RISK REPORT 2018

Cover: own Belfius photo composition. Many thanks to Belfius staff members (from left to right): Aurélie Thiran, Joris De Kelver, Delphine Belle, Nawfal-Morad Mouhal, Miek Bellings, Nicolas Fruy and Matthias Baillieul.

Belfius
Bank & Insurance

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STILL BENIGN MACRO ENVIRONMENT BUT INCREASING VOLATILITY

Belfius has been able to maintain a strong and improving risk profile in 2018, in a still benign macroeconomic environment but also a challenging context of volatile and fragile financial markets.

HIGH QUALITY AND IMPROVING RISK PROFILE

Sound risk management, good credit quality of commercial assets and benign credit risk environment continue to translate into strong asset quality ratios. The asset quality ratio was at a historically low level of 2.05% in 2018 and the coverage ratio was still a high 61.6%. The evolution of non-performing loans is positive for years in all segments (RCB, PCB) and main sub-segments (Corporate, Public & Social, Mortgages).

2018 was characterized by a smooth implementation of IFRS 9 as from 1 January 2018 with a positive FTA impact (+29 bps CET 1). As required by IFRS 9, Belfius takes a forward-looking stance when determining stage 1 and 2 provisions. By the end of the year, the weakening of the global growth prospects and the persistence of high geo-political uncertainties led to (1) the revision of some parameters used in the expected loss calculations and (2) the introduction of new provisioning layers for specific risks such as, for example, Brexit impacts or a possible deterioration of the credit quality of the Belgian real estate market or hospital sector.

2018 was also marked by further de-risking, namely the sale of more than EUR 1 billion Italian govies in January, unwinds and compression of derivatives (EUR -133 billion, remaining notional year-end 2018: EUR 318 billion) and pruning of shipping exposures (EUR -208 million, remaining exposure year end 2018: EUR 347 million). The run-off portfolios have also been subject to opportunistic de-risking and continue to amortize gradually.

STRONG AND SOUND LIQUIDITY & CAPITAL POSITIONS

Belfius maintains strong and sound liquidity and capital positions. Based on its 2018 solvency metrics, Belfius continues to rank amongst the best capitalized European banks with a CET 1 ratio of 16.0% end of December 2018, slightly down from 1 January 2018 pro forma, mainly as the result of positive effects in CET 1 capital (+15 bps) more than offset by increasing total risk exposure (-32 bps). Insurance activities also show solid solvency metrics, with a Solvency II ratio of 203% end of December 2018.

The increasing risk exposure (EUR +1.4 billion credit RWA in 2018 to EUR +45.7 billion) is mainly due to increasing volumes in commercial franchise and regulatory requirements, partly mitigated by management actions and ex-legacy attrition. Management actions include significant reduction of exposures in Group Center following the sale of Italian govies, the derivatives balance sheet compression exercise and other related initiatives as well as model improvements and data quality review.

Liquidity and funding profiles remain strong with a Liquidity coverage ratio (LCR) of 135% and a Net stable funding ratio (NSFR) of 116%. Liquid assets represent 5.7x one year wholesale refinancing needs and loan to deposit ratio (for commercial balance sheet) remained roughly stable at 94%.

These strong solvency and liquidity positions, largely respecting all regulatory minima, put Belfius in a position to cope with current economical, geo-political and regulatory uncertainties and allow for an active investment stance.

FURTHER IMPROVEMENT OF THE RISK GOVERNANCE

Belfius is continuously working on improving risk management efficiency. In 2018, this translated into additional refinements of the Risk Appetite framework and the set-up of a new risk management organization that has been implemented on 1 January 2019.

The main changes brought to the Risk Appetite Framework are the introduction of new indicators to enhance risk measurement of existing or developing risks (e.g. Non-financial risks) or to adjust the risk allocation to the global context and the group' strategic goals.

The new organization's main objectives are to further improve the transversal approach ("Belfius together" project strengthening the bank & insurance collaboration), reinforce the conglomerate approach and increase the forward-looking view to better anticipate market evolutions and drive the strategic orientations.

Other developments have been made either to cope with developing risks (new NFR risk management team - including Chief Information Security Officer (CISO) and Data Protection officer (DPO)), with new regulatory requirements (new NFR framework, implementation of GDPR project, …) or to improve data management efficiency and reporting processes.

This puts Belfius in a position to better face and frame complex and evolving risks and (un)expected deterioration of the economic and financial environment.

STRENGTHS CONFIRMED BY EBA STRESS TESTS AND BELFIUS RATINGS

The strong asset quality, risk management and capital and liquidity profiles are reflected in the 2018 EBA stress test results and rating agencies' views on Belfius' credit risk profile.

The 2018 EBA stress test shows that starting from a CET 1 of 16.2% as of 1 January 2018, Belfius' CET 1 reduces to 13.2% in the adverse scenario.

Belfius compares favorably to the average of the 48 banks of the EBA sample in terms of starting CET 1 (16.2% vs 14.4%), of adverse scenario impact (-2.96% vs -4.10%) and of final CET 1 (13.2% vs 10.3%) and may be considered as having amongst the best stress test resilience. There are indeed only 9 banks with after stress core capital ratios above 11%, representing 15% of total assets of the euro area banking sector.

Belfius is also strongly improving resilience compared to previous EBA stress tests where the Bank showed a CET 1 after stress of 11.4% in 2016 and 7.3% in 2014.

The rating agencies view positively the group's credit quality as reflected by the rating actions taken between 1 January 2018 and 31 March 2019, namely the decision by Standard & Poor's to upgrade Belfius' stand-alone credit profile (SACP) from "bbb+" to "a-" in October 2018. In line with the improved view of Belfius' stand-alone creditworthiness, S&P raised the ratings with one notch on all Non-preferred senior, subordinated debt and hybrid capital instruments, issued or guaranteed by Belfius Bank.

REGULATORY DEVELOPMENTS

The Targeted Review of Internal Models (TRIM) conducted by the ECB in 2018 (models to mortgage loans and for market risk) did not reveal major weaknesses and had no major financial impact so far. Main recommendations deal with governance improvement, data quality framework and model documentation.

The SREP Pillar 2 requirement remained unchanged at 2.25%, meaning Belfius capital base compares well to Belfius' SREP level.

Belfius is preparing itself for coming regulatory developments (new definition of default, Basel III finalisation, …).

Ratios[1]	31/12/14 IAS 39	31/12/15 IAS 39	31/12/16 IAS 39	31/12/17 IAS 39	01/01/18 IFRS 9	31/12/18 IFRS 9
Return on equity (ROE)	6.0%	6.3%	6.4%	7.0%	7.1%	7.5%
Return on assets (ROA)	0.24%	0.27%	0.30%	0.35%	0.35%	0.39%
Cost- income ratio (C/I ratio)	69.9%	63.9%	60.5%	58.1%	n.a.	60.4%
Asset quality ratio	2.33%	2.29%	2.54%	1.99%	2.15%	2.05%
Coverage ratio	56.0%	57.1%	54.4%	63.3%	63.3%	61.6%
Liquidity Coverage Ratio (LCR)[2]	122%	132%	127%	132%	n.a.	135%
Net Stable Funding Ratio (NSFR)	100%	108%	110%	116%	n.a.	116%

(1) Unaudited.
(2) 12 month average (as from 2017 onwards).

Solvency ratios	31/12/14 IAS 39	31/12/15 IAS 39	31/12/16 IAS 39	31/12/17 IAS 39	01/01/18 IFRS 9	31/12/18 IFRS 9
CET 1-ratio Fully Loaded[1]	13.2%	14.9%	16.1%	15.9%	16.2%	16.0%
Total capital ratio Fully Loaded[1]	14.3%	16.2%	18.4%	18.1%	18.3%	19.6%
Leverage ratio Fully Loaded	N/A	4.9%	5.3%	5.5%	n.a.	6.0%
Solvency II (before dividend)	N/A	209%[4]	217%	230%	n.a.	219%
Solvency II (after dividend)	N/A	199%[4]	207%	219%	n.a.	203%

(3) 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".
(4) Pro forma.

Regulatory Risk Exposure (Phased In)	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018
TOTAL	49,512	47,026	46,730	50,620	52,065
Credit Risk	45,666	42,447	42,679	45,847	47,289
Market Risk	1,105	1,777	1,136	1,841	1,801
Operational Risk	2,741	2,802	2,915	2,932	2,975

I. INTRODUCTION

I.1. MACROECONOMIC ENVIRONMENT IN 2018

Economic growth disappointed in 2018 in the euro zone and also in Belgium. While growth peaked at 2.7%, respectively 1.7% in 2017, the year on year growth rates unexpectedly fell back to only 1.2% for both the Euro zone and Belgium in the last quarter of 2018. Germany, France and also Italy, together about 65% of the euro zone, undershot expectations to a large extent, albeit for different reasons. While this weak performance is partially explained by one-off and temporary factors, a strong and rapid recovery did not realise. This is not anticipated to happen in 2019 either.

However, the fundamentals of the economy do however remain solid in Europe: the unemployment rate at 8.1% keeps on falling and is close to pre-crisis levels, wages are slowly rising and capital expenditures by companies are still increasing. Confidence, though, fell quite strongly and points to a future growth level between 1% and 1.5%. Being a small open economy dependent on its neighbours, the Belgian data mirror this euro zone-wide picture: the labour market keeps on performing with an (harmonized) unemployment rate at on average 5.9%, a historically low level, but the business confidence moves downwards indicating a lower future growth path.

Also the international environment became less supporting: the global economic momentum was scattered, credit spreads were rising and stock indices dropped considerably in the fourth quarter of the year. The following risk factors were at the core of this:

I.1.1. THREAT OF A TRADE WAR

The USA are imposing tariffs on most of its trading partners, like Mexico, Canada and China but potentially also the EU, who tend to adopt retaliatory measures. This risks ending in a global trade war, hindering trade, creating inflation and reducing investment, consumption and global growth.

I. 1.2. MONETARY POLICY

The ECB announced the end of the Quantitative Easing policy and stopped increasing the money supply at the end of 2018. Long term interest rates did however not increase on the back of the slowing economy, a non-increasing core inflation rate and geopolitical risks. The yield of the Belgian OLO10Y hovered around 0.75% at the end of the year, a level lower than the one observed at the beginning of 2018. Short term rates are also believed to remain solidly in negative territory until 2020.

In the US, the monetary authorities started to restrict liquidity by reducing the money supply and hiking multiple times the policy rate. This created tensions in the market and fear that the Federal Reserve would overshoot leading potentially to a recession. As a result the stock market returns turned negative over the year leading to upticks of volatility, uncertainty and risk aversion.

I. 1.3. POLITICAL RISKS

Political risks were prominent in the economic landscape. The tendency of governments to focus more on domestic issues at the expense of international collaboration created uncertainty and volatility in an otherwise globalized economy. Italian government spreads sore after the new government formulated its plan to increase deficit spending against what had been accepted in the European Stability and Growth pact. The Brexit negotiations about the orderly withdrawal of the UK from the EU have not been finalised creating uncertainty about how the movement of goods and people between the EU and the UK will be organised. Third, the relationship between the EU and the USA deteriorated due to the potential imposition of tariffs on European goods exported toward the US. This tendency towards less international collaboration increased uncertainty, depressing business confidence and investment. It created hence extra costs impacting negatively trade and growth.

I.2. RATINGS

Between 1 January 2018 and 21 March 2019, rating agencies took the following decisions:

- In October 2018, Standard & Poor's (S&P) affirmed Belfius' long- and short-term ratings. At the same time S&P upgraded Belfius' stand-alone credit profile (SACP) from "bbb+" to "a-" thanks to the Bank's improved group credit profile. In line with the improved view of Belfius' stand-alone creditworthiness, S&P raised the ratings with one notch on all Non-preferred senior, subordinated debt and hybrid capital instruments, issued or guaranteed by Belfius Bank;
- In November 2018, Fitch affirmed Belfius' long- and short-term ratings.

As of 21 March 2019, Belfius Bank's ratings were as follows:

RATINGS OF BELFIUS BANK AS AT 31 MARCH 2018

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

(1) Intrinsic creditworthness

I.3. EU-WIDE EBA STRESS TEST 2018

Belfius Bank was subject to the 2018 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the National Bank of Belgium, the European Central Bank, the European Commission and the European Systemic Risk Board.

The stress test applied to 48 European banks (representing about 70% of total assets held by EU banks) aims to assess the resilience of those banks when confronted to a severe financial and economic stress over a three-year time horizon (2018-2020). The exercise was carried out applying a static balance sheet assumption as at December 2017 restated for IFRS 9 (hence, on pro forma 01.01.2018 accounts) and therefore did not take into account any future business strategies and management actions[1]. Hence, it is not a forecast of Belfius' profits or solvency.

The 2018 stress test does not contain a pass-fail solvency threshold, but instead was designed to be used as important information for the purpose of the supervisory review and evaluation process (SREP). The results will assist competent authorities in assessing Belfius' ability to meet applicable prudential requirements under stressed scenarios.

The final outcome of this stress test is translated into the relevant banks' solvency figures as per the end of 2020. Starting from a strong CET 1 capital ratio of 16.2% as of 01.01.2018, Belfius still displays a solid CET 1 capital ratio of 13.2% - under the adverse scenario - at the end of the stress test period.

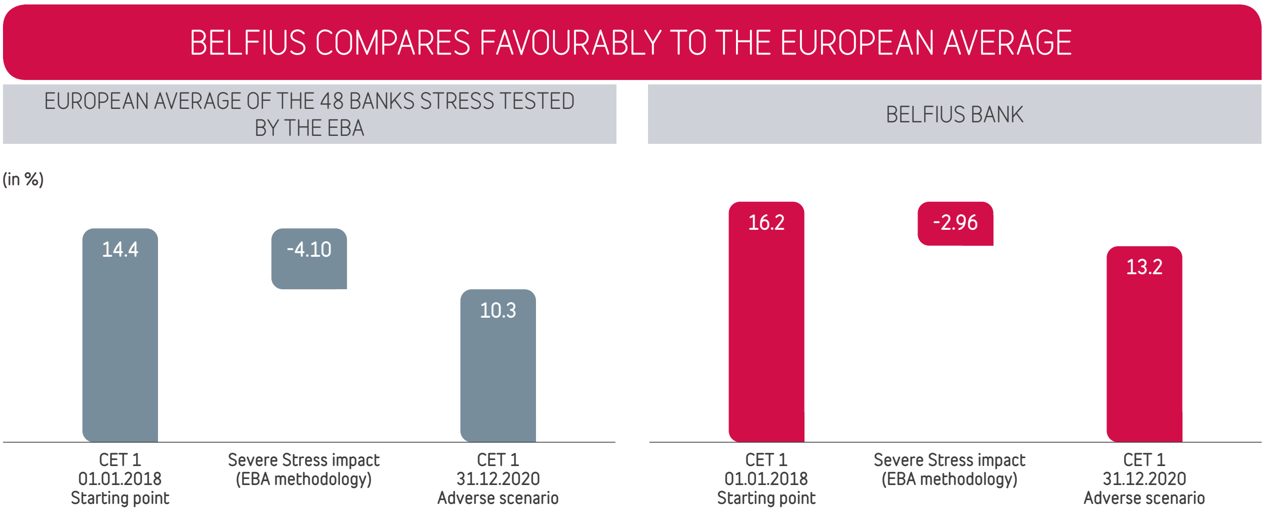
Even though this 2018 stress test is considered to be based upon the most severe shock scenario compared to the former 2014 and 2016 stress test scenarios, the impact for Belfius (i.e. -296 bps) continues to significantly improve since the first stress test performed in 2014. Indeed, the CET 1 ratio impact was -620 bps in the 2014 stress test and -449 bps in the 2016 stress test.

The continuous strengthening of Belfius' solvency together with its strategy of strenghtening its risk profile has clearly contributed to this improved resilience.

Belfius' strong solidity and resilience are also confirmed when comparing results to those of peers. Indeed, Belfius compares favourably to the European average of the 48 participating banks in terms of
- CET 1 ratio starting point (16.2% vs. 14.4%),
- impact of the adverse stress test scenario (-2.96% vs. -4.10%) and
- CET 1 ratio end point (13.2% vs. 10.3%).

(1) Including these conducted in 2018 YTD, e.g. the sale of some Italian government bonds in 1Q 2018.

These results demonstrate the strong solvency position of Belfius, its higher resilience towards adverse scenarios and the pertinence of having a sound financial & risk management as a cornerstone of its consistent long-term strategy.



I.4. 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 ensure level playing fields between institutions.

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 (including counterparty 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), operational risk (3 approaches: Basic Indicator Approach, Standardised Approach and Advanced Measurement Approach) and CVA (2 approaches: Standardized Approach and Internal Model Approach). The Pillar 1 encompasses also the leverage requirement which is a non-risk based ratio serving as backstop to the risk-based capital requirements.
- 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 – develops a set of qualitative and quantitative disclosures allowing 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. In December 2017, the Basel Committee has endorsed further regulatory reforms targeting primarily a revision of risk weighted assets approaches.

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 still under discussion and will be translated in European legislation through the CRR2 and further agreements (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. At the end of 2015 the SSM launched a thorough work in order to harmonize the national options and discretions 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.

I.5. IMPLEMENTATION OF THE REGULATORY FRAMEWORK

I.5.1. PILLAR 1

Belfius uses different approaches for the determination of its regulatory capital requirements under Basel III Pillar 1 in order to cover credit risk, counterparty credit risk, credit valuation adjustment (CVA), market risk and operational risk.

I.5.1. 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 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.

I.5.2. 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.

I.5.3. Counterparty Credit Risk and CVA 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, the CVA risk, is calculated according to the Standardised Method.

I.5.4. Operational Risk

For operational risk, Belfius Bank applies the Standardised Approach.

I.5.2. 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 designed. Similarly, a Liquidity Adequacy Statement (LAS) endorsed and signed by the management body demonstrating that Belfius Bank has an adequate management and monitoring of its liquidity and funding position and risk has also been communicated to the regulators. A detailed description of the Belfius Liquidity and funding risk management framework can be found in the chapter "Liquidity Risk".

I.5.3. PILLAR 3 – DISCLOSURE POLICY

I.5.3.1. 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 Place Charles Rogier 11, B-1210 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 2018 Belfius Annual Report which is published along with the Risk Report at *www.belfius.be*.

I.5.3.2. 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.

I.5.3.3. 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.

I.5.3.4. 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 2018 was also presented to the Risk Committee and Audit Committee (in joint session on 18 March 2019) and to the Board of Directors on 21 March 2019.

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 2020. 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.be*).

I.5.4. CROSS-REFERENCE TABLE FOR PILLAR 3 (CRR AND CRD 4)

Source	Disclosure reference	Title	Page in Risk Report
EBA	CCR1	Analysis of CCR exposure by approach	91
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EBA	CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk	166
EBA	CCR4	IRB approach – CCR exposures by portfolio and PD scale	167
EBA	CCR5-A	Impact of netting and collateral held on exposure values	92
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other	CCA	Capital instruments main features Disclosure according to article 3 in the Commission implementing regulation (EU) No 1423/2013	176
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I.6. BELFIUS TOGETHER

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

During 2018, the Risk Management prepared itself for a transition towards a "Belfius Together" approach with organisational changes applying as from 1 January 2019. The new Risk Management organisation takes more systematically a conglomerate vision while ensuring quality, efficiency and expertise in both entities at all times. The expected benefits from this reorganisation 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.

3 new departments were created for a future-proof Risk Management: Strategic Risk Management Non-Financial Risk Management and Services:

- The Strategic Risk Management team will enhance the strategic dimension of risk management, increase consistency within the group and ensure relevant and consistent risk/reward approach;
- The Operational Risk Management team evolved towards Non-Financial Risk Management;
- Services will ensure a lean and efficient Risk Management with a centralisation of
  - IT & projects and
  - production of standardized reporting (regulatory, …) and including
  - a corporate office.

While synergies between Belfius Bank & Belfius Insurance are increased and centralised teams are created when feasible and while the competences on conglomerate are enhanced, Risk Management's sound governance principles ensure independence of both CRO's and respect legal structure of the Group with existing internal committees remaining and existing decision making processes unchanged.

The new organisation is briefly explained under point II.4.2.

Furthermore, in 2018, Risk Management continued its efforts started in 2017 on further integration & collaboration on tasks where added value was possible. As such, several realisations were attained at different levels, a.o.:

- Market risk; centralized IFRS 9 classification (basic/Non-basic) and provisioning for bonds, …
- Credit Risk; a group governance for impairment and the impairment process; an alignment (and some centralisation) of Risk management of mortgage loans, …
- Non-Financial Risks: the creation of a group DPO function & framework; the icreation of a group CISO function; further alignment of the NPAP process; a review of the BCP process in a together and one-building context and a common evacuation exercise; alignement of policies upon review and upon new issuance; common definition of Environmental, Social and Governance (ESG) approach, …
- Integrated Risk Management: Stress test realised in common with some scenarios now defined by bank (and applied on insurance) and the other way around; the integration of the Insurance RAF ratios in the group RAF; a common annual Risk Cartography exercise, …

The realizations in 2018 were successful. Furthermore, there were more collaboration and exchanges over the teams and entities e.g. sharing best practices, made easier as well by the BeWoW facilities. The efforts will be continued in 2019.

II. RISK MANAGEMENT GOVERNANCE

II.1. GOVERNANCE ARRANGEMENTS

II.1.1. BELFIUS GROUP

II.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.

II.1.1.2. Mediation Committee

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

II.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 2018, 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 2018 the Mediation Committee met 1 time

II.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.

II.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.

II.1.2.1. Number of directorships held by the members of the Board of Directors

As at 31 December 2018 the directors of Belfius Bank held 36 directorships in other commercial companies than Belfius Bank (including 14 directorships in commercial companies of Belfius Group).

II.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.

II.1.2.2.1. Composition

A. General aspects
As at 31 December 2018, 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(1)
	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 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

Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and ordinary 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 for matters related to Belfius Insurance.

Board of Directors
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.

(1) Chairman of the Board of Directors of Belfius Insurance until 31/12/2018.

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.

II.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, 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;
- 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 2018 the Nomination Committee met 5 times and also held one meeting by written.

II.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 that could negatively 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.

II.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 2018, 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

As far as the appointment of Mrs. Martine De Rouck as a director is approved by the Ordinary General Meeting of shareholders in 2019, one-third of the Board of Directors of Belfius Bank will be composed of women so that the gender quota will be met.

II.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.

II.1.2.3.1. Composition

A. General aspects

As at 31 December 2018, 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[1]
	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 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.

Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and ordinary 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 for matters related to Belfius Insurance.

(1) Chairman of the Board of Directors of Belfius Insurance until 31/12/2018.

Board of Directors

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.

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 2018 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.

II.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 2018, the Remuneration Committee met 6 times.

II.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 2018, 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 2018) 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 2018, key risk indicators (KRI) have been included in the objectives of members of the Management Board and employees whose activity has a material impact on the risk profile of Belfius Bank. The aim is to take proper account of the different types of (current and future) risks at each point in the assessment cycle: an insufficient score on one or more of such risk indicators has a negative impact on the variable remuneration.

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

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

At the end of 2015, a policy in relation to deferred variable remuneration ("deferral") was established for employees whose activity has a material impact on the risk profile of Belfius Bank. This proposal was formulated by the Human Resources division, in collaboration with the Capital & Liquidity Management, Legal and Risk divisions. This policy has been retained for the 2018 year.

In practical terms, for employees whose activity has a material impact on the risk profile of Belfius Bank, to the extent that their performance-related remuneration exceeds the amount agreed in advance with the NBB, 50% of the remuneration will be deferred over a period of 5 years (60% if the performance-related remuneration would be higher then EUR 200,000) for members of the Management Board and their direct reports and 3 years for the others. 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 members of the Management Board do not participate in the discussions, or make decisions in this regard. The chairman of the Management Board does not participate in the discussions, or makes decisions about his personal situation.

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. For 2018, the remuneration of Mr. Dirk Vanderschrick is re-invoiced for 50% to Belfius Insurance in the framework of his mandate as chairman of the Management Board of Belfius Insurance.

B.2. Remuneration for 2018

Remuneration of the chairman of the Management Board

Fixed remuneration

The fixed remuneration of the chairman of the Management Board amounts to EUR 650,000.

The premium for his group insurance, for other insurance policies (mainly insurance against death and disability) and the other benefits (mainly reimbursement of expenses and company car costs) amounted to EUR 164,384.

Performance-related remuneration

The Board of Directors decided to grant to the chairman of the Management Board a performance-related (2018) remuneration of EUR 254,631 . 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 2018 will be made at the beginning of 2019: the balance 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.

On the basis of the performance-related remuneration of 2015, 2016, 2017 and 2018, 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 123,704 in 2020; EUR 88,056 in 2021; EUR 78,758 in 2022; EUR 59,528 in 2023; EUR 40,078 in 2024 and EUR 15,277 in 2025.

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.

In 2018 an amount of EUR 125,787 was paid to the chairman of the Management Board as performance-related remuneration linked to the performance in 2015, 2016 and 2017.

Consequently in 2018, the total amount (Fix, performance-related, insurances and other benefits) paid to the chairman of the Management Board is EUR 940,171.

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 1,785,000.

The (aggregated) premium for their group insurance, for other insurance policies (mainly insurance against death and disability) and the other benefits (mainly reimbursement of expenses and company car costs) amounted to EUR 485,443 (divided among the 5 members)..

Performance-related remuneration

The Board of Directors decided to grant to the members of the Management Board a performance-related remuneration for 2018 totaling EUR 659,400. 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 2018 to the members of the Management Board will be made at the beginning of 2019;thebalance 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.

On the basis of the performance-related remuneration of 2015, 2016, 2017 and 2018, provided certain conditions are met in the coming 6 years, the members of the Management Board may receive a deferred performance-related remuneration EUR 368,920 in 2020; EUR 237,039 in 2021; EUR 209,703 in 2022, EUR 152,615 in 2023, EUR 94,400 in 2024 and EUR 32,969 in 2025.

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.

In 2018 an amount of EUR 375,517 was paid to the members of the Management Board as performance-related remuneration linked to the performance in 2015, 2016 and 2017.

Consequently in 2018, the total amount (Fix, performance-related, insurances and other benefits) paid to the members of the Management Board is EUR 2,645,960.

Option plans

Belfius Bank has no option plan. During 2018, no option was granted to members of the Management Board, or exercised by the latter.

In accordance with Article 450 of Regulation no. 575/2013, Belfius Bank declares that no remuneration of more than EUR 1 million was allocated to any employee of Belfius Bank in 2018.

In 2018, 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 2018 to the members of staff concerned (172 members of staff at the end of 2018) was EUR 22,747,784.

Performance-related remuneration for the year 2018

A total amount of EUR 5,573,872 was granted in 2019 to the members of staff concerned as performance-related remuneration for the year 2018. The entirety of this amount was paid since none of those members of staff received performance-related remuneration for 2018 above the amount agreed in advance with the NBB.

This amount was granted for EUR 4,922,199 in warrants[1] and for EUR 651,673 in cash.

(1) A capitalization share (class C) of Belfius Equities Europe conviction, a compartrment of the SICAV (Belgian law) Belfius Equities.

Option plans

Belfius Bank has no option plan. During 2018, no option was granted to employees whose activity has a material impact on the risk profile of Belfius Bank, or exercised by the latter.

Severance remuneration

In 2018, severance remuneration was paid to 4 employees whose activity has a material impact on the risk profile of Belfius Bank.

The total amount of this payment was EUR 1,265,052.

For the year 2018, one individual 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 of Belfius Bank, except the members of the Management Board (non-executive directors) for 2018 was 869,400 EUR for 52 meetings (compared with 817,944 EUR in 2017 for 48 meetings). The increase in the number of meetings can be explained because of the additional Board of Directors meetings which were held in the context of the preparation of the potential IPO. 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 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 or of the advisory committees.

NUMBER OF MEETINGS AND RENUMERATION PER NON-EXECUTIVE DIRECTOR FOR THE YEAR 2018(1)

	Mediation Committee (1 meeting)	Board of directors (18 meetings)	Risk Committee (11 meetings)(1)	Audit Committee (11meetings)	Nominations Committee (5 meetings)	Remuneration Committee (6 meetings)	Total Remuneration
Doutrelepont Carine		15			3	5	62,100
Delwart Jean-Pierre	1	17					54,000
Clijsters Jos	1(2)	18(2)			5	5	242,100
Hübner Georges		18	10	11(2)			106,200
Van Den Berghe Lutgart		16			5(2)	6(2)	90,000
Sunt Chris		17	10	11			84,600
Bodart Paul		18		11			73,800
Vander Vennet Rudi		18	10(2)				88,200
Rosen Diane		16	10				68,400
							869,400

(1) Some meetings were not remunerated. Joint meetings of two committees were indeed only once remunerated.
(2) Chairman.

II.1.2.4. Audit Committee

II.1.2.4.1. Composition

A. General aspects

As at 31 December 2018, 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 former 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.

II.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 2018, 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 2018, the Audit Committee examined and approved the annual business report for 2017, the audit plan 2018, and the half-year business report (1H) for 2018, as well as the half-yearly follow-up reports on the recommendations. The latest version of the Internal Audit Charter was validated in 2018.

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 2018, the Audit Committee reported to the Board of Directors on the statutory and consolidated financial statements of Belfius Bank at 31 December 2017, 31 March 2018, 30 June 2018 and 30 September 2018. 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.

II.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 2018, the Audit Committee met 12 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 2017 and the half-yearly financial statements at 30 June 2018 were presented.

Board of Directors

The Audit Committee of Belfius Bank held 7 meetings jointly with the Risk Committee to examine, amongst others, the senior management report on the assessment of the internal control report 2017, the report on the risks linked to the use of valuation models, the follow-up of the implementation of the IT-security strategy, the risk management concerning the implementation of IFRS 9 as of 1 January 2018, as well as the quarterly risk monitoring report.

II.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.

II.1.2.5. Risk Committee

II.1.2.5.1. Composition

A. General aspects

As at 31 December 2018, the Risk Committee for Belfius Bank consisted of the following members:

Chairman	Rudi Vander Vennet
Members	Georges Hübner
	Diane Rosen
	Chris Sunt

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 former 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.

II.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.
- ensuring that the prices and products offered to the clients are taking into account the risks run by the Bank, In particular the reputation risk

II.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 2018, the Risk Committee met 6 times and held 7joint 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.

II.1.3. BELFIUS INSURANCE

II.1.3.1. Number of directorships held by the members of the Board of Directors

As at 31 December 2018 the directors of Belfius Insurance held 40 directorships in other commercial companies (including 28 directorships in companies of Belfius Group).

II.1.3.2. Nomination Committee

II.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.

II.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.

II.1.3.3. Remuneration Committee

II.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.

II.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.

II.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.

II.1.3.4.1. Composition

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

Chairman	**Johan Tack** Independent Director 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

II.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.

II.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 2018, 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 2018, the Audit Committee examined and approved the annual business report as at 31 December 2017 and 30 June 2018, the audit risk assessment for 2018 and the audit plan for 2019, 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 2018, the Audit Committee reported to the Board of Directors on the financial results of Belfius Insurance as at 31 December 2017 and 30 June 2018. 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 2018 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.

II.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 2018, 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.
The Audit Committeee met once jointly with the Risk and Underwriting Committee

II.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, as amended by circular NBB_2018_23 of 13 september 2018).

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.

II.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.

