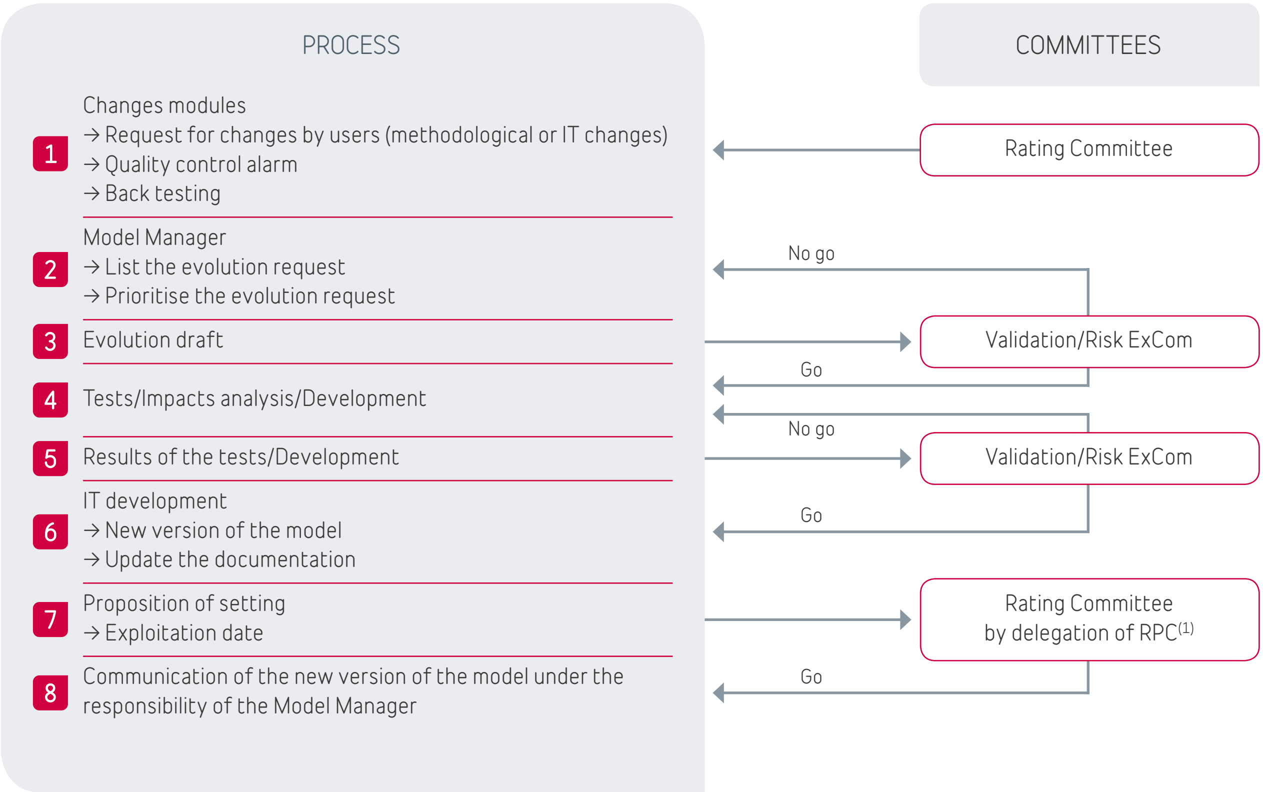
The various steps are:

- defining the scope of the counterparties concerned;
- identifying and gathering the most relevant available data (financial data, data on defaults of the segment concerned, institutional framework);
- building a database if needed;
- defining a broad list of financial ratios and qualitative criteria;
- testing these ratios (repetitive processes between statisticians and analysts);
- building the score function. A score function is the mathematical function that allows determination of the counterparty (or exposure) PD, LGD or CCF on the basis of its characteristics. Score function is established by the modelling team on the basis of statistical analysis and modelling techniques;
- testing the score function;
- developing IT tools;
- validating and implementing the model;
- adjusting risk policies to take internal risk systems into account;
- documentation (user guide, documentation for the regulator, notes concerning the building of the model). Nevertheless, some steps in the development process detailed above (such as building the score function, testing the function, etc.) are not applied for some specific models:
  - models based on an expert approach (such as the model used for Regions and Communities) do not include a score function. They are based on internal experience and qualitative knowledge and not on statistical data (which may not be available due to very low number of defaults for instance);
  - models based on a derivation approach are derived from an existing model;
  - models based on an assimilation approach are not stricto sensu models due to the fact that counterparties treated by assimilation simply inherit the rating of their "master" counterparty;
- assimilations and derivations are applied when it is neither financially intuitive nor statistically relevant to develop, adapt or use an existing model. Such cases occur typically for low default portfolios with a low number of observations, limited data availability (both for design and for model use) and for portfolios where strong relations exist between the "master" counterparty and the "assimilated" or "derived" counterparty. These relations can be legally bound or based upon long-term past experience and practice.

Maintenance of the Models

As mentioned above, the model manager is responsible for the entire process linked to the model developed, including the maintenance of the model.

The model maintenance process is detailed in the diagram hereafter.



(1) RPC: Risk Policy Committee.

Internal Rating Process by Broad Exposure Class

Type of Exposure Included in Each Exposure Class

Belfius has developed a wide range of models to estimate PD, LGD and CCF of the following types of counterparties:

Sovereigns

Sovereigns

The scope of the model encompasses sovereign counterparties, defined as central governments, central banks and embassies (which are an offshoot of the central government), and all debtors of which liabilities are guaranteed irrevocably and unconditionally by central governments or central banks.

Assimilations to Sovereigns

The in-depth analysis of some public sector counterparties (such as some public institutions, like the National Social Security Office or Buildings Agency) shows that they share the same credit risk as the “master” counterparties to whom they are assimilated (usually local authorities or sovereigns). They are consequently assimilated to these “master” counterparties and benefit from the same PD and LGD as their “master” counterparties.

Retail

Retail – Individuals (Ripar)

These models encompass retail customers (individuals). Individuals are defined as retail counterparties without a self-employed activity or a liberal profession and are not linked to the activity of a legal entity.

Retail – Small Professionals (Ribus)

These models encompass small professional retail customers defined as individuals with a self-employed activity or a liberal profession (i.e. doctors, lawyers, etc.) or small companies generating a turnover lower than a certain threshold. A split is made between individuals with self-employed activity or liberal profession and small companies.

Retail – Small Companies (RSC)

The models encompass small companies which are defined as companies generating a turnover higher than a certain threshold, but that are still considered as retail counterparties on the basis of distinctive criteria (i.e. not considered as mid-corporate or corporate counterparties).

Recent Information about Retail Sector Modelling within Belfius

The retail PD models (Ripar, Ribus and RSC), the LGD models and the CCF models are in place, back tested and stress tested.

Project Finance (Specialised Lending)

This model encompasses the project financing activity of Belfius on all segments of activity in which Belfius intervenes (which are actually mainly Energy and Infrastructure). The specialised lending portfolio is a subgroup of the corporate portfolio which has the following characteristics: the economic objective is to finance or acquire an asset; the flows generated by this asset are the sole or practically the sole source of repayment; this financing represents a significant debt in respect of the liabilities of the borrower; the main distinguishing criterion of risk essentially being the variability in flows generated by the financed asset, much more than the borrower's ability to repay.

Insurance Companies (including Monoliners)

Insurance companies are legal entities having insurance activities as their usual profession. The insurance activity consists of covering the potential damage from an uncertain event against the receipt of premiums from policyholders. The received premiums are invested and used as a source of profit by the insurance company. When an event covered by the insurance contract occurs, the policyholder sends a claim to the insurance company, and the claim is paid using the pool of premiums from all policyholders.

Financial Institutions

Banks

The scope of the model encompasses worldwide bank counterparties, defined as legal entities which have banking activities as their usual profession. Banking activities consist of the receipt of funds from the public, credit operations and putting these funds at the customers' disposal, or managing means of payment. Bank status is gained by the delivery of a banking license given by the supervisory authority.

Corporates

Two models have been designed for corporate counterparties: corporate and mid-corporate models.

Corporates

The scope of the model encompasses worldwide corporate counterparties. Belfius Bank defines a corporate as a private or a publicly-quoted company with total annual sales higher than EUR 50 million or belonging to a group with total annual sales higher than EUR 50 million which is not a bank, a financial institution, an insurer or a satellite.

Mid-Corporates

This model encompasses mid-corporates from Belgium. Belfius Bank defines a mid-corporate as a private company with a total turnover lower than EUR 50 million and belonging to a group with a consolidated total turnover lower than EUR 50 million and with total assets higher than EUR 3 million. This company is not a bank, a financial institution, an insurer or a satellite.

NB: for Belgian and Luxembourg companies the frontier is set at a EUR 250 million turnover.

Recent Information about Corporate Modelling within Belfius

Corporate models have been back tested and stress tested.

