Annual report

2016

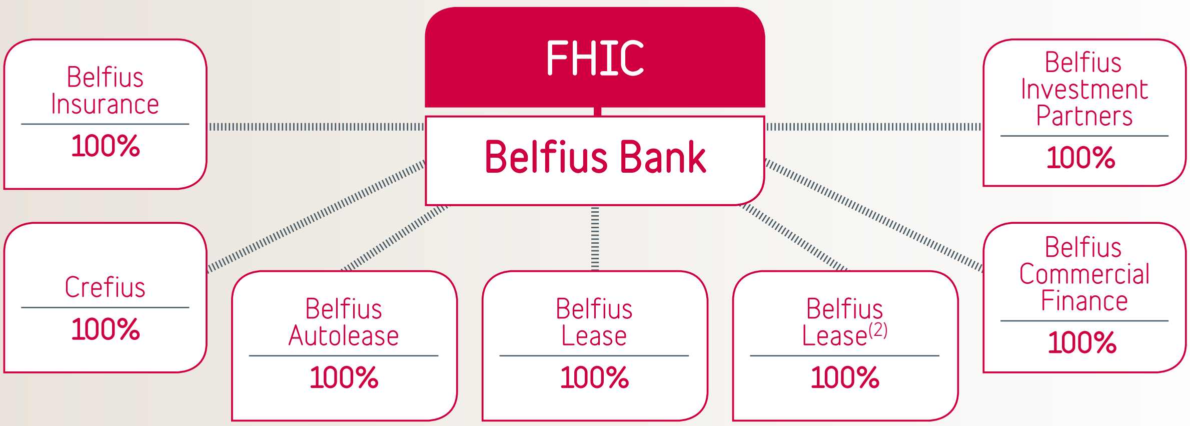
Belfius
Bank & Insurance

Contents

Profile of Belfius

Belfius is a Belgian banking and insurance group wholly owned by the Belgian federal state through the Federal Holding and Investment Company (FHIC). Belfius shares are not listed. At the end of 2016, total consolidated balance sheet amounted to EUR 177 billion.

Simplified group structure[1]



(1) For more details, see the list of subsidiaries of the consolidated financial statements in this annual report.
(2) Belfius Lease Services operates under the same brand (logo) as Belfius Lease.

Our main commercial subsidiaries

1. Belfius Insurance

Insurance company marketing life and non-life insurance products, savings products and investments for individuals, the self-employed, liberal professions, companies and the public and social sector. At the end of 2016, total consolidated balance sheet of Belfius Insurance amounted to EUR 23 billion(1).

2. Crefius

Company servicing and managing mortgage loans. At the end of 2016, total balance sheet of Crefius amounted to EUR 43 million(2).

3. Belfius Auto Lease

Company for operational vehicle leasing and car fleet management, maintenance and claims management services. At the end of 2016, total balance sheet of Belfius Auto Lease amounted to EUR 277 million(2).

4. Belfius Lease

Company for financial leasing and renting of professional capital goods. At the end of 2016, total balance sheet of Belfius Lease amounted to EUR 706 million(2).

5. Belfius Lease Services

Financial leasing and renting of professional capital goods to the self-employed, companies and liberal professions. At the end of 2016, total balance sheet of Belfius Lease Services amounted to EUR 1,846 million(2).

6. Belfius Commercial Finance

Company for financing commercial loans to debtors, debtor insolvency risk cover and debt recovery from debtors (factoring). At the end of 2016, total balance sheet of Belfius Commercial Finance amounted to EUR 764 million(2).

7. Belfius Investment Partners

Company for administration and management of funds. At the end of 2016, total balance sheet of Belfius Investment Partners amounted to EUR 25 million(2).

Our activities

Commercial activities of Belfius are essentially organised around two client markets.

1. Retail and Commercial

Belfius offers individuals and the self-employed, the liberal professions and SMEs a complete range of retail, commercial and private banking products as well as insurance services.

Belfius Bank is among the top 4 leading banks in Belgium and serves its approximately 3.5 million customers through 696 points of sale, a contact center and a large number of automatic self banking machines, which makes the Bank a 24-hour-a-day operation. Belfius is leading in the mobile banking industry and provides state of the art apps.

In Belgium, for retail customers, Belfius Insurance combines the advantages of the exclusive agents network of DVV insurance with those of the Belfius Bank branch networks, whilst also relying on Corona Direct, a direct insurer active via the internet and “affinity partners”(3).

2. Public and Corporate

Belfius has always been the preferred partner of public sector and social organisations (hospitals, schools, universities, retirement homes…) in Belgium. It provides its clients with a complete and integrated range of products and services, ranging from credit lending and treasury management, insurance products, to budget optimisation and financial IT solutions.

Corporate banking activities are directed principally at medium-sized corporates having a decision-making center in Belgium and also at corporates offering their services to the public sector.

Public and Corporate confirms its strategic axes to remain the undisputed leader in the Public and Social segment and to continue its growth strategy in the market of Belgian corporates. Aware of the challenges faced by the public authorities, Belfius is going to bring together the driving forces through its Smart Belgium programme, and establish an ongoing cooperation between the public authorities and businesses. Belfius is keen to create solutions that tackle the challenges faced by society in a smart and sustainable manner.

Our staff members

At the end of 2016, Belfius’ operations gave employment to 6,428 staff members, and there were approximately 4,000 persons working in the Bank’s and Insurer’s independent networks.

(1) For more details, see the annual report 2016 of Belfius Insurance.
(2) Total IFRS balance sheet before consolidation adjustments.
(3) Affinity partners are external parties with which Corona collaborates and which offer Corona insurance products.

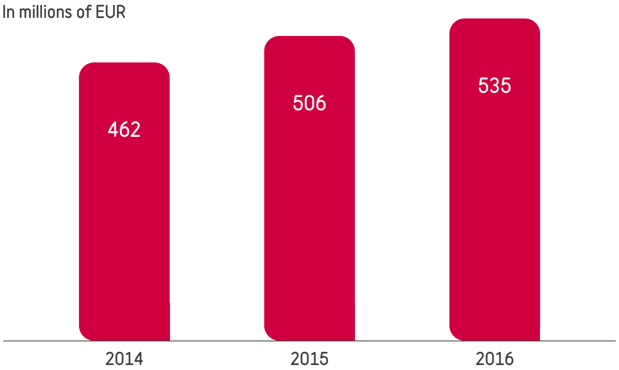
Key figures

Consolidated statement of income (In millions of EUR)	2014	2015	2016
INCOME	2,071	2,184	2,259
EXPENSES	(1,448)	(1,396)	(1,366)
GROSS OPERATING INCOME	623	787	893
Cost of risk	(59)	(93)	(116)
Impairments on (in)tangible assets	(5)	(13)	3
NET INCOME BEFORE TAX	560	682	780
Tax expense	(100)	(176)	(244)
NET INCOME AFTER TAX	460	506	535
Non-controlling interests	(2)	0	0
NET INCOME GROUP SHARE	462	506	535
of which			
Bank	*245*	*290*	*335*
Insurance	*217*	*216*	*201*

Consolidated balance sheet (In millions of EUR)	2014	2015	2016
TOTAL ASSETS	194,407	176,962	176,721
of which			
Loans and advances due from banks and central banks	*33,472*	*24,894*	*27,114*
Loans and advances to customers	*87,158*	*87,189*	*89,702*
Investments held to maturity	*2,835*	*5,017*	*5,393*
Financial assets measured at fair value through profit or loss	*6,100*	*3,223*	*2,986*
Financial assets available for sale	*25,087*	*19,734*	*18,820*
Derivatives	*31,130*	*25,944*	*25,307*
TOTAL LIABILITIES	186,481	168,302	167,709
of which			
Due to banks	21,408	11,538	12,582
Customers borrowings and deposits	66,514	68,163	74,171
Financial liabilities measured at fair value through profit or loss	9,167	6,916	7,524
Debt securities and subordinated debts	29,999	28,691	25,380
Derivatives	38,165	30,060	29,573
TOTAL EQUITY	7,927	8,660	9,012
of which			
Core shareholders' equity	*7,804*	*8,309*	*8,694*
Gains and losses not recognised in the statement of income	*119*	*350*	*318*

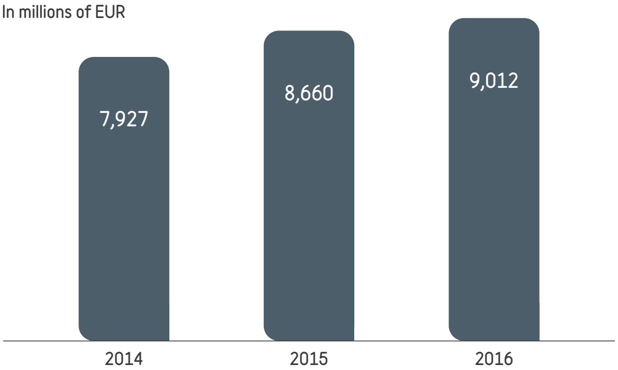
Net income group share

In millions of EUR



Total equity

In millions of EUR



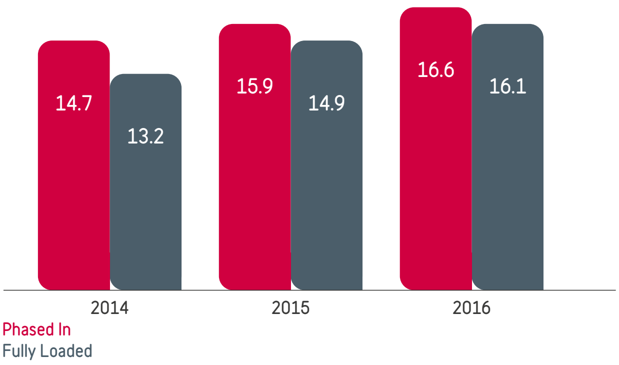
Ratios[1]	2014	2015	2016
Return on equity (ROE)	6.0%	6.3%	6.4%
Return on assets (ROA)	0.24%	0.27%	0.30%
Cost-income ratio (C/I ratio)	69.9%	63.9%	60.5%
Asset quality ratio	2.33%	2.29%	2.54%
Coverage ratio	56.0%	57.1%	54.4%
Liquidity Coverage Ratio (LCR)	122%	132%	127%
Net Stable Funding Ratio (NSFR)	100%	108%	110%

Solvency ratios	2014	2015	2016
CET 1 ratio Phased In[2]	14.7%	15.9%	16.6%
CET 1 ratio Fully Loaded[2]	13.2%	14.9%	16.1%
Total capital ratio Phased In[2]	16.1%	17.7%	19.4%
Total capital ratio Fully Loaded[2]	14.3%	16.2%	18.4%
Leverage ratio Phased In	n.a.	5.3%	5.4%
Leverage ratio Fully Loaded	n.a.	4.9%	5.3%
Solvency II ratio[3]	n.a.	209%[4]	217%

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

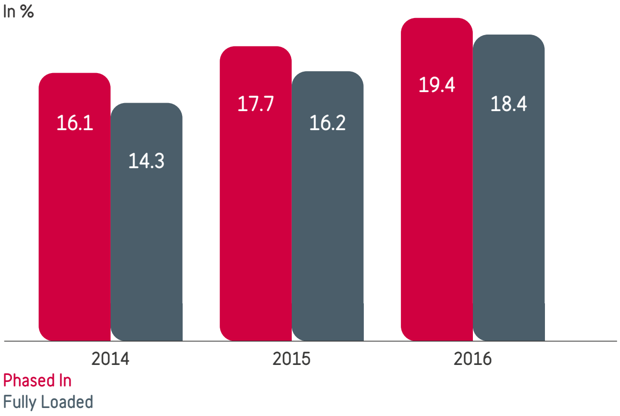
CET 1 ratio

In %



Total capital ratio

In %



Ratings of Belfius Bank as at 31 March 2017

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

(1) Intrinsic creditworthness

Our mission and ambition

We are committed 100% to 95% customer satisfaction

As a 100% Belgian bank and insurer, Belfius aspires to be a forerunner in terms of a new banking culture and places customer satisfaction strategically centre stage. Satisfied customers motivate us to move forward to create new opportunities in our country together with and for them. Because Belfius customers make all the difference. We reinvest the money that they save to help build a stronger society, create jobs, undertake infrastructure works, and renovate hospitals, schools and care centres. We moreover stimulate our economy in an entrepreneurial capacity, strive for greater effectiveness and cooperate with the local authorities to build a sustainable future. That is why we are committed 100% to 95% customer satisfaction.

A solid bank and insurer who decides "here"

Belfius believes that a country's potential is not determined by its size, but by the people, entrepreneurs and governmental authorities that are active locally. We want to be a reliable bank and insurer for them that has local decision-making centres as well as a commercial anchorage and the required affinity to help local potential develop. Belfius is intent on a sustained financially sound profile for the future, with a robust liquidity and solvency position. We therefore strive for even greater efficiency, growing profitability and net asset value to register even higher growth in strategic core activities and sustainable dividend capacity on the basis of client-oriented services and a prudent risk policy.

Forerunner in terms of a new banking culture

Belfius aspires to be a forerunner in terms of a new banking culture that draws inspiration from direct involvement and socially shared values, where customer satisfaction serves as the benchmark for all our decisions. Our strategy is based on a long-term vision that sets realistic profitability goals without imprudent risk-taking for our solidity or the interests of our customers and employees, and on reinvesting savings in our local economy. We want to be a constructive and active partner in our society, where our employees devote themselves selflessly to social initiatives that promote the common welfare.

Helping turn business ideas into reality

Belfius wants to be the driving force to turn Belgian business ideas into reality. We place our professional network at the entire disposal of small and large entrepreneurs to provide them with proactive, "smart" tailor-made solutions and smooth access to the expansion possibilities of the public market.

Building a sustainable future together

We have been a favoured partner of the public and social sectors, helping investments in socially crucial areas such as healthcare, education, energy, the environment and urban development. Belfius pays close attention to the society of today, whilst cooperating with governmental authorities and entrepreneurs under the Smart Belgium scheme on smart solutions for a more sustainable society, one that we can hand down to our children and grandchildren with pride, confidence and peace of mind.

Quality account management and digital efficiency to draw even closer to customers

Belfius is convinced that the digital revolution offers significant opportunities to draw even closer to its customers and to enhance their satisfaction even further. It has consistently opted for a digitally supported business model that combines quality account management through commercial staff with efficient, user-friendly digital channels. Belfius is and wants to remain a trendsetter when it comes to mobile and digital financial services, stimulates Belgian talents to innovate and comes up with useful solutions to real problems which enhance customer satisfaction and can be exported, so that revenues can be invested in local talent again.

Management report

Message from the chairmen

The Belfius brand was launched on 1 March 2012. Five years later, Belfius ranks among the best capitalised European banks and has managed to further reduce the risks of its historic legacy. Belfius has constantly performed above the market average in its core strategic areas and now exceeds a 95% customer satisfaction rate.

The splendid growth realized by Belfius, in spite of the challenging interest rate and market environment, is supported by last year's excellent results and will entail the payment of EUR 215 million in dividends for financial year 2016. Moreover, it corroborates the relevance of Belfius's long-term strategy, its capacity to keep on growing in a mature market as well as its stimulating role as a driving force of the Belgian economy.

Excellent financial and commercial result

The consolidated net income rose for the fifth year in a row to EUR 535 million. Belfius Bank contributed EUR 335 million, while Belfius Insurance made a very sizeable contribution of EUR 201 million, despite the negative impact of exceptional factors such as terror attacks and floods.

The net income from commercial activities grew by 9% to EUR 666 million thanks to the rare combination of a rise in revenues and continuous lowering of costs. The cost-income ratio of the commercial activities improved significantly by 3% to 57% compared with 2015.

Belfius's financial solidity increased further in 2016, thanks to a CET 1 ratio (Fully Loaded) of 16.1% for the Bank, the completion of the active tactical risk reduction of the legacy portfolio, and a Solvency II ratio of 217% for the insurer. Owing also to this risk reduction in 2016, the legacy activities had a negative impact of EUR 130 million on the net income.

250,000 new active customers and the "95% customer satisfaction" objective exceeded

Customer satisfaction is a strategic priority for Belfius. Moreover, it is the foundation of its strong results as well as of the ever increasing confidence it inspires in its customers as a bank and insurer. This strategy also reflects the in-depth change of the internal culture. Every cost and investment is weighted thoroughly on the basis of its real added value for the customer. The equipment rate per active retail and business customer was up to an average of 4.5 products in 2016, while the number of new active clients grew by 250,000 (+17%) at group level.

In 2016, Belfius achieved an overall satisfaction score of 95.25%, thereby exceeding its strategic objective of 95% satisfied customers within the scheduled deadline.

Commercial record year in a challenging economic environment

2016 was another record year for the franchise in all its core strategic areas. EUR 6.4 billion (+15%) out of a total of EUR 14.9 billion in new long-term lending (+11%) granted by Belfius to the Belgian economy were dedicated to Business and Corporate customers, segments in which Belfius will continue to register strong growth in the coming years. Despite the weak demand for long-term loans in the public and social sector, Belfius provided EUR 2.3 billion (+27%) in new long-term loans. New long-term loans totalling EUR 6.3 billion were moreover granted to retail customers, including EUR 5.6 billion in mortgage loans, the highest level ever.

The organic growth of investments by retail and business customers amounted to EUR 2.5 billion (+33%). Non-life premium collection through the bank channels registered a 10% increase to EUR 168 million, or seven times more than the market on average. This corroborated our choice for an enhanced bank-insurance model as a driving force for growth and income diversification.

As in previous years, Belfius continued its trendsetting performance in mobile banking. Belfius apps for smartphones and tablets boasted 850,000 active users at the end of 2016 (+44%). 36% of the new pension savings contracts, 33% of the new credit cards, and 27% of the new savings accounts are now purchased through direct channels.

A bank-insurer who is creating new opportunities for our country

All the more so in view of the permanently challenging interest rate and market environment, inducing continued cost and risk control, the sustainable growth of the net income of the commercial activities over the last five years confirms the relevance of Belfius's strategy.

This is based on a long-term vision, focused on gradually and consistently building our results rather than on quick profit. It is also based on a bank insurance model which diversifies revenues; on customer satisfaction leading to rapidly growing new active customers and cross selling; and on enhanced operational efficiency resulting in excellent cost control.

Our fine results and financial solidity create the required investment conditions to grow in core strategic areas via internal or external growth and by exploiting our (digital) know-how abroad.

We can moreover look realistically to the targets we have set for 2020, namely to:

- → Maintain at least a 95% customer satisfaction rate, and establish a strong brand with the highest recommendation score in the industry.
- → Generate a consolidated net income of EUR 600 million, a sustainable dividend capacity, and a cost-income ratio below 60%.
- → Attain ratios with sufficient security margin in terms of liquidity (an LCR over 100%) and solvency (a CET 1 ratio Fully Loaded and Solvency II ratio above 13% and 175% respectively)
- → Be a bank-insurer who creates new opportunities in our country and continues to be the driving force of the Belgian economy by providing in particular EUR 60 billion in new long-term loans for the period up to 2020.
- → Achieving an internal commitment score of at least 80% whereby we, as an entrepreneur by and for the people, anticipate the flexible needs of customers whilst providing its employees with a pleasant, innovative and digitally up-to-date working environment that has an infectious effect on their commitment and resilience, and helps to attract new talents.

In 2011, our shareholder asked to improve our position in such a way that it could choose between various future options. This free choice has been made possible by our successful performance over the last five years. Our own choice has been clearly stated: we wish to retain our local roots and not to be sold to a foreign buyer. We moreover consider a partial privatisation, in any form, desirable for the future of Belfius.

Our successful performance over the last five years would not have been possible without the trust and confidence of our shareholder and customers, and the input of our employees and freelance agents, whom we wish to thank very much indeed.

Brussels, 31 March 2017

Marc Raisière
Chairman of the Management Board
Belfius Bank

Jozef Clijsters
Chairman of the Board of Directors
Belfius Bank

Corporate Social Responsibility

Belfius as a driver of social added value

With deep local roots, Belfius, a 100% Belgian bank-insurer, wants to be as close to the citizens and society as possible, and to support the entrepreneurial efforts of organisations large and small alike. We want to be a pioneer in a new banking culture that citizens are also keen on. **Corporate Social Responsibility (CSR)** constitutes an essential pillar of our strategy, in as fundamental a way as our objective of **95% satisfied customers**.

The Belfius business model focuses on support for the **Belgian economy** from a strategic positioning as a sustainable, financially solid bank-insurer. Our model is simple and transparent: we manage savings, protect assets, provide loans and guide and support our customers. We re-inject all the funds we raise in the economy. We have been a historical partner of and market leader in the public and social sector for decades: we facilitate the management of public authorities and local governments, provide professional advice and hold a mirror up to them with our studies. We invest in the construction of modern, smart infrastructure and technology and thus make our contribution to society, whilst building actively on the Belgium of tomorrow.

Belfius is moreover intent on being a **"warm", socially-oriented** bank-insurer. We consequently support numerous welfare actions, art and sporting events and communities that are experiencing more difficulties on the welfare and well-being front than others. The strength behind such solidarity consists of our staff, who do their utmost time and again in a selfless, active and massive manner.

Finally, we also strive for **sustainability** in our investment policy, our business relations and the management of our own buildings and the mobility of our staff.

Our commitment to the Belgian economy

Belfius is a 100% Belgian bank-insurer with deep local roots. All decisions are managed in Belgium, which makes a direct re-injection in the economy possible. This state has resulted in EUR 61 billion in long term investments these past five years. Public and social sector funding is historically entwined in our DNA. In addition to the proximity model for private customers, Belfius provides extensive and ever increasing support for self-employed persons, members of the professions, and small and large businesses.

EUR 61 billion

EUR 61 billion euros have been re-injected into the Belgian economy in the form of long-term financing schemes in the last 5 years

1. Smart Belgium

With "Smart Belgium", Belfius, together with partners from both the public and the private sector, creates a forum and a market place in which to **build smart solutions for a better society**. Smart Belgium stands for Belfius's future-oriented vision of sustainability as well as for all our current commitments. Accordingly, we function as a financial partner and contact for local governments, inter-municipal authorities, start-ups, businesses, hospitals, schools, rest homes, care centres, academics and citizens. We support each of those partners with their smart projects which can fall under eight areas: mobility, the circular economy, the environment, ecosystems, urban development, healthcare, education and energy.

Following an initial cooperation agreement in 2014, where EUR 400 million in low-interest loans were allocated for 62 projects geared to local energy efficiency, urban development and mobility, Belfius and the **European Investment Bank** (EIB) renewed and expanded their **cooperation agreement** with the *Smart Cities, Climate Action & Circular Economy* programme. This agreement comprises a low-interest credit line for another EUR 400 million to finance smart and sustainable projects, this time also by entrepreneurs and non-profit organisations in education and healthcare.

2. Studies for the public and social sector

Belfius is a partner and advisor of long standing of institutions from the public and social sector. We are the only Belgian bank to hold a mirror up to public institutions with many recurrent and ad hoc studies. Belfius helps all Belgian cities and municipalities to tackle their **financial challenges** through periodic publications and studies. Governmental authorities can avail themselves of the socio-demographic profile of the 589 municipalities which we compile every year to chart their social policy and invest proactively. Our annual Model for Automatic Hospital Analyses (MAHAs) provides a general picture of the current and future trends in the hospital sector.

3. InnovFin SME Guarantee

In 2015, Belfius was the first Belgian bank to sign an *InnovFin SME Guarantee* agreement with the European Investment Fund (EIF). The aim was to make it easier for **innovative SMEs and small mid-caps** to gain access to financing under *InnovFin – EU Finance for Innovators*. This credit line is supported by the European Commission as a component of Horizon 2020, the EU's framework programme for research and development. Thanks to this agreement, Belfius can provide loans with EIF guarantee totalling EUR 100 million to innovative companies or projects in Belgium until 2017.

In addition, we are also one of the consortium partners that are helping to see through *REnnovates*, a concrete Horizon 2020 project geared to the development of new technologies and business models for large-scale energy renovation of residential buildings.

Smart City Institute

Belfius supports the Smart City Institute, which is housed in the School of Management at the University of Liège (HEC-Liège). It was opened in 2015, under the direction of Professor Nathalie Crutzen, and with the support of public partners (City of Liège and the Walloon Region) and private partners (Belfius, Accenture, Proximus and Schréder). This new university institute aims to stimulate research, training, innovation and entrepreneurship in the field of "Smart Cities". It proposes to tackle this subject adopting a managerial (and not only technical) approach, whilst showing a true desire for multidisciplinary openness.

Smart Awards

To bolster the Smart dynamic in the business world and in the public and social sector, in 2016 Belfius launched the Belfius Smart Awards: a recognition of the most valuable projects by local governments, businesses, inter-municipal agencies, hospitals, schools, rest homes and care centres in the eight areas of Smart Belgium. Five such awards were given out in all: two Belfius Smart Company Awards, two Belfius Smart City Awards and one Belfius Smart Care Award. The winners selected from the 185 projects that were entered at the end of 2015 will be announced in the spring.

EUR 800 million

The EIB and Belfius have since 2014 released EUR 800 million for the financing of smart, sustainable projects

4. Support for start-ups

Belfius has concluded another agreement with the EIF, under the terms of which a credit line of EUR 360 million was made available over three years for start-ups. Thanks to this programme, 1,700 start-ups were able to borrow **EUR 345 million** at very favourable conditions. Other advantages include advice and support in setting up their business and drawing up their financial plan, a guaranteed income insurance, free current account for three years, and exemption from fees.

In Ghent, Belfius signed a cooperation agreement with Aerey, a community by and for entrepreneurs, and its incubator for start-ups known as "The Birdhouse." Fifteen seasoned entrepreneurs were provided with all the means and resources for six months to advise and support five start-ups to get their business rolling.

5. Private Finance For Energy Efficiency

In connection with the new instrument *Private Finance For Energy Efficiency* (PF4EE), developed jointly by the European Investment Bank and the European Commission, Belfius and the EIB signed a new agreement to provide faster and easier access to appropriate and affordable commercial financing for investments in **energy efficiency**.

The PF4EE instrument comprises three elements. The first is an EIB loan to finance approved energy efficiency projects, which is managed by the local banks. The second component covers the potential losses that the banks could suffer by granting loans for energy efficiency. The third part strengthens the application of the PF4EE instrument by exchanging technical and financial experience gained from other such projects. The agreement enables Belfius to grant **EUR 75 million** in loans at favourable conditions. Businesses and what are known as Energy Service Companies (ESCOs) are eligible.

6. Social payment products

Together with all centres for public welfare, Belfius has devised a wide range of products for people who are faced with financial difficulties: an offer not available from any other European bank. A case in point is the Belfius E@sy Card: a bank card for people without a bank account under the supervision of the centres for public welfare, but one that enables the holders themselves to access an amount of financial resources granted.

Our social commitment

Not only does Belfius invest in the Belgian economy, but it also has a proud tradition and extensive expertise in the (financial) support of projects with a social purpose. Our social commitment draws inspiration locally and extends constantly further afield. The **staff** of Belfius commit themselves actively and massively every year to various good causes and other initiatives.

1. Projects for a good cause

With the *Viva For Life* campaign, Belfius supports various organisations in Wallonia and Brussels that are fighting against child poverty. We organised various initiatives this year, including Stairs for Life, where more than 600 participants climbed the 696 steps of the Belfius tower for a good cause.

Together with Medialaan, Belfius was one of the initiators of the *Rode Neuzen Dag* campaign: an action that draws inspiration from the international Red Nose Day and calls for attention to the growing number of young people who are struggling with mental problems. Belfius employees embark on several fund collection actions to that end every year.

Through our partnership with Special Olympics Belgium, we focus on people with a mental disability to promote their integration in Belgian society.

2. Belfius collection

In 2015, the new Belfius Art Gallery opened on the 32nd floor of the Belfius Tower, the Bank's headquarters in Brussels. The gallery mounts theme-inspired changing selections of 60 art works from the Belfius collection which, with 4,300 masterpieces, is the biggest private collection in the country. Our aim is to have as many people as possible enjoy this artistic heritage. Accordingly, Belfius **opens the gallery to the general public** twice a month and by appointment. A virtual, 360° visit is also possible via *belfius.com/art*. Together with the non-profit organisations Audioscenic and Culturama, we provide guided tours for persons **with impaired vision**, who can discover the collection through their sense of touch.

3. Belfius Foundation

The work of the Belfius Foundation is expressed in **patronage** through supporting causes of general interest, usually on the theme of solidarity and without any commercial purpose. In 2016, the Foundation ran two main operations:

3.1. Colour Your Hospital

In order to help hospitals to improve patient comfort, Belfius launched the 5th edition of *Colour your hospital*, its competition in hospitals around the country aimed at bringing together the best projects in this regard. An independent jury awarded 23 prizes among 123 applicants, who will share the EUR 150,000 provided by Belfius to implement their projects.

3.2. Helping Hands

Addressing Belfius staff members as volunteers, members or supporters of an active solidarity association in Belgium, Helping hand finances projects with a social-purpose project for an amount of EUR 5,000 maximum per initiative. For this 5th edition, Belfius rewarded projects with the aim of helping vulnerable people, such as children in care, disabled people or disoriented young immigrants.

Our commitment as a socially responsible bank

At Belfius, we also strive for sustainability in our investment policy, business relations and in the management of our own buildings and mobility.

1. Investment policy

1.1. Sustainable investment funds

On the investment fund front, the fund investment and management firm Belfius Investment Partners launched its own offer in 2016, and Belfius has been working together with Candriam as a privileged partner and pioneer in Sustainable and Socially Responsible Investing for years. In addition to the usual financial criteria, Candriam applies ecological, social and governance (ESG) criteria systematically in its investment policy. For sustainable funds, Candriam puts together an investment universe of firms with best-in-class ESG practices, from which companies with the best financial prospects are chosen. This approach helps to select the best opportunities while limiting financial and ESG risks to a minimum.

1.2. Sustainable investments in Branch 21

Belfius customers who take out Branch 21 investment insurance know that their investments – excluding investments in funds, property and mortgages, which are excluded from this process and which make up only a small part of the portfolio – are managed in accordance with the standards and procedures of Portfolio21. This investment strategy guarantees the exclusion of child labour and

EUR 1.2 billion

Belfius has already granted EUR 1.2 billion in loans in the renewable energy sector

forced labour, the promotion of freedom of association and of non-discrimination as set out in the basic conventions of the International Labour Organisation. In addition, Portfolio21 excludes investments in companies that cause serious environmental damage by violating the relevant legislation.

1.3. Branch 23 sustainable investment funds

Sustainable funds in the Branch 23 product Belfius Life Values take a Best-In-Class ("BIC") approach when it comes to ESG criteria. The Best-in-Class analysis for companies consists of checking the extent to which those businesses are capable of dealing with the challenges regarding sustainable developments that are specific to their sector. They are approached from two distinct, yet mutually linked angles: Macro-analysis and Micro-analysis. The Macro-analysis assesses the companies' (services/products, production zones, market segments, etc.) exposure to the major challenges regarding sustainable development. These challenges are long-term trends that can have considerable repercussions on the economic environment of the companies. They may also be defining for the future challenges facing the market, as well as growth opportunities in the long term. The Micro-analysis assesses the ability of a company to take account of the interests of its stakeholders (customers, employees, etc.) in its long-term strategy to the extent that they involve risks as well as opportunities for the companies.

1.4. Sustainable investments

Belfius Bank finances no investments that are connected with the production or extraction of oil, coal or gas. In the meantime, more than 99% of the turnover from financing energy generation comes from renewable energy.

Belfius has already granted EUR 1.2 billion in loans in the renewable energy sector (biomass, solar energy, onshore and offshore wind energy). The various projects in which the Bank is involved through such financing represent an annual generation of renewable energy that covers the needs of ca. 1.6 million Belgian households and prevents emissions of ca. 2.2 million tonnes CO_2 per year.

1.5. Belfius philanthropy

The Belfius Philanthropy offer provides our customers with a specific framework to take up philanthropy as a structural component of their asset management and/or inheritance planning.

2. Commercial relationships

Customer satisfaction is a central theme of our strategy. Building and cultivating a sustainable, mutually respectful relationship with customers and partners for the long term is just as important for Belfius as the optimisation of operational efficiency or financial performance. Our approach is based on trust and confidence, a willingness to listen, support and transparency. We act as a responsible taxpayer who complies with tax laws and procedures to the letter.

2.1. Customer satisfaction as a driving force

Belfius attained an overall satisfaction score of **95.25%** in 2016: 94.4% among private customers, and 96.9% among Public, Social and Corporate customers, thereby attaining the objective of an average score of 95% satisfied customers.

2.2. Febelfin code of conduct

This code of conduct is an initiative of Febelfin, the Belgian Financial Sector Federation. By signing this code, Belfius undertakes that we will stay true to the values of the sector in our day-to-day dealings with our customers.

2.3. BeCommerce

Belfius complies with the code of conduct of BeCommerce, the Belgian association of companies active in distance selling, via the Internet, and thus in all forms of e-commerce. As such, BeCommerce wants to offer consumers a reliable and safe way to shop online.

2.4. Tax avoidance policy

Belfius Bank pursues a strict tax and compliance policy which takes shape in particular through:

- a tax policy note, approved by the board of directors, which expressly prohibits tax avoidance by setting up **front companies**;
- a strict repatriation policy concerning **overseas assets**, whereby the Bank's basic rule is to refuse capital encumbered by deferred taxes. In addition, the Bank always refuses funds from front companies in tax havens, with the exception of fully regularised capital;
- a strict **customer acceptance policy**, whereby possible risk cases are systematically investigated and, pursuant to the money laundering regulations, they are reported as and when necessary to the Financial Intelligence Processing Unit (CTIF - CFI).

3. Buildings and mobility

3.1. Energy

Belfius assesses the energy performance of its central and regional **buildings** continuously. **Consumption of primary energy** at headquarters has dropped by 65.8% over nine years thanks to an optimisation of the office space, a reduction in the number of buildings and awareness raising campaigns for the staff. In addition, Belfius also invests in passive buildings and low-energy solutions for offices.

Belfius has since 2008 been using exclusively **green energy**, guaranteed by emission certificates. We have concluded a new agreement with Engie for the 2016-2018 period for power supply via offshore wind energy (Seanergy product).

3.2. Paper and waste

In 2014, paper consumption amounted to 190 kg per employee on average on an annual basis, or some 2,000 tonnes of paper a year for Belfius as a whole. Belfius wants to halve **paper consumption** between 2014 and 2017 through various awareness raising campaigns. At the end of 2016, the monthly average of 1,650,000 printouts in 2014 was reduced to 650,000 – a drop of no less than 60%. Belfius is moreover taking actions to reduce paper statements of account (-9.5% by comparison with 2015) and the posting thereof (-16.5%). The number of statements sent has been dropping for years and now accounts for less than a quarter of the total. The intensive global digitalisation of the product offer moreover means that the share of 100% paperless workflows continues to increase. Our **waste mountain** has shrunk by 37% in five years, while paper and cardboard waste has dropped by 49% over the same period.

3.3. Mobility

Our headquarters in Brussels is doing well on the sustainable mobility front also. In 2016, 79.8% of the staff commuted to the capital by **public transport**. Only 16.2% use only their car for their home-to-work commute, compared with 16.6% in 2015. 2.2% came to work by bike and 6.1% rode their bike daily to the station.

Belfius Insurance cranked the intensity of structural **teleworking** further up to 60% of its staff for two days a week. The environment-friendly measure has a positive impact on mobility, because employees need to commute less and buildings need less heating and maintenance – a trend that has underlain the excellent energy performance of Belfius insurance since 2011. To enable employees to work irrespective of the location, the insurer digitised all files a number of years ago.

Thanks to its **Belfius E-Fleet** project, Belfius Auto Lease is at the source of the development of **Olympus Mobility**, an app and B2B-platform that reconciles supply and demand for alternative mobility modes (Railease, Bike Lease, Belfius E-Fleet). This system enables Belfius Auto Lease to centralise the administration of alternative mobility solutions and to support customers further. Another example is the **kilometre insurance** of Corona Direct, where drivers pay less when they drive less.

Human Resources

Digital strategy put to practice

A successful implementation of the digital strategy at Belfius presupposed a growing affinity on the part of all employees with digital technology. This strategy had an impact on the commercial policy in 2016 in the networks as well as on the organisational and personnel policy at the head office. Intensive and increasingly "digital" training courses are organized on the digitisation of the product range and on the consequences and opportunities of the digital revolution.

Familiarising employees with the impact of digitisation required not only the requisite flexibility on their part, but also good change mentoring. The results of the employee commitment barometer have already confirmed that this approach was appreciated.

"Confident and committed for the future, Belfius staff members confirm their pride"

With the participation of 2/3 of Belfius staff members, the commitment barometer shows that employees are particularly proud (88%) and satisfied (95%) to be working for Belfius. They are also particularly convinced of the quality of the products and services provided by their employer (96%).

These excellent results, up yet again from those of 2015, attest to the confidence of Belfius employees who are more than ever committed and geared to the future.

They bode well for the many strategic challenges faced by the Bank, particularly in terms of flexible organisation, which must include in particular the ongoing digitisation strategy whilst adapting to the new needs and expectations of the customers.

The organisational model explained

All the Bank's departments have since 2014 been screened for their cost efficiency and added value for the customer. This analysis was completed in 2016, and the means and resources released were redirected to new initiatives to support the digital strategy.

This approach offered new opportunities for employees as well. Those who wanted to make use of their entrepreneurship skills applied for new jobs. Positions that became vacant could in turn be filled by employees from departments that were transformed according to the new organisational models.

Employees who capitalised on these changes to enrich their career, were provided with intensive guidance and support to match successfully their skills and ambitions with the vacant jobs.

A corporate culture that stimulates (personal) leadership and a spirit of initiative

This year once again, the Human Resources Department made determined efforts to implement initiatives geared to making leadership roles come alive, developing agility, encouraging an entrepreneurial spirit and creating new opportunities in Belfius. We have pursued these initiatives under what we call a "Growth Mindset."

In June 2016, we celebrated the first anniversary of the Leadership model at Belfius. It afforded us an opportunity to take stock of the progress made and to continue to stimulate employees, managers and non-managers alike, to be leaders in their field. Furthermore, we managed to complete in 2016 the cycle for the 6 roles of the model thanks to various conferences and workshops, the development of teaching materials, and actions aimed, in particular, at strengthening team cohesion.

The Learning Expeditions and Design Thinking Boot Camps organised at the end of 2016 were also intended to nurture this Growth Mindset. They enable the participants to open up to a constantly changing world and to master a number of key skills such as the alignment around a shared vision, innovation, the outside-in reflex, change management, mobilisation and accountability, creative problem solving, etc. These learning experiences are useful for the participants but also for the organisation as a whole, and open up viral opportunities. The insights obtained at these expeditions were shared with the entire Belfius community and were developed in concrete business cases.

Young Professionals and the Belfius Young Community

In mid-2015, Belfius launched a programme to recruit young Master's degree graduates with or without work experience. Selected for their skills as much as for their personality, these young graduates join the "Young Professionals" programme. They have the opportunity to undergo practical training on key projects for Belfius before taking up a fixed position. It's a win-win situation for young talent and for Belfius.

Our Young Pros are welcomed by the Belfius Young Community. Created in 2014 by and for Belfius employees under 36, this network gives young Belfius employees a voice in the company as well as a way for them to try to outdo themselves in a spirit of constructive cooperation. This initiative confirms the vitality of Belfius and stimulates exchanges at all levels.

Continuing to invest in development

In 2016, Belfius Bank organised more than 37,000 training days. These training courses are geared primarily to arming everyone who stands up for the Belfius brand at the Bank to provide the best possible service to our customers. Learning@Belfius provides a learning mix which is evolving towards more "digital" or "up close learning", i.e. learning at the place and time suitable for the person in question.

In addition, more than 3,000 bank employees (*5,400 with the independent network*) earned their "Destination Digital" certificate in 2016. To that end, they availed themselves of brief and practical online training modules successfully for a number of months. Various modules with specific learning objectives were available every week: outlining the digital world, understanding terminology, tools and their application, learning how to take advantage of all the options offered to our customers via Belfius Direct Mobile and last but not least, be in a better position to meet customers' needs.

Also Belfius Insurance invested to provide a range of courses as well as advice and support within Learning@Belfius and the specialised training organisations Fopas and Insert. More than 4 days of training per employee on such initiatives were made available.

Social elections take the digital road too

The social elections for the Bank were held on 10 May 2016. They were a resounding success, with a total participation rate of **80%**. For the first time, a large majority of the staff could vote electronically in line with the paperless and digital strategy of Belfius.

"Our Drive 2020," a future-oriented strategic HR plan

At the end of 2016, following the social elections, the social partners entered into discussions aimed in particular at introducing an even more modern organisation of work at Belfius Bank. The goal was to meet the growing needs of customers in terms of availability while providing employees with a framework to organise their work in a flexible and balanced manner.

Teleworking… rewarded!

Teleworking and decentralised working have always figured prominently in the organisation of work at Belfius Bank.

Again, teleworking proved its mettle and utility for Belfius in 2016. During the lockdown in March 2016, when the Brussels offices of the Bank and the insurer were difficult to reach for employees, a Business Continuity Plan was deployed, based on generalised teleworking to keep the company running and maintain the quality of service to customers. The quality of this Business Continuity Plan earned international recognition with the conferral of the BCI European Award and the BCI Global Award to Belfius Bank for "Best Continuity and Resilience Team."

Belfius Tower: a working… and relaxation environment.

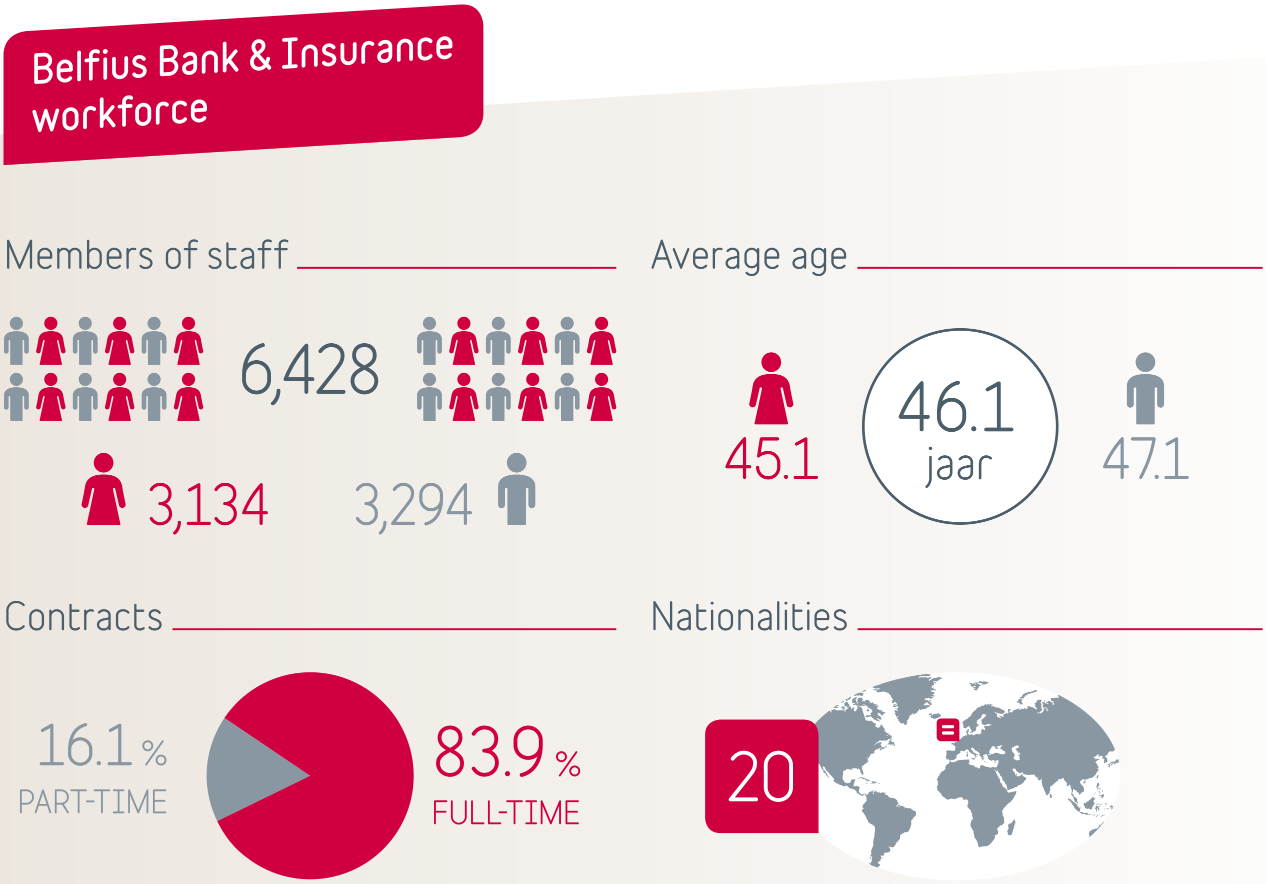
The layout of the offices at Belfius Tower will be fundamentally overhauled in 2017. The former open spaces will make room for a modern, open workplace environment comprising differentiated areas in line with the work to be performed: creativity or concentration area, conference room with videoconferencing facilities, etc. … The staff will be gradually equipped with a mobile IT solution to remain connected irrespective of their place of work.

A Work, Meet and Eat area was created on the 4th floor of Belfius Tower in 2016. Named "The Village," it fosters informal contacts between employees in a relaxed setting. Particular attention was paid to the layout and décor to allow multiple uses.

To stimulate the resilience of Belfius employees investments have also gone into "The Belfius Workout", an area dedicated to sport and well-being in the Belfius Tower. This fitness facility features modern cardiovascular and body building equipment for individual training under the expert guidance of a coach, as well as collective courses. The Belfius Workout opened on 1 March 2017 for all Belfius employees.

Alternative Rewards

Launched by Belfius Bank in 2014, the Flex Reward has been a success year after year. This flexible form of remuneration gives employees the opportunity to convert a nice budget into other benefits such as an Internet connection, a PC, an upgrade of their train pass, an (electric) bicycle, a car, etc. Employee satisfaction with this alternative form of remuneration is sustainable, as the more than 70% participation rate indicates.



Key figures on 31 December 2016

Financial Results

Preliminary notes to the consolidated financial statements

1. Changes to the scope of consolidation

In 2016, the Belgian fund management company Belfius Investment Partners was founded and is fully consolidated. The funds "Belfius European Loans Fund", "Belins high yield" and "Belins US Corporate Bonds" were founded by Belfius Insurance in 2015 and joined the scope of consolidation during 2016.

"Société Espace Léopold" was liquidated during 2016. The companies Copharma Industries Unltd and Eurco Ltd were deconsolidated as they are being liquidated.

Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016, classified as "Non current assets (disposal group) held for sale and discontinued operations", to Foyer SA. In 2H 2016, Belfius Insurance decided to sell its participation in "Aviabel". Despite the fact that an agreement has been reached, it is still subject to certain conditions, and thus the participation has been classified as "Non current assets (disposal group) held for sale and discontinued operations" as per 31 December 2016, this had no impact on the consolidation scope in 2016.

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

2. Fundamentals of the consolidated financial statements

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

Analysis of the consolidated balance sheet

As at 31 December 2016, the balance sheet total amounted to EUR 176.7 billion, a decrease of EUR 0.2 billion or 0.1% compared to 31 December 2015. The balance sheet is composed of EUR 156.8 billion for the banking group (compared to EUR 152.9 billion end 2015) and EUR 19.9 billion for the insurance group (compared to EUR 24.1 billion end 2015). Note that these amounts represent the contribution of the banking or the insurance group and do not reflect the standalone balance sheet totals.

The decrease of the balance sheet total primarily results from the sale of the subsidiary "International Wealth Insurer" and the sales of financial assets available for sale following active tactical derisking as well as a decrease of the insurance activity in Branch 21. This decrease was almost fully compensated by the increase of loans and advances to customers.

Consolidated balance sheet

(In millions of EUR)	31/12/15	Contribution Bank into group(1)	Contribution Insurance into group(1)	31/12/16	Contribution Bank into group(1)	Contribution Insurance into group(1)	Evolution 2015/2016
TOTAL ASSETS	176,962	152,889	24,073	176,721	156,775	19,946	-241
of which							
Loans and advances due from banks and central banks	24,894	24,436	458	27,114	26,929	185	+2,219
Loans and advances to customers	87,189	81,285	5,904	89,702	84,318	5,385	+2,513
Investments held to maturity	5,017	5,017	0	5,393	5,393	0	+376
Financial assets available for sale	19,734	6,294	13,440	18,820	5,255	13,565	-914
Derivatives	25,944	25,941	2	25,307	25,307	0	-636
Non current assets (disposal groups) held for sale and discontinued operations	3,355	15	3,339	29	21	8	-3,326
TOTAL LIABILITIES	168,302	145,063	23,240	167,709	148,571	19,138	-593
of which							
Due to banks	11,538	11,206	332	12,582	12,506	76	+1,044
Customers borrowings and deposits	68,163	68,158	5	74,171	74,171	0	+6,008
Debt securities	27,778	27,778	0	23,981	23,981	0	-3,796
Derivatives	30,060	30,057	3	29,573	29,562	10	-488
Subordinated debts	913	909	4	1,399	1,399	0	+486
Liabilities included in disposal groups and discontinued operations	3,243	0	3,243	0	0	0	-3,243
TOTAL EQUITY	8,660	7,826	833	9,012	8,205	807	+352
of which							
Core shareholders' equity	8,309	8,370	(62)	8,694	8,706	(13)	+385
Gains and losses not recognised in the statement of income	350	(544)	894	318	(502)	820	-32

(1) Information based on non-audited figures.

1. Assets

Loans and advances due from banks and central banks increased with 8.9% or EUR 2.2 billion, to EUR 27.1 billion as at 31 December 2016, mainly due to the increase of monetary reserves and collateral at the ECB for EUR 4.6 billion. This increase was partially compensated by a decrease of reverse repurchase agreements for EUR 1.7 billion and a decrease of cash collateral paid for EUR 0.4 billion (following the rather stable interest rate evolution compared to year-end 2015).

End December 2016, **loans and advances to customers** amounted to EUR 89.7 billion. This increase of EUR 2.5 billion, or 2.9%, compared to previous year, is essentially explained by an increase in commercial assets of EUR 2.7 billion (mainly mortgage and term loans).

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

Financial assets available for sale decreased by EUR 0.9 billion to EUR 18.8 billion as at 31 December 2016. The "financial assets available for sale" portfolio is mainly situated in the insurance group for EUR 13.6 billion (compared to EUR 13.4 billion end 2015). For the banking group the portfolio amounts to EUR 5.3 billion (compared to EUR 6.3 billion at the end of 2015).

The decrease is due to the sale of mainly Spanish covered bonds within the banking group portfolio following further tactical de-risking and the sale of some Belgian Government bonds and positions in equity and funds within the insurance group portfolio following rebalancing of the portfolio and surrenders in the Branch 21 portfolio.

The positive fair value of **derivatives** decreased by EUR 0.6 billion to EUR 25.3 billion (-2.5% compared to the end of 2015) following the rather stable interest rate evolution compared to year-end 2015.

Non-current assets (disposal group) held for sale and discontinued operations amounted to EUR 29 million. A decrease of EUR 3.3 billion due to the sale of the subsidiary "International Wealth Insurer" in 2H 2016.

2. Liabilities

Liabilities due to banks increased with EUR 1.0 billion to EUR 12.6 billion as at 31 December 2016. At the end of 2015, Belfius had an outstanding TLTRO I participation of EUR 1.65 billion. In June 2016, TLTRO I was called by Belfius and replaced by TLTRO II. At the same time, Belfius drew an additional EUR 1.35 billion, resulting in a total participation of EUR 3.0 billion. Furthermore, an increase in deposits for EUR 0.8 billion can be noted as well as a decrease in cash collateral received for EUR 0.7 billion and a decrease in repurchase agreements for EUR 1.1 billion.

End December 2016, **customer borrowings and deposits** amounted to EUR 74.2 billion, up with EUR 6.0 billion compared to end 2015, entirely due to the growth of commercial deposits, mainly demand and savings accounts.

Debt securities decreased with EUR 3.8 billion to EUR 24.0 billion as at 31 December 2016. The decrease is mainly related to long term debt securities that came to maturity for EUR 3.7 billion as well as matured saving certificates for EUR 2.5 billion. This decrease was partially offset by an increase of certificates of deposits for EUR 1.3 billion and the issuance of covered bonds for EUR 1.1 billion.

The negative fair value of **derivatives** decreased by EUR 0.5 billion to EUR 29.6 billion (-1.6% compared to the end of 2015) following the rather stable interest rate evolution compared to year-end 2015.

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

Liabilities included in disposal group and discontinued operations amounted to EUR 0 million, a decrease of EUR 3.2 billion due to the sale of the subsidiary "International Wealth Insurer" in 2H 2016.

3. Equity

End December 2016, **total equity** amounted to EUR 9.0 billion, against EUR 8.7 billion as of 31 December 2015. The EUR 352 million increase is explained by the profit for the period of EUR 535 million, deducted with the dividend paid in May 2016 relative to the accounting year 2015 of EUR 75 million and an interim dividend over year-end 2016 result paid in September 2016 of EUR 75 million. The gains and losses not recognised in the statement of income decreased with EUR 32 million.

The **core shareholders' equity** rose with EUR 385 million to EUR 8.7 billion due to the net income for the year 2016 of EUR 535 million, though partially offset by the dividend paid of EUR 75 million over year-end 2015 and an interim dividend over year-end 2016 result of EUR 75 million.

Gains and losses not recognised in the statement of income decreased with EUR 32 million to EUR 318 million at 31 December 2016 from EUR 350 million at year-end 2015. The decrease is mainly related to an increase of the negative adjustment of shadow accounting at Belfius Insurance following the interest rate evolution combined with some methodological refinements. Though this decrease was partially offset by improved credit spreads and further derisking. Note that the remeasurement of defined benefit plans decreased with EUR -33 million following lower discount rate compared to year-end 2015. The "available-for-sale reserve" for the banking group amounts to EUR -554 million (an improvement by EUR 79 million) and for the insurance group EUR 785 million (a decrease of EUR 62 million).

Analysis of the consolidated statement of income

1. Net income group share

In 2016, Belfius recorded a **net income group share** of EUR 535 million, against EUR 506 million in 2015, up 5.8%. The Bank's contribution to the consolidated net income amounted to EUR 367 million (compared to EUR 290 million in 2015) and the insurance group EUR 168 million (compared to EUR 216 million in 2015). Note that, after adjustment for an intragroup transaction, the net contribution amounts to EUR 201 million for Belfius Insurance and EUR 335 million for Belfius Bank. More in particular, Belfius Insurance has bought back, before maturity, its Tier 2 subordinated debt issued end 2011 which was subscribed by Belfius Bank, and this at a fair market price above book value, as yields for subordinated debt came down since then. At the same time, Belfius Insurance reissued (and Belfius Bank subscribed) new Tier 2 subordinated debts and in that way extended the maturity profile of its outstanding subordinated debt and increased somewhat its total outstanding Tier 2, as such improving its total capital mix.

The net profit reflects a good performance of both Belfius Bank and Belfius Insurance and this in a difficult setting. The result of Belfius Bank was mainly driven by the good commercial activity, a strict cost control and the buy back of EUR 181 million subordinated debts by Belfius Insurance (gain of EUR 49 million recorded in "Net income in investments") partially compensated by tactical de-risking losses, higher specific provisions in legacy books and higher taxes. The result of Belfius Insurance was also impacted by the buy back of EUR 181 million subordinated debts from Belfius Bank (loss of EUR 49 million recorded in "Net income in investments") as well as lower capital gains compared to year-end 2015 and the costs for claims related to terrorist attacks and storms.

Consolidated statement of income

(In millions of EUR)	2015	Contribution Bank into group[1]	Contribution Insurance into group[1]	2016	Contribution Bank into group[1]	Contribution Insurance into group[1]	Evolution 2015/2016
INCOME	2,184	*1,700*	*484*	2,259	*1,826*	*434*	+3.5%
of which							
Net interest income	2,024	*1,429*	*594*	1,943	*1,407*	*536*	-4.0%
Net income from financial instruments at fair value through profit and loss	38	*37*	*0*	17	*16*	*1*	-55.3%
Net income on investments and liabilities	14	*(93)*	*108*	116	*44*	*72*	x8.2
Net fee and commission income	497	*495*	*2*	507	*497*	*10*	+2.1%
Other income and expense	(173)	*(182)*	*9*	(162)	*(163)*	*0*	-6.0%
EXPENSES	(1,396)	*(1,183)*	*(214)*	(1,366)	*(1,157)*	*(210)*	-2.2%
GROSS OPERATING INCOME	787	*517*	*270*	893	*669*	*224*	+13.4%
Cost of risk	(93)	*(98)*	*6*	(116)	*(118)*	*2*	+25.1%
Impairments on (in)tangible assets	(13)	*(13)*	*0*	3	*3*	*0*	n.s.
NET INCOME BEFORE TAX	682	*406*	*276*	780	*553*	*226*	+14.3%
Tax (expense) income	(176)	*(116)*	*(60)*	(244)	*(187)*	*(58)*	+38.9%
NET INCOME GROUP SHARE	506	*290*	*216*	535	*367*	*168*	+5.8%
NET INCOME GROUP SHARE AFTER THE ADJUSTMENT OF THE BUY BACK OF SUBORDINATED DEBTS	506	*290*	*216*	535	*335*	*201*	+5.8%

(1) Information based on non-audited figures

2. Income

In 2016, **total income** amounted to EUR 2,259 million, up 3.5% or EUR 75 million more than in 2015. The low interest rate environment, sales in the insurance portfolio as well as further de-risking put further pressure on the interest margin. Despite volatile financial markets, fee income remained relatively stable compared to 2015. In addition, the March 2016 terrorist attacks in Brussels as well as the spring 2016 storms resulted in an additional negative impact on the result of Belfius Insurance.

Net interest income decreased with EUR 80 million to EUR 1,943 million mainly following the low interest rate environment and sales within the Belfius Insurance bond portfolio. The decrease in outstanding within the insurance portfolio, in line with market trends, resulted in a decrease of interest income on covering assets for Branch 21-26 insurance contracts at Belfius Insurance.

Net income from financial instruments at fair value through profit and loss decreased from EUR 38 million in 2015 to EUR 17 million in 2016, explained by the low interest rate environment and volatile financial markets.

Net income on investments and liabilities increased by EUR 102 million to EUR 116 million in 2016. During 2015 higher de-risking losses were noted compared to 2016. Also, a segregated fund has been reimbursed to the client. To that respect, the asset portfolio has been realized, generating important capital gains of EUR 50.8 million, compensated by additional insurance reserves for an identical amount, the cash and reserves were transferred back to the client. The total P&L impact of the reimbursement of a segregated fund is neutral.

Net fee and commission income increased with EUR 10 million, or 2.1%, to EUR 507 million. The increase in commissions received on off-balance sheet products due to low and volatile financial markets, was partially offset by commercial actions.

Other income and expense improved by EUR 10 million to EUR -162 million, mainly linked to realized gains on real estate projects. Note that Belfius has recognized EUR -220 million in P&L in 2016 as sector levies, as well as an additional EUR 10 million irrevocable payment commitment in off-balance-sheet for its contribution to the Single Resolution Fund.

3. Expenses

In 2016, **total expenses** amounted to EUR 1,366 million, a decrease of EUR 30 million or 2.2% compared to 2015. This decrease is the result of continued strict cost control and can be observed in staff expenses (for EUR 30 million). The increase in general expenses of EUR 15 million following higher supervisory fees as well as marketing costs, was offset by a decrease in other (non-staff) expenses.

4. Gross operating income

As a result, **gross operating income** increased significantly to EUR 893 million in 2016, up EUR 106 million or 13.4% compared to 2015. The banking group contributed EUR 669 million or EUR 620 million after the adjustment of the buy back of subordinated debts (compared to EUR 517 million in 2015) and the insurance group EUR 224 million or EUR 273 million after the adjustment of the buy back of subordinated debts (compared to EUR 270 million in 2015).

The consolidated Cost-income ratio improved from 63.9% in 2015 to 60.5% in 2016. An improvement of 347 bps which brings Belfius more in line with its most efficient peers. This is a major achievement and shows the group's rigor by a strict management of its costs despite the difficult market environment.

5. Cost of risk

Cost of risk increased with EUR 23 million to EUR 116 million. The evolution is stemming from a higher cost of credit risk in Side and stable cost of credit risk in Franchise.

6. Impairments on tangible and intangible assets

Impairments on tangible and intangible assets amounted to EUR +3 million compared to EUR -13 million end 2015.

7. Net income before tax

Net income before tax stood at EUR 780 million, up EUR 98 million or 14.3% compared to 2015. The banking group contributed EUR 553 million or EUR 504 million after the adjustment of the buy back of subordinated debts (compared to EUR 406 million in 2015) and the insurance group EUR 226 million or EUR 275 million after the adjustment of the buy back of subordinated debts (compared to EUR 276 million in 2015).

8. Tax (expense) income

Tax expense, including deferred taxes, amounted to EUR 244 million in 2016 compared to EUR 176 million in 2015. This increase is mainly related to an increase of EUR 73 million in deferred taxes following an increase of temporary differences mainly due to decrease of interest rates and use of tax losses carried forward.

9. Net income group share

As a result, Belfius **net income group share** amounted to EUR 535 million for 2016, compared to EUR 506 million in 2015.

10. Dividend

Belfius has paid EUR 75 million in May 2016 over year-end 2015 results. The Board of Directors of 31 March 2017, has proposed to the general Assembly of April 26, 2017 an ordinary dividend of EUR 215 million in respect of the accounting year 2016, of which EUR 75 million was already paid via an interim dividend in September 2016.

11. Solvency

End 2016, CET 1 ratio Phased In amounted to 16.6%, an increase of 72 bps compared to end of 2015. With application of grandfathering rules of 2016, CET 1 ratio for 2015 would have amounted to 15.6% compared to CET 1 ratio of 15.9% as reported.

The increase in CET 1 ratio is mainly the result of the increased prudential result corrected for foreseeable dividends (+60 bps), the lower deduction of the tax loss carry forwards stemming from a methodological refinement (more in particular the application of CRR/CRD IV offsetting of deferred tax assets by associated deferred tax liabilities) (+15 bps) and the lower deduction of value adjustments due to the requirements for regulatory prudent valuation (+26 bps). However, these positive impacts were partially offset by the shift in grandfathering rules (-35 bps) in the regulatory own funds calculation and the elimination of a grandfathering rule, in particular the AFS sovereign bond filter (-3 bps). The decrease of regulatory risk exposure by EUR 296 million has a positive impact (+9 bps).

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

The total capital ratio Phased In amounted to 19.4%, an increase of 171 bps compared to the end of 2015. The increase is mainly due to the successful inaugural Tier 2 bond issued in May 2016 for EUR 500 million.

End 2016, regulatory risk exposure of Belfius amounted to EUR 46,730 million, compared to EUR 47,026 million at the end of 2015.

The regulatory credit risk exposure decreased slightly (-1%) to EUR 35,951 million. This evolution is mainly the result of methodological refinements and further active tactical de-risking.

The regulatory market risk exposure decreased strongly by EUR 641 million (-36%), mainly as a result of the new recalibration of S-VaR (internal model). Regulatory operational risk exposure remained relatively stable. The regulatory risk exposure for Danish Compromise increased due to the issue of EUR 350 million Tier 2 bonds by Belfius Insurance, subscribed by Belfius Bank replacing the Tier 2 issues for EUR 181 million which were bought back end 2016.

More detailed information is provided in the "Capital management" chapter of this annual report.

Segment reporting

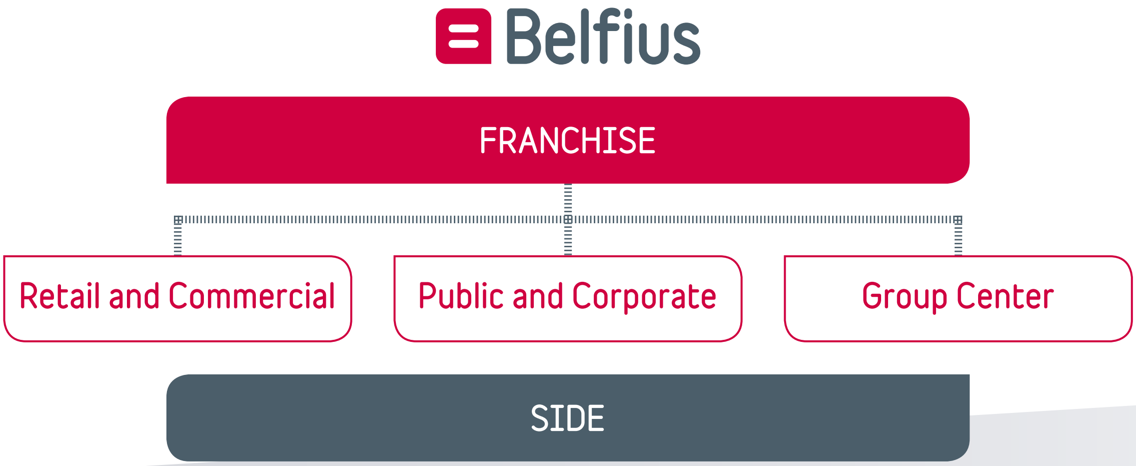
Analytically, Belfius splits its activities and accounts in two segments: Franchise and Side.