II.1.3.5.1. Composition

The Risk & Underwriting Committee of Belfius Insurance is appointed by the Board of Directors and is made up of at least three members, as determined by the Board. The Board also appoints a chairperson of the committee.

The Chief Risk Officer (CRO) will systematically attend committee meetings as a mandatory invitee. The non-obligatory presence of the other members of the Management Board is organised as follows:

- the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are invited systematically;
- the other members of the Management Board and non-executive directors attend committee meetings at the invitation of the committee.

The chairperson of the meeting may also ask for other individuals to be present, as he/she sees fit, when he/she deems this to be appropriate.
Only those non-executive directors who are members of the committee have the right to vote.

II.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 macro-economic 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.

II.2. RISK GOVERNANCE MODEL AT BELFIUS BANK

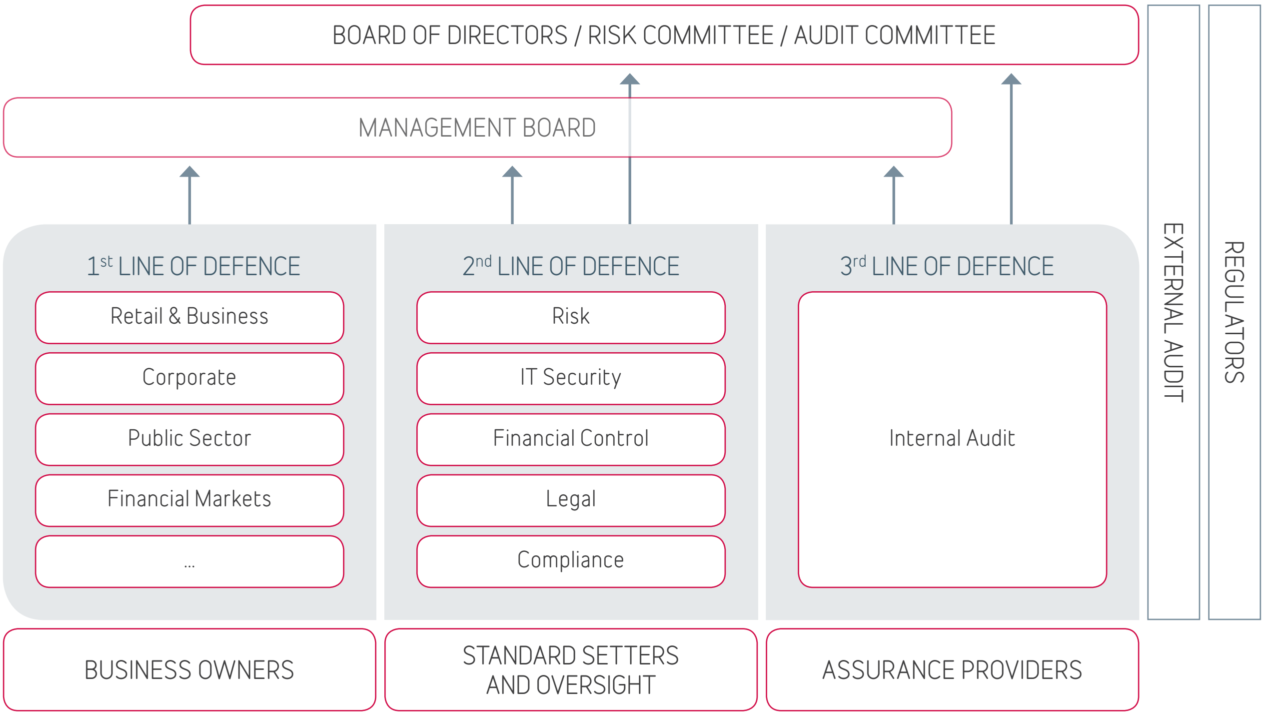
II.2.1. THREE LINES OF DEFENCE MODEL

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 a (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:

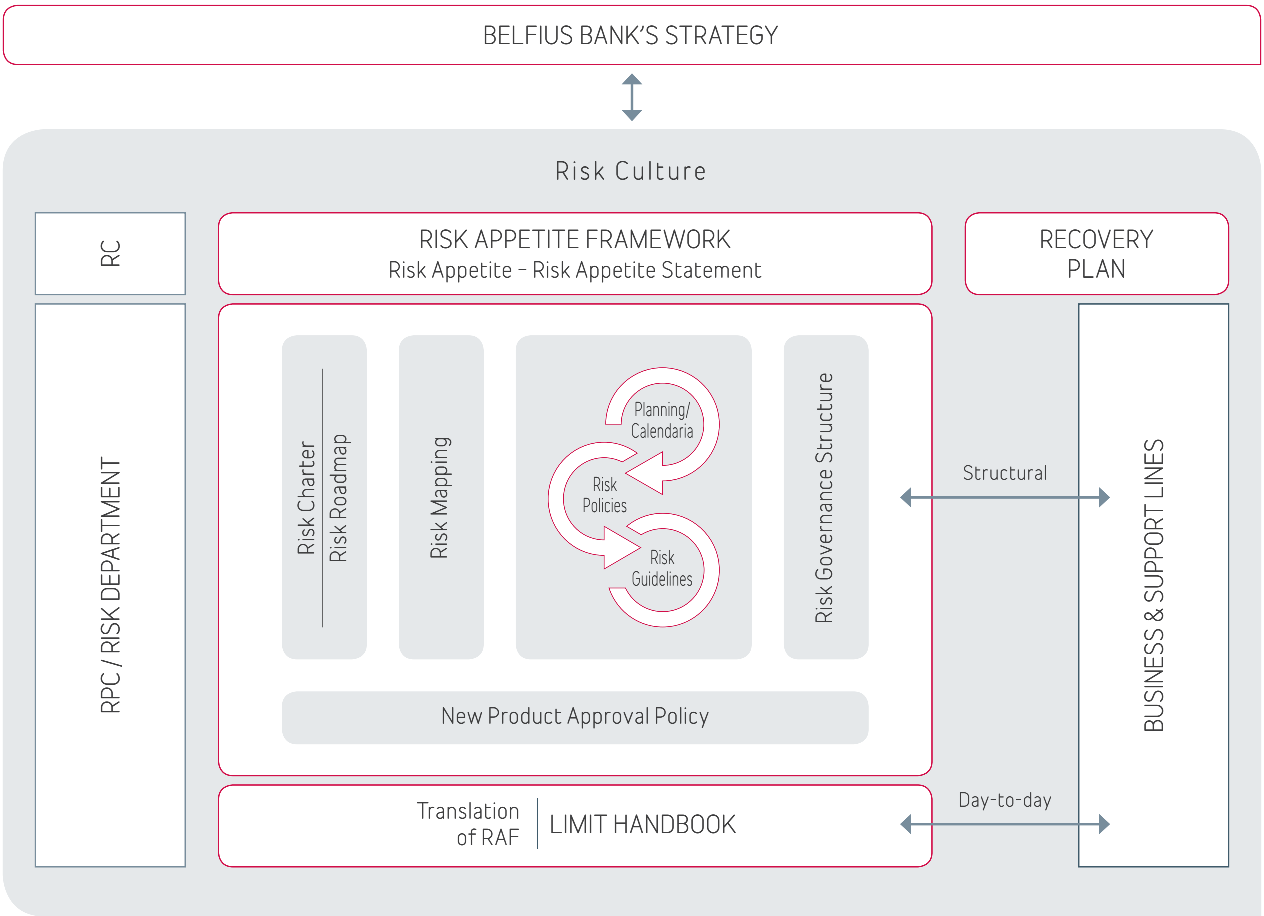
- 1st LoD: own, manage and control risk (Business Lines/Front) within the framework designed by the 2nd LoD
- 2nd LoD: define the risk management framework (policies, guidelines, Risk Appetite Framework, ...), monitor and control risk in support of the 1st line (Risk, Financial control, Legal, Compliance)
- 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.

II.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 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.



II.2.2.1. The Risk Appetite Framework (RAF)

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

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

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.

II.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:
- → provide a continuous qualitative service in a "sound partnership" (timely and adapted to the customer's needs);
- → within an acceptable and desired risk profile; and
- → 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. 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.
2. 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.
3. 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.
4. 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.
5. The risk management function must be independent. It reports to the Management Board and to the Board of Directors through the Risk Committee.
6. Risk management is a key player in the management of the global balance between the Bank's solvency, liquidity and profitability.
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.

II.2.2.3. The Risk Roadmap

Via its risk roadmap, Belfius Bank sets 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.

II.2.2.4. The Risk Mapping

The Belfius 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:
- it constitutes an optimised framework, guaranteeing full risk coverage and redundancy avoidance;
- it enhances the ability to spot gaps and optimise risk coverage through increased stakeholder confidence and better targeted resources on key risks (while avoiding redundancy).
- is reviewed regularly to cover all risks.

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

II.2.2.5. The Risk Governance Structure

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.

II.2.2.6. Risk Policies & Guidelines

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

II.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.

II.2.2.8. The Recovery Plan

Following the implementation of the Bank Recovery and Resolution Directive (BRRD)[1] 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 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.

(1) Directive 2014/59/EU.

II.2.2.9. The Limit Handbook

The Limit Handbook aims to gather all major limits applicable within Belfius Bank in one sole document.

II.2.2.10. The Risk Culture

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.

II.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.

II.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 Belgian Banking law.

The Remit and the functioning of the RC are described under part II.1.2.5.
When deemed necessary and without restrictions, the CRO can directly access the chairman of the Risk Committee and/or the Audit Committee.

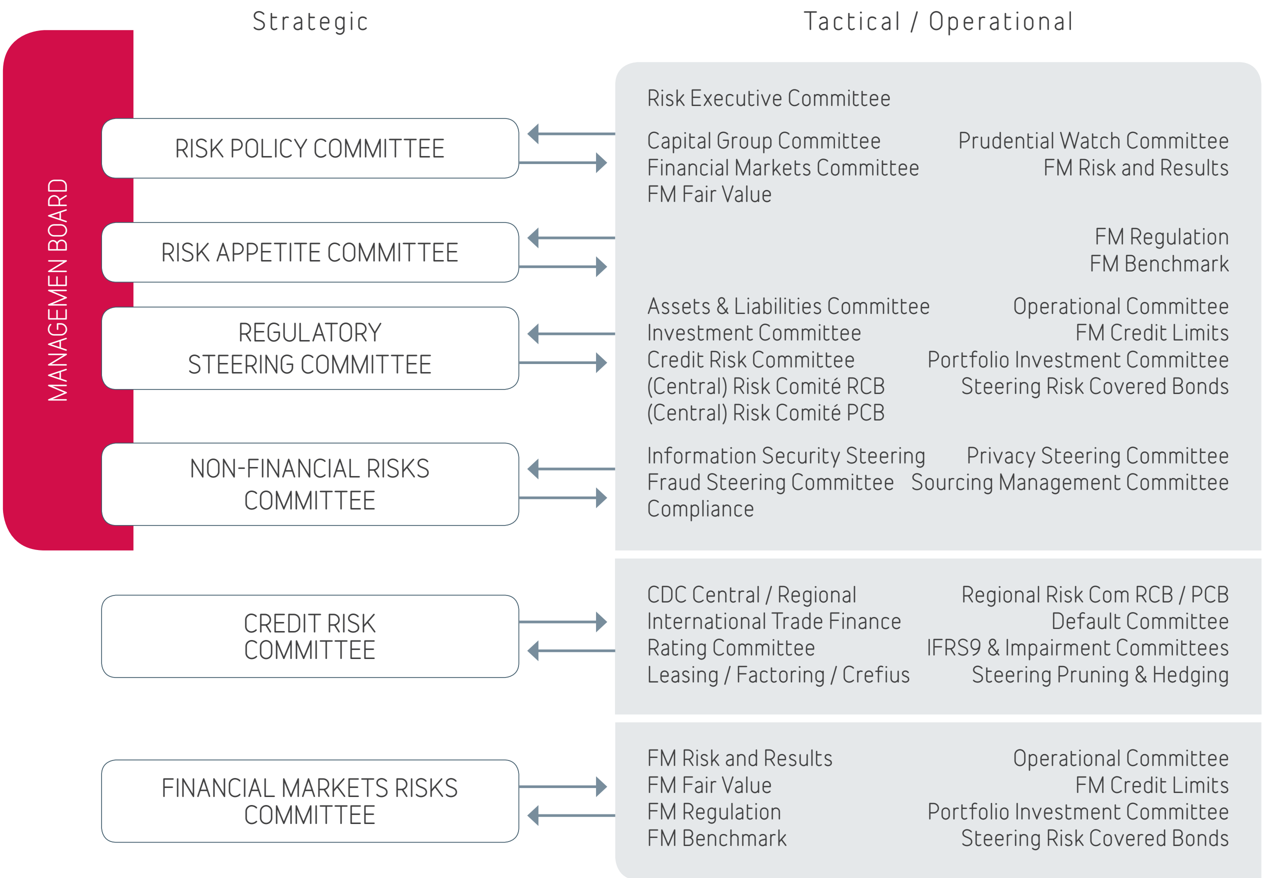
II.2.3.2. Risk Committees on strategic level operating within the Management Board

Four 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.
- the newly created **Non-Financial Risks (NFR) Committee** ensures a well-governed and coordinated non-financial risk framework for an effective Non-financial risk management. NFR covers a.o. operational risks (including fraud, HR, IT, IT security, business continuity, outsourcing, data-related risks, privacy, …) but also reputational, compliance and legal risks.

In addition to these four 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- and financial markets-related topics:

- The newly created (starting in 2019) **Credit Risk Committee (CRC)** centralizes, in a strategic and end-to-end process view, all credit risk related topics (origination, monitoring, impairment) into one committee with presence of the Management Board members who are directly involved (CRO, Head of RCB & PCB).
- The newly created (2018) **Financial Markets Committee (FMC)** has as prime function the 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 set forward by the Management Board. It is held once a month with a strict quorum including members of the Management Board (CRO, CFO and Head of PCB).



II.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 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.

II.2.3.3.1. At a general 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 & Non-Financial Risk Committee) and bears the ultimate responsibility of the implementation of Belfius Bank's risk roadmap.

The Capital Group Committee (CGC) anticipates, understands, prepares, analyses & monitors all capital aspects on a conglomerate level (Bank, Insurance & related subsidiaries) in compliance with regulatory, legal and economic constraints.

It also acts as Prudential Watch Committee (PwaC) to enable Belfius to anticipate, to understand, to steer and to follow-up on prudential reforms, guidelines, proposals and evolutions thereof impacting Belfius and its entities. Prudential Watch will propose alignment between Bank/Belins, Risk/finance, … of the positions towards the regulator on key prudential issues.

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

II.2.3.3.2. Financial Markets Risk Management

As mentioned above, the **Financial Markets Committee (FMC)** - at strategic level - has as prime function the 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 set forward by the Management Board.

This committee is the main committee for Financial Markets Management. The committee is divided into sub-committees which are responding to the main FMC. It is led once a month with a strict quorum including members of the Management Board.

The subjects that are under the scope of the main FMC are chosen executive summaries coming from the sub-committees leading to a final level of decision. Other ad-hoc topics can be proposed to the agenda if they are eligible for one of the sub-committees.

The sub-committees are:
- **FM Risk and Results (FM RR)** 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 set forward by the Management Board;
- **FM Fair Value (FM FV)** in charge of "Fair Value Validation";
- **FM Regulation**: analysis and follow up of the new regulatory requirements concerning the Financial Markets activities;
- **FM Benchmark**: Follow-up of any matters concerning the benchmarks (Euribor, Eonia, Libor,…) and follow up of obligations of the Bank as panel bank for the contribution of Euribor and Eonia following the Code of Conduct of Panel Banks and the internal policy;
- **Operational Committee (FM OC)** makes the follow up of operational issues;
- **FM Credit Limits (FM CLC)** approves credit limits requests related to all FM activities, Belins and PCB Trade Finance and monitors the associated credit risk for all the counterparties in the scope of FM RM – Research Analysis;
- **Portfolio Investment Committee (PIC)** acts as the central supervisory and decision body on all matters regarding the portfolio management of legacy portfolios (ALM Yield portfolio and Credit Derivatives portfolio). The PIC also receives delegation from the Alco for the follow-up of the ALM Liquidity portfolio;
- **Steering Risk Covered Bonds (SRCB)** common Risk forum in order to communicate and to discuss regarding the Covered Bonds programs.

II.2.3.3.3. Credit Risk Management

Besides the newly created (starting in 2019) **Credit Risk Committee (CRC)** - at strategic level - the following committees at tactical/ operational level cover credit risk:

- **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 **CDC (Comité de Crédit 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)** is decribed above under the Financial Market Risk Committees
- **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.
- **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 three dedicated Impairment Committees (Stage 1, Stage 2 & Stage 3).
  - **Expert Panel IFRS 9 Impairment**: The Expert Panel IFRS 9 Impairment has a transversal character and thus acts for Belfius Bank and all its subsidiaries. The main mission of the Expert Panel is to monitor the evolution of the macro-economic environment and, thereupon, to formulate proposals for scenario's allowing the derivation of the Point in Time (PIT) and Forward looking parameters needed to calculate the expected credit loss under IFRS 9. The Expert Panel also monitors methodological evolutions (e.g. model updates).
  - **Stage 1 & 2 Impairment Committee**: The Stage 1 & 2 Impairment Committee has a transversal character and thus acts for Belfius Bank and all its subsidiaries. The Stage 1 & 2 Impairment Committee decides on the expected credit loss accounted for in Stage 1 & 2, as well on their ventilation
  - **Stage 3 Impairment Committee**: Belfius has two Stage 3 Impairment Committtees, one at the level of Belfius Bank and one at the level of Belfius Insurance. The Stage 3 Impairment Committee determines and validates the Stage 3 specific (individual) impairment amounts, before these figures are communicated to Finance for transcription in the financial accounts.

II.2.3.3.4. Non-Financial Risk Management

Besides the **Non-Financial Risks Committee (NFRC)** - at strategic level - the following committees at tactical/operational level cover specific NFR risk:

- **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.Fraud Steering Committee (FSC): Defining and monitoring the fraud risk management and steering the Fraud Expert Panel.
- **Privacy Steering Committee** defining and monitoring the Privacy risk management.
- **Sourcing Management Committee** defining and monitoring Sourcing Management and organised by the Purchasing Department

II.3. RISK GOVERNANCE MODEL AT BELFIUS INSURANCE

II.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 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.

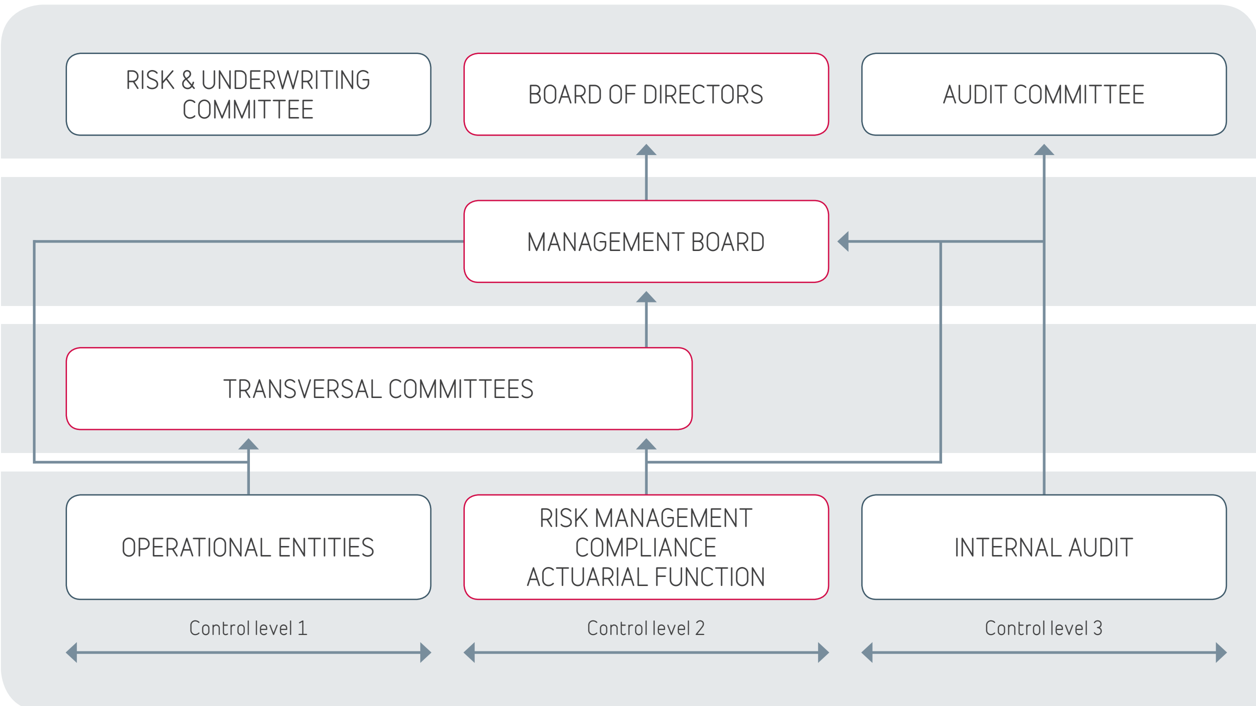
The risk management department is responsible for developing the calculation methodology and for the integrated implementation thereof. Once the risk measurements have been identified and determined on the basis of the scale and complexity of the business lines, a global frame of reference links the 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 regulatory 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.

II.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,.



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 (first line of control) 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 (second line of control) 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) (first and second line of control) ensures compliance with the integrity policy and the development of the ethics policy in Belfius Insurance. The Compliance Officer reports to the CRO of Belfius Insurance and works closely with the Chief Compliance Officer of Belfius Bank;
→ Internal Audit (third line of control) 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 (fisrt and second line).
→ 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. The local ALCos manage the specific risks on the respective balance sheet of the subsidiaries.

In addition, the Board of Directors of Belfius Insurance can rely on an Audit Committee comprising 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 organisation of risk management and the alignment to the nature of the existing risks.

The cooperation on risk management between Belfius Insurance and Belfius Bank ("Belfius together") 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.

II.4. RISK DEPARTMENT ORGANISATION, ROLE AND RESPONSIBILITIES

II.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.

II.4.2. RISK ORGANISATION

II.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).

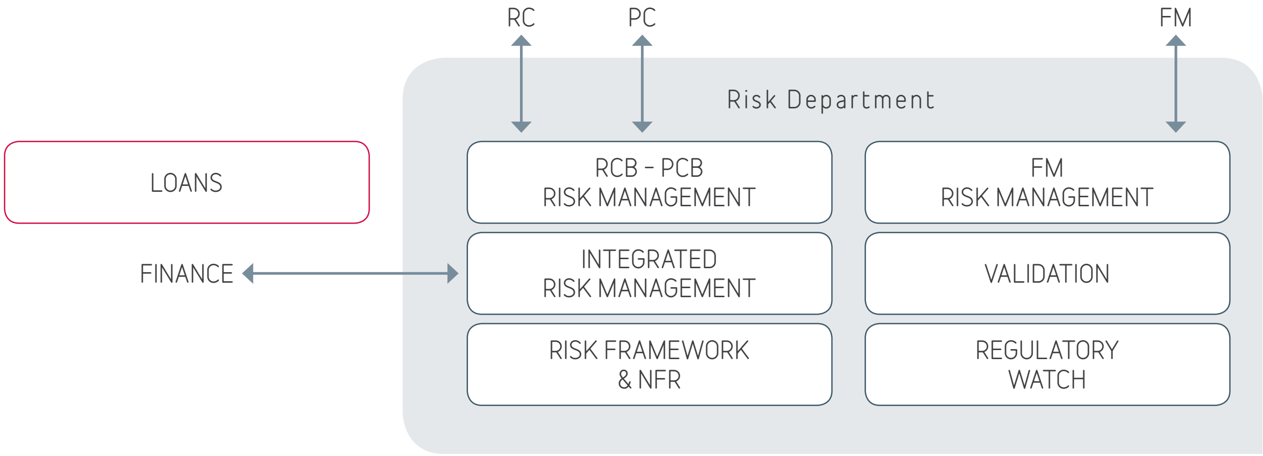
More information regarding the risk governance of Belfius Insurance can be found in the annual report of Belfius Insurance.

More information regarding the "Belfius Together" project and the consequences in terms of risk organisation can be found under section I.6.

II.4.2.2. At Belfius Bank's level

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

The foreseen changes for 2019 are disclosed briefly at the end of this section.



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 main missions of the various divisions of the Risk department:

II.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.

II.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.

II.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.

II.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.

II.4.2.2.5. Risk Framework & NFR

The Risk Framework & NFR division 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 the main NFR risks and acts as a corporate crisis, BCP and GDPR manager within Belfius.

The division includes the DPO (Data Privacy Officer) as well as the CISO (Chief Information Security Officer), acting on behalf of Bank and Insurance entities.

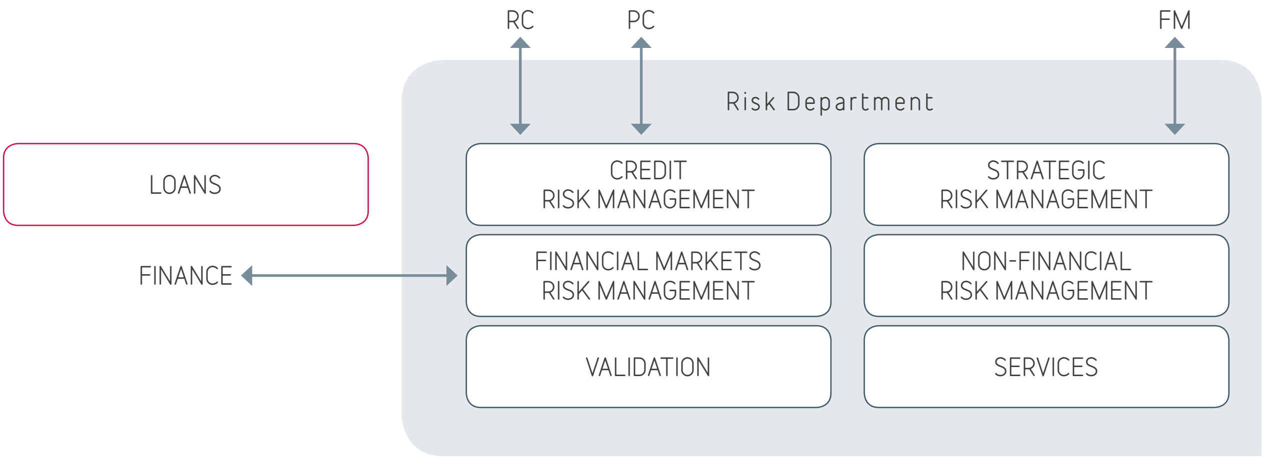
II.4.2.2.6. Regulatory watch

The team closely monitors regulatory environment in order to assure a holistic view on 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 team also manages strategic transversal projects and risk items.

II.4.2.2.7. Changes in risk management teams

As mentioned under point 5 of the introduction and following the "Belfius Together" project, as from 1 January 2019, the following changes took place:

- RCB-PCB Risk Management will be called "Credit Risk Management";
- Integrated Risk Management will be called "Strategic Risk Management" (with integration of the current Regulatory watch teams of 1 March 2019) and will work in a "Belfius Together" mode for bank and insurance;.
- Risk Framework & NFR will be split into "Services" (Risk Reporting, Risk Architecture, Risk Corporate Office) and NFR (NFR Transversal, DPO, CISO) and work as well in a "Belfius Together" mode.



II.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 2018, 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 - 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 (incl. Life, Non-Life and Health)		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.

Note that no capital is set aside for Liquidity Risk as Belfius perceives that capital is not the adequate answer to cover Liquidity Risk. It is actively monitored and managed through gap limits and stress tests.

Business Risk, even if not covered by capital will be considered through Earnings at Risk and Stress Testing framework.

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. 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 (banking book), funding risk, liquidity risk, behavioural risk, insurance specific risks, model risk, business risk (incl. strategic risk), compliance 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 from its expected economic value 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) for Market as required by the Pillar 1.

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

II.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 guidelines, policies and 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 Article 435 of Regulation (EU) 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 21 March 2019.

III. EQUITY AND CAPITAL ADEQUACY

III.1. EQUITY

III.1.1. PRUDENTIAL SUPERVISION

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

As a result of the annual "Supervisory Review and Evaluation Process" (SREP) finalized by the ECB at the end of 2017, Belfius must comply for 2018 with a minimum CET 1 ratio of 10.125%(without countercyclical capital buffer), which is composed of:
- a Pillar 1 minimum of 4.5%;
- a Pillar 2 Requirement (P2R) of 2.25%;
- a capital conservation buffer (CCB) of 1.875%; and
- a buffer for (other) domestic systemically important institutions (O-SII buffer) of 1.5% (imposed by the National Bank of Belgium).

Belfius has to respect the full combined buffer requirements (capital conservation buffer, countercyclical capital buffer, buffer for systemically important institutions and systemic risk buffer) and the Pillar 2 buffer requirements. Note that the countercyclical capital buffer, calculated at 31 December 2018, stood at 0.07%. As a consequence Belfius must comply at the end of 2018 with a minimum CET 1 ratio of 10.195%. Also note that the ECB has notified Belfius of a Pillar 2 Guidance (P2G) of 1% CET 1 ratio for 2018.

The consolidated CET 1 ratio of Belfius stood at 16.0% at the end of 2018, well above the abovementioned 2018 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 2018, Belfius must comply for 2019 with a minimum CET 1 ratio of 10.75%, 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 2. 5%; and
- a O-SII buffer of 1,5%.

Note that the countercyclical capital buffer is assessed on a quarterly basis. Based on the calculation at the end of 2018, Belfius must comply for 2019 with a minimum CET 1 ratio of 10.82% including the countercyclical buffer. Note that the ECB has also notified Belfius of a Pillar 2 Guidance (P2G) of 1% CET 1 ratio for 2019.

Further to these regulatory requirements, in current market circumstances and under current regulations, Belfius has defined a minimum operational CET 1 ratio of 13.5 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 CET 1 ratio of 15% to 15,5%, higher than this minimum operational level to take into account additional unforeseeable elements. Belfius intends to manage its solvency in line with this target ratio in normal times and on a steady state basis, unless the above mentioned buffer is (partially or entirely) used, and as long as regulations on statutory and/or consolidated capital ratios would not materially change.

III.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. CET 1CET 1 The measures impacting the CET 1 capital ended on 31 December 2017, moreover Belfius Bank has no Tier 2 instruments anymore subject to the transitional measures applicable till 31 December 2021. Without these transitory measures on CET 1 capital, on regulatory own funds and on regulatory risk exposure the calculation of 2018 is not referenced anymore as "phased in" or "fully loaded".

The regulator has authorised Belfius to apply article 49 of the CRR and to monitor and report solvency on the prudential scope, where Belfius Insurance is equity-accounted for (hence not fully consolidated but treated as a third party), and as such, to include the capital instruments of Belfius Insurance subscribed by Belfius Bank in the total regulatory risk exposure by applying a weighting of 370% (the so-called "Danish Compromise")

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

At the end of 2018, Belfius also complies with all requirements requested from a financial conglomerate point of view.

III.1.2. IMPACT OF IFRS 9 ON SOLVENCY RATIOS ON CONSOLIDATED LEVEL

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

We refer to the transition tables in note 3 "Accounting principles on a consolidated basis" of the consolidated financial statements of 2018 for a full description of the different impacts. Note that the transition tables refer to the consolidated impact of IFRS 9 for Belfius Group, whereas the solvency ratios are calculated at the prudential scope.