A proposition to adjust the LGD for the Mid-corporates will be sent to ECB in 2018 for review.

Public Sector Entities

Public sector entities represent a large proportion of the Belfius Bank portfolio. Some differences between counterparties have been noticed within this portfolio, and this explains the number of models.

Local Authorities

This model encompasses Belgian local authorities, namely municipalities and provinces.

Belfius defines local authorities as sub-sovereign governmental elected bodies empowered by the legislation with specific responsibilities in providing public services and with certain resources and a capacity to decide their own practical organisation in terms of administrative procedures, personnel, buildings, equipment, etc.

Belgian Regions and Communities

An expert methodology has been developed to rate the five Belgian regions and communities which are the French Community, German Community, Flemish Community (including Flemish Region), Walloon Region and Brussels Capital Region.

Assimilations to Public Sector Entities

The in-depth analysis of some public sector counterparties (such as church companies, municipalities' Social Service Departments, inter-municipal police zones) shows that they share the same credit risk as the "master" counterparties to which they are assimilated (usually local authorities or sovereigns). They are consequently assimilated to these "master" counterparties and benefit from the same PD and LGD as their "master" counterparties.

Recent Information about Public Sector Modelling within Belfius

- Public sector entities models have been back tested and stress tested;
- An adjusted PD model dedicated to Belgian municipalities and provinces has been submitted to the regulator in 2017.

Other Satellites

The model encompasses Belgian non-public satellites.

Satellites are entities:
- for whom main activity - i.e. the one generating a very large proportion of their income – is a Public Authority's commitment which has been delegated to the concerned entity; and
- for whom most of the "shareholders" – i.e. those who have the power of final decisions within the entity - are not-for-profit entities; and
- for whom these two main characteristics are not likely to be changed within a year.

Among all the "satellites", the "Public Satellites" are those:
- whose strategic decisions (including financial) are made (or approved) by the Public Authority; and
- whose business cannot be closed down:
  - in particular the entity cannot be declared bankrupt;
  - or if so, either a public authority gets Assets and Liabilities back, or an equivalent entity does.

The "satellites" which do not correspond to this definition are the "other satellites" and are (Belgian perimeter) or will be covered by a specific Internal Rating System.

Equity and Securitisation Transactions

No internal models have been developed specifically for equity or securitisation transactions which follow a different regulatory approach. Securitisation risk weighting is based on external and not internal ratings (Rating-Based Approach – see part Credit Risk – 9. Securitisation Risk); equities do not require the development of specific models (see part Credit Risk – 8. Focus on equity exposure).

Default Definition Used in the Models

The "default" notion is uniform, covering all business segments with some minor exceptions due to special characteristics.

The notion of default has been harmonised from the beginning of the Basel II project with the impairment notion used in IFRS. All loans in default and only those flagged as in default give rise to an impairment test (that can or cannot eventually lead to an impairment).

The notion of default is not automatically related to the notion of potential loss (for instance, a loan may present unpaid terms but may be totally collateralised and consequently present a nil expected loss) or to the notion of denunciation (which is decided upon on the basis of the interest the Bank may have to do so).

Regarding the definition of default, some changes are expected in the near future as the EBA has issued two documents: a new definition of default and new rules related to materiality thresholds (still in draft). The coming years will be dedicated to update the current processes and models in order to comply with this new definition.

Definition, Methods and Data for Estimating PD, LGD and CCF

Main Principles Used for Estimating the PD

Types of Counterparties	Through the Cycle Models	Default Definition	Time Series Used	Internal/ External Data
Sovereigns	Models are forward looking and through the cycle. They are designated to be optimally dicriminative over the long term. The through the cycle aspect of the rating is also addressed in a conservative calibration of the PD.	Default at first day	> 10 years	External
Banks		Default at first day	> 10 years	External
Insurance companies		Transverse	> 10 years	External
Corporates		Transverse	> 10 years	Internal + External
Local Public Sector		Transverse	> 10 years	Internal + External
Specialised Lending		Transverse	6 years	Internal
Mid-corporates		Transverse	6 years	Internal + External
Other Satellites		Transverse	5 years	Internal
Public Satellites		Transverse	5 years	Internal
Retail		Transverse	2 years	Internal
Equity	Specific approach: PD/LGD Approach.	N/A	N/A	N/A
Securitisation	Specific approach: Rating-Based Approach.	Default if related ABS is classified as impairment 1 (loss probability > 50%) or impairment 2 (loss probability = 100%).	N/A	N/A

Main Principles Used for Estimating the LGD

Types of Counterparties	Main Hypotheses	Time Series Used	Internal/ External Data
Sovereigns	Expert score function on the basis of Fitch country loss risk methodology and internal expert knowledge to discriminate between high and low loss risk.	> 10 years	Internal + External
Banks	Statistical model derived from LGD corporate model and integrating additional risk factors adapted to banking counterparties (country of residence, business profile, etc).	> 10 years	Internal + External
Insurance Companies Corporates	Statistical model based on external rating agencies loss data. The LGD depends on counterparty rating, exposure seniority level, geographic region and macro-economic factors.	> 10 years	Internal + External
Local Public Sector	Statistical model based on the internal existing default cases observed which were related to French municipalities. Final LGD are segmented on the basis of the number of inhabitants and on an economic parameter.	> 10 years	Internal
Specialised Lending	This model belongs to the "Workout LGD" type: the LGD computation was developed according to the workout of the bank during a 10-year period concerning internal Project Finance default facilities. Cash flows are estimated on the basis of the observed historical recovery process, and LGD is computed by means of discounted cash flows.	10 years	Internal
Mid-Corporates	The LGD model is a white box model with explanatory variables: number of workout years. The LGD is calculated as the multiplication of the LGD unsecured (LGD when the loans are not collateralised) and of the haircut factor taking into account the collateralisation of the loan.	7 years	Internal
Other Satellites Public Satellites	On the basis of internal observation and expert judgement.	5 years	Internal
Retail	LGD determined by product type based on workout recoveries flows. Huge number of counterparts, individual valorization of collateral impossible. Professional loans are segmented in 5 classes based on value of collateral.	7 years	
Equity	Specific approach: PD/LGD Approach.	N/A	N/A
Securitisation	Specific approach: Rating-Based Approach.	N/A	N/A

1.2. CONTROL MECHANISMS FOR RATING SYSTEMS

The Basel III regulation requires internal control of the internal rating systems. Within Belfius, these controls cover the whole chain of production of the regulatory parameters under all its aspects, e.g. (non-exhaustively):

→ the data input
- are they correctly loaded and up-to-date?
- are the counterparties addressed to the right model?

- the models
  - do they meet regulatory requirements?
  - are they meaningful?
  - are they sufficiently discriminating?
  - are they stable and robust?
  - are they correctly implemented?
  - are they sufficiently conservative?
- the work of the analysts
  - do they use the models correctly?
  - are the final ratings sufficiently motivated?
  - are the rating procedures respected?
  - are they auditable?
  - are the (re)ratings performed in a timely manner?
- the usage of the model and its outcomes
  - are the parameters used in credit and risk management decisions?
  - are they correctly stored in the systems?
  - do all the users master correctly the model?

and during the whole life cycle of each IRS:
- before its first use or any update
  - in-depth control of methodological and operational issues
- on an annual basis while being used
  - back testing aimed at checking whether the IRS continues to perform well
  - audit of the whole production process
- on a quarterly basis for the work of the analysts
  - endorsement of the rating overrides above a tolerance threshold
  - control of the respect of the rating procedures

Validation also confirms the degree of significance of the model changes, in order to determine the decision process to follow with the ECB (approval required, ex-ante or ex-post notification).

Responsibilities and Decision Process

The controls are performed by the Validation Direction[11], while Audit acts as an additional level of control, included in its audit plan[12].

The decisions regarding the IRS are taken by two Committees.

The Risk Executive Committee

Composed of the CRO and of his direct reports, it takes the decisions regarding the models:
- green light to submit models or model updates for approval to the ECB (or to put them in production if prior ECB approval is not required);
- endorsement of the validation reports on the recurrent model follow-ups (annual back testing and operational audit);
- endorsement of the corrective action plans recommended by Validation.

The Risk ExCom decisions are further presented to the Risk Policy Committee.

The Rating Committee

The key role of the Rating Committee is to monitor the appropriate use of internal rating systems within the Bank as a whole and to ensure that these IRS are effective. For these reasons, the Rating Committee:
- validates overrides, above tolerance threshold, proposed by analysts[13];
- monitors the homogeneous application within the Bank of the rating and derogation principles;
- validates operational establishment of the models once they are validated by the Risk ExCom.

11 Annual back tests are performed by the Credit Modelling team and validated by Model Validation.

12 According to the CRD minimal requirement 131, Annex VII Part 4, "Internal Audit has to include in its plan, at least once a year, a review of the IRS and its functioning, including credit scoring and estimation of PD, LGD, EL and CCF. Also compliance with all the minimal requirements has to be verified". At Belfius Bank, this annual verification has been delegated to the Validation and Quality Control department.