Franchise activities contain the key activities of the commercial business lines of Belfius:

- **Retail and Commercial** (RC), managing the commercial relationships with individual customers and with small & medium sized enterprises both at bank and insurance level;
- **Public and Corporate** (PC), managing the commercial relationships with public sector, social sector and corporate clients both at bank and insurance level;
- **Group Center** (GC) containing mainly the residual results not allocated to the two commercial segments of the Franchise and to the Side activities, as well as the residual interest rate and liquidity management results through the internal transfer pricing mechanism.

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

- (i) Legacy portfolios (bonds & credit guarantees);
- (ii) transactions with Dexia Group entities;
- (iii) some other run-off activities with clients, inherited from the Dexia-era and not part anymore of the commercial activities of Belfius.



As from 1 January 2017, Belfius will integrate Side into Franchise; more particularly Side will be merged into Group Center.

Key figures of the segment reporting (Unaudited)

Balans	Assets		Liabilities		Equity	
(In billions of EUR)	31/12/15 (PF(1))	31/12/16	31/12/15 (PF(1))	31/12/16	31/12/15 (PF(1))	31/12/16
FRANCHISE	135.7	137.0	143.1	142.6	6.1	7.0
RETAIL AND COMMERCIAL (RC)	52.5	53.8	76.3	77.0	2.0	1.9
of which banking activities	*35.8*	*38.4*	*60.1*	*62.0*	*0.9*	*0.9*
of which insurance activities	*16.7*	*15.4*	*16.2*	*15.0*	*1.0*	*1.1*
PUBLIC AND CORPORATE (PC)	41.8	41.7	24.8	26.1	0.8	0.8
of which banking activities	*38.4*	*38.3*	*21.6*	*22.9*	*0.6*	*0.6*
of which insurance activities	*3.4*	*3.4*	*3.2*	*3.1*	*0.2*	*0.2*
GROUP CENTER (GC)	41.3	41.5	42.0	39.5	3.4	4.2
of which banking activities	*37.4*	*40.3*	*38.2*	*38.5*	*3.1*	*4.2*
of which insurance activities	*3.9*	*1.2*	*3.9*	*1.0*	*0.3*	*0.1*
SIDE	41.3	39.7	25.2	25.1	2.5	2.0
TOTAL ASSETS	177.0	176.7	168.3	167.7	8.7	9.0
of which banking activities	*152.9*	*156.8*	*145.1*	*148.6*	*7.2*	*7.6*
of which insurance activities	*24.1*	*19.9*	*23.2*	*19.1*	*1.5*	*1.4*

Assets and liabilities allocated to Retail and Commercial (RC) and Public and Corporate (PC) reflect the commercial activities of those business lines. Where RC shows an excess of funding, PC is more asset driven. As a whole, the commercial balance sheet shows a funding excess with a sound 90% loan to deposit ratio (L/D-ratio) end 2016.

Income statement	2015					
(In millions of EUR)	Franchise	*RC (PF(1))*	*PC*	*GC (PF(1))*	Side (PF(1))	Belfius total
INCOME	2,321	*1,767*	*444*	*110*	(137)	2,184
EXPENSES	(1,384)	*(1,073)*	*(211)*	*(100)*	(13)	(1,396)
GROSS OPERATING INCOME	937	*694*	*233*	*10*	(150)	787
Cost of risk	(65)	*(38)*	*(28)*	*1*	(28)	(93)
Impairments on (in)tangible assets	(13)	*(8)*	*(4)*	*(1)*	0	(13)
NET INCOME BEFORE TAX	860	*649*	*201*	*10*	(178)	682
Tax expense / income	(248)	*(200)*	*(67)*	*19*	73	(176)
NET INCOME AFTER TAX	611	*448*	*134*	*29*	(105)	506
NET INCOME GROUP SHARE	611	*448*	*134*	*29*	(105)	506

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

Income statement	2016					
(In millions of EUR)	Franchise	*RC*	*PC*	*GC*	Side	Belfius total
INCOME	2,377	*1,686*	*441*	*250*	(118)	2,259
EXPENSES	(1,355)	*(1,018)*	*(210)*	*(127)*	(11)	(1,366)
GROSS OPERATING INCOME	1,022	*669*	*231*	*123*	(129)	893
Cost of risk	(68)	*(41)*	*(25)*	*(1)*	(48)	(116)
Impairments on (in)tangible assets	3	*2*	*1*	*0*	0	3
NET INCOME BEFORE TAX	957	*630*	*206*	*122*	(178)	780
Tax (expense) income	(291)	*(190)*	*(64)*	*(37)*	47	(244)
NET INCOME AFTER TAX	666	*439*	*141*	*85*	(130)	535
NET INCOME GROUP SHARE	666	*439*	*141*	*85*	(130)	535

Franchise

Financial Results Franchise

Net income after tax (Franchise net income) at Belfius rose from EUR 611 million in 2015 to EUR 666 million in 2016, up 9%. Belfius Bank part therein represented EUR 465 million, a strong increase of 18% compared to 2015. With EUR 201 million, Belfius Insurance maintained its high contribution of 2015[1].

Franchise net income after tax is stemming for EUR 439 million from the Retail and Commercial (RC) segment, for EUR 141 million from the Public and Corporate (PC) segment and for EUR 85 million from Group Center (GC).

In 2016, **total income** of Franchise amounted to EUR 2,377 million, up 2.4% or EUR 56 million more than in 2015.

Net interest income of Franchise decreased by EUR 88 million or 4.3% to EUR 1,979 million, mainly due to the historically low interest rate environment, the lower volume of Branch 21 products and the impact of mortgage loan prepayments.

Net fee and commission income of Franchise increased in 2016 with EUR 9 million, or 1.9% to EUR 507 million, despite lower and volatile financials markets mainly during 1H 2016.

Technical margin on insurance activities improved by 11% mainly thanks to decreasing Branch 21 outstanding reserves.

Franchise net income on investments and liabilities, net income from financial instruments at fair value through profit or loss, dividend income and net income from equity method companies increased from EUR 193 million in 2015 to EUR 290 million in 2016, it increased mainly due to higher dividend income, further enhanced asset returns at Belfius Insurance and better hedging results.

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

(1) Net contribution of Belfius Insurance amounts to EUR 201 million after an intragroup transaction (see also in chapiter "Financial Results").

Financial Results Franchise (In millions of EUR)	2015	2016
INCOME	2,321	2,377
of which		
Net interest income	*2,067*	*1,979*
Net fee and commission income	*498*	*507*
Technical margin on insurance activities	*(286)*	*(255)*
Net income on investments and liabilities, net income from financial instruments at fair value through profit or loss, dividend income and net income from equity method companies	*193*	*290*
Other income and expenses	*(151)*	*(144)*
EXPENSES	(1,384)	(1,355)
GROSS OPERATING INCOME	937	1,022
Cost of risk	(65)	(68)
Impairments on (in)tangible assets	(13)	3
NET INCOME BEFORE TAX	860	957
Tax expense	(248)	(291)
NET INCOME AFTER TAX	611	666
NET INCOME GROUP SHARE	611	666
of which (Unaudited)		
Bank	395	465
Insurance	216	201

Ratios (Unaudited)	2015	2016
Cost-income ratio (in %)	59.6%	57.0%
Normative regulatory equity without excess capital (in millions of EUR)[1]	3,959	4,154
Average Normative regulatory equity without excess capital (in millions of EUR)[2]	4,260	4,051
RoNRE (in %)[3]	14.3%	16.4%

(1) Normative Regulatory Equity is defined as the CET 1 capital that is required to bring Franchise (and its sub-segments) to a CET 1 ratio (Fully Loaded) of 10.5%.
(2) Annual average based on quarterly figures.
(3) Return on Normative Regulatory Equity (RoNRE) is calculated as the annualized net income as a percentage of the average Normative Regulatory Equity.

In 2016, **total expenses** of Franchise amounted to EUR 1,355 million, a decrease of EUR 29 million or 2.1% compared to 2015. This decrease is the result of the continued strict cost control and can mainly be observed in staff expenses for EUR 30 million, lower network costs for EUR 10 million and in other (non-staff) expenses for EUR 4 million, partially compensated by an increase in general expenses of EUR 15 million as a result of higher IT costs as well as marketing costs

As a result, Franchise **gross operating income** increased significantly to EUR 1,022 million in 2016, up EUR 85 million or 9% compared to 2015

Cost of risk amounted to EUR 68 million in 2016, stable compared to 2015, demonstrating good credit quality of the commercial activities. The "Impairments on tangible and intangible assets" amounted to EUR +3 million compared to EUR -13 million end 2015.

Franchise **net income before tax** stood at EUR 957 million, up with EUR 97 million or 11% compared to 2015.

Tax expense, including deferred taxes recorded in the profit and loss accounts, amounted to EUR 291 million in 2016 compared to EUR 248 million in 2015.

As a result, Belfius' Franchise **net income group share** amounted to EUR 666 million for 2016, up 9 %,compared to EUR 611 million in 2015.

Franchise cost-income ratio strongly improved to 57.0% compared to 59.6% in 2015. Return on Normative Regulatory Equity (RoNRE) increased from 14.3% in 2015 to 16.4% in 2016.

Retail and Commercial (RC)

Belfius Bank is among the top 4 leading banks in Belgium and serves its approximately 3.5 million customers through 696 points of sale, a contact center and a large number of automatic self banking machines, which makes the Bank a 24-hour-a-day operation. Belfius is leading in the mobile banking industry and provides state of the art apps.

In Belgium, for retail customers, Belfius Insurance combines the advantages of the exclusive agents network of DVV/LAP insurance with those of the Belfius Bank branch networks, whilst also relying on Corona Direct, a direct insurer active via the internet and "affinity partners"

Towards 2020: modern digital and physical bank-insurance service delivery in a client convenient way

The implementation of the Belfius 2020 strategy for Retail and Commercial, as charted in 2015, was launched last year.

The RC strategy aspires to achieve four ambitions by 2020:

→ To go from 95% customer satisfaction towards committed customers who are prepared to actively recommend Belfius.
→ To further develop a differentiated and digitally supported business model, with an ideal balance between qualitative relationship management on the one hand, and efficient, user-friendly direct channels on the other. Two complementary omni-channel approaches are being developed to that purpose: one with digital focus geared to retail customers combined with value-added branch interactions at key life moments, and the other with account management focus geared to privilege, private and business customers supported by very convenient digital tools.
→ To increase the dynamic market share in core products to our aspired market share of minimum 15%.
→ To further implement our continued focus on processes with true added value for our customers, and as such target a further improvement in cost-income ratio to ≤ 60%.

Five crucial changes are being implemented in order to achieve these four targets:

→ A finer sub-segmentation of our customers with appropriately designed value propositions for each of them.
→ An accelerated digital transformation to enable client convenient direct sales of the 10 most important bank and insurance products, supported by in-depth customer knowledge, the principle of mobile first, and paperless sales transactions supplemented by digital tools and services to support the account manager.
→ An innovative distribution strategy with a customer-oriented approach which is becoming more omni-channel on every front. In the future, branches will concentrate even more on proactive advice for the privilege, private and business segments. Information, service and sales for retail customers will increasingly be conducted through digital channels. Belfius Connect, a new "remote" advice and sales centre, ensures better commercial accessibility for customers by satisfying their needs from early in the morning to late into the evening.
→ Within RC, a 100% dedicated business unit consolidate all knowledge and experience in bank and insurance in order to further improve our well appreciated one-stop-shopping approach in conveniently proposing banking and insurance products to our clients in "one go".
→ The launch of an all-in property offer (via Belfius Immo, a subsidiary) and the development of Belfius Investment Partners (abbreviated as Belfius IP), a specialised subsidiary that manages investment funds for the purpose of completing the investment products offering of Belfius towards our RC clients.

Belfius Insurance also accessible via various distribution channels

Belfius Insurance holds the fifth position on the Belgian insurance market.

Through the **Belfius Bank channel**, Belfius Insurance addresses individuals, self-employed and SMEs in search of solutions (for life and for non-life insurance products) via some 700 Belfius Bank points of sale. In the future, Belfius Insurance aims to make even more use of the growth potential of the bank-insurance channel and to further bolster the fast take-up of the "one stop shopping" concept.

DVV/LAP insurance is an insurance reference for more than 85 years, both for life and non-life insurance. Through 330 points of sale, each with exclusive advisers, DVV insurance offers individuals, self-employed and small enterprises a complete range of insurances, mortgage loans and a widely renowned, first-class tailored service.

Corona Direct is a fast growing direct insurer. It offers its 195,000 customers through direct channels (e-commerce, phone or mailing) or via its "affinity"(1) partners family, car, home, funeral and other insurances. The strength of Corona Direct rests in its strong customer service and agile ability to innovate at the service of clients, for instance with its kilometre-linked car insurance.

Since 2012, this multi-channel and multi-brand approach of Belfius Insurance has also integrated the **Elantis** brand, which offers mortgage loans and consumer loans through independent brokers.

Particular focus on customer service, supported by a comprehensive range of products

The Retail and Commercial business line provides a full range of banking products and a varied selection of life and non-life insurance products that perfectly address the needs of the different customer segments seamlessly: retail, privilege, private but also business (that consist of the self-employed, the liberal professions and small and medium-sized enterprises).

1. Payment products

Payment products are offered in the form of packages of current accounts linked to a debit card (and sometimes a credit card and additional insurance cover), depending on the level of service selected: Belfius Pulse White, Belfius Comfort, Comfort Red, Comfort Gold and Comfort Platinum. Retail customers can also opt for the Belfius Pulse Start pack, which gives free access to a complete series of digital banking services, including personalised advice.

The granting of a credit card is subject to acceptance through a standard risk management process. Customers can also opt for a MasterCard Prepaid, enabling them to make payments in total security within the limit set for their budget, anywhere in the world and also online.

We have specific packages (Business Pack and Business Pack Plus) for business customers. They can also enjoy additional services that correspond to their needs such as cash-flow management.

Given the constant evolution of payment systems in a changing European legislative framework (PSD2), we are bolstering our approach of new solutions for individual and professionals customers. Our investments in Payconiq (together with ING and KBC) and Citie (in cooperation with Bpost and Proximus) are evidence of this.

Belfius also supports the development of local businesses through a comprehensive offer (POS + E / M Commerce) of means of payment. The distribution as well as the technical and commercial support of these solutions were strengthened.

2. Credit products

Mortgage loans at fixed or variable interest rates and for various terms, remain the leading product in the overall credit range. The Bank also markets consumer loan products in the form of car loans, personal loans and green loans.

Tailored loans are provided for the Business segment, the driving force behind the Belgian economic and social activities. This includes tax funding, operating capital facilities (particularly Belfius Business Cash+) and investment loans.

Furthermore Belfius assists starters to get easier access to financing with its programme rolled out together with the European Investment Fund (EIF), where the EIF assumes half of the guarantee. Belfius Bank is the only one on the Belgian market that worked together with the EIF and has thus been able to provide EUR 360 million to the Belgian economy since the beginning of 2014.

Moreover, last year, Belfius took out a EUR 200 million credit line from the European Investment Bank to support the credit supply to business customers. Companies, self-employed and liberal professions – which meet certain conditions – are thus eligible for a reduction on their investment loan or leasing agreement.

The activity of granting loans is carefully monitored among others by the code of conduct issued by the "Professional Credit Union".

(1) Affinity partners are external parties with whom Corona collaborates and that offer Corona insurance products. For instance, car dealers (for motor insurance) and undertakers (for funeral insurance).

3. Savings and investment products

Savings and investment products fall into two categories: balance sheet products and off-balance sheet products.

Balance sheet products include savings accounts, current and term accounts, savings certificates and bonds, both for private and business customers.

Off-balance sheet products are made up of mandates, mutual funds, shares and (euro)bonds issued by third parties and investment insurance products of Belfius Insurance.

In 2016, Belfius Bank launched a new concept called MyPortfolio: a contract that gives access to a series of exclusive funds with innovative digital reportings, where the priority lies on more interaction between the customer and his account manager. Belfius has developed various versions of MyPortfolio, according to the different segments.

Among investment insurance products, Belfius distinguishes between Branch 21 (life insurance with a capital guarantee and guaranteed minimum return, to which there may be added a variable profit participation), Branch 23 (life insurance without capital guarantee but with a potentially higher return via investment funds) and, more recently, Branch 44 (a combination of Branch 21 with a guaranteed minimum return and Branch 23 with a higher potential for growth via investment funds).

4. Insurance products

Belfius Bank also offers its customers all the classic and innovative life and non-life insurance products of Belfius Insurance. The product range includes non-life insurance cover: car insurance (third party and comprehensive), third party civil liability insurance, fire insurance, and miscellaneous risks insurance. In addition, life insurance such as pension savings, mixed life insurance, savings insurance, guaranteed income cover, death insurance and credit balance insurance linked to mortgage loans are also offered. Tax products such as the Private Supplementary Pension for the Self-employed (PSPS) and the individual pension commitment (IPC) are offered to our business customers.
By virtue of this complete range, Belfius plays a crucial role as a locally anchored insurer aiming at protecting Belgian families, maintaining their income levels and increasing their assets.

Commercial performance in 2016

The commercial activity was particular dynamic in 2016: **total customer assets** grew by 2.8% in 2016 to EUR 102.5 billion. After a strong increase in 2015, the organic growth further increased in 2016 by 33% to EUR 2.5 billion. This increase, the highest since 2011, is an undisputed proof of the ever increasing confidence Belfius is inspiring to its customers. EUR 34.2 billion of the total savings and investments is held by 66,000 private clients.

On-balance sheet deposits totalled EUR 62.0 billion at the end of 2016, slightly up (+3.2%) from the end of 2015. Customers adopted a rather wait-and-see attitude for deposits because of the historically low interest rates. There was very good growth in the funds deposited in current and savings accounts, which reached EUR 10.4 billion (+16.7%) and EUR 40.0 billion (+7.2%) respectively. Less capital found its way to long-term capital investments (a drop of 46.4% for savings certificates and a light increase of 2.2% for bonds issued by Belfius).

Off-balance sheet investments went up by 5.8% compared to the end of 2015, to EUR 29.6 billion, and this thanks to a more pronounced customers' preference for products with potentially higher yields (mutual funds, mandates). Outstanding investments given to Belfius via mandates and service contracts grew further in 2016 by 13% to EUR 10.2 billion.

Life insurance reserves of investment products amounted to EUR 10.9 billion, down by 6.7% compared to the end of 2015. Investments in Branch 21 life insurance products decreased because of the low interest rates, but that drop was partially offset by Branch 23 products.

Retail and Commercial (Unaudited) (In billions of EUR)	31/12/15	31/12/16	Evolution
TOTAL SAVINGS AND INVESTMENTS	**99.8**	**102.5**	**+2.8%**
DEPOSITS	60.1	62.0	+3.2%
Savings accounts	*37.3*	40.0	+7.2%
Savings certificates	*5.2*	2.8	-46.4%
Bonds issued by Belfius	*8.2*	8.4	+2.2%
Current accounts	*8.9*	10.4	+16.7%
Term accounts	*0.5*	0.5	-9.1%
OFF-BALANCE SHEET INVESTMENTS	28.0	29.6	+5.8%
LIFE INSURANCE RESERVES(1)	11.7	10.9	-6.7%
Life Branch 21	*9.4*	*8.3*	*-11.5%*
Life Branch 23	*0.7*	*0.8*	*+25.1%*
Life Branch 44	*1.7*	*1.8*	*+5.9%*

(1) Investment products

Total loans to customers rose strongly to EUR 42.1 billion at the end of 2016. The increase occurred in mortgage loans (+5.9 %) and business loans (+5.3%). Mortgage loans, which account for two thirds of all loans, amounted to EUR 28.8 billion at the end of 2016, while consumer loans and business loans stood at EUR 1.4 billion and EUR 11.4 billion respectively.

New long term loans granted to retail clients during 2016 amounted to EUR 6.3 billion. These new long term loans are mainly mortgage loans. 2015 was already a record year in this area, but in 2016 Belfius manages to further increase the production of new mortgage loans to EUR 5.6 billion. As a consequence, the Belfius group's market share for new production exceeded 15%. The new production of consumer loans amounting to EUR 0.7 billion increases with 14% and reaches the highest level ever. The production of long-term loans for the Business - segment increases to EUR 3.0 billion (+23%). Belfius supported around 12,000 new starters in 2016, i.e. an increase of 7%.

Retail and Commercial (Unaudited) (In billions of EUR)	31/12/15	31/12/16	Evolution
TOTAL LOANS TO CUSTOMERS	**39.9**	**42.1**	**+5.7%**
Mortgage loans	*27.2*	*28.8*	*+5.9%*
Consumer loans	*1.3*	*1.4*	*+5.2%*
Other retail loans	*0.5*	*0.5*	*-4.7%*
Business loans	*10.8*	*11.4*	*+5.3%*

The **gross production of insurance products** to customers in the Retail and Commercial segment amounted to EUR 1,130 million in 2016, compared with EUR 1,278 million in 2015, i.e. a 11.6% drop, in line with market tendencies.

Non-life insurance premiums amounted to EUR 504 million, up 5% compared to the end of 2015. This increase was possible thanks to further bank-insurance development and increased cross-selling activities, in particular with mortgage loans.

Indeed, thanks to the "one-stop-shopping" concept of Belfius, we witnessed a mortgage loan cross-sell increase with fire insurance from 80% in 2015 to 83% in 2016. The mortgage loan cross-sell ratio for credit balance insurance increased from 138% to 144%.

Life insurance premiums amounted to EUR 626 million, compared with EUR 798 million in 2015; a 21.6% drop. There is a strong decrease in Life Branch 23 premiums (-56.6%) and a limited decrease in Life Branch 21 premiums (-2.7%) This is due to low client appetite in low interest rate environment.

Total life insurance reserves, in the Retail and Commercial segments, dropped by 5.0% to EUR 13.4 billion at the end of 2016 as a result of a difficult context characterised by low interest rates. A clear shift between products can be noted in the life reserves. Unit-linked reserves (Branch 23) increased by 10%, whereas guaranteed interest products reserves (Branch 21 and 26) dropped by 8%.

Retail and Commercial (Unaudited) (In billions of EUR)	31/12/15	31/12/16	Evolution
TOTAL LIFE INSURANCE RESERVES(1)	**14.1**	**13.4**	**-5.0%**
Life Branch 21 and 26	*12.2*	*11.2*	*-7.8%*
Life Branch 23	*2.0*	*2.2*	*+10.1%*

(1) Investment products and insurance products

With an estimated 13% for savings accounts and 15% for mortgage loans, the market share of Belfius Bank remained stable. Belfius Insurance has a market share of ca. 6% on the Belgian market (7% in the Life segment and 5% in the Non-Life segment)(1).

(1) 2015 data - Assuralia; 2016 data not yet available

Financial Results RC

RC **net income after tax** declined from EUR 448 million in 2015 to EUR 439 million in 2016.

In 2016, **total income** amounted to EUR 1,686 million, down 4.6% or EUR 81 million compared to 2015, mainly due to the low interest rate environment.

Net interest income amounted to EUR 1,346 million, a decrease of 9.6% mainly due to the low interest rate environment, the lower volume of Branch 21 products and the impact of mortgage loans prepayments.

Despite lower and volatile financial markets mainly during 1H 2016, net fee and commission income increased by almost 3% thanks to the net inflow of asset management products and increased non-life insurance business through the bank channels.

The insurance business within RC generates around 30% of total RC income.

In 2016, **total expenses** amounted to EUR 1,018 million, a decrease of EUR 55 million or 5.1% compared to 2015. This decrease is the result of continued strict cost control.

As a result, RC **gross operating income** decreased to EUR 669 million in 2016, down EUR 26 million or 3.7% compared to 2015.

Cost of risk remained stable and historically low and amounted to EUR 41 million in 2016, hence demonstrating the good credit quality of the RC franchise.

RC **net income before tax** stood at EUR 630 million, down with EUR 19 million or 2.9% compared to 2015.

Tax expenses amounted to EUR 190 million in 2016 compared to EUR 200 million in 2015. This decrease is mainly due to lower profit before taxes.

As a result, Belfius' RC **net income group share** amounted to EUR 439 million for 2016, compared to EUR 448 million in 2015.

RC cost-income ratio improved to 60.3%, compared to 60.7% in 2015. The Return on Normative Regulatory Equity (RoNRE) stabilized as it amounted to 19.8% in 2016 compared to 19.7% in 2015.

Financial Results RC (In millions of EUR)	2015 (PF[1])	2016
INCOME	1,767	1,686
of which		
Net interest income	*1,488*	*1,346*
Net fee and commission income	*457*	*470*
EXPENSES	(1,073)	(1,018)
GROSS OPERATING INCOME	694	669
Cost of risk	(38)	(41)
Impairments on (in)tangible assets	(8)	2
NET INCOME BEFORE TAX	649	630
Tax expense	(200)	(190)
NET INCOME AFTER TAX	448	439
NET INCOME GROUP SHARE	448	439

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

Ratios (Unaudited)	2015	2016
Cost-income ratio (in %)	60.7%	60.3%
Normative regulatory equity (in millions of EUR)[1]	2,219	2,061
Average Normative regulatory equity (in millions of EUR)[2]	2,279	2,215
RoNRE (in %)[3]	19.7%	19.8%

(1) Normative Regulatory Equity is defined as the CET 1 capital that is required to bring Franchise (and its sub-segments) to a CET 1 ratio (Fully Loaded) of 10.5%.
(2) Annual average based on quarterly figures.
(3) Return on Normative Regulatory Equity (RoNRE) is calculated as the annualized net income as a percentage of the average Normative Regulatory Equity.

Public and Corporate (PC)

Sustained growth in Corporate and undisputed leadership in the Public and Social segment

1. Strategy

As market leader in the Public and Social sectors from the outset, Belfius invests in dedicated products and services adapted to its customers so as to provide them a service that meets all their needs. Public investments are however hindered by measures taken to reduce the budget deficit.

Belfius draws on its historical knowledge in this sector to help Belgian companies who wish to do business with the public authorities, thereby enabling them to benefit from a competitive advantage in this interesting market.

Moreover, offering all the products and services Belgian companies need, Belfius can fully assume its role of support of the Belgian economy.

As such, Public and Corporate confirms following strategic axes:

- → Remain the undisputed leader in the Public & Social segment;
- → Continue its growth strategy in the market of Belgian corporates.

Aware of the challenges faced by the public authorities (such as the ageing of the population, healthcare, ageing infrastructures and sustainable development) and businesses (such as growth, innovation and transport), Belfius is going to bring together the driving forces through its Smart Belgium programme, and establish an ongoing cooperation between the public authorities and businesses. Belfius is keen to create solutions that tackle the challenges faced by society in a smart and sustainable manner. To that end, Belfius is going to create a unique forum to match supply and demand, the smart ideas of the local authorities, the social sector, and small and large businesses, while providing efficient levers to realize such ideas and solutions with a view to supporting a more sustainable society.

2. Activities

In its Public and Corporate commercial activities, Belfius offers a comprehensive range of banking and insurance products and services aimed essentially at two complementary groups of customers: entities in the public and social sectors (Public and Social), and medium-sized and large companies (Corporate).

The Public and Social segment, which displays a total of some 12,000 customers, works on behalf of local public authorities (municipalities, provinces, police zones, Public Centres for Social Welfare, etc.), supra-local public entities (intermunicipal companies, etc.) and entities working at a community, regional or federal level, as well as a wide range of other organisations linked to the public sector. Also part of this segment are entities linked to healthcare (hospitals, retirement homes), education (universities, schools) and housing, as well as other customers such as foundations, social secretariats and pension funds.

Smart Cities

Belfius aims to remain the uncontested leader in the public and social sector in Belgium and to address societal challenges such as funding of sustainable projects pursued by Belgian administrative authorities. In that respect, Belfius wants to bring together all stakeholders who provide a response to the societal challenges of tomorrow. The concept of **Smart Belgium** is an invitation to create together a society that we will be proud to pass on to

Financing as well as stimulating sustainability

Belfius has for some years now devoted the utmost energy to sustainable projects through its Smart Cities programme. This initiative is based on an exclusive partnership with the European Investment Bank (EIB). Through this programme, local authorities in Belgium

have already been able to benefit from loans at preferential rates totalling EUR 400 million in the fields of mobility, energy efficiency and urban development. On 5 December 2016, Belfius signed two new agreements with the EIB to stimulate smart investments and combat climate change.

our children and grandchildren. Belfius has for some years now devoted the utmost energy to sustainable projects through its Smart Cities programme. This initiative is based on an exclusive partnership with the European Investment Bank (EIB). Through this programme, local authorities in Belgium have already been able to benefit from loans at preferential rates totalling EUR 400 million in the fields of mobility, energy efficiency and urban development. On 5 December 2016, Belfius signed two new agreements with the EIB to stimulate smart investments and combat climate change. On the one hand, the Private Finance For Energy Efficiency (PF4EE) line foresees EUR 75 million to boost companies' investments in energy efficiency in Belgium, and on the other hand, the Smart Cities, Climate Action & Circular Economy line provides an additional EUR 400 million to support Smart Cities, the fight against global warming, and the circular economy.

Moreover, Belfius will reward the smart projects of its customers. Hence, the most interesting projects in the areas of urban development, mobility, circular economy, the environment, technology, healthcare, education and social well-being have a chance of winning a Belfius Smart Award given out during a gala ceremony. In addition, all the projects will enjoy great visibility and will be featured during a media campaign in the newspapers "L'Echo" and "De Tijd".

Belfius also published "Smart Belgium Magazine" which, thanks to its 68 pages, is a source of inspiration and stimulation for smart projects.

The Corporate segment services approximately 6,000 medium-sized and large companies (representing some 2,700 separate commercial groups), having each an annual turnover or balance sheet total exceeding EUR 10 million.

Drawing on its experience in the public sector, Belfius is providing the bridge-over between businesses and the public sector, thereby capitalising on tried and tested expertise to put at the disposal of its Corporate customers. Belfius is in fact uniquely positioned with a presence in 4 out of every 10 corporates in Belgium. Indeed, its unique and in-depth knowledge of public institutions enables it to be the preferred partner of companies that work with public authorities by offering them a range of products and services geared to this important Business-to-Government (B2G) market.

Fully anchored in Belgium and with exclusively local decision-making centres, Belfius considers that it holds all the cards to remain a reliable partner.

Belfius therefore have all the winning assets, tools and skills necessary to advise and support Belgian corporates in all phases of their development and to help turn the ideas of Belgian entrepreneurs into successful reality.

Concretely, this ambition is already reflected in the significant increase of the market share of Belfius in the Corporate segment, which rose from 8.4% in 2014 to 10.9% in 2016.

A "hub-and-spokes" distribution network for customers

The commercial network of Public and Social includes 41 relationship managers spread across three regions. Some customers, smaller in size and asking for an even more local service, are handled by the network of Belfius Bank branches.

The commercial network of Corporate Banking includes 45 corporate Bankers spread across six regions.

In these two segments of the business, the relationship manager acts as the central point of contact or "hub" in the commercial relationship with the customer. He or she is the sole contact and maintains a relationship of trust with the customer throughout the relationship. Corporate Bankers can also, at any time, call on in-house experts, known as "spokes", for the various product lines, e.g. for matters related to investments, loans, insurance, leasing, electronic banking or cash management. This "hub-and-spokes" approach is at the heart of Belfius' Public and Corporate customer service model.

Highly specialised products and services providing high added value for customers

First of all, the product range includes classic banking products such as short-term and long-term loans, cash flow and investment management, electronic banking services, financial market products, a wide range of insurance products of Belfius Insurance and various financial and operational leasing solutions through Belfius Lease and Belfius Auto Lease subsidiaries.

Customers in the Public and Social segment also benefit from a uniquely specialized range of products and services, such as social accounts, cash flow advance solutions and long-term financing solutions geared to their specific requirements, whether in the form of credits or long-term bonds.

Every year, Belfius also conducts numerous high quality and very reputable studies offering its customers considerable insights added value, into e.g. the development of local, municipal and provincial finances complete with individual details for each local authority. The social sector is another specialty of Belfius, with unique studies relating to the way hospitals (MAHA) and retirement homes (MARA) are funded. Over the years, these much appreciated Belfius studies have become genuine reference management tools for its customers.

In order to remain the undisputed leader in the Public and Social sectors, Belfius continues to focus on professional debt management. Those services enable customers to free up resources for new investments that benefit the community.

In 2016, Belfius again confirmed its market leader position in the Debt Capital Markets business for Belgian customers in the (semi-) public and corporate sectors, further strengthening its presence in that particular market with a participation rate of 86% for the (semi-)public sector (Walloon Region, French-speaking Community, University of Namur, etc.) and 58% for the corporate sector (Fluxys, IBA, Cofinimmo, Befimmo, Atenor, Retail Estates, Matexi, R&S Benelux Holding, MG Real Estate).

Finally, for its Public and Social sector customers, Belfius has put in place a bank-insurance approach so that their banking and insurance needs can be met. Similar to the distribution model for other products, the distribution structure is a hub and spoke model, thanks to the collaboration with Belfius Insurance. Our actual range of solutions is large enough to become a full actor on the market (pension and risk).

For Corporate customers, Belfius provides a specific and unique solution linked to the financing of receivables on public authorities (B2G Flex), international cash management solutions (in particular via the network of Connector banks), and asset finance solutions (leasing, car lease and commercial finance and trade) as well as expertise in terms of financing projects and structured financing.

As already mentioned, Belfius signed an agreement with the EIB within the framework of the new instrument known as Private Finance For Energy Efficiency (PF4EE), set up jointly by the EIB and the European Commission (LIFE Programme) to tackle the lack of access to adequate and affordable commercial financing for investments in energy efficiency.

This agreement will enable Belfius to grant businesses EUR 75 million in loans under favourable terms for investments intended to improve energy efficiency in Belgium and so address the crucial challenges of climate change.

Belfius distributes a range of publications aimed specifically at corporates, including a series of newsletters such as the B2G newsletters. It also publishes a comprehensive online report about the potential and specific features that public procurement contracts represent for companies.

Belfius has also been chosen to be the sole sponsor of the Best Finance Team event for five years.

Finally, in line with the aim of providing real added value to its customers, Belfius is constantly making adjustments to its range of products and services so that it can respond precisely and swiftly to changes in customer requirements in ways that match their specific characteristics. Belfius is currently the only bank on the market to provide a professional app that enables the customer to sign payments "on the go" without any amount limit and to consult the public sector entities' or corporate balances and transactions in real time.

Furthermore, in cooperation with bpost and Proximus, Belfius has invested in the online platform Citie to support the local Belgian economy and bolster our country's position on the digital map. Through this partnership, Belfius plans to share its know-how in electronic means of payment, electronic and mobile commerce, logistics and sustainable mobility. The three partners wish to meet the needs of shopkeepers, consumers and the public authorities through a free application for smartphones and tablets. Citie is already active in several cities and municipalities, including Bruges, Ostend, Roeselare, Antwerp and Genk.

Belfius, together with ING and KBC/CBC, will also fully promote mobile payments as a practical and secure alternative to payments in cash. The three banks are going to jointly develop the Payconiq payment solution. Already accepted in more than 11,000 shops in Belgium, Payconiq will also be fully integrated in the Citie platform.

The reference partner to entities in the public and social sectors, as well as to Belgian corporates

In 2016, Belfius remained true to its main mission of being a financial institution "that belongs to the community and works on behalf of the community", continuing more than ever to play its role in the financing of the Belgian economy. This commercial dynamic saw Belfius sign new funding agreements to the public and social sectors totalling EUR 2.3 billion as well granting EUR 3.4 billion of new loans to companies in 2016.

Despite the continuing difficult economic environment, Belfius continued to fully support local authorities. Belfius is the only bank that fully responded to all of their applications for financing. As such the Bank fully plays its role as their reference partner and as such reinvests the savings deposited by Belgians citizens in numerous projects delivering significant added value for the community (public buildings, schools, crèches, hospitals, road network,...).

Commercial performance in 2016

At 31 December 2016, **total customer assets** were EUR 31.7 billion, an increase of 7.2% compared with the end of 2015. **On-balance sheet deposits** rose by EUR 1.3 billion (+6.3%), to EUR 22.9 billion. The **off-balance sheet customer investments** registered a strong growth of 9.5% to reach EUR 8.2billion. **Life insurance reserves** of investment products amounted to EUR 0.6 billion in 2016.

Public and Corporate (Unaudited) (In billions of EUR)	31/12/15	31/12/16	Evolution
TOTAL SAVINGS AND INVESTMENTS	29.6	31.7	+7.2%
Deposits	21.6	22.9	+6.3%
Off-balance sheet investments	7.5	8.2	+9.5%
Life insurance reserves(1)	0.5	0.6	+9.0%

(1) Investment products

Total outstanding loans went down slightly (-0.2%) to EUR 38.3 billion. Outstanding loans in Public and Social banking are decreasing mainly due to lower demand than maturing stock, increased competition on the Public and Social Sector market, and the structural shift to more alternative financing. Intensified commercial strategy towards Belgian corporates results in 7.4% increase (compared to December 2015) of outstanding loans to EUR 9.5 billion as of end December 2016. **Off-balance sheet commitments** remained stable at EUR 20.1 billion.

Despite the continued weak market demand in the public and social sector, Belfius granted EUR 2.3 billion in new long-term lending in 2016, up 27% compared to 2015. Belfius also plays an active role in Debt Capital Markets business. During 2016 the Bank launched innovative funding to the public and social sectors for a total amount of EUR 5.2 billion and increased its level of participation to 86% of the public issuers.

The production of long-term loans to corporate customers amounted to EUR 3.4 billion in 2016. The market share rose by 1.5%, while it grew by 1% in 2015. With its level of participation rising to 58%, Belfius also confirmed its position as leader for bond issues and treasury certificates for corporate clients. In 2016, the Bank launched EUR 0.9 billion of innovative funding to those clients.

Public and Corporate (Unaudited) (In billions of EUR)	31/12/15	31/12/16	Evolution
OUTSTANDING LOANS	38.4	38.3	-0.2 %
Public and Social	29.6	28.8	-2.5 %
Corporate	8.9	9.5	+7.4 %
OFF-BALANCE SHEET COMMITMENTS	20.0	20.1	0.5 %

With regards to **insurance activities**, the Public and Corporate segment recorded good income dynamics, in particular for non-life insurance products.

Non-life insurance premiums increased strongly by 9.7% to EUR 133 million. This demonstrates the success of the strategy developed for property & casualty insurance products (fire, accidents, other risks), i.e. through sales via specialised brokers.

Gross premiums received in the **life segment** amounted to EUR 262 million, an increase of 1.0% thanks to the strong position and expertise enjoyed by Belfius in its niche market. Despite the constant reduction of the local authorities' room to manoeuvre and pressures on public finances, Belfius PubliPension (a "first-pillar" pension product) continues to respond to customer needs.

Financial Results PC (In millions of EUR)	2015	2016
INCOME	444	441
of which		
Net interest income	*402*	*398*
Net fee and commission income	*49*	*46*
EXPENSES	(211)	(210)
GROSS OPERATING INCOME	233	231
Cost of risk	(28)	(25)
Impairments on (in)tangible assets	(4)	1
NET INCOME BEFORE TAX	201	206
Tax expense	(67)	(64)
NET INCOME AFTER TAX	134	141
NET INCOME GROUP SHARE	134	141

Ratios (Unaudited)	2015	2016
Cost-income ratio (in %)	47.5%	47.6%
Normative regulatory equity (in millions of EUR)(1)	801	793
Average Normative regulatory (in millions of EUR)(2)	850	796
RoNRE (in %)(3)	15.8%	17.8%

(1) Normative Regulatory Equity is defined as the CET 1 capital that is required to bring Franchise (and its sub-segments) to a CET 1 ratio (Fully Loaded) of 10.5%.
(2) Annual average based on quarterly figures.
(3) Return on Normative Regulatory Equity (RoNRE) is calculated as the annualized net income as a percentage of the average Normative Regulatory Equity.

Financial Results PC

PC **net income after tax** rose from EUR 134 million in 2015 to EUR 141 million in 2016, up 6% thanks to continued solid commercial dynamics.

In 2016, **total income** amounted to EUR 441 million, down 0.8% or EUR 3 million compared to 2014.

Net interest income remained stable at EUR 398 million, mainly benefiting from higher cross-sell ratios between lending and non-lending products.

Net fee and commission income decreased slightly in 2016 from EUR 49 million in 2015 to EUR 46 million.

The insurance business within PC clients generates around 10% of total PC income.

In 2016, **total expenses** amounted to EUR 210 million, stable compared to 2015.

As a result, the **gross operating income** remained stable at EUR 231 million in 2016.

The **cost of risk** decreased from EUR 28 million in 2015 to EUR 25 million in 2016, and as such remains very low, demonstrating the good credit quality of the PC franchise.

Net income before tax stood at EUR 206 million, up with EUR 5 million or 2% compared to 2015.

Tax expenses amounted to EUR 64 million in 2016 compared to EUR 67 million in 2015.

As a result, Belfius' PC **net income group share** amounted to EUR 141 million for 2016, compared to EUR 134 million in 2015.

The PC cost-income ratio remained stable at 47.6% in 2016. The Return on Normative Regulatory Equity (RoNRE) increased from 15.8% in 2015 to 17.8% in 2016.

Group Center (GC)

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

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

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

Financial Results GC

GC **net income after tax** stood at EUR 85 million in 2016, compared to EUR 29 million in 2015.

In 2016, **total income** amounted to EUR 250 million, or EUR 140 million more than in 2015. This increase came mainly from higher treasury and better hedging results, and some higher capital gains at Belfius Insurance.

In 2016, **total expenses** increased from EUR 100 million in 2015 to EUR 127 million in 2016.

Taxes amounted to EUR -37 million in 2016 compared to EUR +19 million in 2015. Taxes in 2015 were positively impacted by recognised deferred tax assets.

As a result, Belfius' GC **net income group share** amounted to EUR 85 million in 2016, compared to EUR 29 million in 2015.

Financial Results GC (In millions of EUR)	2015 (PF[(1)])	2016
INCOME	110	250
EXPENSES	(100)	(127)
GROSS OPERATING INCOME	10	123
Cost of risk	1	(1)
Impairments on (in)tangible assets	(1)	0
NET INCOME BEFORE TAX	10	122
Tax expense	19	(37)
NET INCOME AFTER TAX	29	85
NET INCOME GROUP SHARE	29	85

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

Side

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

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

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

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

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

End 2016 the active tactical de-risking, executed since 2011, was finalized. During this period EUR 9.4 billion assets were sold, of which EUR 7.8 billion in the Legacy bond portfolio and EUR 1.6 billion in the Legacy credit guarantee portfolio, resulting in an average rating of A- for both portfolio's.

The target NIG share is complied with for legacy credit guarantees (0%), however, it does not for Legacy bonds (6.3%). Yet, excluding NIG US RMBS bonds(1), NIG share of notional for Legacy bonds would be 2.6%, i.e. close to 2% target, and for total Legacy the share would be 1.5%, i.e. below 2% target.

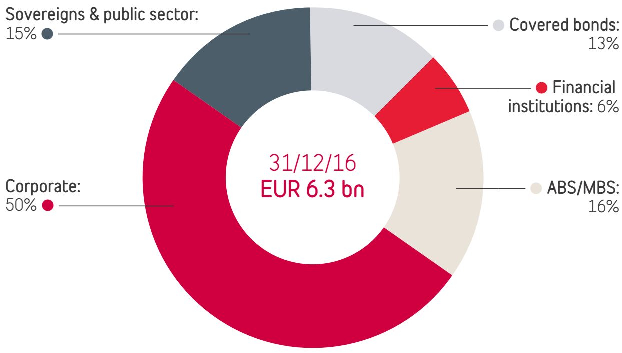
Lastly, concentration limits are in line with Belfius core risk level as there are no positions with stressed loss at default levels exceeding Belfius Bank's Risk Appetite Framework (RAF) thresholds.

Concretely, this means that the active tactical risk reduction of the Historic Legacy portfolio was successfully completed and that the remaining securities of these portfolios will henceforth be managed under a natural run-off.

Legacy bond portfolio

At the end of 2016, the Legacy bond portfolio stood at EUR 6.3 billion, down EUR 1.7 billion compared to December 2015, mainly due to the active tactical de-risking (EUR 0.5 billion) and the natural amortization of the portfolio. End 2016, the portfolio was composed of sovereign and public sector (15%), corporate (50%), financial institutions including covered bonds (19%) and asset-backed securities (16%).

Breakdown of the Legacy bond portfolio by counterpart



Since 2011, the Legacy bond portfolio has been decreased by two-thirds (66%) or EUR 12.0 billion of which two-third due to active tactical de-risking and one-third of natural amortizations. Those reductions have been mainly executed in the asset categories of financial institutions (-90%), covered bonds (-77%), asset-backed securities (-79%) and international sovereigns and public sector (-57%).

At the end of 2016, the Legacy bond portfolio has an average life of 15.6 years. With an average rating of A- and 94% of the portfolio being investment grade (IG), the portfolio remains of good credit quality.

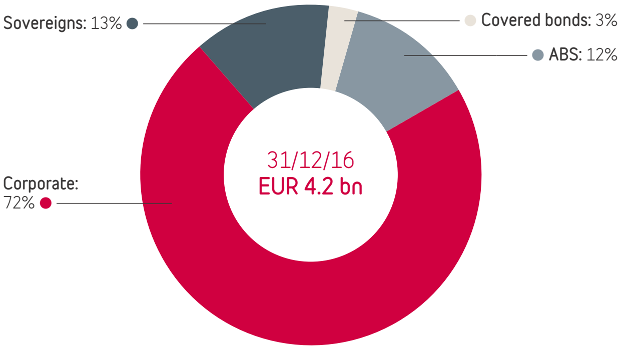
Legacy Credit guarantee (intermediation) portfolio

At the end of 2016, the credit guarantee portion of Belfius' Legacy portfolio amounted to EUR 4.2 billion, down EUR 1.2 billion compared to December 2015, mainly due to amortizations. It relates essentially to Credit Default Swaps and Financial Guarantees issued on corporate/public issuer bonds (85%), ABS (12%) and covered bonds (3%). The good credit quality of the underlying reference bond

(1) These are conditionally US government guaranteed reverse mortgages that were downgraded to non-performing in 2016.

portfolio, additional protection against credit risk incorporated in the bond itself and the protections purchased by Belfius from various monoline insurers (US reinsurance companies, essentially Assured Guaranty) result in a portfolio that is 100% investment grade (IG).

Breakdown of the Legacy credit guarantee portfolio by counterpart



At the end of 2016, the average rating of the portfolio remains at A-. End 2016, the average residual life of the portfolio stood at 8.2 years. Since the end of 2011, the Legacy credit guarantee portfolio has been reduced by EUR 7.4 billion or 64%.

Funding to Dexia

Since February 2015, the funding to Dexia has been reduced to below EUR 100 million. As at 31 December 2016, the remaining funding relates mainly to a loan to Dexia Crediop (EUR 5 million) for which Dexia Crediop has made a deposit of the same amount with Belfius and the co-financing of a loan (EUR 48 million) granted by Dexia Crédit Local (DCL) to a very creditworthy British real estate (social housing) company that passes through the accounts of DCL.

Please note also that, while it was still part of the Dexia Group, former Dexia Bank (now Belfius Bank) was Dexia Group's "competence center" for derivatives (mainly interest rate swaps): this meant that all Dexia entities could cover their market risks with derivatives with Dexia Bank, mainly under standard contractual terms related to cash collateral. Former Dexia Bank systematically covered these derivative positions externally, as a result of which these derivatives broadly appear twice in Belfius accounts: once in relation to Dexia and once for hedging. Remaining outstanding notional amount(1) of derivatives with Dexia amounted to approximately EUR 39.9 billion at the end of December 2016, a decrease of EUR 9.1 billion compared to the end of 2015.

Other Side

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

Financial Results Side

Side **net income after tax** amounted to EUR -130 million in 2016 compared to EUR -105 million in 2015.

In 2016, **total income** amounted to EUR -118 million, compared to EUR -137 million in 2015. Total income was impacted by the active tactical de-risking programme (EUR 100 million losses before taxes) and negative fair value adjustments in more volatile financial markets.

In 2016, **total expenses** amounted to EUR 11 million, a decrease of EUR 2 million compared to 2015.

As a result, **gross operating income** amounted to EUR -129 million in 2016 compared to EUR -150 million in 2015.

Cost of risk amounted to EUR 48 million compared to EUR 28 million in 2015. This increase results from specific impairment charges related to US RMBS.

Net income before tax stood at EUR -178 million in 2016, stable compared to 2015.

Taxes amounted to EUR +47 million in 2016 compared to EUR +73 million in 2015.

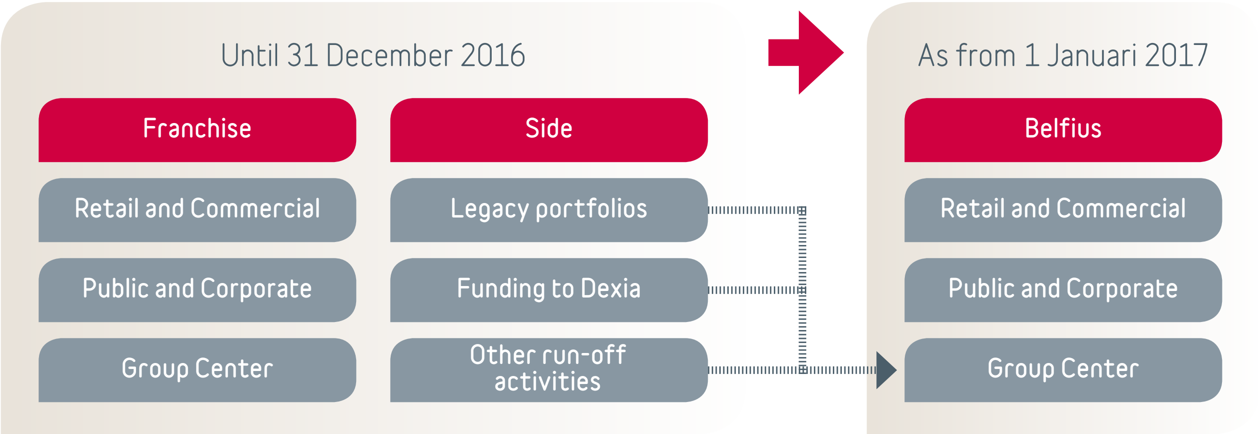
As a result, Side **net income group share** amounted to EUR -130 million in 2016 compared to EUR -105 million in 2015.

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

Financial Results Side (In millions of EUR)	2015	2016
INCOME	(137)	(118)
EXPENSES	(13)	(11)
GROSS OPERATING INCOME	(150)	(129)
Cost of risk	(28)	(48)
Impairments on (in)tangible assets	0	0
NET INCOME BEFORE TAX	(178)	(178)
Tax expense	73	47
NET INCOME AFTER TAXES	(105)	(130)
NET INCOME GROUP SHARE	(105)	(130)

Segment reporting as from 1 January 2017

As from 1 January 2017, Belfius will integrate Side into Franchise; more particularly Side will be merged into Group Center as follows:



The new Group Center will be composed of a bond portfolio (including the Legacy bonds portfolio), a derivatives portfolio (including the Legacy credit guarantee portfolio) and a remaining group of non-commercial activities.

Hence, as from 1 January 2017 onwards, and after the integration of Side, the segment Franchise will no longer exist as such (i.e. Belfius with segments RC, PC and GC).

Capital Management

Capital management in the Bank

1. Prudential supervision

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

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

Following the SREP performed at the end of 2016, Belfius has been informed by the ECB of its new minimum capital requirements. For 2017 the ECB imposes a 9% Phased In minimum CET 1 requirement, which is composed of

- a Pillar 1 minimum of 4.5%,
- a Pillar 2 Requirement (P2R) of 2.25%,
- a capital conservation buffer (CCB) of 1.25% and
- a buffer for (other) domestic systemically important institutions (O-SII buffer) of 1%.

The latter imposed by the National Bank of Belgium. Belfius has to respect all the combined buffer requirements (capital conservation buffer, countercyclical capital buffer, buffer for systemically important institutions and systemic risk buffer) and the Pillar 2 buffer requirements. The ECB has also notified Belfius of a Pillar 2 Guidance (P2G) of 1% CET1 for 2017.

At the end of 2016, the Phased In CET 1 ratio of Belfius stood at 16.6%, well above 2016 applicable and 2017 new CET 1 capital requirements, demonstrating the long-term vision of Belfius' shareholder and Belfius' solidity and resilience, all of which remain crucial in the current challenging macroeconomic environment.

The regulator has authorised Belfius to apply article 49 of the CRR IV and hence to cease deducting the capital instruments of Belfius Insurance from regulatory own funds, and instead to include these 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.

2. Regulatory own funds

For regulatory reporting purposes, Belfius Insurance group is not consolidated and is treated as a financial fixed asset. As a result, there are some differences between the core shareholders' equity and the consolidated net income that are reported in the consolidated financial statements and in the regulatory calculations.

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

(In millions of EUR)	31/12/15	31/12/16
ACCOUNTING CORE SHAREHOLDERS' EQUITY	8,309	8,694
Transformation of the insurance group in a financial fixed asset	38	0
Base for the regulatory core own funds	8,347	8,694

End 2016, the base for the regulatory core own funds amounted to EUR 8,694 million, an increase of EUR 348 million stemming from the regulatory result of EUR 498 million for 2016 offset by the dividend of EUR 75 million paid in May 2016 over the year-end result of 2015 and the interim dividend paid in September 2016 of EUR 75 million in respect of the accounting year 2016. Note that the regulatory result (EUR 498 million) differs from the consolidated result (EUR 535 million) due to the different consolidation scope, as described above. The scope change adjustments can be detailed as follows:

(In millions of EUR)	31/12/15	31/12/16
CONSOLIDATED RESULT	506	535
Elimination of Belfius Insurance	(216)	(168)
Scope changes:		
dividend (Belfius Insurance)	141	120
other	14	11
REGULATORY RESULT	445	498

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

Regulatory own funds

(In millions of EUR)	31/12/15	31/12/16
COMMON EQUITY TIER 1 CAPITAL (CET1 CAPITAL)	7,479	7,767
BASE FOR THE REGULATORY CORE OWN FUNDS	8,347	8,694
DEDUCTION OF FORESEEABLE DIVIDEND	(75)	(140)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME	(43)	(215)
Remeasurement defined benefit plans	119	86
Remeasurement available-for-sale reserve on securities and frozen fair value adjustments of reclassified financial assets	(623)	(546)
Other reserves	(30)	(34)
Prudential filter on the fair value reserves related to gains and losses on cash flow hedges on financial instruments	30	34
Transitional measures	461	246
DEDUCTIONS AND PRUDENTIAL FILTERS	(750)	(573)
Deferred tax assets on losses carried forward	(218)	(13)
Investments in securitisation positions	(303)	(234)
Changes in the value of own credit standing	(27)	(9)
Value adjustments due to the requirements for regulatory prudent valuation	(158)	(120)
Intangible fixed assets	(70)	(96)
Goodwill	(104)	(104)
Shortfall of provisions over expected losses IRB	0	(2)
Transitional measures	131	5
TIER 2 CAPITAL	849	1,309
Tier 2 capital instruments	475	928
Excess of provisions over expected losses IRB	154	152
General credit risk adjustments SA (standard approach)	16	22
Transitional measures	204	207
REGULATORY OWN FUNDS (AFTER APPROBATION OF RESULT)	8,328	9,076

CET 1 capital amounted to EUR 7,767 million, compared with EUR 7,479 million at the end of 2015. The increase in CET 1 capital of 288 million results from the regulatory profit, the improvement of the remeasurement of AFS reserves, the significant decrease of the deduction of tax loss carry forward following the application of CRR/CRD IV offsetting of deferred tax assets by associated deferred tax liabilities, the decrease of the deduction for the value adjustments due to the requirements for regulatory prudent valuation and the decrease of the deduction for securitizations due to specific impairments recorded on bonds within the Side portfolio. However, this was partially offset by a decrease of the remeasurement of defined benefit plans and a decrease of the transitional measures mainly due to the elimination of the sovereign filter on AFS reserves. Note that the CET 1 capital was reduced by the foreseeable dividend of EUR 215 million over the full year profit of 2016, of which a paid interim dividend of EUR 75 million has been already deducted from retained earnings and a potential remaining dividend of EUR 140 million is deducted from the undistributed after-tax profit.

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

Tier 2 capital increased from EUR 849 million to EUR 1,309 million. This improvement was the result of a new Tier 2 issue in May 2016 with a nominal value of EUR 500 million. The amortized value of qualifying Tier 2 capital instruments, including the transitional measures, of EUR 1,135 million is detailed in annex 6.7.4 of the consolidated financial statements.

End 2016, the total regulatory own funds amounted to EUR 9,076 million, compared to EUR 8,328 million end of 2015.

3. Regulatory risk exposure

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

(In millions of EUR)	31/12/15	31/12/16	Evolution
Regulatory credit risk exposure	36,345	35,951	-1%
Regulatory market risk exposure	1,777	1,136	-36%
Regulatory operational risk exposure	2,802	2,915	+4%
Danish Compromise	6,102	6,728	10%
REGULATORY RISK EXPOSURE	**47,026**	**46,730**	**-1%**

End 2016, regulatory risk exposure of Belfius amounted to EUR 46,730 million, down 1% compared to EUR 47,026 million at the end of 2015.

The regulatory credit risk exposure decreased slightly (-1%) to EUR 35,951 million. This evolution is mainly the result of methodological refinements and further active tactical de-risking.

The regulatory market risk exposure decreased strongly by EUR 641 million (-36%), mainly as a result of the new recalibration of S-VaR (internal model).

Regulatory operational risk exposure remained relatively stable.

The regulatory risk exposure for Danish Compromise increased due to the issue of EUR 350 million Tier 2 bonds by Belfius Insurance, subscribed by Belfius Bank, replacing the Tier 2 issues for EUR 181 million which were bought back end 2016.

4. Solvency ratios for Belfius Bank

End 2016, CET 1 ratio Phased In amounted to 16.6%, an increase of 72 bps compared to end of 2015. With application of grandfathering rules of 2016, CET 1 ratio for 2015 would have amounted to 15.6% compared to CET 1 ratio of 15.9% as reported.

The increase in CET 1 ratio is mainly the result of the increased prudential result corrected for foreseeable dividends (+60 bps), the lower deduction of the tax loss carry forwards stemming from a methodological refinement (more in particular the application of CRR/CRD IV offsetting of deferred tax assets by associated deferred

(In millions of EUR)	31/12/15	1/1/2016 (PF[1])	31/12/16
CRR/CRD IV (PHASED IN)			
Common Equity Tier 1 ratio (CET 1-ratio)	15.9%	15.5%	16.6%
Tier 1-capital ratio (T1-ratio)	15.9%	15.5%	16.6%
TOTAL CAPITAL RATIO	**17.7%**	**17.3%**	**19.4%**
CRR/CRD IV (FULLY LOADED)			
Common Equity Tier 1 ratio (CET 1-ratio)	14.9%		16.1%
Tier 1-capital ratio (T1-ratio)	14.9%		16.1%
TOTAL CAPITAL RATIO	**16.2%**		**18.4%**

(1) Impact of the shift in grandfathering rules.

(In millions of EUR)	31/12/16
TIER 1 CAPITAL (PHASED IN)	7,767
Total assets	176,721
Deconsolidation of Belfius Insurance	(19,377)
Adjustment for derivatives	(30,003)
Adjustment for securities financing transactions exposures	1,810
Adjustment for prudential corrections in calculation of Tier 1 capital	(443)
Off-balance sheet exposures	14,381
LEVERAGE RATIO EXPOSURE	143,088
LEVERAGE RATIO (PHASED IN)	5.4%

(1) Unaudited

tax liabilities) (+15 bps) and the lower deduction of value adjustments due to the requirements for regulatory prudent valuation (+26 bps). However, these positive impacts were partially offset by the shift in grandfathering rules (-35 bps) in the regulatory own funds calculation and the elimination of a grandfathering rule, in particular the AFS sovereign bond filter (-3 bps). The decrease of the regulatory risk exposure of EUR 296 million has a positive impact (+9 bps).

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

The total capital ratio Phased In amounted to 19.4%, an increase of 171 bps compared to the end of 2015.

End 2016, the CET 1 ratio Fully Loaded stood at 16.1% compared to 14.9% at the end of 2015. Total capital ratio Fully Loaded increased from 16.2% to 18.4%.

Note that applying the deduction method for capital instruments of Belfius Insurance (participation as well as any subordinated debt instruments) compared to the application of the Danish Compromise has a neutral impact on the CET1 ratio Phased in and a small negative impact on the CET1 ratio Fully Loaded.

5. Leverage ratios for Belfius Bank

In December 2010, the Basel Committee on Banking Supervision (BCBS) published guidelines for calculating the leverage ratio as a simple, transparent, non-risk based ratio which intends to restrict the size of the Bank 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), i.e. balance sheet assets after certain restatements of derivatives, securities financing transactions, off-balance-sheet items and prudential adjustments deducted from the numerator.

The Basel Committee was testing a 3% minimum requirement during the parallel run period (i.e. from 1 January 2013 to 1 January 2017) with Quantitative Impact Studies (QIS). Any further adjustments to the definition of the leverage ratio and its final calibration will be completed in 2017 for a potential migration to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018.

The EU implementation of the Basel III Leverage Ratio Framework is provided in the CRR/CRD IV regulations, amended by the Delegated Act n°62/2015 of 10 October 2014.

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

End 2016, the Belfius leverage ratio Phased In – based on the current CRR/CRD IV legislation stood at 5.4%, the leverage ratio Fully Loaded stood at 5.3%.

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

It is worth to notice that finalization of the Basel III regulatory reforms might have an impact on the denominator of the solvency ratios.

The draft CRR 2 published on 23 November 2016 implements the Basel Committee standards agreed over the last years. The new measurement method for counterparty credit risk (SA-CCR) will impact the capital requirements for credit risk and credit valuation adjustment as well as the leverage ratio while the Fundamental Review of the Trading Book (FRTB) will impact the capital requirements for market risk.

The other components of the Basel Committee revision package – often referred to as "Basel IV" - are still work in progress. They include a revised standard approach for credit risk and operational risk, constraints on IRB models and standardized output floors.

Given the uncertainty about the implementation timetable and the possible deviations (including phasing-in) from the Basel standards at the EU level, it is at the present stage impossible to estimate the significance or magnitude of this impact. However the Bank considers its solidity to be high enough to successfully comply with the provisions of this new regulatory landscape.

Capital management in Belfius Insurance

1. Prudential supervision

Belfius Insurance reports to its regulator, NBB, both at a consolidated and at a statutory level.

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

2. Regulatory own funds

Since 1 January 2016, the Solvency II directive has been applicable for insurance companies. The own funds of Belfius Insurance are determined according to the valuation and eligibility principles defined in the Solvency II regulation, Directive 2009/38/EU. Whereas Solvency I requirements were volume-based, the Solvency II requirements pursue a risk-based approach.

The regulatory own funds of Belfius Insurance amounted to EUR 2,501 million at the end of December 2016. It was composed for 86% of Tier 1 capital. Tier 2 capital was EUR 361 million and consisted mainly of three subordinated loans with Belfius Bank. Compared to December 2015, the regulatory own funds of Belfius Insurance increased slightly. This improvement is mainly due to the increase of the outstanding subordinated loans, a solid performance of the equity portfolio and a small decrease of the spreads on the bond portfolio which, all combined, more than off-set the decrease of the interest rates between 2015 and 2016.

Available Financial Ressources (AFR)

(in millions of EUR)	31/12/15(PF[1])	31/12/16
AFR	2,391	2,501
TIER 1	2,133	2,140
IFRS Equity	2,176	2,147
Foreseeable dividends	(120)	(120)
Valuation difference (after tax)	(75)	(58)
Subordinated liabilities	152	170
TIER 2	258	361
Subordinated liabilities	247	350
Others	11	11

(1) Pro forma - 2015 Figures have been restated.

3. Solvency requirements

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

Belfius Insurance's required capital stood at EUR 1,207 million at the end of December 2016, almost stable compared to the end of 2015.

Solvency Capital Requirement (SCR)

(in millions of EUR)	31/12/15(PF[1])	31/12/16
SOLVENCY CAPITAL REQUIREMENT	1,199	1,207
Market risk	1,099	1,097
Credit Risk	205	209
Insurance Risk	539	545
Operational Risk	102	100
Diversification	(478)	(483)
Loss absorbing capacity of technical provisions and deferred taxes	(268)	(261)

(1) Pro forma - 2015 Figures have been restated.

4. Solvency ratios at Belfius Insurance

The Solvency II ratio of Belfius Insurance stood at 217% at the end of December 2016, before the payment of a dividend to Belfius Bank, slightly higher than the ratio as of December 2015, due to the increase of the subordinated loans and the resilience of own funds in the current market environment combined with stable solvency capital requirements. After payment of a dividend of EUR 120 million, the Solvency II ratio is still at 207%.