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

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

COMPARISON OF ACCOUNTING CORE SHAREHOLDERS' EQUITY (CONSOLIDATED FINANCIAL STATEMENTS) AND THE BASE FOR THE REGULATORY CORE OWN FUNDS

(in millions of EUR)	
ACCOUNTING CORE SHAREHOLDERS' EQUITY 31/12/17	9,085
Impact IFRS 9 - Date of Initial Application(1)	(291)
ACCOUNTING CORE SHAREHOLDERS' EQUITY 01/01/18	8,794
Transformation of the insurance group in a third party exposure	(46)
Elimination DIA adjustments Belfius Insurance group	(15)
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS 01/01/18	8,733

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

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

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

REGULATORY OWN FUNDS

(in millions of EUR)	31/12/17	01/01/18
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL)	8,037	8,253
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS[1]	9,039	8,733
DEDUCTION OF FORESEEABLE DIVIDEND	(288)	(288)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	(325)	195
Remeasurement defined benefit plans	112	112
OCI reserves - portfolios measured at FVTOCI	(437)	83
Other reserves	(14)	(19)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	14	19
DEDUCTIONS AND PRUDENTIAL FILTERS	(389)	(387)
Deferred tax assets on losses carried forward	0	0
Investments in securitisation positions	(23)	(23)
Changes in the value of own credit standing	(4)	(4)
Value adjustments due to the requirements for regulatory prudent valuation	(99)	(98)
Intangible fixed assets	(127)	(127)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses for IRB portfolios	(2)	(2)
Defined Benefit Pension Plan assets	(12)	(12)
Payment Commitments IPC	(17)	(17)
TIER 2 CAPITAL	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)	9,134	9,350

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

The impact on regulatory risk exposures is twofold:

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

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

The impacts can be summarized as follows:

(in millions of EUR)	31/12/17	01/01/18
Regulatory credit risk exposure	39,073	39,438
Regulatory market risk exposure	1,841	1,841
Regulatory operational risk exposure	2,932	2,932
Danish Compromise	6,769	6,828
REGULATORY RISK EXPOSURE FULLY LOADED	50,615	51,039

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

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

(in %)	31/12/17	01/01/18	Delta
CRR/CRD IV (FULLY LOADED)			
Common Equity Tier 1 ratio (CET 1-ratio)	15.9%	16.2%	29 bps
Tier 1-capital ratio (T1-ratio)	15.9%	16.2%	29 bps
Total capital ratio	18.1%	18.3%	27 bps

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

III.1.3. 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.

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

COMPARISON OF ACCOUNTING CORE SHAREHOLDERS' EQUITY (CONSOLIDATED FINANCIAL STATEMENTS) AND THE STARTING POINT FOR THE REGULATORY CORE OWN FUNDS

(in millions of EUR)	01/01/18	21/12/18
ACCOUNTING CORE SHAREHOLDERS' EQUITY	8,794	9,055
Transformation of the insurance group in a third party exposure	(46)	(178)
Elimination DIA adjustments Belfius Insurance group	(15)	0
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS	8,733	8,877

At the end of 2018, the starting point for the regulatory core own funds amounted to EUR 8.877 million, an increase of EUR 144 million stemming from the net result of 541 million for 2018 offset by the dividend of 288 million over the full year result of 2017 paid in April 2018, the interim dividend paid in August 2018 of 100 million over the full year 2018 and the AT1 interest payments of 9 million during 2018 (considered as dividend under IFRS).

Note that the net income (EUR 541 million) differs from the consolidated net income (EUR 649 million) due to the "prudential" consolidation scope, as described above. The scope change adjustments can be detailed as follows:

(in millions of EUR)	31/12/17 IAS 39	31/12/18 IFRS 9
CONSOLIDATED NET INCOME	606	649
Elimination of Belfius Insurance	(171)	(204)
Scope changes:		
dividend (Belfius Insurance)	120	120
other	5	(24)
REGULATORY NET INCOME	560	541

In the regulatory own funds calculations using the CRR/CRD IV regulations, Belfius Bank applies the "fully loaded" method as from 1 January 2018. The transitional measures on CET 1 capital ended on 31 December 2017, moreover Belfius Bank has no Tier 2 instruments anymore that are subject to the transitional measures applicable till 31 December 2021. The calculation is not referenced anymore as "phased in" or "fully loaded.

REGULATORY OWN FUNDS

(in millions of EUR)	01/01/18	31/12/18
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL)	8,253	8,329
STARTING POINT FOR THE REGULATORY CORE OWN FUNDS (1)	8,733	8,877
DEDUCTION OF FORESEEABLE DIVIDEND	(288)	(266)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	195	99
Remeasurement defined benefit plans	112	39
OCI reserves - portfolios measured at FVTOCI	83	60
Other reserves	(19)	14
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	19	(14)
DEDUCTIONS AND PRUDENTIAL FILTERS	(387)	(380)
Deferred tax assets on losses carried forward	0	(1)
Investments in securitisation positions	(23)	(21)
Changes in the value of own credit standing	(4)	(5)
Value adjustments due to the requirements for regulatory prudent valuation	(98)	(92)
Intangible fixed assets	(127)	(139)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses for IRB portfolios	(2)	(2)
Defined Benefit Pension Plan assets	(12)	0
Payment Commitments IPC	(17)	(18)
TIER 1 CAPITAL	8,253	8,826
Additional Tier 1 capital instruments	0	497
TIER 2 CAPITAL	1,097	1,404
Tier 2 capital instruments	939	1,120
Excess of provisions over expected losses for, IRB portfolios	138	172
General credit risk adjustments SA (standard approach)	20	112
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT)	9,350	10,230

CET 1 capital amounted to EUR 8,329 million, compared with EUR 8,253 million at 1 January 2018. The increase in CET 1 capital of EUR 76 million results mainly from the inclusion of the regulatory net profit, though partially offset by the correction for foreseeable dividend of EUR 266 million and despite the decrease of the "gains and losses not recognised in the statement of income".

The deduction of foreseeable dividend of EUR 266 million in 2018 is a prudential adjustment of the year-to-date undistributed regulatory net profit, considered not eligible for CET 1 capital. This amount consists of:

→ a calculation of the foreseeable dividend for the ordinary shareholders on outstanding shares based on a payout ratio of 57% (i.e. corresponding to the payout ratio that has been applied to determine the 2018 dividend) multiplied by the 4Q2018 consolidated net result reduced by the full year 2018 coupon cost after tax (accounting wise treated as dividend) on the AT1 instrument, reduced by the 1H 2018 interim dividend of 100 million EUR which was paid in Q3 of 2018 (to note: accounting wise already deducted from retained earnings); and

→ the remaining AT1 instrument coupon cost after tax (accounting wise treated as dividend) since last coupon date, which has not yet been paid out to AT1 holders (i.e. 2.7 million EUR, which is accounting wise not yet deducted from equity, for the period between October 16 and 31 December 2018). At 1 January 2018, a deduction of an estimated remaining dividend of EUR 288 million over the full year profit of 2017 was made (EUR 75 million was already paid out as interim dividend in 3Q 2017).

(in millions of EUR)	
Consolidated net result 2018	649,0
Correction for AT1 coupon for 2018, after tax	(11,7)
Pay out ratio (2018)	56.96%
FORESEEABLE DIVIDEND FOR ORDINARY SHARES	**363,0**
Interim dividend paid out Q3 2018	-100,0
Remaining foreseeable dividend for ordinary shares	263,0
REMAINING COUPON FOR AT1 HOLDERS FOR 2018	**+2,7**
TOTAL FORESEEABLE DIVIDENDS TO DEDUCT FROM UNDISTRIBUTED PROFIT	**265,7**

In addition, a decrease of the "gains and losses not recognised in the statement of income" of EUR 97 million can be noted following the remeasurement of defined benefit plans due to the negative return on plan assets and the remeasurement of a pension plan for which Belfius is unable to duly assess the fair value of the underlying asset portfolio of its segregated fund at the end of 2018 due to the lack of recent information (we refer to the chapter material litigation for more information) and the sale of some Italian bonds, as these debt instruments were measured at fair value through OCI.

The deductions and prudential filters remain stable.

Tier 1 capital is no longer equal to the CET 1 capital and amounted to EUR 8,826 million, compared to EUR 8,253 million at 1 January 2018 following the additional Tier 1 issue of EUR 500 million (nominal value) in February 2018.

Tier 2 capital increased from EUR 1,097 million to EUR 1,404 million. This increase is mainly related to

- the new issuance of EUR 200 million (nominal value) in the first quarter of 2018,
- a larger excess of provisions over expected losses (EUR 34 million) and
- the increase of EUR 92 million from the integration of credit risk adjustments determined by the standardised approach.

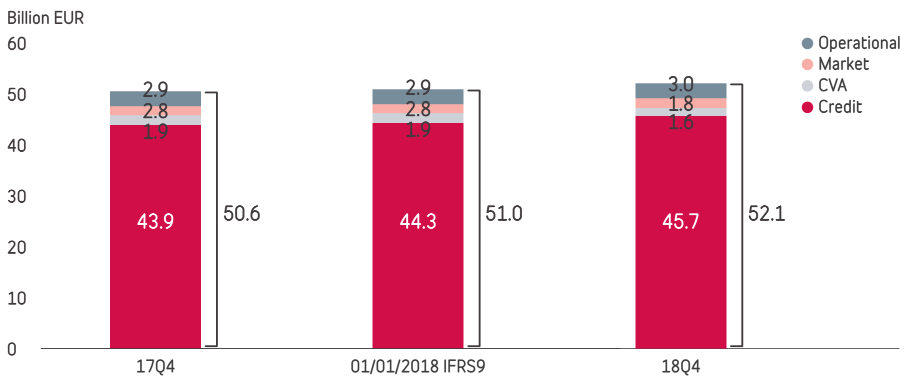
Please note that The Governing Council of the European Central Bank (ECB) has granted Belfius permission to call three Tier 2 instruments in the first half year of 2018 for an amount of EUR 191 million (value on 31 December 2017), as a result Belfius has no longer any Tier 2 instruments treated under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

At the end of 2018, the total regulatory own funds amounted to EUR 10,230 million, compared to EUR 9,350 million at 1 January 2018.

III.2. CAPITAL REQUIREMENTS BY TYPE OF RISK

The regulatory risk exposure[(1)] includes risk-weighted exposures for credit risk including counterparty credit risk, CVA 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 credit risk exposure via a weighting of 370%.

End 2018, regulatory risk exposure of Belfius amounted to EUR 52,065 million, an increase with EUR 1,450 million compared to EUR 50,620 million at the end of 2017.



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

The regulatory credit risk exposure including counterparty credit risk increased by EUR 1,784 million to EUR 45,635 million. The implementation of IFRS 9 led to an increase of approximately EUR 400 million RWA in the beginning of the year. Besides, new loan's production (especially in mortgages, business and corporate banking) as well as a more stringent regulatory framework (such as the new NBB macroprudential measures on mortgages) has further raised the regulatory credit risk exposure. This increase has been partially compensated by management actions (mainly the sale of Italian bonds in the first quarter of 2018, reduction of derivatives and model improvements). The regulatory risk exposure for Danish Compromise remained stable at EUR 6,751 million.

The regulatory CVA exposure decreased with EUR 332 million following the reduction in derivatives exposures and decreasing outstanding/maturity of ex-legacy transactions.

The regulatory market risk- exposure remained stable over the period (EUR -40 million). The increase due to interest rate delta movements and financial markets activities in long term interest rate products has been compensated by methodological improvements linked to the application of the standardized approach for calculating risk weighted assets.

Regulatory operational risk exposure remained stable (EUR +43 million) over the period.

Further details are provided in appendix 2.2. (tables OV1 , INS1, MR1, MR2-A,MR2-B, MR3)

III.3. CAPITAL ADEQUACY

III.3.1. BELFIUS BANK

III.3.1.1. Solvency ratios

III.3.1.1.1. On consolidated level

At the end of 2018, CET 1 ratio amounted to 16.0%, an decrease of 17 bps compared to 1 January 2018. Note that this CET 1 ratio takes into account a prudential deduction for foreseeable dividend of EUR 266 million.

The decrease in CET 1 ratio to 16.0% is the result of positive effects in CET 1 capital (+15 bps) offset by negative effects in total risk exposure (-32 bps). We refer to the comments above for further information.

At the end of 2018, Tier 1 capital ratio amounted to 17.0%, an increase of 78 bps compared to 1 January 2018. This increase was stemming from the inaugural Additional Tier 1 bond issue with a nominal value of EUR 500 million in February 2018.

The total capital ratio amounted to 19.6%, an increase of 133 bps compared to 1 January 2018.

(en %)	01/01/18	31/12/18
CRR/CRD IV		
Common Equity Tier 1 ratio (CET 1-ratio)	16.2%	16.0%
Tier 1-capital ratio (T1-ratio)	16.2%	17.0%
Total capital ratio	18.3%	19.6%

Applying the "Danish Compromise" compared to the deduction method for capital instruments of Belfius Insurance (equity deducted from CET 1 capital and subordinated debt instruments deducted from Tier 2 capital) has the following impacts: using the deduction method (fully loaded) would result in an increase of 53 bps on the CET 1 ratio and a decrease of 20 bps on the Total Capital ratio.

III.3.1.1.2. On statutory level

At the end of 2018, CET 1 ratio on Belfius Bank statutory level (before inclusion of the statutory net result of EUR 480 million) amounts to 15.7%.

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

III.3.1.2. Leverage ratios on consolidated level[1]

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

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

While public disclosure is required since 2015, the leverage requirement will become a binding requirement when the CRR 2, published on 23 November 2016 and currently under finalisation at EU level, will become applicable. The CRR 2 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.

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

(in millions of EUR)	31/12/17	31/12/18
TIER 1 CAPITAL	8,037	8,826
Total assets	167,959	164,165
Deconsolidation of Belfius Insurance	(19,098)	(17,400)
Adjustment for derivatives	(21,670)	(17,649)
Adjustment for securities financing transactions exposures	3,729	3,683
Adjustment for prudential corrections in calculation of Tier 1 capital	(268)	(266)
Off-balance sheet exposures	14,959	15,782
LEVERAGE RATIO EXPOSURE	145,611	148,315
LEVERAGE RATIO	5.5%	6.0%

At the end of 2018, the Belfius leverage ratio – based on the current CRR/CRD IV legislation - stood at 6,0%, an increase of 43 bps compared to the end of 2017.
This increase is due to positive effects (+54 bps) from the higher level of Tier 1 capital (see above), partially offset by negative effects (-11 bps) from the higher total leverage exposure measure mainly due to a decrease in the exposure value of derivatives stemming from market evolutions and additional deleveraging and an increase in the exposure value for other assets stemming mainly from higher volumes of loans to customers measured at amortized cost.

III.3.1.3. Impact of upcoming regulatory reforms

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

III.3.1.3.1. EU Banking reform

On 4 December 2018, the Council endorsed the result of negotiations with the European Parliament on a set of key risk reduction measures of the Banking reform package. The vote in Parliament and publication in the Official Journal are now expected in the first half of 2019.

The Banking reform package (BRRD 2 – SRMR 2 – CRR 2 – CRD 5) foresees among others:

- a binding leverage ratio, including a surcharge for the banks considered as G-SIBs and O-SII;
- a binding NSFR ratio;
- a new method for the measurement of counterparty credit risk (SA-CCR);
- a broader application of the SME supporting factor;
- a reporting requirement to supervisory authorities under a revised market risk framework (Fundamental Review of the Trading Book);
- an enhanced framework for the interest rate risk in the banking book;
- a revision of the treatment of large exposures;
- a comprehensive framework covering Minimum Requirement for own funds and Eligible Liabilities (MREL) including cap for subordination and sanctions to MREL breaches and links with the bail-in rules;
- …

(1) Unaudited

III.3.1.3.2. Basel III finalisation

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 finalisation of the design and calibration of the leverage ratio and output floor.

The reform also referred as "finalisation 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.
- a revision - finalised in January 2019 - of the Fundamental Review of the Trading Book

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.

The monitoring of the changing regulatory landscape forms a fundamental part of Belfius capital planning, risk appetite and strategy.

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

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

III.3.2. BELFIUS INSURANCE

III.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.

III.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 2,231 million at the end of December 2018. It was composed for 84% of the highest quality capital Tier 1. Tier 2 capital equalled EUR 361 million and consisted mainly of two subordinated loans granted by Belfius Bank. Compared to December 2017, the regulatory own funds of Belfius Insurance have decreased by EUR 238 million., partly due to the increase of the foreseeable dividend from EUR 120 million end of 2017 to EUR 160 million end of 2018. The decrease is further caused by the market drop in the value of equities in the last months of 2018 and an increase of the bond spreads. The impact of that bond spread increase is partially offset by means of the spread-lock on Belgian government bonds which Belfius Insurance concluded for that purpose in the course of 2018. The annual update of the projection assumptions underlying the Best Estimate of Technical Provisions had the effect of slightly increasing the Technical Provisions in 2018, hence decreasing the regulatory own funds.

Belfius Insurance consolidated (in millions of EUR)	31/12/17 IAS 39	01/01/18[1] IFRS 9	31/12/18 IFRS 9
AVAILABLE FINANCIAL RESOURCES BEFORE FORESEEABLE DIVIDEND	2,589	2,589	2,391
Tier 1	2,060	2,060	1,859
IFRS Equity	2,173	1,891	1,794
Valuation difference (after tax)	(113)	169	65
Restricted Tier 1	170	170	170
Tier 2	358	358	362
Subordinated debt	347	347	351
Others	11	11	11
AVAILABLE FINANCIAL RESOURCES AFTER FORESEEABLE DIVIDEND	2,469	2,469	2,231
AFR before foreseeable dividend	2,589	2589	2,391
Foreseeable dividend	(120)	(120)	(160)

III.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 1,097 million at the end of December 2018, a decrease of EUR 30 million compared to the end of 2017.

The decrease is driven by the transformation in the Life activity from Br21 towards Br23 products, partially offset by the further optimisation of the strategic asset allocation and the declining positive effect of the Loss Absorbing Capacity of Deferred Taxes. The annual update of projection assumptions underlying the Technical Provisions – and as such also the SCR – had an effect of slightly increasing the SCR in 2018.

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.

(in millions of EUR)	01/01/18	31/12/18
SOLVENCY CAPITAL REQUIREMENT	1,128	1,097
Market risk	1,111	1,024
Credit Risk	157	170
Insurance Risk	603	640
Operational Risk	97	94
Diversification	(491)	(511)
Loss absorbing capacity of technical provisions and deferred taxes	(350)	(318)

III.3.2.4. Solvency ratios at Belfius Insurance

The Solvency II ratio of Belfius Insurance stood at 219% at the end of December 2018, before foreseeable dividend, slightly lower than the ratio as of December 2017. This decrease is the consequence of implementing our capital management strategy, namely to make an optimal use of the leeway generated by the release of capital following the transformation in the Life activity and the yearly generated profits to implement the new strategic asset allocation in order to maximize the financial revenues taking into account the Risk Appetite Framework. The Solvency ratio was furthermore negatively impacted by the performance of our equity portfolio and the declining positive effect of the LACDT.

This level of capital allows the payment of a foreseeable dividend of €160mio, while covering any potential Pillar 2 Solvency Requirements and still leaving a pocket available for investments and Business development, subject to Management decisions. The Solvency ratio after foreseeable dividend then equals 203%.

SOLVENCY II-RATIO

(in %)	31/12/17	31/12/18
Solvency II ratio (before dividend)	230%	219%
Solvency II ratio (after dividend)	219%	203%

Further to the minimum regulatory requirements of 100%, Belfius Insurance has, in current market circumstances and under current regulations, defined a minimum operational Solvency II ratio of 160%, on solo and consolidated levels.

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.

A 0.25% fall in the interest level (compared with the level at the end of 2018) would have an impact of -5pp on the Solvency II ratio. A stock market shock of -30% on share prices would have an impact of -18pp while a drop in the real estate portfolio of 15% would decrease the solvency ratio by 10pp. Both a 0.50% rise in the credit spreads across the whole bond and credit portfolio or the elimination of the Volatility Adjustment in calculation of the Best Estimate of liabilities would result in an impact of -32pp.

Note that the reduction of the Ultimate Forward Rate (UFR) from the current level of 4,05% to a level of 3% would only slightly decrease our solvency ratio by 7pp. The resulting increase of the Market Value of liabilities is limited due to the small proportion of the long-term savings liabilities in the Belfius Insurance Balance Sheet.

	Shock	Solvency II Ratio (in %)
Base case (after dividend)		203%
Stress scenarios		
Interest rate	-25 bps	198%
Equity	-30%	185%
Credit Spread	+50 bps	171%
Real Estate	-15%	193%
VA	no	171%
UFR	3%	197%

III.3.3. INTERNAL CAPITAL ADEQUACY

III.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, market risks, operational risks, concentration risks, ...). Next to the quantitative part, qualitative statements consisting of guiding rules aim at defining the risk appetite that cannot be expressed through quantitative ratios. This part of the Risk Appetite framework covers for instance fraud risk, compliance risk, legal/tax 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.

The Risk Appetite Framework (RAF) has been updated and approved by the Board of Directors in December 2018. The updated RAF includes new detailed quantitative ratios for Non-Financial Risks. A ROE indicator materializing targets in terms Earnings growth has also been integrated.

III.3.3.2. Economic Capital

III.3.3.2.1. Definition

The economic capital is defined as the potential deviation of Belfius' economic value from its expected economic value at a given confidence interval and time horizon. The confidence threshold (99.94%) chosen for scenarios involving losses in value corresponds to the Bank's targeted senior unsecured debt rating at a horizon of one year (A rating for 2018).

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

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

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

III.3.3.2.2. Economic Capital Adequacy

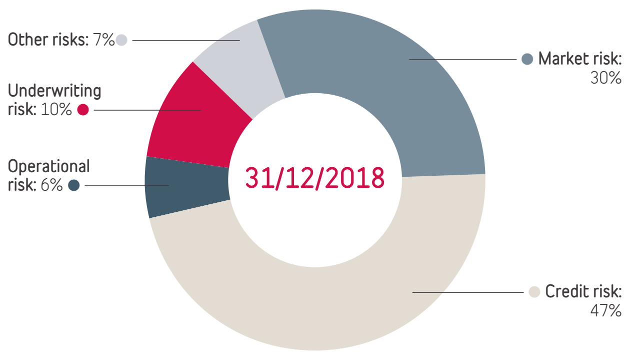
The Management Board, which also acts as the Risk Appetite Committee (RAC), is responsible for managing the capital level and allocation process and has authority in all matters relating to economic capital. The RAC analyses the various models involved in calculating the economic capital and also monitors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

Belfius economic capital was EUR 5,319 million at the end of 2018 (against EUR 5,792 million at the end of 2017).

In 2018, the ranking between the main categories of risks remained the same as in 2017: credit risk represented approximately 47% of the economic capital and was the main contributor; market risk (inter alia including interest rate risk, foreign exchange rate risk and equity risk) was 30%, underwriting risk 10%%, operational risk 6% and other risks (prepayment, funding ...) 7%.

Compared to 2017, the weight of credit risk decreased (from 52% to 47%) whereas market risk share slightly increased (from 28% to 30%). Underwriting risk, operational risk and other risks remain stable.

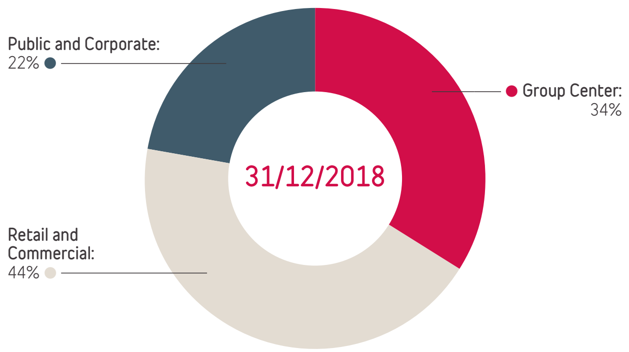
Breakdown of economic capital by type of risk



By business line, the economic capital was allocated as follows: Retail & Commercial (RC) and Public & Corporate (PC) represented 44% (39% in 2017) and 22% (19% in 2017) respectively of Belfius' economic capital; the balance was made up of 34% (42% in 2017) allocated to the Group Center (mainly for the Belfius' general balance sheet management in terms of interest and funding risks including the ALM Bond portfolio and the bonds, derivatives and credit guarantees run-off portfolios).

Note that the increase in economic capital allocation observed for Retail & Commercial (RC) and Public & Corporate (PC) is driven by the significant drop in total economic capital mainly located within Group Center Credit Risk following IFRS 9 restaging and Republic of Italy de-risking.

Breakdown of economic capital by business line



III.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 2019-2023. 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.

In addition, Belfius, together with 48 European banks, participated to the 2018 EBA Stress Tests exercise. Belfius' strong solidity and resilience were confirmed when comparing results to those of peers. Indeed, Belfius compares favourably to the European average of the 48 participating banks in terms of

→ CET 1 ratio starting point (16.2% vs. 14.4%),
→ impact of the adverse stress test scenario (-2.96% vs. -4.10%) and
→ CET 1 ratio end point (13.2% vs. 10.3%).

III.3.3.2.4. Recovery plan

An update of Belfius Recovery Plan has been submitted to the ECB during the second half of 2018. 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.

III.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.

III.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.

LI1 – DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENTS WITH REGULATORY RISK CATEGORIES

Bank	a	b	c	d	e	f	g
31/12/2018	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 securitisa-tion 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	8,314	**8,314**	8,314	0	0	0	
Loans and advances due from credit institutions Measured at amortised cost	13,107	**13,073**	196	12,878	0	0	
Loans and advances Measured at amortised cost	89,302	**85,910**	84,262	1,648	0	0	
Loans and advances Measured at fair value through profit or loss	1,820	**2,128**	2,128	0	0	0	
Debt securities & equity instruments Measured at amortised cost	21,611	**15,671**	15,127	0	545	0	21
Debt securities & equity instruments Measured at fair value through OCI	5,216	**1,673**	1,673	0	0	0	
Debt securities & equity instruments Measured at fair value through profit or loss	1,742	**850**	195	0	0	655	
Unit linked products insurance activities	2,838	**0**	0	0	0	0	
Derivatives	12,768	**12,739**	0	12,739	0	0	
Gain/loss on the hedged item in portfolio hedge of interest rate risk	4,591	**4,591**	4,591	0	0	0	
Investments in equity method companies	48	**16**	16	0	0	0	
Tangible fixed assets	1,066	**642**	642	0	0	0	
Intangible assets	191	**139**	139	0	0	0	139
Goodwill	104	**0**	0	0	0	0	
Current tax assets	78	**50**	50	0	0	0	
Deferred tax assets	301	**289**	289	0	0	0	
Technical insurance provisions - part of the reinsurer	100	**0**	0	0	0	0	
Other assets	950	**661**	661	0	0	0	
Non current assets (disposal group) held for sale and discontinued operations	19	**19**	19	0	0	0	
TOTAL ASSETS	164,165	146,765	118,301	27,265	545	655	159
LIABILITIES							
Cash and balances from central banks	3,962	**3,962**					
Credit institutions borrowings and deposits	5,867	**5,810**					
Borrowings and deposits	79,661	**80,029**					
Debt securities issued and other financial liabilities	26,687	**26,737**					
Unit linked products insurance activities	2,838	**0**					
Derivatives	17,740	**17,740**					
Gain/loss on the hedged item in portfolio hedge of interest rate risk	165	**165**					
Provisions for insurance activities	13,908	**0**					
Provisions and contingent liabilities	627	**473**					
Subordinated debts	1,219	**1,219**					
Tax liabilities	31	**26**					
Other liabilities	1,500	**1,117**					
Liabilities included in disposal group and discontinued operations	0	**0**					
TOTAL LIABILITIES	154,206	137,279					

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:

LI2 – MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

31/12/2018	a	b	c	d
		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)	146,765	118,301	27,265	545
Off-balance-sheet amounts (guarantees and committed facilities)	31,250	28,839	2,411	0
Differences due to different netting rules	(26,564)	(6,735)	(19,175)	0
Differences due to consideration of provisions	1,650	1,650	0	0
Exposure amounts considered for regulatory purposes	153,101	142,055	10,501	545

IV. CREDIT RISK

IV.1. CREDIT RISK MANAGEMENT AND GOVERNANCE

IV.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.

IV.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 is the responsibility of the Management Board and/or the Board of Directors, based on the opinion of the Risk Committee.

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 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 Committees. Their 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 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 for a concession regarding the credit liabilities 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, by a series of automatic criteria, such as the bankruptcy of the counterparty, but also by a discretionary decision on the basis of qualitative criteria. The Impairment Committees decide on the adequate impairment levels for Stages 1 (performing exposures), 2 (performing exposures with significant credit deterioration since inception) and 3 (default files).

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.

IV.2. CREDIT RISK EXPOSURE

IV.2.1. OVERVIEW

The tables in the following chapter provide an overview of the overall credit risk. As prescribed in the EBA[1] 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 credit risk adjustments;
→ 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 determined as follows:
→ for balance sheet assets (except for derivatives): the gross carrying amounts (before credit risk adjustments);
→ for derivatives: the fair value of derivatives after netting, increased with the potential future exposure calculated under the current exposure method (add-on);
→ for Securities Financing Transactions (repos and reverse repo's): the carrying amount as well as the excess collateral provided for repurchase agreements;
→ for off-balance sheet commitments: either the undrawn part of credit facilities or the maximum commitment of Belfius for guarantees granted to third parties.

FEAD for instance provides a consistent metric to present a combined view of the Bank and Insurance respective exposures to credit risk

IV.2.1.1. Contribution Belfius Bank – Belfius Insurance

(FEAD, in EUR billion)	31/12/17 IAS 39	31/12/18 IFRS 9	Of which	
			Bank	Insurer
Central governments	24,799	20,488	14,662	5,827
of which government bonds	12,860	9,625	4,014	5,611
Public sector entities	47,375	45,694	43,807	1,887
Corporate	29,509	32,904	31,574	1,330
Monoline insurers	3,517	4,519	4,519	-
ABS/MBS	997	840	736	104
Project Finance	2,034	2,222	2,222	-
Individuals, self-employed and SME's	45,168	47,917	44,356	3,561
Financial institutions	19,656	12,145	10,892	1,253
Other	745	-	-	-
TOTAL	173,802	166,729	152,768	13,962

→ The credit risk exposure on public sector entities decreased with EUR 1,7 billion while the credit risk exposure on individuals, self-employed and SMEs increased by 2,7 billion due to increasing commercial activities.
→ The expansion of Belfius' corporate activities is also reflected in higher credit risk exposure (+ EUR 3.4 billion) for this segment leading to an increase of its relative proportion from 17% by the end of 2017 to 20% by the end of 2018.
→ The relative proportion of the segment central governments declined from 14% end 2017 to 12% end 2018. This decrease is mainly explained by the sale of Italian and Belgian government bonds in the first quarter of 2018 and by lower excess liquidities posted at the European Central Bank. Inside this segment, the credit risk on government bonds decreased from EUR 12.9. billion at the end of 2017 to EUR 9.6 billion at the end of 2018. More than half (54%) of the government bonds portfolio is invested in Belgian government bonds. While at bank level the Belgian government bonds represents 40% of the total government bond portfolio, the relative proportion at Belfius Insurance amounts to 64%.
→ The credit risk exposure on financial institutions further decreased in 2018 by EUR 7.6 billion and stood at 7% at the end of 2018

(1) EBA/GL/2016/11.

against 11% at the end of 2017, resulting from the incorporation of excess collateral received in the netting of derivatives
- The credit risk on monoline insurers is predominantly an indirect risk arising from credit guarantees written by Belfius Bank and reinsured with monoline insurers, mainly on bonds issued by infrastructure companies and utilities. During 2018 the relative proportion of the monoline insurers increased from 2.0% at the end of 2017 to 2,7% at the end of 2018. The increase has 3 main reasons: first, the increase in exposure relating to IFRS 9 treatment of embedded derivatives, second, the extension of some hedges and third, the fact that some existing credit guarantees started substituting the underlying risk as from 2018 due to either a deterioration of the underlying's credit risk and/or an improvement of guarantor's credit risk.