13 Dedicated "Overrides Committees" are regularly organized for that purpose.

Validation

Validation is a direction within the Risk department. It reports directly to the CRO and is not involved in any model development in order to guarantee its independence. Its main missions are:

- to guarantee the reliability of the model outcomes used within Belfius and to verify their compliance with the regulation;
- to highlight their possible weaknesses and to communicate them to all stakeholders (from analysts to top management).

Its scope covers all the models whether they are used for regulatory purposes, for risk assessment and monitoring, for (post-trade) valuations …

Validation controls all the aspects of the production of results by the models, from a methodological but also an operational (implementation, usage) viewpoint. It intervenes prior to the first use of the models and afterwards regularly reviews their functioning.

Validation works are summarised in reports indicating the controls that were performed, their findings, proposed corrective actions and, when required, a validation status.

1.3. BUSINESS INTEGRATION OF INTERNAL ESTIMATES

Internal estimates of Basel parameters are used within Belfius Bank, at present covering a large number of applications in addition to the calculation of the regulatory risk-weighted exposure amounts. They are notably used in the following fields:

- decision-making process;
- credit risk management and monitoring;
- internal limit determination;
- provisioning methodology;
- capital allocation;
- pricing.

Decision-Making Process

Basel parameters are key elements considered by the Credit Committee in assessing the opportunity to accept or reject a transaction. Credit guidelines have been updated in order to integrate Basel parameters while assessing credit proposals.

Credit Risk Management and Monitoring

Basel parameters are actively used in periodic credit risk reporting and also for the individual follow-up of distressed transactions and counterparties within Watch List Committees.

Belfius Bank integrates the Basel parameters to define new internal reporting on the basis of a unique and common reporting credit risk data warehouse and uniform concepts. The counterparty internal ratings, the LGD, the level of EL and the regulatory weighted risks are the key Basel parameters used within the new internal reporting and the credit risk portfolio review.

A central database registers internal ratings and keeps them available for all relevant needs.

Internal Limit Determination

Basel parameters have been integrated for fine-tuning the Belfius Bank credit limit system and determining delegation levels for credit acceptance.

Provisioning Methodology

The implementation of Basel parameters has made it possible to develop more synergies between accounting and prudential issues (IFRS/Basel), while relying on the processes, data and tools of the Basel project.

The Basel notion of default and the accounting notion of impairment have converged in relation to specific impairments.

As a consequence, only defaulted assets identified as such in the Basel compliant risk management systems are identified as impaired assets for both accounting and risk management purposes. However, some exceptions to this general principle exist in relation to some specific segments such as Equity, Undertakings for Collective Investment in Transferable Securities (UCITS) or Asset-Backed Securities (ABS). For these types of products, the notion of default cannot be applied due to their characteristics; hence the sole notion of impairment prevails.

Capital Allocation

Belfius performs its internal capital allocation to its businesses as part of the budget process which will include an "optimisation" phase, based on strategic, competitive and risk-reward considerations of the Business Lines on the one hand and the liquidity, funding and balance-sheet profile of Belfius on the other hand. Completion of the budget process including capital allocation is a preliminary requirement of the Capital Adequacy process.

More specifically, a financial plan including capital allocation and analysis of the evolution of both the results of activity lines and capital supply is performed by the Belfius Finance division. This financial plan is challenged from a risk and capital point of view jointly by Risk/Finance teams and surveyed by the dedicated RAC Committee.

The RAROC pricing tool enables control by all business units of their Normative Regulatory Equity (NRE) consumption on a transaction by transaction basis. Through this information, business units are able to assess the impact of a particular transaction on their budgeted capital consumption.

Pricing

To support the credit decision process, a RAROC (Risk Adjusted Return on Capital) is always calculated, to measure the expected profitability of the credit transaction or even the full credit relationship with the customer. Not only the expected income in form of interest margins is taken into account, however also, inter alia, the operational costs and losses which might be statistically expected on loans. As a consequence, the Basel parameters are integrated in the pricing.

2. BELFIUS BANK ORIGINATIONS

Belfius currently has four traditional securitisation vehicles: Dexia Secured Funding Belgium, Penates Funding and Mercurius Funding. The total assets of these companies amount to EUR 9,008 million at 29 December 2017 compared to EUR 6,154 million at 31 December 2016. Atrium-2 was liquidated over the course of 2017.

According to the definition of control under IFRS 10, Dexia Secured Funding Belgium, Penates Funding and Mercurius Funding are included in the consolidated financial statements. Belfius has (i) full power over its securitisation vehicles, (ii) exposure to their variable returns and (iii) the ability to use its power to affect the amount of the returns.

Atrium-2 was a Belgian securitisation transaction of social housing loans pursuant to a long-term credit facility between Belfius and Domus Flandria NV (the borrower) and guaranteed by the Flemish Region. The guarantee of the Flemish Region was transferred to the SPV. The original size of the transaction was EUR 129.3 million. Two classes of fixed-rate notes were issued on 19 June 1997. While the Class A1 Notes had previously been redeemed in full, the Class A2 Notes were redeemed in full over the course of 2017.

Dexia Secured Funding Belgium (DSFB) is a Belgian securitisation vehicle (société d'investissement en créances (SIC) under Belgian Law) with currently six compartments, one of which with activity, namely DSFB-2.

DSFB-2 (using the second ring-fenced compartment of DSFB) is a securitisation transaction of loans granted to Belgian entities (public and other). All the loans are 100% guaranteed by one of the three Belgian regions. This EUR 1,621 million transaction was launched on 28 April 2008. One tranche of floating rate notes, rated at closing AA/Aa1/AA+ by respectively S&P, Moody's and Fitch, was issued. Belfius Bank has guaranteed the full and timely payment of principal and interest on the notes. As at 31 December 2017, EUR 960 million were still outstanding. The notes had a rating of A-sf/A1/A-sf at 31 December 2017. The DSFB-2 Notes are held by Belfius Bank and its subsidiary Belfius Ireland.

Penates Funding is a Belgian securitisation vehicle with currently ten compartments, two of which with activity, namely, Penates-5 and Penates-6. Another compartment, namely Penates-4, became inactive over the course of 2017.

On 19 December 2011 Belfius closed a EUR 9,117 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-4, securitised Belgian residential mortgage loans originated by Belfius Bank and issued four classes of notes: EUR 8,077.5 million Class A Mortgage-Backed Floating Rate Notes due 2045 (Fitch AAAsf/Moody's Aaasf/DBRS AAAsf); EUR 472.5 million Class B Mortgage-Backed Floating Rate Notes due 2045 (Fitch Asf/Moody's A3sf/DBRS Asf); EUR 450 million Class C Mortgage-Backed Floating Rate Notes due 2045 (unrated) and EUR 117 million Subordinated Class D Floating Rate Notes due 2045 (unrated). The notes were redeemed in full at the exercise of the Optional Redemption Call over the course of 2017.

On 16 November 2015 Belfius closed a EUR 1,030 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-5, securitised Belgian residential mortgage loans originated by Belfius Bank and issued EUR 350 million Class A1 Mortgage-Backed Floating Rate Notes due 2049 (Fitch AAAsf/Moody's Aaa(sf)); EUR 450 million Class A2 Mortgage-Backed Floating Rate Notes due 2049 (Fitch AAAsf/Moody's Aaa(sf)); EUR 200 million Class B Mortgage-Backed Floating Rate Notes due 2049 (unrated); EUR 30 million Class C Floating Rate Notes due 2049 (unrated).

As at 31 December 2017 these ratings were unchanged from their initial rating. The outstanding amount of the Class A1 Notes was EUR 11 million, while the outstanding amounts of the other classes of notes were still at their initial amount. Hence there was EUR 691 million outstanding under Penates-5 at 31 December 2017. The Class A1 Notes and Class A2 Notes are held by institutional investors. The Class B Notes and Class C Notes are held by Belfius Bank.

On 15 May 2017, Belfius closed a EUR 6,030 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-6, securitised Belgian residential mortgage loans originated by Belfius Bank and issued EUR 2,490 million Class A1 Mortgage-Backed Floating Rate Notes due 2051 (DBRS AAAsf/Moody's Aaa(sf)); EUR 2,490 million Class A2 Mortgage-Backed Floating Rate Notes due 2051 (DBRS AAAsf/Moody's Aaa(sf)); EUR 1,020 million Class B Mortgage-Backed Floating Rate Notes due 2051 (unrated); EUR 30 million Class C Floating Rate Notes due 2051 (unrated).

As at 31 December 2017 these ratings were unchanged from their initial rating. The outstanding amount of the Class A1 Notes was EUR 2,121 million, while the outstanding amounts of the other classes of notes were still at their initial amount. Hence there was EUR 5,661 million outstanding under Penates-6 at 31 December 2017. The transaction is held by Belfius Bank and its subsidiary Belfius Insurance Invest. The Penates-6 senior notes can be used as collateral in agreements with the European Central Bank or other counterparties.