Solvency II-ratio

(In %)	31/12/15(PF[1])	31/12/16
Solvency II ratio (before dividend)	209%	217%
Solvency II ratio (after dividend)	199%	207%

(1) Pro forma - 2015 Figures have been restated.

Without the application of the restriction on the use of Loss Absorbing Capacity of Deferred Taxes the Solvency II ratio would be 236% (after the payment of a EUR 120 million dividend).

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

	Shock	Solvency II ratio
Basis scenario (after dividend)		207 %
Stress scenario		
Interest rate	-25 bp	203 %
Equity	-30%	197 %
Credit spread	+50 bp	170 %

For example, a 0.25% fall in the interest level (compared with the level at the end of 2016) would have an impact of -4% on the Solvency II ratio. A stock market shock of -30% on share prices would have an impact of -10% and a 0.50% rise in the credit spreads with 0.50% across the whole portfolio would result in an impact of -36%.

Capital adequacy

As required by Pillar 2 of the Basel regulation, Belfius disposes of an internal mechanism for the quarterly monitoring of main risk appetite and capital adequacy ratios. This quarterly reporting is completed with a monthly monitoring addressing some of the key risk appetite and capital adequacy ratios.

1. Economic capital

The economic capital is defined as the potential deviation of Belfius' economic value from its expected economic value, and this within a given interval of confidence and time horizon. The confidence threshold (99.94%) chosen for scenarios involving losses in value corresponds to the Bank's targeted debt rating at a horizon of one year (A-rating for 2016).

The economic capital quantification process is organised in three phases: identifying the risks (definition and cartography, as well as the annual update, 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, some risks are not capitalised if alternative management techniques (limits, other buffers than capital, governance and so on) are considered more appropriate to cover them.

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

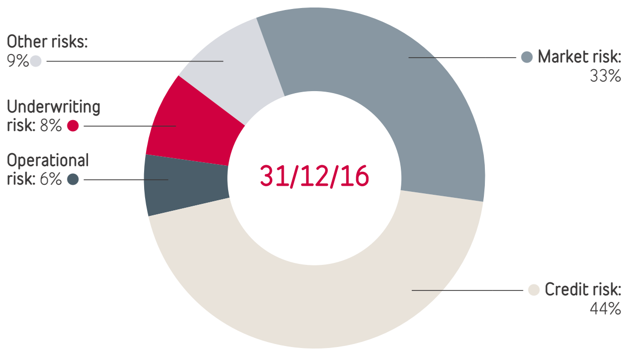
2. Economic capital adequacy

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

Belfius economic capital was EUR 5,683 million at the end of 2016 (against EUR 5,575 million at the end of 2015).

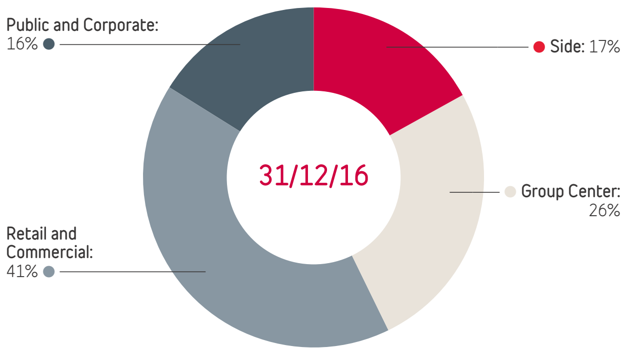
In 2016, the distribution between the main categories of risks remained stable: credit risk represented approximately 44% of the economic capital and was the main contributor; market risk (inter alia including interest rate risk, foreign-exchange rate risk, spread risk and equity risk) was 33%, underwriting risk 8%, operational risk 6% and other risks (prepayment, funding ...) 9%.

Breakdown of economic capital by type of risk



By business line, the economic capital was allocated as follows: the Side segment, including the investment portfolio of Legacy bonds and the portfolio of credit derivatives, accounted for 17% of the economic capital at Belfius; Retail and Commercial (RC) and Public and Corporate (PC) represented 41% and 16% respectively of Belfius' economic capital; the balance was made up of 26% allocated to the Group Center (mainly for the Belfius' general balance sheet management in terms of interest and funding risk).

Breakdown of economic capital by business line



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Normative regulatory equity

The total normative regulatory equity is derived from the regulatory core own funds and amounts to EUR 8,554 million end 2016 compared to EUR 8,272 million end 2015.

The normative regulatory equity by business line is defined as the CET 1 capital that is required to bring Franchise (and its sub-segments) to a CET 1 ratio (Fully Loaded) of 10.5% and to bring Side to a CET 1 ratio (Fully Loaded) of 13%. The remaining excess capital is allocated to Group Center within Franchise.

(in millions of EUR)	31/12/15	31/12/16
BASE FOR REGULATORY CORE OWN FUNDS	8,347	8,694
Deduction of foreseeable dividend	(75)	(140)
TOTAL NORMATIVE REGULATORY EQUITY	8,272	8,554
of which allocated to		
Franchise(1)	5,762	6,550
Retail and Commercial	2,219	2,061
Public and Corporate	801	793
Group Center(1)	2,742	3,695
Side	2,510	2,004

(1) Including excess capital.

Risk Management

Introduction

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

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

1. Macroeconomic environment in 2016

The macro economic environment in which Belfius operated in 2016 can be best be qualified by "low growth, low rates and a lot of surprises". Fundamentally the Belgian economy showed signs of improvement, especially in the job market where unemployment decreased significantly and where jobs in the private sector were created. Also, confidence, both with consumers as within businesses returned strongly at the end of the year and stands at its highest values since a couple of years. The ECB also continued its policy of monetary accommodation and kept interest rates at very low levels throughout the year. This supported clearly the mortgage and housing markets.

These positive elements were however not reflected in the overall growth number. The Belgian economy, actually, disappointed slightly as economic growth turned out to be a mere 1.2% which is less than in the two preceding years. A number of external shocks are most likely at the hart of this moderate and slow growth.

1.1. Fear of a global slowdown

In the first months of the year, fear of a global slowdown caused a panic reaction and strong turbulence on the stock market. In Belgium, this even led at one point to a stock market correction of more than 20% on the BEL 20 index compared to the beginning of the year. In the end, these fears proved to be completely unsubstantiated as the Chinese economy ended the year with an unexpected strong growth in the fourth quarter.

1.2. Terrorist attacks in Belgium

On 22 March 2016, there were major terrorist attacks in Belgium which had a negative economic impact on the catering and tourism industry. The National Bank of Belgium assessed that such terror attacks reduced the GDP -growth by 0.2%

1.3. Brexit

On 23 June 2016, the UK expressed its wish to leave the European Union. This outcome was unexpected by the financial markets and led to temporary upticks in volatility. It also led to a persistent and important depreciation of the Sterling with respect to the euro. The UK being one of Belgium's most important export markets, this appreciation of the euro creates an important and lasting competitive disadvantage for our economy. What exactly Brexit will imply for our economy is still unknown as the negotiations have not yet started.

1.4. Higher inflation and interest rates

Due to rising oil prices and increased taxes, inflation in Belgium started going up more quickly than in the surrounding countries. This held back consumption at first as it negatively impacted the purchasing power. In the second half of the year the restoration of the index mechanism compensated the employees again for the higher prices. The higher inflation also caused longer term interest rates in the euro zone to start rising. The short term rates are fully determined by the European Central Bank and remain negative.

In 2017, the economy is expected to improve a little bit as growth in our neighbouring countries is gaining traction and Belgium with its small open economy should profit from the favourable evolution. The waning of the Chinese excess capacity should also increase the price setting power of our companies, permitting profits to rise and investments to increase. The risks coming from the political environment, going from legislative elections in our neighbouring countries to Brexit negotiations and the new US trade policies, are however to downside.

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2. EU-wide EBA Stress Test

Belfius Bank was subject to the 2016 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 51 European banks and its aim was to assess the resilience of selected institutions when confronted by severe financial and economic stress over a three-year time horizon (2016-2018).

The stress test was carried out applying a static balance sheet assumption as at December 2015, and therefore does not take into account any future business strategies and management actions. The final outcome of this exercise is translated into the relevant banks' solvency figures as per the end of 2018. The 2016 stress test does not contain a pass-fail solvency threshold (as was the case in the 2014 stress test), but instead was designed to be used as crucial information for the 2016 supervisory review process.

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

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

3. Ratings

Between 1 january 2016 and 31 march 2017, rating agencies took the following decisions:

- in January 2016, Moody's upgraded Belfius Bank's stand-alone Baseline Credit Assessment (BCA) to baa3 and its LT-rating to A3;
- in April 2016, Fitch upgraded Belfius Bank's stand-alone Viability Rating (VR) to a- and its LT-rating to A-;
- in November 2016, S&P revised Belfius Bank's outlook from negative to stable and confirmed its ratings.
- In March 2017, Moody's upgraded Belfius Bank's stand-alone Baseline Credit Assessment (BCA) to baa2 and its LT-rating to A2. The ST-rating has been upgraded from Prime-2 to Prime-1. The outlook has changed from stable to positive.

Governance

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 the risk governance structure, Belfius implements:

- 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,...;
- presence of Belfius Bank Board of Directors' members in Belfius Insurance Committees assuring enhanced coherence;
- common Belfius Bank Risk Committee/Belfius Insurance Risk & Underwriting Committee can be organised.

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 formal approval of Belfius Insurance Board of Directors);
- steered by Risk department;
- target is implementing best practices: mutual exchange & implementations.

As of 23 March 2017, Belfius Bank's ratings are as follows:

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

(1) Intrinsic creditworthiness.

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.

1. Risk Committees

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.

1.1. Risk Committees on a strategic level operating within the Management Board

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

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

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

1.2. Risk Committees on tactical/operational level

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

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

2. 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 (Tier 1, weighted risks) and economic ratios (economic capital, Earnings at Risk), and also includes liquidity and funding structure ratios, as well as credit concentration limits.

Limits have been defined on each of these ratios and 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.

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.

Different ad hoc stress tests were conducted during 2016 either upon demand from Management or at the request of regulators e.g. stress test on real estate portfolios or stress tests on selected items of the Legacy portfolios. In addition, Belfius, together with 51 European banks, participated to the 2016 EBA Stress Tests exercise.

Belfius also performed an internal stress testing programme with its financial Plan 2017-2021. The Bank developed a set of alternative and very 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.

4. Recovery Plan

An update of Belfius Recovery Plan has been submitted to the ECB during the second half of 2016. 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.

Credit Risk

1. Methodology

For the management of its credit risks, Belfius uses an Advanced Internal Rating Based approach. This means that Belfius makes use of internal models for defining the key risk parameters Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF – the conversion of an available credit line in an expected amount draw down) for off-balance sheet commitments.

The ECB announced that it will be conducting a Targeted Review of Internal Models (TRIM) the coming years. This exercise, conducted by the regulator as an extension of the Asset Quality Review (AQR) it performed in 2014, demonstrates the growing attention paid by the supervisory bodies to models used in relation to calculating banks' solvency ratios. During 2016, the ECB launched preliminary questionnaires and first data requests. A second phase of on site inspections will follow as from 2017 and in the next years.

The internal models' lifecycle can be divided into three blocks: the development and approval of the internal model, the monitoring of its use and the maintenance of the model. The Model Manager is key in the process of the development and the maintenance of the model and he/she consults frequently with commercial business lines and credit departments. Next to that, several control functions are effective within the organisation: Validation, Rating Committee, Quality Control and Internal Audit.

1.1. The main stages in the development of a model

- → Defining the area of application of the rating model, i.e. for what population/target audience of counterparties the model will be used.
- → Gathering all of the relevant quantitative and qualitative information with regard to the target audience (financial data, economic, regulatory and institutional context, information about the number of defaults, etc.).
- → Defining, developing and extensively testing the criteria that will be used in the model and will lead to an internal rating.
- → Validating, implementing and documenting the model, whether or not linked to an IT development project. Formal validation of the model is carried out by "Validation", an autonomous direction within the Risk department which provides an independent and objective report on the models.

1.2. The main control mechanisms

In accordance with good governance and the demands of the regulator, various control mechanisms are in place regarding the operational use of models, their intrinsic performance and the entire process for management of the model lifecycle.

- → Independent Quality Control on the rating models, defined in accordance with the statutory guidelines, ensures appropriate use of the ratings models, operational efficiency and the existence of an audit trail in the rating process.
- → Back testing consists of seeing whether, based on historical data, the model is still in line with historical statistics. For instance, following the conclusions of these exercises, the loss given default model related to the exposures on counterparties belonging to the "corporate" segment was re-calibrated in 2016.
- → Stress tests are performed to see how portfolios and models react under unexpected and/or extreme circumstances.
- → Internal Audit carries out a regular general check to ensure that all guidelines and instructions are being followed and to see whether all of the parties involved are assuming their responsibilities correctly (Have sufficient tests been carried out? Has the model been adequately validated internally? Is there sufficient quality control? Are the mandatory annual back tests being carried out? etc.).

1.3. Maintenance of the model

- → There may be a number of different elements that could lead to an update of a model. These are mainly:
  - the results of the annual back testing and stress tests;
  - the feedback/observations from the other control mechanisms (Quality Control, Rating Committees, Internal Audit);
  - changes to the regulatory framework.
- → Launching a revision results in a process very similar to the one used to develop a model: (re)viewing the parameters, testing, a new internal validation of the adjusted model and possibly a validation by the ECB depending on the materiality of the revision.

2. Credit limits and credit committees

The robustness of the credit acceptance process is one of the main pillars of risk management at Belfius. It relies on a large range of directives, delegation rules and other governance instruments, aimed at strictly controlling credit risks, such as those established in the Risk Appetite Framework.

Belfius Bank has defined credit limits and delegations of competences for various types of credit risks which are monitored every day, reported to governance bodies every quarter and on top of that assessed each year by the Risk Committee and the Board of Directors.

Credit limits represent the maximum risk level acceptable on individual counterparties and/or economic groups and thus reflect the Bank's risk appetite in its individual customer relations. Credit limits are set on the basis of the customer's risk profile, the focus being mainly (but not exclusively) on their internal rating. In addition to individual credit limits, Belfius Bank also uses a number of portfolio guidelines. In line with the 2016 update of Belfius' global Risk Appetite Framework, both the credit limits and the portfolio guidelines were adjusted to align them with the business strategy and the characteristics of the credit portfolios (in particular Corporate Banking).

The credit decision processes within Belfius Bank consist of three different types:

→ automated decisions where the Bank compares the customer's credit application with a series of technical risk and commercial parameters;
→ delegated decisions, i.e. decisions taken by staff to whom, intuitu personae and based on the certification of their risk competencies, decision-taking powers have been delegated;
→ the regular process of the credit committees.

When granting credits to individuals (essentially mortgage loans), to self-employed and to small enterprises, standardised and automated processes are mainly used, in which the results from the scoring and/or rating models play an important role.

When granting credits to medium-sized and large enterprises as well as Public and Social customers, an individualised approach is implemented. Credit analysts examine the file autonomously and define the customer's internal rating. Then a credit committee takes a decision on the basis of various factors such as solvency, the customer relationship, the customer's prospects, the credit application and the collateral. In the analysis process, credit applications are carefully examined and only accepted if the perspective of continuity and the borrower's repayment capacity are demonstrated. To support the credit decision process, a RAROC (Risk Adjusted Return on Capital) measures the expected profitability of the credit transaction or even of the full relationship with the customer, and compares it with a required RAROC level (target rate). As such, the RAROC is an instrument for differentiating the risks and for guiding the risk-return combinations in an optimal way.

Belfius Bank has further intensified its strategy of being close to its customers. This approach provides a significant added value to our customers, regardless of the segment in which they operate. Credit and risk committees are regionalised and the delegation of decision-making powers to the regional commercial and credit teams is continued, strengthening the principle of decision-by-proximity. This resulted in a greater involvement of the various teams in the decision-making process, as well as stronger monitoring of the use of the delegated powers mentioned above.

The Bank monitors the evolution of the solvency of its borrowers throughout the whole credit lifecycle. The different portfolios of the Retail and Commercial Business for which risk management relies on a portfolio approach are reviewed periodically. Customer ratings, using an individualised approach, are also updated periodically, in line with the Bank's choice to apply AIRB (Advanced Internal Rating Based) models. The economic review process of credit applications guarantees that any signs of risk can be detected in time and subsequently monitored and/or addressed. This review process is organised, according to the Credit Review Guideline, in an annual cycle, with in-depth analyses for customers with important credit exposures and/or significant (positive or negative) evolutions in their risk profile.

3. Fundamentals of credit risk in 2016

3.1. Banking activities in Retail and Commercial

Belgium experienced throughout 2016 a modest but steady economic growth. Against this background, lending to the Retail and Commercial business line – one of the core segments at the Bank – remained at a high level, and this based on a stable lending policy in general, albeit adjusted for some elements (see further).

Demand for consumer credit remained stable in 2016. The criteria used for granting consumer loans remained generally unchanged from the preceding years and in line with the "Responsible Lending" charter that is part of the Belgian Financial Sector Federation (Febelfin). Recently, customers have been offered the possibility to introduce their loan applications via mobile platforms, by using the Belfius App. Nevertheless, the rules for evaluating the loan request remained basically the same as for loans requested through traditional channels.

The production of mortgage loans remained very sustained throughout 2016, and was even higher than in 2015. The expected deceleration of the market – as a consequence of the winding down of the "housing bonus" in Flanders and Brussels – was more than compensated by the impact of low interest rates. These low interest rates also caused early repayments to remain at a high level. The vast majority of prepaid existing mortgage loans were refinanced internally. Overall, mortgage production (EUR 8.3 billion, of which EUR 3.3 billion repayments) was realized at constant credit quality.

The historical low risk level of the mortgage portfolio is also reflected by the cost of risk that remains at a very low level. The Risk Department continued its reinforced monitoring of the potential higher risk segments of mortgage loans (combinations of longer repayment terms, higher loan-to-value financing ratios and higher debt service costs vs. income ratios). The Bank took measures to keep production in these niches within strict limits. This approach is in line with the concerns expressed by the National Bank of Belgium with regard to the evolution of the Belgian residential real estate and mortgage market. Accordingly, the National Bank advanced higher risk weights for higher "loan-to-value" mortgage loans.

Belfius has more than 275,000 self-employed workers, professionals and SMEs as customers. Each one of them can rely on the personal service of a business banker. The Bank's project to have lending decisions for business loans taken by local teams working close to the customer was further intensified in 2016. This strategy contributes clearly to a better knowledge of the customer and his or her situation, while numerous tests and realised statistics indicate that the risk remains well under control. The continuous fine-tuning of the decision-making logic and the enhanced and quickly reactive monitoring on deteriorating risk profiles is clearly bearing fruit.

The overall profitability and strength of Belgian SMEs remained good, although the latter are more and more confronted with a changing consumer pattern (e.g. e-commerce). In 2016, according to Graydon, 10,066 companies were forced to cease business, which was 5.1% lower than the number in 2015, and implies a return to the level of 2010. 20,708 jobs were as such put at risk. This is the lowest number since 2008, the beginning of the economic crisis, and a decrease of 10% compared to 2015. Bankruptcies declined in all major sectors, except for the hotel and catering industry which showed an increase of 4.3%. If the terrorist attacks of March 2016 are an explanatory factor for Brussels, in the rest of the country it is rather the introduction of the "white" cash register. The impact of the afore-mentioned terrorist attacks on Belfius' portfolio was negligible. Consequently, the cost of business loans at Belfius Bank remained at a good risk/return level and within the target levels. Belfius therefore intends to keep supporting the production of business loans, also in relation to start-ups. At the same time, the Risk department continues the improvement of the process of early warning indicators in order to keep permanently the risks in this market segment well under control.

3.2. Banking activities in Public and Corporate

In 2016, Belfius kept providing the public and social sector, as well as mid & large companies, with an extensive and integrated range of products and services. It strengthened its partnership with the customers from the public and social sector by continuing to invest in having an in-depth knowledge of their needs and continuing to be able as such to offer them new and tailored solutions to fund their operations, manage their finances and meet their insurance requirements. The strategy to become also the reference partner for corporates that service this public and social sector (Business-to-Government) was further implemented.

The Public Sector loans portfolio maintained its very low risk profile. The economic climate of low inflation, moderate growth and historical low interest levels resulted in a limited pressure on the expenditures of Belgian municipalities. Local tax increases with an eye to budget balance were for that reason rather limited. The indebtedness of municipalities remains stable and their financial costs have fallen as a result of the historical low interest rates. The increase of staffing and operating expenditures is being kept under control, among other things also thanks to the low inflation. Besides the current budgetary limits, some other structural reforms will weigh on the finances of municipalities in the coming years, such as the ongoing pension reform for their statutory staff, the contribution of local authorities to remedying Belgian public finance, the consequences of the tax shift, the challenges of the ageing population and finally the increasing costs of social aid and security. On this last point it is worth mentioning that 2016 was a key year for the long-expected reform of civil protection. Around 250 local fire brigades have been integrated in 34 new emergency response zones, which all became operational in the course of 2016. These zones have the ability to bill some of their services. Nevertheless, the lion's share of their receipts consists of allowances, of which 20% are currently paid out by the federal level and 80% by the municipalities. This means that there is still a long way to go in order to reach the balanced financing assumed in the reform of civil protection.

From a risk management point of view, the hospital sector remains a focus of attention. The potential developments in the area of hospital funding are closely monitored. The indebtedness of Belgian hospitals has increased importantly the past 5 years. The operating profit of the sector - after a stabilization in 2015 – deteriorated again. As a consequence, some hospitals display a structural shortfall in repayment capacity. According to our well-known studies, the Belgian hospital sector seems somewhat underfunded and an overcapacity regarding beds and infrastructure prevails. The Minister of Public Health works on a plan to address these challenges.

Belfius' corporate business is focused on Belgian companies with a turnover in excess of EUR 10 million. With 6,000 customers, we are actually positioned as a challenger in this segment, but a growth strategy has successfully been launched since 2015. Belfius has taken the necessary measures to ensure that this growth strategy goes hand in hand with a good creditworthiness and acceptable risk concentrations. The credit profile of the corporate lending remained fairly stable during 2016, which also meant that the cost of risk remained at an acceptable level and within the limits set. Real GDP growth in Belgium slightly decelerated in 2016 to 1.2%, supported by low interest rates, low energy prices and a declining unemployment. The wage restraint, the 2015 index jump and the tax shift have made especially our bigger and exporting companies more competitive. As a result, the general recovery of profitability of Belgian corporates - already started in 2014 – continued in 2016. However, the planned UK exit from the European Union could weight on Belgium's economic expansion; 8.8% of Belgian exports are directed to the UK, representing 7.7% of GDP, the largest share (as a projection of national output) amongst EU countries. A follow-up of global Brexit risks and impacts at portfolio level was put in place, but did not reveal critical problems.

Belfius monitors sector risks in a proactive way and defined specific measures with regard to a limited number of more vulnerable sectors. In the shipping industry, Belfius Bank continued to focus exclusively, as it has done in previous years, on shipping companies and other shipping-related businesses that have a commercial relationship with the Bank and a clear link with the Belgian economy. Connections with companies that do not meet these criteria were further reduced. Declining global trade, weaker demand for commodities and excess shipping capacity caused drops in prices and profits throughout 2016. In August, the US based International Shipholding as well as the Korean based Hanjin Shipping, the world's 7th largest shipping company filed for bankruptcy. Despite some positive price effects due to major players no further providing supply, financial distress in the shipping industry is not expected to improve soon. However, Belfius' shipping portfolio is adequately covered by as well collective as specific impairments. What's more, ongoing business consolidation and alliances could prompt a more disciplined capacity growth and so improve freight rates over the medium-term. Real estate financing, related to both residential and commercial real estate, is an important business activity within Belfius. Also on industry level, the Bank's lending activity in the real estate sector continues to increase considerably. The evolution of real estate financing over the last years is to be evaluated in the context of the following factors: the sustaining low interest rate environment, the fact that Belgian banks have a large deposit base and are confronted with a search for yield, the gross debt ratio of Belgian households that has increased and has recently slightly exceeded the average Euro area ratio. This combination of elements induces a concern at NBB level about an over evaluation of the Belgian (residential) property and about the threat of strong volume growth with potentially lower credit standards, lower margins and low provisioning levels. Belfius is aware of these potential pitfalls and has traditionally applied strict origination and acceptation criteria (LTV, maturity, collateral valuation) on new transactions and a solid monitoring of projects, in both residential and commercial real estate financing. Belfius real estate credit exposure is considered as being correctly diversified in terms of underlying asset types, individual name concentration and geographical spread.

Finally it is worth mentioning that Belfius intensified its portfolio management in the course of 2016, in the first place through the gradual sale of higher risk exposures and/or exposures that are no longer considered as being core business (e.g. shipping-related business without a commercial relationship), but also by developing risk hedging and risk sharing programs.

3.3. Insurance

The management of the credit risk of Belfius Insurance is the responsibility of Belfius Insurance risk management team, albeit in collaboration with the credit and risk teams at Belfius Bank and within the risk management guidelines regarding credit limits, etc. that apply to the whole of the Belfius group. As such, this means that credit limits are defined on a consolidated basis and that transfers of limits between the Bank and insurance arm of the business are permitted, provided that both parties agree. The CROs of Belfius Bank and Belfius Insurance coordinate the requests together.

3.4. Financial Markets

The mission of Financial Markets is of course aligned with the mission of Belfius Bank, to serve our clients and Belgian economy with essential financial services. Next to this general objective, Financial Markets operates as a competence and service center with regard to Belfius. In such a context, the risk and return generated by Financial Markets are reallocated to the business lines Retail and Commercial and Public and Corporate. As such, Financial markets complete the business lines' offering towards clients in order to ensure a long term relationship and ensure a quick and efficient time to market for new products. Innovative Financial Markets also contribute to the liquidity profile of the Bank through the management of Short Term and Long Term wholesale funding and to the management of the investment portfolios: both the ALM and Legacy portfolios.

Credit risks in relation to Financial Markets activities are monitored by the Credit Risk Limit Framework which is part of the Risk Appetite Framework. Counterparty and country limits are monitored by FM Risk Management in order to limit risk concentrations. During 2016, the focus has again also been set on the finalization of the execution of the tactical derisking mandate in the Legacy portfolio in order to bring it in line with the Franchise risk characteristics for 2017 onwards.

Five years ago, Belfius started an active tactical de-risking program with respect to its legacy portfolios; this resulted in a strong decrease of outstanding amounts and RWA and a positive evolution of the portfolios' Key Risk Indicators. Targeted average rating and liquidity indicators have been reached.

Hence, the tolerated legacy state is considered to be fit for integration into Franchise. As from 1 January 2017 onwards, what is left of Side is therefore fully integrated into Group Center and Side ceases to exist. The legacy bonds become part of the ALM Liquidity Management portfolio or the ALM Yield Management portfolio, and the Legacy credit guarantees become part of a newly created derivatives portfolio within GC.

Beside that, the credit risk of financial markets have remained fairly stable after the Brexit with very limited impact on profitability and negligible impact on liquidity and capital.

The money market activity has been influenced by the persisting low interest rate environment, the volatility of collateral and the challenging yield environment for the reinvestment of the liquidity buffer.

3.5. The risk management process concerning Forbearance, Watchlist, Default and Impairments

The detection of changing credit risks by means of an efficient and performant process and the constitution or not of impairments is a major pillar of efficient credit risk management. Belfius frames this process in a coherent set of risk policies and guidelines, risk committees and operational procedures.

The Watchlist guideline defines those internal and external indicators which reveal an increased credit risk, and which might give rise to more intensive monitoring of the credit file concerned. Files placed under higher surveillance are submitted each quarter (or more frequently if necessary) to a Risk Committee which, if necessary, decides on the appropriate risk measures.

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.

At the end of 2016, an amount of EUR 647 million of loans at Belfius complied with the forbearance definition, of which EUR 37 million related to Belfius Insurance. Appropriate specific or collective impairments were recorded in relation to this volume of forborn loans via the usual risk processes.

When a counterparty's solvency is weakening, early warning indicators may be activated which will take the counterparty concerned into our internal risk systems towards a default status. Depending on the seriousness of the indicators, which show the degree of probability of the counterparty's default, Belfius puts the counterparty in D1 or D2 status. These indicators are described in the Default guidelines. The Default committee within the Risk department, is competent to define the default status of a counterparty. 2016 showed an increased attention of the ECB for non-performing loans. In a European perspective, the NPL-ratio's of Belfius' different asset classes (Belfius' global NPL-ratio end 2016 amounted to 2.54%) belong to the lowest one, by analogy with the other Belgian banks.

Once a counterparty is classified in default, an assessment is made, as a fundamental element of the risk management process, of the need to make a specific impairment of the credit file(s) with the counterparty. This assessment examines whether and to what extent the guarantees Belfius holds are sufficient to reimburse the credit risk exposure, in the various scenarios possible (from business continuity to active recovery). The Impairment committees make this assessment and, if necessary, decide to make a specific impairment.

For the credit portfolios of the Retail and Commercial Business, where risk management relies on a portfolio approach, the same principles are valid, but applied in a less granular and more automated manner.

Moreover, Belfius also implements collective impairments to recognise impairments for credit risks which are latent in the credit portfolios (but have not yet reached default status) and which are essentially defined from a watchlist perspective. Collective impairments are also constituted to account for incurred but not yet reported credit risks which might emerge in certain well-described subportfolios, as a result of circumstances or developments specific to them.

4. Exposure to credit risk

The definition of Maximum Credit Risk Exposure "MCRE" is completely in line with risk management measures (called Full Exposure at Default – FEAD), as used in the Risk Report, and is determined as follows:

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

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

As at 31 December 2016, the total credit risk exposure, within Belfius reached EUR 172 billion, an increase of EUR 546 million or 0.3% compared to the end of 2015.

At bank level the credit risk exposure slightly increased 2% to EUR 155 billion. At the level of Belfius Insurance, the credit risk exposure went down by 12% to EUR 17 billion at the end of 2016.

Breakdown of credit risk by counterparty

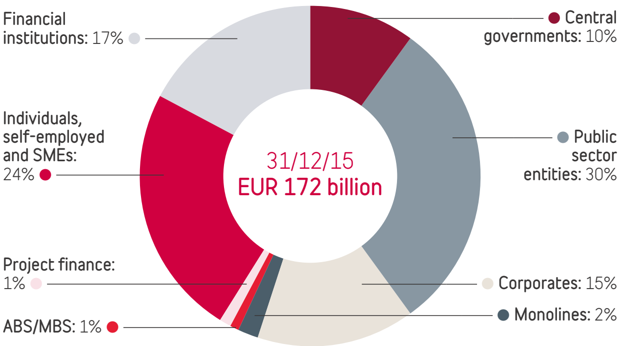
	31/12/15	31/12/16	Of which	
(FEAD, in EUR billion)			*Bank*	*Insurer*
Central governments	17.2	20.3	12.9	7.4
of which govemment bonds	*13.9*	*13.4*	*6.2*	*7.2*
Public sector entities	51.5	50.3	48.2	2.1
Corporate	26.1	27.5	26.2	1.3
Monoline insurers	3.6	4.2	4.2	0.0
ABS/MBS	1.8	1.4	1.3	0.1
Project Finance	1.8	2.1	2.1	0.0
Individuals, self-employed and SMEs	40.5	42.3	38.6	3.7
Financial institutions	29.2	23.6	21.7	1.9
Other	0.0	0.7	0.2	0.5
TOTAL	**171.9**	**172.4**	**155.4**	**17.0**

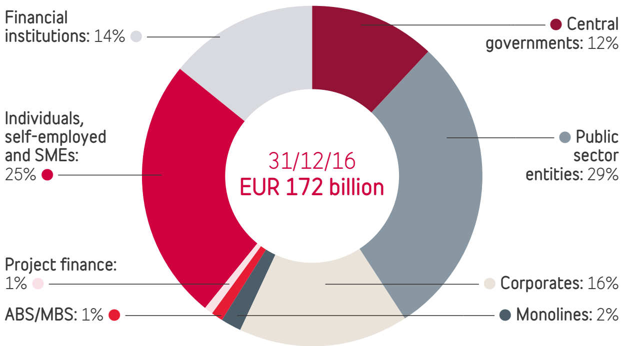
The credit risk exposure on public sector entities and institutions that receive guarantees of these public sector entities (29% of the total) and on individuals, self-employed and SMEs (25% of the total) constitute the two main categories.

The relative proportion of the segment central governments increased from 10% end 2015 to 12% end 2016. This growth is a direct consequence of Belfius' increasing excess liquidities posted at the National Bank of Belgium. Inside this segment, the credit risk on government bonds decreased by 4% from EUR 13.9 billion at the end of 2015 to EUR 13.4 billion at the end of 2016. More than half (59%) of the government bonds portfolio is invested in Belgian government bonds. While at bank level the Belgian government bonds represents 37% of the total government bond portfolio, the relative proportion at Belfius Insurance stood at almost 80%.

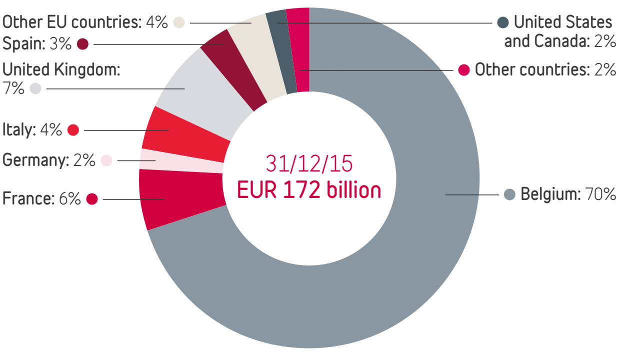
End 2016, the credit risk exposure on corporates and financial institutions was respectively 16% and 14%. The credit risk on monoline insurers (2% of the total) on bonds issued by issuers principally active in infrastructure and public utilities projects is predominantly an indirect risk arising from credit guarantees written by Belfius Bank and reinsured with monoline insurers.

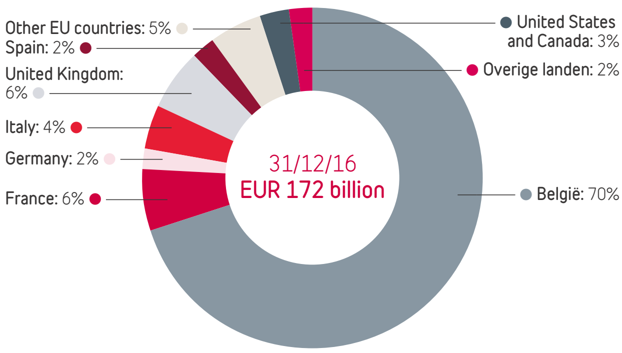
Breakdown of credit risk by counterparty



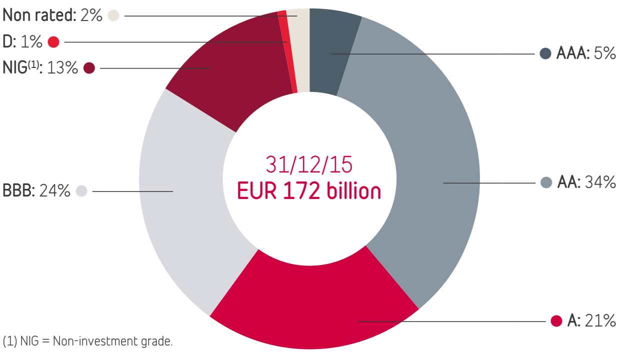


Breakdown of credit risk by geographical region

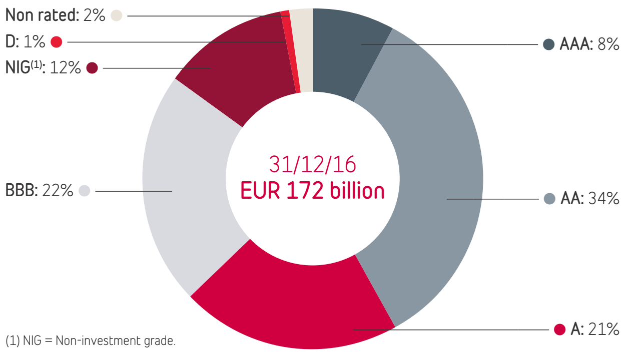




Breakdown of credit risk by rating



(1) NIG = Non-investment grade.



(1) NIG = Non-investment grade.

Belfius' positions are mainly concentrated in the European Union: 95% or EUR 164 billion at group level and 98% or EUR 16.7 billion for Belfius Insurance. 70% of the total credit risk exposure is on counterparties categorised in Belgium country exposures, 6% in the United Kingdom, 6% in France, 4% in Italy and 2% in Spain. The credit risk exposure of Belfius counterparties in the United Kingdom amounted to EUR 11 billion. Almost three-quarters of this credit risk exposure concerns bonds, of which close to 60% are inflation-linked, issued by utilities and infrastructure companies in the United Kingdom that operate in regulated sectors such as water and electricity distribution. These bonds are of satisfactory credit quality (98% investment grade), and moreover the majority of the outstanding bonds are covered with a credit protection issued by a credit insurer that is independent from the bond issuer. The remainder concerns the bond portfolio of Belfius Insurance, a short-term credit portfolio for treasury management of Belfius Bank and receivables on clearing houses. The credit risks on those portfolios are also of satisfactory credit quality. The credit risk exposure of Belfius counterparties in Italy amounted to EUR 6.2 billion, of which EUR 3.8 billion of Italian government bonds.

At the end of December 2016, 85% of the total credit risk exposure had an internal credit rating investment grade (IG).

5. Asset quality

At the end of 2016, the amount of impaired loans and advances to customers was EUR 2,320 million, which is an increase of +14% compared to last year. This increase results from a specific impairment charge related to US RMBS. These are conditionally US government guaranteed reverse mortgages that were downgraded to non-performing in 2016. As such, an impairment has been booked in 2H 2016.

Hence, in 2016, the specific impairments on loans and advances to customers increased with 9%, the asset quality ratio worsened slightly to 2.54% and the coverage ratio decreased to 54.4%. When not taking into account the specific impairment charge related to US RMBS, the asset quality ratio (2.25%) and the coverage ratio (58.4%) would be better than last year.

In 2016, collective impairments on loans and advances to customers decreased by EUR 41 million to EUR 328 million.

Market risk

1. Overview

1.1. Market Risk Definition

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

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

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

1.2. Risk types

The sources of market risk are changes in the levels of:

→ interest rates;
→ credit spreads (specific interest rate risk) and liquidity;
→ inflation;
→ foreign-exchange rates;
→ equity prices;
→ commodity prices;

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

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

Asset quality(1)

(In millions of EUR, except where indicated)	31/12/15	31/12/16
Gross outstanding loans and advances to customers	88,717	91,292
Impaired loans and advances to customers	2,029	2,320
Specific impairments on loans and advances to customers	1,158	1,262
Asset quality ratio(2)	2.29%	2.54%
Coverage ratio(3)	57.1%	54.4%
Collective impairments on loans and advances to customers	369	328

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

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

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

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

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

2. Non Financial Markets activities

2.1. Policy on asset & liability management

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

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

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

The ALCo of the Bank is responsible for guiding and monitoring balance sheet and off-balance sheet commitments and, doing so, places an emphasis on:

- → the creation of a stable income flow;
- → the maintenance of economic value;
- → the insurance of robust and sustainable funding.

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

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

2.2. Interest rate risk

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. Implicite 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.

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 -16 million per 10 bps at 31 December 2016 (compared to EUR +20 million per 10 bps at 31 December 2015), excluding interest positions of Belfius Insurance and of the pension funds of Belfius Bank.

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Earnings at Risk indicators capture the short-term effect of the interest rate changes on the earnings of the Bank. Therefore, indirectly through profitability, interest rate changes can also have a short-term solvency effect. A 50 bps increase of interest rates has a positive impact on net interest income (before tax) of EUR +38 million of the next book year and a cumulative effect of EUR +155 million over a three year period, whereas a 35 bps decrease would lead to a negative impact of EUR -8 million of the next book year and a cumulative effect of EUR -70 million over a three year period (compared to EUR +102 million, resp. EUR +374 million and EUR -49 million, resp. EUR -150 million for similar rate shocks end of last year).

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. The economic value sensitivity indicator, which reflects the sensitivity of the Bank's net worth under a runoff assumption of the B/S, evolved from EUR +20 million for +10 bps in 2015 to EUR -16 million EUR for +10 bps in 2016 mainly because additional hedges were set-up to protect the Bank against a low for longer rate scenario, which is also reflected in a lower earnings at risk figure (from EUR 102 million in 2015 to EUR 38 million in 2016).

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 continue to refinance and prepay their mortgages, further reducing the Bank's interest income. Furthermore, the negative interest rate policy of the ECB increases the collateral cost for derivative contracts used to hedge the Bank's exposure to interest rate risk.

Interest rate risk for the insurance activities

For Belfius Insurance, the ALM objective is to limit the volatility of the P&L and the economic value of the company induced by potential changes in the interest rates. The long-term sensitivity of the Net Asset Value of Belfius Insurance to interest rates was EUR 13 million per 10 bps as of 31 December 2016 (against EUR 11 million per 10 bps as of 31 December 2015). The earnings have a low sensitivity to interest rates for the next years, thanks to good matching in terms of duration.

Aggregate interest rate risk for the Belfius group

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

(In millions of EUR)	31/12/15	31/12/16
Belfius Bank		
Sensitivity (+10 bps)	+20	-16
Earnings at risk (+50 bps)	+102	+38
Belfius Insurance		
Sensitivity (+10 bps)	+11	+13
Earnings at risk (+50 bps)	+2	+3

2.3. Credit spread risk

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

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

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

2.4. Equity risk

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

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

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

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

(In millions of EUR)	31/12/15	31/12/16
Belfius Bank		
Market value	1	2
Belfius Insurance		
Market value - quoted shares & assimilated	699	611
Market value - quoted real estate	438	457
Shock 30% (negative)	(341)	(320)
VaR (99%, 10 days)	69	84

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)	31/12/15	31/12/16
Belfius Insurance		
Market value	677,000	708,701
Shock 15% (negative)	(95,740)	(102,400)

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 (BGAAP) 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].

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 of Belfius Insurance to Belfius Bank. These investments committees analyse the impacts of the funds' position on interest rate, inflation and equity risk.

3. Financial Markets activities

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

3.1. Market Risk Governance

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

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

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 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.

(1) Fore more information, please refer to note 9.7 in the disclosures.

Since the end of 2011, Belfius has computed a Stressed Value-at-Risk (S-VaR) on top of its regular VaR, which also enters into the computation of weighted risks for Market Risk. This S-VaR measure consists of calculating a historical VaR based on a 12 consecutive months observation period which generates the largest negative variations of Net Present Value in the Bank's current portfolio of financial instruments.

3.3. Market Risk Exposure

To remain in line with the risk appetite adopted by Belfius, the Financial Markets VaR limit was reduced from EUR 65 million in 2011 to EUR 41 million in 2013 and to EUR 32 million since 2014. The overall average VaR of Financial Markets activities slightly increased at EUR 21.7 million in 2016 vs EUR 20.9 million in 2015. At end 2016, the VaR level was at EUR 22.7 million.

Value-at-Risk by activity

VaR(1) (99% 10 days) (In millions of EUR)	2015				2016			
	IR(2) & FX(3)	Equity	Spread	Other risks(4)	IR(2) & FX(3)	Equity	Spread	Other risks(4)
By activity								
Average	9.5	2.6	7.5	1.3	11.3	3.1	6.4	0.9
EOY	9.7	2.5	5.7	1.3	12.1	2.5	6.9	1.2
Maximum	24.4	8.0	9.5	2.1	19.1	5.1	7.9	1.2
Minimum	3.6	1.3	5.4	0.7	6.1	1.8	4.2	0.6
Global								
Average	20.9				21.7			
EOY	19.2				22.7			
Maximum	33.8				31.1			
Minimum	14.9				14.1			
Limit	32.0				32.0			

(1) De Value at Risk (VaR) vertegenwoordigt de potentiële wijziging in marktwaarde, met een waarschijnlijkheid van 99 % en over een periode van 10 dagen.
(2) IR: renterisico.
(3) FX: wisselkoersrisico.
(4) Inflatierisico en CO_2-risico.

Evolution of global VaR in 2016

In milions of EUR

The regulatory capital is calculated by using both the VaR and the Stressed VaR. In 2016, the Internal Model VaR amounted to EUR 7.5 million in average versus EUR 12.2 million for the SVaR. Following graph shows the evolution of HVaR and SVaR in 2016.

Evolution of HVaR and SVaR (Internal Model) in 2016

In millions of EUR

The Internal Model HVaR increased between end of June and mid August from EUR 9 million to almost EUR 17 million, nearly causing a global limit VaR overpassing as the global VaR reached EUR 31.2 million at mid August, close to the EUR 32 million VaR limit. The VaR increase was caused by three elements:

- increased EUR steepening position in the Option desk;
- falling GBP IR curves combined with a methodological mismatch in bumps in the Inflation desk. Indeed, the main basis point values (bpv) in the inflation desk are on LT GBP IR curves. Since the Brexit voting we experienced in the months of July and August 2016 significant drops in GBP IR curves, which were even more severe on the longer term maturity buckets, up to -40 bps in 1 month. A combination of methodological choices made with decreasing GBP IR created is a mismatch between OIS and FWD bumps for the same scenario shocking the HVaR; and
- increased EUR steepening position in the Swap desk. Normalisation of the VaR resulted from increasing GBP IR curves and lowered EUR steepening positions in the Swap and Option desk.

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

3.4. Stress tests – Market risk

Although the VaR is a very useful risk management tool for controlling day-to-day loss-risk exposures, it does not withstand fully 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 positions 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 scenario where shocks on interest rates and credit spreads are simultaneously applied.

3.5. Back Testing

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 own 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, minus any provisions adjustments and other non-involved risk factors, calculating the VaR over a holding period of one day and 10 days. The hypothetical results only take account of the day-to-day movement in interest rates and prices, without the intra-day changes in positions. In 2016, there were four exceptions to the hypothetical back testing, of which two due to the Brexit.
- Real back testing simply compares real results purged of possible provisions, corrections and other non-concerned risk factors, with VaR outcomes over a 1-day holding period. The real results take not only into account the daily evolution of the interest rates and the prices, but also the intraday evolution of the positions. In 2016, four exceptions were observed in the real back-testing on the same date as the hypothetical.

Liquidity risk

1. Liquidity risk at Belfius Bank

1.1. Liquidity management framework

Belfius Bank manages its liquidity with a view to comply with internal and regulatory liquidity ratios. In addition, limits are defined for the balance sheet amount that can be funded over the short term and on the interbank market. Available liquidity reserves also play a key role regarding liquidity: at any time, Belfius Bank ensures it has sufficient quality assets to cover any temporary liquidity shortfalls, both in normal markets and under stress scenarios. All this is laid down in the liquidity guideline.

Liquidity and Capital Management (LCM), a division situated within the 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.

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

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

LCM reports on a daily and weekly basis to the Management Board 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.

1.2. Exposure to liquidity risk

The liquidity risk at Belfius Bank is mainly stemming from:

- the variability of the amounts of commercial funding collected from Retail and Private customers, small, medium-sized and large companies, public and similar customers and 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.

1.3. Consolidation of the liquidity profile

During 2016, Belfius consolidated it's diversified liquidity profile by:

- stabilising its funding surplus within the commercial balance sheet;
- continuing to obtain diversified long-term funding from institutional investors by issuing, amongst others, covered bonds backed by quality loans (mortgage and public sector loans);
- collecting short and medium-term (CP/CD/EMTN) deposits from institutional investors;
- continuing its downsizing of the Legacy portfolio.

Mid 2016, Belfius Bank increased its participation to the ECB TLTRO funding programe with EUR 1.3 billion, amounting to 3.0 billion end 2016 with a purpose to finance investment needs of SMEs, social sector and retail clients (mortgage loans excluded).

The Liquidity Coverage Ratio (LCR), introduced within the framework of the Basel III reforms, has become a pillar I requirement for European banks on 1st of October 2015 (at a level of 60%). Belfius Bank closed the year 2016 with a LCR of 127%. The LCR of the Bank has remained above 100% during the whole year 2016. In Belgium the law requiring banks to respect a LCR of 100% has been canceled and the minimum LCR requirement is 70% for end 2016 as introduced in the LCR delegated act.

The Net Stable Funding Ratio (NSFR), based on our current interpretation of current Basel III rules, stood at 110% at year-end 2016.

1.4. Minimum requirement for own funds and eligible liabilities

It is expected that a formal Minimum Requirement for own funds and Eligible Liabilities (MREL) level will be given to Belfius by SRB in 2017. At this stage, no formal MREL target has been communicated to Belfius. Based on the recent disclosures on MREL published by SRB, Belfius' mechanical target(1) would potentially amount to 24.5 % of risk exposures (in Fully Loaded format).

This target is surrounded by uncertainties as the European Commission published a revised legislative proposal related to MREL requirements on 23 November 2016 (BRRD). This proposal is still under negotiation at the European level at the time of the finalization of this Report.

As of today the SRB has not yet fully clarified which unsecured long term funding will be MREL-eligible. If (part of) our unsecured funding would no longer be MREL eligible, this can be rolled, at maturity during the coming years, into MREL-eligible instruments.

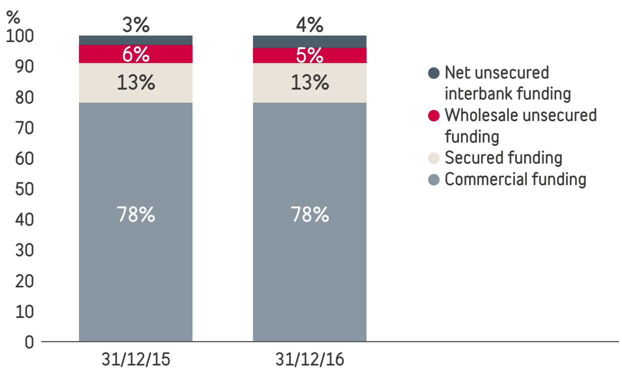
1.5. Liquidity reserves

At the end of 2016, Belfius Bank had quickly mobilisable liquidity reserves of EUR 32.4 billion. These reserves consisted of EUR 5.0 billion in cash, EUR 15.6 billion in ECB eligible bonds (of which EUR 12.0 billion are CCP-eligible(2)), EUR 9.9 billion in other assets also eligible at the ECB and EUR 1.9 billion in other liquid bonds.

These reserves represent 4.6 times the Bank's institutional funding outstanding end 2016 and having a remaining maturity of less than one year.

1.6. Funding diversification at Belfius Bank

Evolution of main funding sources(3)



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

(1) Potential MREL requirement, published by SRB in November 2016, could be equal to the higher of:
→ Double (Pillar 1 + Pillar 2 requirement)+ Combined Buffer (CBR). Including the Market Confidence Charge (equal to the CBR less 125 bps) Belfius' mechanical target would potentially amount to 27.25%; or
→ 8% of total liabilities and own funds (taking into account derivative netting where applicable).
(2) CCP = Central Counterparties.
(3) Relative to the balance sheet of Belfius Bank excluding collateral, mark-to-market of derivatives, and capital.

part of total funding of Belfius Bank. RC and PC funding equals EUR 85 billion of which EUR 62 billion is from RC. The increase of EUR 4 billion commercial funding compared to 2015 is in line with the strategy of the Bank to finance the increase of commercial loans with stable commercial deposits.

Belfius Bank also receives medium-to-long-term wholesale funding, including EUR 8.4 billion from covered bonds (EUR 6.1 billion backed by mortgage loans and EUR 2.3 billion by public sector loans), Asset Backed Securities (ABS) issued for EUR 0.6 billion and EUR 3.0 billion in TLTRO funding from ECB as at 31 December 2016.

Note that during 2016 Belfius Bank called the DSFB 4 public loans securitisation vehicle for a total amount of EUR 2.2 billion. The funding cost of this old vehicle had become too expensive compared to 2016 market conditions. In May 2016 Belfius launched its first subordinated benchmark since years. This Tier 2 note of EUR 500 million has enabled Belfius to further increase its total capital ratio and will contribute to the new expected regulatory requirement of Minimum Requirements for own funds and Eligible Liability (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.

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

Next to that, Belfius Bank also has a historical bond portfolio, including an ALM portfolio for liquidity management purposes, with highly liquid assets.

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.

The loan-to-deposit ratio, which indicates the proportion between assets and liabilities of the commercial balance sheet, was 90% at the end of 2016.

1.7 Encumbered assets

According to our current interpretation of the EBA guideline on the matter, the encumbered assets at Belfius Bank level amount to EUR 36.9 billion end 2016 and represent 22.5% of total bank balance sheet and collateral received under securities format, which amounts to EUR 164 billion (EUR 157.4 billion assets and EUR 6.6 billion collateral received). This represents a decrease of the encumbrance ratio of 1% compared to end 2015.

Since the set-up of the first covered bond programme in 2012, the Bank has issued covered bonds for a total amount of EUR 8.4 billion. End 2016, the assets encumbered for this funding source are composed of commercial loans (public sector and mortgage loans) and amount to EUR 10.6 billion. A few years ago the Bank also securitised public loans through securitisation vehicles called DSFB 2 & 4. During the year 2016, the Bank called back DSFB 4 and issued new covered bonds. Public and mortgage loans encumbered for debt securities issued decreased with EUR 1.9 billion to EUR 11.2 billion.

The Bank is also collecting funding through repo markets and other collateralised deposits. End 2016, the total amount of assets used as collateral for this activity amounts to EUR 5.6 billion, of which EUR 3.2 billion is linked to the ECB funding. It is worth mentioning that during 2016, the volume of assets encumbered for the ECB funding increased with EUR 1.3 billion. This is explained by the increase of the ECB funding from EUR 1.6 billion to EUR 3.0 billion.

The balance of encumbered assets is mainly linked to collateral pledged (gross of collateral received) for the derivatives exposures for EUR 18.4 billion (decrease of EUR 0.8 billion compared to end 2015), under the form of cash or securities. A significant part of collateral pledged is financed through collateral received from other counterparties with whom the Bank concluded derivatives in the opposite direction.

Regarding the "Other assets" (unencumbered) on balance sheet, they are mainly composed of assets not available for encumbrance such as derivatives value, fair value revaluation of portfolio hedge and tax assets.

2. Liquidity risk at Belfius Insurance

As an insurance company, Belfius Insurance shows mainly insurance liabilities at relatively long term and 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 related interests on the contract's maturity date. Several regulatory and internal liquidity indicators show 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 properties of the liabilities;
- policies and procedures that are put in place to assess the liquidity of new investments;
- follow up of the short-term treasury needs.

In addition, Belfius Insurance also holds a significant amount of unencumbered assets which are eligible at the ECB. Indeed, 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 liquidity and cash-flow management. Therefore, it uses long-term projections of the cash-flow of assets and liabilities. These cash flows are simulated under normal and stressed situations. Projections of cash-flow requirements for next twelve months are also used.

Operational risk

1. Policy

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

2. Measuring and managing risk

Managing operational risk is based on the following elements:

2.1. Decentralised responsibility

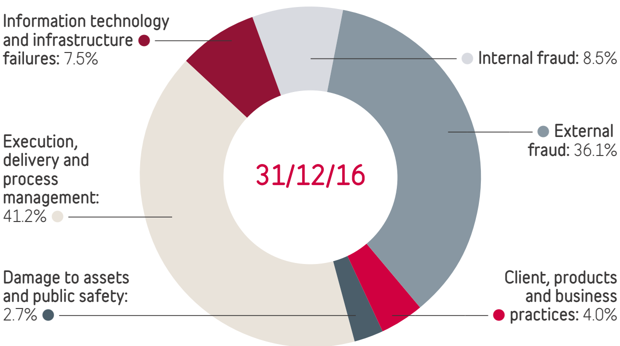
Each of the Bank's line management organisations has the primary responsibility for monitoring the operational risk in its individual sphere of activity (first line of defence). It establishes the way its activities are organised, including the checks that need to be implemented to limit operational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

2.2. Gathering data about operational risks

The systematic collection and control of data on operational incidents is one of the main requirements of the Basel Committee regarding operational risk management, whatever the approach adopted for capital calculation ("Standardised Approach" or "Advanced Measurement Approach") may be.

The reporting mechanisms ensure that the responsible parties are notified quickly if incidents occur. Major incidents are also reported to the CRO/Management Board, and these reports always include an action plan for avoiding or limiting risks in the future. This is developed under the responsibility of the relevant line management.

Breakdown of total losses by standard category of incidents over the past three years at Belfius Bank



For the period 2014-2016, Belfius Bank's average annual losses stemming from operational incidents amounted to EUR 4.9 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 number and amount.

The most important part of the financial impact resulting from operational incidents comes from the Bank's Retail business.

For Belfius Insurance 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.

2.3. Risk and Control Self-Assessment

Another important task of operational risk management is the analysis of the overall main potential risks for Belfius, both performed at Belfius Bank and Belfius Insurance. This is achieved through bottom-up Risk and Control Self-Assessment exercises held in all departments and subsidiaries at Belfius. These exercises may result in additional action plans being developed to limit the potential risks further. They provide an excellent overview of the main risk areas in the various businesses and the results are reported to management throughout the whole organisation. These Risk and Control Self-Assessments are conducted annually and form the basis for the yearly reports submitted, by the Bank and the insurance company, to their respective regulator regarding the assessment of internal control.

2.4. Information Security

Belfius' Risk Appetite, approved by the Board of Directors, includes a qualitative statement explicitly related to Information Security stipulating Belfius wants to meet the highest standards with regards to information security.

Governance and Strategy

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

The ISS is chaired by the Chief Risk Officer (CRO) / Chief Operations officer (COO) of Belfius Bank. The quorum requires the presence of CRO or COO. Belfius Insurance also participates in the ISS.

The ISS reports quarterly to the Management Board and the Risk Committee and once a year to the joint session of the Audit Committee and the Risk Committee. If deemed necessary specific topics are reported on an ad hoc basis.

The information security strategy has 4 major ambitions:

- manage risk: information security risk should be managed within a well defined risk appetite framework and this as well as for the internal as for external risks or threats Belfius is or will be dealing with;
- be mature: information security should be benchmarked and measured independently in order to ensure a proper maturity level from a risk and regulatory point of view;
- be compliant: comply with the relevant regulatory requirements. By being compliant with internal as well as regulatory requirements, processes and procedures are executed in a predictable way. Furthermore, it will avoid potential regulatory penalties resulting from non-compliances;
- be available: ensure Business Continuity & Disaster Recovery. By focusing on availability, business disruptions can be avoided and assurance can be given that key business processes can be adequately restored in case of calamities.

These ambitions are monitored on a monthly basis by the ISS through:

- a regularly updated information security road map which is compliant with regulations and in line with Belfius' risk appetite;
- a periodic dash boarding of information security;
- an incident and threat analysis;
- an approval and follow-up of information security projects.

The policy relating to securing information and its associated guidelines, norms and practices are aimed at safeguarding the information assets[(1)] of Belfius.

Main evolutions of Information Security projects

All risks related to cyber threats are closely followed up via the information security strategy (see above). This strategy, that was translated into a security roadmap, has resulted in the completion of multiple cyber security projects. Cyber risks and the ongoing projects are followed up on a monthly basis by the Information Security Steering.

The latest version of the Security Roadmap (SRM) 2016-2017 was defined back in 2015 and tackles the most urgent issues with regards to Information Security within Belfius Bank.

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

In the area of the information security, Belfius finished end 2016 the business rollout of a major project in the context of Identity & Access Management (IAM): ensuring that employees at all times have proper access to their required information. This rollout continues the next years with the goal to integrate new platforms and applications into the Belfius access management standard.

In 2015, Belfius Insurance initiated a project to enhance its identity and access management. An approach and roadmap that will substantially improve Belfius Insurance access management were approved and are currently rolled out.

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

The New Product Approval Policy integrates a specific Cloud Risk Assessment (CRA). Depending upon the result of this risk assessment the ISS is informed or decides on the implementation of the possible cloud solutions.

In order to enhance the skills and the awareness with regard to information security of the staff members of Belfius, awareness- and formation initiatives are set up regularly. The security governance ensures the coordination of the different processes and initiatives through a security awareness working group.

Belfius outsources its ICT infrastructure to IS4F, a subsidiary of IBM. The formalization of what Belfius expects from IS4F with regard to information security is defined in the Information Security Controls (ISEC) document. The implementation is coordinated by both IS4F and Belfius. The ISEC has a predefined review cycle which allows periodical updates to the scope of the ISEC as well as the related processes, KPI's, technical specifications, et cetera.

The IT risk management process with IS4F has been formalised and validated in a Process Interface Manual (PIM). The Belfius Bank's IT Security Office also started, aside from the typical vulnerability scans and penetration tests, the first IT risk assessments as part of the IT risk management process. The focus of the IT risk assessments was initially on critical externally facing applications (BDN, BDM, ATM's, …), but will be extended in 2017 to include internal applications.

2.5. Business continuity

The policy on business continuity requires the various departments to analyse the business impact on critical activities, to develop recovery plans and to provide the necessary documentation, as well as to ensure that the plans regarding business continuity are tested and if necessary adjusted at least once a year on the occasion of the yearly evacuation exercises of the two main buildings. Based on regular reporting, the Management Board approves the strategies, any residual risks and action plans aimed at achieving further improvements if need be.

Belfius Insurance is fully in line with Belfius Bank concerning business continuity.

Following events in 2016 are noteworthy:

- Both the Bank and the insurance company have successfully deployed their business continuity policies during the terror attacks in Brussels in March 2016.
- Customer, Account & Payment Services started to implement in 2016 a new recovery strategy, "dual office". This means that all system critical activities of that division are performed with the

(1) Information or data that is value to the company and that needs to be protected accordingly.

necessary minimum level of service on two geographical distinct places (Brussels and Ghent) so that in the event of a major operational disruption on one place, all system critical activities are simply continued in the other place. This strategy proved to be successful during the yearly evacuation exercise of the Brussels main office and will be expanded to the other operational divisions in 2017.

- NBB has published in December 2015 a new circular on Business Continuity & Security which must be implemented before June, 30th 2018. Belfius Bank already complies to a very large extend and for the remaining issues specific projects have been started.
- The Belfius BC&CM team is awarded the BCI European as well as Global award 2016 for the category of "Continuity & Resilience Team of the year". The international jury looked at how well the team is led, how the team works together but also at how it works across all disciplines within the organization. The Business Continuity Institute (BCI) is the world's leading institute for Business Continuity. The award is the recognition of the Business Continuity Plan (BCP) strategy, governance, plans and investments realized by Belfius since many years.

2.6. Managing insurance policies

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

2.7. New Product Approval Policy

The process of developing a "new product or service" 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 the "new product" process. Therefore, it defines the governance and describes the new product approval process.

The objectives of the process are the following:

- ensure that the "new product" 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.

The process' governance has been reviewed and strengthened in 2016 in order to fasten and to streamline the process while complying with rules and regulations.

2.8. Fraud policy

In collaboration with Audit and Compliance, a global fraud policy was formally established at Belfius Bank. This has been materialised in a Directive concerning Fraud Policy. This Directive specifies the governance and shapes the framework of internal control aimed at preventing and detecting fraud as well as taking the necessary corrective measures.

Fraud management is the responsibility of the CRO, member of the Management Board. A fraud consultation body coordinates fraud policy and consists of participants from Audit, Compliance and ORM.

Nevertheless, each line of defence remains responsible for the assigned areas and must ensure compliance with the framework of internal control.

Each year, a fraud report is submitted to the Management Board and Audit Committee from which any corrective measures, if required, are taken.

2.9. Calculating regulatory capital requirements

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

This calculation consists of applying a percentage (called the Beta factor, between 12% and 18%) to the gross income calculated for each of the eight business lines defined by the Basel Committee (Corporate Finance, Commercial Banking, Retail Banking, Trading and Sales, Asset Management, Agency Services, Retail Brokerage, Payment and Settlement).

Profit consists mainly of the operating profit from the underlying businesses, including net interest and commission income. Income from the insurance business is not included because Belfius Insurance is considered prudentially as a third-party (under the Danish Compromise).

The total regulatory capital for each business line is then aggregated to calculate the total capital requirements for operational risk in the form of an average over the past three years, a calculation that is updated annually.

Insurance Risk

Insurance risks represent the potential loss that might arise from underwriting insurance policies. Therefore, these risks are mentioned below as "underwriting risks".

1. Definition

At Belfius Insurance, the underwriting risk is divided into three modules, depending on the type of risk insured: Life, Non-Life, Health. Each category is then subdivided into sub-modules linked to the nature of the underlying business.

1.1. Breakdown of the underwriting risk for Life

The Life underwriting risk is divided into 7 sub-modules that meet the requirements of Solvency II:

- The mortality risk is the risk that mortality increases. It applies to all undertakings for which the benefits expected to be paid out increase with mortality.
- The 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).
- The morbidity or disability risk relates to the risk of loss or unfavourable movement in expected benefits attributable to changes in the level, trend or volatility in the degree of disability.
- The lapse risk for Life is described as the risk of loss or increase in benefits attributable to a difference between the effective exercise of contractual options by the policyholder and the expected exercise. The term "options" should be viewed in the broad sense of the word: this sub-module contains options in relation to redemption, cancellation or premium reduction, as well as the expansion of guarantees. For some policies, exercise may be of benefit to the insurance company, while for others it may result in a loss. As a result, this sub-module 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 to the risk that those management costs are higher than expected due to higher inflation.
- The review risk only applies for annuities where the amounts may be valued negatively for the insurer as a result of a change in the statutory environment or in the policyholder's health situation.
- The disaster risk is restricted to policies where an immediate and dramatic rise in mortality would result in an increase in benefits.