Note: The figures in the above table are 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.

Exposures are allocated to the final counterparty, with the exception of ABS/MBS for which the exposure to the original counterparty is used.

IV.2.1.2. Overview credit risk exposure under the prudential scope of consolidation

Bank	Credit risk		Counterparty credit risk			Total
FEAD	On-balance-sheet amount	Off-balance-sheet amount	Securities Financing Transactions	Derivatives	Default fund Contribution	
IRB EXPOSURE CLASSES						
Central governments and central banks	14,676	8,211	423	417		23,727
Institutions	19,659	2,984	3,716	2,939		29,297
Corporates	25,292	10,637	1,015	1,009		37,952
of which Corporates- SME	7,701	1,629	68	37		9,435
Retail	37,318	5,784	0	0		43,103
of which secured on RE SME	6,617	128				6,746
of which secured on RE non-SME	21,473	356				21,829
of which Qualifying Revolving		25				25
of which other retail SMEs	7,170	1,998		0		9,168
of which other retail non-SMEs	2,058	3,277				5,335
Equity	256					256
Securitisation	545					545
TOTAL IRB APPROACH	97,745	27,615	5,155	4,365	0	134,880
STANDARDISED EXPOSURE CLASSES						
Central governments or central banks	7,984	0		53		8,037
Regional government or local authorities	506	0		330		837
Institutions	798	287	231	321		1,638
Corporates	3,676	2,489	0	59		6,225
Retail	594	66		0		660
Secured by mortgages on real estate	212	151				363
Other(1)	8,439	187		0	45	8,671
TOTAL STD APPROACH	22,208	3,181	232	764	45	26,430
TOTAL	119,953	30,797	5,386	5,129	45	161,310

- At year-end 2018, 83% of the total credit risk exposures were calculated using the IRB approach. IRB exposures mainly consist of retail and corporate exposures.
- Belfius opted under IAS 39 to present its Non-closely embedded derivatives separately from the host contract on the balance sheet. With the application of IFRS 9, this notion disappeared. As a result, the associated fair value previously reported under counterparty credit risk is now incorporated in the credit risk section,
- Further details on counterparty credit risk are provided In the section 6 of this chapter
- As for the previous table, exposures are allocated to the final counterparty and expressed In gross carrying values.

Total and average exposures of the credit portfolio are further detailed in the table CRB-B in appendix.

(1) Includes exposure classes past due items, items belonging to regulatory high-risk categories, other items and equity

In the table,CRB-B, 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 2018

- → Average numbers are broadly in line with year end numbers, with the exception of the corporates and retail portfolios where the higher values at year end are influenced by the strong commercial activity.
- → Lower excess cash at the ECB is also reflected in the international organisations category.

IV.2.1.3. Credit risk exposure and CRM effects

- → For exposures under the standardised approach, details on the effect of credit risk mitigation techniques and the decomposition in risk weight bands are provided in 2 distinct tables, CR4 and CR5 respectively, both in appendix 2.3.
- → For exposures under the IRB approach, the same information is provided for the significant portfolios in a single table (CR6), also provided in appendix 2.3.
- → Further details on the specialised lending activity under the slotting approach are available in the table CR10 in appendix 2.3.

IV.2.2. INTERNAL RATING BASED APPROACHES

IV.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.

IV.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 and 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.

IV.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 in case of default.
→ Stability
  he 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 main portfolio under advanced method. It is based on an at least 5 year history of our advanced portfolios. As can be expected it shows the PD values are greater than the DR.

BACKTESTING OF INTERNAL MODELS

	PD average	DR average
Corporates	2.31%	1.77%
Financial Institutions	0.72%	0.18%
Sovereigns & Belgian Regions and Communities	1.71%	0.70%
Insurance Companies	3.38%	0.00%
Local Authorities & Satellites	0.10%	0.04%
SLE - Project Finance	1.42%	0.98%
Retail Individuals & Small Professionals	0.94%	0.65%
Retail Small Compagnies	3,26%	2,91%

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

MAPPING INTERNAL MODELS/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 2017 and 2018 by PD range are further detailed in the table CR9 in Appendix 2.3.

IV.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 group-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.

IV.2.3. STANDARDISED APPROACHES

IV.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.

IV.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.

IV.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.

Belfius applies the correspondance defined by EBA to map the ECAI's ratings to the credit quality steps used for regulatory capital calculation

IV.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 IV.2.4., IV.2.5., IV.2.6. and IV.2.7.

The tables below show the exposures expressed in gross carrying value and the credit risk adjustments with a breakdown by geographic area at year-ends 2017 and 2018 as well as the evolution between 2017 and 2018.

Exposures are allocated to the original counterparty

CR1 C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

Bank	a	b	c	d	e
31/12/2017	Gross carrying values of		IAS 39 Specific credit risk adjustment	IAS39 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
31/12/2018	Gross carrying values of		IFRS9 Stage 3 credit risk adjust-ment"	IFRS9 Stages 1 and 2 credit risk adjustment"	Net values
	Defaulted exposures	Non-defaulted exposures			
Belgium	1,728	113,350	1,056	346	113,676
France	5	3,150	4	7	3,144
Italy	-	1,616	-	53	1,563
Rest of Eurozone	74	10,608	56	10	10,616
United Kingdom	0	6,513	0	132	6,382
Rest Of Europe	0	661	0	2	659
US & Canada	13	1,719	13	0	1,719
Rest of the World	19	2,448	1	15	2,452
TOTAL	1,839	140,066	1,129	566	140,210

Bank	a	b	c	d	e
Evolution 31/12/2018-31/12/2017	Gross carrying values of		Stage 3 vs Specific credit risk adjustment	Stages 1 and 2 vs General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			
Belgium	10	5,529	(15)	198	5,357
France	(0)	73	(0)	1	72
Italy	0	(1,482)	0	53	(1,535)
Rest of Eurozone	(32)	(1,255)	(20)	2	(1,269)
United Kingdom	0	3,507	0	24	3,483
Rest Of Europe	(0)	(195)	(0)	2	(197)
US & Canada	(43)	352	3	(3)	309
Rest of the World	(10)	(675)	(13)	(5)	(666)
TOTAL	(75)	5,852	(46)	270	5,553

Out of total net value, Belgium represents still over 80% at year-end 2018.

Main evolutions are as follows:
- With IFRS 9, applicable as from 1 January 2018, the notion of Non-closely embedded derivatives for financial assets no longer exist as the financial asset (the bond and loan instruments) have to be considered as a whole. As a result, the notion of bifurcated embedded derivatives disappeared from the balance (fair value) and off-balance sheet accounts (notional amount). This led to a significant increase of the carrying values under the credit risk approach. These exposures were previously reported under the counterparty credit risk section. This concern mainly a portfolio of inflation-linked bonds issued by UK utilities.
- The strong increase in Belgian exposure related to new production of corporate and mortgages loans
- The strong decrease on Italy is attributable to the sale of Italian govies in Q1 2018

These evolutions are observed in the next section as well.

IV.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 2017 and 2018 as well as the evolution between 2017 and 2018. The breakdown is based on NACE codes (statistical classification codes of economic activities in the EU).

CR1 B – CREDIT QUALITY OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPE

Bank		a	b	c	d	e
31/12/2017		Gross carrying values of		IAS 39 Specific credit risk adjustment	IAS 39 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
31/12/2018		Gross carrying values of		IFRS 9 Stage 3 credit risk adjustment	IFRS 9 Stages 1 and 2 credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
1	Agriculture, forestry and fishing	10	107	7	1	109
2	Mining and quarrying	0	212	0	0	212
3	Manufacturing	182	3,753	144	20	3,772
4	Electricity, gas, steam and air conditioning supply	13	3,887	3	16	3,881
5	Water supply	5	3,838	4	47	3,792
6	Construction	113	5,665	67	49	5,662
7	Wholesale and retail trade	183	5,560	107	50	5,585
8	Transport and storage	46	3,287	35	38	3,260
9	Accommodation and food service activities	23	579	12	8	582
10	Information and communication	20	913	12	3	918
11	Real estate activities	241	36,772	71	94	36,847
12	Professional, scientific and technical activities	75	4,090	53	23	4,089
13	Administrative and support service activities	35	1,614	16	11	1,622
14	Public administration and defence, compulsory social security	3	34,856	3	54	34,803
15	Education	3	489	3	0	489
16	Human health services and social work activities	15	5,970	11	10	5,964
17	Arts, entertainment and recreation	19	736	11	2	741
18	Financial And Insurance Activities	731	21,051	502	123	21,158
19	Other services	122	6,688	69	15	6,726
20	TOTAL	1,839	140,066	1,129	566	140,210

Bank	a	b	c	d	e
Evolution 31/12/2018 - 31/12/2017	Gross carrying values of		Stage 3 vs Specific credit risk adjustment	Stages 1 and 2 vs General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			(a+ b -c-d)
1 Agriculture, forestry and fishing	0	14	(1)	1	14
2 Mining and quarrying	0	(148)	0	0	(148)
3 Manufacturing	(28)	501	(11)	8	475
4 Electricity, gas, steam and air conditioning supply	(35)	663	(11)	1	639
5 Water supply	(2)	1,538	(1)	(4)	1,540
6 Construction	0	1,031	(3)	38	996
7 Wholesale and retail trade	23	656	6	15	658
8 Transport and storage	(60)	(5)	(29)	(7)	(29)
9 Accommodation and food service activities	(3)	35	0	3	29
10 Information and communication	1	17	(1)	2	17
11 Real estate activities	(3)	2,922	(4)	69	2,853
12 Professional, scientific and technical activities	0	667	(2)	1	667
13 Administrative and support service activities	9	140	2	7	139
14 Public administration and defence, compulsory social security	(2)	(2,437)	(1)	53	(2,492)
15 Education	0	(25)	0	0	(25)
16 Human health services and social work activities	(11)	220	2	6	202
17 Arts, entertainment and recreation	9	88	6	0	91
18 Financial And Insurance Activities	38	(411)	5	62	(440)
19 Other services	(7)	385	(4)	15	367
20 TOTAL	(75)	5,852	(46)	270	5,553

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 2018 for 66% of the total net values. Only 1.3% of the exposure was defaulted. The industry sectors with the highest part of defaulted exposure rate are "Agriculture, forestry and fishing" (8.3%, but very limited in impact) and Manufacturing (4.6%).

The increase in water supply is mostly driven by the UK utilities portfolio and, as explain above, related to IFRS 9 treatment of embedded derivatives. The increase in real estate activities is driven by the strong production of mortgages over 2018 despite a heavy competition in the market. The increase in construction exposures is part of the growth strategy in the corporate banking.

IV.2.6. 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 2017 and 2018 as well as the evolution between 2017 and 2018. The net exposure value is expressed in net carrying value and based on the original counterparty.

CRB-E – MATURITY OF EXPOSURES

Bank						
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						
31/12/2018	Net exposure value					
	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
1 Central governments or central banks	6,840	1,846	1,473	7,536	505	18,200
2 Institutions	767	1,540	5,187	15,480	1,308	24,282
3 Corporates	754	8,827	5,657	15,556	5,958	36,752
4 Retail	1,784	1,287	4,306	31,773	3,713	42,863
5 Equity			9	1	247	256
6 TOTAL IRB APPROACH	10,146	13,499	16,631	70,347	11,730	122,353
7 Central governments or central banks		0	1		28	29
8 Regional governments or local authorities	1	2	31	392	0	426
9 Public sector entities		3	784	2	287	1,076
10 Multilateral development banks			13	59	0	72
11 International organisations		7,007			876	7,883
12 Institutions	0	0	2	0	5	8
13 Corporates	51	875	822	1,755	2,974	6,478
14 Retail	22	53	375	235	74	759
15 Secured by mortgages on immovable property	1	104	88	85	86	363
16 Exposures in default	2	8	6	20	31	67
17 Items associated with particularly high risk		329	221	7	74	632
18 Covered bonds				21		21
19 Claims on institutions and corporates with a short-term credit assessment		0				0
20 Collective investments undertakings					3	3
21 Equity exposures			2		36	38
23 TOTAL STANDARDISED APPROACH	77	8,382	2,346	2,576	4,475	17,857
24 TOTAL	10,223	21,882	18,977	72,923	16,205	140,210

Bank						
Evolution 31/12/2018 - 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	(560)	730	777	(1,997)	(644)	(1,694)
2 Institutions	(44)	(206)	112	(614)	(304)	(1,056)
3 Corporates	183	1,326	651	4,615	178	6,952
4 Retail	70	37	291	2,010	175	2,583
5 Equity	0	(0)	(1)	(4)	137	132
6 TOTAL IRB APPROACH	(351)	1,886	1,830	4,010	(458)	6,917
7 Central governments or central banks	0	(1)	(887)	(35)	21	(901)
8 Regional governments or local authorities	(9)	(1)	10	73	(0)	72
9 Public sector entities	0	(1)	767	(0)	(2)	764
10 Multilateral development banks	0	(8)	1	(1)	0	(7)
11 International organisations	0	(1,833)	(180)	0	32	(1,981)
12 Institutions	0	(0)	1	(0)	(3)	(2)
13 Corporates	(13)	84	(53)	255	168	441
14 Retail	0	5	12	(2)	(2)	13
15 Secured by mortgages on immovable property	0	(69)	(39)	25	(90)	(173)
16 Exposures in default	(2)	(17)	(1)	3	(20)	(36)
17 Items associated with particularly high risk	0	329	221	7	(64)	494
18 Covered bonds	0	0	(21)	(14)	0	(35)
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	0	1	0	(13)	(12)
23 TOTAL STANDARDISED APPROACH	(23)	(1,511)	(168)	311	27	(1,363)
24 TOTAL	(375)	376	1,663	4,321	(431)	5,553

At year-end 2018, about 52% of the net exposure value was in the more than 5 years bucket.

IV.3. IMPAIRMENT, PAST-DUE AND RELATED PROVISIONS

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

Impairment determination and calculation is governed by the Credit risk impairment guidelines of the Risk department and more details are available in the section "Risk management - IFRS 9 Impairment methodology" of the Management Report of the consolidated financial statements.

IV.3.1.1. Determination of the impairment

Expected credit losses (ECL) associated with debt instruments carried at amortised cost and debt instruments measured at fair value through other comprehensive income (FVTOCI) are determined on a forward-looking basis. For lease receivables, Belfius has not opted to apply the simplified approach of recognising lifetime expected losses. Loan commitments and financial guarantees not measured at fair value through profit or loss are also subject to impairment and the loss allowance is recognised as a provision. No impairment losses are recognised on investments in equity instruments.

Loss allowances and provisions for 12-month expected credit losses are initially recognised on trade date for financial assets in scope of impairment (debt instruments, lease receivables and contract assets), loan commitments and financial guarantees not measured at fair value through profit or loss.

12-month expected credit losses relates to the portion of lifetime expected credit losses that represent the expected credit losses resulting from default events that are possible within the 12 months after the reporting date.

The default committee within the Risk department is competent to define the default status.

A transversal default definition is applied within the entire Belfius Group and on all market segments. However for a limited number of specific segments (for example sovereigns, banks, international corporates…) some deviation have been applied. The Belfius Default guideline provides in-depth description of indicators used to categorize an exposure in default.

With the exception of purchased or originated credit-impaired (POCI) financial assets, the amount of expected credit losses is measured through a loss allowance at an amount equal to either a 12-month ECL or a lifetime ECL. Lifetime ECL are the losses that result from all possible default events over the expected life of the financial asset.

At initial recognition, POCI assets do not carry a loss allowance for 12-month expected losses but lifetime expected credit losses are incorporated into the calculation of the effective interest rate. The amount recognised as a loss allowance for such assets is not the total amount of lifetime expected credit losses, but instead the change in lifetime expected credit losses since initial recognition of the financial asset, which may be a negative or positive amount.

Expected credit losses are a probability-weighted estimation of expected cash shortfalls discounted at the original effective interest rate of the financial asset or the credit-adjusted effective interest rate in case of POCI financial assets. Expected cash shortfall is the difference between the cash flows due under the contract and the cash flows expected to be received, taking into consideration the value of collateral and other credit enhancements.

The estimation of cash flows considers all contractual terms of the financial asset (such as prepayment, extension, call and similar options) through its expected life.

Impairment calculation is based on a two-fold building block approach:
→ Block 1: determination of the appropriate stage per exposure;
→ Block 2: calculation of the expected credit losses per exposure for stages 1, 2 and 3

The following credit exposures are distinguished and all exposures are individually assessed:
→ Performing credit exposures i.e. exposures for which there has not been a significant increase in credit risk since origination (stage 1);
→ Under-performing credit exposures i.e. exposures for which there has been a significant increase in credit risk between the moment Belfius originated or purchased the financial asset and the reporting date (stage 2);
→ Non-performing credit exposure i.e. exposures that become credit impaired (stage 3).

A change of the classification into stages can go in both directions.

IV.3.1.1.1. Performing credit exposures – Classification Stage 1

All exposures not classified in stage 2 (significant increase of credit risk since origination) or stage 3 (occurrence of impairment) are by definition classified in stage 1. For these exposures, Belfius recognises at initial measurement a 12-month expected credit loss, i.e. the expected credit loss that results from those default events on the financial instrument that are possible within 12 months after the reporting date.

IV.3.1.2.2. Under-performing credit exposures – Classification Stage 2

Exposures for which there has been a significant increase in credit risk between origination or purchase of the financial asset and reporting date are classified in stage 2.

A significant increase in credit risk for an individual exposure of a counterpart is based on the following quantitative and qualitative factors:

- → A significant deterioration of the lifetime probability of default (lifetime PD) of the counterpart; or
- → The fact that the customer to whom the individual exposure belongs is put by Belfius on its Watchlist.

In assessing whether a significant deterioration of the lifetime PD occurred since origination, a comparison is made between lifetime PDs at the date of origination with lifetime PDs at reporting date. Details are available in the section IV.3.2.3.4.

IV.3.1.2.3. Non-performing credit exposure - Classification at Stage 3

At each reporting date, the Default Committee assesses whether there is an objective evidence that a financial asset or a group of financial assets is impaired/defaulted. If affirmative, these financial assets are considered as credit-impaired and are transferred to Stage 3 and a lifetime expected loss is recognised.

The expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

An impaired/defaulted status is attributed to debtors that satisfy either one or both of the following criteria:

- → The debtor has material exposures which are more than 90 days past due;
- → The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless the existence of any past due amount or the number of days past due.

IV.3.1.2. Accounting treatment of impairments

IV.3.1.2.1. Debt instruments carried at amortised cost and lease receivables

At each reporting date, changes in the amount of impairment losses are recognised in the statement of income under the line item XVI. "Impairment on financial instruments and provisions for credit commitments". Impairment losses are reversed through the same line item of the statement of income. The impairment loss is recorded as a deduction of the gross carrying amount of the asset (allowance) in the statement of financial position.

IV.3.1.2.2. Debt instruments measured at fair value through other comprehensive income (FVTOCI)

Debt instruments measured at fair value through other comprehensive income are governed by the same accounting principles in respect of impairment applicable to debt instruments measured at amortised cost.

However, the loss allowance shall be recognised in other comprehensive income as part of the revaluation amount in the line item XIX. "Fair value changes of debt instruments measured at fair value through other comprehensive income" and shall not reduce the carrying amount (i.e. fair value) of the financial asset in the statement of financial position.

IV.3.1.2.3. Calculation and recognition of interest income

The underlying basis for calculating the effective interest depends on the status of the financial instrument:

- → The gross carrying amount (amortised cost before deducting any expected loss allowances) for non-credit impaired financial assets (stage 1 and 2);
- → The net carrying amount (gross carrying amount less expected loss allowances) for credit-impaired financial assets (stage 3).

Interest income for originated or purchased credit-impaired financial assets is recognised by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset. Lifetime expected credit losses are incorporated in the credit-adjusted effective interest rate.

IV.3.1.2.4. Write-offs

Debt instruments are written off when there are no reasonable expectations of recovering the debt instrument. Belfius only applies full write offs and exposures in stage 1 and 2 are always transferred to stage 3 before being written off.

A write-off constitutes a derecognition event and the stock of loss allowance is not reversed but used against the reduction of the gross carrying amount of the instrument written off. Any additional loss is reported in the statement of income in the line item XVI. "Impairment on financial instruments and provisions for credit commitments".

IV.3.1.2.5. Loan commitments and financial guarantees not measured at fair value through profit or loss

Off-balance-sheet exposures such as credit substitutes (e.g. guarantees and standby letters of credit) and loan commitments are usually converted into on-balance-sheet items when called. However, these off-balance-sheet exposures are subject to 12-month or lifetime expected losses. The expected loss is recognised as a provision in the balance sheet and the date that Belfius becomes a party to the irrevocable commitment is considered as the date of initial recognition for applying the impairment requirements.

IV.3.1.2.6. Loan commitments

At the end of each reporting period a provision based on 12-month expected losses calculated on the expected portion of the loan commitment to be drawn down within the next 12 months is recognised. In case of a significant increase in the risk of default of the underlying loan, lifetime expected credit losses are recognised on the expected portion to be drawn down over the remaining life of the loan commitment.

The expected credit loss is the present value of the difference between the contractual cash flows if the holder of the loan commitment draws down the loan and the cash flows that are expected to be received if the loan is drawn down. The remaining life of the loan commitment is the maximum contractual period during which there is an exposure to credit risk. In case of arrangements that include both a loan and an undrawn commitment component (such as credit cards), the period for estimating expected credit losses is beyond the contractual date on which repayment could be demanded but the period over which the lender is exposed to credit risk. In practice, the expected loss horizon is a minimum of 1 year and credit risk mitigations could be additional guarantees or reducing the loan commitment.

IV.3.1.2.7. Financial guarantees

For financial guarantee contracts changes in the risk that the specified debtor will default on the contract are considered. At each reporting period, the amount of the loss allowance equals the 12-month expected credit loss unless there has been a significant increase in the risk of default, in which case the loss allowance is calculated for lifetime expected credit losses. Expected losses reflect the cash shortfalls equal to the difference between the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that are expected to be received from the holder, the debtor or any other party.

IV.3.2. IFRS 9 IMPAIRMENT METHODOLOGY

IV.3.2.1. Introduction

IV.3.2.1.1 Scope

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

- investments in debt instruments (loan and securities) measured at amortized cost;
- investments in debt instruments measured at fair value through other comprehensive income (FVOCI);
- all loan commitments not measured at fair value through profit or loss;
- financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at fair value through profit or loss;
- lease receivables that are within the scope of IAS 17, Leases (IFRS 16 starting 1/1/2019); and
- trade receivables or contract assets within the scope of IFRS 15.

No impairment loss is recognised on investments in equity.

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

IV.3.2.1.2 Accounting principles

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

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

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

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

IV.3.2.1.2.1 Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition.

At initial recognition, POCI assets do not carry a loss allowance for 12-month expected losses but lifetime expected credit losses are incorporated into the calculation of the effective interest rate. The amount recognised as a loss allowance for such assets is not the total amount of lifetime expected credit losses, but instead the change in lifetime expected credit losses since initial recognition of the financial asset, which may be a negative or positive amount.

For these assets, Belfius recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss.

IV.3.2.1.2.2 Modification and derecognition of financial assets

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

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

IV.3.2.1.2.3 Write-Off

Belfius endorses the importance of timely writing off uncollectable loans.

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

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

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

IV.3.2.2. Credit Risk Principles

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

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

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

IV.3.2.2.1 Basel Internal Rating Systems

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

The PD models estimate the one-year probability of default on a through-the-cycle1 (TTC) basis. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed and adjusted during the yearly back testing when applicable. In addition, each scale has been attributed two default classes (named D1 and D2).

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

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

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

IV.3.2.2.2 Transformation of Basel parameters to IFRS 9 parameters

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

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

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

(1) One must note that a rating system that remains relatively constant though different business conditions is a "Through-the-cycle" rating system whilst a rating system that changes period by period is a point-in-time (PIT) rating system

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

IV.3.2.2.3 Rating and PD at inception

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

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

→ Step 1: Analyze the evolution of three variables[1], occurring in the pillar II stress test models, between 1995 and 2015 and qualify each year on a scale "Good/Average/Bad";
→ Step 2: Based on the aforementioned qualification we simulate the Point-in-Time PD's as of a past date. For average years, these are computed as described in section IV.3.2.2.2. using through-the-cycle parameters. For bad years, the resulting PD's are adjusted upwards and for good years, the PD's are adjusted downwards.

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

IV.3.2.2.4 Incorporation of Forward Looking information

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

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

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

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

IV.3.2.2.5 Time lag

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

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

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

(1) Stock market, Belgian yearly unemployment rate and annual Belgian GDP growth

IV.3.2.2.6 Management judgement

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

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

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

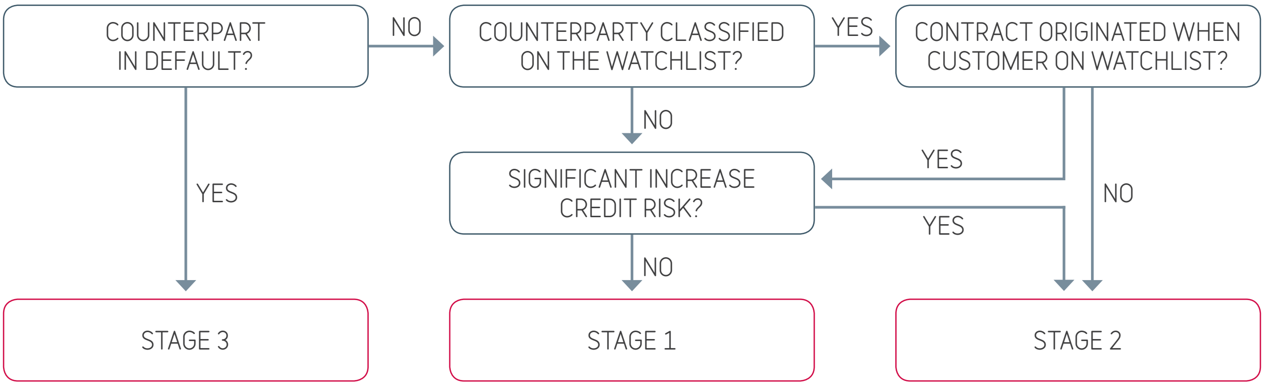
IV.3.2.3. Staging

IV.3.2.3.1 Definition

IFRS 9 distinguishes 3 Stages:
- Stage 1: Performing credit exposures, i.e. exposures for which there has not been a significant increase in credit risk since origination;
- Stage 2: Under-performing credit exposures, i.e. exposures for which there has been a significant increase in credit risk between the moment where the entity originated or purchased the financial instrument and the reporting date;
- Stage 3: Non-Performing credit exposures, i.e. exposures that become credit impaired.

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

The staging definition within Belfius can be synthetized as follows:



IV.3.2.3.2 Definition of Default

A default status is assigned to the debtors who satisfy either one or both of the following criteria:
- The debtor has material exposures which are more than 90 days past due;
- The debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless the existence of any past due amount or the number of days past due.

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

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

At Belfius, the definition of default and the Stage 3 "allocation" are fully aligned, since Belfius only books a specific impairment for counterparts/products with a default status. This implies that:
- All individual exposures on a counterpart will be transferred to Stage 3 as soon as the latter receives a default status;
- All exposures classified in Stage 3, i.e. exposures treated as credit-impaired under IFRS 9, will be treated as defaulted.
- The lifting of the default status by Belfius' Default committee implies by definition a reclassification of the related exposures, to either Stage 2 (if there is still a clear indication of increased credit risk since origination) or Stage 1.

IV.3.2.3.3 Watchlist definition

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

Belfius classifies automatically all exposures figuring on the Watchlist in Stage 2 since the presence of the customer on the Watchlist is considered as a signal of increased credit risk since origination. There is however one exception: a new contract may be classified in Stage 1 if, when originating the contract, the customer already figures on the Watchlist. In two situations, there will be a mandatory classification on the Watchlist:

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

IV.3.2.3.4 Significant increase in Credit Risk

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

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

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

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

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

IV.3.2.4. Expected Credit Loss

IV.3.2.4.1 Impact of the Staging

To the exception of POCI financial assets (see point IV.3.2.1.2.1.), ECLs are required to be measured through a loss allowance at an amount equal to:

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

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

IV.3.2.4.2 Reference formula

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

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

Where

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

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

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

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

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

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

t is the yearly discretization.

IV.3.2.5. Governance

IV.3.2.5.1 Introduction

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

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

IV.3.2.5.2 Expert Panel IFRS 9 Impairment

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

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

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

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

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

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

IV.3.2.5.3 Stage 1 & 2 Impairment Committee

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

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

The Stage 1 & 2 Impairment Committee challenges and/or decides the input received from the Expert Panel and decides on the ECL accounted for in Stage 1 & 2, as well on their ventilation.

IV.3.2.5.4 Stage 3 Impairment Committee

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

The Stage 3 Impairment Committee of Belfius Bank is organized at a transversal and at a local level, with competences linked to the amount of the individual impairment amount. Membership is reserved to representatives of Risk Management, Finance, Customer Loan Services and Front Offices.

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

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

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

IV.3.3. PAST-DUE EXPOSURE BY LARGE CATEGORY OF PRODUCT

The following table shows the amount of past-due credit risk exposure at year-end 2018. The gross carrying values correspond to the accounting values before impairment and provisioning but after the write-offs.

CR1 D – AGEING OF PAST-DUE EXPOSURE

Bank						
31/12/2018	Gross carrying values					
	Unlikely to pay that are not past-due or past-due < 90 days	≤ 30 days	> 30 days ≤ 60 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	483.9	264.1	69.4	58.3	82.6	1,153.0
Debt securities	3.2	0.0	0.0	0.0	0.0	0,0
TOTAL EXPOSURES	487.1	264.1	69.4	58.3	82.6	1,153.0

Past-due exposures amounted to EUR 1.6 billion at the end of 2018. 70% of the total past-due loans are in the bucket of more than 1 year, while on the other side 16% are within the interval of at most 30 days.

IV.3.4. CREDIT RISK ADJUSTEMENTS BY TYPE OF ASSET

The following table shows the accumulated amounts of Stages 1,2 and 3 credit risk adjustments at year-end 2018 and provides details on the changes that occurred during. Opening balance takes into consideration the IFRS 9 first time adoption (01/01/2018).