Mercurius Funding is a Belgian securitisation vehicle with currently six compartments. It was established in 2012. One compartment, Mercurius-1, had outstanding notes at the end of 2017.

On 7 May 2014 Belfius Bank closed a EUR 4,124 million SME (Small & Medium Enterprises) CLO securitization transaction. The SPV, Mercurius Funding acting through its compartment Mercurius-1, securitised Belgian SME loans originated by Belfius and issued two classes of notes: EUR 3,200 million Class A SME Loan-Backed Fixed Rate Notes due 2035; EUR 924 million Class B SME Loan-Backed Fixed Rate Notes due 2037.

On 12 May 2014 the Mercurius-1 issued new notes: EUR 3,200 million Class A SME Loan-Backed Fixed Rate Notes due 2035 (Fitch A+(sf) / Moody's A1(sf) / DBRS A(high) (sf)); EUR 924 million Class B SME Loan-Backed Fixed Rate Notes due 2037 (not rated). The proceeds were used to purchase an additional portfolio of SME loans and to redeem the old notes.

At the end of 2017 the ratings on the Class A Notes were AA(sf) at DBRS, A+(sf) at Fitch and Aaa(sf) at Moody's. The balance of the Class A notes decreased to EUR 940 million. The outstanding amounts for the Class B notes were still at their initial amount. Hence there was EUR 1,864 million outstanding under Mercurius-1 at 31 December 2017.

The Mercurius transaction is held by Belfius Bank and its subsidiary Belfius Ireland. The notes can be used as collateral in agreements with the European Central Bank or other counterparties.

3. LIST OF TABLES

3.1. CAPITAL INSTRUMENTS MAIN FEATURES - DISCLOSURE ACCORDING TO ARTICLE 3 IN THE COMMISSION IMPLEMENTING REGULATION (EU) NO. 1423/2013

		1	2	3	4
1	Issuer	Belfius Financing Company	Belfius Bank	Belfius Financing Company	Belfius Bank
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0099702317	BE0116882946	XS0104813414	BE0117876210
3	Governing law(s) of the instrument	English/Belgian	English/Belgian	English/Belgian	English/Belgian
	REGULATORY TREATMENT				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo / (sub-)consolidated / solo&(sub-)consolidated	solo & consolidated	solo & consolidated	solo & consolidated	solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date). Specify in particular if some parts of the instruments are in different tiers of the regulatory capital and if the amount recognised in regulatory capital is different from the amount issued.	EUR 5 m	EUR 15 m	EUR 4 m	EUR 25 m
9	Nominal amount of instrument	EUR 15m	EUR 40m	EUR 11m	EUR 30m
9a	Issue price	100 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of the principal amount	principal amount	100 per cent of the principal amount	principal amount
10	Accounting classification	liability	liability	liability	liability
11	Original date of issuance	15/07/1999	03/12/1999	16/12/1999	01/03/2002
12	Perpetual or dated	dated	dated	dated	dated
13	Original maturity date	15/07/2019	03/12/2019	16/12/2019	01/03/2022
14	Issuer call subject to prior supervisory approval	n/a	n/a	n/a	n/a
15	Optional call date, contingent call dates and redemption amount	Tax call at their principal amount	Tax call at their principal amount	Tax call at their principal amount	Tax call at their principal amount
16	Subsequent call dates, if applicable	n/a	n/a	n/a	n/a
	COUPONS / DIVIDENDS				
17	Fixed or floating dividend/coupon	floating	floating	floating	floating
18	Coupon rate and any related index	CMS linked	GBP Libor linked	CMS linked	Euribor 3m + 43 bp
19	Existence of a dividend stopper	n/a	n/a	n/a	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory	mandatory	mandatory	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory	mandatory	mandatory	mandatory
21	Existence of step up or other incentive to redeem	n/a	n/a	n/a	n/a
22	Noncumulative or cumulative	cumulative	cumulative	cumulative	cumulative
23	Convertible or non-convertible	non-convertible	non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a
30	Write-down features	n/a	n/a	n/a	n/a
31	If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a
32	If write-down, fully or partially	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non Preferred Senior	Non Preferred Senior	Non Preferred Senior	Non Preferred Senior
36	Non-compliant transitioned features	no	no	no	no
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a

		5	6	7	8
1	Issuer	Belfius Bank	Belfius Financing Company	Belfius Financing Company	Belfius Bank
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BE0117906512	XS0063381437	XS0063380629	BE0002251206
3	Governing law(s) of the instrument	English/Belgian	English/Belgian	English/Belgian	English/Belgian
	REGULATORY TREATMENT				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo / (sub-)consolidated / solo&(sub-)consolidated	solo & consolidated	solo & consolidated	solo & consolidated	solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date). Specify in particular if some parts of the instruments are in different tiers of the regulatory capital and if the amount recognised in regulatory capital is different from the amount issued.	EUR 38 m	EUR 74 m	EUR 74 m	EUR 497 m
9	Nominal amount of instrument	EUR 45m	JPY 10,000m	JPY 10,000m	EUR 500 m
9a	Issue price	99.75 per cent	100 per cent	100 per cent	99.493 per cent
9b	Redemption price	principal amount	at their principal amount	at their principal amount	at their principal amount
10	Accounting classification	liability	liability	liability	liability
11	Original date of issuance	04/04/2002	28/02/1996	28/02/1996	11/05/2016
12	Perpetual or dated	dated	dated	dated	dated
13	Original maturity date	04/04/2022	11/09/2025	11/09/2025	11/05/2026
14	Issuer call subject to prior supervisory approval	n/a	n/a	n/a	n/a
15	Optional call date, contingent call dates and redemption amount	Tax call at their principal amount	Tax call at their principal amount	Tax call at their principal amount	Tax call and Regulatory call at their principal amount
16	Subsequent call dates, if applicable	n/a	n/a	n/a	n/a
	COUPONS / DIVIDENDS				
17	Fixed or floating dividend/coupon	fixed	fixed	fixed	fixed
18	Coupon rate and any related index	6%	6,05%	6,10%	3,125%
19	Existence of a dividend stopper	n/a	n/a	n/a	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory	mandatory	mandatory	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory	mandatory	mandatory	mandatory
21	Existence of step up or other incentive to redeem	n/a	n/a	n/a	n/a
22	Noncumulative or cumulative	cumulative	cumulative	cumulative	cumulative
23	Convertible or non-convertible	non-convertible	non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a
30	Write-down features	n/a	n/a	n/a	n/a
31	If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a
32	If write-down, fully or partially	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non Preferred Senior	Non Preferred Senior	Non Preferred Senior	Non Preferred Senior
36	Non-compliant transitioned features	no	no	no	no
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a

	9	10	11	12
1 Issuer	Belfius Bank	Belfius Financing Company	Belfius Financing Company	Belfius Bank
2 Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BE0002251206	XS0117920149	XS0116242784	BE0116241358
3 Governing law(s) of the instrument	English/Belgian	English/Belgian	English/Belgian	English/Belgian
REGULATORY TREATMENT				
4 Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5 Post-transitional CRR rules	Tier 2	-	-	-
6 Eligible at solo / (sub-)consolidated / solo&(sub-)consolidated	solo & consolidated	solo & consolidated	solo & consolidated	solo & consolidated
7 Instrument type (types to be specified by each jurisdiction)	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation
8 Amount recognised in regulatory capital (Currency in million, as of most recent reporting date). Specify in particular if some parts of the instruments are in different tiers of the regulatory capital and if the amount recognised in regulatory capital is different from the amount issued.	EUR 50 m	EUR 83 m	EUR 42 m	EUR 66 m
9 Nominal amount of instrument	EUR 50 m	USD 100m	USD 50m	EUR 65.9m
9a Issue price	99.251 per cent	100 per cent	100 per cent	99.917 per cent
9b Redemption price	at their principal amount	at their principal amount	at their principal amount	at their principal amount
10 Accounting classification	liability	liability	liability	liability
11 Original date of issuance	17/02/2017	21/09/2000	25/08/2000	18/11/1997
12 Perpetual or dated	dated	perpetual	perpetual	perpetual
13 Original maturity date	11/05/2026	no maturity	no maturity	no maturity
14 Issuer call subject to prior supervisory approval	n/a	yes	yes	yes
15 Optional call date, contingent call dates and redemption amount	Tax call and Regulatory call at their principal amount	21/03/2018 at their principal amount Tax call at their principal amount	25/02/2018 at their principal amount Tax call at their principal amount	18/05/2018 at their principal amount Tax call at their principal amount
16 Subsequent call dates, if applicable	n/a	21/06/2018 and quarterly thereafter	25/05/2018 and quarterly thereafter	18/11/2018 and semi-annually thereafter
COUPONS / DIVIDENDS				
17 Fixed or floating dividend/coupon	fixed	floating	floating	floating
18 Coupon rate and any related index	3,125%	USD Libor 3m + 175 bp	USD Libor 3m + 175 bp	Euribor 6m + 187 bp
19 Existence of a dividend stopper	n/a	n/a	n/a	n/a
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory	mandatory	mandatory	partially discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory	mandatory	mandatory	mandatory
21 Existence of step up or other incentive to redeem	n/a	There is currently no incentive to redeem, but a step up took place in the past	There is currently no incentive to redeem, but a step up took place in the past	There is currently no incentive to redeem, but a step up took place in the past
22 Noncumulative or cumulative	cumulative	cumulative	cumulative	cumulative
23 Convertible or non-convertible	non-convertible	non-convertible	non-convertible	non-convertible
24 If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a
25 If convertible, fully or partially	n/a	n/a	n/a	n/a
26 If convertible, conversion rate	n/a	n/a	n/a	n/a
27 If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a
28 If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a
29 If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a
30 Write-down features	n/a	n/a	n/a	n/a
31 If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a
32 If write-down, fully or partially	n/a	n/a	n/a	n/a
33 If write-down, permanent or temporary	n/a	n/a	n/a	n/a
34 If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non Preferred Senior	dated Tier 2	dated Tier 2	dated Tier 2
36 Non-compliant transitioned features	no	yes	yes	yes
37 If yes, specify non-compliant features	n/a	instrument issued according to earlier rules. Features include e.g. step-up	instrument issued according to earlier rules Features include e.g. step-up	instrument issued according to earlier rules Features include e.g. step-up