1.2. Breakdown of the underwriting risk for Non-Life

The Non-Life underwriting risk reflects the risk that arises from Non-Life insurance policies, taking into account the hazards covered and the procedures applied when this activity is exercised.

This risk module has three sub-modules:

- The premium risk is the risk where premiums received are not sufficient to cover claims that occured during the coverage period to which the premiums relate.
- The reserve risk is the risk of loss or unfavourable change in the value of the insurance undertakings arising from changes in the date and amount of the claims paid.
- The disaster risk is the risk of a major event occurring that is not covered by the two previous risks.

2. Managing the insurance risk

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 gearing between, on the one hand, the insurance premiums collected and, on the other, the claims to be paid out when costs are borne;
- identification of the risks arising from the undertakings of Belfius Insurance, including the implicit options and the capital that is guaranteed by the insurance products; and
- making provisions for claims.

The overall strategy is developed by each concerned entity and followed 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 hence drive back the uncertainty associated with the risk in the insurer's valuation.

These are the functions of reinsurance:

- 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.

3. Sensitivities

Belfius Insurance evaluates the effect of sensitivities on available economic capital. The technical reserves are expressed in market value.

Given the low market rates the value of the technical reserves is higher than the redemption value, which results in a negative impact on capital in the event of a reduction in the redemption rate. The sensitivity to the redemption rate decreases in 2016 following a decrease in the volume in branch 21.

The insured capital on death is higher than the fair value of technical reserves, which results in a positive impact on available financial resources if there is a fall in mortality. The sensitivity is stable between 2015 and 2016.

An increase in costs leads inevitably to a rise in the fair value of the technical reserves and to a fall in equity capital. The sensitivity to a rise in costs related to the life business decreases in 2016 following the revision of the cost allocation model.

In non-life, lower administrative costs lead to a higher result, while an increase of claims leads to a lower result. The sensitivity of administrative costs related to the non-life business increases in 2016 as a consequence of Belins' new fee allocation model whereby administrative expenses increase and acquisition costs decrease.

Underwriting risk Life: scenario that corresponds to[1]

	Impact on available financial resources before taxes	
(In millions of EUR)	31/12/15	31/12/16
An increase of 15% in mortality	(35.1)	(34.7)
An increase of 10% in costs +1% inflation	(123.0)	(101.0)
A decrease of 10% in the redemption rate	(29.3)	(23.5)

(1) Impact for Belfius Insurance SA.

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

	Impact on income before taxes	
(In millions of EUR)	31/12/15	31/12/16
A decrease of 10% in administrative costs	4.4	6.6
An increase of 5% in claims made	(17.4)	(18.4)

(1) Impact for Belfius Insurance SA and Corona SA.

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 base their evaluation of the appropriateness of the technical provisions. In Non-Life insurance, between the event and closing date of a claim, the insurer cannot in general determine the exact total cost of the claim. During this period, the insurer establishes a reserve equal to the estimated amount of future payments for the claim.

As 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 2006 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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Estimation at the end of the year of occurrence	237,618	266,081	284,441	331,831	376,927	368,410	366,403	365,798	415,445	389,632	427,822
1 year later	222,113	253,679	286,182	315,094	377,982	365,547	350,517	324,524	392,976	361,479	
2 years later	213,627	240,004	276,197	302,958	376,143	355,306	334,313	312,883	381,044		
3 years later	205,122	231,754	266,868	302,314	370,819	350,249	329,882	306,454			
4 years later	205,144	228,986	267,226	300,159	370,924	352,804	328,046				
5 years later	202,606	231,760	266,805	299,236	363,378	350,780					
6 years later	202,551	229,487	267,520	296,773	360,537						
7 years later	200,538	227,465	267,249	293,969							
8 years later	198,851	225,761	264,048								
9 years later	200,039	225,140									
10 years later	199,339										

(In thousands of EUR)											
Actual estimation	**199,339**	**225,140**	**264,048**	**293,969**	**360,537**	**350,780**	**328,046**	**306,454**	**381,044**	**361,479**	**427,822**
Cumulative payments	**(172,700)**	**(200,782)**	**(224,942)**	**(263,997)**	**(294,651)**	**(289,592)**	**(261,919)**	**(239,614)**	**(291,708)**	**(239,095)**	**(177,684)**
Actual provisions	**26,639**	**24,358**	**39,106**	**29,972**	**65,886**	**61,189**	**66,127**	**66,839**	**89,336**	**122,384**	**250,138**

(In thousands of EUR)	
Provisions (after 2006)	841,974
Provisions (before 2006)	107,315
Internal costs	39,156
Accepted deals	30,456
TOTAL	1,018,900[1]

(1) Claims reserves 31 December 2016 - note 6.5.3.

Corporate Governance

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

1. Management Board

1.1. Composition

On 31 December 2016, the Management Board of Belfius Bank consisted of six members, namely:

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

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

The renewal of the directorship of Mr Marc Raisière for a period of 4 years will be submitted to the Ordinary General Meeting of Shareholders of 2017.

1.2. Remit

The Board of Directors has delegated all of its management powers to the Management Board set up from among its members. The members of the Management Board form a college. Such delegation of its powers does not extend to the determination of the general policy, or to any other powers that are reserved pursuant to the Companies Code or to the Banking Law to the Board of Directors.

As a result, the Management Board is responsible for the effective management of the Bank, directing and coordinating the activities of the various business lines and support departments within the framework of the objectives and general policy set by the Board of Directors.

The Management Board ensures that the Bank's business activities are in line with the strategy, risk management and general policy set by the Board of Directors. It passes on relevant information to the Board of Directors to enable it to take informed decisions. It formulates proposals and advices to the Board of Directors with a view to define or improve the Bank's general policy and strategy.

The members of the Management Board are required to carry out their duties in complete objectivity and independence.

Working under the supervision of the Board of Directors, the Management Board takes the necessary measures to ensure that the Bank has a robust structure suited to the Bank's organisation, including supervisory measures, with a view to guaranteeing the effective and prudent management of the Bank in accordance with the Banking Law.

In principle, the Management Board meets once per week.

2. Board of Directors

2.1. Composition

As at 31 December 2016, the Board of Directors consisted of fourteen members, six of whom were members of the Management Board (cf. table on the following page).

During 2016, Messrs Georges Hübner and Jean-Pierre Delwart were (definitively) appointed director, and independent director by the Special General Meeting of Shareholders of 21 January 2016 for a period of maximum 4 years to end at the close of the Ordinary General Meeting of Shareholders in 2019. Mr Jean-Pierre Delwart was also appointed, as from 20 October 2016, as a member of the Mediation Committee.

Furthermore, the directorships of Mrs Carine Doutrelepont and Mrs Lutgart Van den Berghe as well as Messrs Jozef Clijsters, Eric Hermann, Chris Sunt, Dirk Vanderschrick and Rudi Vander Vennet were renewed for a period of four years to end at the close of the Ordinary General Meeting of Shareholders in 2020.. The directorships of Mrs Marie Gemma Dequae and Mr Wouter Devriendt were not renewed by the Ordinary General Meeting of Shareholders of 27 April 2016, as Mrs Dequae had reached the age limit set for the exercise of a non-executive director's mandate and Mr Devriendt in view of the incompatibility of his mandate with his new post as Chairman of the Management Board of Dexia SA.

Board of Directors (Financial year 2016)

Board of Directors (Financial year 2016)	Main function	Non-executive director	Member of the Management Board	Independent director	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Mediation Committee
Jozef Clijsters	Chairman of the Board of Directors of Belfius Bank SA	★				■	■		★
Marc Raisière	Chairman of the Management Board of Belfius Bank SA		★						
Dirk Gyselinck	Member of the Management Board of Belfius Bank SA Responsible for Public & Corporate Banking		■						
Eric Hermann	Member of the Management Board of Belfius Bank SA Chief Risk Officer		■						
Olivier Onclin	Member of the Management Board of Belfius Bank SA Chief Operating Officer, responsible for Operations, IT, Purchasing & Facility Management and Organisation		■						
Dirk Vanderschrick	Member of the Management Board of Belfius Bank SA Responsible for Retail & Commercial Banking		■						
Johan Vankelecom	Member of the Management Board of Belfius Bank SA Chief Financial Officer, Responsible for Finance Reporting, Research, Liquidity & Capital Management, Finance Corporate Advisory & Participations, Asset & Liability Management, Legal and Tax		■						
Paul Bodart	Professor in Financial Markets at the Solvay Business School	■ (1)		■ (1)	■ (1)				
Jean-Pierre Delwart	Chairman of the Board of Directors of Eurogentec	■ (2)		■ (2)					■ (3)
Carine Doutrelepont	Lawyer and Full Professor at the Université Libre de Bruxelles	■		■		■	■		
Georges Hübner	Full Professor at the HEC Liège, University of Liège and Associate Professor at the University of Maastricht, School of Business Economics	■		■ (2)	★			■	
Chris Sunt	Lawyer	■			■			■ (4)	
Lutgart Van den Berghe	Executive Director at Guberna and part-time professor at the Vlerick Business School	■		■		★	★		
Rudi Vander Vennet	Full Professor in Financial Economics and Banking at the University of Ghent	■		■				★	

★ Chairman

(1) From 1 December 2016.
(2) From 21 January 2016.
(3) From 20 October 2016.
(4) From 23 June 2016.

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Finally, Mr Paul Bodart was appointed by the General Meeting of Shareholders as an independent director as from 1 December 2016 for a maximum period of four years to end at the close of the Ordinary General Meeting of Shareholders in 2020. He was also appointed, as from 1 December 2016, as a member of the Audit Committee.

The Board of Directors is made up of professionals from a variety of industries, including the financial sector and has the expertise and experience required associated with the Bank's various operating businesses.

2.2. Remit

The Board of Directors defines and supervises the strategy and objectives of the Bank as well as the risk management, including the level of risk appetite, on proposal or recommendation of the Management Board.

The Board of Directors is actively involved in the context of this responsibility for general policy, in particular with regard to supervision of the policy on risk, organisation and financial stability of the Bank and its governance, including the definition of the Bank's objectives and values.

The Board of Directors also approves the Bank's Governance Memorandum.

In 2016, the Board of Directors met 15 times.

Relationship between the Board of Directors and the Management Board

Management of the credit institution's activities comes under the sole jurisdiction of the Management Board. Such management takes place without any outside intervention and is carried out within the framework of the general policy laid down by the Board of Directors.

Advisory committees established by the Board of Directors

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 is independent within the meaning of Article 526ter of the Companies Code. The members of these advisory committees sit at a maximum on two of these committees.

1. Nomination Committee

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

1.1. Composition

1.1.1. General aspects

As at 31 December 2016, the Nomination Committee for Belfius Bank consisted of the following members:

Chairman	**Lutgart Van den Berghe**
Members	**Jozef Clijsters** Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
	Carine Doutrelepont

1.1.2. Independence and remit

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

Baroness Lutgart Van den Berghe, Doctor of Economics, is managing director at Guberna and extraordinary professor at the Vlerick Business School and at the University of Ghent. She is also member of the Koninklijke Vlaamse Academie van België voor Wetenschappen en Kunsten.

Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and 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 Jozef Clijsters, Master in Applied Economics, is Chairman of the Board of Directors of Belfius Bank and of Belfius Insurance.

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

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

Two members have professional experience in the financial sector.

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

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

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

1.2. Remit

The Nomination Committee:

- identifies and recommends, for the approval of the General Meeting of Shareholders or of the Board of Directors as the case may be, candidates suited to filling vacancies on the Board of Directors, evaluates the balance of knowledge, skills, diversity and experience within the Board of Directors, prepares a description of the roles and capabilities for a particular appointment and assesses the time commitment expected;
  the Nomination Committee also decides on a target for the representation of the underrepresented gender within the Board of Directors and prepares a policy on how to increase the number of underrepresented gender in order to meet that target;
- periodically, and at least annually, assesses the structure, size, composition and performance of the Board of Directors and makes recommendations to it with regard to any changes;
- periodically, and at least annually, assesses the knowledge, skills, experience, degree of involvement and in particular the attendance of members of the Board of Directors and advisory committees, both individually and collectively, and reports to the Board of Directors accordingly;
- periodically reviews the policies of the Board of Directors for selection and 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 each year 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.

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 2016, the Nomination Committee met 10 times.

1.3. Recruitment policy

1.3.1. 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.

1.3.2. Procedure for appointment / renewal of mandate

1.3.2.1. 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 supervisory authority.

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 in the operation of the Board of Directors and ensure that there are no new elements liable unfavourably to impact the aptitude of the director to perform a new mandate. The Nomination Committee will also make sure, based on a skills matrix, that the Board of Directors has sufficient skills 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 assess whether the latter has the expertise and professional integrity required to perform these tasks.

1.3.2.2. 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 supervisory authority.

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

1.4. 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 make recommendations to the Board of Directors for adoption.

As at 31 December 2016, the Board of Directors and the Management Board were composed as represented in the table below.

Board of Directors	**Number of members**	14
	Ratio of men to women	86% / 14%
	Independent directors	6
	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

2. 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.

2.1. Composition

2.1.1. General aspects

As at 31 December 2016, the Remuneration Committee for Belfius Bank consisted of the following members:

Chairman	Lutgart Van den Berghe
Members	Jozef Clijsters Chairman of the Board of Directors of Belfius Bank and Belfius Insurance
	Carine Doutrelepont

2.1.2. Independence and remit

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

Baroness Lutgart Van den Berghe, Doctor of Economics, is managing director at Guberna and extraordinary professor at the Vlerick Business School and at the University of Ghent. She is also member of the Koninklijke Vlaamse Academie van België voor Wetenschappen en Kunsten.

Mrs Carine Doutrelepont, Doctor of Law, is a lawyer at the Brussels Bar and member of the Bar of Paris and 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 Jozef Clijsters, Master in Applied Economics, is Chairman of the Board of Directors of Belfius Bank and Belfius Insurance.

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

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

Two members have professional experience in the financial sector.

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

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

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

2.1.3. Collaboration and interaction with other advisory committees of the Board of Directors

In order to perform its tasks correctly (cf. also infra), in 2016 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. § 2.3.1.3) 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 Auditor General.

2.1.4. Audit & Compliance

The audit department and compliance department at Belfius Bank will each provide an independent and regular analysis of the remuneration policy and its practical implementation. In 2017, both Audit and Compliance will implement such a follow-up study. The results of this study will also be presented to the remuneration committee.

2.2. 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 audit functions (Chief Risk Officer, General Auditor and Compliance Officer).

In 2016, the Remuneration Committee met 3 times.

2.3. Remuneration

2.3.1. Introduction

2.3.1.1. 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.

2.3.1.2. 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 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.

2.3.1.3. 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 2016, 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% (45% for members of the Management Board).

The envelope for performance-related remuneration (performances in 2016) 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 2016, 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 2016 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 for members of the Management Board and their direct reports and 3 years for the others. In addition, 50% of the total variable remuneration will be paid by a financial instrument which reflects the financial health of the business. The terms of this policy are integrated in the Belfius group's remuneration policy.

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

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

2.3.2. Remuneration of members of the Management Board

2.3.2.1. Fixed and performance-related remuneration

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

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

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

2.3.2.2. Remuneration for 2016

Remuneration of the chairman of the Management Board

Fixed remuneration

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

In addition, the premium for his group insurance amounted to EUR 99,979.81 and for other insurance policies (mainly insurance against death and disability) EUR 34,658.28.

The other benefits (mainly reimbursement of expenses and company car costs) in 2016 amounted to EUR 10,282.

Performance-related remuneration

The Board of Directors decided to grant to the chairman of the Management Board a performance-related remuneration of EUR 198,617 for 2016. 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 2016 (EUR 49,654) will be made at the beginning of 2017.

The acquisition of the balance of this performance-related remuneration for 2016 will be spread over the coming six years.

The payment of the deferred performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

An amount of EUR 55,789, linked to the performance in 2015, will be paid to the chairman of the Management Board at the beginning of 2017 (the second payment of the performance-related remuneration based on the performance in 2015).

On the basis of the performance-related remuneration of 2015 and 2016, provided certain conditions are met in the coming six years, the chairman of the Management Board may receive a deferred performance-related remuneration as follows: EUR 78,181 in 2018; EUR 38,458 in 2019; EUR 38,458 in 2020; EUR 38,458 in 2021; EUR 29,160 in 2022; and EUR 9,930 in 2023.

It is worth reiterating that every payment of (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

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 1,683,730.

In addition, the (aggregated) premium for their group insurance amounted to EUR 293,129.55 (divided among the 5 members) and for other insurance policies (mainly insurance against death and disability) to EUR 97,823.95 (divided among the 5 members).

The other benefits (mainly reimbursement of expenses and company car costs) in 2016 (divided among the 5 members) amounted to EUR 60,173.

Performance-related remuneration

The Board of Directors decided to grant to the members of the Management Board a performance-related remuneration totalling EUR 592,805. 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 2016 to the members of the Management Board (EUR 148,202 divided among the 5 members) will be made at the beginning of 2017.

The acquisition of the balance of this performance-related remuneration for 2016 will be spread over the coming six years.

The payment of the (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

An amount of EUR 163,988, linked to the performance in 2015, will be paid at the beginning of 2017 (the second payment of the performance-related remuneration based on the performance in 2015), divided among the five members of the Management Board.

On the basis of the performance-related remuneration of 2015 and 2016, provided certain conditions are met in the coming six years, the members of the Management Board may receive a deferred performance-related remuneration EUR 233,237 in 2018; EUR 114,188 in 2019; EUR 114,188 in 2020, EUR 114,188 in 2021, EUR 86,852 in 2022 and EUR 29,761 in 2023.

It is worth reiterating that every payment of (deferred) performance-related remuneration depends on the annual assessment of the financial instrument and may be subject to an ex-post risk adjustment via a malus or clawback clause (cf. 2.3.1.3. supra).

Option plans

Belfius Bank has no option plan. During 2016, 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 2016.

In 2016, no exceptional bonus was granted within the context of a recruitment and no severance remuneration was paid to members of the Management Board.

2.3.3. 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 2016 to the members of staff concerned (131 members of staff at the end of 2016) was EUR 16,068,350.

Performance-related remuneration for the year 2016

A total amount of EUR 4,107,853 was allocated to the members of staff concerned as performance-related remuneration for the year 2016. The entirety of this amount was paid in 2017 since none of those members of staff received performance-related remuneration for 2016 above the amount agreed in advance with the NBB.

This amount was granted for EUR 3,803,572 in warrants(1) and for EUR 304,281 in cash.

Option plans

Belfius Bank has no option plan. During 2016, 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

No severance remuneration was paid in 2016 to employees whose activity has a material impact on the risk profile of Belfius Bank.

For the year 2016, no member of staff (referred to in point 2.3.3.) received any deferred part of performance-related remuneration or sign-on bonus.

2.3.4. Remuneration of members of the Board of Directors (non executive directors)

The total remuneration granted to the members of the Board of Directors the members of the Management Board excepted (non executive directors) for 2016 was EUR 683,492.,48 (compared with EUR 659,250 in 2015). This amount includes the emoluments granted for their mandate as directors, as well as their fees for attending meetings of the Board of Directors and various advisory committee meetings.

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

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

3. Audit Committee

3.1. Composition

3.1.1. General aspects

As at 31 December 2016, the Audit Committee for Belfius Bank consisted of the following members:

Chairman	Georges Hübner
Members	Paul Bodart
	Chris Sunt

Mrs Marie Gemma Dequae was a member of the Audit Committee until 27 April 2016.

Mr Paul Bodart was appointed a member of the Audit Committee as at 1 December 2016.

3.1.2. Independence and expertise

The Audit Committee must have at least one independent director with the individual expertise required in accountancy and/or audit. 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 two of whom are independent directors, namely Mrs Mr Georges Hübner and Mr. Paul Bodart. Furthermore, Mrs Marie Gemma Dequae, appointed as independent director, was a member of the Audit Committee until 27 April 2016.

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

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

Mrs Marie Gemma Dequae is a Doctor in Applied Economics and holds a special degree in Insurance Law and Economics. She has professional experience in accountancy and audit acquired in particular in the functions she has performed/performs in respectively the audit committees of Vinçotte and the Partena group.

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.

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).

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.

As at 31 December 2016, the Audit Committee was composed of a majority of independent directors.

3.2. 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.

3.2.1. 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 presents recommendations or proposals to guarantee its integrity.

3.2.2. 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 2016, 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 the ICT-security).

3.2.3. 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 2016, the Audit Committee examined and approved the annual business report for 2015, the audit plan for 2016 and the half-year business report (1H) for 2016, as well as the half-yearly follow-up reports on the recommendations. The latest version of the Internal Audit Charter was validated on 18 November 2015. It has then been amended as a result of the regulatory evolutions relating to the internal control and the internal audit function in the banking sector. A new amendment and validation of this Charter is foreseen in 2017.

3.2.4. 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 2016, the Audit Committee reported to the Board of Directors on the statutory and consolidated financial statements of Belfius Bank at 31 December 2015, 31 March 2016, 30 June 2016 (among others for the distribution of an interim dividend) and 30 September 2016. 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.

3.2.5. 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.

3.3. Operation

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 2016, the Audit Committee met 9 times.

The Audit Committee of Belfius Bank operates independently of the Audit Committee implemented at Belfius Insurance. The Audit Committee of Belfius Bank met jointly with the Audit Committee of Belfius Insurance twice, in particular when the insurance company's annual financial statements for 2015 and the half-yearly financial statements at 30 June 2016 were presented.

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

The Audit Committee of Belfius Bank held three meetings jointly with the Risk Committee to examine the effective management report on the assessment of the internal control report 2015, the report on the risks linked to the use of valuation models, the follow-up of the implementation of the IT-security strategy as well as the quarterly risk monitoring report.

3.4. Internal Audit

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

The remit of the audit function is to promote the internal supervision, the risk management and the governance and to constantly ensure that existing auditing systems perform effectively and are efficiently applied.

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

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

The General Auditor of Belfius Bank meets the General Auditor of Belfius Insurance each month in order to coordinate the activities of the two internal audit departments and to ensure the consistency of the audit plans, the methodology applied and the monitoring of the recommendations. Some audit assignments are conducted in close collaboration.

4. Risk Committee

4.1. Composition

4.1.1. General aspects

As at 31 December 2016, the Risk Committee for Belfius Bank consisted of the following members:

Chairman	Rudi Vander Vennet
Members	Georges Hübner
	Chris Sunt

Mr Wouter Devriendt was a member of the Risk Committee until 27 April 2016. He was replaced by Mr Chris Sunt, who was appointed a member of the Risk Committee as from 23 June 2016.

4.1.2. Independence and remit

The Risk Committee of Belfius Bank consists of two independent directors, namely Mr Rudi Vander Vennet and Mr. Georges Hübner.

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, Doctor in Economics, is a Professor in Finance and Banking Sector at the University of Ghent. He holds or has held various positions in Credibe, the European Banking Authority, CGER Bank, ICCH and OBK Bank.

Mr Georges Hübner, who holds a degree in Business Administration and a PhD in Management, is Full Professor in Finance at the HEC Liège, University of Liège and Associate Professor at the University of Maastricht. Inter alia he was a member of the college of experts appointed by Parliament following the financial crisis.

Mr Wouter Devriendt, Master in Economics, was an independent advisor to the Federal Holding and Investment Company. He has held various positions in Fortis Bank and ABN Amro.

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 former and current 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.

4.2. 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.

4.3. Operation

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

In 2016, the Risk Committee met 10 times and held 3 joint meetings with the Audit Committee.

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.

Mediation Committee

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

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 2016, 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 (as from 20 October 2016)
	Johan Tack Independent Director Belfius Insurance

In 2016 the Mediation Committee met 2 times.

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.

Internal audit and risk management systems regarding financial statements

Belfius Bank applies various internal audit and risk management systems to its financial statements. These audits are carried out at different levels.

The inventory is reconciled with the balances in ACEC / ACSE via the reconciliation tool ACNR on a daily basis. Unreconciled amounts are reported via the monitoring and matching tool INTELLIMATCH. At the end of each month, the balance sheet and off-balance sheet inventory in GEXL is reconciled with the balances in ACEC/ACSE. Unreconciled amounts are reported via an online tool in GEXL. The related accounting Competence Center (back office) within the Operations Department is responsible for analysing the nature of the differences and for initiating corrective actions.

The accounts (Belgian GAAP and IFRS) are closed on a monthly basis. A first level of control is performed by the Accounting Competence Centers that take full responsibility for the general ledger (balance, off balance and statement of income) and the inventory. In respect to Financial Markets activities, FM Risk Management is responsible for the validation of the statement of income and the gains and losses not recognised in the statement of income. The procedures and control activities are documented by each department involved.

Corporate Accounting performs a second level of control and ensures a functional steering of the closing process, the centralisation and final validation of all relevant accounting data and disclosures for reporting purposes. A risk-based approach is adopted to determine the nature and extent of the control activities. The controls mainly relate to a variance analysis of balances and ratios, sample based testing, review of supporting documentation and reasonability controls. The results of the analytical review are documented in a highlight report, which is subject to management review. The procedures and control activities are documented by each department.

The first and second levels of control provide reasonable assurance on the completeness, accuracy and appropriate presentation of the accounting data, in accordance with the financial and prudential framework.

External activities of directors – Article 62, §2 of the Law of 25 April 2014 on the status and supervision of credit Institutions

Under the Regulation by the National Bank of Belgium dated 6 December 2011 on the pursuit of external activities by the executives of regulated companies, Belfius Bank is required to disclose any external appointment held by its directors and senior executives. Belfius Bank has chosen to publish such appointments in its annual report filed with the National Bank of Belgium.

Auditor

The task of auditing the financial situation and financial statements of the Bank has been entrusted to Deloitte Reviseurs d'entreprises, SC s.f.d. SCRL, represented by Messrs Philip Maeyaert and Bart Dewael.

Pursuant to the recommendation of the Audit Committee of 23 January 2017, the Board of Director will propose to the Ordinary General Meeting of Shareholders to renew the mandate of the Auditor, Deloitte Reviseurs d'entreprises, SC sfd. SCRL, represented by Messrs Bernard De Meulemeester and Bart Dewael for a period of three years, Mr Bernard De Meulemeester replacing Mr Philip Maeyaert.

The table below provides an overview of the fees paid to the Auditor for services provided to Belfius Bank and its Belgian companies associated with Belfius Bank or to its foreign subsidiaries during the 2016 financial year.

Deloitte	Services provided in 2016 for			
(In thousands of EUR)	Belfius Bank	Belfius Insurance	Other subsidiaries	Total
Account audit task	1,378	427	228	2,033
Certification task	93	584	4	681
Tax consultancy	0	0	0	0
Other tasks	814	0	49	863
TOTAL	**2,285**	**1,011**	**281**	**3,577**

Compliance

1. Role

The function of Compliance is to ensure the integrity of the Bank's activities and the management of Compliance risks. The Compliance department ensures that Belfius, its subsidiaries, staff members, suppliers and intermediaries comply with the legislation as well as internal rules and norms applicable to Belfius.

The emphasis is principally placed on the rules relating to the protection of customers' interests, also known as rules of good conduct, such as MiFID for investment services, the protection of privacy and the prevention of conflicts of interests.

On the one hand, Compliance advises and informs management and the commercial and operational divisions of the Bank of the correct and appropriate application of the law and regulations, both within the context of establishing corporate strategy, the development of new activities, distribution channels and processes, and within the framework of specific files or transactions. To that end, it actively monitors the evolution of Belgian and international legislation, in close collaboration with the Legal department.

On the other hand, Compliance organises the independent supervision and control of the correct implementation of procedures and instructions drawn up. As such, it oversees the effectiveness of policy and proposes corrective measures if they are necessary.

2. Organisation

Compliance is organised around a central Compliance department based on 3 pillars: Business Advisors (advisory function), the Compliance Risk Control team (control function) and the anti-money laundering unit. These three teams are supported by a specific unit which frames projects at an IT and an organisational level.

The central Compliance department may also call on the services of a large network of Compliance Correspondents within the Bank's various divisions, as well as a network of Compliance Managers with the branch network. This network plays an important role, particularly in the introduction of Compliance policy and procedures as well as training and awareness in that regard.

A Compliance Officer accredited by the FSMA is at the head of the Compliance organisation. The Compliance Officer reports directly to the CEO and to the Audit Committee, and if necessary may directly approach the Chairman of the Board of Directors and the Regulator.

As provided by the regulations, the department also has a Money Laundering Reporting Officer and a Privacy Officer.

The Money Laundering Reporting Officer (MLRO) is head of the anti-money laundering team, which combats money laundering practices. Belfius does all it can not to be involved in laundering money from illegal activities, the organisation of tax fraud, financing terrorism or circumventing international embargos. To underline this commitment, the MLRO has established preventive measures and broadened controls, in accordance with the regulations. Proper knowledge of the customer and their identification, verification of the origin of financial flows on accounts and detection of dubious transactions are all vital elements in the prevention of such practices.

In particular, the Privacy Officer ensures that personal data obtained by the Bank in providing its services to its customers are processed and retained with necessary prudence and confidentiality, observing applicable regulations.

The Compliance Officer of Belfius Bank ensures that a coherent and effective Compliance policy is applied within all the subsidiary companies of Belfius Group. Belfius Bank traces out the group policy and defines the Compliance methodology to be used. Each regulated subsidiary company disposes of a Compliance Officer who is responsible for the application of the adapted policy within his/her company. These Compliance officers report functionally to the Compliance Officer of Belfius Bank.

3. Charter – Expanded powers

In order to guarantee the independence of the Compliance function, its mandate, remit, organisation and tasks are formally established in a specific Charter, approved by the Bank's Board of Directors. The Charter also grants Compliance unlimited access to all the information and all the staff members within the Bank, in relation to any analyses or controls it deems necessary.

The Compliance Charter is periodically evaluated and is expanded, where necessary, in function of the evolution of the regulations, the detection of new potential risks, and/or the adjustments of the risk appetite of Belfius Group. In recent years the scope of the Compliance function has thus been expanded to, among other things, the advice and the observance in relation to advertising, the law on market practices and the legislation concerning consumer loans and mortgages. The Charter is applicable to all regulated subsidiary companies of Belfius Group.

General information

Share capital and allocation of profit of Belfius Bank

1. Share capital and evolution of the capital during the financial year 2016

The share capital of Belfius Bank is three billion, four hundred and fifty-eight million, sixty-six thousand, two hundred and twenty-seven euros and forty-one cents (EUR 3,458,066,227.41) and is represented by 359,412,616 registered shares. The shareholding of Belfius Bank is as follows: 359,407,616 registered shares are held by the public limited company of public interest Federal Holding and Investment Company (FHIC), in its own name, but on behalf of the Belgian State, and 5,000 registered shares are held by the public limited company Certi-Fed. Certi-Fed is a fully-owned subsidiary of FHIC.

In accordance with the provisions of the law, the extraordinary general meeting of shareholders authorised the Board of Directors on 2 December 2013 to increase the capital of the Bank in one or more stages to a maximum of three billion, four hundred and fifty-eight million, sixty-six thousand, two hundred and twenty-seven euros and forty-one cents (EUR 3,458,066,227.41). That authorisation is valid for five years from publication of the resolution of the ordinary general meeting of shareholders in the Appendices to the Belgian Official Gazette, namely 10 January 2014.

No change was made to the share capital of the Bank in 2016.

2. Allocation of profit

The company results for the 2016 financial year recorded a profit of EUR 591,274,409.52. From this profit, an amount of EUR 376,274,409.52 will be allocated to reserves.

3. Annual dividend

The Board of Directors will propose to the ordinary general meeting of shareholders that it distributes a dividend of EUR 215,000,000 to the shareholders.

Belfius has paid an interim dividend of EUR 75,000,000 over the 2016 result in September 2016.

Main amendments to the scope of Belfius Bank on a statutory basis

On 20 May 2016, Belfius Bank founded Belfius Investment Partners. This new subsidiary is responsible for the administration, financial management and marketing of funds. It is situated between Belfius Bank (distribution) and Asset managers, such as Candriam. It completes the Bank's investment offer and generates new revenues by cooperating with several Asset Managers.

Belfius Bank continues to position itself in the digital landscape by participating, alongside Proximus and Bpost, in the creation of Citie, an online platform intended to support the local economy in Belgium and to strengthen our country's position on the digital map. Drawing on their own expertise and deep local roots, the three companies plan to bring shopkeepers, consumers and the local authorities closer by providing them solutions in electronic means of payment, electronic and mobile commerce, logistics and sustainable mobility.

Various operations were carried out regarding real estate or financial holdings, including:

- The disposal of its stakes in SN Airholding, a holding company that comprises Brussels Airlines, and in Kempen BC and Universitaire Bedrijvencentrum Antwerpen, two business centres that provide administrative and logistic support services to small local businesses
- The liquidation of Société Espace Léopold and the reduction of capital of Domus Flandria, two property development companies

Material litigation

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

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

With respect to certain other litigations against Belfius of which management is aware (and for which, according to the principles outlined above, no provision has been made), management is of the opinion, after due consideration of appropriate advice, that, while it is often not feasible to predict or determine the ultimate outcome of all pending litigations, such litigations are without legal merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in Belfius Statutory and Consolidated Financial Statements.

The most important cases are listed below, regardless of whether a provision has been made or not. Their description does not deal with elements or evolutions that do not have an impact on the position of Belfius. If the cases listed below were to be successful for the opposite parties, they could eventually result in monetary consequences for Belfius. Such impact remains unquantifiable at this stage.

1. Housing Fund of the Brussels Capital Region

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

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

There was no significant evolution in this claim during 2016.

No provision has been made for this claim.

2. BBTK and ACLVB

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

For procedural reasons with no impact on the merits of the case, on 26 November 2015, the labour court postponed the hearing first to 20 October 2016 and then again to 6 February 2017. Eventually, the case was pleaded on the hearing of 6 February 2017. At this hearing, the president of the labour court requested an opinion from the Labour Prosecutor in this case.

The Labour Prosecutor issued his opinion on 17 March 2017. This opinion is not binding for the labour court. The Prosecutor considers that Belfius Bank did not breach the right to collective bargaining, but states that the new "Plan Belfius 2016" cba's should be declared as "inexistent" based on a legal technical interpretation of certain form requirements from the CBA Act. Belfius Bank has valid arguments to refute the argumentation from the Prosecutor and will put everything in place to defend itself.

No provision has been recorded for this procedure as Belfius Bank remains confident that it has enough valid arguments to obtain a final settlement of this dispute in its favour and prove that the CBA Act was respected.

The judgment of the labour court in first instance is expected before 30 June 2017.

3. Arco – Cooperative shareholders

Belfius Bank has been summoned by Arco-shareholders in two separate procedures, whereby one procedure before the Commercial Court of Brussels and another procedure before the Court of First Instance of Turnhout:

→ On 30 September 2014, 737 shareholders from 3 companies of the Arco Group (Arcopar, Arcoplus and Arcofin) summoned Belfius Bank, together with the 3 aforementioned Arco companies, before the Brussels Commercial Court. Principally, they demand the annulment of their agreement to join the capital of these 3 companies as shareholder, based on deception or fallacy. They demand that the Court orders Belfius Bank in solidum with each of the 3 above mentioned Arco companies to repay their capital contributions, increased by interest and compensation. On an ancillary basis, they applied to the Commercial Court to order Belfius Bank to pay compensation based on an alleged shortcoming

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in its information duty towards them. Because the file submitted by the individual shareholders lacks information with respect to proof and assessment of damages, Belfius cannot assess the content of the claim and has to reject it.
On 16 December 2014, 1,027 shareholders and on 15 January 2016, 466 other shareholders of the 3 above mentioned Arco companies joined the summons on a voluntary basis. Belfius has asked for their files so that it can evaluate the content of their claim.
On 17 December 2015, 2,169 shareholders of the 3 above mentioned Arco companies issued a writ to the Belgian State for compulsory intervention. They demand that the Commercial Court orders the Belgian State to pay compensation based on the alleged illegality of the guarantee scheme the Belgian State enacted in favour of Arco shareholders. This demand is subordinated to their claims against Belfius Bank and has no negative impact on Belfius Bank.
There was no further significant evolution in this claim during 2016.

→ Belfius Bank has also been summoned by three Arco-shareholders (Arcopar) on the 24 October 2016 to appear before the Court of First Instance of Turnhout. The claimants demand a compensation from Belfius Bank on the basis of a contractual, or at least an extra-contractual responsibility, because they find that Belfius Bank has given them misleading or at least incorrect advice.
Belfius' defense is currently being prepared, whereby the main objective is to show that Belfius Bank in this has committed no mistake at all. The case will possibly be pleaded before the Court of First Instance of Turnhout on 18 December 2017.

No provision has been made for these claims because Belfius Bank is of the opinion that she has sufficient valid arguments to convince the court to declare these claims inadmissible and/or without foundation.

4. Ethias

In their new proposal of profit sharing regulations Ethias claims unilaterally from Belfius Bank an exorbitant increase of costs for the management of a certain Belfius Bank group insurance. However, this is not in accordance with the existing agreements. In view of Belfius Bank's refusal on this increase, Ethias threatened to transfer unilaterally the pension plan assets which are currently managed in a separate fund towards Ethias' main fund. If Ethias should transfer the pension plan assets into their main fund, Belfius Bank would be compelled to evaluate these assets based on Ethias' guaranteed rates with a negative OCI impact as a consequence.

In order to prevent this, Belfius Bank has summoned Ethias before the Court in Brussels in summary proceedings on 23 December 2016. The judge has, via an injunction, prohibited Ethias from transferring the pension plan assets in their main fundEthias, has filed an appeal against this injunction. The appeal will be pleaded on 4 April 2017.

Belfius Bank has, on the basis of the existing agreements, also filed a procedure against Ethias to the Commercial Court of Brussels in order to prohibit Ethias to increase the management fees and to transfer unilaterally the pension plan assets towards Ethias' main fund.

The valuation of the assets remains end 2016 marked-to-market, consequently there's no OCI impact.

Declaration of transparency

Transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

Pursuant to Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (referred to below as the "Transparency Directive") and to Directive 2007/14/EC of 8 March 2007 laying down detailed rules for the implementation of certain provisions of the Transparency Directive, Belfius Bank SA has chosen Luxembourg as its Home Member State, in particular for the purpose of centralisation of the financial information to be provided under the Transparency Directive.

Belfius Bank is not the only entity within the group to be subject to the Transparency Directive. Belfius Funding (ex-DFN) issued bonds listed on the Luxembourg Stock Exchange and, when the choice was made in 2009, this was also the case for Belfius Financing Company. These two entities merged on 7 May 2014, Belfius Financing Company (Lux) absorbing Belfius Funding (ex-DFN).

As issue vehicles were not situated in Belgium, the choice of Luxembourg as Home Member State was obvious (the listed issues were all in Luxembourg).

The Transparency Directive has been transposed into Luxembourg law by:

→ the Luxembourg law of 11 January 2008 relative to transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market;
→ the Grand Ducal Regulation of 3 July 2008 officially designating the mechanisms for the central storage of regulated information within the meaning of the law of 11 January 2008; and
→ the CSSF Circular No. 08/337 from the Financial Sector Supervisory Commission.

The aforementioned regulation lays down certain requirements regarding information and the publication of data.

Pursuant to article 3.(2) of the Luxembourg law relative to transparency requirements incumbent upon the issuers of securities, the Management Board at Belfius Bank then stated that:

- Belfius Bank has chosen Luxembourg as its Home Member State;
- to the best of its knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and the profit or loss of the issuer and of all the undertakings included in the consolidation;
- to the best of its knowledge, the management report includes a fair review of the development and performance of the business and the position of the issuer and all the undertakings included in the consolidation, together with a description of the principal risks and uncertainties that they face.

Country-by-country reporting

Based on article 6bis of the Royal Decree dated 23 September 1992, regarding the consolidated financial statements of financial institutions, Belfius discloses the following information on a consolidated basis, split by country in which Belfius has an establishment (branch and/or subsidiary).

Countries	Activity	31/12/15				
		Turnover[1] (in thousands of EUR)	Average FTE[2]	Net income before tax (in thousands of EUR)	Tax expense (in thousands of EUR)	Public subsidies received (in thousands of EUR)
BELGIUM	BANK AND INSURANCE	2,112,298	6,430	672,750	(181,866)	
MEMBER STATE		71,564	89	9,198	5,993	0
Luxembourg	Other financial services and insurance activities	36,001	79	21,430	5,898	0
Ireland	Other financial services and insurance activities	35,563	10	(12,232)	95	0
TOTAL		2,183,862	6,519	681,948	(175,873)	0

Countries	Activity	31/12/16				
		Turnover[1] (in thousands of EUR)	Average FTE[2]	Net income before tax (in thousands of EUR)	Tax expense (in thousands of EUR)	Public subsidies received (in thousands of EUR)
BELGIUM	BANK AND INSURANCE	2,402,943	6,346	986,863	(236,760)	
MEMBER STATE		(143,672)	13	(207,339)	(7,512)	0
Luxembourg	Other financial services and insurance activities	(5,836)	4	(13,359)	(7,673)	0
Ireland	Other financial services and insurance activities	(137,836)	9	(193,980)	161	0
TOTAL		2,259,271	6,359	779,524	(244,272)	0

(1) Based on "Income" from the Consolidated statement of income in the Annual report.
(2) Disclosed in the Annual report in the note 7.9 "Staff expense".

Consolidated financial statements

as at 31 December 2016

Consolidated balance sheet

Assets (In thousands of EUR)		Notes	31/12/15	31/12/16
I.	Cash and balances with central banks	5 2.	576,276	5,111,050
II.	Loans and advances due from banks	5.3.	24,318,002	22,002,553
III.	Loans and advances to customers	5.4.	87,189,152	89,702,399
IV.	Investments held to maturity	5.5.	5,017,155	5,393,247
V.	Financial assets available for sale	5.6.	19,733,565	18,819,789
VI.	Financial assets measured at fair value through profit or loss	5.7.	3,222,991	2,985,979
VII.	Derivatives	5.9.	25,943,567	25,307,222
VIII.	Fair value revaluation of portfolio hedge		4,372,902	4,533,779
IX.	Investments in equity method companies	5.10.	106,775	97,044
X.	Tangible fixed assets	5.11.	1,199,789	1,091,687
XI.	Intangible assets	5.12.	81,941	122,541
XII.	Goodwill	5.13.	103,966	103,966
XIII.	Current tax assets		6,116	10,662
XIV.	Deferred tax assets	5.14.	565,622	405,847
XV.	Other assets	5.15.	1,169,777	1,004,389
XVI.	Non current assets (disposal group) held for sale and discontinued operations	5 16	3,354,528	28,772
TOTAL ASSETS			176,962,124	176,720,926

Liabilities (In thousands of EUR)		Notes	31/12/15	31/12/16
I.	Due to banks	6.1.	11,537,622	12,581,830
II.	Customer borrowings and deposits	6.2.	68,162,754	74,171,040
III.	Debt securities	6.3.	27,777,552	23,981,430
IV.	Financial liabilities measured at fair value through profit or loss	6.4.	6,916,469	7,524,251
V.	Technical provisions of insurance companies	6.5.	16,688,571	15,990,324
VI.	Derivatives	5 9.	30,060,085	29,572,521
VII.	Fair value revaluation of portfolio hedge		226,472	207,474
VIII.	Provisions and contingent liabilities	6.6.	405,543	412,243
IX.	Subordinated debts	6.7.	913,004	1,398,653
X.	Current tax liabilities		42,369	60,609
XI.	Deferred tax liabilities	5.13.	271,967	272,877
XII.	Other liabilities	6.8	2,056,561	1,535,952
XIII.	Liabilities included in disposal group and discontinued operations	6.9	3,243,438	0
TOTAL LIABILITIES			168,302,407	167,709,206

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Equity

(In thousands of EUR)	Notes	31/12/15	31/12/16
XIV. Subscribed capital		3,458,066	3,458,066
XV. Additional paid-in capital		209,232	209,232
XVI. Treasury shares		0	0
XVII. Reserves and retained earnings		4,135,228	4,491,306
XVIII. Net income for the period		506,076	535,229
CORE SHAREHOLDERS' EQUITY		**8,308,602**	**8,693,833**
XIX. Remeasurement available-for-sale reserve on securities		757,329	729,864
XX. Frozen fair value of financial assets reclassified to loans and advances		(544,177)	(498,653)
XXI. Remeasurement defined benefit plan		119,611	86,990
XXII. Discretionary participation features of insurance contracts	6.5.	28,788	32,839
XXIII. Other reserves		(11,462)	(33,326)
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		**350,089**	**317,714**
TOTAL SHAREHOLDERS' EQUITY		**8,658,691**	**9,011,547**
XXIV. Non-controlling interests		1,026	173
TOTAL EQUITY		**8,659,717**	**9,011,720**
TOTAL LIABILITIES AND EQUITY		**176,962,124**	**176,720,926**

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Consolidated statement of income

(In thousands of EUR)		Notes	31/12/15	31/12/16
I.	Interest income	7.1.	4,672,441	3,983,201
II.	Interest expense	7.1.	(2,648,756)	(2,039,969)
III.	Dividend income	7.2.	61,647	88,233
IV.	Net income from equity method companies	7.3.	8,292	5,018
V.	Net income from financial instruments at fair value through profit or loss	7.4.	37,732	16,870
VI.	Net income on investments and liabilities	7.5.	14,180	115,710
VII.	Fee and commission income	7.6.	601,668	625,109
VIII.	Fee and commission expense	7.6.	(104,668)	(117,639)
IX.	Premiums and technical income from insurance activities	6.5.	1,444,631	1,479,376
X.	Technical expense from insurance activities	6.5.	(1,730,512)	(1,734,155)
XI.	Other income	7.7.	138,992	218,785
XII.	Other expense	7.8.	(311,785)	(381,267)
INCOME			2,183,862	2,259,271
XIII.	Staff expense	7.9.	(610,419)	(580,201)
XIV.	General and administrative expense	7.10.	(432,834)	(447,364)
XV.	Network costs		(275,993)	(265,994)
XVI.	Depreciation and amortisation of fixed assets	7.11.	(77,205)	(72,722)
EXPENSES			(1,396,451)	(1,366,281)
GROSS OPERATING INCOME			787,411	892,990
XVII.	Impairments on financial instruments and provisions for credit commitments	7.12.	(92,665)	(115,969)
XVIII.	Impairments on tangible and intangible assets	7.13.	(12,798)	2,502
XIX.	Impairments on goodwill	7.14.	0	0
NET INCOME BEFORE TAX			681,948	779,524
XX.	Current tax (expense) income	7.15	(61,135)	(56,522)
XXI.	Deferred tax (expense) income	7.15	(114,738)	(187,750)
NET INCOME AFTER TAX			506,075	535,251
XXII.	Discontinued operations (net of tax)		0	0
NET INCOME			506,075	535,251
Attributable to non-controlling interests			(1)	23
Attributable to equity holders of the parent			506,076	535,229

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Analysis of the consolidated statement of income

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

Consolidated statement of comprehensive income

(In thousands of EUR)	31/12/15 Before-tax amount	31/12/15 Tax (expense) income	31/12/15 Net-of-tax amount	31/12/16 Before-tax amount	31/12/16 Tax (expense) income	31/12/16 Net-of-tax amount
RESULT RECOGNISED IN THE STATEMENT OF INCOME	**681,948**	**(175,873)**	**506,075**	**779,524**	**(244,272)**	**535,251**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS						
Unrealised result of property revaluation	(2)		(2)	(2)		(2)
Remeasurement defined benefit plan[1]	32,778	(11,141)	21,637	(49,418)	16,797	(32,621)
TOTAL OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS	**32,776**	**(11,141)**	**21,635**	**(49,421)**	**16,797**	**(32,623)**
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS						
Unrealised gains (losses) on available-for-sale financial investments and "frozen" fair value amortisation of financial assets reclassified to Loans and Advances[2]	225,522	(31,092)	194,430	3,899	14,160	18,059
Gains (losses) on cash flow hedges	(19,695)	(183)	(19,878)	(4,858)	1,080	(3,778)
Other comprehensive income from assets held for sale[3]	26,453	(8,369)	18,084	(26,453)	8,369	(18,084)
Discretionary participation features of insurance contracts	22,148	(5,706)	16,442	8,002	(3,950)	4,051
TOTAL OF OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS	**254,428**	**(45,350)**	**209,078**	**(19,411)**	**19,659**	**249**
OTHER COMPREHENSIVE INCOME	**287,204**	**(56,491)**	**230,713**	**(68,831)**	**36,457**	**(32,375)**
TOTAL COMPREHENSIVE INCOME	**969,152**	**(232,364)**	**736,788**	**710,692**	**(207,816)**	**502,877**
Attributable to equity holders of the parent			736,790			502,854
Attributable to non-controlling interests			(2)			23

(1) A significant decrease in Other Comprehensive Income can be noted of the remeasurement of the defined benefit plans due to the decrease of discount rates compared to 2015.
(2) The significant decrease in Other Comprehensive Income is mainly linked to sales within the Belfius Insurance portfolio as well as the shadow accounting adjustment (became more negative) due to the interest rate evolution combined with some methodological refinements.
(3) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016 to Foyer SA.

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Consolidated statement of change in equity

Core shareholders’ equity (In thousands of EUR)	Subscribed capital	Additional paid-in capital	Reserves and retained earnings	Net income for the period	Core shareholders’ equity
AS AT 31 DECEMBER 2014	3,458,066	209,232	3,675,506	461,642	7,804,446
Movements of the period					
Transfers to reserves	0	0	461,642	(461,642)	0
Variation of scope of consolidation	0	0	(1,069)	0	(1,069)
Other movements	0	0	(851)	0	(851)
Net income for the period	0	0	0	506,076	506,076
AS AT 31 DECEMBER 2015	3,458,066	209,232	4,135,228	506,076	8,308,602

Gains and losses not recognised in the statement of income	Unrealised result that may be reclassified subsequently to profit and loss					Unrealised result that will not be reclassified to profit and loss		Total gains and losses not recognised in profit and loss - Group share
(In thousands of EUR)	Remeasurement available-for-sale reserve on securities	Frozen fair value of financial assets reclassified to loans and advances	Derivatives - Cash Flow Hedge (CFH)	Other comprehensive income from assets held for sale	Discretionary participation features of insurance contracts[1]	Unrealised result of property revaluation	Remeasurement defined benefit plan	
AS AT 31 DECEMBER 2014	604,176	(585,455)	(9,887)	0	12,346	221	97,975	119,376
Movements of the period								
Net change in fair value through equity - Available-for-sale investments	75,916	0	0	0	16,442	0	0	92,358
Transfers to income of available-for-sale reserve amounts due to impairments	562	0	0	0	0	0	0	562
Transfers to income of available-for-sale reserve amounts due to disposals	(59,053)	11,428	0	0	0	0	0	(47,625)
Amortisation of net fair value on reclassified portfolio in application of IAS 39 amended	0	32,903	0	0	0	0	0	32,903
Net change in fair value through equity - Cash flow hedges	0	0	(19,793)	0	0	0	0	(19,793)
Net change in cash flow hedge reserve due to transfers to income	0	0	(85)	0	0	0	0	(85)
Transfers to technical provisions of insurance companies[2][3]	150,380	379	0	0	0	0	0	150,759
Provisions booked from/to equity	0	0	0	0	0	0	21,636	21,636
Transfers[4]	(14,652)	(3,432)	0	18,084	0	(2)	0	(2)
AS AT 31 DECEMBER 2015	757,329	(544,177)	(29,765)	18,084	28,788	219	119,611	350,089

(1) Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return on insurance contracts (life).
(2) These transfers concern amounts after tax as a result of the application of Shadow Accounting, whereby part of the unrealised profits from financial assets available for sale is used as cover value for the payments of the obligations for insurance contracts and is therefore transferred to the technical reserves for insurance contracts.
(3)The technical provisions of associates are not included in the consolidated balance sheet.
(4) On1 January 2015, Belfius decided to reclass an additional EUR 1.5 billion bonds from "Financial assets available for sale" to "Investments held to maturity". It concerns mainly bonds issued by the Belgian and French governments. This reclassification was the result of a change in management intention. We refer to the note 5.8 "Reclassification of financial assets". In addition, the reclassification to "Other comprehensive income from assets held for sale" can be noted due to the classification of the Insurance subsidiary "International Wealth Insurer" as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations".

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Non-controlling interests

(In thousands of EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 31 DECEMBER 2014	**2,775**	**0**	**2,775**
Movements of the period			
Dividends	(858)		(858)
Net income for the period	(1)		(1)
Variation of scope of consolidation	(916)		(916)
Other movements	26		26
AS AT 31 DECEMBER 2015	**1,026**	**0**	**1,026**

(In thousands of EUR)	
Core shareholders' equity	8,308,602
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	350,089
Non-controlling interests	1,026
TOTAL EQUITY AS AT 31 DECEMBER 2015	**8,659,717**

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Core shareholders' equity (In thousands of EUR)	Subscribed capital	Additional paid-in capital	Reserves and retained earnings	Net income for the period	Core shareholders' equity
AS AT 31 DECEMBER 2015	3,458,066	209,232	4,135,228	506,076	8,308,602
Movements of the period					
Transfers to reserves	0	0	431,076	(431,076)	0
Dividends(1)	0	0	0	(75,000)	(75,000)
Interim dividends(2)	0	0	(75,000)	0	(75,000)
Other movements	0	0	2	0	2
Net income for the period	0	0	0	535,229	535,229
AS AT 31 DECEMBER 2016	3,458,066	209,232	4,491,306	535,229	8,693,833

(1) Belfius has paid a dividend of EUR 75 million over the 2015 result in May 2016.
(2) Belfius has paid an interim dividend of EUR 75 million over the 2016 result in September 2016.

Gains and losses not recognised in the statement of income	Unrealised result that may be reclassified subsequently to profit and loss					Unrealised result that will not be reclassified to profit and loss		Total gains and losses not recognised in profit and loss - Group share
(In thousands of EUR)	Remeasurement available-for-sale reserve on securities	Frozen fair value of financial assets reclassified to loans and advances	Derivatives - Cash Flow Hedge (CFH)	Other comprehensive income from assets held for sale	Discretionary participation features of insurance contracts(1)	Unrealised result of property revaluation	Remeasurement defined benefit plan	
AS AT 31 DECEMBER 2015	757,329	(544,177)	(29,765)	18,084	28,788	219	119,611	350,089
Movements of the period								
Net change in fair value through equity – Available-for-sale investments(2)	188,269	0	0	0	7,711	0	0	195,980
Transfers to income of available-for-sale reserve amounts due to impairments	4,181	9,407	0	0	0	0	0	13,588
Transfers to income of available-for-sale reserve amounts due to disposals(3)	(106,290)	17,285	0	0	0	0	0	(89,005)
Amortisation of net fair value on reclassified portfolio in application of IAS 39 amended	0	19,212	0	0	0	0	0	19,212
Net change in fair value through equity – Cash flow hedges	0	0	(3,683)	0	0	0	0	(3,683)
Net change in cash flow hedge reserve due to transfers to income	0	0	(95)	0	0	0	0	(95)
Variation of scope of consolidation(4)	0	0	0	(18,084)	(3,660)	0	0	(21,744)
Transfers to technical provisions of insurance companies(5)(6)	(113,625)	(380)	0	0	0	0	0	(114,005)
Provisions booked from/to equity(7)	0	0	0	0	0	0	(32,621)	(32,621)
Transfers	0	0	0	0	0	(2)	0	(2)
AS AT 31 DECEMBER 2016	729,864	(498,653)	(33,543)	0	32,839	217	86,990	317,714

(1) Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return on insurance contracts (life).
(2) Due to the slight decrease of the interest rate compared to year-end 2015 and the improved credit spreads the Available-for-sale-reserve increased with EUR 188 million.
(3) A significant decrease following the sales of bonds and securities can be noted. This is mainly related to continued derisking at the level of Belfius bank (mainly Spanish covered bonds in the legacy bond portfolio) as well as sales within the Belfius Insurance portfolio (mainly Belgian Government bonds and equity and fund positions) following rebalancing of the portfolio and surrenders.
(4) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016 to Foyer SA.
(5) These transfers concern amounts after tax as a result of the application of Shadow Accounting, whereby part of the unrealised profits from financial assets available for sale is used as cover value for the payments of the obligations for insurance contracts and is therefore transferred to the technical reserves for insurance contracts.
(6) The technical provisions of associates are not included in the consolidated balance sheet.
(7) A decrease can be noted in OCI with respect to the remeasurement of the defined benefit plan following the lower discount rates compared to year-end 2015 (resulting from the decrease in interest rates).

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Non-controlling interests (In thousands of EUR)	Core shareholders' equity	Gains and losses not recognised in the statement of income	Non-controlling interests
AS AT 31 DECEMBER 2015	1,026	0	1,026
Movements of the period			
Dividends	(20)		(20)
Net income for the period	23		23
Variation of scope of consolidation	(856)		(856)
Other movements			0
AS AT 31 DECEMBER 2016	173	0	173

(In thousands of EUR)	
Core shareholders' equity	8,693,833
Gains and losses not recognised in the statement of income attributable to equity holders of the parent	317,714
Non-controlling interests	173
TOTAL EQUITY AS AT 31 DECEMBER 2016	9,011,720

Equity	31/12/15	31/12/16
BY CATEGORY OF SHARE		
Number of shares issued and fully paid	359,412,616	359,412,616
Number of shares issued and not fully paid	0	0
Earnings per share (EUR)	1,41	1,49
NOMINAL VALUE PER SHARE	no nominale value	no nominale value
Outstanding as at 1 January	359,412,616	359,412,616
Number of shares issued	0	0
Number of shares cancelled	0	0
Outstanding as at 31 December	359,412,616	359,412,616
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital	0	0
Number of treasury shares	0	0
Number of shares reserved for issue under stock options and contracts for the sale of share	0	0

Shared-based payments

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

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

(In thousands of EUR)	31/12/15	31/12/16
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after tax	506,075	535,251
Adjustment for:		
Depreciation, amortisation and other impairment	104,685	84,991
Impairment on bonds, equities, loans and other assets	(3,522)	104,689
Net (gains) or losses on investments	(73,144)	(52,653)
Increase / (decrease) of provisions (mainly insurance provision)	(842,412)	(859,840)
Unrealised (gains) or losses	(6,271)	27,727
Income from equity method companies	(8,292)	(5,018)
Dividends from equity method companies	5,029	3,822
Deferred taxes	114,738	187,750
Changes in operating assets and liabilities(1)	4,908,909	2,709,118
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,705,795	2,735,837
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(144,538)	(167,630)
Sales of fixed assets	157,806	153,318
Acquisitions of unconsolidated equity shares	(391,325)	(391,896)
Sale of unconsolidated equity shares	316,879	355,226
Acquisition of subsidiaries and of business units	(8,651)	(3)
Sale of subsidiaries and of business units(2)	0	59,810
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(69,829)	8,826
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of subordinated debts(3)	0	500,000
Reimbursement of subordinated debts(4)	(315,000)	(4,321)
Dividends paid(5)	(2,084)	(75,020)
Interim dividends paid(6)	0	(75,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(317,084)	345,659
NET CASH PROVIDED	4,318,882	3,090,321
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3,009,728	7,328,610
Cash flow from operating activities	4,705,795	2,735,837
Cash flow from investing activities	(69,829)	8,826
Cash flow from financing activities	(317,084)	345,659
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7,328,610	10,418,931
ADDITIONAL INFORMATION		
Income tax paid (included in line net cash provided (used) by operating activities)	(42,116)	(40,091)
Dividends received (included in line net cash provided (used) by operating activities)	66,741	91,272
Interest received (included in line net cash provided (used) by operating activities)	4,847,579	4,610,090
Interest paid (included in line net cash provided (used) by operating activities)	(3,093,551)	(2,691,522)

(1) The significant decrease of "Changes in operating assets and liabilities" is mainly the result of a decrease in reverse repurchase agreements within the treasury management of Belfius in 2016.
(2) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016 to Foyer SA. A discription is provided in annex 10.2.
(3) Belfius has issued in May 2016 a subordinated bond for EUR 500 million qualifying as additional regulatory capital Tier 2. It concerns a ten year fixed bond issue at 3.125% with no call nor coupon deferral.
(4) Belfius has reimbursed subordinated bonds for EUR 315 million in 2015.
(5) Belfius has paid a dividend of EUR 75 million over the 2015 result en mai 2016.
(6) Belfius has paid an interim dividend of EUR 75 million over the 2016 result in September 2016.

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

The notes on pages 105 to 221 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

II. Post-balance-sheet events

1. Dividend

The Board of Directors of 31 March 2017, has proposed to the General Assembly of 26 April 2017 an ordinary dividend of EUR 215 million in respect of the accounting year 2016, of which EUR 75 million was already paid via an interim dividend in September 2016.

2. End of Side as analytical segment and integration in Group Center.

Since its separation from the Dexia group end 2011, Belfius has separated its financial accounts into two segments: Franchise, i.e. Belfius' core business lines (bank and insurance), and Side, i.e. Belfius' non-core assets and exposures, mainly financial products such as bonds and structured credit guarantees. Since end 2011, Belfius has actively executed a tactical de-risking program with respect to its Side portfolios, resulting in a strong decrease of outstanding volumes and a positive evolution of the portfolios' key risk indicators. Thanks to these continued efforts, the risk profile of Side has been brought in line with the risk profile of Franchise. Hence, as from 1 January 2017 onwards, Belfius will integrate the remainder of Side into Franchise (i.e. Group Center) and will no longer separate its financial reporting into the segments Franchise and Side.

Belfius achieved its goal in meeting the side portfolios' risk profile targets. However, the target Non Investment Grade share was not complied with for legacy bonds due to US RMBS bonds. Note that end February, Belfius has sold EUR 95 million of these US RMBS transactions with a limited P&L impact.

3. Adaption of the documentation of subordinated debt instruments held by Arcopar

Belfius Bank and Arcopar have converted the documentation of the bilateral subordinated perpetual loans (issued by Belfius Bank and held by Arcopar, for EUR 85 million notional in total) to a documentation under EMTN program, in order to increase the marketability and liquidity of these instruments. This was part of the contract signed with Arco at year-end 2016. Belfius is surety holder of these notes. The agreement also included, among others, a potential purchase by Belfius of an additional stake in Auxipar, which is still under analysis.

4. Changes in issued subordinated debts

Calls on 2 issued subordinated debts have been notified to investors. Belfius has paid back the par amount of EUR 20 million on 1 March 2017 and will pay the par amount of EUR 20 million on 2 April 2017.

Furthermore, Belfius issued on 17 February 2017 a second tranche for a nominal value of EUR 50 million of the subordinated debt of May 2016 (CRR/CRD IV eligible as Tier2 capital) , with maturity date 11 May 2026, a fixed interest rate of 3.125% and no call date nor coupon deferral.

5. BBTK and ACLVB

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

For procedural reasons with no impact on the merits of the case, on 26 November 2015, the labour court postponed the hearing first to 20 October 2016 and then again to 6 February 2017. Eventually, the case was pleaded on the hearing of 6 February 2017. At this hearing, the president of the labour court requested an opinion from the Labour Prosecutor in this case.

The Labour Prosecutor issued his opinion on 17 March 2017. This opinion is not binding for the labour court. The Prosecutor considers that Belfius Bank did not breach the right to collective bargaining, but states that the new "Plan Belfius 2016" cba's should be declared as "inexistent" based on a legal technical interpretation of certain form requirements from the CBA Act. Belfius Bank has valid arguments to refute the argumentation from the Prosecutor and will put everything in place to defend itself.

No provision has been recorded for this procedure as Belfius Bank remains confident that it has enough valid arguments to obtain a final settlement of this dispute in its favour and prove that the CBA Act was respected.

The judgment of the labour court in first instance is expected before 30 June 2017.

III. Accounting principles on a consolidated basis

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Notes to the financial statements

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The common used abbreviations below are:

- **IASB**: International Accounting Standards Board
- **IFRIC**: Interpretation issued by the IFRS Interpretations Committee
- **IFRS**: International Financial Reporting Standards

In the following text, "Belfius" refers to "Belfius Bank & Insurance", previously Dexia Bank Belgium.

The financial statements have been approved by the Board of Directors of Belfius on 22 February 2017.

Accounting policies

1. Basis of accounting

1.1. General

The consolidated financial statements of Belfius are prepared in accordance with all IFRSs as adopted by the EU.

The financial statements of Belfius have therefore been prepared "in accordance with all IFRS as adopted by the EU" and endorsed by the European Commission up to 31 December 2016 including the conditions applicable to interest-rate portfolio hedging.

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

The consolidated financial statements are prepared on a going-concern basis. They are expressed in thousands of euro (EUR) unless otherwise stated.

1.2. Accounting estimates and judgements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses information available at the date of preparation of the financial statements and exercises its judgement. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the financial statements.