CR2 A – CHANGES IN THE STOCK OF STAGE 1,2 AND 3 CREDIT RISK ADJUSTMENTS

Bank	Stage3 credit risk adjustment	Stage 1 and 2 credit risk adjustment
1 Opening balance on 1 Jan 2018	(1,162)	(628)
2 Increases due to origination and acquisition	0	(480)
3 Decreases due to derecognition	33	416
4 Changes due to change in credit risk (net)	(63)	63
5 Changes due to modifications without derecognition (net)	0	0
6 Changes due to update in the institution's methodology for estimation (net)	0	0
7 Decrease in allowance account due to write-offs	55	0
8 Other adjustments	(11)	(1)
9 Closing balance on 31 Dec 2018	(1,147)	(629)

The stable amount of stage 1 and 2 credit risk adjustments hides two compensating effects: an increase in stage 1 and 2 impairment relating to commercial franchise assets on one hand and a decrease on Group Center activities on the other hand.

The first relate to the forward-looking stance taken when determining the impairments: the weakening of the global growth prospects and the persistence of high geo-political uncertainties led by the end of the year to

- → the revision of some parameters used in the expected loss calculations and
- → the introduction of new provisioning layers for specific risks such as, for example, Brexit impacts or a possible deterioration of the credit quality of the Belgian real estate market or hospital sector.

The latter is mainly attributable to the sale of Italian govies in early 2018, leading to reversal of the associated credit adjustment.

At the end of 2018, the accumulated Stage 3 credit risk adjustment had a closing balance of EUR 1,147 million (-1.3%).

IV.3.5. CREDIT RISK ADJUSTMENTS 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 2018:

CR1 A – CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS & INSTRUMENT

31/12/2018		a	b	c	d	
		Gross carrying values of		IFRS 9 Stage 3 credit risk adjustment	IFRS 9 Stages 1 and 2 credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			(a+b-c-d)
1	CENTRAL GOVERNMENTS OR CENTRAL BANKS	1	18,267	0	67	18,200
2	INSTITUTIONS	0	24,291	0	9	24,282
3	CORPORATES	1,280	36,722	881	369	36,752
4	*Of which: Specialised lending*	*27*	*2,280*	*11*	*6*	*2,290*
5	*Of which: SMEs*	*859*	*9,996*	*615*	*109*	*10,131*
	Of which: Other	*394*	*24,446*	*255*	*254*	*24,331*
6	RETAIL	423	42,679	182	58	42,863
7	Secured by real estate property	139	28,436	13	18	28,544
8	*Of which: SMEs*	*37*	*6,709*	*4*	*5*	*6,738*
9	*Of which: Non-SMEs*	*102*	*21,727*	*9*	*14*	*21,806*
10	Qualifying revolving	0	25	0	0	25
11	Other retail	285	14,219	169	40	14,294
12	*Of which: SMEs*	*218*	*8,950*	*124*	*31*	*9,013*
13	*Of which: Non-SMEs*	*66*	*5,269*	*45*	*9*	*5,282*
14	EQUITY	1	255	0		256
15	TOTAL IRB APPROACH	1,706	122,214	1,063	504	122,353
16	Central governments or central banks		29	0	0	29
17	Regional governments or local authorities		426	0	0	426
18	Public sector entities		1,076	0	0	1,076
19	Multilateral development banks		72	0	0	72
20	International organisations		7,883	0	0	7,883
21	Institutions		9	0	0	8
22	Corporates		6,522	0	44	6,478
24	Retail	0	760	0	1	759
26	Secured by mortgages on immovable property		363	0	0	363
28	Exposures in default	133		66	0	67
29	Items associated with particularly high risk		648	0	17	632
30	Covered bonds		21	0	0	21
31	Claims on institutions and corporates with a short-term credit assessment		0	0	0	0
32	Collective investments undertakings		3	0		3
33	Equity exposures		38	0		38
34	Other exposures(1)		6,118	2	41	6,075
35	TOTAL STANDARDISED APPROACH	133	23,970	68	103	23,932
	NOT ALLOCATED IN THE TABLE			16	22	
36	TOTAL	1,839	146,184	1,147	629	146,247

The total net value exposure et year-end 2018 amounted to EUR 146,247 million, of which EUR 122,353 million (or 84%) was treated under the IRB approach and EUR 23,932 million (or 16%) under standardised approach. Defaulted exposures were mainly registered in the corporate portfolio and more specifically in the corporate SME portfolio.

(1) Other exposures include tangible assets, portfolio hedge and Danish compromise

IV.4. FORBEARANCE

IV.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.

IV.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 and forborne exposures:

CR1 E NON-PERFORMING & FORBORNE EXPOSURE

31/12/2018	Debt securities	Loans and advances	Off-balance-sheet exposures
GROSS CARRYING VALUES OF PERFORMING AND NON-PERFORMING EXPOSURES	**16,061**	**110,254**	**31,208**
On performing exposures			
Of which past due >30 days and <= 90 days	0	67	0
Of which forborne	0	376	7
On non-performing exposures	3	1,778	109
Of which defaulted	3	1,778	100
Of which impaired	2	1,778	
Of which forborne	0	255	0
ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK			
On performing exposures	(195)	(325)	103
Of which forborne	0	(13)	0
On non-performing exposures	(1)	(1,111)	36
Of which forborne	0	(108)	0
COLLATERALS AND FINANCIAL GUARANTEES RECEIVED			
On non-performing exposures	0	296	36
Of which forborne exposures	0	292	6

At the end of 2018, the non-performing loans amounted at EUR 1,778 million. An amount of EUR 631 million of loans at Belfius Bank complied with the forbearance definition. 60% of these forborne exposures are still performing The accumulated Stage 1,2 and 3credit risk adjustments on loans amounted to EUR 1,558 million. Only 8% of this amount concerns forborne exposures

IV.5. CREDIT RISK MITIGATION TECHNIQUES

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

A Credit Risk Mitigant (CRM) is a technique used to protect or mitigate the credit risk associated with one or more risk exposures. Based on the regulation, CRMs can be classified into two main categories:

1. **Funded CRMs**, encompassing:
→ On balance-sheet netting;
→ Netting agreements (covering repo-style transactions or OTC derivatives);
→ Collaterals
   - cash, debt securities, equities, gold, ...,
   - immovable property collateral,
   - receivables,
   - leasing,
   - other physical collateral;
2. **Unfunded CRMs**, encompassing:
→ Guarantees;
→ Credit derivatives.

IV.5.2. POLICIES AND PROCESSES

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 and applied 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.

Belfius applies prudent collateral valuations rules integrating adequate haircut layers based on the relevant items influencing the value of the collateral for the Bank. Depending on the nature of the collateral, revaluation procedures based on automated information flows, on indexes or expert analysis are in place .

Regarding on and off-balance sheet netting, Belfius does not make use of these types of CRMs 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.

IV.5.3. REGULATORY TREATMENT

For derivatives and securities financing transactions netting agreements, Belfius recognises their impact (subject to eligibility conditions) by applying the netting effect of these agreements on the calculation of the 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.

IV.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 2017 and 2018. The mitigation impacts of the Credit Conversion Factors for off-balance sheet items are not taken into account. Exposures secured by financial guarantees take into account the regulatory haircuts.

CR3 – CREDIT RISK MITIGATION TECHNIQUES – OVERVIEW

Bank	a	(b+c+d)	b	c	d
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*	

Bank	a	(b+c+d)	b	c	d
31/12/2018	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	80,466	50,629	41,845	8,800	
Total debt securities	10,654	4,510		4,510	
Other	2,119	0			
TOTAL EXPOSURES	93,239	55,139	41,845	13,310	
Of which defaulted	389	305	304	1	

Bank	a	(b+c+d)	b	c	d
Evolution 31/12/2018 – 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	2,397	1,998	2,845	(831)	
Total debt securities	(981)	2,884	0	2,884	
Other	29	0	0	0	
TOTAL EXPOSURES	1,444	4,882	2,845	2,053	
Of which defaulted	(50)	(8)	8	(15)	

IV.6. COUNTERPARTY CREDIT RISK

IV.6.1. MANAGEMENT OF THE RISK

A counterparty credit 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 Belfius credit risk policies.

The exposure at default for derivative transactions is based on the mark-to-market value of the derivatives plus the application of an add-on, which is a regulatory percentage of the notional amount of the derivative (percentage depending of maturity and type of 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 Belfius credit risk policies. Collateral exchanges for derivative contracts are regulated by the terms and rules stipulated in the Credit Support Annex (CSA).

All OTC transactions are monitored within the credit limits set up for each individual counterparty. Sub-limits may be put in place per type of products.

An adjustment, called Credit Value Adjustment (CVA) reflecting the market value of the counterparty credit risk is calculated on all non-collateralised derivatives (concluded with a limited number of counterparties, such as local authorities, project SPVs, some corporates or monoline insurers), as well as on collateralised derivatives (although limited in credit risk amount due to the daily exchange of collateral). This adjustment is updated, monthly, on the basis of the evolution of the value of the derivatives and the credit quality of the counterparty. Note also that, along the credit value adjustment, other types of adjustments are applied on derivatives (funding value adjustment, debit value adjustment,…).

Since the implementation of the Basel III framework, a capital charge must be calculated on the CVA risk (see section 7).

The exposure at default for securities financing transactions is based on the cash or securities given, reduced by the collateral received (cash or securities) taking into account regulatory haircuts of the financial collateral comprehensive method. Also, Belfius applies netting where agreements (GMRA or GMSLA) are in place and eligible.

IV.6.2. COUNTERPARTY CREDIT RISK EXPOSURES

Bank	Counterparty credit risk		
FEAD	Securities Financing transactions	Derivatives	Default fund Contribution
IRB EXPOSURE CLASSES			
Central governments and central banks	423	417	
Institutions	3,716	2,939	
Corporates	1,015	1,009	
- of which Corporates - SME	68	37	
TOTAL IRB APPROACH	5,155	4,365	
STANDARDISED EXPOSURE CLASSES			
Central governments or central banks		53	
Regional government or local authorities		330	
Institutions	231	321	
Corporates	0	59	
Other		0	45
TOTAL STD APPROACH	232	764	45
TOTAL	5,386	5,129	45

The figures presented in the above table are the same as in the section IV.2.1., Please note that these figures do not take into account the financial collateral received.

The EAD post CRM is provided in the tables CCR3 and CCR4 in appendix 2.3.

IV.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 2018.
Please note that exposures to central counterparties are detailed in a separate table

CCR1 – ANALYSIS OF CCR BY APPROACH

Bank 31/12/2018	Notional	Replacement cost/current market value (1)	Potential future credit exposure(2)	EEPE(3)	Multiplier	EAD post CRM (4)	RWAs
Mark to market		11,609	4,012			3,023	1,063
Financial collateral comprehensive method (for SFTs)						1,773	184
TOTAL		11,609	4,012			4,796	1,246

(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 decrease of EUR 4.7 billion EAD compared to 2017 is mainly due on one side to the reclassification effect linked to IRFS 9 and on the other side to several balance sheet compression exercises.

With IFRS 9, applicable as from 1 January 2018, the notion of Non-closely embedded derivatives for financial assets no longer exists as the financial asset (the bond and loan instruments) should be considered as a whole. As a result, the notion of bifurcated embedded derivatives as such disappeared from the balance (fair value) and off balance sheet accounts (notional amount). This has led to a significant decrease of EAD under the counterparty credit risk approach. Note however that the exposures under the credit risk approach (where the bond or loan instrument is located) increased with a similar amount.

Besides, the diverse balance sheet compression exercises realized during the year 2018 have also allowed a reduction of EAD of OTC derivatives with financial counterparties as well as with central counterparties (see table below).

The following table provides a overview of Belfius Bank's exposures to central counterparties at year-ends 2017 and 2018.

CCR8 – EXPOSURES TO CENTRAL COUNTERPARTIES

Bank	31/12/2017		31/12/2018	
	EAD post CRM	RWAs	EAD post CRM	RWAs
EXPOSURES TO QCCPS (TOTAL)	1,461	119	583	60
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	678	14	262	5
(i) OTC derivatives	283	6	142	3
(ii) Exchange-traded derivatives				
(iii) SFTs	395	8	120	2
(iv) Netting sets where cross-product netting has been approved				
Initial margin	712	14	276	6
Prefunded default fund contributions	71	91	45	50
EXPOSURES TO NON-QCCPS (TOTAL)	0	0	0	0

IV.6.4. COUNTERPARTY CREDIT RISK MITIGATION

The table below contains the impact of netting and collateral held on exposure values at year-end 2018:

CCR5-A - CCR5 A IMPACT OF NETTING AND COLLATERAL HELD ON DERIVATIVES

31/12/2018	a	b	c	d	e
	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	16,550	22,857	4,774	879	3,895
SFTs		1,532	5,155	3,481	1,674
Cross-product netting					
TOTAL	16,550	24,389	9,929	4,360	5,569

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 2018 was EUR 5,569 million.

Further details on the composition of collateral are displayed in the appendix 2.3. (Table CCR5-B)

IV.6.5. 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.

Other credit derivatives represent the BtB CDS. Notionals for these positions reflect only the buyer side .

CCR6 – CREDIT DERIVATIVES EXPOSURES

Bank 31/12/2018	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
Notionals			
Single-name credit default swaps	209	179	103
Index credit default swaps	332	0	0
Total return swaps	0	0	443
TOTAL NOTIONALS	540	179	546
Fair values			
Positive fair value (asset)	52	0	18
Negative fair value (liability)	0	36	18

The probability of default associated with the credit protection providers corresponds to the single A rating range.

The positions' maturities and unwinds are the essential key drivers of the changes over the reporting period.

IV.7. CREDIT VALUATION ADJUSTMENT

IV.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.

IV.7.2. CAPITAL CHARGE

The capital charge is calculated following the standardised method.

CCR2 – CREDIT VALUATION ADJUSTMENT CAPITAL CHARGE

Bank	31/12/2017		31/12/2018		Evolution 31/12/2018 – 31/12/2017	
	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	1,947	1,939	1,515	1,606	(432)	(333)
Based on the original exposure method						
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE	**1,947**	**1,939**	**1,515**	**1,606**	**(432)**	**(333)**

The exposure subject to credit valuation risk charge decreases with more than EUR 400 million in 2018 leading to a noticeable reduction of RWA. This reduction results from the balance sheet compression exercises realized during the year as well as from the amortizing (in outstanding and maturity) of ex-legacy transactions.

IV.8. FOCUS ON EQUITY EXPOSURE

IV.8.1. REGULATORY TREATMENT AND ACCOUNTING RULES

IV.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 simple risk weight method is used.

Exposures are available in the table CR10 in appendix 2.3.

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%.

For the equity exposure under standardised approach, please refer to the table CR4 in appendix 2.3.

IV.8.1.2. Accounting Rules

Financial assets measured at fair value through other comprehensive income include equity instruments that meet the IAS 32 definition and that are neither held for trading nor representing contingent consideration recognised by an acquirer in a business combination, and for which Belfius at initial recognition irrevocably on an instrument-by-instrument basis has elected to measure them at fair value through other comprehensive income (FVTOCI).

Subsequent changes in fair value, foreign exchange gains and losses and realised gains and losses are presented in other comprehensive income under the line item XX. "Fair value changes of equity instruments measured at fair value through other comprehensive income". On derecognition, the cumulative gains or losses previously recognised in other comprehensive income as mentioned above, are not subsequently reclassified to the statement of income but are transferred within equity to the line item XVII. "Reserves and retained earnings".

Fair value measurement is required for all equity instruments, even if those instruments are not quoted in an active market. Acquisition cost as appropriate estimate of fair value is only admitted in limited circumstances.

Dividends are recognised in the statement of income when the right to receive payment of these dividends is established, it is probable that the economic benefits associated with the dividends will flow to Belfius and the amount of the dividends can be measured reliably. If a dividend represents a return of investments, it will be accounted as a reduction of the acquisition cost.

IV.9. SECURITISATION RISK

IV.9.1. FOCUS ON SECURITISATION ACTIVITIES

IV.9.1.1. Objectives and Roles of Belfius Bank

IV.9.1.1.1. 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 for instance be used as collateral for secured funding agreements. In other transactions, the senior tranches were placed with external investors to raise long-term funding.

IV.9.1.1.2. 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 Section VI.10.

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.

IV.9.1.1.3. 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.

IV.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 2017 and 2018.

SECURITISATION EXPOSURES AS INVESTOR - DRILL-DOWN BY RATING

Type of securitisation	Reference year		AAA/AA	A	BBB	BB	below BB	Total	Trading[2]
ABS	2017	Exposure	104	36				140	
		RWA	8	4				12	
	2018	Exposure	60	33				93	
		RWA	5	3				8	
MBS	2017	Exposure	357	140			23	520	59
		RWA	28	18			(1)	46	
	2018	Exposure	307	124			21	452	50
		RWA	24	15			(1)	40	
TOTAL	2017	Exposure	461	176			23	660	59
		RWA	36	22			0	58	0
	2018	Exposure	367	157			21	545	50
		RWA	29	19			0	48	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 2018, 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 split at year-end 2018.

SECURITISATION EXPOSURES AS INVESTOR - DRILL-DOWN BY UNDERLYING

Underlying assets	31/12/2018					
	RMBS	CMBS	Auto loans	Student loans	Other	Total
Italy	35					35
France	17					17
Germany			14			14
Netherlands	141					141
Portugal	15					15
Spain	118					118
UK	93	12				105
USA	21			78		99
Other						0
TOTAL	440	12	14	78	0	545

IV.10. SETTLEMENT RISK

IV.1. 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.

IV.2. 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 to generalise the recourse to DVP.

Historically, there has been no instance of loss related to this risk at Belfius and very few externally. 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.

IV.3. 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.

V. MARKET RISK

V.1. OVERVIEW

V.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 encompasses all Financial Markets activities of the Bank and focuses on 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).

V. 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.

V.2. NON-FINANCIAL MARKETS ACTIVITIES

V.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.

V.2.2. INTEREST RATE RISK

V.2.2.1. Interest Rate Definition

V.2.2.1.1. 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.

V.2.2.1.2. 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.

V.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 -15 million per 10 bps at 31 December 2018 (compared to EUR -34 million per 10 bps at 31 December 2017), excluding interest positions of Belfius Insurance and of the pension funds of Belfius Bank.

Earnings at Risk indicators capture the more shorter term effect of the interest rate changes on the earnings of the Bank. Therefore, indirectly through profitability, interest rate changes can also have a shorter term solvency effect. A 50 bps increase of interest rates has an estimated positive impact on net interest income (before tax) of EUR +60 million of the next book year and an estimated cumulative effect of EUR +175 million over a three year period, whereas a 35 bps decrease would lead to an estimated negative impact of EUR -44 million of the next book year and an estimated cumulative effect of EUR -189 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.

V.2.2.3. Interest rate risk for the insurance activities

The management of interest rate risk for the insurance activities is detailed in the section X.1.2.

V.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 bps.

(in thousands of EUR)	31/12/17	31/12/18
BELFIUS BANK		
Sensitivity (+10 bp)	(34,179)	(15,441)
Earnings at risk (+50 bp)	37,436	59,864
BELFIUS INSURANCE		
Sensitivity (+10 bp)	16,560	10,874
Earnings at risk (+50 bp)	2,743	2,347

V.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.

V.2.4. EQUITY RISK

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

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

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

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

(in thousands of EUR)	31/12/17	31/12/18
BELFIUS INSURANCE		
Market value - quoted shares & assimilated	583,819	492,831
Market value - quoted real estate	501,502	318,592
Shock 30% (negative)	(325,596)	(243,427)
VaR (99%, 10 days)	35,720	53,400

V.2.5. REAL ESTATE RISK

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

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

(in thousands of EUR)	31/12/17	31/12/18
BELFIUS INSURANCE		
Market value	592,835	645,291
Shock 15% (negative)	(88,925)	(96,794)

V.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[1].

V.2.7. PENSION FUNDS

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

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

V.2.8. BEHAVIOURAL RISK

V.2.8.1. 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.

V.2.8.2. 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.

V.2.8.3. Capitalisation

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

V.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.

V.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 Committee in order to be commensurate to the risk appetite defined by the Board of Directors of Belfius Bank.

Committees

The Financial Markets Committee (FMC) is the main committee for Financial Markets Management. Its main objective 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 an appropriate risk management and governance framework aligned with the RAF and business objectives set forward by the Management Board. As a consequence, the FMC is responsible for determining market risk limits consistently with the Market Risk Appetite.

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

V.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.

V.3.3. MARKET RISK EXPOSURE

Following a removal of the Credit Derivatives from the VaR scope, the Financial Markets VaR limit has been further reduced in October 2018 from EUR 32 million to EUR 26.5 million. The overall average VaR of Financial Markets activities decreased at EUR 18.1 million in 2018 vs EUR 17.7 million in 2017.

Value at risk by activity

VaR(1) (99% 10 days) (In millions of EUR)	31/12/17				31/12/18			
	IR & FX(2)	Equity	Spread	Other risks(3)	IR & FX(2)	Equity	Spread	Other risks(3)
By activity								
Average	8,1	4,3	3,8	1,5	9,0	5,6	2,5	1,0
EOY	8,9	5,8	2,7	1,1	9,2	6,8	0,5	0,8
Maximum	13,0	6,3	7,1	2,1	15,5	7,6	6,1	2,2
Minimum	4,4	2,3	2,1	1,1	4,2	4,4	0,2	0,4
Global								
Average		17,7				18,1		
EOY		18,4				17,3		
Maximum		24,1				29,5(4)		
Minimum		13,2				10,9		
Limit		32,0				26,5		

(1) The Value at Risk (VaR) is a measure of the potetial change in market value with a probability of 99% and over a period of 10 days.
(2) interest rate risk(IR) and forex risk (FX) are not measured separatelyseparately. The forex risk is however not material.
(3) Inflation and CO_2 risk.
(4) Maximum reached before the reduction of limit to 26.5 M.

Evolution of global VaR in 2018

The VaR increased during first half of the year mainly due to IR delta evolutions in Group Centers.

The VaR decreased during the summer due to IR delta movements in Flow Management (PCB Public and Group Center), due to reduction of the Market volatility and due the to removal of the Credit Derivatives from the VaR computation scope. The VaR increased again at the end of the year following increase of FM activities in long term IR products.

V.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 FMC.

V.3.5. REGULATORY INTERNAL MODEL AND BACK TESTING

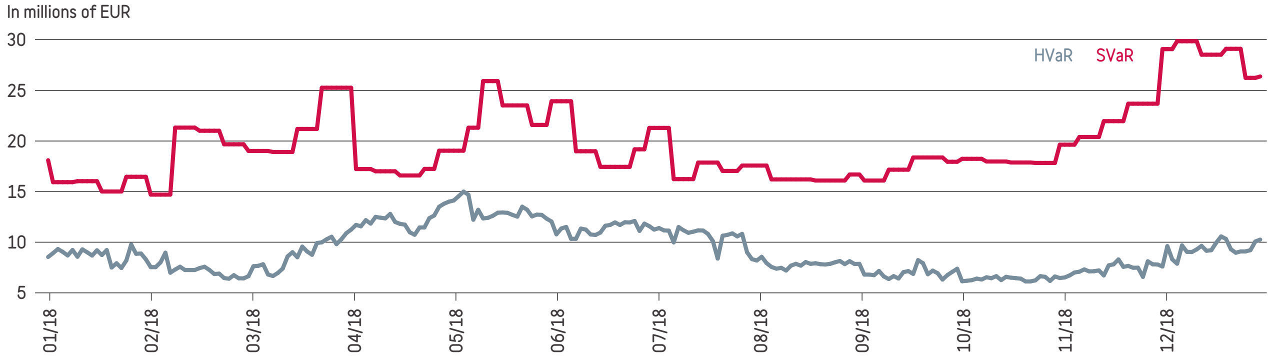
Belfius Bank uses its internal VaR model for the regulatory capital requirement calculation on foreign exchange risk and general interest rate risk within the trading scope (see section III.2 for figures on market risk capital requirements).

Beside the VaR described above, Belfius Bank calculates a Stressed VaR (SVaR). The SVaR is computed on a weekly basis using 250 historical daily evolutions of parameters from the period May 2008-June 2009.

The regulatory capital is calculated by using both the VaR and the SVaR. In 2018, the Internal Model VaR amounted to EUR 9.1 million on average versus EUR 19.7 million for the SVaR.

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

Evolution of HVaR and SVaR (Internal Model) in 2018



Note that the tables MR1 (Market risk under standardised approach), MR2 A (Market risk IMA), MR2 B (RWA flow statement of market risk exposures under IMA) and MR3 (IMA values for trading portfolios) are provided in appendix 2.2.

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.

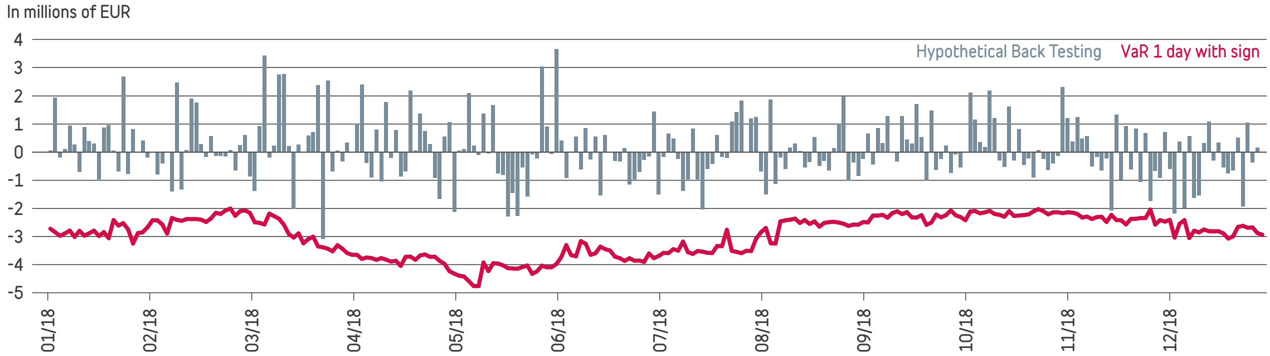
Currently, two types of back testing are processed at Belfius Bank:

- 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 2018, 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 2018, there was no exception to the real back testing.

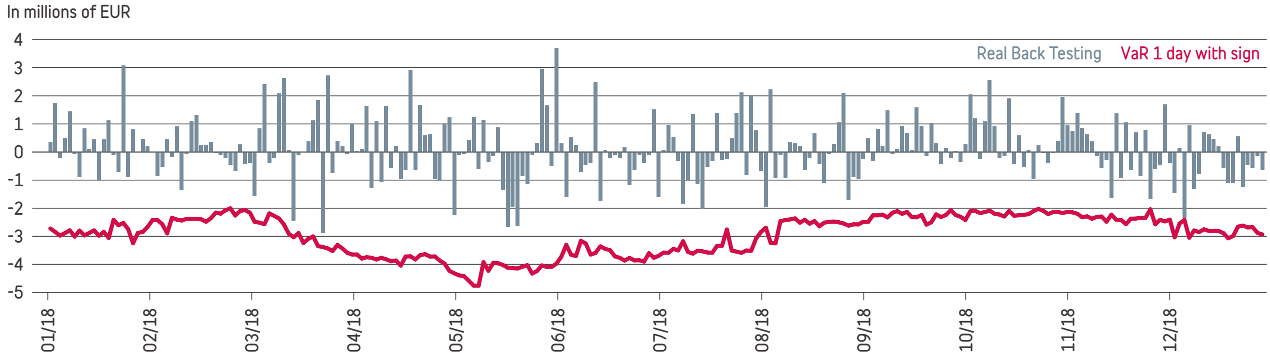
The back testing processes provide therefore a view of the number of (hypothetical and real) exceptions. The maximum between these two numbers is taken into account to adjust the VaR & SVaR multiplier used for calculating the Bank's risk capital requirements for market risk under the internal model approved by the regulator. As there were no back-testing exceptions observed in 2018, the multiplicator factor stayed at 4.

The following charts show real and hypothetical back testing in 2018 on interest rate and foreign exchange perimeters:

Hypothetical Back Testing



Real Back Testing



V.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 Committee, 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 Committee decisions are further presented to the Risk Policy Committee.

V.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 Committee (FMC) 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 market risk responsibilities.

VI. LIQUIDITY RISK

VI.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.

VI.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 Asset and Liability Forum (ALF), in presence of the Risk department, the Treasury department of the Financial Markets and representatives of the commercial business lines. The Asset and Liability Forum is in the first place a discussion forum on all topic with a link to the ALCo in preparation to the ALCo memo's. This forum has been mandated by ALCo to translate the strategic funding plans into tactical and operational funding strategies aligned to the financing needs stemming from Belfius balance sheet and within the regulatory constraints (LCR, NSFR, encumbrance, MREL, ...).

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.

VI.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.

VI.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.

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 ALForum and to ALCo, which has power of decision. 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 focuses on:
- Internal liquidity ratio: a daily ratio that 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 ALF.
- 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 ALCo 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.
- Liquidity Adequacy Statement (LAS): the ILAAP (internal liquidity adequacy assessment process) results in the LAS where the Management Board confirms in a statement that Belfius has enough liquidity to fund its activities and to sustain severe stresses and that liquidity risk is in line with the defined RAF and compliant with ILAAP requirements.

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.

VI.5. CONSOLIDATION OF THE LIQUIDITY PROFILE

During 2018, Belfius consolidated its diversified liquidity profile by:
- maintaining a funding surplus within the commercial balance sheet;
- continuing to obtain diversified long-term funding from institutional investors by issuing, amongst others, Covered Bonds and Preferred Senior Bonds (PS) anticipating the future final MREL objectives;
- collecting short and medium-term (CP/CD/EMTN) deposits from institutional investors.

The Liquidity Coverage Ratio (LCR) is based on the Delegated Act requirements and measures the ability to fund liabilities over a one month horizon. Belfius Bank discloses its 12-month average LCR in accordance with the European Banking Authority's guidelines on LCR disclosure. Belfius Bank closed the year 2018 with a 12-month average LCR of 135%

The Net Stable Funding Ratio (NSFR) defines a minimum acceptable amount of stable funding based on the liquidity characteristics of the assets over a one year horizon. The NSFR based on our current interpretation of Basel III rules stood at 116% at year-end 2018.

VI.6. MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES

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

The Bank Recovery and Resolution Directive (BRRD) provides that institutions established in the European Union (EU) should meet a minimum requirement for own funds and eligible liabilities ("MREL") to ensure an effective and credible application of the bail-in tool. The SRB MREL determination follows the methodology laid down in the "SRB 2017 MREL Policy", published by the SRB on 20 December 2017. The MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds (TLOF[1]).

The SRB determines the consolidated MREL requirement for Belfius Group at the level of 9.70% of its total liabilities and own funds, to be met at all times and taking into account an evolving balance sheet. Taking into account data as of 31 December 2016, this MREL requirement corresponds to an amount of EUR 12.48 billion. Based upon data as of 31 December 2018, the MREL requirement of 9.70% of TLOF amounts to EUR 12.46 billion.

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

As mentioned in the SRB 2017 MREL Policy, the SRB has also set out a subordination benchmark for O-SIIs[2]. The total subordination benchmark for Belfius has currently been set as 16% of the total risk exposures.

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

VI.7. LIQUIDITY RESERVES

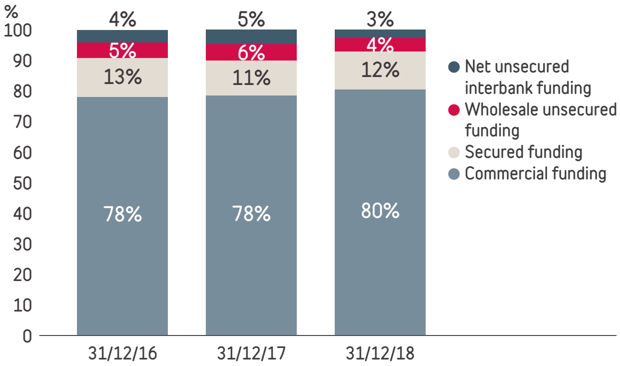
At the end of 2018, Belfius Bank had quickly mobilisable liquidity reserves of EUR 28.8 billion. These reserves consisted of EUR 7.7 billion in cash, EUR 11.7 billion in ECB eligible bonds (of which EUR 7.7 billion are CCP-eligible[3]), EUR 6.9 billion in other assets also eligible at the ECB and EUR 2.3 billion in other liquid bonds.