		13	14	15	16
1	Issuer	Belfius Bank	Belfius Bank	Belfius Bank	Belfius Bank
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BE6293617633	BE6293618649	BE6293616627	loan
3	Governing law(s) of the instrument	English/Belgian	English/Belgian	English/Belgian	Belgian
	REGULATORY TREATMENT				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo / (sub-)consolidated / solo&(sub-)consolidated	solo & consolidated	solo & consolidated	solo & consolidated	solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation	Tier 2 according to EU Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date). Specify in particular if some parts of the instruments are in different tiers of the regulatory capital and if the amount recognised in regulatory capital is different from the amount issued.	EUR 17.5 m	EUR 50 m	EUR 17.5 m	EUR 72 m
9	Nominal amount of instrument	EUR 17.5m	EUR 50m	EUR 17.5m	EUR 72m
9a	Issue price	100 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	par redemption	par redemption	par redemption	nominal amount
10	Accounting classification	liability	liability	liability	liability
11	Original date of issuance	09/03/2017	09/03/2017	09/03/2017	01/02/2013
12	Perpetual or dated	perpetual	perpetual	perpetual	perpetual
13	Original maturity date	no maturity	no maturity	no maturity	no maturity
14	Issuer call subject to prior supervisory approval	yes	yes	yes	yes
15	Optional call date, contingent call dates and redemption amount	29/12/2023 at par Tax call and Regulatory call at par	15/07/2023 at par Tax call and Regulatory call at par	29/12/2022 at par Tax call and Regulatory call at par	01/01/2025 Tax call and Regulatory call at the Nominal Amount
16	Subsequent call dates, if applicable	29/12/2035 and every 12 year thereafter	15/07/2035 and every 12 year thereafter	29/12/2029 and every 10 year thereafter	01/04/2025 and quarterly thereafter
	COUPONS / DIVIDENDS				
17	Fixed or floating dividend/coupon	fixed	fixed	fixed	fixed/floating
18	Coupon rate and any related index	CMS linked on every reset date thereafter	CMS linked on every reset date thereafter	CMS linked on every reset date thereafter	6.25% until call 3m euribor + 417 bp thereafter
19	Existence of a dividend stopper	n/a	n/a	n/a	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory	mandatory	mandatory	partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory	mandatory	mandatory	mandatory
21	Existence of step up or other incentive to redeem	n/a	n/a	n/a	n/a
22	Noncumulative or cumulative	cumulative	cumulative	cumulative	cumulative
23	Convertible or non-convertible	non-convertible	non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a
30	Write-down features	n/a	n/a	n/a	n/a
31	If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a
32	If write-down, fully or partially	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	dated Tier 2	dated Tier 2	dated Tier 2	dated Tier 2
36	Non-compliant transitioned features	no	no	no	no
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a

Additonal Tier 1

On 1 February 2018, Belfius issued EUR 500 million subordinated equity instruments, that qualify as AT1 under CRR/ CRD IV. The AT1 security has been analysed in respect with IAS 32 and should be considered as an equity instrument. This inaugural AT1 issue was executed in the context of further diversification of funding sources and investor base. Furthermore, the AT1 securities increase the going concern loss absorption capital, and contribute to the expected MREL level, as well as to the leverage ratio of Belfius. In general, this transaction increases Belfius' financial and regulatory flexibility, accessing a new layer of instruments within its capital structure.

The issuance was done in the form of EUR denominated Perpetual AT1 Securities. The securities are callable in year 7 ("First Call Date") and every interest payment date thereafter. A CET1 trigger of 5,125% is applicable on consolidated and statutory level, with a principal temporary write-down loss absorption mechanism. The coupons of the issued AT1 Securities are fully discretionary, semi-annual and non-cumulative. There is also a mandatory cancellation of the coupon upon insufficient distributable items, or when the coupon exceeds the Maximum Distributable Amount (MDA).

Changes in issued subordinated debts and activity in the Tier 2 market

The Governing Council of the European Central Bank (ECB) has decided to grant Belfius permission to reduce its own funds in the amount of EUR 191 million (value on 31 December 2017) through the call of three Tier 2 callable instruments issued on 18 November 1997, 25 August 2000 and 21 September 2000. Belfius shall pay back the par amount of USD 50 million on 25 May 2018 (issued on 25 August 2000), and paid back the par amount of USD 100 million on 21 March 2018 (issued on 21 September 2000) and will pay back the par amount of EUR 66 million on 18 May 2018 (issued on 18 November 1997).

Belfius has issued for EUR 200 million of Fixed Rate Tier 2 subordinated notes 10NC5 due 15 March 2028 with the aim to contribute to an optimal capital structure. The Notes are admitted to the Luxembourg Stock Exchange and are rated Baa3 by Moody's.

3.2. CC1: COMPOSITION OF CAPITAL

31/12/2017		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	3,667.3	(h)
2	Retained earnings	935.7	
3	Accumulated other comprehensive income (and other reserves)	3,808.4	
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	0.0	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	0.0	
6	COMMON EQUITY TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS	8,411.4	
COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS			
7	Prudent valuation adjustments	99.0	
8	Goodwill (net of related tax liability)	104.0	(a) minus (d)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	126.8	(b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	0.1	
11	Cash flow hedge reserve	(14.4)	
12	Shortfall of provisions to expected losses	2.3	
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework25)	0.0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	4.4	
15	Defined benefit pension fund net assets	12.3	
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0.0	
17	Reciprocal cross-holdings in common equity	0.0	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0.0	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0.0	
20	Mortgage servicing rights (amount above 10% threshold)	0.0	(c) minus (f) minus 10% threshold
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0.0	
22	Amount exceeding the 15% threshold	0.0	
23	Of which: significant investments in the common stock of financials	0.0	
24	Of which: mortgage servicing rights	0.0	
25	Of which: deferred tax assets arising from temporary differences	0.0	
26	National specific regulatory adjustments	40.0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0.0	
28	TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1	374.5	
29	COMMON EQUITY TIER 1 CAPITAL (CET1)	8,036.9	
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS			
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus	0.0	(i)
31	Of which: classified as equity under applicable accounting standards	0.0	
32	Of which: classified as liabilities under applicable accounting standards	0.0	
33	Directly issued capital instruments subject to phase-out from additional Tier 1	0.0	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	0.0	
35	Of which: instruments issued by subsidiaries subject to phase-out	0.0	
36	ADDITIONAL TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS	0.0	