Judgements are made principally in the following areas:

- classification of financial instruments into the appropriate category "loans and receivables", "held to maturity", "available for sale", "held for trading" and "financial assets measured at fair value through profit or loss" for measurement purposes based on the instrument's characteristics and the intentions of Belfius (see section 6.);
- determination of whether there is an active market or not based on criteria such as volume, actual trade, market liquidity, bid offer spread for financial instruments measured at fair value (see section 6.11.);
- determination of fair value for financial instruments measured at fair value by means of valuation techniques (see section 6.11.);
- determination on whether Belfius (jointly) controls the investee or has significant influence over the investee : this control assessment considers all facts and circumstances, such as voting rights, potential voting rights, rights of the investor, type of activity (see section 3.);
- identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5) (see section 14.);
- the appropriateness of designating derivatives as hedging instruments (see section 6.7.);
- existence of a present obligation with probable outflows in the context of litigations (see section 18.);
- identification of impairment triggers (see section 6.6.);
- classification of a financial instrument or its component parts as a financial liability or equity is based on the economic substance rather than the legal form of the instrument or its component (see section 6.9.).

These judgements are discussed in the corresponding sections (as referenced above) of the accounting policies.

Estimates are principally made in the following areas:

- determination of the recoverable amount of impaired financial assets and fair value less costs to sell for non-current assets and disposal groups held for sale (see section 6.6. and 14.);
- determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets (see section 11. and 12.);
- determination of the market value correction to adjust for market value and model uncertainty (see section 6.11.);
- measurement of liabilities for insurance contracts (see section 9.);
- the measurement of hedge effectiveness in hedging relations (see section 6.7.2. and 6.7.);
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see section 17. and note 6.7.);
- estimate of future taxable profit for the recognition and measurement of deferred tax assets (see section 16.);
- estimate of the recoverable amount of cash-generating units for goodwill impairment (see section 12.2.).

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

The overview of the texts below is made until the reporting date of 31 December 2016

Management report

Consolidated financial statements

Non-consolidated financial statements

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

Standards with impact for Belfius (already communicated in the half-yearly report)

Nihil.

Standards with no impact for Belfius (already communicated in the half-yearly report)

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

Standards not applicable for Belfius (already communicated in the half-yearly report)

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

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

Standards under analysis

- IFRS 15 "Revenue from Contracts with Customers" and "Effective date of IFRS 15". IFRS 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 will be effective from 1 January 2018. IFRS 15 introduces more prescriptive guidance than previously included in IAS 18, IAS 11 and related interpretations. This will impact Belfius as the timing of revenue recognition may change. The analysis is ongoing.
- IFRS 9 "Financial Instruments" (cf. paragraph 2.4).

Standards with no impact

- "Investment Entities: Applying the Consolidation Exception (amendments to IFRS 10, IFRS 12 and IAS 28)": these amendments address three issues arising in practice in the application of the investment entities consolidation exception. These amendments have no impact for Belfius.

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

Standards under analysis

- IFRS 16 "Leases" eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. According to this model, a lessee is required to recognise:
  - assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  - depreciate lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and account for those two types of leases differently. IFRS 16 will be effective from 1 January 2019 and is not expected to have a material impact for Belfius.
- "Clarifications to IFRS 15 Revenue from Contracts with Customers" adds clarifications in the areas of identifying performance obligations, principal versus agent, licensing application guidance and introduces additional practical expedients for entities transitioning to IFRS 15. The amendments will be effective from 1 January 2018. The clarifications on the principal versus agent consideration and the identification of performance obligations might impact Belfius in its global impact assessment. The analysis is ongoing.
- Amendments to IFRS 4 (future IFRS 17 Insurance Contracts) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" provide two voluntary options (a temporary exemption from IFRS 9 versus the overlay approach) to mitigate the issues arising for insurers due to the effective date of IFRS 9 falling before that of the upcoming Insurance Standard. The temporary exemption is available for entities engaged predominantly in insurance activities and defers the application of IFRS 9 until the earlier of the application of the new Insurance Standard or periods beginning on or after 1 January 2021. The overlay approach, which is available on an asset-by asset basis, provides entities with contracts in scope of IFRS 4 the option of applying IFRS 9 in full and to present changes in fair value on qualifying designated financial assets in other comprehensive income instead of profit or loss. Belfius will not apply the temporary exemption and the overlay approach is under study within the scope of the global IFRS 9 project.

Standards with impact for Belfius

- Amendments to "IAS 12: Recognition of Deferred Tax Assets for Unrealised Loss" clarify how to account for deferred tax assets related to debt instruments measured at fair value. This amendment will be effective from 1 January 2017 and might impact Belfius.
- Amendments to "IAS 7: Disclosure Initiative" require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment will be effective from 1 January 2017 and may impact Belfius.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" clarifies the exchange rate to use when accounting for

transactions that include the receipt or payment of advance consideration in a foreign currency. This IFRIC will be effective from 1 January 2018 and might impact Belfius.

Standards with no impact

- "Annual Improvements to IFRSs 2014-2016 Cycle", which are a collection of amendments to existing International Financial Reporting Standards. These amendments will be effective from 1 January 2017 (amendments to IFRS 12) and 1 January 2018 (amendments to IFRS 1 and IAS 28). These amendments have no impact for Belfius.
- Amendments to IAS 40 "Transfers of Investment Property" clarify the requirements on transfers to, or from, investment property. These amendments will be effective from 1 January 2018 but have no impact for Belfius.

Standards not applicable for Belfius

- Amendments to IFRS 2 related to "Classification and Measurement of Share-based Payment Transactions" deal with the following topics: vesting conditions, net settlement features and modifications to the terms and conditions. These amendments will be effective from 1 January 2018.

2.4. IFRS 9 "Financial instruments"

2.4.1. Theoretical background

IFRS 9 "Financial Instruments" was published in 2014 and combines all aspects of accounting for financial instruments: classification and measurement, impairment and micro hedge accounting. IFRS 9 also introduces a package of improved disclosures. The standard will be effective from 1 January 2018 and replaces IAS 39.

The major impact of IFRS 9 is in the "classification and measurement" and "impairment" of financial instruments.

Classification and measurement

According to IFRS 9, the classification and measurement of financial assets is based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics.

IFRS 9 introduces the following categories for the measurement of financial assets. The methods for the measurements are:

- Fair value through other comprehensive income – financial assets will be classified into this category if the assets meet the SPPI test and it is management's intent to hold the assets to collect contractual cash flows and to sell the assets.
- Amortised cost – financial assets will be classified into this category if the assets meet the SPPI test and it is management's intent to only hold the assets to collect contractual cash flows.
- Fair value through profit or loss – financial assets that do not fall within the two categories above will be classified into fair value through profit or loss.

Financial assets can be designated at fair value through profit or loss if it eliminates, or significantly reduces, an accounting mismatch in profit or loss.

Equity instruments are always classified at fair value through profit or loss. IFRS 9 allows entities to make an irrevocable decision to classify equity instruments at fair value through other comprehensive income. If the option is selected by the entity, all subsequent movements on the equity instrument will be accounted for directly in other comprehensive income, with the only exception being dividend income, which will still be accounted for in profit or loss.

Financial assets that have embedded derivative will no longer be accounted for separately. Instead, the embedded derivative will be accounted for in the same manner as the host contract.

IFRS 9 has taken over the classification and measurement of financial liabilities of IAS 39 with one exception. Changes in the fair value as a result of changes in the credit risk of liabilities designated at fair value through profit or loss, are recognised in other comprehensive income compared to profit or loss per IAS 39.

Derecognition criteria under IFRS 9 is similar to the derecognition criteria under IAS 39. Measurement of financial liabilities under IFRS 9 is still being assessed.

Impairment

Impairment under IFRS 9 replaces the current incurred loss model of IAS 39 by an expected credit loss model. The new impairment model will be applied to all financial assets that are measured at amortised cost, fair value through other comprehensive income, loan commitments, financial guarantees not recognised at fair value and lease receivables.

The expected loss model recognises impairments at an earlier stage by applying a three-stage model.

- Stage 1 – an impairment will be recognised based on a 1 year expected loss at the date of initial recognition of the financial asset.
- Stage 2 – if the credit risk has deteriorated significantly since origination, the impairment will increase by taking into account the lifetime expected losses.
- Stage 3 – when an asset is credit impaired, the difference between the book value and the expected recovery value is recorded as an impairment loss.

The impairment assessment will be done on a line-by-line level. This assessment will take into account all available past due and forward-looking information.

The determination of whether an asset is in default under IFRS 9 is similar to IAS 39.

Hedge accounting

Hedge accounting under IFRS 9 aligns more to the risk management policies of entities than under IAS 39. It expands the definition for non-derivative financial instruments and can now also include non-financial assets as hedging instruments.

IFRS 9 does not address macro hedge accounting, and allows entities to continue with IAS 39 for such hedges.

In addition, entities will have to disclose more information on their risk management and the impact of hedge accounting.

2.4.2. Application of IFRS 9 at Belfius

Classification and measurement

- Business models: Belfius Bank could opt to apply the held-to-collect business model for assets meeting the SPPI test, it would result in the reversal of the (negative frozen) AFS reserve for these instruments. For both Belfius Bank and Belfius Insurance, it is too early to provide the business model choices.
- Assets meeting the SPPI test: Financial assets that fall within this category will either be measured at amortised cost or fair value through other comprehensive income depending on the business model choice. The majority of the assets, based on the first analysis, will meet the SPPI test.
- Assets not meeting the SPPI test: The assets in this category will be carried in fair value through profit or loss. Certain bonds (mainly subordinated), as well as some structured loans and fund positions might not meet the SPPI test.
- Equity instruments: Belfius is currently considering applying the irrevocable option to classify such instruments at fair value through other comprehensive income.
- Financial liabilities: The new criteria of IFRS 9 will have minimal impact on the financial liabilities apart from the own credit risk classification and measurement. Note that this, currently, amounts to zero at Belfius Bank.

Impairment

The new impairment calculation will be based on the current Risk IT Architecture and the Basel II risk processes, models and methodologies.

Within the models, values will be adjusted to point-in-time values and long term PDs are also being developed. The expected losses are determined by the following risk parameters:

- PD: probability of default;
- LGD: loss given default;
- EAD: exposure at default, driven by amortisation tables, pre-payments and credit conversion factors.

To determine a significant increase in credit risk (thus determining the stage in which the instrument will be classified) Belfius will compare the PD at reporting date to the PD at initial recognition of the instrument. These PDs are consistent with the PDs used for expected loss computations.

Management will determine an appropriate threshold, which will be used to compare the respective PDs. This process will be supported by the existing risk processes, and will include the expert judgement from credit and research analysts through probability weighted forward-looking macro-economic scenarios.

Once the automated calculations have been completed, business experts will review the results and make necessary adjustments where required.

It is the current expectation of the market that, in general, the loss allowances will increase from the current allowance as a result of calculating expected credit losses, rather than recognising the losses when incurred.

Hedge accounting

Belfius is considering to keep on applying the requirement of IAS 39, as the hedges held by Belfius are mostly macro hedges.

Project

A multidisciplinary Project Team has been set up to analyse the impact of IFRS 9 and prepare its implementation. The sponsors of the implementation of IFRS 9 are both the CFO and the CRO. Workgroups have been set up as well as an IT analysis for the implementation. Recurrent status meetings are organized to allow all stakeholders and all major subsidiaries an overview of the status of the project. The project is managed at Group level and IFRS 9 policies, estimates and judgements will be applied consistently throughout the whole Group.

The project is on track and the impact of IFRS 9 is still being analysed. It is also too soon to give a reliable estimate of the impact on the regulatory CET 1 ratio. IFRS 9 will have no impact on Solvency II calculations and ratios.

Belfius has not opted for the option to early adopt IFRS 9. Belfius Insurance will not apply the option to defer the implementation of IFRS 9. Belfius is still investigating whether it will apply the overlay method for the activities of Belfius Insurance.

Accounting policy choices, allowed under IFRS 9, are still under consideration by management and will be approved during the next financial year.

2.5. Changes in presentation

None.

3. Consolidation

3.1. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by Belfius, the liabilities incurred by Belfius to former owners of the acquiree and the equity interests issued by Belfius in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

3.2. Subsidiaries

Subsidiaries are those entities over which Belfius has control. Belfius controls an entity when Belfius is exposed or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated as at the date on which effective control is transferred to Belfius and are no longer consolidated as at the date on which control of Belfius ceases. Intercompany transactions, balances and unrealised gains and losses on transactions among companies of Belfius have been eliminated. Where necessary, the accounting policies of the subsidiaries are aligned to ensure consistency with the policies adopted by Belfius.

When Belfius loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

3.3. Jointly controlled entities and associates

A joint venture (JV) is a joint arrangement whereby the parties have joint control of the arrangement. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint ventures are accounted for via the equity method.

Associates are investments in which Belfius has significant influence, but does not exercise control. This is usually the case when Belfius owns between 20% and 50% of the voting rights. Investments in associates are initially measured at cost and accounted for using the equity method.

Following the equity method, the ownership share of net income for the year is recognised as income of joint ventures and associates, whereas the share in other comprehensive income of joint ventures and associates is carried on a separate line of the statement of comprehensive income and the investment is recorded in the balance sheet at an amount that reflects Belfius' share of the net assets increased with related goodwill.

Gains and losses on transactions between Belfius and its "equity method investments" are eliminated to the extent of the interest of Belfius. The recognition of losses from joint ventures and associates is discontinued when the carrying amount of the investment reaches zero, unless Belfius has incurred or guaranteed legal or constructive obligations on behalf of the associate or joint venture. Where necessary, the accounting policies of the joint ventures and associates are aligned to ensure consistency with the policies adopted by Belfius.

3.4. Structured entities

A structured entity is an entity whose activities are not governed by way of voting rights. These entities generally finance the purchase of assets by issuing debt and equity securities that are collateralised by assets held by the structured entities. The debt and equity securities issued by the structured entities may include tranches with varying levels of subordination. In assessing whether Belfius has power over such investees in which it has an interest, Belfius considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee and the size of its exposure to the variability of returns of the investee.

4. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset (and, consequently, the net amount only is reported) when Belfius has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5. Foreign currency translation and transactions

5.1. Foreign currency translation

On consolidation, the statements of income and cash-flow statements of foreign entities that have a functional currency different from the presentation currency of Belfius are translated into the presentation currency (EUR) of Belfius at the average exchange rates for the year (annual reporting) or the period (interim reporting) and their assets and liabilities are translated at the respective year-end or quarter-end exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates, joint ventures and of borrowings and other currency instruments designated as hedges of such investments, are recorded as a cumulative translation adjustment within shareholders' equity. On disposal of a foreign entity, such exchange differences are recognised in the statement of income as part of the gain or loss on disposal.

5.2. Foreign currency transactions

For individual Belfius entities, foreign currency transactions are accounted for using the approximate exchange rate at the date of the transaction. Outstanding balances of monetary and non-monetary items carried at fair value denominated in foreign currencies are translated at period- or year-end using the exchange rates applicable at period- or year-end. Historical rates are used for non-monetary items carried at cost. The exchange differences for non-monetary items carried at fair value are governed by the same accounting treatment as for fair value adjustments. Exchange differences for monetary items are recorded in the consolidated statement of income.

6. Financial instruments

Management uses judgement on the criteria mentioned in the paragraphs below in determining the appropriate classification of its investments at initial recognition. However, under certain conditions, financial assets could subsequently be reclassified.

6.1. Recognition and derecognition of financial instruments

Belfius recognises and derecognises financial instruments held for trading on trade date. All other "regular way" purchases and sales of financial instruments are recognised and derecognised on the settlement date, which is the date of delivery to or by Belfius.

Belfius recognises the financial liabilities on its balance sheet when it becomes party to the contractual provisions of the instrument. Belfius derecognises financial liabilities only when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

6.2. Loans and advances due from banks and customers

Belfius classifies non-derivative financial assets with fixed or determinable payments that are not quoted on an active market into this category (labelled by IAS 39 as Loans and Receivables – L&R).

6.3. Investments held to maturity

Belfius classifies the interest-bearing financial assets with fixed maturity quoted in an active market as held to maturity (HTM) when management has both the intent and the ability to hold the assets to maturity.

Belfius recognises such interest-bearing financial assets initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest-rate method and recorded under "Interest income".

6.4. Financial assets available for sale

Belfius classifies financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as financial assets available for sale (AFS).

Belfius recognises financial assets initially at fair value plus transaction costs. Interest is recognised based on the effective interest-rate method and recorded under "Interest income". Belfius recognises dividend income from equities under "Dividend income".

Belfius subsequently re-measures financial assets available for sale at fair value (cf. 6.11 Fair value of financial instruments). Unrealised gains and losses arising from changes in the fair value of financial assets classified as available for sale are recognised within equity under the item "Gains and losses not recognised in the statement of income". When securities are disposed of or impaired, Belfius recycles the related accumulated fair value adjustments in "Net income on investments and liabilities".

6.5. Financial instruments measured at fair value through profit or loss (derivatives excluded)

6.5.1. Financial instruments held for trading

Financial assets held for trading includes loans and securities. Financial liabilities held for trading includes short positions in securities. These instruments are intended to generate a profit from short-term fluctuations in price or dealer's margins or are included in a portfolio in which a pattern of short-term profit taking exists. Belfius initially recognises these instruments at their fair value and subsequently re-measures them at fair value, with unrealised gains and losses recorded in the statement of income under "Net income from financial instruments at fair value through profit or loss". Interest income and interest expense are accrued using the effective interest-rate method and are recorded under "Interest income" and "Interest expense". Dividends received are recorded under "Dividend income".

6.5.2. Financial instruments designated at fair value through profit or loss

In some cases and if appropriately documented, Belfius can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" where:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- an instrument contains a non-closely related embedded derivative:
  - that significantly modifies the cash flows that otherwise would be required by the contract; or
  - for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.

The valuation rules as mentioned under paragraph 6.5.1. Financial instruments held for trading apply to this category.

6.6. Impairments on financial assets

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

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

6.6.1. Financial assets valued at amortised cost

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

Determination of the impairment

- Specific impairments – If there is objective evidence that loans or other receivables or financial assets classified as held to maturity are impaired, the amount of the impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated recoverable amount, being the present value of expected cash flows, including estimations on the amounts recoverable from guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). Assets with small balances that share similar risk characteristics follow the principles as described below.

→ Collective impairments – Collective impairments cover losses "incurred but not yet reported" on segments (portfolios) where there is objective evidence of losses. Belfius estimates these impairments based on the historical patterns of losses in each segment, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate. Belfius develops for that purpose credit-risk models using an approach that combines appropriate default probabilities and loss-given defaults that are subject to regular back-testing and risk models, consistently with the "incurred-loss" model. Assumptions are made when defining the way inherent losses are modelled and to determine the required parameters, based on historical experience.

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

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

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

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

Determination of the impairment
→ Equities – For equities quoted in an active market, objective evidence of impairment are a significant (more than 40%) or prolonged (more than 3 years) decline in fair value compared to the acquisition price. In addition, management can decide to recognise impairment losses should other objective evidence be available. An impairment is recognised for non quoted equities when objective evidence is available such as financial difficulties of the issuer or an increased probability of bankruptcy.

→ Interest-bearing financial instruments – In the case of interest-bearing financial instruments, impairment is triggered based on the same criteria as applied to individually impaired financial assets valued at amortised cost (see 6.6.1).

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

Impairments on equity securities cannot be reversed in the statement of income due to later recovery of the fair value.

Please refer to chapter Risk Monitoring - Credit Risk for further information on how credit risk is monitored by Belfius.

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

6.7. Derivatives

6.7.1. Derivatives – Trading portfolio, including embedded derivatives
When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are the currency and the interest-rate derivatives. Belfius, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash-flow models or pricing models, as appropriate. All changes in fair value are recognised in the statement of income.

The interest results of derivatives for which there is an economic hedge relationship are recognised in interest income/interest expense.

Belfius reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives embedded in other financial instruments are presented as separate derivatives in the portfolio derivatives trading:

→ when their risks and characteristics are not closely related to those of the host contract; and
→ when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the statement of income.

6.7.2. Derivatives - Hedging

Hedging derivatives are categorised as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge) or a fair value hedge of the interest-rate risk exposure of a portfolio (cf. 6.8); or
- a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash-flow hedge).

Belfius designates derivatives as hedging instruments if certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
- the hedge is documented in such a way as to show that it is expected to be highly effective (within a range of 80% to 125%) in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged position throughout the reporting period; and
- the hedge is effective at inception and on an ongoing basis.

Belfius records changes in the fair value of derivatives that are designated and qualify as fair value hedges in the statement of income, along with the corresponding change in fair value of the hedged assets or the liabilities that is attributable to that specific hedged risk. The interest accruals are recognised in "interest income" or "interest expense".

If the hedge no longer meets the criteria for a fair value hedge or if the hedge is voluntarily discontinued, Belfius amortises the adjustment to the carrying amount of a hedged interest-bearing financial instrument to the statement of income over the remaining life of the hedged position (or the hedging instrument if shorter) by an adjustment of the yield of the hedged item.

Belfius recognises the effective part of the changes in the fair value of derivatives that are designated and qualify as cash-flow hedges, in "Other comprehensive income" under the item "Gains and losses not recognised in the statement of income" (see "Consolidated statement of changes in shareholders' equity"). Any non-effective portion of the changes in the fair value of the hedging instrument is recognised in the statement of income. Amounts deferred in equity are transferred to the statement of income and classified as "interest income" or "interest expense" in the periods during which the hedged firm commitment or forecast transaction affects the statement of income.

6.8. Fair value hedge of the interest-rate risk exposure of a portfolio

As explained in 1.1 General, Belfius makes use of the provisions in IAS 39 as adopted by the European Union ("IAS 39 carve-out") because it better reflects the way in which Belfius manages its financial instruments.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Belfius recognises the hedging items at fair value with adjustments accounted for in the statement of income. The hedged items include financial assets and liabilities at amortised cost and financial assets available for sale.

Belfius reports hedged interest-rate risk revaluation of elements carried at amortised cost on the balance sheet under the item "Fair value revaluation of portfolio hedge".

6.9. Borrowings

Belfius recognises borrowings initially at fair value, being generally their issue proceeds, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost. Belfius recognises any difference between their initial carrying amount and the reimbursement value in the statement of income over the period of the borrowings using the effective interest-rate method.

Belfius classifies the instruments or its components, on initial recognition, as a financial liability or an equity instrument in accordance with the economic substance rather than the legal form. If applicable, further details on the applicable judgements are described in the corresponding notes.

6.10. Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised and remain in the balance sheet. The corresponding liability is entered under "Due to banks" or "Customer borrowings and deposits", as appropriate. The asset is reported as "pledged" in the notes.

Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans recorded as "loans and advances due from banks" or "loans and advances to customers".

The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest-rate method.

Securities lent to counterparties are not derecognised but rather recorded in the balance sheet in the same item. Securities borrowed are not recognised in the balance sheet.

6.11. Fair value of financial instruments

6.11.1. General principles

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

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

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

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

6.11.2. Specific rules

The approaches of Belfius for the determination of fair value of financial instruments are summarised in note 9.1. "Fair value".

6.12. Day one profit or loss

The day one profit or loss is applicable to all financial instruments measured at fair value through profit or loss.

The day one profit or loss is the difference between:

- the transaction price and the quoted market price; in cases where the financial instrument is quoted; or
- the transaction price and the fair value determined by using a valuation technique (mark-to-model) in cases where the instrument is not quoted.

If the main parameters of the model are observable and if the model meets the validation requirements of Risk Management, the day one profit or loss will be recognised immediately in the statement of income.

If the main parameters are not observable or Risk Management has not validated the model, the day one profit or loss will be amortised on a straight line basis over the expected life of the instrument. However, if the data becomes observable subsequently, Belfius will recognise the remaining portion of day one profit or loss in the statement of income.

In cases of early termination of the underlying instrument, the remaining portion of day one profit or loss will be recognised in the statement of income.

7. Interest income and expense

Interest income and expense are recognised in the statement of income for all interest bearing instruments not measured at fair value through profit or loss on an accrual basis using the effective interest-rate method (transaction costs included). Negative interests on these instruments are presented as a separate item within interest expense (interest expense on financial assets) or within interest income (interest income on financial liabilities). Interest results of derivatives used in accounting and economic hedge relationships are recognised in interest income / interest expense. Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial asset or liability. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument. Once an interest-bearing financial asset has been impaired, interest income is thereafter recognised based on the interest rate that was used to discount the future cash flows for measuring the recoverable amount. Accrued interest is reported in the same item as the related financial asset or liability in the balance sheet.

8. Fee and commission income and expense

Commissions and fees arising from most of the activities of Belfius are recognised on an accrual basis over the life of the underlying transaction. Performance fees are recognised when all underlying conditions are met and thus acquired.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.

9. Insurance and reinsurance activities

9.1. Classification

Belfius Insurance operates in both Life and Non-Life insurance activities.

IFRS 4 (Phase 1) is applied to all policies, whereby the insurer accepts a significant insurance risk by agreeing to indemnify the policyholder in the event of a well-defined and uncertain occurrence in the future (the insured event). Reinsurance policies that comply with this definition, as well as investment policies with a Discretionary Participation Feature, or DPF, also come under this field of application.

The rules for deposit accounting apply for financial instruments where there is no discretionary participation feature, as well as for unit-linked (branch 23 type) insurance policies. This means that the deposit component and the insurance component are valued and presented separately. With deposit accounting, this portion of the premiums and the resultant entry of the obligation are not recorded in the profit-and-loss account. The obligations themselves are not stated in the technical provisions, but under financial obligations. Associated management charges and commission fees are entered immediately in the profit-and-loss account. Payments made are not entered in the profit-and-loss account, but result in a reduction of the obligation. For unit-linked (branch 23) policies, the deposit component and the corresponding investments are valued at their fair value, with variations in the profit-and-loss account. The fair value is determined by the number of units, multiplied by the value of the unit that is based on the fair value of the underlying investments.

Group insurance cover for Belfius staff is not within the scope of IFRS 4, but instead is dealt with under the valuation rules for pension schemes.

9.2. Valuation

9.2.1. Application of local accounting standards

Under IFRS 4 (phase 1), local accounting standards are used for valuing the (re)insurance policies that come under the scope of application set out above. Under IFRS, no provision may be made for equalisation and disaster.

Provision for unearned premiums

The provision for unearned premiums is calculated by the pro rata temporis method for each agreement separately, based on the net premium. In the reinsurance policy taken out, the reserves are applied based on data passed on by the assigning companies.

Provisions for damages to be paid

The amount of the provision for claims to be paid in direct cases of the Non-Life business is equal to the amount owed to beneficiaries, plus the management charges for the claims.

For claims stated, the provision for the damages to be paid out in direct cases of the Non-Life business is calculated on a case-by-case basis, including future settlement costs or as a separate reserve for a group of cases.

When an indemnity has to be made in the form of periodic payments, the amounts that need to be set aside are calculated based on actuarial methods.

For instances of "claims incurred but not (entirely) reported" (IBN(E)R) on the balance date, a provision is applied in which account is taken of past experience with regard to the number and amount of claims reported after the balance date. Account is also taken of exceptional occurrences and additional provisions are also made on the basis of statutory requirements, such as for occupational accidents.

Provisions for Life insurance

The provision for Life insurance is calculated taking account of the statutory requirements and terms regarding the Life insurance business. As such, the following apply:

- Valuation using the forward-looking method: this method is applied for provisions in classical branch 21 insurance policies and conventional branch 21 policies with guaranteed returns on future premiums. The calculation is based on the technical terms of the policies.
- Valuation using the retrospective method: this method is applied for provisions in conventional branch 21 insurance policies. The calculation is based on the technical terms of the policies, without taking future deposits into account.

For business accepted, a provision is applied separately for each agreement based on the information provided by the assignor.

As a supplement to the rules set out above, an additional provision is applied for the low interest rate risk and other factors that have an important impact on the adequacy of the technical provisions.

Provision for discretionary beneficiary participation

Discretionary beneficiary participation is a contractual, but conditional entitlement to receive additional profits over and above a guaranteed return. Belfius Insurance has opted to present this beneficiary participation separately until it is allocated to individual insurance policies after approval by the Shareholders' Meeting. From that time onwards, it forms part of the provisions for Life insurance and there is a definitive waiver by the insurance company to the policyholder.

First and foremost, the provision for discretionary beneficiary participation consists of the share in the profits for the financial year just closed which the insurance company, in line with its beneficiary profit-sharing plan and after approval by the Shareholders' Meeting that rules on the past financial year, that is expected to be allocated to policyholders.

In addition, the provision for discretionary beneficiary participation also includes the funds set aside in accordance with local accounting standards for future allocations that are processed via the profit-and-loss account. In making allocations and withdrawals from these funds, Belfius Insurance takes account of the investment results achieved and the estimate made by it on the reporting date of any conditional future profit sharing. A new estimate is made on each reporting date and account is taken of the market conditions and the fund's financial position at the time.

If the total estimate of the beneficiary participation is higher than the sum of the provision set aside for beneficiary participation and the funds for future allocations, this shortfall will be entered separately in the figures for equity capital by separating out a portion of the non-realised profits in the available for sale portfolio.

Reinsurance activities

A specific reduction in value is applied to the reinsurance assets if:

- there is objective evidence, resulting from an event that occurred after the initial acknowledgment of the reinsurance assets, that the assignor is not to receive all of the amounts owed to it under the policy. Among other things in this case, account is taken of the rating and solvency of the reinsurer; and
- this event has a reliable measurable impact on the amounts that the assignor will receive from the reinsurer.

We refer here to the rules relating to special reductions in value that apply.

9.2.2. Liability Adequacy Test – LAT

At the end of each reporting period, Belfius Insurance conducts liability adequacy tests on its technical provisions. If these additional tests indicate that the book figure for the technical provisions is insufficient in relation to the current value of the estimated future cash flows, an additional technical provision is set aside for this shortfall from the profit-and-loss account. These tests are assessed separately for technical provisions Life and technical provisions Non-Life.

For life insurances, an estimate is made of the expected cash flows of contracts, taking into account the assumptions as they are also used for other modeling purposes. The present value of these expected cash flows is determined on the basis of a discount curve according to the EIOPA methodology including a volatility adjustment calibrated on Belfius Insurance's investment portfolio.

The Liability Adequacy Test takes into consideration the unrealized gains on the investment portfolio allocated to the branch Life.

In case the calculated value is higher than the Provision for Life insurance, the difference is taken into the income statement.

For Non-Life, the liability adequacy test checks to see whether the provision for unearned premiums and the provisions for claims are sufficient to make final settlement of any claims that may still occur within the insured term of the policies, as well as for claims already made.

9.2.3. Shadow accounting

If the realisation of unrealised profits from financial assets available for sale entered under equity capital has an immediate effect on the valuation of the technical provisions, shadow accounting offers a solution through the partial transfer of unrealised investment results from other comprehensive income to technical provisions.

First and foremost, Belfius Insurance applies shadow accounting if the statutory or contractual conditions in the insurance policies state that the realisation of recorded but unrealised profits on clearly defined assets belonging to the insurer has a direct effect on the valuation of the corresponding insurance and investment policies with discretionary participation (DPF). This application occurs mainly in insurance policies that have funds set aside that are managed separately from an administrative point of view.

Belfius has also decided to recognize a "shadow loss" for the difference between the value of the life insurance obligations based on the LAT methodology described above on the one hand and the Provisions for Life insurance on the other hand. This amount is limited to the unrealised gains recognised within equity of financial assets available for sale to cover life insurances.

9.3. Contracts with insurance discretionary participation features

Belfius classifies any unrealised gains and losses relating to assets classified as available for sale and backing insurance contracts with discretionary participation feature by Belfius as follows:

- as a liability in respect of the return guaranteed to the contract holders;
- as a separate component of equity to the extent of that feature.

10. Network costs

This item records the commission paid to the Belfius Bank independent branches, which is not taken up in the effective yield of the financial assets or liabilities.

11. Tangible fixed assets

Tangible fixed assets include property, plant & equipment and investment properties.

All property, plant & equipment are stated at their cost less accumulated depreciation and impairments. Subsequent costs are, where necessary, included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to Belfius and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

The main useful lives are as follows:

- buildings (including acquisition costs and non-deductible taxes): 20 to 50 years;
- computer equipment: 1 to 6 years;
- leasehold improvements, equipment and furniture: 2 to 12 years;
- vehicles: 2 to 5 years.

An item of property, plant & equipment can be composed of significant parts with individually varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined for the head offices used starting 2006:

- structure of the building: 50 years;
- roof and frontage: 30 years;
- technical installations: 10 to 20 years;
- fixtures and fittings: 10 to 20 years.

In 2012, Belfius has reviewed the depreciation term of certain assets. The depreciation term of certain assets has been changed from 20 to 33 years in order to better comply with economic reality.

Tangible fixed assets are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any) on a systematic basis over its remaining useful life.

Gains and losses on disposals of property and equipment are included under "Net income on investments and liabilities".

Investment properties are those properties held to earn rentals or for capital appreciation. Belfius may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property only if Belfius holds an insignificant portion for its own use.

Investment properties are recorded at their cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis. Depreciation on buildings and other assets given in operating lease are booked under "Other expense".

12. Intangible assets

Intangible assets consist mainly of:

- internal development expenditures; and
- acquired software.

The costs associated with maintaining computer software programmes are recognised as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond one year is added to the original cost of the software. Internal development costs recognised as assets are amortised using the straight-line method over their useful lives from the time the developed item is available for use.

An acquired customer portfolio is amortised using the straight-line method over the expected life of the portfolio taking into account the expected loss of customers in the acquired portfolio.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset, they are capitalised. Other borrowing costs are recognised as an expense.

Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included under "Net income on investments and liabilities".

13. Goodwill

13.1. Measurement of goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

It is measured as the difference between

- The sum of the following elements:
  - consideration transferred;
  - amount of any non-controlling interests in the acquiree;
  - fair value of the acquirer's previously held equity interest in the acquiree (if any); and
- Minus the fair value determined at acquisition date of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, this difference is negative (" badwill"), it is recognised immediately in profit or loss as a bargain purchase gain.

13.2. Impairment of goodwill

The carrying amount of goodwill is reviewed at year-end. For the purpose of this impairment testing, Belfius allocates goodwill to cash-generating units (CGUs) or groups of such units.

When circumstances or events indicate that there may be uncertainty about the carrying amount, goodwill is written down for impairment when the recoverable amount of the CGU or group of cash-generating units to which it has been allocated is lower than the carrying value.

The recoverable amount is the "fair value less cost to sell" or the "value in use" (whichever is the higher). The "value in use" is the sum of the future cash flows that are expected to be derived from a CGU. Expected cash flows used by Belfius are those of the financial budget approved by management.

The calculation of the "value in use" shall also reflect the time value of money (current risk-free rate of interest) corrected for the price for bearing the uncertainty inherent in the asset. This is reflected in the discount rate.

14. Other assets

Other assets mainly include accrued income (other than interest prorata), prepayments, operational taxes and other accounts receivable. They also include assets from insurance contracts (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories, plan assets relating to employee benefit obligations.

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

If the carrying amount of a non-current asset (or disposal group) is recovered principally through a sale transaction, rather than through continuing use, it will be classified as "held for sale".

Belfius measures a non-current asset (or disposal group) classified as held for sale at its carrying amount or at its fair value less costs to sell (whichever is the lower). Non-current assets (or disposal groups) classified as held for sale are presented separately in the balance sheet, without restatement for previous periods. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale.

A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss of discontinued operations is presented under a separate line in the statement of income.

16. Leases

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

16.1. Belfius is the lessee

Belfius grants operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the statement of income on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to Belfius. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest-rate method.

16.2. Belfius is the lessor

Belfius grants both operating and finance leases.

Revenue from operating leases is recognised in the statement of income on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.

For finance leases, Belfius recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.

The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

17. Deferred income tax

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted (and tax laws) that are substantively enacted at the balance-sheet date are used to determine the deferred income tax.

Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

Deferred tax liability is provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where Belfius can control the timing of the reversal of the temporary difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to the fair value remeasurement of assets available for sale and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

18. Employee benefits

18.1. Short-term benefits

Short-term benefits are expected to be wholly settled within twelve months after the end of the annual reporting period in which the employee renders service. These are measured on an undiscounted basis and recognised as an expense.

18.2. Post-employment benefits

Post-employment benefits include retirement benefits (annuity or lump sum payments on retirement) and other post-employment benefits such as medical care granted after the completion of the employment.

18.2.1. Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows based on interest rates determined by reference to market yields on high quality corporate bonds that have terms to maturity approximating to the terms of the related liability. When there is no deep market in such bonds, the market yields on government bonds shall be used. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions comprising both demographic assumptions and financial assumptions such as the inflation rate, salary increase.

The amount recognised in the balance sheet for the defined benefit plan is the difference between the present value of the defined benefit obligation (using the Projected Unit Credit Method) and the fair value of any plan assets. This amount may be presented as a liability or an asset.

In case of net asset, the amount recognised is limited to the asset ceiling, which is the present value of any economic benefits available for Belfius in the form of refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability (asset) are recognised in other comprehensive income and are never reclassified to profit or loss. Remeasurements arise from the effect of changes in demographic and financial assumptions, from experience adjustments, the return on plan assets and any change in the effect of the asset ceiling.

18.2.2. Defined contribution plans

The contributions of Belfius related to defined contribution plans are charged to the statement of income in the year to which they relate.

Due to the legal minimum guaranteed rate of return imposed by the Belgian State, Belgian contribution plans are considered as defined benefit plans under IAS 19 and presented as such.

Given the change in legislation at the end of 2015 (i.e. the minimum guaranteed returns on employer and employee contributions decreased respectively from 3.25% and 3.75% to 1.75%), the valuation of the obligation of the Belgian defined contribution plans is based on the defined benefit methodology i.e. the Projected Unit Credit Method.

18.3. Other long-term benefits

A benefit is classified as other long-term employee benefits when the payment is not expected to be wholly settled before twelve months after the end of the annual closing period in which the employee renders service. These mainly include provisions for jubilee premiums and bonuses that employees receive after completion of specified periods of service.

Due the smaller degree of uncertainty compared with post-employment benefits, a simplified method based on actuarial calculations is required to recognise and measure jubilees and other long-term benefits. A provision is set up for the estimated liability as a result of services rendered by employees up to the balance-sheet date and remeasurements are recognised in the statement of income.

18.4. Termination benefits

Termination benefits result either from a decision of Belfius to terminate the employment before the normal date of retirement or an employee's decision to accept redundancy payments from Belfius for termination of employment. Any benefit that requires future service is not a termination benefit.

A termination benefit provision is recognised at the earlier of the recognition of related restructuring costs and when Belfius can no longer withdraw the offer of those benefits.

19. Provisions and contingent liabilities

Provisions are mainly recognised for litigation claims, restructuring and loan commitments.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognised when:

- Belfius has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised when there is uncertainty about the creditworthiness of the counterparty. Please refer to impairment section 6.6.

Unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability is disclosed.

20. Levies

Levies are outflows of resources embodying economic benefits imposed by governments on entities as identified by the legislation (i.e laws and/or regulations) other than income taxes, fines or other penalties imposed for breaches of the legislation.

The bank recognises a liability when the obligating event occurs. All levies are taken upfront in full (no accrual accounting permitted) in "other expense" and awaiting the financial liquidation of the levies, the amounts due are booked in "other liabilities".

21. Share capital

21.1. Dividends on ordinary shares of Belfius

Belfius recognises its dividends on its ordinary shares as a liability from the date on which they are declared. Any dividends for the year declared post-balance-sheet date are disclosed in the subsequent events note.

22. Fiduciary activities

Assets which are held by Belfius and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these financial statements in cases where Belfius acts in a fiduciary capacity such as nominee, trustee or agent.

23. Government grants

Government grants are assistance by government in the form of transfers of resources, other than credit lending stimulation instruments, to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They are not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them and that the grant will be received. Government refers to local, national or international governments, government agencies and similar bodies such as community institutions.

The benefit of a government loan at a belowmarket rate of interest is recognised in profit or loss on a systematic basis considering the conditions and obligations that have been met, or must be met, when identifying the costs for which the grants are intended.

IV. Operating segments reporting

(Some amounts may not add up due to roundings)

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

The segmentation of Belfius can be described as follows:

- **Franchise** – contains the key activities of the commercial business lines of Belfius
  - Retail and Commercial (RC) managing the commercial relationships with individual customers and with small & medium sized enterprises both at bank and insurance level.
  - Public and Corporate (PC) managing the commercial relationships with public sector, social sector and corporate clients both at bank and insurance level.
  - Group Center (GC) containing mainly the residual results not allocated to the two commercial segments of the Franchise and to the Side activities, as well as the residual interest rate and liquidity management results through the internal transfer pricing mechanism.
- **Side** – incorporates the Legacy, inherited from the Dexia-era and is managed under a tactical de-risking strategy and in natural run-off mode
  - Includes the Legacy portfolio (bonds and credit guarantees), derivatives with foreign counterparties (non Franchise), and transactions with former related parties.

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

Since its separation from the Dexia group end 2011, Belfius has separated its financial accounts into two segments: Franchise, i.e. Belfius' core business lines (bank and insurance), and Side, i.e. Belfius' non-core assets and exposures, mainly financial products such as bonds and structured credit guarantees. Since end 2011, Belfius has actively executed a tactical de-risking program with respect to its Side portfolios, resulting in a strong decrease of outstanding volumes and a positive evolution of the portfolios' key risk indicators. Thanks to these continued efforts, the risk profile of Side has been brought in line with the risk profile of Franchise. Hence, as from 1 January 2017 onwards, Belfius will integrate the remainder of Side into Franchise (i.e. Group Center) and will no longer separate its financial reporting into the segments Franchise and Side.

1. Segmentation – Balance sheet

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

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

(In thousands of EUR)	31/12/16 Assets	Liabilities	Equity[1]
Retail and Commercial	53,797,582	77,014,304	1,928,720
Public and Corporate	41,697,834	26,074,218	845,761
Group Center	41,510,323	39,482,247	4,232,796
FRANCHISE	137,005,738	142,570,769	7,007,277
SIDE[1]	39,715,189	25,138,438	2,004,443
TOTAL	176,720,927	167,709,207	9,011,720
of which banking activities	*156,775,408*	*148,570,715*	*7,636,929*
of which insurance activities	*19,945,519*	*19,138,492*	*1,374,791*

(1) The required capital for Side has decreased significantly due to further de-risking.

The allocation of equity is performed based on the normative regulatory equity consumption for each business line, any excess capital is allocated to Group Center. The normative regulatory equity is defined as the CET 1 capital that is required to bring RC and PC to a CET 1 ratio (Fully loaded) of 10.5%, except for Side where a 13% CET 1 target is used.

2. Segmentation – Statement of income

(In thousands of EUR)	Retail and Commercial(1)	Public and Corporate	Group Center(1)	Franchise	Side	Total
	31/12/15 (PF)					
INCOME	**1,767,097**	**443,966**	**110,010**	**2,321,073**	**(137,212)**	**2,183,862**
of which						
Net interest income	1,488,293	401,911	176,853	2,067,058	(43,373)	2,023,685
Net fee and commission income	456,738	49,126	(8,203)	497,661	(661)	497,000
Technical margin on insurance activities	(208,156)	(79,633)	1,908	(285,881)	0	(285,881)
Dividend income, Net income from equity method companies, Net income from financial instruments at fair value through profit or loss, and Net income on investments and liabilities	148,598	69,410	(24,574)	193,433	(71,582)	121,851
Other income & expense	(118,376)	3,152	(35,974)	(151,198)	(21,595)	(172,793)
EXPENSES	**(1,072,756)**	**(210,896)**	**(100,277)**	**(1,383,929)**	**(12,522)**	**(1,396,451)**
Gross operating income	694,341	233,070	9,733	937,144	(149,733)	787,411
COST OF RISK	**(38,161)**	**(27,986)**	**1,179**	**(64,967)**	**(27,698)**	**(92,665)**
Impairments on (in)tangible assets	(7,646)	(3,843)	(1,164)	(12,653)	(145)	(12,798)
NET INCOME BEFORE TAX	**648,534**	**201,242**	**9,748**	**859,524**	**(177,577)**	**681,948**
Tax (expense) income	(200,258)	(67,235)	19,049	(248,444)	72,571	(175,873)
NET INCOME AFTER TAX	**448,276**	**134,007**	**28,797**	**611,080**	**(105,005)**	**506,075**
Non-controlling interests	0	0	(1)	(1)	0	(1)
Net income group share	448,276	134,007	28,799	611,082	(105,005)	506,076
of which banking activities	*255,356*	*133,605*	*5,742*	*394,703*	*(105,005)*	*289,698*
of which insurance activities(2)	*192,920*	*402*	*23,056*	*216,378*	*0*	*216,378*

(1) Due to the decision to sell the subsidiary "International Wealth Insurer", the allocation of the income between "Retail and Commercial'"and "Group Center'"has been restated.
(2) Note that the statement of income represents the contribution of the Belfius Insurance group to the consolidated statement of income.

(In thousands of EUR)	31/12/16 Retail and Commercial	Public and Corporate	Group Center	Franchise	Side	Total
INCOME	1,686,449	440,586	250,349	2,377,384	(118,113)	2,259,271
of which						
Net interest income	1,345,682	398,366	235,121	1,979,169	(35,937)	1,943,232
Net fee and commission income	469,993	45,929	(9,016)	506,905	564	507,470
Technical margin on insurance activities	(141,092)	(116,395)	2,708	(254,779)	0	(254,779)
Dividend income, Net income from equity method companies, Net income from financial instruments at fair value through profit or loss, and Net income on investments and liabilities	136,637	93,415	60,380	290,432	(64,602)	225,830
Other income & expense	(124,772)	19,272	(38,844)	(144,344)	(18,138)	(162,482)
EXPENSES	(1,017,621)	(209,885)	(127,489)	(1,354,994)	(11,286)	(1,366,281)
Gross operating income	668,828	230,701	122,860	1,022,389	(129,399)	892,990
COST OF RISK	(41,217)	(25,418)	(1,216)	(67,851)	(48,118)	(115,969)
Impairments on (in)tangible assets	1,978	525	0	2,502	0	2,502
NET INCOME BEFORE TAX	629,588	205,808	121,645	957,041	(177,517)	779,524
Tax (expense) income	(190,153)	(64,357)	(36,799)	(291,310)	47,037	(244,272)
NET INCOME AFTER TAX	439,435	141,451	84,845	665,731	(130,480)	535,251
Non-controlling interests	0	0	23	23	0	23
Net income group share	439,435	141,451	84,822	665,709	(130,480)	535,229
of which banking activities[(1)]	*261,394*	*140,986*	*62,755*	*465,136*	*(130,480)*	*334,656*
of which insurance activities[(1)]	*178,041*	*465*	*22,067*	*200,572*	*0*	*200,572*

(1) Note that the net contribution in the consolidated Belfius P&L amounts to EUR 168 million for Belfius Insurance and EUR 367 million for Belfius Bank. After adjustment for an intragroup transaction, the net contribution amounts to EUR 201 million for Belfius Insurance and EUR 335 million for Belfius Bank. More in particular, Belfius Insurance has bought back, before maturity, its Tier 2 subordinated debt issued end 2011 which was subscribed by Belfius Bank, and this at a fair market price above book value, as yields for subordinated debt came down since then. At the same time, Belfius Insurance reissued (and Belfius Bank subscribed) new Tier 2 subordinated debts and in that way extended the maturity profile of its outstanding subordinated debt and increased somewhat its total outstanding Tier 2, as such improving its total capital mix.

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

V. Notes on the assets of the consolidated balance sheet

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

5.1. Cash and cash equivalents

Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Cash and balances with central banks other than mandatory reserves(1)	462,984	4,111,132
Mandatory reserves with central banks(2)	113,249	1,000,000
Loans and advances due from banks	6,752,377	5,307,800
TOTAL	7,328,610	10,418,931

(1) A significant increase can be noted due to additional cash with the central banks following the liquidity surplus at year-end.
(2) The "Mandatory reserves" include the minimum reserve deposits that Belfius has with European Central Bank or with other central banks.

5.2. Cash and balances with central banks

Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Cash in hand	443,291	428,293
Balances with central banks other than mandatory reserve deposits(1)	19,693	3,682,757
Mandatory reserves deposits(1)	113,292	1,000,000
TOTAL	576,276	5,111,050
Of which included in cash and cash equivalents	*576,234*	*5,111,132*

(1) A significant increase can be noted due to additional cash with the central banks following the liquidity surplus at year-end.

5.3. Loans and advances due from banks

1. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Cash collateral	16,157,815	15,788,915
Sight accounts	385,215	166,992
Reverse repurchase agreements	6,319,577	4,638,347
Loans and other advances	1,076,933	1,072,733
Bonds	383,895	339,772
Impaired loans	5,353	2,149
Less:		
Specific impairment on impaired loans or impaired bonds	(2,677)	(43)
Collective impairment	(8,109)	(6,311)
TOTAL	24,318,002	22,002,553
Of which included in cash and cash equivalents	*6,752,377*	*5,307,800*
Of which included in financial lease	*50,115*	*46,983*

A decrease can be noted in the "loans and advances due from banks" following the decrease of the reverse repurchase agreements and the cash collateral paid following interest rate increase compared to year-end 2015.

2. Analysis of quality
See note 5.18.

3. Analysis by maturity and interest rate
See notes 9.4., 9.5. and 9.6.

4. Analysis of the fair value
See note 9.1.

5. Reclassification of financial assets
See note 5.8.

5.4. Loans and advances to customers

1. Analysis by counterparty

(In thousands of EUR)	31/12/15	31/12/16
Public entities	26,326,742	26,753,005
Corporate & SME	30,379,362	30,744,574
Retail	29,981,974	31,474,144
Impaired loans	2,025,934	2,050,387
Impaired bonds[(1)]	2,703	269,611
Less:		
Specific impairment on impaired loans or impaired bonds[(1)]	(1,158,443)	(1,261,638)
Collective impairment	(369,120)	(327,684)
TOTAL	87,189,152	89,702,399

(1) The additional allowance for specific impairment is mainly linked to bonds in the Side portfolio. We refer to note 9.2.5. Movements in allowances for credit losses.

The increase in "loans and advances to customers" is due to an increase in commercial assets (mortgage and term loans).

2. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Cash collateral	1,637,111	1,673,008
Reverse repurchase agreements	153,510	261,511
Loans and other advances[(1)]	78,246,241	81,001,952
Of which bills and own acceptances	*25,736*	*33,599*
Of which finance lease	*3,049,284*	*3,135,715*
Of which consumer loans	*1,386,972*	*1,461,473*
Of which mortgage loans[(2)]	*27,118,460*	*28,820,331*
Of which term loans[(3)]	*43,625,438*	*44,349,940*
Of which current accounts	*1,725,619*	*1,816,994*
Of which other loans and advances	*1,314,731*	*1,383,900*
Bonds	6,651,217	6,035,251
Impaired loans	2,025,934	2,050,387
Impaired bonds[(4)]	2,703	269,611
Less:		
Specific impairment on impaired loans or impaired bonds[(4)]	(1,158,443)	(1,261,638)
Collective impairment	(369,120)	(327,684)
TOTAL	87,189,152	89,702,399

(1) The underlying pool of loans of the covered bonds (Pandbrieven) amount to EUR 11.2 billion end 2016 (and EUR 10.2 billion end 2015). This covered pool guarantees the outstanding covered bonds, of which 6.1 billion mortgage covered bonds (versus 5.5 billion end 2015) and 2.3 billion public covered bonds (versus 1.8 billion end 2015). We refer to note 9.3.4. on Transfer of financial assets which do not qualify for derecognition in the consolidated balance sheet.
(2) In 2015 EUR 5.5 billion "mortgage loans" were securitised, in 2016 this decreased to EUR 2.7 billion. We refer to note 12 "Securitisations" and to note 9.3.4. on Transfer of financial assets which do not qualify for derecognition in the consolidated balance sheet.
(3) In 2015 EUR 6.4 billion "term loans" were securitised, in 2016 this decreased to EUR 3.2 billion. We refer to note 12 "Securitisations" and to note 9.3.4. on Transfer of financial assets which do not qualify for derecognition in the consolidated balance sheet".
(4) This increase in impaired bonds and specific impairment is mainly linked to bonds in the Side portfolio.

3. Analysis of quality
See note 5.18.

4. Analysis by maturity and interest rate
See notes 9.4., 9.5. and 9.6.

5. Analysis of the fair value
See note 9.1.

6. Reclassification of financial assets
See note 5.8.

5.5. Investments held to maturity

1. Analysis by counterparty

(In thousands of EUR)	31/12/15	31/12/16
Public entities	3,941,259	3,942,082
Banks	832,266	1,063,842
Corporate & SME	243,630	387,324
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT	**5,017,155**	**5,393,247**
Less:		
Specific impairment on impaired financial investments	0	0
TOTAL	5,017,155	5,393,247

On 1 January 2015, Belfius decided to reclass an additional EUR 1.5 billion bonds from "Financial assets available for sale" to "Investments held to maturity". It concerned mainly bonds issued by the Belgian and French governments. This reclassification was the result of a change in management intention for these bonds.

The increase in investments held to maturity is related to purchases of some high quality bonds (AAA/AA) for Belfius Bank ALM portfolio.

2. Analysis of quality
See note 5.18.

3. Analysis by maturity and interest rate
See notes 9.4., 9.5. and 9.6.

4. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Bonds issued by public sector	3,941,259	3,942,082
Other bonds and fixed-income instruments	1,075,896	1,451,166
TOTAL	5,017,155	5,393,247

5. Analysis of the fair value
See note 9.1.

6. Reclassification of financial assets
See note 5.8.

5.6. Financial assets available for sale

1. Analysis by counterparty

(In thousands of EUR)	31/12/15	31/12/16
Public entities	11,779,038	11,700,509
Banks	3,601,940	2,705,690
Corporate & SME	4,260,390	4,321,641
Impaired financial investments	162,878	160,159
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT(1)	**19,804,246**	**18,887,999**
Less:		
Specific impairment on impaired financial investments	(70,681)	(68,210)
TOTAL	**19,733,565**	**18,819,789**
Of which included in cash and cash equivalents	0	0

(1) The decrease is mainly linked to further tactical derisking of the "Side" portfolio (mainly Spanish covered bonds) and sales within the Belfius Insurance portfolio (mainly Belgian Government bonds and equity and fund positions) following rebalancing of the portfolio and surrenders.

2. Analysis of quality

See note 5.18.

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Bonds issued by public sector	11,883,285	11,678,049
Other bonds and fixed-income instruments	5,823,829	4,941,141
Equity and variable-income instruments	2,097,132	2,268,809
TOTAL FINANCIAL INVESTMENTS BEFORE IMPAIRMENT(1)	**19,804,246**	**18,887,999**
Specific impairment on impaired financial investments	(70,681)	(68,210)
TOTAL	**19,733,565**	**18,819,789**

(1) The decrease is mainly linked to further tactical derisking of the "Side" portfolio (mainly Spanish covered bonds) and sales within the Belfius Insurance portfolio (mainly Belgian Government bonds and equity and fund positions) following rebalancing of the portfolio and surrenders.

5. Analysis of the fair value

See note 9.1.

6. Reclassification of financial assets

See note 5.8.

5.7. Financial assets measured at fair value through profit or loss

(In thousands of EUR)	31/12/15	31/12/16
Financial assets held for trading	1,232,446	793,122
Financial assets designated at fair value[1]	1,990,545	2,192,857
TOTAL	3,222,991	2,985,979

(1) This category contains mainly "branch 23" products.

FINANCIAL ASSETS HELD FOR TRADING

1. Analysis by counterparty

(In thousands of EUR)	31/12/15	31/12/16
Public entities	343,493	67,668
Banks	77,687	22,645
Corporate & SME	811,266	702,809
TOTAL	1,232,446	793,122
Of which included in financial lease	*0*	*0*

2. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Bonds issued by public sector	340,311	61,966
Other bonds and fixed-income instruments	875,369	662,674
Equity and variable-income instruments	16,766	68,482
TOTAL	1,232,446	793,122

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis of the fair value

See note 9.1.

5. Reclassification of financial assets

See note 5.8.

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

1. Analysis by counterparty

(In thousands of EUR)	31/12/15	31/12/16[1]
Public entities	24,037	25,087
Banks	18,704	11,827
Corporate & SME	1,947,804	2,155,944
TOTAL	1,990,545	2,192,857

(1) The table presents mainly the investment portfolio of "branch 23" transactions.

2. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Loans	0	3,143
Unit-linked products Insurance – bonds and loans[1]	1,255,815	747,365
Unit-linked products Insurance – equity and variable-income instruments[1]	734,730	1,442,349
TOTAL	1,990,545	2,192,857

(1) Evolution due to rebalancing of the portfolio towards equities.

3. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

4. Analysis of the fair value

See note 9.1.

The category "Financial assets designated at fair value through profit or loss" is used in the following situations:

- for insurance activities: mainly (unit-linked) "branch 23" insurance contracts. The return of these unit-linked products belongs entirely to its policyholder.

The methodology used to determine the fair value of "Financial assets designated at fair value" is detailed in note 9.1.

5.8. Reclassification of financial assets

(In thousands of EUR)	From Trading to Loans and receivables (1)	From Available for sale portfolio to Loans and receivables (2)
Book value as at 31 december 2015 (A)	109,682	5,218,386
Fair value as at 31 december 2015 (B)	103,319	3,118,794
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN INCOME (1) DUE TO RECLASSIFICATION (B) – (A)	(6,363)	n.a.
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN AFS RESERVE BEFORE IMPACT OF HEDGE ACCOUNTING / ECONOMIC HEDGE (2) DUE TO RECLASSIFICATION (B) – (A)	n.a.	(2,099,592)

(In thousands of EUR)	From Trading to Loans and receivables (1)	From Available for sale portfolio to Loans and receivables (2)
Book value as at 31 december 2016 (A)	55,254	4,304,921
Fair value as at 31 december 2016 (B)	54,428	1,998,947
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN INCOME (1) DUE TO RECLASSIFICATION (B) – (A)	(825)	n.a.
CUMULATED AMOUNT BEFORE TAXES NOT TAKEN IN AFS RESERVE BEFORE IMPACT OF HEDGE ACCOUNTING / ECONOMIC HEDGE (2) DUE TO RECLASSIFICATION (B) – (A)	n.a.	(2,305,974)

1. Reclassification of financial assets under IAS 39

As a response to the financial crisis, the IASB issued on 13 October 2008 an amendment to IAS 39 "Financial Instruments: Recognition and Measurement" permitting the reclassification of certain illiquid financial assets. Belfius decided in 2008 and 2009 to benefit from this opportunity to reclassify assets for which an active market, as well as reliable quoted prices, was no longer available.

The decrease of the outstanding amounts of the reclassed portfolio is mainly linked to tactical derisking in the 'Side' portfolio.

Impact of reclassifications on equity and results

We refer to the accounting policies for the further details on the impact of the reclassification.

A. Transfer from "Held for trading" to "Loans and advances"

In 2008 Belfius reclassified EUR 2,8 billion from "Held for trading" to "loans and advances". End 2016 EUR 55.3 million reclassified bonds remain.

The impact of this amortisation in the interest margin amounts to EUR 0,7 million in 2015 and EUR 0,4 million in 2016.

There are no new impaired bonds in 2015 and 2016 in this category.

B. Transfer from "Available for sale" to "Loans and advances"

Belfius has also reclassified a significant portfolio from "Available-for-sale portfolio" to "Loans and advances" for a total amount of EUR 16.3 billion in 2008 and 2009. End 2016, a portfolio of reclassified bonds of EUR 4.3 billion remains.

There were no new impaired bonds in 2015 in this category. In 2016, two Asset Backed Securities (ABS) bonds in the Side portfolio for an outstanding amount of EUR 272 million have been impaired. We refer to note 9.2.5. Movements in allowances for credit losses.

A reclassification from "Available for Sale" to "Loans and Advances" does not generate a P&L impact due to the amortisation of the premium/discount which was created at the moment of the reclassification, as a compensating amortisation can be noted for the "frozen AFS reserve".

2. Reclassification of financial assets following a change in intention

Transfer from "Available for sale" to " Held to maturity"

In 2014, Belfius reclassified EUR 2.8 billion from "Financial assets available for sale portfolio" to "Investmens held to maturity", this resulted in a "frozen fair value of reclassified financial assets" of EUR 40.5 million. It concerned mainly Italian sovereign debt instruments. Belfius applied IAS 39.54 following the change in intent of the management for this portfolio.

On 1 January 2015, Belfius decided to reclass an additional EUR 1.5 billion bonds from "Financial assets available for sale" to "Investments held to maturity". It concerned mainly bonds issued by the Belgian and French governments. This resulted in a "frozen fair value of reclassified financial assets" of EUR -3.4 million. Belfius applied IAS 39.54 following the change in intent of the management for this portfolio.

5.9. Derivatives

1. Analysis by nature

(In thousands of EUR)	31/12/15 Assets	31/12/15 Liabilities	31/12/16 Assets	31/12/16 Liabilities
Derivatives held for trading	23,352,089	21,352,831	23,200,723	21,714,137
Derivatives designated as fair value hedges	100,006	245,797	134,282	277,854
Derivatives designated as cash flow hedges	12,943	44,813	5,180	51,563
Derivatives designated as portfolio hedge	2,478,529	8,416,644	1,967,036	7,528,967
TOTAL	25,943,567	30,060,085	25,307,222	29,572,521

A slight decrease in the fair value of derivatives can be noted, following the relative stable intrest rate evolution compared to year-end 2015. Note also that the notional amount of derivatives continues to reduce significantly through active management of the derivatives book (f.e. unwinding of operations following TriReduce identification of risk neutral positions).

2. Detail of derivatives held for trading

	31/12/15				31/12/16			
	Notional amount(1)		Assets	Liabilities	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	26,759,263	26,660,609	2,583,221	2,389,622	23,909,804	23,828,083	3,108,066	2,960,404
Interest rate derivatives	422,638,134	435,669,767	20,299,995	18,625,013	362,684,868	372,752,981	19,766,420	18,517,673
of which option/cap/floor/ collar/swaption	*205,107,535*	*218,708,502*	*3,088,894*	*3,494,594*	*185,449,705*	*198,790,414*	*3,323,173*	*3,719,112*
of which interest rate swaps	*204,690,317*	*204,932,511*	*17,210,775*	*15,130,141*	*172,130,659*	*171,982,403*	*16,442,702*	*14,797,708*
of which forward rate agreements	*99,965*	*99,000*	*1*	*46*	*99,985*	*0*	*1*	*0*
of which interest futures	*12,740,317*	*11,929,754*	*325*	*232*	*5,004,519*	*1,980,164*	*544*	*853*
Credit derivatives	7,175,051	6,913,927	319,261	207,079	2,199,544	2,135,238	184,592	133,974
Equity derivatives	3,071,878	3,053,689	149,612	131,116	3,399,972	3,382,613	141,645	102,086
TOTAL	459,644,326	472,297,992	23,352,089	21,352,830	392,194,188	402,098,915	23,200,723	21,714,137

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of the derivative financial instrument that are presented separately in the table. In case f.e. of an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated. In addition, the "Notional amount to deliver" represents the notional amount on which the interest to be paid by Belfius is calculated.

The derivatives position of Belfius originated partially from the fact that Belfius was the competence center for derivatives within the former Dexia Group. These derivatives were hedged externally for market risk. The derivatives with Dexia Group entities remained after the sale of Belfius to the Belgian State in 2011. The credit risk is mitigated through the use of collateral (CSA).

The strategy of Belfius is to mitigate as much as possible the market risks of its derivatives. We refer to the note 9.5 Market Risk.

An important decrease of the notional amount of the derivatives can be noted again in 2016.

3. Detail of derivatives designated as fair value hedges

	31/12/15				31/12/16			
	Notional amount(1)		Assets	Liabilities	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	630,403	598,595	93,982	242,467	601,918	538,475	132,308	267,555
of which cross currency swaps	*630,403*	*598,595*	*93,982*	*242,467*	*601,918*	*538,475*	*132,308*	*267,555*
Interest rate derivatives	540,051	244,955	6,024	3,330	277,011	40,000	1,974	10,299
of which interest rate swaps	*40,000*	*244,955*	*3,839*	*0*	*40,000*	*40,000*	*1,974*	*0*
of which forwards	*500,051*	*0*	*2,185*	*3,330*	*237,011*	*0*	*0*	*10,299*
TOTAL	1,170,454	843,550	100,006	245,797	878,930	578,475	134,282	277,854

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of the derivative financial instrument that are presented separately in the table. In case f.e. of an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated. In addition, the "Notional amount to deliver" represents the notional amount on which the interest to be paid by Belfius is calculated.

4. Detail of derivatives of portfolio hedge

	31/12/15				31/12/16			
	Notional amount(1)		Assets	Liabilities	Notional amount(1)		Assets	Liabilities
(In thousands of EUR)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	74,071,602	74,071,602	2,478,529	8,416,644	69,220,561	69,220,639	1,967,036	7,528,967
TOTAL	74,071,602	74,071,602	2,478,529	8,416,644	69,220,561	69,220,639	1,967,036	7,528,967

(1) The "Notional amount to receive" and the "Notional amount to deliver" represent the two legs of the derivative financial instrument that are presented separately in the table. In case f.e. of an interest rate swap, the "Notional amount to receive" represents the notional amount on which the interest to be received by Belfius is calculated. In addition, the "Notional amount to deliver" represents the notional amount on which the interest to be paid by Belfius is calculated.