These liquidity reserves represent 5.4 times the Bank's institutional funding outstanding end 2018 and have having a remaining maturity of less than one year.

(1) TLOF: based on prudential scope of consolidation with prudential netting of derivatives exposures.
(2) O-SIIs: Other Systemically Important Institutions
(3) Central Counter Party

VI.8. FUNDING DIVERSIFICATION AT BELFIUS BANK

Evolution of main funding sources(1)



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 90.2 billion of which EUR 67.5 billion is from RC. The increase of EUR 4.5 billion commercial funding compared to 2017 is used to finance the increase of commercial loans.

The loan-to-deposit ratio, which indicates the proportion between assets and liabilities of the commercial balance sheet, was 94% at the end of 2018.

Belfius Bank also receives medium-to-long-term wholesale funding, including EUR 8.7 billion from covered bonds (EUR 6.3billion backed by mortgage loans and EUR 2.4 billion by public sector loans and EUR 4.0 billion in TLTRO funding from ECB as at 31 December 2018).

Note that during 2018 Belfius Bank issued EUR 1.25 billion Covered Bonds and EUR 0.5 billion Preferred Senior Bonds. The Preferred Senior Bonds will enable us 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.

VI.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.

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

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.

VI.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 2018 Belfius had EUR 6,232 million of outstanding Mortgage Pandbrieven.

Total Amount Outstanding (in EUR)	6,232,000,000
Current Weighted Average Fixed Coupon	1.294%
Weighted Average Remaining Average Life	5.88

The Belfius Mortgage Pandbrieven were rated AAA (stable outlook) by Fitch and AAA (stable outlook) by S&P at the end of 2018.

Characteristics of Cover Assets as at 31 December 2018

a/ Residential Mortgage Loans	
Outstanding balance of residential mortgage loans	7,298,844,311
Number of borrowers	96,127
Number of loans	168,679
Average outstanding balance per borrower	75,929
Average outstanding balance per loan	43,271
Weighted average original loan to initial value	77.87%
Weighted average current loan to current value	45.19%
Weighted average seasoning (in months)	61.21
Weighted average remaining maturity (in years, at 0% CPR)	12.35
Weighted average initial maturity (in years, at 0% CPR)	17.54
Remaining average life (in years, at 0% CPR)	6.70
Remaining average life (in years, at 2% CPR)	6.05
Remaining average life (in years, at 5% CPR)	5.24
Remaining average life (in years, at 10% CPR)	4.20
Remaining average life to interest reset (in years, at 0% CPR)	5.88
Percentage of fixed-rate loans	83.92%
Percentage of resettable-rate loans	16.08%
Weighted average interest rate	2.536%
Weighted average interest rate fixed rate loans	2.826%
Weighted average interest rate resettable-rate loans	0.952%

b/ Registered Cash	
Registered cash proceeds under the residential mortgage loans	238,286,438

c/ Public Sector Exposure	
ISIN	FR0010347989
Issuer name	CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE MINISTÈRE DE L'ECONOMIE
Currency	EUR
Nominal amount	81,000,000

Currently no derivatives are included in the special estate. All assets and liabilities are euro denominated, so there is no currency risk. The nominal overcollateralisation level stood at 118.42% at the end of 2018.

VI.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 2018 Belfius had EUR 2,461 million of outstanding Public Pandbrieven.

Total Amount Outstanding (in EUR)	2,461,000,000
Current Weighted Average Fixed Coupon	0.550%
Weighted Average Remaining Average Life	4.68

The Belfius Public Pandbrieven were rated AAA (stable outlook) by S&P and Aaa by Moody's at the end of 2018.

Characteristics of Cover Assets as at 31 December 2018

a/ Public Finance Assets	
Outstanding Balance of Public Sector Assets	3,270,429,784
Number of borrowers	962
Number of loans	30,473
Average Outstanding Balance per borrower	3,399,615
Average Outstanding Balance per loan	107,322
Weighted average seasoning (in months)	97.46
Weighted average remaining maturity (in years, at 0% CPR)	12.30
Weighted average initial maturity (in years, at 0% CPR)	20.47
Remaining average life (in years, at 0% CPR)	6.80
Remaining average life (in years, at 1% CPR)	6.50
Remaining average life (in years, at 3% CPR)	5.86
Remaining average life (in years, at 5% CPR)	5.30
Remaining average life to interest reset (in years, at 0% CPR)	6.65
Percentage of Fixed Rate Loans	97.01%
Percentage of Resettable Rate Loans	2.99%
Weighted average interest rate	3.237%
Weighted average interest rate Fixed Rate Loans	3.283%
Weighted average interest rate Resettable Rate Loans	1.739%

b/ Registered Cash	
Registered cash proceeds under the Public Sector Exposures	80,640,443

c/ Liquid Bonds	
ISIN	FR0010347989
Issuer name	CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE MINISTÈRE DE L'ECONOMIE
Currency	EUR
Nominal amount	14,000,000

Currently no derivatives are included in the special estate. All assets and liabilities are euro denominated, so there is no currency risk. The nominal overcollateralisation level stood at 133.46% at the end of 2018.

VI.9.3. KEY POINTS RISK

These key points apply to both pandbrieven programmes.

VI.9.3.1. 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 the ALCo.

VI.9.3.2. 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.

VI.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. 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.

SECURITISATION ACTIVITY AS ORIGINATOR

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)	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 2018 year-end	Residential mortgage loans	Public sector loans	Corporate & SME exposures	ABS/MBS	Total
TRADITIONAL SECURITISATIONS					
Underlying assets	5,504	885	1,373	NA	7,762
Defaulted assets(1)	3	1	15	NA	19
of which exposures securitised in 2018(2)	0	0	0	NA	0
Gains and losses on sales in 2018	0	0	NA	NA	NA
SYNTHETIC SECURITISATIONS	NA	NA	NA	NA	NA
Underlying assets					
Defaulted assets(1)					
of which exposures securitised in 2018(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 2018 in comparison to 2017 relate to:
- the restructuring of the Mercurius-1 transaction, whereby amongst others the interest rates on the notes, the reserve fund and the principal priority of payments have been modified; and
- the amortisation in the underlying portfolios of assets securitised.

VI.11. ENCUMBERED ASSETS

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 2018, the total assets pledged amounted (and accounted) to EUR 7.3 billion, of which EUR 4.4 billion is considered as encumbered for TLTRO II funding purposes (EUR 4 billion funding).

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.

TEMPLATE A - ENCUMBERED AND UNENCUMBERED ASSETS

Median values		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	31,330		116,598	
030	Equity instruments	0		1,783	
040	Debt securities	3,565	3,869	12,725	13,315
050	*of which: covered bonds*	*3*	*3*	*1,321*	*1,385*
060	*of which: asset-backed securities*	*123*	*120*	*677*	*719*
070	*of which: issued by general governments*	*2,500*	*3,043*	*4,324*	*5,384*
080	*of which: issued by financial corporations*	*592*	*426*	*4,355*	*4,752*
090	*of which: issued by non-financial corporations*	*472*	*400*	*4,020*	*3,180*
120	Other assets	27,765		102,090	
121	*of which: Mortgage loans*	*9,521*		*20,882*	
122	*of which: Public loans*	*5,636*		*70,297*	
123	*of which loans to credit institutions (cash collateral)*	*12,609*		*0*	

TEMPLATE B - COLLATERAL RECEIVED

Median values		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	645	2,836
140	Loans on demand	0	0
150	Equity instruments	0	140
160	Debt securities	645	2,683
170	*of which: covered bonds*	*0*	*0*
180	*of which: asset-backed securities*	*36*	*1,164*
190	*of which: issued by general governments*	*609*	*1,212*
200	*of which: issued by financial corporations*	*5*	*153*
210	*of which: issued by non-financial corporations*	*32*	*1,319*
220	Loans and advances other than loans on demand	0	54
230	Other collateral received	0	0
240	OWN DEBT SECURITIES ISSUED OTHER THAN OWN COVERED BONDS OR ASSET-BACKED SECURITIES	0	409
241	OWN COVERED BONDS AND ASSET-BACKED SECURITIES ISSUED AND NOT YET PLEDGED		3,979
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	31,975	

TEMPLATE C - SOURCES OF ENCUMBRANCE

Median values		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and owndebt securities issued other than covered bonds and ABSs encumbered
		010	030
010	CARRYING AMOUNT OF SELECTED FINANCIAL LIABILITIES	25,889	29,256
011	Derivatives	11,864	12,609
012	ECB funding	3,968	4,447
013	Covered Bonds	7,965	9,873

According to the EBA guideline based on the median values, the encumbered assets at Belfius Bank amounted to EUR 32.0 billion end 2018 and represented 21.1% of total bank balance sheet and collateral received under securities format, which amounted to EUR 151.5 billion (EUR 147.9 billion assets and EUR 3.5 billion collateral received). This represents a decrease of the encumbrance ratio of 1.5% compared to end 2017 (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 9.9 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 2018, the total median amount of assets used as collateral for this activity amounts to EUR 6.3 billion, of which EUR 4.4 billion is linked to the ECB funding. In 2018, 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 12.6 billion (decrease of EUR 1.5 billion compared to end 2017), under the form of cash or securities. A significant part of collateral pledged is financed through collateral received from other counterparties with whom the Bank concluded derivatives in the opposite direction.

The total amount of covered bonds issued was EUR 8.0 billion. The assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amounted to EUR 9.9 billion (EUR 8.7 billion end 2018). Over-collateralisation of both mortgage and public covered bonds is 120% and is well above the levels requested by regulator and rating agencies.

Seen there is no currency representing more than 5% of total Belfius liabilities, all encumbrance figures are computed in EUR only.

VI.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.

Please note that Belfius Insurance was always able to pay its engagements towards its customers during the two crisis periods in October 2008 (financial crisis after the bankruptcy of Lehman Brothers) and in October 2011 (dismantling of Dexia Group). During those uncertain months, the lapse rate didn't exceed the level of 1% of the Life reserve per month.

VI.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 Management Governance - II.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.

VII. NON-FINANCIAL RISK

VII.1. OPERATIONAL RISK

VII.1.1. POLICY

The operational risk framework has been extended to "Non-Financial Risk" in 2018. The term Non-Financial Risk (NFR) has to be understood as a broad umbrella covering all risks except "financial risks" (such as market, ALM, liquidity, credit and insurance risks). NFR covers among others operational risks (including fraud, HR, IT, IT security, business continuity, outsourcing, data-related risks, privacy …) as well as reputational, compliance, legal risks, etc.. Consequently, NFRs are not independent, and do not constitute a predefined list of risks, resulting in the need for a regular review of the scope of these risks in light of emerging risks and new regulations.

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

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

Specific attention is also paid to more recent or evolving types of risks, such as cyber risk, conduct risk, sourcing risk, cloud risk, privacy risk, reputation risk, compliance risk, …

VII.1.2. RISK APPETITE

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

The RAF for NFR has been reviewed in depth in 2018. It contains qualitative and quantitative statements and is articulated around three concepts on which limits are defined:
- "Risks": What are the risks? How to appreciate the risk level ?
- "Returns": What are the potential losses/gains related to those risks?
- "Capacity": What is the capacity to absorb/manage the risks?

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

VII.1.3. MEASURING AND MANAGING NFR

Managing NFR is based on the following elements:

VII.1.3.1. Decentralised responsibility

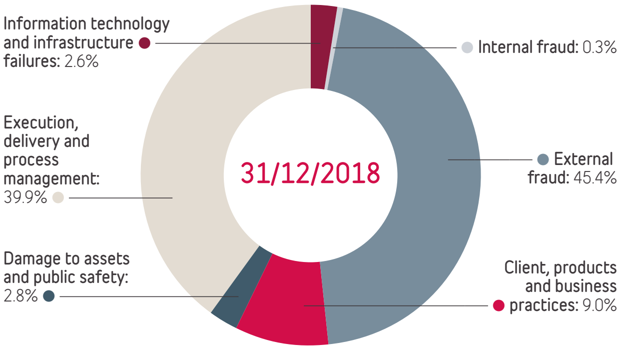
Each of the Bank's line management organisations has the primary responsibility for monitoring the NFRs in its individual sphere of activity (first line of defence). It establishes the way its activities are organised, including the checks that need to be implemented to limit NFRs. It also defines the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

VII.1.3.2. Gathering data about operational incidents

The systematic collection and control of data on operational incidents is one of the main requirements of the Basel Committee regarding operational risk management, 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, mitigating 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 2016-2018, Belfius Bank's average annual potential net losses stemming from operational incidents amounted to EUR 3.9 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 amount but not necessarily in number of events.

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.

VII.1.3.3. Self Assessment of Risks and Internal Controls.

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

VII.1.3.4. Information Security

For Belfius, the purpose of information security is to protect Belfius information that has a value for the organization:
1. the information generated by the business;
2. the information belonging/pertaining to our clients;
3. the information, derived from freely accessible or publicly available data, which has acquired a value as a result of the treatment carried out by or on behalf of Belfius

The threats against data and the information are:
- their loss of integrity;
- their loss of confidentiality;
- their unplanned unavailability.

The mission of information security, is to guard against these threats. Belfius also considers that the objective regarding information security extends to managing the risks linked to the consequences of these threats if they have materialized:
- loss of customers' confidence;
- loss of money;
- loss of reputation within the customers and shareholders;
- loss of peer confidence (regulators, financial markets);
- loss of confidence of our business partners.

An information security strategy derived from these principles has been approved by the Board of Directors. The organization has now a framework applicable to all actions pertaining to information security.

Belfius' Risk Appetite Board of Directorsaccompanies and supports the information security strategy. It includes qualitative statements and quantitative Key Risk Indicators explicitly related to Information Security stipulating (how) Belfius wants to meet the highest standards with regard to information security. The KRI will monitor the matching between Belfius Risk appetite and the reality on the field.

The information security strategy has four major ambitions translated in 9 strategic objectives:
- be mature: maintain an information security maturity level throughout Belfius on par with peers, covering all Belfius Bank's information regardless of location;
- be aware: ensure Belfius Bank employee and agent awareness results in proper responses to threats & attacks;
- be resilient: be resilient to cyber attacks: prevent attacks through identification and appropriate mitigation of vulnerabilities to prevent successful data breaches;
- be compliant: be compliant with applicable information security laws and regulations and resolve applicable audit recommendations in due time.

Under the ambition "Be Mature", there are three strategic objectives:
- operational excellence: Belfius wants to develop excellence in its operating model and technological choices for addressing the threats against information security;
- hiring talents/training the workforce: Belfius wants to constantly find the right balance between new and experienced staff, between "in house" and external staff. Attracting and retaining new talents and training/upgrading current staff are key measures to manage this balance;
- third party management: Belfius wants to manage the risks linked to the third parties. Managing this risk can take different forms: methodologies, framework, contracting, shareholdership, governance,….

Under the ambition "Be Aware", there are two strategic objectives:
- knowledge and inventory of the information: Belfius wants to manage its assets (data & systems), users and the relationships between them. Inventoring, mapping, managing and securing them are paramount to realize this objective. 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;
- knowledge and mastering of the threat landscape: Belfius wants to maintain an independent vision of the threat landscape that may impact its operations and the consequences an exposition to these threats could have. Belfius wants to constantly identify the gaps in its information security by comparing its vision with the security input provided by its suppliers, integrators and security vendors.

Under the ambition: "Be Resilient", there are two strategic objectives:
- rebalancing prevention, detection and response: Belfius wants to ensure a good balance between prevention, detection and response (including resilience & continuity). Belfius wants to maintain an environment that promotes the return of experience of incidents affecting information security;
- multiple lines of defence: Belfius wants to be organized in different layers of defence, to be able to control if its security posture is coherent with its framework and policies. Belfius wants to continue to empower the business to protect the information they own.

Under the ambition "Be compliant", there are two objectives:
- thoughtful and reasonable use of norms and standards: Belfius will reconsider regularly which frameworks (norms, standards) are the most adapted for its organization Belfius wants to maintain into the organization a culture that leads it to manage the uncertainty efficiently;
- alignment global risk management & information security risk management: Belfius wants to integrate information security risk management in a global risk framework. Belfius wants to be able to answer to the most fundamental question whether the organization is enough protected.

VII.1.3.4.1. Governance and Strategy

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

The ISS is chaired by the Chief Risk Officer (CRO).

These ambitions will be monitored on a regular 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 reporting of the key risk indicators;
- an incident and threat analysis;
- an approval and follow-up of information security projects.

A Chief Information Security office (CISO) has been set up within NFR: it is led by a CISO and groups all the persons taking care of Information risk management. It provides a coherent workforce able to sustain and support Belfius ambitions' regarding information security.

Belfius outsources its ICT infrastructure to PI2, a company jointly owned by Belfius and IBM. The formalization of what Belfius expects from PI2 with regard to information security is defined in the Information Security Controls (ISEC) document.

VII.1.3.4.2. Main evolutions of Information Security projects

For information security, Belfius follows a risk-based approach. This means that, based upon risk assessments, decisions are made on where improvements are most needed to effectively realize the stated ambitions and to align the actual risk posture with the risk appetite. This approach is used by the individual teams to define priorities and areas that need improvement whilst adhering to a defence in depth principle.

The high-level priorities and goals are translated in concrete projects. To effectively face cyber attacks that become ever complex, Belfius focuses on projects that increase the capabilities of 3 types of controls: technology, process and people.

The ever-evolving security threat landscape requires organizations to be resilient and anticipate on existing and future threats. A new security roadmap (2018-2019) approved by the Board of Directors is now executed. It focuses 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 especially when Belfius strategy is towards more cloud technology.

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 on a yearly basis since then.

VII.1.3.4.3. Data privacy

On 25 May 2018, the General Data Protection Regulation (GDPR) became applicable. This introduced a number of new aspects compared to the old European directive from 1995. In general, the GDPR grants more rights to natural persons - such as Belfius customers - and imposes more obligations on processors and controllers of personal data - including Belfius and its partners/suppliers. On 5 September 2018, the law on the protection of natural persons with regard to the processing of personal data was published in the Belgian Official Gazette (le Moniteur).

For the implementation of GDPR in the Belfius group, a project has been steered by the Risk department in close collaboration with all business and operational lines and the Management Boards.

Strategy and vision: the respect for privacy and the protection of personal data is a key commitment at Belfius. GDPR conformity is integrated into every process to offer (existing, adapted and new) products, innovative digital tools, services and information sharing to its clients. GDPR is a focus in approval processes and partners with DPO, CISO, ITSO, ORM, legal and compliance to respect GDPR.

Information to data subjects & exercise of their rights

- Privacy charters and information to clients & staff: Belfius published a revised privacy charter on 24 May 2018 and informed its customers via messages in its online channels, letters, video and radio spots. Also towards the staff, an HR-privacy charter has been published and the staff has been Informed via the internal media.
- Respect the GDPR-rights: Before 25 May 2018, procedures were put in place to be able to handle all the rights and answer them in time. In addition to the traditional communication channels (mail and letter), Belfius also provides the possibility, as an innovative digital bank, to exercise the most common rights (right of access, right of rectification and right to object to direct marketing purposes) via Belfius Direct Net, Belfius Direct Tablet and Belfius Direct Mobile. In this case, the exercise is immediately applicable (the right of access is made available online on the following day and/or sent at the latest). During the first months after 25 May 2018, a weekly follow-up was organised with the major departments in Belfius Bank and Insurance to follow-up the demands, executions and reactions/complaints. No major issues were reported, detected which resulted in a limited number of complaints.

Internal Governance, processes and tools

- Privacy risk policy and guidelines: Belfius set up a privacy risk policy and associated guidelines.
- Privacy Steering: a dedicated steering related to GDPR has been setup and reports to the Management Board/NFR Committee.
- Incident and breach management of personal data: Belfius has developed a multi-stakeholder governance and tool to deal with incidents involving personal incidents:
  - To report;
  - To score according to scoring methodology;
  - To analyse and whether or not to confirm them as a breach according to GDPR;
  - To document the confirmed breach and whether or not to report it to the data protection authority and/or the individuals.
    Belfius is very committed to clearing out any incidents as quickly as possible, if applicable, with the individuals concerned, which results in minor impacts on the individuals and high mitigation and minor impact of breaches. Every breach results also in an action plan.

In communication, we will continue to put a lot of effort into repeating messages to ensure that incidents are reported.

- Set up and maintain a record of processing activities: activities treating personal data are all centrally documented by the business lines in a privacy register, which was setup in 2017. For existing activities (before 25 May 2018) a completeness and correctness review of this register has been performed and will be repeated on a regular basis. All new activities are being added in this same register.
- GDPR and third party contracts: all contracts are being adapted to comply with GDPR. A risk-based approach is followed to prioritize the list of contracts to be adapted. Defining the role of each party - controller, processor of joint-controller for each activity - and the negociation of the contract clauses is time-consuming, also due to the fact that GDPR does not clearly determine these criteria to determine the roles.

Internal organisation & Internal awareness

- Assign a Data Privacy Officer (DPO): one of the obligations for Belfius was the assignment of a DPO. Belfius assigned a DPO for the Belfius Group.
- Privacy correspondents: privacy correspondents in the business and operational lines, regularly informed on GDPR, are relays between the DPO and the business line to foster the continuous attention for GDPR in the business lines.
- GDPR-awareness to all employees: many internal communications, information sessions, videos, interviews, ... were developed to have and keep GDPR and privacy top of mind. A GDPR e-learning will have to be followed by everyone between Q4 2018 & end of Q4 of 2019 (phased roll-out).

VII.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 main building. 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 2018 are noteworthy:

- The exercise program has been extended to be in line with the more complex and disruptive risk landscape. At each exercise, the BC Plan was successfully deployed and all KPI's were compliant with the risk appetite; in 2018 no real 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, awareness and preventive measures have been taken to lower further the likelihood or to decrease the impact (e.g. by creating additional or updating existing stress scenarios (like "Power outage" or "Cyber Attack") to be rolled-out during "the golden hour" after a corporate crisis arises);
- Update and further formalization of the overall governance where appropriate; the corporate crisis procedures of Belfius Bank and of Belfius Insurance have been further coordinated; the technical supports and communication tools at deployment have been professionalized or extended; an extensive internal training program on used tools, procedures and techniques has been organized.
- Update of the Business Impact Analysis due to the digitization strategy, the development of new products and services and due to different internal reorganization projects; extension with dependencies and "alternative continuity strategies" in case of an unplanned IT disruption, where possible and appropriate.
- Review of the mix of used relocation strategies in favour of "Home Office" and "Dual Office"; as a consequence all systemic activities are executed on at least two distinct geographical 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; the relocation strategy for the department "Financial Markets" was changed in 2018.
- On the occasion of each BCP deployment, "lessons-learned" and action plans to improve the resilience of Belfius have been drawn-up. All action plans are being executed according to plan.
- Finally the main change in the regulation on Business Continuity & Security (circular NBB 2015-32) is the decrease of the Response Time Objective (RTO) for systemically important activities from 4H to 2H. The exercises and simulations of 2018 have proved that Belfius fully complies with this requirement.

VII.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 and for cyber risk. This is standard practice in the financial services' industry.

VII.1.3.7. New Product Approval Policy

This NFR aspects are already treated in part Risk Management governance – II.2.2.7. New Product Approval Policy (NPAP)

VII.1.3.8. Fraud policy

As fraud risk is relevant and in constant evolution, Belfius has adapted both its fraud risk governance and its Fraud Risk Policy. In line with the overall commitment to deliver value-adding products and services Belfius wants to be extremely severe when assessing capacities with regards to fraud. A zero-tolerance policy is applicable for all forms of fraud (internal, external as well as mixed fraud).

The Chief Risk Officer is in general, as for all risks, responsible for the sound management within the 3 Lines of Defence model. This implies in a concrete manner that Business/Support lines are the first risk managers and the CRO & Risk/NFR team with the Anti-Fraud Officer as expert has a clear 2nd LoD role.

The Fraud Steering Committee, acting as a sub-committee of the Non-Financial Risks Committee, is defining and monitoring the fraud risk management on strategic and tactical level. It is the platform to reflect on and organize a dialogue between the internal control functions and the stakeholders mainly operating in the decentralized expert units (handling specific types of fraud).

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

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

VII.2. BUSINESS RISK AND STRATEGIC RISK

VII.2.1. BUSINESS & STRATEGIC RISK

Definitions

Business risk reflects the unexpected decrease in profitability from the expected (or budgeted) one resulting into deviations from Financial Plan, changes in competitive environment, lack of responsiveness to changes in the business environment or adverse/ improper implementation of business decisions.

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. Strategic risk covers risks which could disrupt the business model, such as a drastic change of the competitive environment, failing to lead a strategic business transformation project, underestimating technological evolutions, …

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 as well as the strategic vision and strategic risks are operated through the various business line committees, by the Management Board and ultimately by the Board of Directors: the latter defines strategic decisions to achieve the levels of expected profitability as announced to the market and ensure 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.

Strategic risk is not covered by capital but is handled and managed through an appropriate governance process at Belfius.

VII.3. REPUTATION RISK

Definition

For Belfius, reputation risk is created when the performance of the Bank is perceived by its stakeholders as lower than the expectations. Therefore managing performance and perceptions are key to managing the reputation.

Organisation and Management of the Risk

Reputation risk management has a top-down and a bottom-up approach steered form the Board of Directors and Risk Committee to business activities via the Management Board.

For the day-to-day reputation risk management, Communication and Customer Experience has a key responsibility when assuring sound risk management together with the other stakeholders such as top-management, Non-Financial Risk, Legal, Business and Support lines.

The reputation strategy expressed in the risk management framework aims to implement sound, prudent and effective risk management and is based on a prevention, detection and mitigation pillar:

- prevention: transparency regarding the reputation risk governance, combined with well-defined processes, guidelines and procedures, mainly to identify sources of reputation risk;
- detection: an early warning indicators reporting ensures a proactive detection of factors affecting reputation risk and stimulates the alertness and speed of response both having a significant Impact on the level of reputational damage;
- mitigation: tactical and operational mitigation actions are top-down driven with adapted short decision & communication lines assuring a clear and univocal response to incidents or crises. The emphasis Is amongst others on effective response to press, interaction on social media, sound complaint management and crisis communication.

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 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.

VII.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 recognised by the FSMA and NBB 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 Anti-Money Laundering Compliance Officer and a Privacy Officer.

The Anti-Money Laundering Compliance Officer (AML CO) 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 AML CO has established preventive measures and broadened controls. Proper knowledge of the customer and their identification, verification of the origin of financial flows on accounts and detection of dubious transactions are all vital elements in the prevention of such practices.

In particular, the Privacy Officer ensures that personal data obtained by the Bank in providing its services to its customers are processed and retained with necessary prudence and confidentiality, observing applicable regulations. . In the context of the new Global Data Protection Regulation (GDPR), which came into effect in May 2018, the role of Privacy Officer has become part of the new position of Data Protection Officer (DPO) for Belfius group created as of May 2018 at the level of Non-Financial Risk Management.

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.

VII.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(1).

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.

(1) 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.

VIII. 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 economic capital calculation methodology, the potential increase (not decrease) of economic 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".

IX. 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.

X. BELFIUS INSURANCE'S RISKS

RISK CARTOGRAPHY

The risks are mapped out as follows at Belfius Insurance:

FINANCIAL RISKS
Credit Risk
Market- 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.

X.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.

X.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.

The credit risk of Belfius Insurance is controlled in cooperation with the Credit Risk Management teams of Belfius Bank. An operational system has been developed under the Investment Framework of Belfius Insurance to manage the credit risks and its related 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.

X.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 2017 and 31 December 2018. The evolution in bond market values reflects the combination of the movement in interest rates, credit spreads, purchases and sales and maturing exposures.

MARKET VALUE AT 31/12/2017(1)

	Cash	Real estate	Shares	Government bonds	Covered bonds	Financial institutions bonds	Corporate bonds and credits	Mortgage loans	Derivatives	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
The 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

(1) Asset classes are based on a Belfius risk taxonomy.

MARKET VALUE AT 31/12/2018

	Cash	Real estate	Shares	Government bonds	Covered bonds	Financial institutions bonds	Corporate bonds and credits	Mortgage loans	Derivatives	Total
Belgium	376	645	768	5,967	0	158	899	3703	28	12,543
France	0	0	220	592	460	115	551	0	0	1,938
Italy	0	0	7	671	4	19	85	0	0	786
Spain	0	0	0	410	109	19	90	0	0	629
United Kingdom	0	0	10	0	275	45	157	0	0	487
Germany	0	0	128	3	0	21	72	0	0	224
The Netherlands	0	0	126	21	0	40	78	0	0	266
Luxembourg	0	0	35	15	0	63	214	0	0	327
United States	0	0	0	0	0	43	165	0	0	208
Poland	0	0	0	155	0	0	0	0	0	155
Ireland	0	0	0	109	23	0	34	0	0	166
Denmark	0	0	0	0	0	0	179	0	0	180
Others	0	0	0	267	0	39	97	0	0	403
TOTAL	376	645	1,293	8,209	873	562	2,623	3,703	28	18,312

(1) Asset classes are based on a Belfius risk taxonomy.

The overall market value of the portfolio decreased in 2018 as a result of the crease of the branch 21 products while a new strategic asset allocation has been implemented in order to optimise the financial revenues within the risk appetite framework .

A large part of the portfolio (68.5%) is invested in Belgium. Belfius Insurance endeavours to comply with its self-imposed credit risk framework.

The government bond portfolio declined by EUR 529 million to EUR 8,209 million. Reinvestments were mainly focused on corporate bonds that offer a higher return within the well-defined risk appetite. The corporate bond portfolio decreased by EUR 1,116 million to EUR 2,623 million, mainly due to the strong disinvestment in Money Market Funds investments (-802 million).

The mortgage loans remained stable in 2018.

The following tables show the ten largest exposures of Belfius Insurance per counterparty on 31 December 2017 and 31 December 2018:

Issuer	Category	Market value at 31/12/2017
Belgian government	Government bonds	4,866
Italian government	Government bonds	724
Caisse française de financement local	Covered bonds	407
Belfius Bank	Cash	374
AXA SA	Funds	357
Candriam Investors Group	Fund	351
Communauté française de Belqique	Bonds issued by Region / Community	351
Spain government	Government bonds	325
Société wallonnne du logement	Bonds guaranteed by a government	283
French government	Government bonds	249
TOTAL		8,289

Issuer	Category	Market value at 31/12/2018
Belgian government	Government bonds	4,283
Italian government	Government bonds	671
Région walonne	Covered bonds	530
French government	Government bonds	486
Spain government	Government bonds	410
Caisse française de financement local	Covered bonds	397
Belfius Banque SA	Cash	354
Communauté française de Belqique	Bonds issued by Region / Community	352
Société wallonnne du logement	Bonds guaranteed by a government	235
Région de Bruxelles-Capitale	Bonds issued by Region / Community	228
TOTAL		7,945

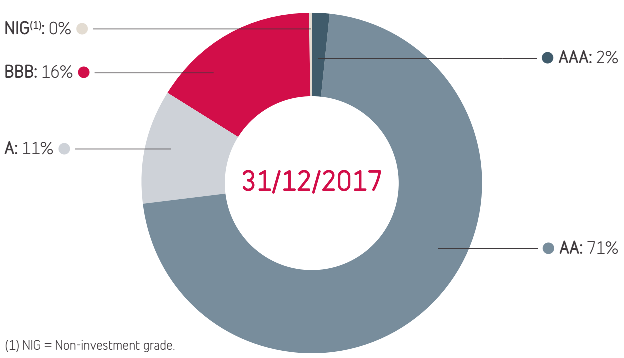
Belfius Insurance remains mainly exposed to Belgian government bonds. Although the exposure decreased with EUR 513 million in 2018.