31/12/2017		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS			
37	Investments in own additional Tier 1 instruments	0.0	
38	Reciprocal cross-holdings in additional Tier 1 instruments	0.0	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0.0	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0.0	
41	National specific regulatory adjustments	0.0	
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	0.0	
43	**TOTAL REGULATORY ADJUSTMENTS TO ADDITIONAL TIER 1 CAPITAL**	**0.0**	
44	**ADDITIONAL TIER 1 CAPITAL (AT1)**	**0.0**	
45	**TIER 1 CAPITAL (T1 = CET1 + AT1)**	**8,036.9**	
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	938.9	
47	Directly issued capital instruments subject to phase-out from Tier 2	190.9	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	0.0	
49	Of which: instruments issued by subsidiaries subject to phase-out	0.0	
50	Provisions	158.3	
51	**TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS**	**1,288.1**	
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS			
52	Investments in own Tier 2 instruments	0.0	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	0.0	
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0.0	
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	0.0	
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0.0	
56	National specific regulatory adjustments	0.0	
57	**TOTAL REGULATORY ADJUSTMENTS TO TIER 2 CAPITAL**	**0.0**	
58	**TIER 2 CAPITAL (T2)**	**1,288.1**	
59	**TOTAL REGULATORY CAPITAL (TC = T1 + T2)**	**9,325.0**	
60	**TOTAL RISK-WEIGHTED ASSETS**	**50,614.9**	
CAPITAL RATIOS AND BUFFERS			
61	**COMMON EQUITY TIER 1 (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS)**	15.88%	
62	**TIER 1 (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS)**	15.88%	
63	**TOTAL CAPITAL (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS)**	18.42%	
64	**INSTITUTION-SPECIFIC BUFFER REQUIREMENT (CAPITAL CONSERVATION BUFFER PLUS COUNTERCYCLICAL BUFFER REQUIREMENTS PLUS HIGHER LOSS ABSORBENCY REQUIREMENT, EXPRESSED AS A PERCENTAGE OF RISK-WEIGHTED ASSETS)**	**2.50%**	
65	Of which: capital conservation buffer requirement	2.50%	
66	Of which: bank-specific countercyclical buffer requirement	0.00%	
67	Of which: higher loss absorbency requirement	0.00%	
68	**COMMON EQUITY TIER 1 (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS) AVAILABLE AFTER MEETING THE BANK'S MINIMUM CAPITAL REQUIREMENTS**	**9.88%**	
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		

31/12/2017	Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)		
72 Non-significant investments in the capital and other TLAC liabilities of other financial entities	23.8	
73 Significant investments in the common stock of financial entities	49.9	
74 Mortgage servicing rights (net of related tax liability)	0.0	
75 Deferred tax assets arising from temporary differences (net of related tax liability)	220.1	
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2		
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	19.9	
77 Cap on inclusion of provisions in Tier 2 under standardised approach	168.5	
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	138.4	
79 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	172.8	
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2018 AND 1 JAN 2022)		
80 Current cap on CET1 instruments subject to phase-out arrangements	0.0	
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0.0	
82 Current cap on AT1 instruments subject to phase-out arrangements	0.0	
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0.0	
84 Current cap on T2 instruments subject to phase-out arrangements	239.5	
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0.0	

3.3. CCYB1: GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES USED IN THE COUNTERCYCLICAL CAPITAL BUFFER

Bank 31/12/2017		Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer	
Geographical breakdown	Countercyclical capital buffer rate	Exposure values	Risk-weighted assets
Belgium	-	72,245.9	2,331.4
France	-	865.6	44.5
Italy	-	212.1	8.6
Luxenbourg	-	684.3	47.9
Netherlands	-	596.3	45.1
Czech Republic	0.5	0.3	0.0
Iceland	1.25	0.0	0.0
Norway	2	0.5	0.0
Slovakia	0.5	0.6	0.0
Sweden	2	1.3	0.0
United Kingdom	-	6,437.8	231.9
US	-	1,054.5	36.2
Australia	-	780.5	19.1
Hong Kong SAR	1	62.5	3.9
Rest	-	1,672.2	49.0
TOTAL		**84,614.4**	**2,817.6**

Bank 31/12/2017	
Total exposure values	84,614.4
Countercyclical buffer rate	0.00104%
Countercyclical buffer amount	0.9

3.4. LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

31/12/2017		Applicable Amount
1	Total assets as per published financial statements	167,959
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(19,098)
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	(21,670)
5	Adjustment for securities financing transactions (SFTs)	3,729
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	14,959
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	(268)
8	**LEVERAGE RATIO TOTAL EXPOSURE MEASURE**	**145,611**

3.5. LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

31/12/2017		CRR leverage ratio exposures
ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	125,460
2	(Asset amounts deducted in determining Tier 1 capital)	(268)
3	**TOTAL ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTs AND FIDUCIARY ASSETS) (SUM OF LINES 1 AND 2)**	**125,192**
DERIVATIVE EXPOSURES		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	9,289
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,622
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	5,725
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(17,489)
8	(Exempted CCP leg of client-cleared trade exposures)	(2,930)
9	Adjusted effective notional amount of written credit derivatives	1,523
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(106)
11	**TOTAL DERIVATIVES EXPOSURES (SUM OF LINES 4 TO 10)**	**(1,367)**
SFT EXPOSURES		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	3,099
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(3)
14	Counterparty credit risk exposure for SFT assets	3,732
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**TOTAL SECURITIES FINANCING TRANSACTION EXPOSURES (SUM OF LINES 12 TO 15A)**	**6,828.1**
OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	28,898
18	(Adjustments for conversion to credit equivalent amounts)	(13,939)
19	**OTHER OFF-BALANCE SHEET EXPOSURES (SUM OF LINES 17 AND 18)**	**14,959**
EXEMPTED EXPOSURES IN ACCORDANCE WITH ARTICLE 429(7) AND (14) OF REGULATION (EU) NO 575/2013 (ON AND OFF BALANCE SHEET)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	**0**
CAPITAL AND TOTAL EXPOSURE MESURE		
20	**TIER 1 CAPITAL**	**8,037**
21	**LEVERAGE RATIO TOTAL EXPOSURE MEASURE (SUM OF LINES 3, 11, 16, 19, EU-19A AND EU-19B)**	**145,611**
LEVERAGE RATIO		
22	Leverage ratio	5.52%
CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNISED FIDUCIARY ITEMS		
EU-23	Choice on transitional arrangements for the definition of the capital measure	fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

3.6. LRSPL: SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

31/12/2017		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	113,695
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	113,695
EU-4	Covered bonds	56
EU-5	Exposures treated as sovereigns	17,182
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	27,818
EU-7	Institutions	2,870
EU-8	Secured by mortgages of immovable properties	26,616
EU-9	Retail exposures	8,468
EU-10	Corporate	21,883
EU-11	Exposures in default	717
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	8,085

3.7. CR10: IRB - SPECIALISED LENDING (ART. 153/5 OF THE CRR)

31/12/2017	Specialised lending					
Regulatory categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Satisfactory	40.8	4.2	115%	23.4	25.8	0.6
Good	5.2		90%	0.2	0.2	0.0
Default	62.2	1.0	-	63.3	0.0	31.5
TOTAL	108.3	5.2		86.9	25.9	32.1

3.8. MR1: MARKET RISK UNDER THE STANDARDISED APPROACH

Bank		a	b
31/12/2017		RWAs	Capital requirements
OUTRIGHT PRODUCTS			
1	Interest rate risk (general and specific)	48.8	3.9
2	Equity risk (general and specific)	202.6	16.2
3	Foreign exchange risk		
4	Commodity risk	2.1	0.2
OPTIONS			
5	Simplified approach	198.0	15.8
6	Delta-plus method		
7	Scenario approach		
8	Securitisation (specific risk)		
9	TOTAL	451.4	36.1

3.9. MR2-A: MARKET RISK UNDER THE IMA

Bank		a	b
31/12/2017		RWAs	Capital requirements
1	VaR (higher of values a and b)	477.3	38.2
(a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		8.7
(b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		9.5
2	SVaR (higher of values a and b)	912.2	73.0
(a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		18.1
(b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		18.2
3	IRC (higher of values a and b)		
(a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		
(b)	Average of the IRC number over the preceding 12 weeks		
4	Comprehensive risk measure (higher of values a, b and c)		
(a)	Most recent risk number for the correlation trading portfolio (Article 377 of the CRR)		
(b)	Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		
(c)	8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR)		
5	Other		
6	TOTAL	1,389.5	111.2

3.10. MR2-B: RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

Bank		a	b	c	d	e	f	g
31/12/2017		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs AT PREVIOUS QUARTER END**	**366.3**	**917.0**	**0.0**	**0.0**	**0.0**	**1,283.3**	**102.7**
1a	*Regulatory adjustment*							
1b	*RWAs at the previous quarter-end (end of the day)*							
2	Movement in risk levels	148.6	(4.3)				144.4	11.6
3	Model updates/changes							
4	Methodology and policy	(35.3)	0.4				(34.9)	(2.8)
5	Acquisitions and disposals							
6	Foreign exchange movements	(2.3)	(0.9)				(3.3)	(0.3)
7	Other							
8a	*RWAs at the end of the reporting period (end of the day)*							
8b	*Regulatory adjustment*							
8	**RWAs AT THE END OF THE REPORTING PERIOD**	**477.3**	**912.2**	**0.0**	**0.0**	**0.0**	**1,389.5**	**111.2**