Note that Belfius only uses intrest rate swaps in its portfolio hedge relations.

Belfius applies mainly the technique of fair value hedge to hedge interest rate risk and currency risk on the below described hedged items and hedging instruments. It applies this on a macro basis both on its asset side as and on the liability side. It concerns the following hedged items: the hedged items per instrument at the asset side (Loans and Bonds) and at the liability side (Saving certificates, term deposits and covered bonds). Belfius uses mainly plain vanilla interest rate swaps for hedge accounting under IFRS except for bonds non EUR where Belfius uses plain vanilla interest rate & currency swaps.

5.10. Investments in equity method companies

1. Carrying value

(In thousands of EUR)	2015	2016
CARRYING VALUE AS AT 1 JANUARY	146,494	106,775
Disposals(1)	0	(3,198)
Changes in scope of consolidation (out)(2)(3)	(42,916)	0
Share of result before tax	8,907	6,383
Share of tax	(615)	(1,365)
Dividend paid	(5,094)	(3,822)
Transfers(4)	0	(7,730)
Other movements	(1)	0
CARRYING VALUE AS AT 31 DECEMBER	106,775	97,044

(1) The company Société Espace Léopold has been liquidated in 2016.
(2) As from 2015, Sepia is fully consolidated (previously a joint venture). Belfius Insurance has purchased on 17 August 2015, the 50% stake in Sepia from KBC Insurance and has signed a reinsurance contract whereby KBC will retain half of the risks of the Sepia insurance portfolio; as such, the historical risk sharing on the portfolio continues. On 1 January 2016, Sepia merged with Belfius Insurance.
(3) In 2015 the shares of the company Ecetia Finances SA were converted into a loan for EUR 35.2 million.
(4) As at 31 December 2016, Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations". A sales agreement has been signed with the American insurance company Axis Capital, but it is subject to conditions that are yet to be fulfilled. We refer to note 10.2.

2. List of equity method companies

	Book value		Website
(In thousands of EUR)	31/12/15	31/12/16	
Pole Star SA	33,584	33,708	
North Light SA	32,450	32,819	
TEB Participations SA	13,806	13,847	
Auxipar SA[1]	6,585	7,807	
Aviabel SA[2]	8,522	7,730	www.aviabel.be
Erasmus Garden SA	5,388	4,501	
Isabel SA	3,243	4,361	www.isabel.eu
Société Espace Léopold SA[3]	3,197	0	
Transfers Aviabel to "Non current assets (disposal group) held for sale and discontinued operations"[2]		(7,730)	
TOTAL	106,775	97,044	

(1) Belfius Bank and Arcopar have converted the documentation of the bilateral subordinated perpetual loans (issued by Belfius Bank and held by Arcopar, for EUR 85 million notional in total) to a documentation under EMTN program, in order to increase the marketability and liquidity of these instruments. This was part of the contract signed with Arco at year-end 2016. The agreement also included, among others, a potential purchase by Belfius of an additional stake in Auxipar, which is still under analysis.
(2) As at 31 December 2016, Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations". A sales agreement has been signed with the American insurance company Axis Capital, but it is subject to conditions that are yet to be fulfilled. We refer to note 10.2.
(3) The company Société Espace Léopold has been liquidated in 2016.

There are no significant restrictions on the equity method companies, on their ability to access or use assets, and settle liabilities, of the group.

Belfius Insurance has the right to preferred dividends from Auxipar.

We refer to note 10.3.3.

3. Financial information of the joint arrangements and associates evaluated through the equity method

(In thousands of EUR)	Assets	Liabilities	Equity	Net income	%	Annual report, as at
ASSOCIATES						
Aviabel SA[1]	155,308	116,339	38,970	3,913	20.00%	31/12/15
Auxipar SA	55,672	39,070	16,602	4,714	39.70%	31/12/15
Isabel SA	25,874	11,340	14,534	4,257	24.00%	31/12/15
TEB Participations SA	68,136	4,162	63,974	4,250	20.57%	31/12/15
JOINT VENTURES						
Pole Star SA[2]	97,665	91,333	6,332	1,306	60.00%	31/12/15
North Light SA	74,875	71,889	2,986	2,662	60.00%	31/12/15
Société Espace Léopold SA	6,138	319	5,818	2,530	50.00%	31/12/15
Erasmus Garden SA	29,881	23,609	6,273	6,674	50.00%	31/12/15

(1) The main items on the asset side are the investments by the insurance company for an amount of EUR 92.4 million. The main items on the liability side are the technical provisions for an amount of EUR 100 million.
(2) The company "Pole Star" is specialised in real estate. The main items on the asset side are the tangible fixed assets for an amount of EUR 83.4 million. The main items on the liability side are the financial debts for an amount of EUR 89 million.

There are no significant or material commitments towards the joint ventures.

There are no significant restrictions on the equity method companies, on their ability to access or use assets, and settle liabilities, of the group.

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

5.11. Tangible fixed assets

1. Net book value

(In thousands of EUR)	Land and buildings Own use owner	Land and buildings Own use finance lease	Office furniture and other equipment Own use owner	Office furniture and other equipment Own use finance lease	Investment property	Total
ACQUISITION COST AS AT 1 JANUARY 2015	**1,722,482**	**2,507**	**388,447**	**17**	**474,754**	**2,588,207**
Acquisitions(1)	77,032	0	6,901	767	7,958	92,658
Subsequent expenditures	8,113	0	0	0	6,385	14,498
Post-acquisition adjustments	0	0	0	0	2,632	2,632
Disposals(1)	(160,992)	0	(639)	0	(734)	(162,365)
Changes in scope of consolidation (in)	0	0	0	0	17,047	17,047
Transfers and cancellations(2)	(167,201)	0	(11,346)	0	122,841	(55,706)
ACQUISITION COST AS AT 31 DECEMBER 2015 (A)	**1,479,434**	**2,507**	**383,363**	**784**	**630,883**	**2,496,971**
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2015	**(896,986)**	**(2,392)**	**(319,916)**	**(17)**	**(71,716)**	**(1,291,027)**
Post-acquisition adjustments	0	0	0	0	0	0
Booked	(27,808)	(51)	(12,407)	(248)	(17,360)	(57,874)
Impairment: booked	0	0	0	0	(1,207)	(1,207)
Write-back(3)	120	0	0	0	0	120
Disposals	17,396	0	558	0	0	17,954
Changes in scope of consolidation (in)	0	0	0	0	(158)	(158)
Transfers and cancellations(2)	107,988	0	11,346	0	(84,324)	35,010
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2015 (B)	**(799,290)**	**(2,443)**	**(320,419)**	**(265)**	**(174,765)**	**(1,297,182)**
Accumulated amortisation	(751,832)	(2,443)	(320,419)	(265)	(173,558)	(1,248,516)
Accumulated impairment	(47,458)	0	0	0	(1,207)	(48,665)
NET BOOK VALUE AS AT 31 DECEMBER 2015 (A)+(B)	**680,144**	**64**	**62,944**	**519**	**456,118**	**1,199,789**

(1) Acquisitions include mainly leasing contracts for the construction of property. Disposals include the delivery of these leasing contracts and the assets are reclassed to loans and advances.

(2) The building Pacheco was transferred in 2015 from "buildings for own use" to "investment property". The building is available for rent as all personnel has moved to the Belfius Tower at Rogierplaats 11, B1210 Brussels.

(3) For more information regarding this impairment, see disclosure 7.13. "Impairment on tangible and intangible assets".

(In thousands of EUR)	Land and buildings – Own use owner	Land and buildings – Own use finance lease	Office furniture and other equipment – Own use owner	Office furniture and other equipment – Own use finance lease	Investment property	Total
ACQUISITION COST AS AT 1 JANUARY 2016	1,479,434	2,507	383,362	784	630,882	2,496,970
Acquisitions[1]	48,242	0	5,367	416	30,818	84,843
Subsequent expenditures	6,800	0	0	0	4,252	11,052
Disposals[2]	(86,579)	0	(353)	0	(104,974)	(191,907)
Transfers and cancellations[3]	(20,004)	0	(5,735)	0	(5,469)	(31,208)
Other movements	(8,887)	0	(972)	0	0	(9,859)
ACQUISITION COST AS AT 31 DECEMBER 2016 (A)	1,419,005	2,507	381,669	1,200	555,509	2,359,891
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2016	(799,290)	(2,443)	(320,419)	(265)	(174,765)	(1,297,181)
Post-acquisition adjustments	0	0	0	0	0	0
Booked	(30,203)	(10)	(10,402)	(394)	(14,923)	(55,933)
Impairment: booked	(1,036)	0	0	0	0	(1,036)
Write-back[4]	3,014	0	0	0	525	3,538
Disposals	24,427	0	249	0	22,454	47,129
Transfers and cancellations	15,330	0	5,735	0	4,968	26,033
Other movements	8,247	24	972	0	3	9,246
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2016 (B)	(779,512)	(2,429)	(323,865)	(659)	(161,738)	(1,268,204)
Accumulated amortisation	(734,495)	(2,429)	(323,865)	(659)	(161,087)	(1,222,535)
Accumulated impairment	(45,017)	0	0	0	(651)	(45,669)
NET BOOK VALUE AS AT 31 DECEMBER 2016 (A)+(B)	639,493	78	57,804	541	393,771	1,091,687

(1) Acquisitions include mainly leasing contracts for the construction of property. Disposals include the delivery of these leasing contracts and the assets are reclassed to loans and advances.
(2) Disposals include the delivery of the leasing contracts, the sale of bank agencies and the sale of the Royal Center.
(3) Mainly transfers to tangible assets held for sale.
(4) For more information regarding this impairment, see disclosure 7.13. "Impairment on tangible and intangible assets".

2. Fair value of investment property

(In thousands of EUR)	31/12/15	31/12/16
TOTAL	521,630	510,514
Fair value subject to an independent valuation	414,713	499,593
Fair value not subject to an independent valuation	106,917	10,922

5.12. Intangible assets

(In thousands of EUR)	Internally developed software	Other intangible assets(1)	Total
ACQUISITION COST AS AT 1 JANUARY 2015	287,829	79,249	367,078
Acquisitions	27,748	10,378	38,126
Disposals	(4)	(174)	(178)
Transfers and cancellations(2)	(42,350)	(6,467)	(48,817)
ACQUISITION COST AS AT 31 DECEMBER 2015 (A)	273,223	82,986	356,209
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2015	(211,326)	(66,003)	(277,329)
Booked	(40,064)	(5,661)	(45,725)
Disposals	1	0	1
Transfers and cancellations(2)	42,350	6,435	48,785
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2015 (B)	(209,039)	(65,229)	(274,268)
Accumulated amortisation	(193,358)	(65,228)	(258,587)
Accumulated impairment	(15,682)	0	(15,682)
NET BOOK VALUE AS AT 31 DECEMBER 2015 (A)+(B)	64,184	17,757	81,941

(1) Other intangible assets include mainly purchased software for EUR 17.8 million in 2015.
(2) Transfers and cancellations mainly include cancellations of own developed software.

(In thousands of EUR)	Internally developed software	Other intangible assets(1)	Total
ACQUISITION COST AS AT 1 JANUARY 2016	273,223	82,986	356,209
Acquisitions(2)	59,554	12,596	72,150
Transfers and cancellations(3)	(65,267)	6,467	(58,801)
ACQUISITION COST AS AT 31 DECEMBER 2016 (A)	267,510	95,582	363,092
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2016	(209,040)	(65,228)	(274,268)
Booked	(24,837)	(6,724)	(31,561)
Transfers and cancellations(3)	65,267	(6,435)	58,832
Other movements	0	6,446	6,446
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2016 (B)	(168,609)	(71,942)	(240,551)
Accumulated amortisation	(168,609)	(71,942)	(240,551)
Accumulated impairment	0	0	0
NET BOOK VALUE AS AT 31 DECEMBER 2016 (A)+(B)	98,901	23,640	122,541

(1) Other intangible assets include mainly purchased software for EUR 23.4 million in 2016.
(2) During the year internally developed software costs were capitalised. The internally developed software relates to several ongoing IT projects at Belfius. These projects relate to the further digitalisation of Belfius IT platforms and applications.
(3) Transfers and cancellations mainly include cancellations of own developed software.

5.13. Goodwill

(In thousands of EUR)	Positive goodwill[1]
ACQUISITION COST AS AT 1 JANUARY 2015	129,886
ACQUISITION COST AS AT 31 DECEMBER 2015 (A)	129,886
Accumulated amortisation as at 1 January 2015	(25,920)
Accumulated impairment as at 1 January 2015	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2015	(25,920)
Accumulated amortisation as at 31 December 2015	(25,920)
Accumulated impairment as at 31 December 2015	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2015 (B)	(25,920)
NET BOOK VALUE AS AT 31 DECEMBER 2015 (A)+(B)	103,966

(1) Positive goodwill relates to goodwill on Belfius Insurance.

(In thousands of EUR)	Positive goodwill[1]
ACQUISITION COST AS AT 1 JANUARY 2016	129,886
ACQUISITION COST AS AT 31 DECEMBER 2016 (A)	129,886
Accumulated amortisation as at 1 January 2016	(25,920)
Accumulated impairment as at 1 January 2016	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 1 JANUARY 2016	(25,920)
Accumulated amortisation as at 31 December 2016	(25,920)
Accumulated impairment as at 31 December 2016	0
ACCUMULATED AMORTISATION AND IMPAIRMENT AS AT 31 DECEMBER 2016 (B)	(25,920)
NET BOOK VALUE AS AT 31 DECEMBER 2016 (A)+(B)	103,966

(1) Positive goodwill relates to goodwill on Belfius Insurance.

The annual impairment test did not require an impairment on goodwill. The impairment test was performed by comparing the equity value of Belfius Insurance with the "value in use". This value in use was determined based on a discounted cash flow model with the following inputs:

- (i) financial plan for 5 years,
- (ii) discount rate: a cost of equity of 10% and
- (iii) a long term growth rate for Belgium of 0.5%.

Based on that scenario, a surplus could be identified, note that there have been no change in parameters compared to last year.

For 2015 and 2016, all scenarios (ranging from a growth rate from 0% to 2% and a discount rate of 6% to 12%) showed that no impairment was required. Only if the required Cost of equity (discount curve) would be 15% (2015) and 14% (2016) together with a growth rate of 0.5% (2015) and 0.0% (2016), an impairment would start to become necessary.

5.14. Deferred tax assets

1. Analysis

(In thousands of EUR)	31/12/15	31/12/16
Deferred income tax liabilities	(271,967)	(272,877)
Deferred income tax assets[1]	746,705	578,427
DEFERRED TAXES	474,738	305,549
Not recognised deferred tax assets	(181,083)	(172,579)
NET DEFERRED INCOME TAX ASSETS/(LIABILITIES)	293,655	132,970

(1) Decrease of deferred tax assets following the use of tax losses carried forward.

2. Movements

(In thousands of EUR)	2015	2016
AS AT 1 JANUARY	455,369	293,655
Movements of the year		
Statement of income charge/credit	(114,742)	(187,835)
Items related to "Other Comprehensive Income"	(46,972)	27,150
AS AT 31 DECEMBER	293,655	132,970

A. Deferred tax coming from assets of the balance sheet

	31/12/15		31/12/16	
(In thousands of EUR)	Total	Of which impact in result	Total	Of which impact in result
Loans and advances	180,832	14,686	141,218	(38,451)
Investments held to maturity	0	(3,568)	0	(3,708)
Financial assets available for sale	(1,148,550)	39,829	(1,161,960)	38,727
Derivatives	(721,146)	(975,892)	(535,156)	181,728
Fair value revaluation of portfolio hedge	(1,178,274)	199,853	(1,209,817)	(31,543)
Other	(11,966)	(16,703)	16,065	25,060
TOTAL	(2,879,104)	(741,795)	(2,749,650)	171,813

B. Deferred tax coming from liabilities of the balance sheet

	31/12/15		31/12/16	
(In thousands of EUR)	Total	Of which impact in result	Total	Of which impact in result
Financial liabilities measured at fair value through profit or loss	52,916	(33,976)	54,276	1,360
Technical provisions of insurance companies	274,486	(3,087)	323,095	(4,832)
Derivatives	2,396,928	704,091	2,240,106	(153,837)
Fair value revaluation of portfolio hedge	76,978	(22,951)	70,521	(6,457)
Other	178,915	47,443	130,975	(65,593)
TOTAL	2,980,223	691,520	2,818,973	(229,359)

(In thousands of EUR)	31/12/15 Total	31/12/15 Of which impact in result	31/12/16 Total	31/12/16 Of which impact in result
Deferred tax coming from the balance sheet	101,119	(50,275)	69,323	(57,546)
Not recognised deferred tax assets – temporary differences	(67,353)		(63,258)	
DEFERRED TAX – TEMPORARY DIFFERENCES	33,766		6,065	

C. Deferred tax coming from other elements

(In thousands of EUR)	31/12/15 Total	31/12/15 Of which impact in result	31/12/16 Total	31/12/16 Of which impact in result
Tax losses carried forward	373,619	(109,099)	236,226	(134,699)
TOTAL	**373,619**	**(109,099)**	**236,226**	**(134,699)**
Not recognised deferred tax assets – tax losses carried forward	(113,730)		(109,321)	
DEFERRED TAX COMING FROM OTHER ELEMENTS AFTER NOT RECOGNISED DEFERRED TAX ASSETS – TAX LOSSES CARRIED FORWARD	259,889		126,905	

(In thousands of EUR)	31/12/15	31/12/16
DEFERRED TAX BEFORE NOT RECOGNISED DEFERRED TAX	474,738	305,549
DEFERRED TAX AFTER NOT RECOGNISED DEFERRED TAX	293,655	132,970

3. Expiry date of not recognised deferred tax assets

Nature (In thousands of EUR)	31/12/15 Less than 1 year	> 1 year and ≤ 5 years	> 5 years	Unlimited maturity	Total
Tax losses carried forward	0	(35,569)	0	(78,161)	(113,730)
TOTAL	0	(35,569)	0	(78,161)	(113,730)

Nature (In thousands of EUR)	31/12/16 Less than 1 year	> 1 year and ≤ 5 years	> 5 years	Unlimited maturity	Total
Tax losses carried forward	(33,069)	0	0	(76,252)	(109,321)
TOTAL	(33,069)	0	0	(76,252)	(109,321)

The business plans of all entities, except for the entities managing the Side activities, show sufficient structural taxable profit to recognize temporary differences (DTA) on carry forward fiscal losses. The future profitability of the entities managing the Side activities, is uncertain. Hence, no DTA were recognized at these entities.

5.15. Other assets

(In thousands of EUR)	31/12/15	31/12/16
OTHER ASSETS	666,789	567,473
Accrued income	75,684	65,051
Deferred expenses	20,465	21,237
Payments in transit from clients	535,615	447,006
Inventories	897	1,046
Operational taxes	34,128	33,133
OTHER ASSETS SPECIFIC TO INSURANCE COMPANIES	502,988	436,916
Share of the reinsurers in the technical reserves	318,219	257,064
Receivables resulting from direct insurance transactions	67,372	69,810
Premiums to be issued	323	0
Deferred acquisition costs	8,979	8,353
Other insurance assets(1)	108,095	101,690
Impaired insurance assets	572	436
Less:		
Specific impairment	(572)	(436)
TOTAL	1,169,777	1,004,389

(1) Includes mainly claims on reinsurance entities.

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

(In thousands of EUR)	31/12/15(1)	31/12/16(2)
Assets of subsidiaries held for sale(1)(2)	3,339,266	7,730
Tangible and intangible assets held for sale	13,761	19,643
Other assets	1,501	1,399
TOTAL	3,354,528	28,772

(1) As at 31 December 2015, International Wealth Insurer SA was recorded as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations".
(2) As at 31 December 2016, Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations".

In 2015, Belfius Insurance has decided to activate the sale of its insurance participation in "International Wealth Insurer" following the strategy of Belfius to concentrate its activities in Belgium. Seeing that the sale was highly likely at year-end 2015, the assets and liabilities of IWI have been reclassified to "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" and presented separately from other assets and liabilities. The assets classified as "held for sale" are valued at their carrying amount or at their fair value less costs to sell.

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

Foyer SA., the largest financial privately owned group of Luxembourg, reached an agreement in June 2016 with Belfius Insurance on the acquisition of "International Wealth Insurer". The transaction was closed on 9 August 2016, there was a positive impact in result of EUR 8 million recorded in 2016.

As at 31 December 2016, Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations". A sales agreement has been signed with the American insurance company Axis Capital at year-end 2016, but it is subject to conditions that are yet to be fulfilled.

An overview is provided in annex 10.2.

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5.17. Leasing

1. Belfius as a lessor

A. Finance lease

(In thousands of EUR)	31/12/15	31/12/16
Gross investment in finance leases		
Not later than 1 year	777,637	829,742
> 1 year and ≤ 5 years	1,464,522	1,545,632
> 5 years	1,372,604	1,255,309
SUBTOTAL (A)	3,614,763	3,630,683
UNEARNED FUTURE FINANCE INCOME ON FINANCE LEASES (B)	520,769	453,536
NET INVESTMENT IN FINANCE LEASES (A)+(B)	3,093,994	3,177,147

(In thousands of EUR)	31/12/15	31/12/16
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	676,892	739,674
> 1 year and ≤ 5 years	1,239,234	1,341,568
> 5 years	1,177,868	1,095,906
TOTAL	3,093,994	3,177,147

(In thousands of EUR)	31/12/15	31/12/16
Amount of uncollectible finance lease payments included in the provision for loan losses at the end of the period	29,763	50,667
Residual values unguaranteed by lessees	244,479	262,469
Estimated fair value of finance lease	3,044,083	3,115,862
Accumulated allowance for uncollectible minimum lease payments	22,583	24,569

The main underlying assets in finance lease relate to:

- real estate such as office buildings, commercial real estate, industrial real estate;
- production equipment;
- cars and trucks, locomotives and vessels;
- alternative energy equipment (f.i. solar systems);
- IT equipment.

B. Operating lease

(In thousands of EUR)	31/12/15	31/12/16
Future net minimum lease receivables under non-cancellable operating leases are as follows:		
Not later than 1 year	28,451	14,754
> 1 year and ≤ 5 years	82,911	75,950
> 5 years	424,630	422,001
TOTAL	535,992	512,705

The main underlying assets in operating lease relate to:

- real estate;
- cars and trucks;
- IT equipment.

2. Belfius as a lessee

A. Finance lease

Amounts involved are immaterial. See note 5.11. "Tangible fixed assets".

B. Operating lease

(In thousands of EUR)	31/12/15	31/12/16
Future net minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	7,318	8,075
> 1 year and ≤ 5 years	26,473	27,931
> 5 years	22,405	22,840
TOTAL	56,196	58,847
Amount of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date:	4,331	4,733
Lease and sublease payments recognised as an expense during the period:		
Minimum lease payments	6,553	7,637
Contingent rents	8	0
TOTAL	6,561	7,637

The main underlying assets in operating lease relate to:

- IT equipment;
- cars.

5.18. Quality of financial assets

1. Analysis of loans and securities not subject to impairment

	Gross amount (A)	
(In thousands of EUR)	31/12/15	31/12/16
Loans and advances due from banks	24,323,435	22,006,758
Loans and advances to customers	86,688,077	88,971,723
Investments held to maturity	5,017,155	5,393,247
Financial assets available for sale	19,641,368	18,727,841
Of which Fixed-income instruments	*17,704,654*	*16,617,408*
Of which Equity instruments	*1,936,714*	*2,110,432*
TOTAL	135,670,035	135,099,569

2. Analysis of impaired loans and securities

	Gross amount (B)		Specific impairment (C)		Net amount (B)+(C)	
(In thousands of EUR)	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16
Loans and advances due from banks	5,353	2,149	(2,677)	(43)	2,676	2,106
Loans and advances to customers[1]	2,028,637	2,319,998	(1,158,443)	(1,261,638)	870,194	1,058,360
Financial assets available for sale	162,878	160,159	(70,681)	(68,210)	92,197	91,948
Of which Fixed-income instruments	*2,460*	*1,782*	*(840)*	*(840)*	*1,620*	*942*
Of which Equity instruments	*160,418*	*158,376*	*(69,841)*	*(67,370)*	*90,577*	*91,006*
TOTAL	2,196,868	2,482,306	(1,231,801)	(1,329,891)	965,067	1,152,414

(1) The increase of impairments on loans and advances to customers is mainly related to an additional impairment on US RMBS bonds in the Side portfolio. These bonds have been reclassified in the past from "Available for sale" to "Loans and advances".

3. Analysis of loans and securities

	Gross amount (A)+(B)		Specific impairment (C)		Net amount (A)+(B)+(C)	
(In thousands of EUR)	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16
Loans and advances due from banks	24,328,788	22,008,907	(2,677)	(43)	24,326,111	22,008,864
Loans and advances to customers	88,716,714	91,291,721	(1,158,443)	(1,261,638)	87,558,271	90,030,083
Investments held to maturity	5,017,155	5,393,247	0	0	5,017,155	5,393,247
Financial assets available for sale	19,804,246	18,887,999	(70,681)	(68,210)	19,733,565	18,819,789
Of which Fixed-income instruments	*17,707,114*	*16,619,191*	*(840)*	*(840)*	*17,706,274*	*16,618,351*
Of which Equity instruments	*2,097,132*	*2,268,809*	*(69,841)*	*(67,370)*	*2,027,291*	*2,201,438*
SUBTOTAL BEFORE COLLECTIVE IMPAIRMENT	137,866,903	137,581,875	(1,231,801)	(1,329,891)	136,635,102	136,251,983
Collective impairment (-)	0	0	0	0	(377,229)	(333,995)
TOTAL	137,866,903	137,581,875	(1,231,801)	(1,329,891)	136,257,873	135,917,988

VI. Notes on the liabilities of the consolidated balance sheet

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

6.1. Due to banks

1. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Demand deposits	124,907	766,077
Term deposits	442,161	571,177
Repurchase agreements	1,349,114	291,591
Central banks	1,652,590	3,232,230
Cash collateral received	7,919,944	7,191,558
Other borrowings	48,906	529,198
TOTAL	11,537,622	12,581,830

A significant decrease can be noted in repurchase agreements at year-end 2016.

This decrease was entirely offset by an increase in the funding from Central Bank.

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

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

6.2. Customer borrowings and deposits

1. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Demand deposits	19,732,552	23,185,142
Saving deposits	32,687,112	34,905,916
Term deposits	9,518,130	9,502,922
Other customer deposits	6,134,534	6,544,526
TOTAL CUSTOMER DEPOSITS	**68,072,328**	**74,138,507**
Repurchase agreements	70,082	20,756
Other borrowings	20,344	11,778
TOTAL CUSTOMER BORROWINGS	**90,426**	**32,533**
TOTAL	68,162,754	74,171,040

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

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

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6.3. Debt securities

1. Analysis by nature

(In thousands of EUR)	31/12/16	31/12/15
Certificates of deposit	3,985,301	5,305,648
Customer saving certificates	5,323,551	2,840,684
Non-convertible bonds(1)	11,096,725	7,366,918
Covered bonds(2)	7,371,975	8,468,179
TOTAL	27,777,552	23,981,430

(1) DSFB-4 notes were redeemed in full following the Optional Redemption Call over the course of 2016 for an amount of EUR 2.3 billion.
(2) The covered bonds programmes are explained below. The carrying value of the cover pool amount to EUR 9.9 billion in 2015 and EUR 10.6 billion in 2016.

The covered bonds programmes:
Belfius has two covered bond programmes:

- Mortgage Pandbrieven programme; and
- Public Pandbrieven programme.

The covering assets of the Mortgage Pandbrieven are mainly Belgian mortgage loans granted in accordance with the law on mortgage loans (law of 4 August 1992), through the branch network of Belfius. The covering assets of the Public Pandbrieven are mainly loans granted to Belgian public sector entities (municipalities, provinces, etc.).

The Belgian pandbrieven investors have a direct recourse to

- (i) the general estate of the issuing credit institution (i.e. repayment of the Belgian pandbrieven is an obligation of the issuing bank as a whole) and
- (ii) the segregated estate, that comprises the cover pool that is exclusively reserved for the Belgian pandbrieven investors under the specific program to which the segregated estate is joined and for the claims of other parties that are or can be identified in the issue conditions. Assets become part of the cover pool upon registration in a register held by the issuer for such purpose.

A detailed description of the covering assets (including the outstanding amount and the characteristics of the loans in the cover pool) can be consulted in the management report "Risk management" and in section "9.3. Information on asset encumbrance and collateral received" as well as:

- for the Mortgage Pandbrieven Programme on *https://www.belfius.com/EN/debt-issuance/Belgian-mortgage-pandbrieven-programme/index.aspx*
- for the Public Pandbrieven Programme on *https://www.belfius.com/EN/debt-issuance/Belgian-public-pandbrieven-programme/index.aspx*

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

6.4. Financial liabilities measured at fair value through profit or loss

(In thousands of EUR)	31/12/15	31/12/16
Financial liabilities held for trading	28,333	21,760
Financial liabilities designated at fair value(1)	6,888,136	7,502,491
TOTAL	6,916,469	7,524,251

(1) This category contains mainly "branch 23" products and long term funding securities.

FINANCIAL LIABILITIES HELD FOR TRADING

1. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Bonds issued by public sector	23,676	15,825
Other bonds	3,739	5,895
Equity instruments	918	40
TOTAL	28,333	21,760

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

1. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
Non-subordinated liabilities(1)	4,897,591	5,312,776
Unit-linked products	1,990,545	2,189,714
TOTAL	6,888,136	7,502,491

(1) It mainly concerns long term funding securities.

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

The category "Financial liabilities designated at fair value through profit or loss" is used in the following situations:

- for insurance activities: mainly (unit-linked) "branch 23" insurance contracts. The return of these unit-linked products belongs entirely to its policyholder.
- for banking activities: to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise; mainly in case of debt issues.

The methodology used to determine the fair value of "financial liabilities designated at fair value" is detailed in note 9.1.

6.5. Insurance contracts

1. General overview Life/Non-Life contracts

(In thousands of EUR)	31/12/15 Life branch 21 and 26	Life branch 23	Non-Life	Total	31/12/16 Life branch 21 and 26	Life branch 23	Non-Life	Total[3]
GROSS RESERVES[1]	15,572,361	0	1,116,210	16,688,571	14,805,380	0	1,184,944	15,990,324
Gross reserves – Share of reinsurers[2]	224,274	0	93,945	318,219	164,355	0	92,709	257,064
Gross earned premiums	789,371	0	587,042	1,376,413	766,435	0	619,708	1,386,143
Claims incurred and other technical expenses	(1,136,579)	18,941	(334,520)	(1,452,158)	(1,048,517)	10,698	(383,894)	(1,421,713)
Acquisition commissions	(62,801)	(14,797)	(110,866)	(188,464)	(60,870)	(13,389)	(117,970)	(192,229)
Technical result from ceded reinsurance	(2,028)	(23)	(19,621)	(21,672)	(3,059)	(5)	(23,916)	(26,980)
TOTAL TECHNICAL RESULT[3]	(412,037)	4,121	122,035	(285,881)	(346,011)	(2,696)	93,928	(254,779)

(1) Liabilities V. "Technical provisions of insurance companies".
(2) See note 5.15 "Other assets, table 2. Other assets specific to insurance companies".
(3) Statement of income IX. Premiums and technical income & X. Technical expense from insurance activities. In 2016 the technical margin on insurance activities was impacted by the cost of terrorist attacks, floods and an increase of the reserves for the product Civil Liability Cars.

2. Insurance contracts Life

A. Income and expenses

Technical result branch 21 and 26 (In thousands of EUR)	31/12/15 Insurance contracts	Investment contracts with DPF[1]	Total	31/12/16 Insurance contracts	Investment contracts with DPF[1]	Total
Gross premiums written	457,730	331,641	789,371	464,736	301,699	766,435
Change in gross unearned premium reserves (UPR)	0	0	0	0	0	0
GROSS EARNED PREMIUMS	457,730	331,641	789,371	464,736	301,699	766,435

(1) Discretionary participation feature (DPF).

(In thousands of EUR)	31/12/15	31/12/16
GROSS PREMIUMS WRITTEN LIFE	789,371	766,435
Direct business	789,371	765,998
Accepted reinsurance	0	437

(In thousands of EUR)	31/12/15 Insurance contracts	Investment contracts with DPF[1]	Total	31/12/16 Insurance contracts	Investment contracts with DPF[1]	Total
Gross claims paid	(454,302)	(1,454,452)	(1,908,754)	(591,487)	(1,295,002)	(1,886,489)
Changes in claims reserves	(6,854)	(10,653)	(17,507)	(4,865)	3,460	(1,405)
Changes in Life insurance reserves	(71,553)	877,369	805,816	83,165	736,468	819,633
Changes in profit sharing reserves	(2,214)	4,253	2,039	1,578	20,654	22,232
Changes in other technical reserves	356	0	356	8	0	8
Other technical income and charges	(11,093)	(7,434)	(18,527)	9,194	(11,690)	(2,496)
CLAIMS INCURRED AND OTHER TECHNICAL EXPENSES	(545,660)	(590,917)	(1,136,577)	(502,407)	(546,110)	(1,048,517)

(1) Discretionary participation feature (DPF).

	31/12/15			31/12/16		
(In thousands of EUR)	Insurance contracts	Investment contracts with DPF[1]	Total	Insurance contracts	Investment contracts with DPF[1]	Total
ACQUISITION COMMISSIONS	(26,015)	(36,786)	(62,801)	(31,096)	(29,774)	(60,870)

(1) Discretionary participation feature (DPF).

	31/12/15			31/12/16		
(In thousands of EUR)	Insurance contracts	Investment contracts with DPF[1]	Total	Insurance contracts	Investment contracts with DPF[1]	Total
Premiums ceded to reinsurers	(10,690)	(2)	(10,692)	(18,754)	0	(18,754)
Share of reinsurers in change of unearned premium reserves (UPR)	0	0	0	0	19	19
EARNED PREMIUMS – SHARE OF REINSURERS	(10,690)	(2)	(10,692)	(18,754)	19	(18,735)
Claims paid – share of reinsurers	2,568	0	2,568	107,611	0	107,611
Changes in claims reserves – share of reinsurers	354	0	354	71	0	71
Changes in Life insurance reserves – share of reinsurers	6,429	0	6,429	(63,148)	0	(63,148)
Changes in profit sharing reserves – share of reinsurers	(35)	0	(35)	693	0	693
Changes in other technical reserves – share of reinsurers	0	0	0	(14)	0	(14)
Other technical income and charges – share of reinsurers	(1,724)	0	(1,724)	(30,663)	0	(30,663)
CLAIMS INCURRED AND OTHER TECHNICAL EXPENSES – SHARE OF REINSURERS	7,592	0	7,592	14,550	0	14,550
Acquisition Commissions and profit sharing received from reinsurers	1,072	0	1,072	1,126	0	1,126
TECHNICAL RESULT FROM CEDED REINSURANCE	(2,026)	(2)	(2,028)	(3,078)	19	(3,059)

(1) Discretionary participation feature (DPF).

B. Changes in technical reserves

Change in unearned premium reserves

	31/12/15			31/12/16		
(In thousands of EUR)	Insurance contracts	Investment contracts with DPF[1]	Total	Insurance contracts	Investment contracts with DPF[1]	Total
Unearned premium reserves (UPR) as at 1 January	0	0	0	0	0	0
Gross change in unearned premium reserves (UPR) as at 31 December	0	0	0	0	0	0
Transferred unearned premium reserves (UPR)	0	0	0	0	0	0
GROSS CHANGE IN UNEARNED PREMIUM RESERVES (UPR)	0	0	0	0	0	0

(1) Discretionary participation feature (DPF).

Changes in claims reserves

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF[1]	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF[1]	31/12/16 Total
Claims reserves as at 1 January	56,560	57,670	114,230	62,993	68,323	131,316
Variation in opening due to variation of scope of consolidation	456	0	456	(962)	0	(962)
Claims reserves as at 31 December	(62,993)	(68,323)	(131,316)	(67,494)	(64,863)	(132,357)
Transferred claims reserves	(878)	0	(878)	598	0	598
GROSS CHANGE IN CLAIMS RESERVES	**(6,855)**	**(10,653)**	**(17,508)**	**(4,865)**	**3,460**	**(1,405)**

(1) Discretionary participation feature (DPF).

Changes in Life insurance reserves

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF[1]	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF[1]	31/12/16 Total
Life insurance reserves as at 1 January	4,308,839	11,642,159	15,950,998	4,718,200	10,540,093	15,258,293
Variation in opening due to conversion rate and to variation of scope of consolidation	360,728	0	360,728	(420,181)	0	(420,181)
Life insurance reserves as at 31 December	(4,718,200)	(10,540,093)	(15,258,293)	(4,639,050)	(9,651,232)	(14,290,282)
Transferred Life insurance reserves	(22,920)	(224,697)	(247,617)	424,196	(152,392)	271,804
GROSS CHANGE IN LIFE INSURANCE RESERVES	**(71,553)**	**877,369**	**805,816**	**83,165**	**736,469**	**819,634**

(1) Discretionary participation feature (DPF).

Changes in profit sharing reserve

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF[1]	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF[1]	31/12/16 Total
Profit sharing reserves as at 1 January	9,309	116,184	125,493	12,145	111,931	124,076
Variation in opening due to variation of scope of consolidation	1,497	0	1,497	(1,949)	0	(1,949)
Profit sharing reserves as at 31 December	(12,145)	(111,931)	(124,076)	(11,269)	(91,277)	(102,546)
Paid profit share	(356)	0	(356)	(269)		(269)
Transferred profit sharing reserve	(520)	0	(520)	2,920	0	2,920
GROSS CHANGE IN PROFIT SHARING RESERVE[2]	**(2,215)**	**4,253**	**2,038**	**1,578**	**20,654**	**22,232**

(1) Discretionary participation feature (DPF).
(2) This reserve includes the fund for future allocation.

Changes in other technical reserves

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF(1)	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF(1)	31/12/16 Total
Other technical reserves Life as at 1 January	0	0	0	396	0	396
Variation in opening due to variation of scope of consolidation	850	0	850	(396)	0	(396)
Other technical reserves Life as at 31 December	(396)	0	(396)	(388)	0	(388)
Transferred other technical reserves Life	(99)	0	(99)	396	0	396
GROSS CHANGE IN OTHER TECHNICAL RESERVES LIFE	355	0	355	8	0	8

(1) Discretionary participation feature (DPF).

C. Changes in technical reserves – share of reinsurers

Share of reinsurers in change of unearned premium reserves (UPR)

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF(1)	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF(1)	31/12/16 Total
Share of reinsurers in unearned premium reserves as at 1 January	0	0	0	0	0	0
Variation in opening due to variation of scope of consolidation	0	0	0	0	0	0
Share of reinsurers in unearned premium reserves as at 31 December	0	0	0	0	19	19
SHARE OF REINSURERS IN CHANGE IN UNEARNED PREMIUM RESERVES (UPR)	0	0	0	0	19	19

(1) Discretionary participation feature (DPF).

Changes in claims reserves – share of reinsurers

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF(1)	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF(1)	31/12/16 Total
Share of reinsurers in claims reserves as at 1 January	(1,058)	0	(1,058)	(1,428)	0	(1,428)
Variation in opening due to variation of scope of consolidation	(455)	0	(455)	481	0	481
Share of reinsurers in claims reserves as at 31 December	1,428	0	1,428	1,616	0	1,616
Share of reinsurers in transferred claims reserves	439	0	439	(598)	0	(598)
CHANGES IN CLAIMS RESERVES – SHARE OF REINSURERS	354	0	354	71	0	71

(1) Discretionary participation feature (DPF).

Changes in Life insurance reserves – share of reinsurers

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF(1)	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF(1)	31/12/16 Total
Share of reinsurers in Life insurance reserves as at 1 January	(11,555)	0	(11,555)	(221,743)	0	(221,743)
Variation in opening due to variation of scope of consolidation	0	0	0	210,091	0	210,091
Share of reinsurers in Life insurance reserves as at 31 December	221,743	0	221,743	158,948	0	158,948
Share of reinsurers in transferred Life insurance reserves	(203,759)	0	(203,759)	(210,444)	0	(210,444)
CHANGES IN LIFE INSURANCE RESERVES – SHARE OF REINSURERS	**6,429**	**0**	**6,429**	**(63,148)**	**0**	**(63,148)**

(1) Discretionary participation feature (DPF).

Changes in profit sharing reserves – share of reinsurers

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF(1)	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF(1)	31/12/16 Total
Share of reinsurers in transferred profit sharing reserve as at 1 January	(30)	0	(30)	(1,005)	0	(1,005)
Variation in opening due to variation of scope of consolidation	(1,010)	0	(1,010)	974	0	974
Share of reinsurers in transferred profit sharing reserve as at 31 December	1,005	0	1,005	3,647	0	3,647
Share of reinsurers in paid profit share	0	0	0	0	0	0
Share of reinsurers in transferred profit sharing reserve	0	0	0	(2,923)	0	(2,923)
CHANGES IN PROFIT SHARING RESERVES – SHARE OF REINSURERS	**(35)**	**0**	**(35)**	**693**	**0**	**693**

(1) Discretionary participation feature (DPF).

D. Losses resulting from liability adequacy test (LAT)

No losses result from the liability adequacy test.

E. Assets and Liabilities

Gross reserves

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF[1]	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF[1]	31/12/16 Total
Life insurance reserves	4,720,292	10,538,001	15,258,293	4,601,342	9,203,545	13,804,887
Reserves due to shadow accounting adjustments[2]	81,406	521,825	603,231	75,867	697,779	773,646
Variation due to variation of scope of consolidation IFRS 5[3]	(41,962)	(491,699)	(533,661)	0	0	0
TOTAL LIFE INSURANCE RESERVE	**4,759,736**	**10,568,127**	**15,327,863**	**4,677,209**	**9,901,324**	**14,578,533**
Claims reserves	62,993	68,323	131,316	67,494	64,863	132,357
Profit sharing reserve	12,145	111,932	124,077	11,269	82,795	94,064
Other technical reserves	396	0	396	426	0	426
Variation due to variation of scope of consolidation IFRS 5[3]	0	(11,290)	(11,290)	0	0	0
TOTAL GROSS TECHNICAL RESERVES LIFE	**4,835,270**	**10,737,092**	**15,572,362**	**4,756,398**	**10,048,982**	**14,805,380**

(1) Discretionairy participation feature (DPF).
(2) The increase in shadow accounting is due to the interest rate evolution combined with some methodological refinements.
(3) The change in consolidation scope in 2015 is linked to the decision to classify the Insurance subsidiary "International Wealth Insurer" (IWI) as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" as Belfius Insurance activated the sale of this subsidiary following the change in strategy to concentrate the activities more in Belgium. IWI has been sold in August 2016.

Share of reinsurers

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF[1]	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF[1]	31/12/16 Total
Share of reinsurers in Life insurance reserve	221,743	0	221,743	158,948	0	158,948
Share of reinsurers in claims reserves	1,428	0	1,428	1,617	0	1,617
Share of reinsurers in unearned premium reserves (UPR)	0	0	0	0	19	19
Share of reinsurers in profit sharing reserves	1,005	0	1,005	3,647	0	3,647
Share of reinsurers in other technical reserves	97	0	97	124	0	124
TOTAL SHARE OF REINSURERS IN TECHNICAL RESERVES LIFE	**224,273**	**0**	**224,273**	**164,336**	**19**	**164,355**

(1) Discretionary participation feature (DPF).

Discretionary participation feature included in equity

(In thousands of EUR)	31/12/15 Insurance contracts	31/12/15 Investment contracts with DPF[1]	31/12/15 Total	31/12/16 Insurance contracts	31/12/16 Investment contracts with DPF[1]	31/12/16 Total
Net discretionary participation feature included in equity	0	40,737	40,737	0	48,739	48,739

(1) Discretionary participation feature (DPF).

Reconciliation of changes in life insurance reserves

(In thousands of EUR)	2015 Gross amount contracts	2015 Reinsurance amount	2015 Net amount	2016 Gross amount contracts	2016 Reinsurance amount	2016 Net amount
LIFE INSURANCE RESERVES AS AT 1 JANUARY	16,739,918	11,555	16,728,363	15,327,863	221,745	15,106,118
Variation in opening due to variation of scope of consolidation	364,864	0	364,864	846	437	409
Net payment received/ premiums receivable	563,132	3,863	559,269	594,409	17,552	576,857
Additional reserves due to shadow accounting adjustments(1)	(185,690)	0	(185,690)	193,700	0	193,700
Claims paid	(1,913,410)	(313)	(1,913,097)	(1,854,388)	(107,130)	(1,747,258)
Results on death and on life	(76,797)	1,579	(78,376)	(73,599)	(3,466)	(70,133)
Attribution of technical interest	407,632	775	406,857	356,297	4,592	351,705
Other changes	(38,125)	204,286	(242,411)	33,405	25,218	8,187
Variation due to variation of scope of consolidation IFRS 5(2)	(533,661)	0	(533,661)	0	0	0
LIFE INSURANCE RESERVES AS AT 31 DECEMBER	15,327,863	221,745	15,106,118	14,578,533	158,948	14,419,585

(1) The increase in shadow accounting is due to the interest rate evolution combined with some methodological refinements.
(2) The change in consolidation scope in 2015 is linked to the decision to classify the Insurance subsidiary "International Wealth Insurer" (IWI) as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" as Belfius Insurance activated the sale of this subsidiary following the change in strategy to concentrate the activities more in Belgium. IWI has been sold in August 2016.

Classification of the reserve for life insurance branch 21 and 26 by guaranteed interest rate

Guaranteed interest rate (In thousands of EUR)	Classification of the reserve(1) 31/12/15		31/12/16	
> 4.00%	1,666,261	11%	1,549,235	11%
≤ 4.00%	1,937,734	13%	1,348,749	10%
≤ 3.50%	2,712,557	18%	1,938,933	14%
≤ 3.00%	3,391,610	22%	3,144,633	23%
≤ 2.50%	1,816,066	12%	1,470,507	11%
≤ 2.00%	2,915,885	19%	3,773,253	27%
Equal to 0%	583,777	4%	346,363	2%
Other	234,403	1%	233,214	2%
TOTAL	15,258,293	100%	13,804,887	100%

(1) Total gross technical reserves Life excluded shadow accounting adjustments.

3. Insurance contracts Non-Life

A. Income and expenses

(In thousands of EUR)	31/12/15	31/12/16
Gross premiums written	591,089	624,232
Change in gross unearned premium reserves (UPR)	(4,047)	(4,524)
GROSS EARNED PREMIUMS	587,042	619,708

(In thousands of EUR)	31/12/15	31/12/16
Gross claims paid	(302,733)	(318,270)
Changes in claims reserves	(29,234)	(63,282)
Changes in profit sharing reserves	(441)	(2,033)
Changes in other technical reserves	(1,229)	875
Other technical income and charges	(883)	(1,184)
CLAIMS INCURRED AND OTHER TECHNICAL EXPENSES	(334,520)	(383,894)

(In thousands of EUR)	31/12/15	31/12/16
Acquisition commissions insurance paid	(49,768)	(117,691)
Acquisition commissions brokers distribution paid	(61,098)	(279)
ACQUISITION COMMISSIONS	(110,866)	(117,970)

(In thousands of EUR)	31/12/15	31/12/16
Premiums ceded to reinsurers	(35,639)	(38,790)
Share of reinsurers in change of unearned premium reserves (UPR)	208	(1,810)
EARNED PREMIUMS – SHARE OF REINSURERS	(35,431)	(40,600)
Claims paid – share of reinsurers	18,917	12,543
Changes in claims reserves – share of reinsurers	(6,635)	692
Changes in profit sharing reserves – share of reinsurers	364	(59)
Changes in other technical reserves – share of reinsurers	(86)	(57)
Other technical income and charges – share of reinsurers	35	10
CLAIMS INCURRED AND OTHER TECHNICAL EXPENSES – SHARE OF REINSURERS	12,595	13,129
Acquisition Commissions and profit sharing received from reinsurers	3,215	3,555
TECHNICAL RESULT FROM CEDED REINSURANCE	(19,621)	(23,916)

B. Changes in technical reserves

Change in unearned premium reserves

(In thousands of EUR)	31/12/15	31/12/16
Unearned premium reserves (UPR) as at 1 January	118,280	122,327
Unearned premium reserves (UPR) as at 31 December	(122,327)	(126,890)
Transferred unearned premium reserves (UPR)	0	39
GROSS CHANGE IN UNEARNED PREMIUM RESERVES (UPR)	(4,047)	(4,524)

Change in claims reserves

(In thousands of EUR)	31/12/15	31/12/16
Claims reserves as at 1 January	913,758	955,618
Claims reserves as at 31 December	(955,618)	(1,018,900)
Transferred claims reserves	12,626	0
GROSS CHANGE IN CLAIMS RESERVES	(29,234)	(63,282)

Changes in profit sharing reserves

(In thousands of EUR)	31/12/15	31/12/16
Profit sharing reserves as at 1 January	151	591
Profit sharing reserves as at 31 December	(591)	(2,356)
Paid profit share	(516)	(268)
Transferred profit sharing reserve	516	0
GROSS CHANGE IN PROFIT SHARING RESERVE	(440)	(2,033)

Changes in other technical reserves

(In thousands of EUR)	31/12/15	31/12/16
Other technical reserves as at 1 January	35,444	37,674
Other technical reserves as at 31 December	(37,674)	(36,799)
Transferred other technical reserves	1,001	0
GROSS CHANGE IN OTHER TECHNICAL RESERVES	(1,229)	875

C. Changes in technical reserves - share of reinsurers

Share of reinsurers in change of unearned premium reserves (UPR)

(In thousands of EUR)	31/12/15	31/12/16
Share of reinsurers in unearned premium reserves as at 1 January	(1,793)	(2,002)
Share of reinsurers in unearned premium reserves as at 31 December	2,002	191
SHARE OF REINSURERS IN CHANGE IN UNEARNED PREMIUM RESERVES (UPR)	209	(1,811)

Changes in claims reserves - share of reinsurers

(In thousands of EUR)	31/12/15	31/12/16
Share of reinsurers in claims reserves as at 1 January	(97,806)	(91,171)
Share of reinsurers in claims reserves as at 31 December	91,171	91,863
CHANGES IN CLAIMS RESERVES - SHARE OF REINSURERS	(6,635)	692

Changes in profit sharing reserves – share of reinsurers

(In thousands of EUR)	31/12/15	31/12/16
Share of reinsurers in transferred profit sharing reserve as at 1 January	0	(364)
Variation in opening due to variation of scope of consolidation	0	0
Share of reinsurers in transferred profit sharing reserve as at 31 December	364	305
CHANGES IN PROFIT SHARING RESERVES – SHARE OF REINSURERS	364	(59)

Changes in other technical reserves - share of reinsurers

(In thousands of EUR)	31/12/15	31/12/16
Other technical reserves as at 1 January	(494)	(408)
Other technical reserves as at 31 December	408	351
CHANGES IN OTHER TECHNICAL RESERVES - SHARE OF REINSURERS	(86)	(57)

D. Losses resulting from liability adequacy test (LAT)

No losses result from the liability adequacy test.

E. Non-life insurance by product group

(In thousands of EUR)	Gross earned premiums	Claims incurred and other technical expenses	Acquisition commissions	Technical result from ceded reinsurance	Operating expenses	Net income on capital	Other	Total P&L
TOTAL AS AT 31 DECEMBER 2015	587,042	(334,520)	(110,866)	(19,622)	(122,511)	47,289	1,442	48,254
ACCEPTED REINSURANCE	1,844	(2,620)	(202)	227	(149)	688	(8)	(220)
DIRECT BUSINESS	585,198	(331,900)	(110,664)	(19,849)	(122,362)	46,601	1,450	48,474
All risks/accidents	85,554	(53,157)	(18,349)	(2,098)	(20,446)	9,209	(63)	650
Cars/third party liability	155,051	(87,940)	(25,430)	(1,165)	(34,315)	23,704	(118)	29,787
Cars/other branches	79,571	(46,035)	(11,865)	(926)	(18,051)	1,495	(7)	4,182
Credit and suretyship	0	(576)	0	0	(63)	157	(1)	(483)
Non-Life distribution	0	0	(899)	0	0	0	1,739	840
Health	30,571	(23,606)	(3,241)	440	(7,053)	3,376	(25)	462
Fire and other damage to property	198,184	(87,125)	(48,645)	(16,550)	(35,249)	7,363	(52)	17,926
Accidents at work	36,267	(33,461)	(2,235)	450	(7,185)	1,297	(23)	(4,890)

(In thousands of EUR)	Gross earned premiums	Claims incurred and other technical expenses	Acquisition commissions	Technical result from ceded reinsurance	Operating expenses	Net income on capital	Other	Total P&L
TOTAL AS AT 31 DECEMBER 2016	619,708	(383,894)	(117,970)	(23,916)	(132,211)	46,607	1,537	9,861
ACCEPTED REINSURANCE	2,158	(8,884)	(221)	(541)	(179)	1,253	(9)	(6,423)
DIRECT BUSINESS	617,550	(375,010)	(117,749)	(23,375)	(132,032)	45,354	1,546	16,284
All risks/accidents	94,900	(44,804)	(17,609)	(7,788)	(24,181)	8,707	(14)	9,211
Cars/third party liability	160,777	(103,531)	(26,860)	(7,241)	(36,456)	21,505	(25)	8,169
Cars/other branches	84,901	(50,366)	(15,075)	(796)	(20,355)	1,360	(1)	(332)
Credit and suretyship	0	0	0	0	(110)	151	0	41
Non-Life distribution	0	0	0	0	0	0	1,621	1,621
Health	30,906	(25,491)	(3,492)	515	(6,860)	3,123	(5)	(1,304)
Fire and other damage to property	207,983	(112,347)	(51,942)	(7,162)	(35,760)	7,162	(11)	7,923
Accidents at work	38,083	(38,471)	(2,771)	(903)	(8,310)	3,346	(19)	(9,045)

4. Assets and liabilities

A. Gross reserves

(In thousands of EUR)	31/12/15	31/12/16
Claims reserves	863,281	914,301
Reserves Unallocated Loss Adjustment Expenses (ULAE)	28,729	33,413
Reserves for claims incurred but not reported (IBNR)	63,609	71,186
GROSS RESERVES NON-LIFE	955,619	1,018,900
Other technical reserves	38,265	39,154
Unearned premium reserves (UPR)	122,327	126,890
TOTAL GROSS RESERVES NON-LIFE	1,116,211	1,184,944

B. Share of reinsurers

(In thousands of EUR)	31/12/15	31/12/16
Share of reinsurers in claims reserves	91,171	91,863
SHARE OF REINSURERS	91,171	91,863
Share of reinsurers in other technical reserves	772	655
Share of reinsurers in unearned premium reserves (UPR)	2,002	191
TOTAL SHARE OF REINSURERS IN TECHNICAL RESERVES NON-LIFE	93,946	92,709

C. Reconciliation of changes in claims reserves

	2015			2016		
(In thousands of EUR)	Gross amount contracts	Reinsurance amount	Net amount	Gross amount contracts	Reinsurance amount	Net amount
CLAIMS RESERVES AS AT 1 JANUARY	913,758	97,806	815,952	955,617	91,171	864,446
Claims paid on previous years	(136,645)	(13,218)	(123,427)	(137,273)	7,630	(144,903)
Change in claim charges on previous years	(43,035)	2,460	(45,495)	3,912	(6,965)	10,877
Liabilities on claims current year	221,539	4,123	217,416	196,644	26	196,618
CLAIMS RESERVES AS AT 31 DECEMBER	955,617	91,171	864,446	1,018,900	91,862	927,038

6.6. Provisions and contingent liabilities

1. Analysis of movements

(In thousands of EUR)	Pensions and other employment defined benefit obligations	Other long term employee benefits	Re-structuring[1]	Provisions for legal litigations[2]	Commitments and guarantees given (off balance sheet)	Onerous contracts	Other provisions	Total
AS AT 1 JANUARY 2015	165,658	18,976	169,904	52,127	14,750	5,694	50,060	477,169
Additional provisions	20,108	574	9,472	6,681	13,506	3,008	12,099	65,448
Amounts used	(2,465)	(1,437)	(58,292)	(1,073)	0	(3,494)	(11,810)	(78,571)
Unused amounts reversed	(309)	0	(1,435)	(13,287)	(16,399)	(440)	(11,199)	(43,069)
Transfers[3]	16,976	0	0	(14)	0	0	0	16,962
Provisions booked from/to equity[4]	(32,436)	0	0	0	0	0	0	(32,436)
Foreign exchange adjustments	0	0	0	2	38	0	0	40
AS AT 31 DECEMBER 2015	167,532	18,113	119,649	44,436	11,895	4,768	39,150	405,543

(1) As of 1 October 2013, within Belfius Bank an agreement was reached on a set of measures to reduce the cost and the number of employees with a direct impact on the pension obligations. This restructuring plan, called "Plan 2016", has changed significantly the policy concerning pension plans in Belfius Bank. The restructuring provision is reviewed annually and adjusted, where necessary, if the reality is different from the taken assumptions (e.g. higher number of people leaving the company, inflation, pension data ...). This is done to make sure that Belfius bank can meet its future obligations to the employees.
(2) The "Provision for legal litigations" contain mainly disputes with third parties, see below.
(3) The transfers relate mainly to certain employee benefits, that were formerly included in the technical reserves in 2014, and have been considered "defined benefit" plans in 2015.
(4) Following the new legislation on pension plans in 2015, the internally insured defined contribution plans, that were formerly included in the technical reserves, have been considered as "defined benefit" plans in 2015.

(In thousands of EUR)	Pensions and other employment defined benefit obligations	Other long term employee benefits	Re-structuring[1]	Provisions for legal litigations[2]	Commitments and guarantees given (off balance sheet)	Onerous contracts	Other provisions	Total
AS AT 1 JANUARY 2016	167,532	18,113	119,649	44,436	11,896	4,768	39,150	405,543
Additional provisions	52,989	5,216	16,543	3,084	6,566	1,130	4,240	89,768
Amounts used	(45,192)	(1,055)	(39,606)	(3,435)	0	(3,888)	(8,865)	(102,041)
Unused amounts reversed	(16,947)	(148)	1,192	(6,541)	(7,041)	0	(1,005)	(30,489)
Changes in scope of consolidation (out)[3]	0	0	0	(64)	0	0	0	(64)
Transfers	0	0	0	14	0	0	0	14
Provisions booked from/to equity[4]	49,418	0	0	0	0	0	0	49,418
Foreign exchange adjustments	0	0	0	(1)	94	0	0	93
AS AT 31 DECEMBER 2016	207,801	22,126	97,778	37,494	11,514	2,010	33,519	412,243

(1) The restructuring provision is reviewed annually and adjusted, where necessary, if the reality is different from the taken assumptions (e.g. higher number of people leaving the company, inflation, pension data ...). This is done to make sure that Belfius bank can meet its future obligations to the employees. What the planning for employees concerns, also in 2017 the focus will be on internal mobility and a strict policy on recruitment. This in combination with guiding employees who are no longer employable in the bank of the future, according to the process that is negotiated with the Trade Union partners.
(2) The "Provision for legal litigations" contain mainly disputes with third parties, see below.
(3) Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016 to Foyer SA.
(4) Actuarial gains or losses as a result of changed assumptions or deviations from the reality compared to the assumptions are processed through equity. The actuarial losses of 2016 are mainly due to a reduced discount rate compared to 2015, which is partially offset by experience gains and a return on assets that was higher than the actuarial assumption.

2. Post-employment benefits

In Belgium, each employee is eligible for a state pension plan. In addition, Belfius provides pension plan benefits for its employees and in some cases reimburses certain medical costs for active and retired employees.

Additional pension plans are mainly settled through the payment of a lump sum even though the option exists to receive a payment as an annuity.

Additional pension plans

The new legislation of 18/12/2015 with regard to ensuring the sustainability and the social character of supplementary pensions and to strengthen complementarity in relation to the legal retirement pension, included different aspects regarding additional pension plans.

The changes in legislation regarding employers' guaranteed interest rate on contributions for defined contribution plans make a calculation by the intrinsic method to valuate the pension obligations of the defined contribution plans was no longer appropriate and has been replaced by the "projected unit credit method".

End 2015, this methodology was applied by Belfius, and if according to this calculation a net liability arose, it was included in the liabilities of Belfius.

Other legislative amendments by end 2015 were integrated into the calculation of the liabilities by the end of 2016, including additonal rules regarding the time of payment of the supplementary pension and a ban on favorable anticipation.

In addition, the calculation of liabilities 2016 also takes into account the transitional measures for older workers.

Defined contribution plans *(= DC)*

Under defined contribution plans, the benefit upon retirement depends on the contributions to the plan, both employer and employee contributions, and the investment performance of the fund or insurance contract.

Belgian defined contribution pension plans are by Belgian law subject to minimum guaranteed rates of return on employer contributions and on employee contributions.

This compulsory return implies that Belgian defined contribution plans are defined benefit plans under the requirement of IAS 19.

There are several defined contribution plans within Belfius Bank. The main defined contribution plan is funded by employer and employee contributions. Employer contributions made to the plan are based on seniority and salary. Employee contributions are a fixed percentage of salary. The defined contribution plans of Belfius Bank are all managed in an OFP (organism for financing of pensions).

Belfius Insurance and Corona dispose of defined contribution pension plans (branch 21) for their employees (internal insured plans).

The guaranteed minimum return for which the employer is responsible, at the end, changed materially in 2015 following the new legislation.

If the pension plan is structured as a branch 21 group insurance, the so-called horizontal method is applicable. The reserves preserve their initial employers guarantee until the final payout. This means that the existing reserves as at 31/12/2015 are still subject to the existing guaranteed 3.25% on employee contributions and 3.75% on the employer contributions until departure. For future deposits, as from 01/01/2016 onwards, the guarantee becomes variable in function of the OLO 10 years interest rate with a minimum guarantee of 1.75% and a maximum guarantee of 3.75% (for the years 2016 and 2017, the guarantee is 1.75%).

For the defined contribution plans that are managed within an OFP (Organization for the Financing of Pensions) the so-called vertical method is applicable. This means that the existing guarantee of 3.25% on employers contributions and 3.75% on employee contributions only applies until 31/12/2015. For the year 2016 and 2017, the accumulated reserves as well as the new contributions are accrued to the minimum variable employer guaranteed interest rate (1.75%). Also here is the future yield guaranteed variable in function of OLO-10 year interest rate.

The defined contribution plans are treated as defined benefit plans for the consolidated financial statements. For those plans the liabilities are calculated upon the "projected unit credit" method which causes contributions to be increased based on the minimum return guarantee.

Since the contribution rates of the basic DC-plan of Belfius Bank and the DC-plan of Corona increase with seniority, the determination of the benefits granted to the already existing service time, also takes into account future contributions (the projected benefits for the entire career are multiplied by the ratio of past service time to the projected service time).

For the remaining DC-plans of Belfius is the calculation of the benefits awarded to the already existing service time just based on the already paid contributions.

In both cases, the maximum of the contributions increased according to the minimum efficiency guaranteed and the built actual reserves are taken into account.

The fair value of the qualifying (in the net pension obligation recognized) underlying assets of the defined contribution plans amounted to EUR 187,7 million end 2016.

Defined benefit plans *(=DB)*

Under defined benefit plans, the employee future benefit depends on various factors such as the employee's length of service and its final salary.

Considering that Belfius maintains benefit plans for employees mainly located in Belgium, the post-employment benefits are subject to the Belgian market practice and regulations (the plans abroad are not substantial).

Belfius Bank accounts liabilities for several defined benefit plans.

Before 2007, employees build up rights in these defined benefit plans, which could vary according to the time of entry into service and according the entity to which the employees are allocated.

As from 01/01/2007 new employees in Belfius Bank were no longer granted access to a defined benefit plan. Instead, a defined contribution plan was introduced for new employees.

Since 01/10/2013 the existing defined benefit plans of Belfius Bank have been closed and members can no longer add service time in these defined benefit plans. From that date, the defined benefit plans of Belfius Bank are managed dynamically which causes the final benefit only to be impacted by a change in salary. Since that date all employees new pension rights are allocated into the defined contribution plan of Belfius Bank.

The largest defined benefit plan of Belfius Bank is a group insurance at Ethias. The assets of this plan are managed in a seperate fund and are valued at market value.

The other two defined benefit retirement plans for employees of Belfius Bank are managed in an OFP. Seen the dynamical threatment of these two plans and the current sufficient funding no contributions were paid in 2016.

At Belfius Insurance new employees also enter into a defined contribution plan, but the employees who had a defined benefit plan still continue to build up rights into these defined benefit plans. The main defined benefit plan of Belfius Insurance is internally insured and consequently, the assets of the plan are not included in the reporting of the net pension liabilities.