X.1.1.2. Additional information on the quality of the portfolio

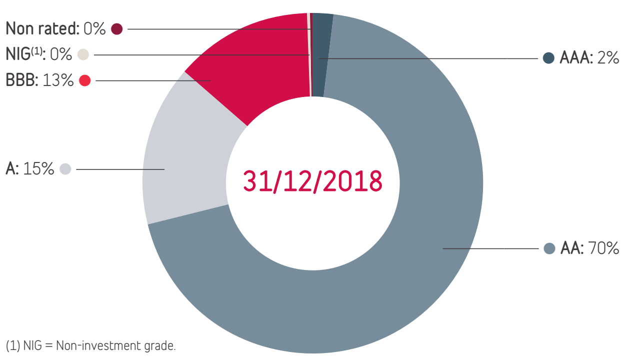
Belfius Insurance wants to obtain a good credit quality for its bond portfolio overall. The outstanding credit risk is closely monitored in cooperation with the Credit Risk Management teams of Belfius Bank. The graphs below show the breakdown of the assets per rating as at 31 December 2017 and 31 December 2018.

The weighted average rating of the portfolio (including mortgage loans) remained stable in 2018 at A-.

Goverment bonds

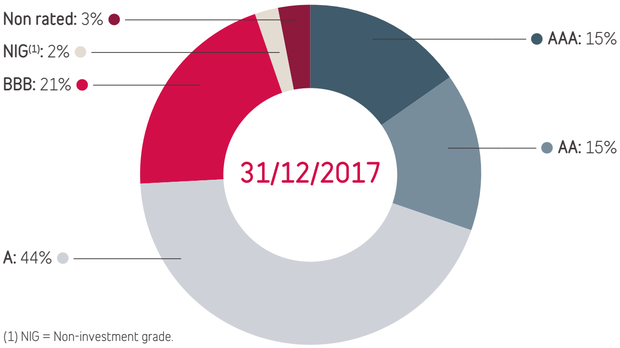


(1) NIG = Non-investment grade.

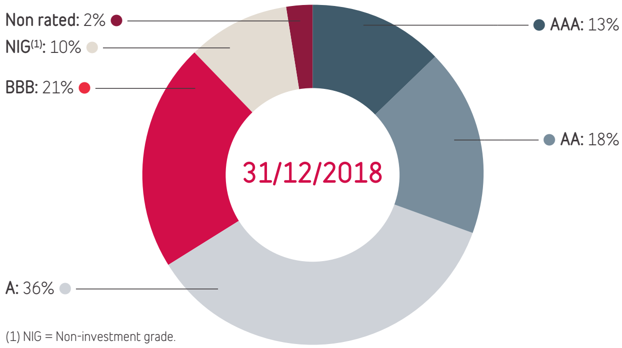


(1) NIG = Non-investment grade.

Corporate bonds (except RMBS)



(1) NIG = Non-investment grade.



(1) NIG = Non-investment grade.

X.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 outstanding mortgage loans that meet the Forbearance conditions amounted to approximately EUR 44 million or 1.2% of the outstanding volume of mortgage loans under management as of year-end 2018. The amount of these credits is fully guaranteed with a mortgage registration. An impairment of EUR 0.7 million, being 1.6% of the outstanding Forbearance amount, was booked on the basis of internal rules. This low percentage can be explained by the large number of credits with a loan to value (i.e. the amount of credit secured by immovable property in relation to the value of the property) of less than 75%, as well as by the regular requirement of an external guarantee for the credits with a ratio of more than 75%.

Forbearance (in thousand EUR)	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				
Loan commitments - given	44,332	725	44,332	

X.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 main source 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 most suitable allocations of the various assets classes 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 and is aligned with the Belfius Bank risk appetite. 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.

X.1.2.1. Foreign Exchange Risk

The foreign exchange rate risk is not significant at Belfius Insurance, as 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 exposures in Danish krone (Danish mortgage bonds), whose value is strongly linked to the euro. The exposure to the Danish krone increased in 2018 by EUR 7.5 million.

Market value	31/12/2017	31/12/2018
EUR	19,504	18,133
DKK	172	179
GBP	1	0
TOTAL	19,677	18,312

X.1.2.2. Interest Rate Risk

The aim is to manage and limit the volatility in the income statement that can be caused by interest rate fluctuations and to safeguard the economic value of the shareholders' capital. Therefore, Belfius Insurance, as a matter of policy, does 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 bucket 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.

Belfius Insurance maintained its ALM strategy which is targetting 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. Taking into account the Solvency II capital requirements in combination with the low interest rates and the current taxation rules, it is not easy to offer customers attractive investment insurance products in Branch 21 and Branch 26. In the meantime, there are several initiatives on which we give customers an opportunity to foresee a certain degree of security in their investment in Branch 23 through the Branch 44 concept.

X.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 counter-parties.

X.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 bps. In 2018,
→ The interest rate risk decreased and remained low, thanks to a limited duration gap;
→ The real estate risk rose slightly as a result of an increase in the value of the real estate portfolio and new acquisitions.

Event (in thousands of EUR)	31/12/2017	31/12/2018
INTEREST RATE RISK		
Sensitivity (+10 bp)	16,560	10,874
Earnings at risk (+50 bp)	2,743	2,347
EQUITY RISK		
Shock 30% (negative)	(325,596)	(243,427)
VaR (99%, 10 days)	35,720	53,400
REAL(ESTATE RISK		
Shock 15% (negative)	(88,925)	(96,794)

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 a 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.

X.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 specifically, the company invests a significant part 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.

Please note that Belfius Insurance was always able to pay its engagements towards its customers during the two crisis periods in October 2008 (financial crisis after the bankruptcy of Lehman Brothers) and in October 2011 (dismantling of Dexia Group). During those uncertain months, the lapse rate didn't exceed the level of 1% of the Life reserve per month.

X.2. INSURANCE RISK

X.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,) 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 forLife 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. This 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.

X.2.2. MANAGING THE INSURANCE RISK

Organisation and Risk Management

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 hand, 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 and assures to meet economic capital prescriptions

X.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 lapse rate. The sensitivity to the lapse rate has slightly increased in 2018.
The review of cost assumption has a negative impact on the available financial resources and its sensitivity.

The insured capital on death is higher than the fair value of technical reserves, which results in a positive impact on available financial resources if there is a decrease in mortality rates.

In Non-Life, lower administrative costs lead to a higher result, while an increase of claims leads to a lower result.

Underwriting risk Life: scenario that corresponds to[1]

	Impact on available financial resources before taxes	
	31/12/17	31/12/18
An increase of 15% in mortality	(35)	(34)
An increase of 10% in costs + 1% inflation	(126)	(158)
A decrease of 10% in the redemption rate	(21)	(23)

(1) Impact for Belfius Insurance SA (= Belins solo), Branch 23 included.

Underwriting risk Non-Life: scenario that corresponds to[1]

	Impact on income before taxes	
	31/12/17	31/12/18
A increase of 10% in administrative costs	(9)	(8)
An increase of 5% in claims made	(18)	(19)

(1) Impact for Belfius Insurance SA and Corona SA (Belins conso)

X.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)

(In thousands of EUR)	Year of occurrence										
Year of settlement	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Estimation at the end of the year of occurrence	284,441	331,831	376,927	368,410	366,403	365,798	415,445	389,632	427,822	417,069	441,459
1 year later	286,182	315,094	377,982	365,547	350,517	324,524	392,976	361,479	402,910	396,145	
2 years later	276,197	302,958	376,143	355,306	334,313	312,883	381,044	353,512	385,904		
3 years later	266,868	302,314	370,819	350,249	329,882	306,454	374,836	351,551			
4 years later	267,226	300,159	370,924	352,804	328,046	303,051	371,983				
5 years later	266,805	299,236	363,378	350,780	323,899	301,179					
6 years later	267,520	296,773	360,537	351,335	319,633						
7 years later	267,249	293,969	357,875	344,245							
8 years later	264,048	293,741	354,384								
9 years later	264,340	292,906									
10 years later	262,520										

(In thousands of EUR)											
Actual estimation	**262,520**	**292,906**	**354,384**	**344,245**	**319,633**	**301,179**	**371,983**	**351,551**	**385,904**	**396,145**	**441,459**
Cumulative payments	**(228,718)**	**(268,076)**	**(302,729)**	**(300,328)**	**(272,831)**	**(251,659)**	**(311,647)**	**(265,894)**	**(278,323)**	**(247,810)**	**(197,009)**
Actual provisions	**33,802**	**24,830**	**51,655**	**43,918**	**46,802**	**49,520**	**60,336**	**85,657**	**107,581**	**148,335**	**244,450**

(In thousands of EUR)	
Provisions (after 2008)	896,885
Provisions (before 2008)	129,820
Internal costs	47,256
Accepted deals	25,795
TOTAL	**1,099,756**

X.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 is responsible for 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 supervises the self-assessment of the risk, with support of the function for operational risk management.

X.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.

X.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.

X.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 of 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 department with specialized inspectors for fraud prevention in the insurance field.

X.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.

X.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 supervise 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.

X.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.

X.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.

X.3.7. OUTSOURCING RISK

Belfius Insurance calls on various external partners for certain, primarily technical, IT activities (PI2 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 PI2 to improve the performance and stability of the systems. The efforts will in the future be continued with a view to ongoing improvement.

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.

X.4. OTHER RISKS

X.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 Performance management 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.

X.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.

X.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.

X.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.

XI. APPENDICES

1. RISK METHODOLOGY

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

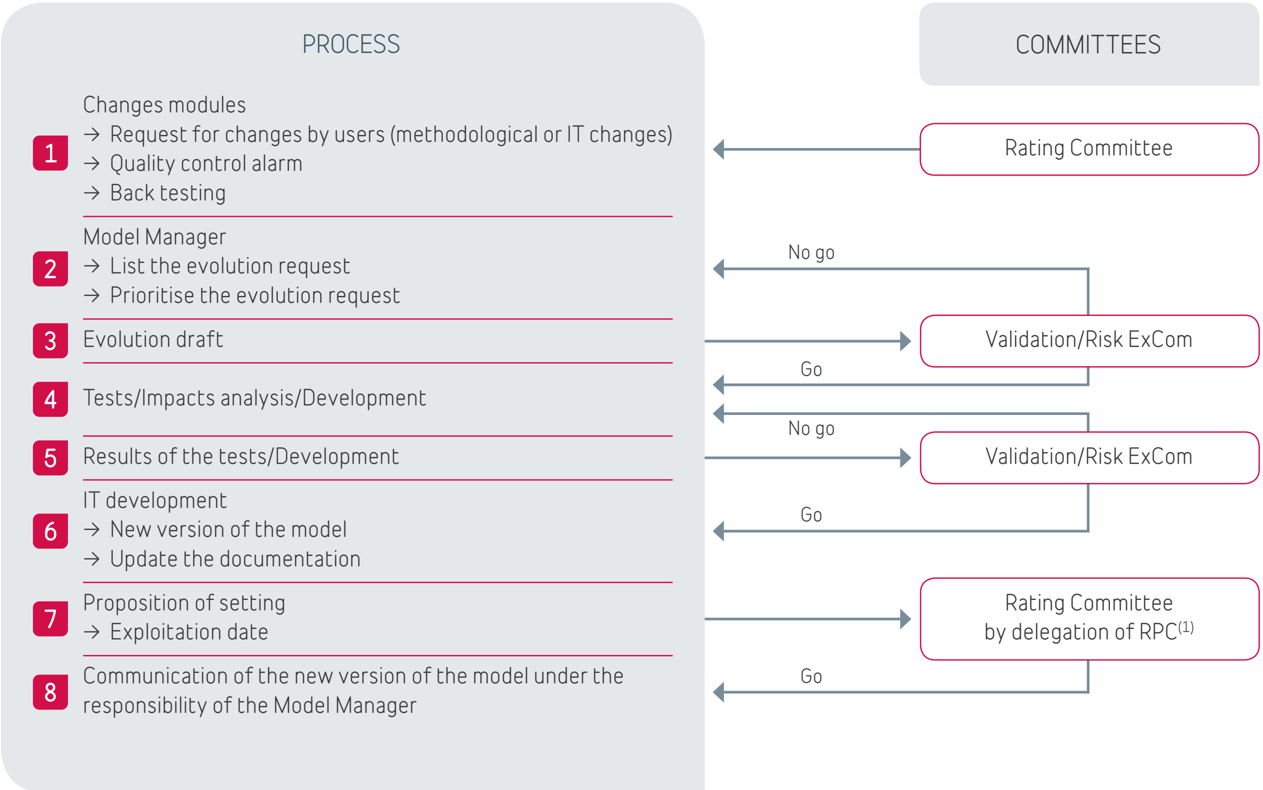
The model management process is coordinated by the Model Management team within Belfius Bank. Model managers perform the model management activities enhancing both consistency and efficiency.

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 5 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 has been sent to ECB in June 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;

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. The coming years will be dedicated to update the current processes and models in order to comply with this new definition on January 2021 as requested by the regulation.

Definition, Methods and Data for Estimating PD, LGD and CCF

MAIN PRINCIPLES USED FOR ESTIMATING THE PD

Types of Counterparties	Through the Cycle Models	Definition of Default	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		More than 90 days past due or unlikely to pay criteria	> 10 years	External
Corporates		More than 90 days past due or unlikely to pay criteria	> 10 years	Internal + External
Local Public Sector		More than 90 days past due or unlikely to pay criteria	> 10 years	Internal + External
Specialised Lending		More than 90 days past due or unlikely to pay criteria	6 years	Internal
Mid-corporates		More than 90 days past due or unlikely to pay criteria	6 years	Internal + External
Other Satellites		More than 90 days past due or unlikely to pay criteria	5 years	Internal
Public Satellites		More than 90 days past due or unlikely to pay criteria	5 years	Internal
Retail		More than 90 days past due or unlikely to pay criteria	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	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
Corporates			
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	On the basis of internal observation and expert judgement.	5 years	Internal
Public Satellites			
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

Belfius is organized to meet the requirements expressed by the Basel regulation regarding the control of the internal rating systems. The 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

Responsibilities and Decision Process

The controls are performed by the Validation department[1]. 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).

Audit acts as an additional level of control, included in its audit plan[2].
- The market models are reviewed globally (on 3 years basis);
- Regarding the credit models, Audit decided to conduct each year a dedicated mission by credit activity segment/type (Retail, Corporate, Public) that aims at assessing the origination and the servicing of the credit activity line including the related models;
- Audit also decided to conduct on yearly basis a high level assessment on credit and market models in order to provide the Oversight bodies with reasonable assurance with regards to the evolution of the models, the material changes, the validation process (respect of planning, the evolution of the major recommendation raised by the Validation department).

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[3];
- 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.

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).

It focuses primarily on regulatory models (Pillar 1 and 2), ALM and market models (post-trade valuations, market risk management) but it can also intervene on other topics.

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) Annual back tests are performed by the Credit Modelling team and validated by Model Validation.
(2) 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.
(3) Dedicated "Overrides Committees" are regularly organized for that purpose.

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 Stage 3 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 Asset Class such as 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) capital consumption on a transaction by transaction basis through RoNRE (Return on Normative Regulatory Equity) calculation. Based on 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) based on Economic Capital and a RoNRE (Return on Normative Regulatory Equity) based on Normative Regulatory Equity are calculated, to measure the expected profitability of the credit transaction and/or even the full credit relationship with the customer. Not only the expected income in the form of interest margins is taken into account, however also, inter alia, the operational costs and losses which might be statistically expected on loans are also considered. As a consequence, the Basel parameters are therefore integrated in the pricing.

2. PILLAR III TEMPLATES

2.1. CAPITAL

CC1 – COMPOSITION OF CAPITAL

		31/12/2018
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
2	Retained earnings	807
3	Accumulated other comprehensive income (and other reserves)	4,515
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**COMMON EQUITY TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS**	**8,989**
COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
7	Prudent valuation adjustments	(92)
8	Goodwill (net of related tax liability)	(104)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	(139)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	(1)
11	Cash flow hedge reserve	(14)
12	Shortfall of provisions to expected losses	(2)
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework)	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	(5)
15	Defined benefit pension fund net assets	0
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0
17	Reciprocal cross-holdings in common equity	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
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
20	Mortgage servicing rights (amount above 10% threshold)	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0
22	Amount exceeding the 15% threshold	0
23	Of which: significant investments in the common stock of financials	
24	Of which: mortgage servicing rights	
25	Of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	(304)
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0
28	**TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1**	**(660)**
29	**COMMON EQUITY TIER 1 CAPITAL (CET1)**	**8,329**
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS		
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus	497
31	Of which: classified as equity under applicable accounting standards	497
32	Of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase-out from additional Tier 1	
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)	
35	Of which: instruments issued by subsidiaries subject to phase-out	
36	**ADDITIONAL TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS**	**497**
	ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS	
37	Investments in own additional Tier 1 instruments	
38	Reciprocal cross-holdings in additional Tier 1 instruments	
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)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	**TOTAL REGULATORY ADJUSTMENTS TO ADDITIONAL TIER 1 CAPITAL**	**0**
44	**ADDITIONAL TIER 1 CAPITAL (AT1)**	**497**
45	**TIER 1 CAPITAL (T1 = CET1 + AT1)**	**8,826**

		31/12/2018
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	1,120
47	Directly issued capital instruments subject to phase-out from Tier 2	0
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)	
49	Of which: instruments issued by subsidiaries subject to phase-out	
50	Provisions	284
51	**TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS**	**1,404**
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS		
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	
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)	
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)	
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)	
56	National specific regulatory adjustments	
57	**TOTAL REGULATORY ADJUSTMENTS TO TIER 2 CAPITAL**	**0**
58	**TIER 2 CAPITAL (T2)**	**1,404**
59	**TOTAL REGULATORY CAPITAL (TC = T1 + T2)**	**10,230**
60	**TOTAL RISK-WEIGHTED ASSETS**	**52,065**
CAPITAL RATIOS AND BUFFERS		
61	**COMMON EQUITY TIER 1 (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS)**	**16,00%**
62	**TIER 1 (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS)**	**16,95%**
63	**TOTAL CAPITAL (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS)**	**19,65%**
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)**	**3,45%**
65	Of which: capital conservation buffer requirement	1,88%
66	Of which: bank-specific countercyclical buffer requirement	0,07%
67	Of which: higher loss absorbency requirement	1,50%
68	**COMMON EQUITY TIER 1 (AS A PERCENTAGE OF RISK-WEIGHTED ASSETS) AVAILABLE AFTER MEETING THE BANK'S MINIMUM CAPITAL REQUIREMENTS**	**8,05%**
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)	
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	26
73	Significant investments in the common stock of financial entities	38
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	**277**
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)	112
77	Cap on inclusion of provisions in Tier 2 under standardised approach	182
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	172
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	172
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	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase-out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase-out arrangements	192
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

CCYB1 – GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES USED IN THE COUNTERCYCLICAL CAPITAL BUFFER

Bank			
31/12/2018		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		79,275	32,396
United Kingdom	1	6,460	2,631
France		1,175	808
US		1,135	391
Netherlands		1,080	692
Luxenburg		667	542
Australia		457	150
Italy		274	98
Hong Kong SAR	1.875	36	15
Sweden	2	2	0
Slovakia	1.25	1	1
Czech Republic	1	1	0
Norway	2	1	0
Iceland	1.25	0	0
Lithuania	0.5	0	0
Rest		2,175	714
TOTAL		92,737	38,439

Bank	
31/12/2018	
Countercyclical buffer rate	0,07%
Countercyclical buffer amount	36.3

2.2. REGULATORY RISK EXPOSURE

OV1 – OVERVIEW OF RWAS

			RWAs				Minimum capital requirements
			31/12/2016	31/12/2017	31/12/2018	Evolution 31/12/2018 - 31/12/2017	31/12/2017
	1	Credit risk (excluding CCR)	36,105	39,965	43,914	3,949	3,197
Article 438(c)(d)	*2*	*Of which the standardised approach*	*13,032*	*13,314*	*14,424*	*1,110*	*1,065*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*0*	*0*	*0*	*0*	*0*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach(1)*	*21,734*	*25,168*	*27,161*	*1,993*	*2,013*
Article 438(d)	*5*	*Of which equity IRB under the simple risk-weighted approach or the IMA*	*166*	*204*	*375*	*171*	*16*
Article 107 Article 438(c)(d)	6	CCR	6,506	5,824	3,327	(2,497)	466
Article 438(c)(d)	*7*	*Of which mark to market*	*0*	*0*	*0*	*0*	*0*
Article 438(c)(d)	*8*	*Of which original exposure*	*0*	*0*	*0*	*0*	*0*
	9	*Of which the standardised approach*	*556*	*165*	*139*	*(26)*	*13*
	10	*Of which internal model method (IMM)*	*3,594*	*3,630*	*1,532*	*(2,098)*	*290*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*65*	*91*	*50*	*(41)*	*7*
Article 438(c)(d)	*12*	*Of which CVA*	*2,291*	*1,938*	*1,606*	*(332)*	*155*
Article 438(e)	13	Settlement risk	0	0	0	0	0
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	68	58	48	(10)	5
	15	*Of which IRB approach*	*68*	*58*	*58*	*0*	*5*
	16	*Of which IRB supervisory formula approach (SFA)*	*0*	*0*	*0*	*0*	*0*
	17	*Of which internal assessment approach (IAA)*	*0*	*0*	*0*	*0*	*0*
	18	*Of which standardised approach*	*0*	*0*	*0*	*0*	*0*
Article 438 (e)	19	Market risk	1,136	1,841	1,801	(40)	147
	20	*Of which the standardised approach*	*354*	*452*	*275*	*(177)*	*36*
	21	*Of which IMA*	*782*	*1,389*	*1,526*	*137*	*111*
Article 438(e)	22	Large exposures	0	0	0	0	0
Article 438(f)	23	Operational risk	2,915	2,932	2,975	43	235
	24	*Of which basic indicator approach*	*0*	*0*	*0*	*0*	*0*
	25	*Of which standardised approach*	*2,915*	*2,932*	*2,975*	*43*	*235*
	26	*Of which advanced measurement approach*	*0*	*0*	*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	0	0
Article 500	28	Floor adjustment	0	0	0	0	0
	29	TOTAL	46,730	50,620	52,065	1,445	4,050

INS1 – NON-DEDUCTED PARTICIPATIONS IN INSURANCE UNDERTAKINGS

31/12/2018	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)	1,825
TOTAL RWAS	6,752

MR1 – MARKET RISK UNDER THE STANDARDISED APPROACH

Bank	a	a
31/12/2018	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	54.9	4.4
Equity risk (general and specific)	133.7	10.7
Foreign exchange risk		
Commodity risk	6.2	0.5
Options		
Simplified approach	80.2	6.4
Delta-plus method		
Scenario approach		
Securitisation (specific risk)		
TOTAL	275.0	22.0

MR2-A – MARKET RISK UNDER THE IMA

Bank		a	a
31/12/2018		RWAs	Capital requirements
1	VaR (higher of values a and b)	384.3	30.7
(a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		10.3
(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		7.7
2	SVaR (higher of values a and b)	1,142.1	91.4
(a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		22.8
(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)		26.3
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	1,526.4	122.1

MR2-B – RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

Bank	a	b	c	d	e	f	g
31/12/2018	VaR	SVaR	IRC	Comprehen-sive risk measure	Other	Total RWAs	Total capital requirements
1 RWA AT 31/12/2017	477.3	912.2				1.389.5	111.2
1a Regulatory adjustment							
2 Movement in risk levels	(148.8)	57.5				(91.4)	(7.3)
3 Model updates/changes							
4 Methodology and policy							
5 Acquisitions and disposals							
6 Foreign exchange movements	55.9	172.4				228.3	18.3
7 Other							
8b Regulatory adjustment							
8 RWA AT 31/12/2018	384.3	1.142.1				1.526.4	122.1

MR3 – IMA VALUES FOR TRADING PORTFOLIOS

Bank	
31/12/1028	
VAR (10 DAY 99%)	
1 Maximum value	15.0
2 Average value	9.1
3 Minimum value	6.1
4 Period end	10.3
SVAR (10 DAY 99%)	
5 Maximum value	29.8
6 Average value	19.7
7 Minimum value	14.7
8 Period end	26.3
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	

2.3. CREDIT RISK

CRB-B – TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

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 2018

Bank		a	b
31/12/2018		Net value of exposures at the end of the period	Average net exposures over the period
1	CENTRAL GOVERNMENTS OR CENTRAL BANKS	18,200	17,512
	DTA	284	297
2	INSTITUTIONS	24,282	25,141
3	CORPORATES	36,752	35,142
4	*Of which: Specialised lending*	*2,290*	*2,185*
5	*Of which: SMEs*	*10,131*	*9,720*
	Of which: Other	*24,331*	*23,237*
6	RETAIL	42,863	41,921
7	Secured by real estate property	28,544	28,048
8	*Of which: SMEs*	*6,738*	*6,644*
9	*Of which: Non-SMEs*	*21,806*	*21,404*
10	Qualifying revolving	25	25
11	Other retail	14,294	13,848
12	*Of which: SMEs*	*9,013*	*8,746*
13	*Of which: Non-SMEs*	*5,282*	*5,102*
14	EQUITY	256	256
15	TOTAL IRB APPROACH	122,637	120,269
16	Central governments or central banks	29	674
17	Regional governments or local authorities	426	401
18	Public sector entities	1,076	501
19	Multilateral development banks	72	69
20	International organisations	7,883	10,459
21	Institutions	8	9
22	Corporates	6,478	6,742
23	*Of which: SMEs*		
24	Retail	759	752
25	*Of which: SMEs*		
26	Secured by mortgages on immovable property	363	645
27	*Of which: SMEs*		
28	Exposures in default	67	108
29	Items associated with particularly high risk	632	648
30	Covered bonds	21	21
31	Claims on institutions and corporates with a short-term credit assessment	0	
32	Collective investments undertakings	3	3
33	Equity exposures	38	41
34	Other exposures	6,075	6,173
35	TOTAL STANDARDISED APPROACH	23,932	27,249
36	TOTAL	146,569	147,517

CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

Bank						
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						
31/12/2018	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	29		29		0	0%
2 Regional government or local authorities	426	1	506	0	166	33%
3 Public sector entities	789	287	789	287	148	14%
4 Multilateral development banks	72	0	72	0	0	0%
5 International organisations	7,883	0	7,883	0	0	0%
6 Institutions	9	0	9	0	3	38%
7 Corporates	4,091	2,431	3,641	1,816	4,318	79%
8 Retail	691	70	589	30	354	57%
9 Secured by mortgages on immovable property	212	151	212	74	110	39%
10 Exposures in default	50	17	49	0	66	133%
11 Exposures associated with particularly high risk	439	209	384	186	829	146%
12 Covered bonds	21		21		2	10%
13 Institutions and corporates with a short-term credit assessment		0		0	0	150%
14 Collective investment undertakings	3		3		4	144%
15 Equity	1,863	0	1,863	0	6,847	368%
16 Other items	6,116	0	6,116	0	1,577	26%
17 TOTAL	22,693	3,167	22,165	2,394	14,424	59%

Bank					
Evolution 31/12/2018 – 31/12/2017	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	
1 Central governments or central banks	(901)		(955)		
2 Regional government or local authorities	82	(10)	159	(5)	(4)
3 Public sector entities	766	(2)	766	(2)	(1)
4 Multilateral development banks	(7)	0	(7)	0	
5 International organisations	(1,981)	0	(1,981)	0	
6 Institutions	1	(2)	1	(1)	(1)
7 Corporates	420	51	326	65	361
8 Retail	18	(5)	27	(4)	13
9 Secured by mortgages on immovable property	(39)	(136)	(39)	(71)	(34)
10 Exposures in default	(17)	(20)	(5)	(31)	(53)
11 Exposures associated with particularly high risk	301	209	246	186	623
12 Covered bonds	(35)		(35)		(4)
13 Institutions and corporates with a short-term credit assessment		0		0	0
14 Collective investment undertakings	0		0		(1)
15 Equity	(17)		(17)		(47)
16 Other items	772		772		257
17 TOTAL	**(637)**	**86**	**(742)**	**135**	**1,110**

CR5 – STANDARDISED APPROACH - CREDIT RISK EXPOSURE BY REGULATORY PORTFOLIO AND RISK WEIGHT

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**

31/12/2018	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	29											29	
2 Regional government or local authorities	173		10		318		5					506	1
3 Public sector entities	767		22		287							1,076	1
4 Multilateral development banks	72											72	
5 International organisations	7,883											7,883	0
6 Institutions			4		4		0					9	0
7 Corporates	1		697		686		4,073	0				5,457	288
8 Retail	0					619						619	35
9 Secured by mortgages on immovable property				159	126							285	7
10 Exposures in default	0						17	33				50	0
11 Exposures associated with particularly high risk	0							570				570	
12 Covered bonds		21										21	
13 Institutions and corporates with a short-term credit assessment								0				0	
14 Collective investment undertakings								3				3	3
15 Equity									38	1,825		1,863	
16 Other items	746						884				4,486	6,116	5,506
17 TOTAL	**9,672**	**21**	**733**	**159**	**1,421**	**619**	**4,979**	**606**	**38**	**1,825**	**4,486**	**24,559**	**5,840**

Evolution 31/12/2018- 31/12/2017	Risk weight											Total
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	370%	Others	
1 Central governments or central banks	(955)											(955)
2 Regional government or local authorities	173		(22)		6		(3)					154
3 Public sector entities	767		(1)		(2)							764
4 Multilateral development banks	(7)											(7)
5 International organisations	(1,981)											(1,981)
6 Institutions	(0)		0		1		(1)					(0)
7 Corporates	(1)		24		(9)		376	0				391
8 Retail	0					23						23
9 Secured by mortgages on immovable property				(107)	(3)							(110)
10 Exposures in default	0						(4)	(33)				(37)
11 Exposures associated with particularly high risk								432				432
12 Covered bonds		(35)										(35)
13 Institutions and corporates with a short-term credit assessment								0				0
14 Collective investment undertakings							(0)	(0)				(0)
15 Equity									(12)	(5)		(17)
16 Other items	67						(60)				765	772
17 TOTAL	**(1,937)**	**(35)**	**1**	**(107)**	**(6)**	**23**	**308**	**398**	**(12)**	**(5)**	**765**	**(607)**

CR6 – IRB APPROACH – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE

The columns a and b are based on the original counterparty. As from column d, the figures are based on the final counterparty.
Credit risk adjustments refers to the Stages1,2 and 3 credit risk adjustments under IFRS.
Concerning the numbers of obligors, it is to be mentioned that concerning the non-retail classes the number is expressed in numbersof final counterparties, while retail figures are expressed in number of contracts.
The average maturity takes into consideration the 5 year cap for RWA calculation.