3.11. MR3: IMA VALUES FOR TRADING PORTFOLIOS

Bank	
31/12/2017	a
VaR (10 DAY 99%)	
1 Maximum value	12.5
2 Average value	6.9
3 Minimum value	2.9
4 Period end	8.7
SVaR (10 DAY 99%)	
5 Maximum value	29.5
6 Average value	16.5
7 Minimum value	7.2
8 Period end	18.1
IRC (99.9%)	
9 Maximum value	
10 Average value	
11 Minimum value	
12 Period end	
COMPREHENSIVE RISK CAPITAL CHARGE (99.9%)	
13 Maximum value	
14 Average value	
15 Minimum value	
16 Period end	

3.12. EU LIQ1 - 18: LCR DISCLOSURE TEMPLATE, ON QUANTITATIVE INFORMATION OF LCR WHICH COMPLEMENTS ARTICLE 435(1)(F) OF REGULATION (EU) NO. 575/2013

Scope of consolidation: consolidated (in million EUR)		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on 31/12/2017									
Number of data points used in the calculation of averages: 12									
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					19,133	19,778	20,299	20,674
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	48,260	49,234	50,046	50,658	3,244	3,316	3,373	3,422
3	*Stable deposits*	*36,821*	*37,466*	*38,025*	*38,381*	*1,841*	*1,873*	*1,901*	*1,919*
4	*Less stable deposits*	*11,439*	*11,767*	*12,021*	*12,277*	*1,403*	*1,442*	*1,472*	*1,503*
5	Unsecured wholesale funding	18,569	18,268	17,918	17,782	9,100	8,847	8,741	8,668
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*3,005*	*2,915*	*2,731*	*2,718*	*748*	*725*	*679*	*675*
7	*Non-operational deposits (all counterparties)*	*14,612*	*14,567*	*14,320*	*14,158*	*7,400*	*7,335*	*7,195*	*7,088*
8	*Unsecured debt*	*952*	*786*	*868*	*905*	*952*	*786*	*868*	*905*
9	Secured wholesale funding					19	8	6	5
10	Additional requirements	26,526	26,350	26,021	25,946	5,211	5,089	4,829	4,658
11	*Outflows related to derivative exposures and other collateral requirements*	*3,419*	*3,365*	*3,287*	*3,152*	*2,428*	*2,451*	*2,341*	*2,192*
12	*Outflows related to loss of funding on debt products*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
13	*Credit and liquidity facilities*	*23,106*	*22,985*	*22,735*	*22,794*	*2,783*	*2,638*	*2,488*	*2,466*
14	Other contractual funding obligations	792	1,091	1,276	1,546	792	1,091	1,276	1,546
15	Other contingent funding obligations	1,576	1,598	1,625	1,649	79	80	81	82
16	**TOTAL CASH OUTFLOWS**					**18,444**	**18,431**	**18,306**	**18,381**
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	2,859	2,087	1,782	1,748	716	467	572	525
18	Inflows from fully performing exposures	4,363	4,018	3,753	3,652	2,804	2,475	2,254	2,145
19	Other cash inflows	109	70	76	82	109	70	76	82
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	**7,331**	**6,175**	**5,611**	**5,482**	**3,629**	**3,011**	**2,902**	**2,751**
EU-20a	*Fully exempt inflows*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
EU-20b	*Inflows subject to 90% cap*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
EU-20c	*Inflows subject to 75% cap*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					19,133	19,778	20,299	20,674
22	TOTAL NET CASH OUTFLOWS					14,816	15,419	15,404	15,630
23	LIQUIDITY COVERAGE RATIO (%)					129%	128%	132%	132%

3.13. EU LIQ1 – 19: TEMPLATE ON QUALITATIVE INFORMATION ON LCR, WHICH COMPLEMENTS THE LCR DISCLOSURE TEMPLATE

	Comment
Concentration of funding and liquidity sources	Belfius Bank has diversified sources of funding and limited client concentration. For example: no clients represent more than 1% of the total balance sheet. Wholesale funding represents 22% of total funding.
Derivative exposures and potential collateral calls	Belfius Bank has an important portfolio of derivatives and has a net pledge of around 13.0 Bn EUR collateral under agreed CSA. In the LCR a potential outflow of 1.3 Bn EUR is inegrated according to Historical Look-Back Approach (HLBA) method.
Currency mismatch in the LCR	No currency represents more than 5% of the total balance sheet of Belfius Bank. The Bank therefore considers that the currency mismatch remains very limited.
A description of the degree of centralisation of liquidity management and interaction between the group's units	Belfius Bank has a centralised Liquidity Management under the supervision of the Liquidity Management Comittee (LMC) and the ALCo. The LMC is organised by the Finance Department, in presence of Money Market (treasury), Long Term Funding, Risk Department and the commercial Business Lines. Finance defines Strategy and Funding Plan and Money Market and Long Term Funding execute the decisions taken on the LMC. The bank centralises all funding sources and transfer the necessary funding to its subisdiaries.
Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	Aside from the LCR buffer, Belfius Bank disposes of an additional liquidity buffer of EUR 34.3 Bn ECB Eligible assets. The total Liquidity Buffer (incl. LCR eligible assets) represents 4.7 times the Wholesale funding that matures within 1 year.

GLOSSARY

ABCP *Asset-Backed Commercial Paper*
A programme of securitisations for which the securities issued predominantly take the form of commercial paper with an original maturity of one year or less.

ABS *Asset-Backed Securities*
Securities issued by a vehicle created for the purpose of buying assets from a bank, a company or a state, like trade receivables or inventories, and to provide the seller with cash and the buyer with a financial product that is characterised by a certain risk profile and a rate of return.

AFS *Available For Sale*
Non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AIRB *Advanced Internal Rating-Based Approach*
Institutions using the AIRB approach are allowed to determine borrowers' probabilities of default and to rely on own estimates of loss given default and exposure at default on an exposure-based on an internal model approved by the supervisor. These risk measures are converted into risk weights and regulatory capital requirements by means of risk weight formulas specified by the Basel Committee.

ALM *Asset and Liability Management*
Managing of the net risk position between assets and liabilities, particularly with respect to imbalances generated by the evolutions of interest rates, currencies and inflation, but also maturity mismatch, liquidity mismatch, market risk and credit risk.

BRRD *Bank Recovery and Resolution Directive*
The Bank Recovery and Resolution Directive (BRRD) provides the authorities with comprehensive and effective arrangements to deal with failing banks at national level and with cooperation arrangements to tackle cross-border banking failures. The directive requires banks to prepare recovery plans to overcome financial distress. It also grants national authorities powers to ensure an orderly resolution of failing banks with minimal costs for taxpayers. The directive includes rules to set up a national resolution fund that must be established by each EU country.

CBFA *Commission bancaire, financière et des assurances*
The Belgian Banking, Finance and Insurance Commission is the former Belgian Financial Institutions regulator, since April 2011 succeeded by the FSMA.

CCF *Credit Conversion Factor*
The ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment will be determined by the advised limit, unless the unadvised limit is higher.

CDS *Credit Default Swap*
Swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a pay-off if a credit instrument (typically a bond or loan) undergoes a defined "Credit Event", often described as a default (fails to pay).

CRD *Capital Requirements Directive*
The Capital Requirements Directive (CRD) for the financial services industry introduces a supervisory framework in the EU which reflects the Basel II and Basel III rules on capital measurement and capital standards.

CRM *Credit Risk Mitigant*
Range of techniques whereby a bank can, partially, protect itself against counterparty default (for example by taking guarantees or collateral, or buying a hedging instrument).

CRR *Capital Requirements Regulation*
The CRD is the legal framework for the supervision of credit institutions, investment firms and their parent companies in all Member States of the European Union and the EEA. The CRR came into force on 27 June 2013, while the supervised entities within its scope are subject to it as of 1 January 2014.
The CRR-Regulation is directly applicable to anyone in the European Union and is not transposed into national law. Much of the CRR is derived from the Basel III standards issued by the Basel Committee on Banking Supervision (BCBS). It includes most of the technical provisions governing the prudential supervision of institutions.

CSA *Credit Support Annex*
A credit support annex provides credit protection by setting forth the rules governing the mutual posting of collateral.

CVA *Credit value adjustment*
Market CVA is the difference between the risk-free portfolio value and the true value portfolio value that takes into consideration the possibility of a counterparty's default.
In addition to default risk capital requirements for counterparty credit risk, Basel III introduced an additional capital charge to cover the risk of mark-to-market losses.

DR Default Rate
The rate of borrowers who fail to remain current on their loans.

DVP *Delivery Versus Payment*
A settlement practice stipulating that cash payment must be made prior to or simultaneously with the delivery of the security.

EAD *Exposure At Default*
Estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in case the borrower defaults.

EAD post CRM
Refers to the amount relevant for the capital requirements calculation having applied CRM techniques; including financial collateral

EBA *European Banking Authority*
The European Banking Authority (EBA) is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.
The main task of the EBA is to contribute to the creation of the European Single Rulebook in banking whose objective is to provide a single set of harmonised prudential rules for financial institutions throughout the EU. The Authority also plays an important role in promoting convergence of supervisory practices and is mandated to assess risks and vulnerabilities in the EU banking sector.