A. Movement in the defined benefit liability (asset)

(In thousands of EUR)	Present value of obligation	Plan assets at fair value	Deficit/ (surplus)	Asset ceiling	Net liability/ (asset)
AS AT 1 JANUARY 2015	**1,810,971**	**(1,671,967)**	**139,004**	**26,653**	**165,657**
Service cost					
Current service cost	52,567	0	52,567	0	52,567
Past service cost and (gain)/loss on settlements	7,901	0	7,901	0	7,901
Administrative expenses	0	1,234	1,234	0	1,234
Interest income – Interest expense	35,107	(32,766)	2,341	553	2,894
(A) EXPENSE AND INCOME RECOGNIZED IN P&L	**95,575**	**(31,532)**	**64,043**	**553**	**64,596**
Remeasurements (gain)/loss					
Effect of changes in demographic assumptions	4,282	0	4,282	0	4,282
Effect of changes in financial assumptions	(62,484)	0	(62,484)	0	(62,484)
Effect of experience adjustments	17,894	0	17,894	0	17,894
Return on plan assets (excl. interest income)	0	(15,737)	(15,737)	0	(15,737)
Changes in the effect of asset ceiling (excluding interest income/ expense)	0	0	0	24,196	24,196
(B) REMEASUREMENTS (GAIN)/LOSS RECOGNIZED IN OCI	**(40,308)**	**(15,737)**	**(56,045)**	**24,196**	**(31,849)**
DEFINED BENEFIT COST INCLUDED (A)+(B)	**55,267**	**(47,269)**	**7,998**	**24,749**	**32,747**
Contributions					
Employer	0	(45,973)	(45,973)	0	(45,973)
Plan participants	3,132	(3,132)	0	0	0
Payments					
Benefit payments	(81,320)	79,063	(2,257)	0	(2,257)
Other					
Foreign exchange adjustments	2,256	(2,244)	12	(12)	0
Other(1)	17,358	0	17,358	0	17,358
AS AT 31 DECEMBER 2015(2)	**1,807,664**	**(1,691,522)**	**116,142**	**51,390**	**167,532**

(1) Following the new legislation on pension plans in 2015, the internally insured defined contribution plans, that were formerly included in the technical reserves, have been considered as "defined benefit" plans in 2015.

(2) By the end of 2015, 92.0% of the total pension liabilities are related to funded pension plans, 5.7% are related to non qualifying assets, and 2.2% are related to unfunded pension liabilities.

(In thousands of EUR)	Present value of obligation	Plan assets at fair value	Deficit/ (surplus)	Asset ceiling	Net liability/ (asset)
AS AT 1 JANUARY 2016	1,807,665	(1,691,521)	116,144	51,390	167,534
Service cost					
Current service cost	50,344	0	50,344	0	50,344
Past service cost and (gain)/loss on settlements[1]	(13,979)	0	(13,979)	0	(13,979)
Administrative expenses	0	1,154	1,154	0	1,154
Interest income – Interest expense	41,064	(38,566)	2,498	1,219	3,717
(A) EXPENSE AND INCOME RECOGNIZED IN P&L	77,429	(37,412)	40,017	1,219	41,236
Remeasurements (gain)/loss					
Effect of changes in demographic assumptions	8,850	0	8,850	0	8,850
Effect of changes in financial assumptions	143,772	0	143,772	0	143,772
Effect of experience adjustments	(39,802)	0	(39,802)	0	(39,802)
Return on plan assets (excl. interest income)	0	(52,861)	(52,861)	0	(52,861)
Changes in the effect of asset ceiling (excluding interest income/ expense)	0	0	0	(10,470)	(10,470)
(B) REMEASUREMENTS (GAIN)/ LOSS RECOGNIZED IN OCI	112,820	(52,861)	59,959	(10,470)	49,489
DEFINED BENEFIT COST INCLUDED (A)+(B)	190,249	(90,273)	99,976	(9,251)	90,725
Contributions					
Employer	0	(45,038)	(45,038)	0	(45,038)
Plan participants	2,954	(2,954)	0	0	0
Payments					
Benefit payments	(80,731)	75,387	(5,344)	0	(5,344)
Other					
Foreign exchange adjustments	(6,110)	6,180	70	(148)	(78)
AS AT 31 DECEMBER 2016[2]	1,914,027	(1,748,219)	165,808	41,991	207,799

(1) The negative pension costs linked to "past service cost" are related to the amendments to the Belgian legislation by the end of 2015 on early retirement and inclusion of pensions paid in capital.
(2) By the end of 2016, 92.4% of the total pension liabilities are related to funded pension plans, 5.7% are related to non qualifying assets, and 1.9% are related to unfunded pension liabilities.

B. Fair value of plan assets

(In thousands of EUR)	31/12/15	31/12/16
Plan assets at fair value		
Cash and cash equivalents	26,429	19,930
Equity instruments	215,692	213,509
Debt securities	1,297,596	1,344,476
Real estate	54,941	70,598
Insurance contracts	96,862	99,707
TOTAL	1,691,520	1,748,220

In 2016, 95.2 % of the plan assets at fair value is based on market quotes

In 2015, 95.4% of the plan assets at fair value is based on market quotes.

C. Assumptions for Belgian plans

	31/12/15	31/12/16
Discount rate[1]	2.32%	1.65%
Inflation rate	1.75%	1.75%
Salary growth rate (age-linked)	0.75%.-.2.25%	0.75%.-.2.25%

(1) The presentation of the assumption 2015 has been changed from a range presentation (2.10% - 2.70%) into a weighted average presentation (2.32%).

Assumptions

The determination of the updating interest rates is based on accrued interest curve consisting of AA corporate bonds.

Belfius used the Belgian mortality tables that through age corrections are adapted to the current longer service life.

The inflation rate is based on the long term estimates published by the European Central Bank.

D. Sensitivity[1] of the present value of the Defined Benefit Obligation at end of year to changes of assumptions

	-50 bps	+50 bps
Discount rate	6.39%	-5.70%
Inflation rate	-4.91%	5.50%
Real salary increase	-1.90%	2.37%

(1) If all other assumptions are held constant.

E. Weighted average duration of the benefit obligation

	31/12/15	31/12/16
Belgium	11,99	12,43

F. Risks and ALM

Several of Belfius Group defined benefit pension plans are insurance policies issued by Ethias. This is further explained in item 4 of the section "legal litigations".

The key risks to which pension plans managed by the Belfius pension fund (OFP) are exposed, relate to interest rate, inflation, longevity and age of retirement. The management of the pension plans has been delegated to an "Investment Committee" and is mainly liability driven in its investment policy. A formalised investment framework ("Statement of Investment Principles") has been set-up to ensure a well-diversified and dedicated investment portfolio. The pension plans' liabilities are evaluated at least once a year. On a regular basis, an ALM study (with cash flow analysis and stress tests) is performed to determine and analyse the sensitivities of the plans to i.e. interest rate and inflation shocks. These constitute an important driver for the investment committee in its deliberations on the asset allocation of the investment portfolio. Day-to-day management of this portfolio and the plans' liquidity aspects have been entrusted to an external asset manager who, on a regular basis, delivers a report of its activities to the investment committee.

3. Contingent liabilities

A. Commitments to Single Resolution Fund

Belfius has opted to pay part of its contribution of the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment is fully covered by cash collateral. See also note 8.5 "Commitments to Single Resolution Fund".

B. Legal litigations

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

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

With respect to certain other litigations against Belfius of which management is aware (and for which, according to the principles outlined above, no provision has been made), management is of the opinion, after due consideration of appropriate advice, that, while it is often not feasible to predict or determine the ultimate outcome of all pending litigations, such litigations are without legal merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in Belfius Statutory and Consolidated Financial Statements.

The most important cases are listed below, regardless of whether a provision has been made or not. Their description does not deal with elements or evolutions that do not have an impact on the position of Belfius. If the cases listed below were to be successful for the opposite parties, they could eventually result in monetary consequences for Belfius. Such impact remains unquantifiable at this stage.

Housing Fund of the Brussels Capital Region

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

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

There was no significant evolution in this claim during 2016.

No provision has been made for this claim.

BBTK and ACLVB

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

For procedural reasons with no impact on the merits of the case, on 26 November 2015, the labour court postponed the hearing first to 20 October 2016 and then again to 6 February 2017. Eventually, the case was pleaded on the hearing of 6 February 2017. At this hearing, the president of the labour court requested an opinion from the Labour Prosecutor in this case.

The Labour Prosecutor issued his opinion on 17 March 2017. This opinion is not binding for the labour court. The Prosecutor considers that Belfius Bank did not breach the right to collective bargaining, but states that the new "Plan Belfius 2016" cba's should be declared as "inexistent" based on a legal technical interpretation of certain form requirements from the CBA Act. Belfius Bank has valid arguments to refute the argumentation from the Prosecutor and will put everything in place to defend itself.

No provision has been recorded for this procedure as Belfius Bank remains confident that it has enough valid arguments to obtain a final settlement of this dispute in its favour and prove that the CBA Act was respected.

The judgment of the labour court in first instance is expected before 30 June 2017.

Arco – Cooperative shareholders

Belfius Bank has been summoned by Arco-shareholders in two separate procedures, whereby one procedure before the Commercial Court of Brussels and another procedure before the Court of First Instance of Turnhout:

→ On 30 September 2014, 737 shareholders from 3 companies of the Arco Group (Arcopar, Arcoplus and Arcofin) summoned Belfius Bank, together with the 3 aforementioned Arco companies, before the Brussels Commercial Court. Principally, they demand the annulment of their agreement to join the capital of these 3 companies as shareholder, based on deception or fallacy. They demand that the Court orders Belfius Bank in solidum with each of the 3 above mentioned Arco companies to repay their capital contributions, increased by interest and compensation. On an ancillary basis, they applied to the Commercial Court to order Belfius Bank to pay compensation based on an alleged shortcoming in its information duty towards them. Because the file submitted by the individual shareholders lacks information with respect to proof and assessment of damages, Belfius cannot assess the content of the claim and has to reject it.
  On 16 December 2014, 1,027 shareholders and on 15 January 2016, 466 other shareholders of the 3 above mentioned Arco companies joined the summons on a voluntary basis. Belfius has asked for their files so that it can evaluate the content of their claim.
  On 17 December 2015, 2,169 shareholders of the 3 above mentioned Arco companies issued a writ to the Belgian State for compulsory intervention. They demand that the Commercial Court orders the Belgian State to pay compensation based on the alleged illegality of the guarantee scheme the Belgian State enacted in favour of Arco shareholders. This demand is subordinated to their claims against Belfius Bank and has no negative impact on Belfius Bank.
  There was no further significant evolution in this claim during 2016.

→ Belfius Bank has also been summoned by three Arco-shareholders (Arcopar) on the 24 October 2016 to appear before the Court of First Instance of Turnhout. The claimants demand a compensation from Belfius Bank on the basis of a contractual, or at least an extra-contractual responsibility, because they find that Belfius Bank has given them misleading or at least incorrect advice.
Belfius' defence is currently being prepared, whereby the main objective is to show that Belfius Bank in this has committed no mistake at all. The case before the Court of First Instance of Turnhout will possibly be pleaded on 18 December 2017.
No provision has been made for these claims because Belfius Bank is of the opinion that she has sufficient valid arguments to convince the court to declare these claims inadmissible and/or without foundation. "

Ethias

In their new proposal of profit sharing regulations, Ethias claims unilaterally from Belfius Bank an exorbitant increase of costs for the management of a certain Belfius Bank group insurance. However, this is not in accordance with the existing agreements. In view of Belfius Bank's refusal on this increase, Ethias threatened to transfer unilaterally the pension plan assets which are currently managed in a separate fund towards Ethias' main fund. If Ethias should transfer the pensionplan assets into their main fund, Belfius Bank would be compelled to evaluate these assets based on Ethias' gurarenteed rates with a negative OCI impact as a consequence.

In order to prevent this, Belfius Bank has summoned Ethias before the Court in Brussels in summary proceedings on 23 December 2016. The judge has, via an injunction, prohibited Ethias from transferring the pension plan assets in their main fund. Ethias, has filed an appeal against this injunction. The appeal will be pleaded on 4 April 2017.

Belfius Bank has, on the basis of the existing agreements, also filed a procedure against Ethias to the Commercial Court of Brussels in order to prohibit Ethias to increase the management fees and to transfer unilaterally the pension plan assets towards Ethias' main fund .

The valuation of the assets remains end 2016 marked-to-market, consequently there's no OCI impact.

6.7. Subordinated debts

1. Analysis by nature

(In thousands of EUR)	31/12/15	31/12/16
CONVERTIBLE SUBORDINATED DEBT		
Loan capital perpetual subordinated notes	0	0
Loan capital non-perpetual subordinated notes	0	0
NON-CONVERTIBLE SUBORDINATED DEBT		
Loan capital perpetual subordinated notes	365,468	367,452
Loan capital non-perpetual subordinated notes	547,536	1,031,201
TOTAL	913,004	1,398,653
HYBRID CAPITAL AND REDEEMABLE PREFERENCE SHARES	0	0

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

2. Analysis by maturity and interest rate

See notes 9.4., 9.5. and 9.6.

3. Analysis of the fair value

See note 9.1.

5. Data for each subordinated debt

Ref. No.	Currency	Book value in thousands of currency units	Maturity date or method for determining the duration	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Conditions of compensations	Value in regulatory Tier2 capital (Phased In) in thousands EUR
1.(1)	EUR	15,000	15/07/2019	a) not applicable b) no specific conditions c) none	CMS linked(2)	7,607
2.(1)	EUR	40,000	03/12/2019	a) not applicable b) no specific conditions c) none	• if GBP libor 12 months < 5%: rate = GBP libor 12 months + 20bp • if GBP libor 12 mois ≥ 5%: rate = 7,55%	23,373
3.(1)	EUR	11,000	16/12/2019	a) not applicable b) no specific conditions c) none	CMS linked(2)	6,506
4.	EUR	29,956	01/03/2022	a) not applicable b) no specific conditions c) none	Euribor 3m + 43bp	29,956
5.	EUR	44,951	04/04/2022	a) not applicable b) no specific conditions c) none	6%	44,951
6.(3)	EUR	20,000	02/04/37 (call date: 02/04/2017)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each period of 5 years b) no specific conditions c) none	4,86%	0
7.(3)	EUR	20,000	01/03/47 (call date: 01/03/2017)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each period of 5 years b) no specific conditions c) none	5,04%	0
8.	EUR	17,500	undetermined (call date: 29/12/2023)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each period of 12 years b) no specific conditions c) none	IRS 12y + 200bp	17,500
9.	EUR	17,500	undetermined (call date: 29/12/2019)	a) possible with the agreement of the ECB, from the time of the call, then at the end of each period of 10 years b) no specific conditions c) none	IRS 10y + 200bp	17,500
10.	EUR	50,000	undetermined (call date: 15/07/2023)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each period of 12 years b) no specific conditions c) none	IRS 12y + 200bp	50,000
11.	EUR	65,904	undetermined (call date: 18/05/2016)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each interest period b) no specific conditions c) none	Euribor 6m + 187bp	65,904
12	GBP	150,000	09/02/2017	a) possible with the agreement of the ECB, from the date of the call, then at the end of each interest period b) no specific conditions c) none	GBP Libor 3m + 70bp	0
13.	USD	50,000	undetermined (call date: 25/02/2016)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each interest period b) no specific conditions c) none	USD Libor3m + 175bp	47,279
14.	USD	100,000	undetermined (call date: 21/03/2016)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each interest period b) no specific conditions c) none	USD Libor 3m + 175bp	94,558
15.(1)	JPY	10,000,000	11/09/2025	a) not applicable b) no specific conditions c) none	6,10%	81,054

(1) As the interest structure embedded in the contract is considered as not closely related to the host contract; it has been bifurcated and is presented as a separate derivative on the balance sheet.
(2) CMS: Constant Maturity Swap
(3) Calls have been notified to the investors.

Ref. No.	Currency	Book value in thousands of currency units	Maturity date or method for determining the duration	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Conditions of compensations	Value in regulatory Tier2 capital (Phased In) in thousands EUR
16.(1)	JPY	10,000,000	11/09/2025	a) not applicable b) no specific conditions c) none	6,05%	81,054
17.	EUR	72,000	undetermined (call date: 1/1/2025)	a) possible with the agreement of the ECB, from the date of the call, then at the end of each year b) no specific conditions c) none	6,25% till 01/01/2025, then: Euribor 3m + 417bp	72,000
18.	EUR	496,082	11/05/2026	a) not applicable b) no specific conditions c) none	3,125%	496,224

(1) As the interest structure embedded in the contract is considered as not closely related to the host contract; it has been bifurcated and is presented as a separate derivative on the balance sheet.

6.8. Other liabilities

(In thousands of EUR)	31/12/15	31/12/16
OTHER LIABILITIES (EXCEPT RELATING TO INSURANCE ACTIVITIES)	1,677,003	1,222,052
Accrued costs	101,503	112,180
Deferred income	35,130	33,204
Other granted amounts received	141	137
Salaries and social charges (payable)	134,243	139,196
Operational taxes	63,214	63,046
Pending payments to clients and debts to service providers	968,299	496,420
Pending payments from lease contracts	86,140	88,654
Pending payments from factoring activities	288,333	289,214
OTHER LIABILITIES SPECIFIC TO INSURANCE ACTIVITIES	379,558	313,900
Debts for deposits from assignees	303,849	239,078
Debts resulting from direct insurance transactions	51,011	53,176
Debts resulting from reinsurance transactions	24,565	21,615
Other insurance liabilities	133	31
TOTAL	2,056,561	1,535,952

6.9. Liabilities included in disposal group and discontinued operations

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

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

In 2015, Belfius Insurance has decided to activate the sale of its insurance participation in "International Wealth Insurer" following the strategy of Belfius to concentrate its activities in Belgium. Seeing that the sale was highly likely at year-end 2015, the assets and liabilities of IWI have been reclassified to "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations" and presented separately from other assets and liabilities. The assets classified as "held for sale" are valued at their carrying amount or at their fair value less costs to sell.

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

Foyer SA., the largest financial privately owned group of Luxembourg, reached an agreement in June 2016 with Belfius Insurance on the acquisition of "International Wealth Insurer". The transaction was closed on 9 August 2016, there was a positive impact in result of EUR 8 million recorded in 2016.

An overview is provided in annex 10.2.

VII. Notes on the consolidated statement of income

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

Significant items included in the statement of income

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

7.1. Interest income – interest expense

(In thousands of EUR)	31/12/15	31/12/16
INTEREST INCOME	4,672,441	3,983,201
INTEREST INCOME OF ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	3,418,204	3,124,601
Cash and balances with central banks	770	138
Loans and advances due from banks	43,262	43,177
Loans and advances to customers	2,611,723	2,400,730
Financial assets available for sale	635,464	536,965
Investments held to maturity	86,304	90,991
Interest on impaired assets	31,572	29,228
Other	9,109	23,372
INTEREST INCOME OF ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	1,254,237	858,599
Financial assets held for trading	28,849	20,173
Financial assets designated at fair value	0	0
Derivatives held for trading	471,914	354,201
Derivatives as hedging instruments	753,474	484,225
INTEREST EXPENSE	(2,648,756)	(2,039,969)
INTEREST EXPENSE OF LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(718,412)	(623,995)
Due to banks	(31,833)	(9,616)
Customer borrowings and deposits	(193,920)	(128,129)
Debt securities	(464,806)	(347,851)
Subordinated debts	(22,045)	(30,621)
Other	(5,808)	(107,778)
INTEREST EXPENSE OF LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	(1,930,344)	(1,415,974)
Financial liabilities held for trading	728	(747)
Financial liabilities designated at fair value	(180,139)	(122,437)
Derivatives held for trading	(324,197)	(261,094)
Derivatives as hedging instruments	(1,426,736)	(1,031,696)
NET INTEREST INCOME	2,023,685	1,943,232

The net interest income decreased with EUR 80 million mainly following the low interest rate environment and sales within the Belfius Insurance bond portfolio. The decrease in outstanding within the insurance portfolio, in line with market trends, resulted in a decrease of interest income on covering assets for Branch 21-26 insurance contracts at Belfius Insurance.

7.2. Dividend income

(In thousands of EUR)	31/12/15	31/12/16
Financial assets available for sale	60,507	87,510
Financial assets held for trading	1,140	723
TOTAL	61,647	88,233

7.3. Net income from equity method companies

(In thousands of EUR)	31/12/15	31/12/16
Income from equity method companies before tax	8,907	6,383
Share of tax	(615)	(1,365)
TOTAL	8,292	5,018

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

(In thousands of EUR)	31/12/15	31/12/16
Net trading income	24,498	47,057
Net result of hedge accounting	6,174	(27,835)
Net result of financial instruments designated at fair value through profit or loss and result from the related derivatives(1)	7,060	(2,352)
TOTAL	37,732	16,870

Despite the improved market environment during 2016, compared to year-end 2015, Belfius has recorded globally a more negative impact for fair value adjustments as it was significantly impacted by foreign exchange evolution, mainly due to GBP which was quite volatile following Brexit.
The total amount recorded on the balance sheet as credit value adjustments stands at EUR -182 million end 2016 (compared to EUR -250 million end 2015), whereas total amount on the balance sheet of the debit value adjustment recorded amounts to EUR +9 million end 2016 (and EUR +27 million end 2015). The total amount on the balance sheet related to funding value adjustments amounts to EUR -49 million end 2016 (compared to EUR -48 million end 2015). We refer to note 9.5 which gives a global overview of the market risks.

(1) Among which trading derivatives included in a fair value option strategy	(38,586)	9,864

Result of hedge accounting

(In thousands of EUR)	31/12/15	31/12/16
FAIR VALUE HEDGES	29,438	(7,466)
Fair value changes of the hedged item attributable to the hedged risk	28,956	41,843
Fair value changes of the hedging derivatives	482	(49,309)
PORTFOLIO HEDGE	(23,264)	(20,369)
Fair value changes of the hedged item	(876,458)	482,006
Fair value changes of the hedging derivatives	853,194	(502,376)
TOTAL	6,174	(27,835)

(In thousands of EUR)	31/12/15	31/12/16
DISCONTINUATION OF CASH FLOW HEDGE ACCOUNTING (CASH FLOWS STILL EXPECTED TO OCCUR) – AMOUNTS RECORDED IN INTEREST MARGIN	97	108

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

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

7.5. Net income on investments and liabilities

(In thousands of EUR)	31/12/15	31/12/16
Gains on Loans and advances	18,143	16,447
Gains on Financial assets available for sale(1)	269,408	212,082
Gains on Tangible fixed assets	13,274	8,976
Gains on Liabilities	0	236
Other gains	3,140	12,234
TOTAL GAINS	303,965	249,975
Losses on Loans and advances	(16,447)	(14,114)
Losses on Financial assets available for sale(2)	(202,393)	(111,736)
Losses on Investments held to maturity	(9)	(3)
Losses on Tangible fixed assets	(253)	(435)
Losses on Assets held for sale	(82)	(101)
Losses on Liabilities	(679)	(330)
Other losses(3)	(70,247)	(10,031)
TOTAL LOSSES	(290,110)	(136,750)
NET IMPAIRMENT	325	2,485
TOTAL	14,180	115,710

(1) A segregated fund has been reimbursed to the client. To that respect, the asset portfolio has been realized, generating important capital gains of EUR 50.8 million, compensated by additional insurance reserves for an identical amount, the cash and reserves were transferred back to the client. The total result impact of the reimbursement of a segregated fund is neutral.
(2) The result of 2015 was significantly impacted by derisking in the Side portfolio. Despite a continuous derisking in 2016, the "Net income on investments and liabilities" was positively impacted by more capital gains on the bond, funds and equities portfolio of Belfius Insurance.
(3) Note that the result in Side of derisking in the credit guarantees portfolio is recorded in the line "other".

Net impairment

	Specific risk		Total
(In thousands of EUR)	Allowances	Write-backs	
AS AT 31 DECEMBER 2015			
Securities available for sale	(3,418)	3,743	325
TOTAL	(3,418)	3,743	325

	Specific risk		Total
(In thousands of EUR)	Allowances	Write-backs	
AS AT 31 DECEMBER 2016			
Securities available for sale	(6,152)	8,637	2,485
TOTAL	(6,152)	8,637	2,485

Note that "Net income on investments and liabilities" includes write-offs and recoveries on impaired financial assets measured at "Financial assets available for sale" or "Investments held to maturity". More specifically, when financial assets classified at "Financial assets available for sale" or "Investments held to maturity" are disposed off or are impaired, Belfius records the realized result or impairment in "Net income on investments and liabilities". In addition, all realized gains and losses following disposals of tangible and intangible assets are reported in "Net income on investments and liabilities".

7.6. Fee and commission income – expense

	31/12/15			31/12/16		
(In thousands of EUR)	Income	Expense	Net	Income	Expense	Net
Commissions on unit trusts and mutual funds managed by third parties	187,379	(5,645)	181,734	194,649	(5,594)	189,055
Insurance activity	112,972	(6,601)	106,371	122,668	(10,578)	112,090
Credit activity	34,071	(10,853)	23,218	34,826	(9,073)	25,753
Purchase and sale of securities	24,357	(1,525)	22,832	19,151	(1,268)	17,883
Purchase and sale of unit trusts and mutual funds	53,330	(566)	52,764	30,314	(410)	29,904
Payment services	138,844	(46,666)	92,178	144,756	(54,044)	90,712
Commissions to not exclusive brokers	2,250	(13,896)	(11,646)	30,114	(20,281)	9,833
Services on securities other than safekeeping	3,750	(620)	3,130	3,015	(1,136)	1,879
Custody	17,893	(4,068)	13,825	18,208	(3,671)	14,537
Issues and placements of securities	3,861	(1,917)	1,944	1,723	(2,357)	(633)
Servicing fees of securitisation	363	(813)	(450)	284	0	284
Private banking	15,427	(5,438)	9,989	17,423	(4,022)	13,401
Clearing and settlement	7,079	(6,039)	1,040	7,877	(5,184)	2,694
Securities lending	92	(21)	71	100	(22)	78
TOTAL	601,668	(104,668)	497,000	625,109	(117,639)	507,470

A decrease in commission received from sale of unit trusts and mutual funds can be noted due to commercial actions. However an increase in commissions received from brokers via the fund management company Belfius Investment Partners was recorded.

7.7. Other income

(In thousands of EUR)	31/12/15	31/12/16
Operational taxes	1,042	8
Rental income from investment property	21,875	23,144
Other rental income	10,242	6,216
Write-back of provisions for litigations	25,369	9,423
Other income on other activities(1)	80,464	179,994
OTHER INCOME	138,992	218,785

(1) "Other income on other activities" includes other operational income from operating lease and other operational income. The increase of "Other income on other activities" is mainly linked to the realized gains on real estate projects. Note that the costs on these projects are recorded in "Other expense on other activities". The net result on these real estate project amounts to 7.8 million EUR.

7.8. Other expense

(In thousands of EUR)	31/12/15	31/12/16
Impairment on inventory	(2)	0
Sector levies[1]	(205,106)	(220,215)
Repair and maintenance on investment properties that generated income during the current financial year	(7,273)	(6,618)
Provisions for litigations	(2,294)	(300)
Other expense on other activities[2]	(97,110)	(154,134)
OTHER EXPENSE	**(311,785)**	**(381,267)**

(1) Sector levies are specific taxes for financial institutions, it includes (i) the Deposit Guarantee Scheme contributions, (ii) Subscription tax, (iii) Financial Stability Contribution and (iv) the contributions to the Single Resolution Fund. Belfius has opted to pay part of its contribution of the Single Resolution Fund through an Irrevocable Payment Commitment. This payment commitment is fully covered by cash collateral. Belfius has recorded EUR 10 million in its off balance sheet accounts.
(2) "Other expenses on other activities" includes other operational expenses for operating lease (other than rental expenses and contingent rents), depreciation and amortization on office furniture and equipment given in operational lease, other operational expenses, depreciation and amortization on investment property, and other operational taxes. The significant increase in "Other expense on other activities" is mainly linked to the realization of real estate projects. The net result on these real estate projects amounts to 7.8 million EUR.

7.9. Staff expense

(In thousands of EUR)	31/12/15	31/12/16
Wages and salaries	(438,953)	(420,573)
Social security and insurance costs	(134,080)	(123,001)
Pension costs – defined benefit plans[1]	(62,898)	(37,791)
Pension costs – defined contribution plans[1]	(879)	(577)
Other postretirement obligations (reversal/use)	(479)	(651)
Other long-term employee benefits	864	(4,014)
Restructuring expenses (reversal/use)[1]	36,745	19,906
Other expense	(10,739)	(13,501)
TOTAL	(610,419)	(580,201)

(1) We refer to note 6.6 "Provisions and contingent liabilities" for a detailed description.

Average FTE as at 31 December 2015	Belgium	Luxembourg[1]	Ireland	Fully consolidated
Senior Executives	155	4	2	161
Employees	6,275	75	8	6,358
TOTAL	6,430	79	10	6,519
of which banking group	5,179	2	10	5,191
of which Belins group	1,251	77	0	1,328

Average FTE as at 31 December 2016	Belgium	Luxembourg[1]	Ireland	Fully consolidated
Senior Executives	153	1	2	156
Employees	6,193	3	7	6,203
TOTAL	6,346	4	9	6,359
of which banking group	5,064	3	9	5,076
of which Belins group	1,282	1	0	1,283

(1) The decrease in FTE in Luxembourg is related to the sale of the subsidiary "International Wealth Insurer".

7.10. General and administrative expense

(In thousands of EUR)	31/12/15	31/12/16
Occupancy	(30,353)	(27,730)
Operating leases (except technology and system costs)	(7,409)	(7,297)
Professional fees	(38,939)	(34,794)
Marketing advertising and public relations	(36,675)	(44,948)
Technology and system costs	(155,257)	(157,495)
Software costs and research and development costs	(30,286)	(26,350)
Repair and maintenance expenses	(767)	(515)
Insurance (except related to pension)	(4,678)	(3,834)
Transportation of mail and valuable	(20,560)	(18,574)
Operational taxes	(50,592)	(51,245)
Other general and administrative expense	(57,318)	(77,051)
TOTAL	(432,834)	(447,364)

7.11. Depreciation and amortisation of fixed assets

(In thousands of EUR)	31/12/15	31/12/16
Depreciation of buildings	(30,537)	(30,365)
Depreciation of other tangible assets	(12,654)	(10,796)
Amortisation of intangible assets	(34,014)	(31,561)
TOTAL	(77,205)	(72,722)

7.12. Impairments on financial instruments and provisions for credit commitments

1. Collective impairment

(In thousands of EUR)	31/12/15	31/12/16
Allowances	(75,036)	(46,088)
Write-backs	50,413	75,734
TOTAL OF COLLECTIVE IMPAIRMENT ON LOANS	(24,623)	29,646

2. Specific impairment

	31/12/15				
(In thousands of EUR)	Allowances	Write-backs	Losses(1)	Recoveries	Total
Loans and advances due from banks	(2,562)	0	0	9,293	6,731
Loans and advances to customers(1)	(169,145)	175,168	(110,192)	26,701	(77,468)
Assets from insurance companies(2)	(207)	203	0	0	(4)
Other receivables	(194)	0	0	0	(194)
Commitments	(13,506)	16,399	0	0	2,893
TOTAL	(185,614)	191,770	(110,192)	35,994	(68,042)

(1) During 2015, significant derisking losses were recorded in view of Belfius' active tactical de-risking plan.
(2) Is presented under item XV. of the Assets.

(In thousands of EUR)	31/12/16 Allowances[1]	Write-backs	Losses	Recoveries	Total
Loans and advances due from banks	(43)	0	0	0	(43)
Loans and advances to customers[1]	(264,914)	158,383	(62,537)	23,644	(145,424)
Assets from insurance companies[2]	(123)	259	0	0	136
Other receivables	(759)	0	0	0	(759)
Commitments	(6,566)	7,041	0	0	475
TOTAL	(272,405)	165,684	(62,537)	23,644	(145,615)

(1) The additional allowance for specific impairment is mainly linked to US RMBS bonds in the Side portfolio for an outstanding amount of EUR 272 million.
(2) Is presented under item XV. of the Assets.

7.13. Impairment on tangible and intangible assets

(In thousands of EUR)	31/12/15	31/12/16
Impairment on investment property	(1,207)	525
Impairment on land and buildings	120	1,978
Impairment on intangible assets[1]	(11,711)	0
TOTAL	(12,798)	2,502

(1) Following the increased digitalisation, Belfius has reviewed in 2015 the (expected) economic use of its internally developped software and recorded, where necessary, exceptional impairments.

7.14. Impairment on goodwill

Nil

The annual impairment test did not require an impairment on goodwill. The impairment test was performed by comparing the equity value of Belfius Insurance with the "value in use". This value in use was determined based on a discounted cash flow model with the following inputs:

- (i) financial plan for 5 years,
- (ii) discount rate: a cost of equity of 10% and
- (iii) a long term growth rate for Belgium of 0.5%.

Based on that scenario, a surplus could be identified, note that there have been no change in parameters compared to last year.

For 2015 and 2016, all scenario's (ranging from a growth rate from 0% to 2% and a discount rate of 6% to 12%) showed that no impairment was required. Only if the required Cost of equity (discount curve) would be 15% (2015) and 14% (2016) together with a growth rate of 0.5% (2015) and 0.0% (2016), an impairment would start to become necessary.

7.15. Tax (expense) income

(In thousands of EUR)	31/12/15 Tax on current year result	31/12/15 Other tax expense	31/12/15 Total	31/12/16 Tax on current year result	31/12/16 Other tax expense	31/12/16 Total
Current tax expense / income: Income tax on current year	(60,303)		(60,303)	(57,904)		(57,904)
Current tax expense/income: Income tax on previous year		1,668	1,668		4,116	4,116
Current tax expense/income: Provision for tax litigations		(2,500)	(2,500)		(2,734)	(2,734)
TOTAL CURRENT TAXES			**(61,135)**			**(56,522)**
Deferred taxes on current year	(137,583)		(137,583)	(204,980)		(204,980)
Deferred taxes on previous year		22,845	22,845		17,230	17,230
TOTAL DEFERRED TAXES			**(114,738)**			**(187,750)**
TOTAL	**(197,886)**	**22,013**	**(175,873)**	**(262,884)**	**18,612**	**(244,272)**
STANDARD CALCULATED TAX RATE			**25,79%**			**31,34%**

Effective corporate income tax charge

(In thousands of EUR)	31/12/15	31/12/16
NET INCOME BEFORE TAX	**681,948**	**779,524**
Income and losses from companies accounted for by the equity method	8,292	5,018
TAX BASE (A)	**673,656**	**774,505**
Statutory tax rate	33,99%	33,99%
TAX EXPENSE USING STATUTORY RATE	**228,976**	**263,254**
Tax effect of rates in other jurisdictions	(423)	9,173
Tax effect of non-taxable revenues[1]	(12,696)	(35,112)
Tax effect of non-tax deductible expenses	20,078	30,315
Tax effect from reassessment of unrecognised deferred tax assets	15,004	10,807
Tax effect of change in tax rates	0	1,699
Items taxed at a reduced rate	(11,187)	(2,673)
Other increase (decrease) in statutory tax charge	(41,866)	(14,579)
TAX ON CURRENT YEAR RESULT (B)	**197,886**	**262,884**
Tax base	673,656	774,505
EFFECTIVE TAX RATE (B)/(A)	**29,4%**	**33,9%**

(1) Mainly definitively taxed income (dividends) and tax-exempted capital gains on shares.

Other notes to the consolidated financial statements

VIII. Notes on the consolidated off-balance sheet items

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

8.1. Regular way trade

(In thousands of EUR)	31/12/15	31/12/16
Loans to be delivered and purchases of assets	3,253,049	1,551,820
Borrowings to be received and sales of assets	4,399,154	1,295,247

8.2. Guarantees

(In thousands of EUR)	31/12/15	31/12/16
Guarantees given to credit institutions	1,263,913	1,337,642
Guarantees given to customers	4,349,497	4,027,258
Guarantees received from credit institutions(1)	1,236,105	918,144
Guarantees received from customers	29,550,054	29,875,666

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

8.3. Loan commitments

(In thousands of EUR)	31/12/15	31/12/16
Unused lines granted to credit institutions	266,883	738,843
Unused lines granted to customers	22,595,235	22,607,338
Unused lines obtained from credit institutions	0	8,648

8.4. Other commitments to financing activities

(In thousands of EUR)	31/12/15	31/12/16
Insurance activity – Commitments received	74,764	70,276
Banking activity – Commitments given[1]	23,404,829	22,534,469
Banking activity – Commitments received	69,159,763	69,838,280

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

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

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

The special estate of the mortgage covered bond program contains mainly residential mortgage loans for a total amount of EUR 7.3 billion (nominal) at the end of 2015 and EUR 8.4 billion (nominal) at the end of 2016.

See also note 6.3 "Debt securities".

8.5. Commitments to Single Resolution Fund

(In thousands of EUR)	31/12/15	31/12/16
Single Resolution Fund– Commitments given	0	9,517

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

8.6. Bond lending and bond borrowing transactions

(In thousands of EUR)	31/12/15	31/12/16
Securities lending	7,272	349,491
Securities borrowing	333,743	16

IX. Notes on risk exposure

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

9.1. Fair value

1. Fair value of financial instruments

A. Breakdown of fair value of assets

	31/12/15			31/12/16		
(In thousands of EUR)	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and balances with central banks	576,276	576,276	0	5,111,050	5,111,050	0
Loans and advances(1)	111,507,154	117,415,514	5,908,360	111,704,952	118,573,175	6,868,223
Investments held to maturity	5,017,155	5,090,770	73,615	5,393,247	5,428,785	35,537
Financial assets measured at fair value through profit or loss	3,222,991	3,222,991	0	2,985,979	2,985,979	0
Financial assets available for sale	19,733,565	19,733,565	0	18,819,789	18,819,789	0
Derivatives	25,943,567	25,943,567	0	25,307,222	25,307,222	0
Non current assets (disposal group) held for sale and discontinued operations	3,354,528	3,366,748	12,220	28,772	47,164	18,392

(1) The low interest rate environment caused again a significant number of prepayments in 2016 resulting in only a limited increase of the unrealized gain on "loans and advances" compared to 2015. Note that this unrealized gain has been approximated taking into account an internal estimate of the future potential prepayment rate.

B. Breakdown of fair value of liabilities

	31/12/15			31/12/16		
(In thousands of EUR)	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Borrowings and deposits	79,700,376	79,884,719	184,343	86,752,871	86,938,237	185,366
Financial liabilities measured at fair value through profit or loss	6,916,469	6,916,469	0	7,524,251	7,524,251	0
Derivatives	30,060,085	30,060,085	0	29,572,521	29,572,521	0
Debt securities	27,777,552	28,430,570	653,018	23,981,430	24,131,215	149,785
Subordinated debts	913,004	994,683	81,679	1,398,653	1,506,575	107,922
Liabilities included in disposal group and discontinued operations	3,243,438	3,243,438	0	0	0	0

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

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

The carrying amount does not include the "Fair value revaluation of portfolio hedge" as it is presented separately on the balance sheet. In 2015, the value of the hedged interest rate risk amount is EUR 4 373 million on the asset side and EUR 226 million on the liability side. End 2016, EUR 4 534 million on the asset side and EUR 207 million on the liability side are recognised on the balance sheet.

2. Analysis of fair value of financial instruments

A. Assets

	31/12/15			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Loans and advances	1,727,159	36,543,337	79,145,018	117,415,514
Investments held to maturity	4,693,941	240,271	156,558	5,090,770
SUBTOTAL	**6,421,100**	**36,783,608**	**79,301,576**	**122,506,284**
Financial assets measured at fair value through profit or loss	2,351,704	595,944	275,343	3,222,991
Financial assets available for sale	17,746,604	473,375	1,513,586	19,733,565
Derivatives	1,191	24,517,592	1,424,784	25,943,567
Non current assets (disposal group) held for sale and discontinued operations(1)	3,292,786	66,854	7,108	3,366,748
SUBTOTAL	**23,392,285**	**25,653,765**	**3,220,821**	**52,266,871**
TOTAL	**29,813,385**	**62,437,373**	**82,522,397**	**174,773,155**

(1) The "non current assets (disposal group) held for sale and discontinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer. IWI has been sold in 2H 2016.

	31/12/16			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Loans and advances	949,023	36,316,411	81,307,741	118,573,175
Investments held to maturity	4,909,451	346,760	172,574	5,428,785
SUBTOTAL	**5,858,474**	**36,663,170**	**81,480,315**	**124,001,960**
Financial assets measured at fair value through profit or loss	2,353,445	360,824	271,710	2,985,979
Financial assets available for sale	16,968,817	612,330	1,238,643	18,819,789
Derivatives	754	24,089,030	1,217,438	25,307,222
Non current assets (disposal group) held for sale and discontinued operations(1)	0	38,035	9,129	47,164
SUBTOTAL	**19,323,015**	**25,100,219**	**2,736,920**	**47,160,154**
TOTAL	**25,181,490**	**61,763,389**	**84,217,235**	**171,162,114**

(1) The "non current assets (disposal group) held for sale and discontinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer. IWI has been sold in 2H 2016.

B. Liabilities

	31/12/15			
(In thousands of EUR)	Level 1	Level 2	Level 3	Total
Borrowings and deposits	0	78,917,253	967,466	79,884,719
Debt securities	8,316,721	5,228,126	14,885,723	28,430,570
Subordinated debts	324,055	288,757	381,871	994,683
SUBTOTAL	**8,640,776**	**84,434,136**	**16,235,060**	**109,309,972**
Financial liabilities measured at fair value through profit or loss	2,018,093	2,345,307	2,553,069	6,916,469
Derivatives	5,908	28,910,713	1,143,464	30,060,085
Liabilities included in disposal groups and discontinued operations(1)	3,243,438	0	0	3,243,438
SUBTOTAL	**5,267,439**	**31,256,020**	**3,696,533**	**40,219,992**
TOTAL	**13,908,215**	**115,690,156**	**19,931,593**	**149,529,964**

(1) The "non current assets (disposal group) held for sale and discontinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer. IWI has been sold in 2H 2016.

(In thousands of EUR)	31/12/16 Level 1	Level 2	Level 3	Total
Borrowings and deposits	0	86,262,395	675,842	86,938,237
Debt securities	8,904,277	3,548,345	11,678,593	24,131,215
Subordinated debts	719,314	292,606	494,655	1,506,575
SUBTOTAL	9,623,591	90,103,346	12,849,090	112,576,027
Financial liabilities measured at fair value through profit or loss	2,210,594	2,631,860	2,681,797	7,524,251
Derivatives	1,290	28,584,283	986,949	29,572,521
Liabilities included in disposal groups and discontinued operations(1)	0	0	0	0
SUBTOTAL	2,211,884	31,216,143	3,668,745	37,096,772
TOTAL	11,835,475	121,319,489	16,517,836	149,672,799

(1) The "non current assets (disposal group) held for sale and discountinued operations" and the "liabilities included in disposal group and discontinued operations" relate mainly to the portfolio of International Wealth Insurer. IWI has been sold in 2H 2016.

3. Transfer between Level 1 and Level 2 fair value for assets and liabilities at fair value in the balance sheet

A. Assets at fair value in the balance sheet

	31/12/15		31/12/16	
(In thousands of EUR)	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1
Financial assets measured at fair value through profit or loss	0	0	67	0
Financial assets available for sale	10,510	67,761	85,153	5,641
TOTAL	10,510	67,761	85,220	5,641

B. Liabilities at fair value in the balance sheet

	31/12/15		31/12/16	
(In thousands of EUR)	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1
Derivatives	0	0	52	0
TOTAL	0	0	52	0

4. Reconciliation Level 3

A. Assets

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

(In thousands of EUR)	31/12/16 Opening balance	Total of unrealised gains and losses in P&L	Total gains/ losses in other comprehensive income	Purchases	Sale	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial assets measured at fair value through profit or loss	275,343	90,093		9,281	(99,054)	0	89	(4,042)	271,710
Financial assets available for sale	1,513,586	12,652	23,713	153,454	(61,651)	(10,509)	632	(393,233)	1,238,643
Derivatives	1,424,784	(148,532)		255,383	0	(282,188)	(40)	(31,970)	1,217,438
TOTAL	3,213,713	(45,787)	23,713	418,118	(160,705)	(292,697)	681	(429,245)	2,727,791

B. Liabilities

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

(In thousands of EUR)	31/12/16 Opening balance	Total of realised gains and losses in P&L	Purchases	Sale	Direct origination	Settlement	Transfers in Level 3	Transfer out of Level 3	Closing balance
Financial liabilities measured at fair value through profit or loss	2,553,069	2	727	(99)	138,387	0	0	(10,290)	2,681,797
Derivatives	1,143,464	(76,252)	184,517	0	0	(233,668)	10	(31,123)	986,949
TOTAL	3,696,533	(76,250)	185,245	(99)	138,387	(233,668)	10	(41,413)	3,668,745

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

5. Valuation techniques and data (level 1, 2 en 3)

Financial instruments measured at fair value (trading, designated at fair value through profit or loss, available for sale, derivatives)

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

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

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

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

Financial instruments for which no quoted market prices in active markets are available, are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume, bid- offer spread and the number of price/spread contribution. The models that Belfius uses range from standard models available in the market to in-house developed valuation models. Availability of some observable market prices and model inputs reduces the need for management judgement and estimation and the uncertainty associated with the determination of fair values. These availabilities vary depending on the products and markets and is subject to changes based on specific events and general conditions in the financial markets.

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

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

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

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

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

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

Following additional value adjustments are also applied within Belfius:

- Unearned credit spread: this value adjustment takes account of the possibility that a counterparty might default and part of the fair value cannot be recovered (Credit Value Adjustment) and of the creditworthiness of Belfius (Debit Value Adjustment). The Unearned credit spread is calculated both on collateralized and non collateralized derivatives. For collateralized derivatives with standard ISDA/CSA agreements, the unearned credit spread is calculated taking into account the Margin Period of Risk and the collateral exchanged. For uncollateralized derivatives an estimation is made of the expected exposures, by forecasting the future fair value of the derivative in line with market practice. These expected exposures are then multiplied by an expected loss indication. Seeing that the majority of these expected losses are not directly observable in the market, Belfius uses market-derived spreads on a mix of fundamental (or "through-the-cycle") information and information from the market (or "point-in-time"). These spreads are determined by means of a method based on cross-sections on a large universe of bonds and CDS spreads.
- Bid/ask adjustment: because the mid-market prices do not take account of the direction in which the deal was closed, the bid/ask adjustment does take account of this information so that the valuation will be closer to the exit price.
- Funding spread: this value adjustment takes into account the funding cost or benefit for uncollateralized transactions. For all uncollateralized transactions, a correction is made for the funding value adjustment based on the average funding cost of Belfius bank. This funding cost is determined by ALM taking into account the different funding sources.
- Market price uncertainty: value adjustment for uncertainty of market parameters.

- Model risk: this value adjustment is made if the assumptions used in a valuation model cannot be verified with sufficient accuracy.
- Cash-CDS adjustment: this adjustment takes into account the spread difference between the cash and corresponding derivatives.

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

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

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

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

General principles:

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

Interest-rate part:

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

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

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

Financial instrument	Non-observable items	Difference with alternative assumptions	Impact in P&L of alternative assumptions (in millions of EUR)	Impact in equity of alternative assumptions (in millions of EUR)
OTC swaps on Belgian inflation	Expectations in Belgian inflation	+30 bp	-3.70	
OTC derivatives on CMS spread	Correlation between CMS interest rates	+10%	0.70	
OTC swaps Bermudian Feature	Mean Reversion	1%	+1.33	
Collateralised Debt Obligation	Credit spread	-10 bp	-2.95	
Credit Default Swap	Credit spread	-10 bp	+1.12	
Illiquid bonds	Credit spread	-10 bp		+5.28

B. Valuation process

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

C. Transfers between valuation levels

The IFRS levels are dependent on an internal liquidity score. The liquidity score is distributed between very liquid (big score) and very illiquid (small score) bonds. A few bonds do not fall within these categories. The main events in 2016 (Brexit, US elections) changed some high scores to a lower scores, though this had little impact on the overall liquidity score. The impact on the bonds that do not fall within the very liquid or very illiquid categories was more severe, and we had some transfers from L1 to L2 (and vice versa).

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

No significant amounts are recognized as deferred Day One Profit or Loss (DOP) in 2015 nor in 2016.

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

9.2. Credit risk exposure

1. Analysis of total credit risk exposure

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

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

We refer to note 9.3.5 for further information.

A. Exposure by geographical region

(In thousands of EUR)	31/12/15	31/12/16
Belgium	119,556,446	121,528,561
France(1)	11,081,262	10,531,222
Germany	3,510,893	2,725,025
Greece(2)	419	351
Ireland	465,388	114,749
Italy	6,973,909	6,215,048
Luxembourg	748,577	789,965
Spain(3)	5,021,690	3,337,894
Portugal	147,832	97,247
Other EU countries(4)	3,691,041	7,032,319
Rest of Europe	1,091,849	1,002,171
Turkey	169,607	128,910
United Kingdom	11,614,379	11,283,008
United States and Canada	4,203,377	4,616,910
South and Central America	560,953	520,199
Southeast Asia	502,088	591,341
Japan	674,494	425,704
Other	1,865,520	1,485,301
TOTAL	171,879,724	172,425,925

(1) A decrease following rebalancing of the portfolio at Belfius Insurance.
(2) The exposure on Greece mainly concerns a small number of retail loans granted to residents in Greece having economical ties to Belgium and displaying good credit stance.
(3) The decrease is mainly linked to further tactical derisking of the Side portfolio (mainly Spanish covered bonds).
(4) Includes supranational entities, such as the European Central Bank. The significant increase is mainly related to an increase of the monetary reserves at the European Central Bank.

B. Exposure by category of counterparty

(In thousands of EUR)	31/12/15	31/12/16
Central governments	17,182,908	20,326,106
Public sector entities	51,509,503	50,331,570
Corporate	26,147,585	27,531,917
Monoline insurers[1]	3,613,271	4,174,649
ABS/MBS	1,834,341	1,403,080
Project finance	1,807,263	2,102,398
Individuals, SME, self-employed	40,548,548	42,336,114
Financial institutions[2]	29,197,658	23,557,744
Other	38,647	662,347
TOTAL	171,879,724	172,425,925

(1) Additional protection was bought to bring our concentration risk within the Risk Appetite framework.
(2) The decrease is mainly linked to further tactical derisking of the Side portfolio (mainly Spanish covered bonds).

C. Detail of most important countries per counterpart

	31/12/15						
(In thousands of EUR)	Central government bonds[1]	Financial institutions[2]	ABS/MBS	Public sector entities	Corporate - Project finance	Other	Total
Belgium	10,749,652	1,199,585	8,549	49,101,059	18,300,599	40,197,002	119,556,446
France	662,144	8,526,540	10,462	1,006,446	753,652	122,018	11,081,262
United Kingdom	0	3,842,836	322,244	57,334	4,445,536	2,946,429	11,614,379
Spain[2]	281,047	4,215,360	218,447	146,179	155,001	5,656	5,021,690
Italy	3,986,065	2,385,565	442,033	13	157,154	3,079	6,973,909
United States and Canada	0	1,751,146	404,077	60,644	1,297,290	690,220	4,203,377
TOTAL	15,678,908	21,921,032	1,405,812	50,371,675	25,109,232	43,964,404	158,451,063

(1) Direct exposure.
(2) Mainly covered bonds.

	31/12/16						
(In thousands of EUR)	Central government bonds[1]	Financial institutions[2]	ABS/MBS	Public sector entities	Corporate - Project finance	Other	Total
Belgium	7,952,753	1,257,059	484	47,623,897	20,350,166	44,344,202	121,528,561
France	644,251	7,725,651	15,944	1,274,326	747,922	123,128	10,531,222
United Kingdom	0	3,891,958	315,337	48,453	4,036,805	2,990,455	11,283,008
Spain[2]	269,031	2,574,807	186,267	145,906	155,791	6,092	3,337,894
Italy	3,837,706	2,071,700	155,620	0	144,197	5,825	6,215,048
United States and Canada	0	1,609,973	396,924	62,749	1,337,696	1,209,568	4,616,910
TOTAL	12,703,741	19,131,148	1,070,576	49,155,331	26,772,577	48,679,270	157,512,643

(1) Direct exposure.
(2) Mainly covered bonds.

2. Credit quality of financial assets not impaired

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

(In thousands of EUR)	31/12/16 AAA to AA-	A+ to BBB-	Non-investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	9,504,448	6,276,805	171,375	143,195	16,095,823
Financial assets designated at fair value (excluding variable income securities)	0	1,756	0	0	1,756
Financial assets held for trading (excluding variable income securities)	65,326	643,565	1,878	1,220	711,989
Loans and advances (at amortised cost)	40,904,502	38,418,879	16,271,755	1,938,639	97,533,775
Investments held to maturity	3,021,903	2,368,806	2,538	0	5,393,247
Derivatives	2,593,590	14,248,141	243,098	103,484	17,188,313
Other financial instruments - at cost	483,863	114,083	15,694	666,159	1,279,799
Loan commitments granted	13,203,494	7,235,762	3,880,070	160,684	24,480,010
Guarantee commitments granted	2,033,694	4,701,326	909,423	59,410	7,703,853
TOTAL	71,810,820	74,009,123	21,495,831	3,072,791	170,388,565

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

3. Information on past-due or impaired financial assets

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

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

(In thousands of EUR)	31/12/16			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	≤ 90 days	> 90 days ≤ 180 days	> 180 days	
Financial assets available for sale (excluding variable income securities)	0	0	0	1,782
Loans and advances (at amortised cost)	556,709	19,479	25,253	2,322,147
Investments held to maturity	0	0	0	0
Other financial instruments - at cost	0	0	0	5,459
TOTAL	556,709	19,479	25,253	2,329,388

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

4. Forbearance

(In thousands of EUR)	31/12/15			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
			Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
Debt Instruments at Amortised cost	740,971	(104,088)	244,947	8,160
Loan commitments - given	37,694	0	14,833	160

(In thousands of EUR)	31/12/16			
	Gross carrying amount of exposures with forbearance measures	Impairment	Collateral received and financial guarantees received	
			Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
Debt Instruments at Amortised cost	631,284	(109,278)	309,424	5,981
Loan commitments - given	20,714	0	15,033	338

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

5. Movements in allowances for credit losses

(In thousands of EUR)	As at 1 January 2015	Utilisation	Amounts set aside for estimated probable loan losses	Amounts reversed for estimated probable loan losses	Other	As at 31 December 2015	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
SPECIFIC ALLOWANCES FOR INDIVIDUALLY AND COLLECTIVELY ASSESSED FINANCIAL ASSETS	(1,224,989)	76,480	(174,948)	102,183	(10,527)	(1,231,801)	35,994	(89,936)
Loans and advances due from banks	0	0	(2,562)	0	(115)	(2,677)	9,293	0
Loans and advances to customers	(1,156,319)	72,985	(169,145)	102,183	(8,147)	(1,158,443)	26,701	(89,936)
Investments held to maturity	0	0	0	0	0	0	0	0
Financial assets available for sale	(68,670)	3,495	(3,241)	0	(2,265)	(70,681)	0	0
Of which Fixed-income instruments	*0*	*0*	*(840)*	*0*	*0*	*(840)*	*0*	*0*
Of which Equity instruments	*(68,670)*	*3,495*	*(2,401)*	*0*	*(2,265)*	*(69,841)*	*0*	*0*
ALLOWANCES FOR INCURRED BUT NOT REPORTED LOSSES ON FINANCIAL ASSETS	(350,337)	0	(75,036)	50,413	(2,269)	(377,229)	0	0
Loans and advances due from banks	(9,201)	0	(3,940)	5,104	(72)	(8,109)		
Loans and advances to customers	(341,136)	0	(71,096)	45,309	(2,197)	(369,120)		
TOTAL	(1,575,326)	76,480	(249,984)	152,596	(12,796)	(1,609,030)	35,994	(89,936)

(In thousands of EUR)	As at 1 January 2016	Utilisation	Amounts set aside for estimated probable loan losses(1)	Amounts reversed for estimated probable loan losses	Other	As at 31 December 2016	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
SPECIFIC ALLOWANCES FOR INDIVIDUALLY AND COLLECTIVELY ASSESSED FINANCIAL ASSETS	(1,231,801)	36,895	(260,359)	130,126	(4,753)	(1,329,891)	23,644	(48,220)
Loans and advances due from banks	(2,677)	0	(43)	0	2,677	(43)	0	0
Loans and advances to customers(1)	(1,158,443)	28,257	(254,163)	130,126	(7,415)	(1,261,638)	23,644	(48,220)
Investments held to maturity	0	0	0	0	0	0	0	0
Financial assets available for sale	(70,681)	8,637	(6,152)	0	(14)	(68,210)	0	0
Of which Fixed-income instruments	*(840)*	*0*	*0*	*0*	*0*	*(840)*	*0*	*0*
Of which Equity instruments	*(69,841)*	*8,637*	*(6,152)*	*0*	*(14)*	*(67,370)*	*0*	*0*
ALLOWANCES FOR INCURRED BUT NOT REPORTED LOSSES ON FINANCIAL ASSETS	(377,229)	0	(46,088)	75,734	13,588	(333,995)	0	0
Loans and advances due from banks	(8,109)	0	(2,764)	4,787	(225)	(6,311)	0	0
Loans and advances to customers	(369,120)	0	(43,324)	70,947	13,813	(327,684)	0	0
TOTAL	(1,609,030)	36,895	(306,446)	205,860	8,835	(1,663,887)	23,644	(48,220)

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

6. Credit risk information for loans designated at fair value through profit or loss

Amounts involved are immaterial. See note 5.7 "Financial assets measured at fair value through profit and loss".

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7. Credit risk information about financial liabilities designated at fair value through profit or loss

As at 31 December 2015 (In thousands of EUR)	Book value	Amount of change in the fair value attributable to changes in the credit risk of the liability: Change of the period	Amount of change in the fair value attributable to changes in the credit risk of the liability: Cumulative amount	Difference between carrying amount of the financial liability and contractual amount required to be paid at maturity[1]
	6,888,136	0	0	133,575

(1) This amount includes the premium/discount and the change in market value.

As at 31 December 2016 (In thousands of EUR)	Book value	Amount of change in the fair value attributable to changes in the credit risk of the liability: Change of the period	Amount of change in the fair value attributable to changes in the credit risk of the liability: Cumulative amount	Difference between carrying amount of the financial liability and contractual amount required to be paid at maturity[1]
	7,502,491	0	0	134,220

(1) This amount includes the premium/discount and the change in market value.

9.3. Information on asset encumbrance and collateral received

1.1. Assets

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

	31/12/16			
(In thousands of EUR)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	0	0	1,730,450	1,730,450
Debt securities	3,125,031	3,387,770	13,535,258	25,789,008
Loans and advances	33,167,553		68,937,353	
of which cash collateral given	17,461,903			

1.2. Collateral received

	As at 31 December 2015		As at 31 December 2016	
(In thousands of EUR)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	1,220,459	7,320,320	586,825	6,010,392
Equity instruments	0	263,145	0	47,735
Debt securities	1,220,459	7,057,175	586,825	5,962,657
Own debt securities issued other than own covered bonds or ABS	0	462,287	0	379,894

2. Summary encumbrance by source

As at 31 December 2015 (In thousands of EUR)	Encumbered assets						Total
	Loans and advances	Debt securities					
		Financial assets available for sale	Investments held to maturity	Loans and advances	Financial assets held for trading	Fair value of encumbered collateral received or own debt securities issued	
SOURCE OF ENCUMBRANCE							
Derivatives – collateral	17,795,000	628,299	33,142	88,114	243,262	428,043	19,215,860
Repurchase agreements	128,235	475,268	25,892	142,723	18,473	295,414	1,086,005
Collateralised deposits other than repurchase agreements	316,596	290,699		120,617		352,721	1,080,633
Central bank funding	1,737,661	385	59,656	88,114			1,885,816
Covered bonds issued	9,864,504						9,864,504
Asset-backed securities issued	3,241,529						3,241,529
Fair value of securities borrowed with non cash-collateral	595,000	126,434		224,566		15,000	961,000
Other	160,562	242,552	71,860	154,635	5,116	129,281	764,006
TOTAL	**33,839,087**	**1,763,637**	**190,550**	**818,769**	**266,851**	**1,220,459**	**38,099,353**

As at 31 December 2016 (In thousands of EUR)	Encumbered assets						Total
	Loans and advances	Debt securities					
		Financial assets available for sale	Investments held to maturity	Loans and advances	Financial assets held for trading	Fair value of encumbered collateral received or own debt securities issued	
SOURCE OF ENCUMBRANCE							
Derivatives – collateral	17,461,903	758,699				224,353	18,444,955
Repurchase agreements		197,379	608,987	122,195	6,147	8,348	943,055
Collateralised deposits other than repurchase agreements	787,328	474,120	0	84,520	0	131,983	1,477,951
Central bank funding	2,757,255	0	138,653	294,518		0	3,190,426
Covered bonds issued	10,600,331	0	0	0	0	0	10,600,331
Asset-backed securities issued	586,973	0	0	0	0	0	586,973
Fair value of securities borrowed with non cash-collateral	597,381		0	0	0	0	597,381
Other	376,382	180,386	155,181	104,231	16	222,141	1,038,337
TOTAL	**33,167,553**	**1,610,584**	**902,820**	**605,464**	**6,163**	**586,825**	**36,879,409**

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

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

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

The collateral pledged to the European Central Bank amounts to EUR 7.0 billion by the end of 2016 of which EUR 3.2 billion encumbered (EUR 7.7 billion end 2015 of which EUR 1.9 billion encumbered).

This amount of assets pledged is composed of EUR 3.2 billion to collateralise the TLTRO II funding of EUR 3.0 billion and EUR 3.8 billion which is available.

The assets pledged to collateralise the TLTRO funding are composed of EUR 2.8 billion public, SME and mortgage loans (through securitisation vehicle Penates) and of EUR 0.4 billion bonds.

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

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

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

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

3. Encumbered assets/collateral received and associated liabilities

(In thousands of EUR)	As at 31 December 2015		As at 31 December 2016	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered
Carrying amount of selected financial liabilities	32,403,964	36,351,549	32,079,503	35,243,691

4. Transfer of financial assets that do not qualify for derecognition in the consolidated balance sheet

(In thousands of EUR)	31/12/15				
	Carrying amount of transferred assets	Carrying amount of associated liabilities	For those liabilities that recourse only to the transferred assets		
			Fair value of transferred assets (PF(1))	Fair Value of associated liabilities (PF(1))	Net position (PF(1))
Loans and advances to customers(1)	3,234,270	3,225,350	3,529,511	3,161,890	367,621
Financial assets held for trading	7,656	7,100	0	0	0
Financial assets available for sale	353,556	357,190	0	0	0
TOTAL	**3,595,482**	**3,589,640**	**3,529,511**	**3,161,890**	**367,621**

(1) The amounts of 2015 were revised.

(In thousands of EUR)	31/12/16				
	Carrying amount of transferred assets	Carrying amount of associated liabilities	For those liabilities that recourse only to the transferred assets		
			Fair value of transferred assets	Fair Value of associated liabilities	Net position
Loans and advances to customers	581,192	581,192	639,652	584,401	55,251
Financial assets held for trading	6,478	6,334	0	0	0
Financial assets available for sale	1,115,092	1,040,491	0	0	0
TOTAL	**1,702,762**	**1,628,016**	**639,652**	**584,401**	**55,251**

There is a significant decline in the carrying amount of transferred assets and the associated liabilities following the decrease of funding through repurchase agreements.

This table lists the transferred financial assets and the related liabilities. Since virtually none of the risks and rewards of ownership are transferred, the assets remain on the balance sheet of Belfius and these transfers are considered as securitised funding transactions. Consequently, as the underlying collateral of the repurchase agreements and securitised loans are encumbered, they are included in this table.

A. Repurchase agreements

Belfius uses repurchase agreements as financing transactions where securities are sold to a market counterparty in exchange for cash and where the transferred securities are repurchased at maturity date of the contract.

The repurchase agreements are conducted under the terms of the Global Master Repurchase Agreements. The market counterparties are subject to the credit risk process as described in the management report.

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Since all significant risks and rewards associated with ownership of the transferred securities are retained, the securities remain on the balance sheet. The cash obtained under this transaction is recognised as a liability.

Since the counterparty, in case of default, has not only a right of recourse on the transferred assets, but on the entire debt, the columns "for those liabilities that recourse only to the transferred assets" are not applicable on this.

B. Securitisation of credits

Belfius has different securitisation vehicles that are consolidated as most of the risks and rewards remain for Belfius. The underlying financial assets continue to be recognized on the balance sheet and the liquid assets obtained through securitisation are represented by a debt instrument. We refer to note 12."Securitisation" for further details.

At the end of 2015 the securitized loans DSFB-4 and Penates 5 are included in this overview as investors have a contractual right on the cash flows of the underlying loans. Since the investors only have a contractual right on the underlying credits and not on the entire debt, the column "for those liabilities that recourse only to the transferred assets" is applicable here. At the end of 2016 only the securitized loans of Penates 5 are included as DSFB-4 has been called in july 2016.

The related received cash transfer is recognised as a liability.