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjuste-ments (EUR million)
Central governments and central banks												
0.00 to <0.15	8,744	8,094	0.75	19,109	0%	132	5%	3.1	1,007	5%	0	0
0.15 to <0.25												
0.25 to <0.50	79	0	0.75	79	0%	3	35%	5.0	55	70%	0	0
0.50 to <0.75	1,594	0	0.75	1,594	1%	5	50%	5.0	2,092	131%	6	53
0.75 to <2.50		0	0.75	0	1%	3	50%	1.0	0	87%	0	0
2.50 to <10.00	40	0	0.75	40	9%	6	60%	4.9	120	302%	2	14
10.00 to <100.00	0	0	0.50	0	31%	4	2%	3.4	0	12%	0	0
100.00 (Default)	1	0	0.75	1	100%	1	65%	1.0	0	63%	0	0
TOTAL	10,457	8,094	0.75	20,822	0%	154	9%	3.3	3,275	16%	9	67

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjuste-ments (EUR million)
Institutions												
0.00 to <0.15	17,500	1,978	0.75	17,199	0%	2,169	4%	3.8	456	3%	0	3
0.15 to <0.25	2,648	721	0.75	3,303	0%	240	4%	3.7	158	5%	0	0
0.25 to <0.50	643	44	0.74	682	0%	51	6%	3.5	62	9%	0	0
0.50 to <0.75	514	140	0.72	622	1%	71	7%	3.9	90	14%	0	4
0.75 to <2.50	2	90	0.55	51	1%	51	46%	2.6	60	116%	0	1
2.50 to <10.00	1	3	0.50	3	4%	24	68%	1.0	5	188%	0	0
10.00 to <100.00	2	4	0.54	4	25%	49	61%	1.2	14	321%	1	0
100.00 (Default)	0			0	100%	1	69%	1.0	0	63%	0	0
TOTAL	21,311	2,980	0.74	21,865	0%	2,656	4%	3.8	845	4%	2	9

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjuste-ments (EUR million)
Corporates - Specialised Lending												
0.00 to <0.15	461	1	0.75	201	0%	3	19%	4.5	29	14%	0	0
0.15 to <0.25	273	5	0.75	277	0%	9	13%	2.7	34	12%	0	0
0.25 to <0.50	86	14	0.76	96	0%	8	14%	4.2	22	23%	0	0
0.50 to <0.75	285	262	0.75	481	1%	23	16%	2.5	159	33%	1	1
0.75 to <2.50	647	208	0.77	809	1%	41	18%	2.7	287	36%	1	4
2.50 to <10.00	37	1	0.75	38	4%	19	36%	1.5	19	50%	0	1
10.00 to <100.00	0	0		0	31%	6	89%	1.0	0	250%	0	0
100.00 (Default)	26	1	0.73	27	100%	13	57%	2.8	8	29%	10	11
TOTAL	1,815	492	0.76	1,930	2%	122	17%	2.9	558	29%	12	18

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjustements (EUR million)
Corporates - SME												
0.00 to <0.15	2,046	228	0.62	726	0%	3,561	29%	3.3	136	19%	0	0
0.15 to <0.25	347	29	0.75	306	0%	146	20%	4.0	68	22%	0	0
0.25 to <0.50	609	223	0.47	703	0%	4,309	43%	2.6	323	46%	1	4
0.50 to <0.75	127	27	0.74	146	1%	3,674	21%	3.8	57	39%	0	0
0.75 to <2.50	3,077	770	0.52	3,498	1%	9,579	45%	2.7	2,813	80%	21	41
2.50 to <10.00	1,960	331	0.49	2,122	4%	9,044	42%	2.8	2,190	103%	36	53
10.00 to <100.00	178	37	0.64	202	27%	2,936	36%	2.8	266	132%	21	10
100.00 (Default)	851	9	0.46	855	100%	1,550	30%	1.2	103	12%	616	615
TOTAL	9,202	1,653	0.53	8,558	12%	34,799	40%	2.7	5,955	70%	696	724

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjustements (EUR million)
Corporates - Other												
0.00 to <0.15	6,393	2,887	0.74	8,335	0%	274	35%	4.0	2,127	26%	2	43
0.15 to <0.25	1,831	804	0.73	2,368	0%	109	39%	3.1	1,139	48%	2	28
0.25 to <0.50	2,330	1,932	0.67	3,685	0%	308	43%	2.6	2,490	68%	7	62
0.50 to <0.75	20	5	0.75	23	1%	31	32%	3.2	15	65%	0	0
0.75 to <2.50	3,583	2,190	0.44	4,631	1%	1,065	46%	1.8	4,436	96%	26	48
2.50 to <10.00	1,616	591	0.45	1,881	4%	712	41%	1.9	2,356	125%	30	67
10.00 to <100.00	79	18	0.35	85	31%	294	34%	1.5	152	179%	9	6
100.00 (Default)	350	43	0.54	374	100%	118	46%	1.4	72	19%	268	254
TOTAL	16,215	8,625	0.63	21,381	3%	2,911	40%	2.9	12,788	60%	343	509

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjustements (EUR million)
Retail - Secured by immovable property SME												
0.00 to <0.15	1,554	34	1.00	1,588	0%	25,813	10%	4.8	84	5%	0	0
0.15 to <0.25	1,624	33	1.00	1,657	0%	23,580	10%	4.9	123	7%	0	0
0.25 to <0.50	987	20	1.00	1,007	0%	13,183	10%	4.9	99	10%	0	0
0.50 to <0.75	1,085	21	1.00	1,106	1%	14,085	10%	4.9	154	14%	1	1
0.75 to <2.50	684	8	1.00	692	2%	8,547	10%	4.9	163	24%	1	1
2.50 to <10.00	587	11	1.00	598	5%	8,036	10%	4.9	223	37%	3	2
10.00 to <100.00	60	1	1.00	61	21%	749	10%	5.0	39	65%	1	1
100.00 (Default)	37	0	1.00	37	100%	508	10%	4.9	23	63%	4	4
TOTAL	6,617	128	1.00	6,746	2%	94,501	10%	4.9	909	13%	10	8

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjustements (EUR million)
Retail - Secured by immovable property non-SME												
0.00 to <0.15	13,559	223	1.00	13,782	0%	248,835	10%	4.9	892	6%	0	3
0.15 to <0.25	2,893	52	1.00	2,945	0%	35,295	10%	4.9	290	10%	0	1
0.25 to <0.50	2,289	35	1.00	2,324	0%	24,872	10%	5.0	345	15%	1	1
0.50 to <0.75												
0.75 to <2.50	1,770	37	1.00	1,807	1%	17,503	10%	4.9	465	26%	2	3
2.50 to <10.00	648	6	1.00	654	5%	9,179	10%	4.9	334	51%	3	3
10.00 to <100.00	212	2	1.00	214	27%	2,765	10%	4.9	177	83%	6	2
100.00 (Default)	102	0	1.00	102	100%	1,333	10%	4.9	64	62%	9	9
TOTAL	21,473	356	1.00	21,829	1%	339,782	10%	4.9	2,566	12%	23	23

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjustements (EUR million)
Retail - Other SME												
0.00 to <0.15	1,547	501	0.79	1,945	0%	128,654	20%	3.1	72	4%	0	0
0.15 to <0.25	222	219	0.91	422	0%	50,914	23%	2.7	32	8%	0	0
0.25 to <0.50	1,310	297	0.81	1,550	0%	99,984	21%	3.2	158	10%	1	1
0.50 to <0.75	975	245	0.85	1,182	1%	88,240	22%	3.1	181	15%	2	1
0.75 to <2.50	1,588	342	0.75	1,846	2%	104,940	21%	3.0	382	21%	7	6
2.50 to <10.00	1,034	323	0.70	1,259	6%	84,293	22%	2.7	333	26%	15	13
10.00 to <100.00	284	61	0.69	327	25%	19,962	22%	2.6	130	40%	17	10
100.00 (Default)	209	10	0.57	214	100%	17,166	27%	1.6	99	46%	125	124
TOTAL	7,170	1,998	0.79	8,745	5%	594,153	21%	3.0	1,386	16%	168	155

Bank	a	b	c	d	e	f	g	h	i	j	k	l
31/12/2018 PD scale	Original on-balance-sheet gross exposures (EUR million)	Off-balance-sheet exposures pre-CCF (EUR million)	Average CCF	EAD post CRM and post CCF (EUR million)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	Expected loss (EUR million)	Credit risk adjustements (EUR million)
Retail - Other non-SME												
0.00 to <0.15	953	2,139	0.99	3,069	0%	725,850	29%	2.1	143	5%	0	0
0.15 to <0.25	228	361	0.98	582	0%	156,435	30%	2.2	71	12%	0	0
0.25 to <0.50	233	242	0.98	469	0%	131,086	31%	2.1	106	23%	1	1
0.50 to <0.75												
0.75 to <2.50	291	425	0.99	714	1%	202,334	25%	2.6	236	33%	2	1
2.50 to <10.00	239	99	0.98	336	5%	121,034	36%	1.9	188	56%	6	3
10.00 to <100.00	50	9	0.97	59	22%	19,766	36%	1.8	49	84%	5	2
100.00 (Default)	64	2	0.98	66	100%	33,813	40%	3.1	34	51%	45	45
TOTAL	2,058	3,277	0.99	5,295	2%	1,390,318	29%	2.2	828	16%	59	53

CR9 – IRB – BACK TESTING OF PROBABILITY OF DEFAULT (PD) PER EXPOSURE CLASS

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2017)	Weighted average PD (31/12/2018)	Arithmetic average PD by obligors (31/12/2017)	Arithmetic average PD by obligors (31/12/2018)
Central governments and central banks					
[0-0.015]	AAA	0	0.02	0	0.00
[0.045-0.055]	A+				
[0.055-0.065]	A	0.06	0.06	0.06	0.055
[0.065-0.125]	A-	0.07	0.07	0.035	0.07
[0.125-0.260]	BBB+	0.18	0.69	0.18	0.26
[0.260-0.525]	BBB		0.34		0.34
[0.525-0.795]	BBB-	0.71	0.71	0.18	0.71
[0.795-1.015]	BB+		0.88		0.88
[1.015-1.915]	BB		1.15		1.15
[1.915-3.315]	BB-	2.68	9.07	2.68	9.07
[6.510-11.455]	B	9.07	9.07	7.26	9.07

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2017)	Weighted average PD (31/12/2018)	Arithmetic average PD by obligors (31/12/2017)	Arithmetic average PD by obligors (31/12/2018)
Corporates - Other					
[0.025-0.035]	AA	0.03	0.03	0.03	0.024
[0.035-0.045]	AA-	0.06		0.06	
[0.045-0.055]	A+	0.05	0.05	0.06	0.03
[0.055-0.065]	A	0.06	0.06	0.07	0.07
[0.065-0.125]	A-	0.11	0.12	0.21	0.16
[0.125-0.260]	BBB+	0.23	0.31	0.22	0.51
[0.260-0.525]	BBB	0.43	0.42	0.57	0.61
[0.525-0.795]	BBB-	0.79	1.30	1.02	1.25
[0.795-1.015]	BB+	0.96	0.68	0.76	0.97
[1.015-1.915]	BB	1.60	2.58	1.76	2.98
[1.915-3.315]	BB-	3.23	4.36	3.08	4.70
[3.315-6.510]	B+	5.12	8.47	5.29	7.48
[6.510-11.455]	B	11.76	19.21	9.35	11.81
[11.455-22.355]	B-	17.34	25.62	18.52	5.44
[22.355-100[	CCC	35.33	56.81	31.19	52.86
100	D	100.00	100.00	92.11	75.44

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2017)	Weighted average PD (31/12/2018)	Arithmetic average PD by obligors (31/12/2017)	Arithmetic average PD by obligors (31/12/2018)
Corporates - SME					
[0.055-0.065]	A	0.06	0.09	0.10	0.08
[0.065-0.125]	A-	0.18	0.17	0.26	0.18
[0.125-0.260]	BBB+	0.16	0.44	0.35	0.43
[0.260-0.525]	BBB	0.39	0.64	0.71	0.85
[0.525-0.795]	BBB-	0.89	1.33	1.17	1.59
[0.795-1.015]	BB+	0.87	19.39	0.29	17.78
[1.015-1.915]	BB	1.87	2.29	2.00	2.98
[1.915-3.315]	BB-	3.31	5.09	3.33	5.23
[3.315-6.510]	B+	5.63	9.94	5.16	8.00
[6.510-11.455]	B	9.70	15.18	11.55	11.81
[11.455-22.355]	B-	19.87	16.84	23.51	19.61
[22.355-100[	CCC	43.36	63.84	35.82	37.47
100	D	100.00	97.18	97.00	64.60

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2017)	Weighted average PD (31/12/2018)	Arithmetic average PD by obligors (31/12/2017)	Arithmetic average PD by obligors (31/12/2018)
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	
[0.125-0.260]	BBB+	0.20	0.17	0.20	0.18
[0.260-0.525]	BBB	0.34	0.34	0.34	0.23
[0.525-0.795]	BBB-	0.71	0.63	0.53	0.64
[0.795-1.015]	BB+	0.88	3.79	0.83	8.87
[1.015-1.915]	BB	1.15	1.00	0.92	0.89
[1.915-3.315]	BB-	2.68	2.45	2.93	3.14
[3.315-6.510]	B+	3.95	3.89	3.95	3.77
[11.455-22.355]	B-	13.84	2.68	13.84	2.68
100	D	100.00	100.00	100.00	45.00

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2017)	Weighted average PD (31/12/2018)	Arithmetic average PD by obligors (31/12/2017)	Arithmetic average PD by obligors (31/12/2018)
Institutions					
[0-0.015]	AAA	0.03	0.03	0.03	0.03
[0.015-0.012]	AA+	0.03	0.04	0.03	0.04
[0.025-0.035]	AA	0.03	0.04	0.03	0.04
[0.035-0.045]	AA-	0.04	0.04	0.02	0.04
[0.045-0.055]	A+	0.05	0.05	0.05	0.05
[0.055-0.065]	A	0.06	0.10	0.05	0.06
[0.065-0.125]	A-	0.08	0.12	0.08	0.08
[0.125-0.260]	BBB+	0.20	0.21	0.21	0.16
[0.260-0.525]	BBB	0.34	0.25	0.27	0.35
[0.525-0.795]	BBB-	0.69	0.58	0.48	0.50
[0.795-1.015]	BB+	0.90	1.14	0.98	0.48
[1.015-1.915]	BB	1.48	1.15	1.14	0.48
[1.915-3.315]	BB-	3.18	2.00	2.89	2.19
[3.315-6.510]	B+	3.95	3.95	2.63	1.32
[6.510-11.455]	B	9.07	9.07	3.63	5.44
[11.455-22.355]	B-	13.84	13.84	7.12	10.58
[22.355-100[	CCC	30.87	24.27	20.58	14.90
100	D	100.00	100.00	100.00	50.00

Bank	a	b	c	d	e
PD Range	External rating equivalent	Weighted average PD (31/12/2017)	Weighted average PD (31/12/2018)	Arithmetic average PD by obligors (31/12/2017)	Arithmetic average PD by obligors (31/12/2018)
Retail – Other non-SME					
[0.035-0.045]	AA-	0,04	0,44	0,03	0,10
[0.125-0.260]	BBB+	0,16	0,04	0,08	0,42
[0.260-0.525]	BBB		0,44		0,44
[1.015-1.915]	BB	1,36	1,35	0,68	1,34
100	D	100,00	100,00	33,33	100,00

CR10 – IRB (SPECIALISED LENDING AND EQUITIES)

31/12/2018	IRB (specialised lending and equities)					
Regulatory categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Good	0,0	0,0	90%	0,0	0,0	0,0
Satisfactory	32,5	0,9	115%	14,5	16,4	0,4
Default	14,0	0,8	-	14,8	0,0	7,3
TOTAL	46,5	1,7		29,3	16,4	7,7

	31/12/2018					
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	19		190%	19	37	3
TOTAL	19	0		19	37	3

	31/12/2018					
Bank	Equities under the PD/LGD approach					
Categories	On-balance-sheet amount	Off-balance-sheet amount		Exposure amount	RWAs	Capital requirements
	237			237	338	27
TOTAL	237	0		237	338	27

CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK

31/12/2018	Risk weight						Total	Of which unrated
Exposure classes	0%	2%	20%	50%	60%	100%		
Central governments or central banks							0	
Regional government or local authorities	219		1		115		334	115
Multilateral development banks	36						36	
International organisations	17						17	17
Institutions	0	538	0	2			540	218
Corporates						60	60	60
TOTAL	272	538	1	2	115	60	988	411

CCR4 – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE

Bank							
31/12/2018 PD scale	EAD post CRM (in millions EUR)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates							
0.00 to <0.15	989	0.06%	28	21%	2,00	169	17%
0.15 to <0.25	77	0.19%	16	21%	5,00	21	27%
0.25 to <0.50	49	0.43%	32	43%	4,00	40	80%
0.50 to <0.75	11	0.71%	10	14%	5,00	4	34%
0.75 to <2.50	85	1.07%	114	39%	4,00	80	94%
2.50 to <10.00	70	4.27%	52	46%	5,00	113	162%
10.00 to <100.00	49	26%	7	44%	5,00	100	206%
100.00 (Default)	0	100%	2	61%	5,00	0	62%
TOTAL	1,331	1%	261	24%	2,00	526	40%

Bank							
31/12/2018 PD scale	EAD post CRM (in millions EUR)	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions							
0.00 to <0.15	4,325	0.05%	121	20%	2,00	881	20%
0.15 to <0.25	56	0.18%	10	14%	2,00	35	62%
0.25 to <0.50	10	0.34%	10	49%	4,00	11	110%
0.50 to <0.75	27	0.71%	5	55%	5,00	48	176%
0.75 to <2.50							
2.50 to <10.00							
10.00 to <100.00							
100.00 (Default)							
TOTAL	4,417	0%	146	20%	2,00	975	22%

CCR5 B – COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

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	
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	
31/12/2018	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	4,502	0	15,545	31	22
Securities	149	4	534	675	3,025	3,801
Loans						3,917
TOTAL	149	4,506	534	16,220	3,056	7,740

Bank	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
Evolution 31/12/2017 – 31/12/2018	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	(1,062)	0	(2,577)	9	(12)
Securities	(24)	(4)	(161)	(129)	(451)	(1,437)
Loans						1,538
TOTAL	(24)	(1,066)	(161)	(2,705)	(442)	89

2.4. LEVERAGE

LRSUM – SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

31/12/2018		Applicable Amount
1	Total assets as per published financial statements	164,165
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(17,400)
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	(17,649)
5	Adjustment for securities financing transactions (SFTs)	3,683
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	15,782
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	(266)
8	**LEVERAGE RATIO TOTAL EXPOSURE MEASURE**	**148,315**

LRCOM – LEVERAGE RATIO COMMON DISCLOSURE

31/12/2018		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)	130,953
2	(Asset amounts deducted in determining Tier 1 capital)	(266)
3	**TOTAL ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND FIDUCIARY ASSETS) (SUM OF LINES 1 AND 2)**	**130,687**
DERIVATIVE EXPOSURES		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	4,863
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,185
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	4,102
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(15,000)
8	(Exempted CCP leg of client-cleared trade exposures)	(2,495)
9	Adjusted effective notional amount of written credit derivatives	1,539
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(103)
11	**TOTAL DERIVATIVES EXPOSURES (SUM OF LINES 4 TO 10)**	**(4,909)**
SFT EXPOSURES		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	3,073
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	3,683
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)**	**6,756**
OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	31,250
18	(Adjustments for conversion to credit equivalent amounts)	(15,468)
19	**OTHER OFF-BALANCE SHEET EXPOSURES (SUM OF LINES 17 AND 18)**	**15,782**
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**	**8,826**
21	**LEVERAGE RATIO TOTAL EXPOSURE MEASURE (SUM OF LINES 3, 11, 16, 19, EU-19A AND EU-19B)**	**148,315**
LEVERAGE RATIO		
22	**LEVERAGE RATIO**	**5,95%**
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

LRSPL – SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

31/12/2018		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	120,054
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	120,054
EU-4	Covered bonds	21
EU-5	Exposures treated as sovereigns	15,489
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	25,305
EU-7	Institutions	3,497
EU-8	Secured by mortgages of immovable properties	28,423
EU-9	Retail exposures	9,131
EU-10	Corporate	28,191
EU-11	Exposures in default	689
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	9,308

2.5. LIQUIDITY AND ASSET ENCUMBRANCE

LIQ1 – QUANTITATIVE INFORMATION ON LCR

	Scope of consolidation: consolidated (in million EUR)	Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on (31/12/2018)								
	Number of data points used in the calculation of averages: 12								
	HIGH-QUALITY LIQUID ASSETS					Q1	Q2	Q3	Q4
1	Total high-quality liquid assets (HQLA)					20,537	20,461	20,269	20,022
	CASH – OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	51,252	51,862	52,609	53,510	3,467	3,511	3,575	3,652
3	Stable deposits	38,832	39,299	39,729	40,234	1,942	1,965	1,986	2,012
4	Less stable deposits	12,420	12,564	12,880	13,275	1,526	1,546	1,588	1,641
5	Unsecured wholesale funding	17,898	18,148	18,597	18,513	8,699	8,728	8,891	8,771
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*2,905*	*3,199*	*3,517*	*3,630*	*721*	*793*	*872*	*900*
7	*Non-operational deposits (all counterparties)*	*13,915*	*13,818*	*13,833*	*13,711*	*6,901*	*6,802*	*6,772*	*6,699*
8	*Unsecured debt*	*1,077*	*1,132*	*1,247*	*1,171*	*1,077*	*1,132*	*1,247*	*1,171*
9	Secured wholesale funding					2	0	0	0
10	Additional requirements	25,773	25,961	26,205	26,195	4,401	4,274	4,261	4,231
11	*Outflows related to derivative exposures and other collateral requirements*	*2,721*	*2,455*	*2,252*	*2,068*	*1,898*	*1,709*	*1,632*	*1,556*
12	*Outflows related to loss of funding on debt products*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
13	*Credit and liquidity facilities*	*23,052*	*23,506*	*23,954*	*24,127*	*2,503*	*2,565*	*2,630*	*2,675*
14	Other contractual funding obligations	1,515	1,548	1,390	1,384	1,515	1,548	1,390	1,384
15	Other contingent funding obligations	1,678	1,702	1,752	1,798	84	85	88	90
16	**TOTAL CASH OUTFLOWS**					**18,169**	**18,146**	**18,205**	**18,128**
	CASH – INFLOWS								
17	Secured lending (e.g. reverse repos)	1,639	1,866	2,181	2,393	640	702	825	1,029
18	Inflows from fully performing exposures	3,405	3,404	3,487	3,535	1,930	1,927	1,992	2,056
19	Other cash inflows	137	108	176	175	137	108	176	175
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**	**5,181**	**5,379**	**5,845**	**6,103**	**2,706**	**2,736**	**2,993**	**3,260**
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*	*5,181*	*5,379*	*5,845*	*6,103*	*2,706*	*2,736*	*2,993*	*3,260*
	TOTAL ADJUSTED VALUE								
21	LIQUIDITY BUFFER					20,537	20,461	20,269	20,022
22	TOTAL NET CASH OUTFLOWS					15,463	15,410	15,212	14,868
23	LIQUIDITY COVERAGE RATIO (%)					133%	133%	133%	135%

LIQ2 – QUALITATIVE INFORMATION ON LCR

	Comment
Concentration of funding and liquidity sources	Belfius Bank has diversified sources of funding and limited client concentration. Wholesale funding represents 20% of total funding.
Derivative exposures and potential collateral calls	Belfius Bank has an important portfolio of derivatives and has a net pledge of around 11.5 Bn EUR collateral under agreed CSA. In the LCR a potential outflow of 1 Bn EUR is integrated 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 ALCo. A weekly Asset and Liability Forum (ALF) is organised by the Finance Department, in presence of Money Market (treasury), Long Term Funding, Risk Department and the commercial Business Lines. This forum has been mandated by ALCo to translate the strategic funding plans into tactical and operational funding strategies aligned to the financing needs stemming from Belfius balance sheet and within regulatory constraints (LCR, NSFR, encumbrance, MREL, …)
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 a liquidity buffer of 28.8 Bn EUR ECB Eligible assets. The total Liquidity Buffer (incl. LCR eligible assets) represents 5.7 times the Wholesale funding that matures within 1 year.

3. ADDITIONAL DISCLOSURES ON THE LIABILITY SIDE

3.1. BELFIUS BANK ORIGINATIONS

Belfius currently has three traditional securitisation vehicles: Dexia Secured Funding Belgium, Penates Funding and Mercurius Funding. The total assets of these companies amount to EUR 7,762 million at 31 December 2018 compared to EUR 9,008 million at 29 December 2017.

According to the definition of control under IFRS 10, Dexia Secured Funding Belgium, Penates Funding and Mercurius Funding are included in the consolidated financial statements. Belfius has

- → full power over its securitisation vehicles,
- → exposure to their variable returns and
- → the ability to use its power to affect the amount of the returns.

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 2018, EUR 884 million were still outstanding. The notes had a rating of A-sf/A1/A-sf at 31 December 2018. 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.

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).

The Class A1 Notes were redeemed in full over the course of 2018. The outstanding amount of the Class A2 Notes stood at EUR 361 million at 31 December 2018, while the outstanding amounts of the other classes of notes were still at their initial amount. Hence there was EUR 591 million outstanding under Penates-5 at 31 December 2018. The ratings on the Class A2 Notes were unchanged from their initial rating. The 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 2018, these ratings were unchanged from their initial rating. The outstanding amount of the Class A1 Notes was EUR 1,433 million, while the outstanding amounts of the other classes of notes were still at their initial amount. Hence there was EUR 4,973 million outstanding under Penates-6 at 31 December 2018. The notes are 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 2018.

On 7 May 2012, Belfius Bank closed a EUR 4,124 million SME (Small & Medium Enterprises) CLO securitisation transaction. The SPV, Mercurius Funding acting through its compartment Mercurius-1, securitised Belgian SME loans originated by Belfius and issued two classes of notes: EUR 3,200 million Class A SME Loan-Backed Fixed Rate Notes due 2035; EUR 924 million Class B SME Loan-Backed Fixed Rate Notes due 2037.

On 12 May 2014, the Mercurius-1 issued new notes: EUR 3,200 million Class A SME Loan-Backed Fixed Rate Notes due 2035 (Fitch A+(sf)/ Moody's A1(sf)/DBRS A(high) (sf)); EUR 924 million Class B SME Loan-Backed Fixed Rate Notes due 2037 (not rated). The proceeds were used to purchase an additional portfolio of SME loans and to redeem the old notes.

On 25 June 2018, the Mercurius-1 transaction was restructured. The main modifications were on the Interest Rates, the Reserve Fund and the Principal Priority of Payments. The rating of Fitch was also discontinued.

At the end of 2018, the ratings on the Class A Notes were AA(sf) at DBRS and Aaa(sf) at Moody's. The outstanding balance of the Class A Notes and the Class B Notes decreased to respectively EUR 670 million and EUR 760 million. Hence there was EUR 1,430 million outstanding under Mercurius-1 at 31 December 2018.

The Mercurius notes are 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.

3.2. CAPITAL INSTRUMENTS MAIN FEATURES - DISCLOSURE ACCORDING TO ARTICLE 3 IN THE COMMISSION IMPLEMENTING REGULATION (EU) NO. 1423/2013

CCA – 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 2 m	EUR 7 m	EUR 2 m	EUR 19 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 29 m	EUR 80 m	EUR 80 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	0,06	0,0605	0,061	0,03125
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 Bank	Belfius Bank	Belfius Bank
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BE0002251206	BE6293617633	BE6293618649	BE6293616627
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 50 m	EUR 17.5m	EUR 50 m	EUR 17.5m
9	Nominal amount of instrument	EUR 50 m	EUR 17.5m	EUR 50m	EUR 17.5m
9a	Issue price	99.251 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	at their principal amount	par redemption	par redemption	par redemption
10	Accounting classification	liability	liability	liability	liability
11	Original date of issuance	17/02/2017	09/03/2017	09/03/2017	09/03/2017
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	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
16	Subsequent call dates, if applicable	n/a	29/12/2035 and every 12 year thereafter	15/07/2035 and every 12 year thereafter	29/12/2029 and every 10 year thereafter
	COUPONS / DIVIDENDS				
17	Fixed or floating dividend/coupon	fixed	fixed	fixed	fixed
18	Coupon rate and any related index	0,03125	CMS linked on every reset date thereafter	CMS linked on every reset date thereafter	CMS linked on every reset date 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	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	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

		13	14	15
1	Issuer	Belfius Bank	Belfius Bank	Belfius Bank
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	loan	BE0002582600	BE6303010472
3	Governing law(s) of the instrument	Belgian	English/Belgian	English/Belgian
	REGULATORY TREATMENT			
4	Transitional CRR rules	Tier 2	Additonal Tier 1	Tier 2
5	Post-transitional CRR rules	Tier 2	Additional Tier 1	Tier 2
6	Eligible at solo / (sub-)consolidated / solo&(sub-)consolidated	solo & consolidated	solo & consolidated	solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 according to EU Regulation	Tier 1 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 72 m	EUR 497 m	EUR 198 m
9	Nominal amount of instrument	EUR 72m	EUR 500m	EUR 200m
9a	Issue price	100 per cent	100 per cent	99,601 per cent
9b	Redemption price	nominal amount	par redemption	par redemption
10	Accounting classification	liability	IFRS: equity / Bgaap: liability	liability
11	Original date of issuance	01/02/2013	01/02/2018	15/03/2018
12	Perpetual or dated	perpetual	perpetual	dated
13	Original maturity date	no maturity	no maturity	15/03/2028
14	Issuer call subject to prior supervisory approval	yes	yes	yes
15	Optional call date, contingent call dates and redemption amount	01/01/2025 Tax call and Regulatory call at the Nominal Amount	16/04/2025 at par Tax call and Regulatory call at par	15/03/2023 at par Tax call and Regulatory call at par
16	Subsequent call dates, if applicable	1/4/2025 and quarterly thereafter	16/10/2025 and semi-annually thereafter	n/a
	COUPONS / DIVIDENDS			
17	Fixed or floating dividend/coupon	fixed/floating	fixed	fixed
18	Coupon rate and any related index	6.25 until call 3m euribor + 417 bp thereafter	resettable every 5 year	0,01625
19	Existence of a dividend stopper	n/a	n/a	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	partially discretionary	mandatory	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory	fully discretionnary	mandatory
21	Existence of step up or other incentive to redeem	n/a	n/a	n/a
22	Noncumulative or cumulative	cumulative	non-cumulative	cumulative
23	Convertible or non-convertible	non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a
30	Write-down features	n/a	yes	n/a
31	If write-down, write-down trigger(s)	n/a	CET1 solo & conso < 5.125%	n/a
32	If write-down, fully or partially	n/a	partially or full	n/a
33	If write-down, permanent or temporary	n/a	temporary	n/a
34	If temporary write-down, description of write-up mechanism	n/a	If both a positive solo and consolidated net profit are recorded, the issuer may at its full discretion (and subject to the Maximum Distributable Amount and maximum Write-up Amount not be exceeded), increase the Prevailing Principal Amount.	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	dated Tier 2	undated Tier 2	Non Preferred Senior
36	Non-compliant transitioned features	no	no	no
37	If yes, specify non-compliant features	n/a	n/a	n/a

4. 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

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