ECAI *External Credit Assessment Institutions*
Under the Basel II agreement of the Basel Committee on Banking Supervision, banking regulators can allow banks to use credit ratings from certain approved Credit Rating Agencies when calculating the risk weight of an exposure. Competent authorities will recognise an ECAI as eligible only if they are satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency.

ECB *European Central Bank*
The ECB is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power and thus price stability in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999.

EL *Expected Loss*
The amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one-year period.

FEAD *Full Exposure At Default*
FEAD is the total exposure at default (EAD), including the total amount of a free credit line and other off-balance-sheet transactions (with the exception of derivatives), before application of credit conversion factors (CCF). EAD is hence seen in this report as an estimation of the maximum extent to which a bank may be exposed to a counterparty in the event of, and at the time of, that counterparty's default.

FRTB *Fundamental Review of the Trading Book*
FRTB is the commonly used denomination of the revised market risk framework. The final version was published by the Basel Committee of Banking Supervision (BCBS) on 14 January 2016. According to BCBS, national supervisors are expected to issue final regulations by January 2019, with banks required to report under the new standards by year-end 2022.

FSMA *Financial Services and Markets Authority*
The FSMA is the successor to the former Banking, Financial and Insurance Commission (CBFA), which on 1 April 2011 changed its name as a consequence of the changes in its mandate, in particular its exclusive competence for the supervision of rules of conduct. The FSMA is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the "social supervision" of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.

GDP *Gross Domestic Product*
Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Although GDP is usually calculated on an annual basis, it can also be calculated on a quarterly basis.

G-SIB *Globally Systemically Important Banks*
G-SIBs are defined as institutions whose failure would have a significant impact on the financial system or the real economy. The Financial Stability Board in consultation with the Basel Committee on Banking Supervision and national authorities reviews each year the list of G-SIBs based on a common methodology that takes into consideration a.o. the size, complexity and interconnectedness of those institutions. G-SIBs are subject to higher capital buffer requirements, Total Loss-Absorbing Capacity (TLAC) requirements and higher supervisory expectations in terms of risk management and governance, risk data aggregation capabilities and resolvability.

HTM *Held To Maturity*
Non-derivative financial asset that has either fixed or determinable payments and a fixed maturity, and for which an entity has both the ability and the intention to hold to maturity. The held to maturity classification does not include financial assets that the entity designates as being at fair value through profit or loss, as available for sale, or as loans or receivables.

HVar *Historical VaR*
HVaR corresponds to the VaR measurement based on the historical market conditions for the bank, putting them in order from worst to best. It then assumes that history will repeat itself, from a risk perspective.

IAS *International Accounting Standards*
IAS stands for International Accounting Standards. IAS are used outside the US, predominantly in continental Europe.

ICAAP *Internal Capital Adequacy Assessment Process*
The ICAAP file describes how a bank monitors and assesses the adequacy of its minimum capital level regarding the risk it is taking. The file is accompanied by a series of appendices that describe in details the various Ecap models and stress tests methodologies, the complete Risk Appetite policy, Ecap and stress tests policies, Risk Cartography (RICAP) procedure and the Recovery and Resolution Plan (RRP).

IFRS *International Financial Reporting Standards*
International Financial Reporting Standards published by the IASB and adopted by most countries but the USA. They have been designed to ensure globally transparent and comparable accounting and disclosure.

IR *Interest Rate*
Interest expressed as an annual percentage rate.

ISDA *International Swap and Derivative Association*
Trade organisation of participants in the market for over-the-counter derivatives. Its headquarters are in New York, and it has created a standardised contract (the ISDA Master Agreement) to enter into derivatives transactions.

IT *Information Technology*
Study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware. IT deals with the use of electronic computers and computer software to convert, store, protect, process, transmit and securely retrieve information.

LCR *Liquidity Coverage Ratio*
The Liquidity Coverage Ratio forces financial institutions to maintain a sufficient stock of quality liquid assets to withstand a crisis that puts their cash flows under pressure. The assets to hold must be equal to or higher than their net cash outflow over a 30-day period under stress (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III.

LGD *Loss Given Default*
The ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default.

MBS *Mortgage-Backed Securities*
Asset-backed securities or debt obligations representing a claim on the cash flows from mortgage loans.

MDA *Maximum Distributable Amount*
The MDA is an amount calculated by the banks in line with article 141 of the CRR. In case banks fall under the MDA, dividend payment, AT1 coupon and variable remuneration will be restricted.

NBB *National Bank of Belgium*
The National Bank of Belgium is the current Belgian Financial Institutions regulator. The NBB is in charge of prudential supervision of the less significant institutions and of the insurance sector. However, some tasks are performed in close cooperation with ECB under the Single Supervision Mechanism.

Netting amount
Is the reduction in exposure due to the use of legally enforceable netting agreements, including the effect on potential future exposure in accordance with Article 298 of the CRR.

NSFR *Net Stable Funding Ratio*
NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance-sheet (OBS) exposures.

ORSA *Own Risk and Solvency Assessment*
ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios.

O-SII *Other Systematically Important Institutions*
O-SII is the term used in the EU legislation to designate domestically important banks. National authorities (NBB for Belgium) reviews each year the list of O-SIIs in accordance with the methodology specified by the EBA. Belgian O-SIIs are subject to a capital surcharge.

OTC *Over-The-Counter*
Over-the-counter (OTC) or off-exchange trading is carried out directly between two parties, negotiating bilaterally and privately without any supervision of an exchange.

PD *Probability of Default*
The probability of default of a counterparty over a one-year period.

PFE *Potential future exposure*
Potential future exposure (PFE) is the product of the notional amounts or underlying values as applicable by specific percentages set out in Article 274 of the CRR (Gross Add-on).

P/L *Profit and Loss*
A profit and loss statement (P&L) is a financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time.

RAROC *Risk Adjusted Return On Capital*
Risk-based profitability measurement framework for analysing risk-adjusted financial performance and providing a consistent view of profitability across businesses.

RC *Replacement cost*
The Replacement cost (RC) is the current exposure value, meaning the larger of zero and the fair value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in insolvency or liquidation.

RMBS *Residential Mortgage-Backed Securities*
RMBS are securities for which the primary source of payments is a mortgage loan or a pool of mortgage loans secured mostly on residential real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

RRE *Regulatory Risk Exposure*
Regulatory risk exposure (RWA) is the total risk exposure calculated as the sum of: risk-weighted exposures for credit risk, market risk, counterparty risk and operational risk.

SFT *Securities Financing Transactions*
SFTs are transactions where securities are used to borrow cash (or other higher investment-grade securities), or vice versa – this includes repurchase transactions, securities lending and sell/buy-back transactions.

SPV *Special Purpose Vehicle*
Separate legal entity created specially to handle a venture on behalf of a company. In many cases, the SPV belongs from a legal standpoint to banks or to investors rather than to the company. The IASB has however stipulated that the company should consolidate the SPV if it enjoys the majority of the benefits or if it incurs the residual risks arising from the SPV even if it does not own a single share of the SPV.

SRB *Single Resolution Board*
The SRB has been operational as an independent EU Agency since 1 January 2015. The SRM started its work on developing resolution plans for banks from January 2015 and became fully operational, with a complete set of resolution powers, on 1 January 2016. The SRB is the resolution authority for banks which are considered significant or in relation to which the ECB has decided to exercise directly all of the relevant supervisory powers, and other cross-border groups, where both the parent and at least one subsidiary bank are established in two different participating Member States of the Banking Union.

SREP *Supervisory Review and Evaluation Process*
The key purpose of SREP is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks the institution may pose to the financial system.

SRM *Single Resolution Mechanism*
The Single Resolution Mechanism entered into force on 19 August 2014 and is directly responsible for the resolution of the entities and groups directly supervised by the European Central Bank as well as other cross-border groups.

SSM *Single Supervision Mechanism*
The SSM operates as a system of common bank supervision in the EU that involves national supervisors and the European Central Bank. From 4 November 2014, banks deemed "significant" are supervised directly by the ECB. Smaller banks, called less significant, continue to be directly monitored by their national authorities, though the ECB has the authority to take over direct supervision of any bank.

SVar *Stressed VaR*
SVaR corresponds to the VaR measurement based on the worse historical market conditions (stressed period) for the bank.

UCITS *Undertakings for Collective Investment in Transferable Securities*
Set of European Union directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorisation from one member state. In practice many EU member nations have imposed additional regulatory requirements that have impeded free operation with the effect of protecting local asset managers.

VaR *Value at Risk*
VaR represents an investor's maximum potential loss on the value of an asset or a portfolio of financial assets and liabilities, based on the investment timeframe and a confidence interval. This potential loss is calculated on the basis of historical data or deduced from normal statistical laws.

CONTACT

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

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