5. Maximum credit risk exposure by class of financial instruments and impact of collateral

	31/12/15		31/12/16	
(In thousands of EUR)	Maximum credit risk exposure	Effect of physical collateral	Maximum credit risk exposure	Effect of physical collateral
Financial assets available for sale (excluding variable income securities)	18,204,038	0	16,095,823	0
Financial assets designated at fair value (excluding variable income securities)	324,668	0	1,756	0
Financial assets held for trading (excluding variable income securities)	1,143,393	0	711,990	0
Loans and advances (at amortised cost)	95,722,315	2,690,039	99,499,062	2,774,177
Investments held to maturity	5,017,155	0	5,393,247	0
Derivatives	17,185,144	0	17,188,721	0
Other financial instruments – at cost	1,372,268	0	1,280,521	0
Loan commitments granted	24,241,161	95,105	24,523,246	111,324
Guarantee commitments granted	8,669,582	48,588	7,731,559	66,956
TOTAL	171,879,724	2,833,732	172,425,925	2,952,457

The definition of Maximum Credit Risk Exposure "MCRE" is completely in line with our risk management measure FEAD – Full Exposure At Default. We refer to table 9.2.

6. Collateral and other credit enhancements obtained by taking possession of collateral

Amounts involved are immaterial.

7. Offsetting

A. Financial assets subject to offsetting

As at 31 December 2015 (In thousands of EUR)	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Amounts not set off in the balance: Financial instrument	Amounts not set off in the balance: Securities + cash collateral received	Net amount
Derivatives with London Clearing House	7,592,724	7,561,940	30,784			30,784
Derivatives with master netting agreements	22,139,767		22,139,767	11,146,480	7,406,279	3,587,008
Reverse repurchase agreements with master netting agreements	6,473,087		6,473,087		6,459,452	13,635
TOTAL	36,205,578	7,561,940	28,643,638	11,146,480	13,865,731	3,631,427

As at 31 December 2016 (In thousands of EUR)	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Amounts not set off in the balance		Net amount
				Financial instrument	Securities + cash collateral received	
Derivatives with London Clearing House	7,847,785	7,812,741	35,043	0	0	35,043
Derivatives with master netting agreements	21,232,973	0	21,232,973	10,821,821	6,799,765	3,611,387
Reverse repurchase agreements with master netting agreements	4,899,858	0	4,899,858	0	4,898,418	1,440
TOTAL	33,980,616	7,812,741	26,167,874	10,821,821	11,698,183	3,647,870

B. Financial liabilities subject to offsetting

As at 31 December 2015 (In thousands of EUR)	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities presented in the balance sheet	Amounts not set off in the balance		Net amount
				Financial instrument	Securities + cash collateral pledged	
Derivatives with London Clearing House	7,567,079	7,561,941	5,138	0	0	5,138
Derivatives with master netting agreements	28,863,542	0	28,863,542	11,103,380	17,372,580	387,582
Repurchase agreements with master netting agreements	1,442,881	0	1,442,881	0	1,441,653	1,228
TOTAL	37,873,502	7,561,941	30,311,561	11,103,380	18,814,233	393,948

As at 31 December 2016 (In thousands of EUR)	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities presented in the balance sheet	Amounts not set off in the balance		Net amount
				Financial instrument	Securities + cash collateral pledged	
Derivatives with London Clearing House	7,815,952	7,812,741	3,211	0	0	3,211
Derivatives with master netting agreements	28,806,723	0	28,806,723	10,822,178	17,372,495	612,050
Repurchase agreements with master netting agreements	312,346	0	312,346	0	312,163	183
TOTAL	36,935,021	7,812,741	29,122,280	10,822,178	17,684,658	615,444

9.4. Interest-rate repricing risk: breakdown by remaining maturity until next refixing interest rate

Sight accounts and saving deposits are presented in the column "At sight and on demand" as the information presented below takes into account the residual maturity until the next interest-rate refixing date on the legal repayment date, rather than on the observed behavioral customer data. However, for the determination of the interest rate sensitivity of the net asset value or earnings, the observed behaviour of customers on these liabilities is taken into account (see note 9.5 "Market risk and ALM").

1. 2015

A. Assets

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Acrrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
Cash and balances with central banks	576,233	0	0	0	0	0	43	0	0	576,276
Loans and advances due from banks	16,552,176	7,448,815	120,630	80,732	85,786	5,380	(7,556)	42,825	(10,786)	24,318,002
Loans and advances to customers	3,157,648	16,131,676	14,792,343	20,343,227	32,085,188	1,707,185	477,120	22,328	(1,527,563)	87,189,152
Investments held to maturity	0	165,550	16,220	254,284	4,521,182	0	59,919	0	0	5,017,155
Financial assets available for sale	0	571,782	1,002,505	3,242,530	9,766,985	1,837,695	321,550	3,061,199	(70,681)	19,733,565
Financial assets measured at fair value through profit or loss	0	723,650	169,904	89,906	95,198	2,005,131	4,403	125,799	0	3,222,991
Derivatives							1,064,789	24,878,778		25,943,567
Fair value revaluation of portfolio hedge								4,372,902		4,372,902
Investments in equity method companies						106,775				106,775
Tangible fixed assets						1,199,789				1,199,789
Intangible assets						81,941				81,941
Goodwill						103,966				103,966
Current tax assets						6,116				6,116
Deferred tax assets						565,622				565,622
Other assets	37,298	138,545	49,955	122,097	182,371	641,587	0	0	(2,076)	1,169,777
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0		3,300,817	0	55,124	(1,413)	3,354,528
TOTAL ASSETS	20,323,355	25,189,018	16,151,557	24,132,776	46,736,710	11,562,004	1,920,268	32,558,955	(1,612,519)	176,962,124
Regular way trade	0	3,239,412	13,513	0	0	123	0	0	0	3,253,048
Derivatives	510,465	38,648,270	51,085,177	167,931,230	272,574,062	4,982,096	0	0	0	535,731,300
OFF-BALANCE SHEET	**510,465**	**41,887,682**	**51,098,690**	**167,931,230**	**272,574,062**	**4,982,219**	**0**	**0**	**0**	**538,984,348**
TOTAL FOR INTEREST RATE REPRICING RISK	20,833,820	67,076,700	67,250,247	192,064,006	319,310,772	16,544,223	1,920,268	32,558,955	(1,612,519)	715,946,473

B. Liabilities

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undeter-mined maturity	Acrrued interest	Changes in fair value and fair value of derivatives	Total
Due to banks	8,043,616	1,678,778	37,252	1,720,443	31,882	21,085	4,566	0	11,537,622
Customer borrowings and deposits	52,332,596	14,006,521	280,022	714,797	690,738	2,269	135,811	0	68,162,754
Debt securities	0	8,007,521	7,006,234	7,609,040	4,948,156	0	206,601	0	27,777,552
Financial liabilities measured at fair value through profit or loss	0	939,454	1,338,427	1,622,901	809,990	1,991,198	80,317	134,182	6,916,469
Technical provisions of insurance companies						16,688,571			16,688,571
Derivatives							1,645,509	28,414,576	30,060,085
Fair value revaluation of portfolio hedge								226,472	226,472
Provisions and contingent liabilities						405,543			405,543
Subordinated debts	0	0	0	269,429	231,824	400,536	6,807	4,408	913,004
Current tax liabilities						42,369			42,369
Deferred tax liabilities						271,967			271,967
Other liabilities	88,998	1,218,855	62,828	48,559	9,107	627,986	228	0	2,056,561
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	3,243,438	0	0	3,243,438
TOTAL LIABILITIES	**60,456,210**	**25,851,129**	**8,724,763**	**11,985,169**	**6,721,697**	**23,694,962**	**2,079,839**	**28,779,638**	**168,293,407**
Regular way trade	0	3,002,972	3,670	0	0	1,392,512	0	0	4,399,154
Derivatives	0	38,137,306	49,924,511	174,251,350	280,182,626	5,357,467	0	0	547,853,260
OFF-BALANCE SHEET	**0**	**41,140,278**	**49,928,181**	**174,251,350**	**280,182,626**	**6,749,979**	**0**	**0**	**552,252,414**
TOTAL FOR INTEREST RATE REPRICING RISK	**60,456,210**	**66,991,407**	**58,652,944**	**186,236,519**	**286,904,323**	**30,444,941**	**2,079,839**	**28,779,638**	**720,545,821**

C. Net position

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
On-balance-sheet sensitivity gap	(39,622,390)	,85,293	8,597,303	5,827,487	32,406,449	(13,900,718)

The actual interest rate risk of Belfius is managed based on more advanced assumptions. (See note 9.5 Market risk and ALM).

2. 2016

A. Assets

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Acrrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
Cash and balances with central banks	5,111,132	0	0	0	0	0	(82)	0	0	5,111,050
Loans and advances due from banks	15,996,683	5,669,792	228,400	10,586	82,813	3,376	(39,866)	57,123	(6,354)	22,002,553
Loans and advances to customers	3,299,819	19,308,852	11,580,010	21,692,005	32,735,151	2,202,416	447,262	26,207	(1,589,322)	89,702,399
Investments held to maturity	0	270,433	21,493	1,455,043	3,585,483	0	60,796	0	0	5,393,247
Financial assets available for sale	0	492,205	860,036	3,139,879	8,381,544	2,502,202	287,304	3,224,829	(68,210)	18,819,789
Financial assets measured at fair value through profit or loss	0	361,960	9,043	55,076	30,298	2,251,086	3,218	275,299	0	2,985,979
Derivatives							534,664	24,772,557		25,307,222
Fair value revaluation of portfolio hedge								4,533,779		4,533,779
Investments in equity method companies						97,044				97,044
Tangible fixed assets						1,091,687				1,091,687
Intangible assets						122,541				122,541
Goodwill						103,966				103,966
Current tax assets						10,662				10,662
Deferred tax assets						405,847				405,847
Other assets	57,071	121,815	61,510	102,813	135,392	527,992	0	0	(2,203)	1,004,389
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0	0	30,126	0	0	(1,354)	28,772
TOTAL ASSETS	24,464,704	26,225,056	12,760,491	26,455,402	44,950,681	9,348,945	1,293,297	32,889,795	(1,667,444)	176,720,927
Regular way trade	0	943,123	171,091	1,822	154,550	281,234	0	0	0	1,551,820
Derivatives	0	120,268,595	54,977,123	94,148,096	192,255,420	1,243,967	0	0	0	462,893,201
OFF-BALANCE SHEET	**0**	**121,211,718**	**55,148,214**	**94,149,918**	**192,409,971**	**1,525,201**	**0**	**0**	**0**	**464,445,021**
TOTAL FOR INTEREST RATE REPRICING RISK	24,464,704	147,436,774	67,908,704	120,605,319	237,360,651	10,874,147	1,293,297	32,889,795	(1,667,444)	641,165,948

B. Liabilities

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Accrued interest	Changes in fair value and fair value of derivatives	Total
Due to banks	7,961,013	1,417,043	138,970	3,012,537	31,005	20,434	829	0	12,581,830
Customer borrowings and deposits	58,064,630	14,120,036	226,173	654,747	1,032,103	601	72,751	0	74,171,040
Debt securities	0	5,534,481	7,361,408	6,233,449	4,682,905	0	169,187	0	23,981,430
Financial liabilities measured at fair value through profit or loss	0	1,010,128	1,531,090	1,684,692	883,256	2,189,766	91,092	134,226	7,524,251
Technical provisions of insurance companies						15,990,324			15,990,324
Derivatives							1,077,525	28,494,996	29,572,521
Fair value revaluation of portfolio hedge								207,474	207,474
Provisions and contingent liabilities						412,243			412,243
Subordinated debts	0	175,472	0	66,000	733,239	404,741	16,651	2,549	1,398,653
Current tax liabilities						60,609			60,609
Deferred tax liabilities						272,877			272,877
Other liabilities	90,436	725,609	67,880	59,859	7,784	584,134	249	0	1,535,952
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	66,116,080	22,982,770	9,325,520	11,711,284	7,370,293	19,935,729	1,428,285	28,839,246	167,709,206
Regular way trade	0	555,698	62,747	3,117	218,024	455,660	0	0	1,295,247
Derivatives	0	124,048,888	74,166,219	88,505,018	184,457,308	1,329,898	0	0	472,507,331
OFF-BALANCE SHEET	0	124,604,586	74,228,966	88,508,135	184,675,332	1,785,558	0	0	473,802,577
TOTAL FOR INTEREST RATE REPRICING RISK	66,116,080	147,587,356	83,554,486	100,219,419	192,045,625	21,721,287	1,428,285	28,839,246	641,511,783

C. Net position

(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
On-balance-sheet sensitivity gap	(41,651,376)	(150,582)	(15,645,781)	20,385,900	45,315,026	(10,847,141)

The actual interest rate risk of Belfius is managed based on more advanced assumptions. (See note 9.5 Market risk and ALM).

9.5. Market risk and ALM

We refer to the chapter "Risk Management" of the Management report for further information.

1. Financial markets

Within Belfius Bank, the Financial Markets Services department (FM) is the central point of entry to the financial markets. The department does not negotiate positions for own account; all transactions are based on client transactions. Transactions made by external or internal clients, for instance liquidity management and ALM belonging to the last category, are hedged overall within a framework of limits that complies with Belfius's risk policies. As a result, the various market risks are kept within that framework, a.o. by hedging transactions. The VaR figures stated below reflect these residual positions.

- The risks on flow management activities include general interest rate, foreign exchange, equity prices, credit spread and other risks (inflation, CO2). These risks are managed within Value at Risk limits and other appropriate risk limits;
- Cash and Liquidity Management (CLM) is monitored by means of Value at Risk limits (VaR) and interest rate sensitivity limits.
- The spread risk of the investment portfolio and flow management activities are managed with spread limits.

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 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 (S-VaR) on top of its regular VaR, which also enters into the computation of weighted risks for Market Risk. This S-VaR measure consists of calculating a historical VaR based on a 12 consecutive months observation period which generates the largest negative variations of Net Present Value in the bank's current portfolio of financial instruments.

VaR(1) (99% 10 days) (In thousands of EUR)	2015				2016			
	IR(2) & FX(3)	Equity	Spread	Other risks(4)	IR(2) & FX(3)	Equity	Spread	Other risks(4)
By activity								
Average	9,496	2,593	7,522	1,311	11,346	3,141	6,372	873
EOY	9,740	2,462	5,696	1,285	12,104	2,528	6,889	1,189
Maximum	24,408	7,953	9,486	2,111	19,093	5,134	7,942	1,189
Minimum	3,585	1,295	5,368	663	6,050	1,813	4,191	631
Global								
Average	20,922				21,733			
EOY	19,183				22,709			
Maximum	33,796				31,088			
Minimum	14,926				14,103			
Limit	32,000				32,000			

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

2. Asset liability management (ALM)

A. Interest rate risk

Interest rate risk has two forms – economic value volatility and earnings volatility. The measurement of both is complementary in understanding the complete scope of interest rate risk in the balance sheet (excluding financial markets).

Economic value indicators capture the long-term effect of the interest rate changes on the economic value. Interest rate sensitivity of economic value measures the net change of the ALM economic value to an interest rate move by 10 basis points across the entire curve.

Earnings at Risk indicators capture the short-term effect of the interest rate changes on the earnings of the bank. Therefore, indirectly through profitability, interest rate changes can also have a short-term solvency effect. A 50 bps increase of interest rates has a positive impact on net interest income (before tax) of EUR +38 million of the next book year and a cumulative effect of EUR +155 million over a three year period, whereas a 35 bps decrease would lead to a negative impact of EUR -8 million of the next book year and a cumulative effect of EUR -70 million over a three year period. (compared to EUR +102 million, resp. EUR +374 million and EUR -49 million, resp. EUR -150 million for similar rate shocks end of last year).

(In thousands of EUR)	31/12/15(1)	31/12/16
Bank		
Sensitivity	19,800	(16,100)
Earnings at risk(1)	102,000	38,000
Insurance		
Sensitivity	11,220	12,844
Earnings at risk(1)	1,940	2,586

(1) The figures of 31 December 2015 have been restated to show the impact in case of a 50 bps increase of interest rates.

B. Listed equity & real estate

(In thousands of EUR)	31/12/15	31/12/16
Bank		
Market value	1,402	1,797
Insurance		
Market value - quoted shares & assimilated	699,000	611,366
Market value - quoted real estate	438,000	456,514
Shock 30% (negative)	(341,100)	(320,364)
VaR (99%, 10 days)	69,000	83,595

C. Real estate - direct property

(In thousands of EUR)	31/12/15	31/12/16
Insurance		
Market value	677,000	708,701
Shock 12.5% (negative)	(85,000)	(88,588)

3. Bond portfolio

A. Outstanding nominal amounts

(In thousands of EUR)	31/12/15	31/12/16
Bank[1]	14,361,283	13,021,696
Insurance	10,699,516	9,768,522

(1) Bonds of the Side and ALM portfolio's.

B. Interest-rate sensitivity

The interest rate risk of the bond portfolio of the bank is either micro-hedged (for the Side portfolio; hence low net interest rate sensitivity), or is managed through the ALM-framework (in ALM portfolio; hence net interest rate sensitivity part of global ALM interest rate sensitivity).

The sensitivity to 1 bp interest rate increase of the bond portfolio of the insurance companies amounted to EUR -7.6 mio at the end of 2016, part of the global ALM management of the insurance companies.

C. Credit-spread sensitivity

This calculation estimates the sensitivity of the bond portfolio after one basis point spread widening.

(In thousands of EUR)	31/12/15	31/12/16
Bank[1]	(19,940)	(20,188)
Insurance	(8,859)	(8,338)

(1) Bonds of the Side and ALM portfolio's.

9.6. Liquidity risk

Liquidity is managed with a view to comply with our Liquidity Risk Management guidelines and framework. We refer to the management report for a detailed description.

End 2016, the LCR ratio stood at 127% (or 4 billion excess cash) compared to 132% in 2015 (or 4 billion excess cash).

Breakdown residual maturity

We do not make any assumption on the prepayment rates.

Current accounts and saving deposits are included in the column "At sight and on demand" even if they have no fixed repayment date.

All other assets and liabilities are split over the different periods according to the contractual cashflows caracteristics.

1. 2015

A. Assets

	Breakdown of gross amount and premium/discount						Accrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
(In thousands of EUR)	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity				
Cash and balances with central banks	576,233	0	0	0	0	0	43	0	0	576,276
Loans and advances due from banks	16,552,161	7,293,883	67,426	135,487	220,236	24,326	(7,556)	42,825	(10,786)	24,318,002
Loans and advances to customers	3,157,648	9,446,752	6,849,579	21,754,284	45,301,819	1,707,185	477,120	22,328	(1,527,563)	87,189,152
Investments held to maturity	0	0	16,220	257,677	4,655,339	28,000	59,919	0	0	5,017,155
Financial assets available for sale	0	306,048	1,010,439	3,363,591	9,894,784	1,846,635	321,550	3,061,199	(70,681)	19,733,565
Financial assets measured at fair value through profit or loss	0	107,248	170,492	100,456	709,462	2,005,131	4,403	125,799	0	3,222,991
Derivatives							1,064,789	24,878,778		25,943,567
Fair value revaluation of portfolio hedge								4,372,902		4,372,902
Investments in equity method companies						106,775				106,775
Tangible fixed assets						1,199,789				1,199,789
Intangible assets						81,941				81,941
Goodwill						103,966				103,966
Current tax assets						6,116				6,116
Deferred tax assets						565,622				565,622
Other assets	37,436	138,539	49,823	124,946	179,522	641,587	0	0	(2,076)	1,169,777
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0	0	3,300,817		55,124	(1,413)	3,354,528
TOTAL ASSETS	20,323,478	17,292,470	8,163,979	25,736,441	60,961,162	11,617,890	1,920,268	32,558,955	(1,612,519)	176,962,124
Regular way trade	0	3,239,412	13,513	0	0	123	0	0	0	3,253,048
Foreign exchange derivatives	0	10,342,783	4,675,047	4,787,887	8,421,047	0	0	0	0	28,226,764
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	**0**	**13,582,195**	**4,688,560**	**4,787,887**	**8,421,047**	**123**	**0**	**0**	**0**	**31,479,812**
TOTAL	20,323,478	30,874,665	12,852,539	30,524,328	69,382,209	11,618,013	1,920,268	32,558,955	(1,612,519)	208,441,936

B. Liabilities

(In thousands of EUR)	Breakdown of gross amount and premium/discount: At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Accrued interest	Changes in fair value and fair value of derivatives	Total
Due to banks	8,043,616	1,305,851	409,608	1,717,962	34,934	21,085	4,566	0	11,537,622
Customer borrowings and deposits	52,332,596	13,979,171	296,072	726,097	690,738	2,269	135,811	0	68,162,754
Debt securities	0	2,217,400	7,620,877	9,374,409	8,358,265	0	206,601	0	27,777,552
Financial liabilities measured at fair value through profit or loss	0	174,604	376,977	2,622,674	1,536,518	1,991,197	80,317	134,182	6,916,469
Technical provisions of insurance companies	0	368,791	1,101,007	5,857,985	9,360,788	0	0	0	16,688,571
Derivatives							1,645,509	28,414,576	30,060,085
Fair value revaluation of portfolio hedge								226,472	226,472
Provisions and contingent liabilities						405,543			405,543
Subordinated debts		0	0	269,429	231,824	400,536	6,807	4,408	913,004
Current tax liabilities						42,369			42,369
Deferred tax liabilities						271,967			271,967
Other liabilities	88,998	1,218,855	62,828	48,559	9,107	627,986	228	0	2,056,561
Liabilities included in disposal group and discontinued operations						3,243,438			3,243,438
TOTAL LIABILITIES	**60,465,210**	**19,264,672**	**9,867,369**	**20,617,115**	**20,222,174**	**7,006,390**	**2,079,839**	**28,779,638**	**168,302,407**
Core shareholders' equity						8,308,602			8,308,602
Gains and losses not recognised in the statement of income								350,089	350,089
TOTAL SHAREHOLDERS' EQUITY						**8,308,602**		**350,089**	**8,658,691**
Non-controlling interests						1,026			1,026
TOTAL EQUITY						**8,309,628**		**350,089**	**8,659,717**
TOTAL LIABILITIES AND EQUITY	**60,465,210**	**19,264,672**	**9,867,369**	**20,617,115**	**20,222,174**	**15,316,018**	**2,079,839**	**29,129,727**	**176,962,124**
Regular way trade	0	3,002,972	3,670	0	0	1,392,512	0	0	4,399,154
Foreign exchange derivatives	0	10,312,217	4,718,698	4,752,835	8,312,705	0	0	0	28,096,455
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	**0**	**13,315,189**	**4,722,368**	**4,752,835**	**8,312,705**	**1,392,512**	**0**	**0**	**32,495,609**
TOTAL	**60,465,210**	**32,579,861**	**14,589,737**	**25,369,950**	**28,534,879**	**16,708,530**	**2,079,839**	**29,129,727**	**209,457,733**

C. Total liquidity gap

(In thousands of EUR)	Breakdown of gross amount and premium/discount: At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
Total liquidity gap	(40,141,732)	(1,705,196)	(1,737,198)	5,154,378	40,847,330	(5,090,517)

The actual liquidity risk of Belfius is managed based on more advanced assumptions.

The liquidity position presented here results from the difference between the cashflows at contractual maturities of assets and liabilities and also takes into account the cashflows stemming from hedge transactions. This allows a presentation of the liquidity gap.

The market value of the derivatives is reported in the column "Changes in fair value and fair value of derivatives".

2. 2016

A. Assets

(In thousands of EUR)	Breakdown of gross amount and premium/discount: At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity	Accrued interest	Changes in fair value and fair value of derivatives	Impairment	Total
Cash and balances with central banks	5,111,132	0	0	0	0	0	(82)	0	0	5,111,050
Loans and advances due from banks	15,996,683	5,504,291	162,113	143,201	162,355	23,007	(39,866)	57,123	(6,354)	22,002,553
Loans and advances to customers	3,299,819	10,633,335	7,024,713	23,100,443	44,557,527	2,202,416	447,262	26,207	(1,589,322)	89,702,399
Investments held to maturity	0	0	21,493	1,460,048	3,782,911	68,000	60,796	0	0	5,393,247
Financial assets available for sale	0	407,128	760,036	3,199,518	8,498,042	2,511,142	287,304	3,224,829	(68,210)	18,819,789
Financial assets measured at fair value through profit or loss	0	3,689	8,727	55,391	388,568	2,251,086	3,218	275,299	0	2,985,979
Derivatives							534,664	24,772,557		25,307,222
Fair value revaluation of portfolio hedge								4,533,779		4,533,779
Investments in equity method companies						97,044				97,044
Tangible fixed assets						1,091,687				1,091,687
Intangible assets						122,541				122,541
Goodwill						103,966				103,966
Current tax assets						10,662				10,662
Deferred tax assets						405,847				405,847
Other assets	57,071	122,551	61,510	102,813	135,392	527,256	0	0	(2,203)	1,004,389
Non current assets (disposal group) held for sale and discontinued operations	0	0	0	0	0	30,126	0	0	(1,354)	28,772
TOTAL ASSETS	24,464,704	16,670,994	8,038,592	28,061,414	57,524,795	9,444,780	1,293,297	32,889,795	(1,667,444)	176,720,927
Regular way trade	0	1,543,298	8,266	0	0	256	0	0	0	1,551,820
Foreign exchange derivatives	0	9,275,261	2,508,150	4,450,998	8,876,836	0	0	0	0	25,111,245
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	0	10,818,559	2,516,416	4,450,998	8,876,836	256	0	0	0	26,663,065
TOTAL	24,464,704	27,489,554	10,555,008	32,512,411	66,401,631	9,445,036	1,293,297	32,889,795	(1,667,444)	203,383,992

B. Liabilities

(In thousands of EUR)	Breakdown of gross amount and premium/discount						Accrued interest	Changes in fair value and fair value of derivatives	Total
	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity			
Due to banks	7,961,013	1,507,665	47,083	3,010,781	34,025	20,434	829	0	12,581,830
Customer borrowings and deposits	58,064,630	14,118,936	226,173	655,847	1,032,103	601	72,751	0	74,171,040
Debt securities	0	2,751,574	5,766,139	9,591,904	5,702,626	0	169,187	0	23,981,430
Financial liabilities measured at fair value through profit or loss	0	48,538	276,666	2,968,008	1,815,954	2,189,766	91,092	134,226	7,524,251
Technical provisions of insurance companies	0	1,044,680	472,471	5,973,639	8,499,533	0	0	0	15,990,324
Derivatives							1,077,525	28,494,996	29,572,521
Fair value revaluation of portfolio hedge								207,474	207,474
Provisions and contingent liabilities						412,243			412,243
Subordinated debts		175,472	0	66,000	733,239	404,741	16,651	2,549	1,398,653
Current tax liabilities						60,609			60,609
Deferred tax liabilities						272,877			272,877
Other liabilities	90,436	726,753	67,880	59,859	7,784	582,990	249	0	1,535,952
Liabilities included in disposal group and discontinued operations	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	**66,116,080**	**20,373,619**	**6,856,412**	**22,326,038**	**17,825,265**	**3,944,261**	**1,428,285**	**28,839,246**	**167,709,206**
Core shareholders' equity						8,693,833			8,693,833
Gains and losses not recognised in the statement of income								317,714	317,714
TOTAL SHAREHOLDERS' EQUITY						8,693,833		317,714	9,011,547
Non-controlling interests						173			173
TOTAL EQUITY						**8,694,006**		**317,714**	**9,011,720**
TOTAL LIABILITIES AND EQUITY	**66,116,080**	**20,373,619**	**6,856,412**	**22,326,038**	**17,825,265**	**12,638,267**	**1,428,285**	**29,156,960**	**176,720,926**
Regular way trade	0	1,295,244	0	0	0	2	0	0	1,295,247
Foreign exchange derivatives	0	9,270,479	2,481,798	4,489,070	8,718,010	0	0	0	24,959,356
Fx forward rate agreements	*0*	*0*	*213*	*0*	*0*	*0*	*0*	*0*	*213*
CASH FLOW FROM DERIVATIVES AND REGULAR WAY TRADE	0	10,565,723	2,481,798	4,489,070	8,718,010	2	0	0	26,254,603
TOTAL	**66,116,080**	**30,939,342**	**9,338,210**	**26,815,108**	**26,543,275**	**12,638,270**	**1,428,285**	**29,156,960**	**202,975,529**

C. Total liquidity gap

(In thousands of EUR)	Breakdown of gross amount and premium/discount					
	At sight and on demand	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years	Undetermined maturity
Total liquidity gap	(41,651,376)	(3,449,789)	1,216,798	5,697,303	39,858,356	(3,193,234)

The actual liquidity risk of Belfius is managed based on more advanced assumptions.

More detailed information regarding liquidity is available in the chapter "Risk Management" of the management report.

The liquidity position presented here results from the difference between the cashflows at contractual maturities of assets and liabilities and also takes into account the cashflows stemming from hedge transactions. This allows a presentation of the liquidity gap.

The market value of the derivatives is reported in the column "Changes in fair value and fair value of derivatives".

9.7. Currency risk and foreign exchange

1. Currency risk

(In thousands of EUR)	31/12/15 (PF[1])				
	GBP	USD	Other	EUR	Total
Total assets	8,247,908	5,123,194	3,166,779	160,424,242	176,962,124
Total liabilities[1]	6,022,438	5,059,137	2,702,279	154,519,578	168,303,433
Total equity[1]	(505,104)	(53,435)	(120,170)	9,337,399	8,658,691
NET ON BALANCE POSITION	**2,730,574**	**117,492**	**584,670**	**(3,432,736)**	**0**
Off-balance sheet – to receive	1,897,875	11,876,822	3,874,574	12,031,229	29,680,500
Off-balance sheet – to deliver	4,644,787	12,022,674	4,368,199	8,502,328	29,537,988
OFF-BALANCE SHEET – NET POSITION	**(2,746,912)**	**(145,852)**	**(493,625)**	**3,528,901**	**142,512**
NET POSITION	(16,338)	(28,360)	91,045	96,165	

(1) The line items have been detailed further to facilitate the reading.

(In thousands of EUR)	31/12/16				
	GBP	USD	Other	EUR	Total
Total assets	8,642,248	4,552,280	3,221,116	160,305,282	176,720,926
Total liabilities	7,027,887	4,765,850	3,158,559	152,757,083	167,709,379
Total equity	(480,077)	(38,641)	(122,695)	9,652,960	9,011,547
NET ON BALANCE POSITION	**2,094,438**	**(174,929)**	**185,252**	**(2,104,761)**	**0**
Off-balance sheet – to receive	1,206,900	10,575,188	3,841,927	9,928,266	25,552,281
Off-balance sheet – to deliver	3,424,002	10,425,123	3,909,988	7,653,257	25,412,370
OFF-BALANCE SHEET – NET POSITION	**(2,217,102)**	**150,064**	**(68,061)**	**2,275,009**	**139,911**
NET POSITION	(122,664)	(24,864)	117,191	170,248	

2. Foreign exchange

		31/12/15		31/12/16	
		Closing rate	Average rate	Closing rate	Average rate
Australian dollar	AUD	1.4898	1.4817	1.4618	1.4854
Canadian dollar	CAD	1.5110	1.4262	1.4198	1.4585
Swiss franc	CHF	1.0859	1.0643	1.0734	1.0900
Koruna (Czech republic)	CZK	27.0215	27.2670	27.0205	27.0377
Danish krone	DKK	7.4628	7.4605	7.4343	7.4447
Euro	EUR	1.0000	1.0000	1.0000	1.0000
Pound sterling	GBP	0.7381	0.7245	0.8548	0.8230
Hong Kong dollar	HKD	8.4480	8.5649	8.2008	8.5665
Forint	HUF	315.9750	309.5000	308.8800	311.5755
Shekel	ILS	4.2426	4.2960	4.0688	4.2255
Yen	JPY	130.8650	133.5942	123.3750	120.4433
Mexican peso	MXN	18.8113	17.6566	21.8330	20.6289
Norwegian Krone	NOK	9.5920	8.9801	9.0886	9.2559
New Zealand dollar	NZD	1.5889	1.5957	1.5175	1.5827
Swedish krona	SEK	9.1628	9.3324	9.5563	9.4749
Singapore dollar	SGD	1.5421	1.5224	1.5269	1.5245
Turkish lira	TRY	3.1711	3.0380	3.7203	3.3418
US dollar	USD	1.0899	1.1049	1.0576	1.1037

9.8. Insurance Risk

Insurance risks represent the potential loss that might arise from underwriting insurance policies. Therefore, these risks are mentioned below as "underwriting risks".

1. Definition

At Belfius Insurance, the underwriting risk is divided into three modules, depending on the type of risk insured: Life, Non-Life, Health. Each category is then subdivided into sub-modules linked to the nature of the underlying business.

1.1. Breakdown of the underwriting risk for Life

The Life underwriting risk is divided into 7 sub-modules that meet the requirements of Solvency II:

- The mortality risk is the risk that mortality increases. It applies to all undertakings for which the benefits expected to be paid out increase with mortality.
- The 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).
- The morbidity or disability risk relates to the risk of loss or unfavourable movement in expected benefits attributable to changes in the level, trend or volatility in the degree of disability.
- The lapse risk for Life is described as the risk of loss or increase in benefits attributable to a difference between the effective exercise of contractual options by the policyholder and the expected exercise. The term "options" should be viewed in the broad sense of the word: this sub-module contains options in relation to redemption, cancellation or premium reduction, as well as the expansion of guarantees. For some policies, exercise may be of benefit to the insurance company, while for others it may result in a loss. As a result, this sub-module 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 to the risk that those management costs are higher than expected due to higher inflation.
- The review risk only applies for annuities where the amounts may be valued negatively for the insurer as a result of a change in the statutory environment or in the policyholder's health situation.
- The disaster risk is restricted to policies where an immediate and dramatic rise in mortality would result in an increase in benefits.

1.2. Breakdown of the underwriting risk for Non-Life

The Non-Life underwriting risk reflects the risk that arises from Non-Life insurance policies, taking into account the hazards covered and the procedures applied when this activity is exercised.

This risk module has three sub-modules:

- The premium risk is the risk where premiums received are not sufficient to cover claims that occured during the coverage period to which the premiums relate.
- The reserve risk is the risk of loss or unfavourable change in the value of the insurance undertakings arising from changes in the date and amount of the claims paid.
- The disaster risk is the risk of a major event occurring that is not covered by the two previous risks.

2. Managing the insurance risk

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 gearing between, on the one hand, the insurance premiums collected and, on the other, the claims to be paid out when costs are borne;
- identification of the risks arising from the undertakings of Belfius Insurance, including the implicit options and the capital that is guaranteed by the insurance products; and
- making provisions for claims.

The overall strategy is developed by each concerned entity and followed 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 hence drive back the uncertainty associated with the risk in the insurer's valuation.

These are the functions of reinsurance:

- 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.

3. Sensitivities

Belfius Insurance evaluates the effect of sensitivities on available economic capital. The technical reserves are expressed in market value.

Given the low market rates the value of the technical reserves is higher than the redemption value, which results in a negative impact on capital in the event of a reduction in the redemption rate. The sensitivity to the redemption rate decreases in 2016 following a decrease in the volume in branch 21.

The insured capital on death is higher than the fair value of technical reserves, which results in a positive impact on available financial resources if there is a fall in mortality. The sensitivity is stable between 2015 and 2016.

An increase in costs leads inevitably to a rise in the fair value of the technical reserves and to a fall in equity capital. The sensitivity to a rise in costs related to the Life business decreases in 2016 following the revision of the cost allocation model.

In Non-Life, lower administrative costs lead to a higher result, while an increase of claims leads to a lower result. The sensitivity of administrative costs related to the Non-Life business increases in 2016 as a consequence of Belins' new fee allocation model whereby administrative expenses increase and acquisition costs decrease.

Underwriting risk Life: scenario that corresponds to[1]

	Impact on available financial resources before taxes	
(In millions of EUR)	31/12/15	31/12/16
An increase of 15% in mortality	(35.1)	(34.7)
An increase of 10% in costs +1% inflation	(123.0)	(101.0)
A decrease of 10% in the redemption rate	(29.3)	(23.5)

(1) Impact for Belfius Insurance SA.

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

	Impact on income before taxes	
(In millions of EUR)	31/12/15	31/12/16
A decrease of 10% in administrative costs	4.4	6.6
An increase of 5% in claims made	(17.4)	(18.4)

(1) Impact for Belfius Insurance SA and Corona SA.

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 base their evaluation of the appropriateness of the technical provisions. In Non-Life insurance, between the event and closing date of a claim, the insurer cannot in general determine the exact total cost of the claim. During this period, the insurer establishes a reserve equal to the estimated amount of future payments for the claim.

As 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 2006 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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Estimation at the end of the year of occurrence	237,618	266,081	284,441	331,831	376,927	368,410	366,403	365,798	415,445	389,632	427,822
1 year later	222,113	253,679	286,182	315,094	377,982	365,547	350,517	324,524	392,976	361,479	
2 years later	213,627	240,004	276,197	302,958	376,143	355,306	334,313	312,883	381,044		
3 years later	205,122	231,754	266,868	302,314	370,819	350,249	329,882	306,454			
4 years later	205,144	228,986	267,226	300,159	370,924	352,804	328,046				
5 years later	202,606	231,760	266,805	299,236	363,378	350,780					
6 years later	202,551	229,487	267,520	296,773	360,537						
7 years later	200,538	227,465	267,249	293,969							
8 years later	198,851	225,761	264,048								
9 years later	200,039	225,140									
10 years later	199,339										

(In thousands of EUR)											
Actual estimation	**199,339**	**225,140**	**264,048**	**293,969**	**360,537**	**350,780**	**328,046**	**306,454**	**381,044**	**361,479**	**427,822**
Cumulative payments	**(172,700)**	**(200,782)**	**(224,942)**	**(263,997)**	**(294,651)**	**(289,592)**	**(261,919)**	**(239,614)**	**(291,708)**	**(239,095)**	**(177,684)**
Actual provisions	**26,639**	**24,358**	**39,106**	**29,972**	**65,886**	**61,189**	**66,127**	**66,839**	**89,336**	**122,384**	**250,138**

(In thousands of EUR)	
Provisions (after 2006)	841,974
Provisions (before 2006)	107,315
Internal costs	39,156
Accepted deals	30,456
TOTAL	1,018,900[1]

(1) Claims reserves 31 December 2015 - note 6.5.3.

X. Notes on the significant changes in scope of consolidation and list of subsidiaries and affiliated enterprises of Belfius

10.1. Significant changes in scope of consolidation

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

1. As at 31 december 2015

The real estate company Immo Zeedrift was purchased end 2014 and is fully consolidated from the beginning of 2015. The securitization vehicles Penates 7, Penates 8, Penates 9 and Penates 10 also joined the scope of consolidation, we refer to section "12. Securitisation".

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

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

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

2. As at 31 december 2016

In 2016, the Belgian fund management company Belfius Investment Partners was founded and is fully consolidated. The funds "Belfius European Loans Fund", "Belins high yield" and "Belins US Corporate Bonds" were founded by Belfius Insurance in 2015 and joined the scope of consolidation during 2016.

The company "Vennootschap Leopold" was liquidated during 2016. The companies Copharma Industries Unltd and Eurco Ltd were deconsolidated as they are being liquidated.

Belfius Insurance has sold its wholly owned subsidiary "International Wealth Insurer" in 2H 2016, classified in "Non current assets (disposal group) held for sale and discontinued operations", to Foyer SA. In 2H 2016, Belfius Insurance has decided to sell its participation in "Aviabel". Despite the fact that an agreement has been reached, it is still subject to certain conditions, and thus the participation has been classified as "Non current assets (disposal group) held for sale and discontinued operations" as per 31 December 2016, this had no impact on the scope in 2016.

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

10.2. Acquisitions and disposals of consolidated companies

1. Main acquisitions

A. Year 2015

On 17 December 2014, Immo Zeedrift SA has been acquired. It is consolidated from 2015 onwards. It concerns an investment in a company specialized in retirement homes.
As from 2015, Sepia is fully consolidated (previously a joint venture). Belfius Insurance has purchased on August 17 2015, the 50% stake in Sepia from KBC Insurance and has signed a reinsurance contract whereby KBC will retain half of the risks of the Sepia insurance portfolio; as such the historical risk sharing on the portfolio continues. On January 1 2016, Sepia merged with Belfius Insurance.

B. Year 2016

There were no significant acquisitions in 2016.

The assets and liabilities acquired were as follows:

	2015		2016
(In thousands of EUR)	Immo Zeedrift SA	Sepia SA	
Cash and cash equivalents	29	12,751	
Loans and advances due from banks	0	26,156	
Financial investments	0	461,929	
Current tax assets	0	1,818	
Tangible fixed assets	19,520	0	
Other assets	136	214,200	
Customer borrowings and deposits	(14,488)	0	
Subordinated debts	0	(8,928)	
Technical provisions of insurance companies	0	(481,813)	
Other liabilities	(1,562)	(216,023)	
NET ASSETS	**3,635**	**10,090**	
Already in possession of the Group	0	5,045	
Purchase price (in cash)	3,635	5,045	
Less:			
cash and cash equivalents in the subsidiary acquired	*29*	*12,751*	
NET CASH OUTFLOW THROUGH ACQUISITION	**3,606**	**(7,706)**	

2. Main disposals

A. Year 2015

There were no significant disposals in 2015.

B. Year 2016

Foyer SA, the largest financial privately owned group of Luxembourg, has reached an agreement in June 2016 with Belfius Insurance on the acquisition of "International Wealth Insurer". The transaction was closed on 9 August 2016, there was a positive impact in result of EUR 8 mio recorded in 2016.

The assets and liabilities acquired were as follows:

(In thousands of EUR)	2015	2016 International Wealth Insurer (IWI) SA
Cash and cash equivalents		15,190
Loans and advances due from banks		428
Loans and advances to customers		9,405
Financial assets measured at fair value through profit or loss		2,701,232
Financial investments		632,132
Tangible fixed assets		640
Other assets		15,685
Customer borrowings and deposits		(7,324)
Financial liabilities measured at fair value through profit or loss		(2,701,232)
Technical provisions of insurance companies		(508,136)
Other liabilities		(60,404)
NET ASSETS		**97,616**
GAINS AND LOSSES NOT RECOGNISED IN THE STATEMENT OF INCOME		**(30,950)**
NET VALUE		**66,666**
Proceeds from sale (in cash)		75,000
Less:		
cost of the transaction		*0*
cash and cash equivalents in the subsidiary sold		*15,190*
NET CASH INFLOW ON SALE		**59,810**

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

A. Year 2015

As at 31 December 2015 International Wealth Insurer SA was recorded as "Non current assets (disposal group) held for sale and discontinued operations" and "Liabilities included in disposal group and discontinued operations". We refer to note 5.16 and 6.9.

B. Year 2016

As at 31 December 2016 Aviabel was recorded as "Non current assets (disposal group) held for sale and discontinued operations". A sales agreement has been signed with the American insurance company Axis Capital, but it is subject to conditions that are yet to be fulfilled. We refer to note 5.10.

The transferred assets and liabilities were as follows:

(In thousands of EUR)	2015 International Wealth Insurer (IWI) SA	2016 Aviabel SA
Cash and cash equivalents	15,181	0
Loans and advances due from banks	3,583	0
Loans and advances to customers	10,091	0
Financial assets measured at fair value through profit or loss	2,631,080	0
Financial investments	662,092	0
Investments in equity method companies	0	7,730
Tangible fixed assets	707	0
Other assets	16,532	0
Customer borrowings and deposits	(7,450)	0
Financial liabilities measured at fair value through profit or loss	(2,631,080)	0
Technical provisions of insurance companies	(544,951)	0
Other liabilities	(59,957)	0

10.3. Subsidiaries, equity-accounted enterprises, affiliated enterprises and enterprises in which the group holds rights representing at least 20% of the issued capital

1. Fully-consolidated subsidiaries

Name	Head office	% of capital held(1)	Business code
Belfius Asset Finance Holding SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	10
Belfius Auto Lease SA	Place Charles Rogier 11 B-1210 Bruxelles	100	5
Belfius Commercial Finance SA	Place Rogier 11 B-1210 Bruxelles	100	15
Belfius European Loans Fund	AXA Investment Managers Paris Tour Majunga 6, Place de la Pyramide FR-92908 Paris La Défense	100	13
Belfius Financing Company SA	20, rue de l'Industrie L-8399 Windhof	100	49
Belfius Immo SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	31
Belfius Insurance SA	Avenue Galilée 5 B-1210 Bruxelles	100	28
Belfius Insurance Invest SA	Avenue Galilée 5 B-1210 Bruxelles	100	21
Belfius Insurance Services Finance SA	20, rue de l'Industrie L-8399 Windhof	100	21
Belfius Investment Partners SA	Place Charles Rogier 11 B-1210 Bruxelles	100	17
Belfius Ireland Unltd	23 Shelbourne Ballsbridge Dublin 4 IE 4886676 P	100	49
Belfius Lease SA	Place Rogier 11 B-1210 Bruxelles	100	5
Belfius Lease Services SA	Place Rogier 11 B-1210 Bruxelles	100	5
Belins High Yield	Candriam France 40, rue Washington FR-75408 Paris	100	13
Belins US Corporate Bonds	Candriam France 40, rue Washington FR-75408 Paris	100	13
Coquelets SA	Avenue Galilée 5 B-1210 Bruxelles	100	31
Corona SA	Avenue de la Métrologie 2 B-1130 Bruxelles	100	28
Crefius SA	Boulevard Pachéco 44 B-1000 Bruxelles	100	6
Dexia Secured Funding Belgium SA	Boulevard Pacheco 44 B-1000 Bruxelles	10	49
Elantis SA	Rue des Clarisses 38 B-4000 Liège	100	6
Immo Malvoz SPRL	Avenue Galilée 5 B-1210 Bruxelles	100	31
Immo Zeedrift SA	Avenue Galilée 5 B-1210 Bruxelles	100	31
Legros-Renier Les Amarentes Seigneurie de Loverval SA	Avenue Galilée 5 B-1210 Bruxelles	100	31
LFB SA	Avenue Galilée 5 B-1210 Bruxelles	100	31

(1) Percentage of capital held by holding company

Name	Head office	% of capital held(1)	Business code
Mercurius Funding SA	Boulevard Pacheco 44 B-1000 Bruxelles	5	49
Penates Funding SA	Rue Royale 97 bte 4 B-1000 Bruxelles	10	49

There are no significant restrictions on the subsidiaries, on their ability to access or use assets, and settle liabilities, of the group.

2. Non-consolidated subsidiaries

Name	Head office	% of capital held(1)	Reason for exclusion	Business code
Atrium 2 SA	Rue des Colonies 40 B-1000 Bruxelles	0	non-significant	21
Belfius Fiduciaire SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	non-significant	23
Belfius Global NV	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	12
Belfius Part SA	Boulevard Pachéco 44 B-1000 Bruxelles	100	non-significant	10
Belfius Multi Manager NV	Place Charles Rogier 11 B-1210 Bruxelles	100	non-significant	12
Boonefaes Verzekeringen NV	Sint-Walburgapark 1 B-8360 Veurne	98.67	non-significant	30
Bureau Laveaux & Martin BVBA	Ravensteinstraat 2 B-9000 Gent	100	non-significant	30
Caring people SA	Avenue de la Métrologie 2 B-1130 Bruxelles	100	non-significant	30
Copharma Industries Unltd.	6 George's Dock IRL-Dublin 1	100	in liquidation	47
Eurco Ltd.	6 George's Dock IRL-Dublin 1	100	in liquidation	47
Finimmo SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	in liquidation	16
Fynergie SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	non-significant	32
GCC II Feeder BV	Herengracht 338 NL-1016 CG Amsterdam	100	non-significant	41
Immorente SA	Boulevard Pacheco 44 B-1000 Bruxelles	100	non-significant	31
Service Communal de Belgique SCI (in liquidation)	Avenue Louise 106 B-1050 Ixelles	63.59	in liquidation	47
Shop Equipments SA	Boulevard Pachéco 44 B-1000 Bruxelles	100	non-significant	31
SIF Asian Conservative Credit	5, rue Höhenhof L-1736 Senningerberg	100	non-significant	13
VDL - Interass NV	Brusselsesteenweg 346C B-9090 Melle	100	non-significant	30
Zakenkantoor Frans Verfaillie BVBA	Grote Markt 38 B-8600 Diksmuide	100	non-significant	30

(1) Percentage of capital held by holding company

3. Affiliated companies accounted for by the equity method

Name	Head office	% of capital held(1)	Business code
Auxiliaire de participations SA	Avenue Britsiers 5 B-1030 Schaerbeek	39,70	10
Aviabel SA	Avenue Louise 54 B-1050 Bruxelles	20	26
Erasmus Gardens SA	Avenue Hermann-Debroux 42 B-1160 Bruxelles	50	31
Isabel SA	Boulevard de l'Impératrice 13-15 B-1000 Bruxelles	24	39
NEB Participations SA (ex TEB Participations)	Rue Louvrex 95 B-4000 Liège	20,57	10
North Light SA(2)	Avenue des Arts 58 B-1000 Bruxelles	60	31
Pole Star SA(2)	Avenue des Arts 58 B-1000 Bruxelles	60	31

4. Affiliated companies not accounted for by the equity method

Name	Head office	% of capital held(1)	Reason for exclusion	Business code
Arkafund NV	Alfons Gossetlaan 30 B-1702 Groot-Bijgaarden	25	non-significant	21
Arlinvest NV	Hamiltonpark 24-26 B-8000 Brugge	49	non-significant	16
Assurcard NV	Fonteinstraat 1A Bus 0301 B-3000 Leuven	20	non-significant	47
Bancontact-Mistercash SA	Rue d'Arlon 82 B-1040 Bruxelles	20	non-significant	48
Banking Funding Company SA	Rue d'Arlon 82 B-1040 Bruxelles	21.62	non-significant	48
Bedrijvencentrum Regio Mechelen NV	De Regenboog 11 B-2800 Mechelen	24.33	non-significant	41
Belgian Mobile Wallet SA	Place Sainte Gudule 5 B-1000 Bruxelles	20	non-significant	21
Bizimmo SA	Boulevard du Souverain 68 B-1170 Watermael-Boisfort	50	non-significant	31
Citie NV	Turnhoutsebaan 453 B-2110 Wijnegem	33.33	non-significant	41
Corfius Immo NV	Industrielaan 18 B-3730 Hoeselt	50	non-significant	31
DG Infra + Bis SCS	Karel Oomsstraat 37 B-2018 Antwerpen	26.59	non-significant	10
DG Infra + Ter SCS	Karel Oomsstraat 37 B-2018 Antwerpen	37.50	non-significant	10
Himba NV	Hamiltonpark 24-26 B-8000 Brugge	48.51	non-significant	31
IDE Lux Finances SCRL	Drève de l'Arc-en-Ciel 98 B-6700 Arlon	36.87	non-significant	16
Imsol NV	Molenbergstraat 2 B-2000 Antwerpen	39.98	non-significant	31
Inforum G.I.E.	Rue d' Arlon 53 bte 4 B-1040 Bruxelles	50	non-significant	41
Justinvest NV	Heistraat 129 B-2610 Antwerpen	33.33	non-significant	32
Kuborn Real Estate NV	Avenue Maurice 8 B-1050 Bruxelles	20	non-significant	32
Leskoo SA	Avenue des Communautés 100 B-1200 Woluwe-Saint-Lambert	50	non-significant	31
NEB Foncière SA (ex TEB Foncière)	Rue Louvrex 95 B-4000 Liège	20.49	non-significant	31

(1) Percentage of capital held by holding company
(2) Companies in which the share in capital is 60%, but the representation in the Board of Directors is only 50%, therefore these companies are accounted for by the equity method.

Name	Head office	% of capital held(1)	Reason for exclusion	Business code
Ondernemerstalent NV	P/A Universiteit Hasselt – Agoralaan gebouw D B-3590 Diepenbeek	44.29	in liquidation	10
Rabot Invest NV	Heistraat 129 B-2610 Antwerpen	25	non-significant	32
R.E.D. Laboratories NV	Z1. Researchpark 100 B-1731 Zellik	22.20	non-significant	33
Re-Vive Brownfield Fund I CVBA	Kleemburg 1 bus 001 B-9050 Gent	24.97	non-significant	31
Société Mixte de Développement Immobilier SA	Avenue Maurice Destenay 13 B-4000 Liège	25.04	non-significant	32
Syneco Agence Conseil ASBL	Place l'Ilon 13 B-5000 Namur	20	non-significant	47
TDP SA	Boulevard Pachéco 44 B-1000 Bruxelles	50	non-significant	47
Wandelaar Invest SA	Rue du Vieux Marché aux Grains 63 B-1000 Bruxelles	25	non-significant	5
Wayves SA	Place Charles Rogier 11 B-1210 Bruxelles	50	non-significant	20

5. Belfius Bank Branches (not consolidated)

Name	Head office	% of capital held(1)	Business code
Belfius Antwerpen Berchem CVBA	Grote Steenweg 456 B-2600 Berchem	26	4
Belfius Antwerpen Zuidrand CVBA	Kioskplaats 49 B-2660 Hoboken	26	4
Belfius Auderghem-Boisfort SCRL	Boulevard du Souverain 282 B-1160 Bruxelles	26	4
Belfius Basilix SCRL	Boulevard de Smet de Nayer 2a B-1090 Bruxelles	26	4
Belfius Binche-Mariemont SCRL	Route de Mons 333 B-7130 Binche	26	4
Belfius Borinage SCRL	Rue J. Dufrane 3-5 B-7080 Frameries	26	4
Belfius Brugmann SCRL	Avenue Brugmann 247 B-1180 Bruxelles	26	4
Belfius Brugs Ommeland-Oudenburg CVBA	Gistelse Steenweg 447 B-8200 Brugge Sint-Andries	26	4
Belfius Bruxelles-Anderlecht SCRL	Place de la Vaillance 35 B-1070 Bruxelles	26	4
Belfius Centre Ardenne SCRL	Avenue de Bouillon 16 B-6800 Libramont-Chevigny	24.37	4
Belfius Centrum - West CVBA	Hendrik Consciencestraat 23 bus 6 B-8800 Roeselare	26	4
Belfius Charleroi Pont-à-Nôle SCRL	Avenue Paul Pastur 114 B-6032 Mont-sur-Marchienne	26	4
Belfius Charleroi-Sud SCRL	Boulevard Joseph Tirou 76-82 B-6000 Charleroi	26	4
Belfius Condroz-Famenne SCRL	Rue Saint-Eloi 1 B-5590 Ciney	25.58	4
Belfius Druivenstreek CVBA	Stationsplein 17 B-3090 Overijse	26	4
Belfius Durmevallei CVBA	Marktplein 3 B-9220 Hamme (O.-VL.)	26	4
Belfius Eeklo Gent-Oost CVBA	Grondwetlaan 9 B-9040 Sint-Amandsberg	26	4
Belfius Entre Sambre & Meuse SCRL	Rue de France 50-52 B-5600 Philippeville	25.37	4
Belfius Etterbeek SCRL	Rue des Champs 6 B-1040 Bruxelles	23.63	4

(1) Percentage of capital held by holding company

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Name	Head office	% of capital held(1)	Business code
Belfius Famenne-Semois SCRL	Rue des Ardennes 2 B-5570 Beauraing	26	4
Belfius Fléron-Beyne-Soumagne SCRL	Avenue des Martyrs 257 B-4620 Fléron	26	4
Belfius Geer-Visé SCRL	Rue Saint Hadelin 1 B-4600 Visé	26	4
Belfius Gent-Centrum & Noordwest CVBA	Zonnestraat 23-25 B-9000 Gent	26	4
Belfius Geraardsbergen-Ninove CVBA	Oudenaardsestraat 4-6 B-9500 Geraardsbergen	26	4
Belfius Hageland Noord CVBA	Bogaardenstraat 26 B-3200 Aarschot	26	4
Belfius Hainaut Centre & Senne SCRL	Rue Albert 1er 23 B-7100 La Louvière	26	4
Belfius Haspengouw-West CVBA	Clockemstraat 38 B-3800 Sint-Truiden	26	4
Belfius Haute-Ardenne SCRL	Rue du Vieux Marché 21C B-6690 Vielsalm	26	4
Belfius Hesbaye SCRL	Grand-Place 5 B-4280 Hannut	26	4
Belfius Kempen Noord CVBA	Gemeenteplaats 6 B-2960 Brecht	26	4
Belfius Kempen Oost CVBA	Markt 27 B-2400 Mol	24	4
Belfius Klein Brabant CVBA	Nieuwstraat 21 B-2830 Willebroek	24	4
Belfius Kortrijk CVBA	Wijngaardstraat 52 B-8500 Kortrijk	26	4
Belfius Lambermont-Laeken SCRL	Avenue H. Conscience 182 B-1140 Evere	26	4
Belfius Leuven CVBA	Brusselsestraat 2 B-3000 Leuven	26	4
Belfius Liège Centre & Sud SCRL	Rue des Mineurs 12 B-4000 Liège	26	4
Belfius Liège Nord & Est SCRL	Chaussée de Tongres 391 B-4000 Liège	26	4
Belfius Louise SCRL	Place Stéphanie 8 B-1050 Bruxelles	26	4
Belfius Mandel-Leie CVBA	Holdestraat 19 B-8760 Meulebeke	26	4
Belfius Meuse-Ourthe-Amblève SCRL	Place Joseph Thiry 47 B-4920 Aywaille	26	4
Belfius Midden Limburg CVBA	Dorpsstraat 1A B-3530 Houthalen-Helchteren	26	4
Belfius Namur-Eghezée SCRL	Chaussée de Louvain 440 B-5004 Namur	26	4
Belfius Namur-Gembloux SCRL	Avenue de la Faculté d'Agronomie 12 B-5030 Gembloux	24.04	4
Belfius Namur Haute-Meuse SCRL	Rue de Marchovelette 1 B-5000 Namur	26	4
Belfius Netevallei CVBA	Grote Markt 13 B-2500 Lier	26	4
Belfius Nivelles-Tubize SCRL	Rue de Nivelles 30 B-1480 Tubize	26	4
Belfius Noord-Brabant CVBA	Kattestraat 2 B-1730 Asse	26	4
Belfius Noord-Limburg CVBA	Hertog Janplein 45 B-3920 Lommel	25.49	4
Belfius Nord-Picardie SCRL	Rue de la Station 39 Boîte 41 B-7700 Mouscron	26	4
Belfius Pays de Mons SCRL	Avenue Jean d'Avesnes 9 B-7000 Mons	26	4
Belfius Regio Aalst CVBA	Stationsstraat 4 B-9300 Aalst	26	4

(1) Percentage of capital held by holding company

Name	Head office	% of capital held[(1)]	Business code
Belfius Regio Antwerpen Oost CVBA	André Hermanslaan 1 B-2100 Deurne	26	4
Belfius Regio Dendermonde-Buggenhout CVBA	Kerkstraat 64-66 B-9200 Dendermonde	26	4
Belfius Regio Erpe-Mere CVBA	Marktplein 36 B-9520 Sint-Lievens-Houtem	26	4
Belfius Regio Genk-Maaseik CVBA	Fruitmarkt 7 B-3600 Genk	26	4
Belfius Regio Hasselt CVBA	Havermarkt 36-38 B-3500 Hasselt	26	4
Belfius Regio Leie-Schipdonk CVBA	Volhardingslaan 72 (bus 1) B-9800 Deinze	26	4
Belfius Regio Mechelen CVBA	Grote Markt 31 B-2800 Mechelen	26	4
Belfius Regio Menen-Wevelgem CVBA	Kerkomtrek 16 B-8930 Menen	26	4
Belfius Regio Middelkerke-Koekelare CVBA	Kerkstraat 58 B-8430 Middelkerke	26	4
Belfius Regio Mortsel Kontich CVBA	Mechelsesteenweg 56 B-2640 Mortsel	26	4
Belfius Regio Noord-Antwerpen CVBA	Antwerpsesteenweg 49 B-2950 Kapellen	26	4
Belfius Regio Oostende-Knokke CVBA	Lippenslaan 74 B-8300 Knokke-Heist	26	4
Belfius Regio Sint-Niklaas CVBA	Hendrik Heymanplein 9 B-9100 Sint-Niklaas	26	4
Belfius Regio Tienen CVBA	Nieuwstraat 36 B-3300 Tienen	26	4
Belfius Regio Turnhout-Hoogstraten CVBA	Vrijheid 109 B-2320 Hoogstraten	26	4
Belfius Regio Waregem-Kruishoutem CVBA	Markt 12 B-8790 Waregem	25.58	4
Belfius Regio Westhoek CVBA	Grote Markt 31 B-8600 Diksmuide	26	4
Belfius Région Charleroi Airport SCRL	Place des Martyrs 2 B-6041 Gosselies	26	4
Belfius Région Huy-Andenne SCRL	Avenue du Bosquet 41 boîte 11 B-4500 Huy	26	4
Belfius Région Liège-Airport SCRL	Chaussée du Roi Albert 50 B-4431 Ans	26	4
Belfius Région Spa-Pays de Herve SCRL	Place du Marché 22 B-4651 Battice	26	4
Belfius Scheldeland CVBA	Kalkendorp 21 B-9270 Laarne	25.37	4
Belfius Sille & Dendre SCRL	Grand-Place 72 B-7850 Enghien	26	4
Belfius Sud-Luxembourg SCRL	Rue d'Alba 1 B-6700 Arlon	26	4
Belfius Tournai-Val de Verne SCRL	Rue Royale 105/107/109 B-7500 Tournai	26	4
Belfius Uccle-Rhode SCRL	Chaussée de Waterloo 1356 B-1180 Uccle	26	4
Belfius Val de Sambre SCRL	Rue de Falisolle 401 B-5060 Sambreville	26	4
Belfius Val d'Haine et Haut-Pays SCRL	rue Grande 49 B-7380 Quièvrain	26	4
Belfius Vallée de la Dyle SCRL	Place Alphonse Bosch 15 B-1300 Wavre	24.96	4
Belfius Vallée de la Woluwe SCRL	Place Dumon 22 B-1150 Bruxelles	26	4
Belfius Vilvoorde-Zaventem CVBA	Portaelsplein 68 B-1800 Vilvoorde	26	4
Belfius Vlaamse Ardennen CVBA	Nederstraat 17 B-9700 Oudenaarde	26	4

(1) Percentage of capital held by holding company

Name	Head office	% of capital held(1)	Business code
Belfius Waterloo SCRL	Chaussée de Bruxelles 306 B-1410 Waterloo	26	4
Belfius West-Brabant SCRL	Chaussée d'Alsemberg 1410 B-1620 Drogenbos	26	4
Belfius Zennevallei CVBA	Basiliekstraat 13 B-1500 Halle	26	4
Belfius Zottegem-Zuidrand Gent CVBA	Heldenlaan 22 B-9620 Zottegem	26	4
Belfius Zuid-Oost-Limburg CVBA	Visésteenweg 204 (Bus 1) B-3770 Riemst	26	4

(1) % of capital held by holding company.

Business code

1. Bank, credit institution
2. Private savings bank
3. Government credit institution
4. Banking agency
5. Leasing
6. Home loans
7. Development capital
8. Consumer credits
9. Other lending activities
10. Investment company
11. Stock broking
12. Variable capital investment company
13. Mutual funds
14. Fund manager
15. Factoring
16. Infrastructure and construction financing
17. Other specific financing
18. Financial market administration
19. Asset and portfolio management, financial advisory services
20. Financial engineering, consultancy, financial research
21. Other professional services in financial sector
22. Guarantee company
23. Trust company
24. Foreign currency exchange
25. Life insurance
26. Non-life insurance
27. Captive reinsurance
28. General insurance
29. Financial product agency and broking
30. Insurance agency and broking
31. Real estate (proprietary portfolio)
32. Real estate agency (third party)
33. Health and welfare
34. Computer business
35. Banking associations
36. Other associations
37. Sewage, road cleaning and maintenance and waste management
38. Recreation
39. Telecommunications
40. Transportation
41. Other services
42. Energy
43. Economic development
44. Water
45. Book publishing and multimedia
46. Research and development
47. Other service activities
48. Production, management, distribution of computerized payment media
49. Financing
50. Merchant banking

10.4. Involvement with unconsolidated structured entities

1. The nature, purpose, and activities of a structured entity

Belfius' involvement with unconsolidated structured entities is mainly from an investors perspective. The purpose of Belfius is to generate a stable interest margin from these investments.

Belfius has following types of exposures towards unconsolidated structured entities in its portfolio (mainly Side):

- Mortgage backed securities (MBS): these structured entities invest in residential and/or commercial mortgage loans which are financed through the issue of notes. Belfius has invested in the most senior tranches.
- Asset Backed Securities (ABS): these entities invest in loans, debt securities, leases and/or receivables which are financed through the issue of notes. Belfius has invested in the most senior tranches.
- Multi issuer covered bonds: these structured entities are set up by several banks, each participating for a certain percentage in the covered pool.
- Derivatives: Belfius has some derivatives with unconsolidated structured entities such as Credit Default Swaps, Total Return Swaps and Interest Rate Swaps.

We refer to note 12 "securitisation".

2. Amounts concerned

(In thousands of EUR)	31/12/15 Carrying amount	31/12/15 Maximum credit risk exposure
FINANCIAL ASSETS	**2,665,144**	**2,348,992**
Financial assets held for trading	493,211	170,049
Financial assets measured at fair value through profit or loss	0	0
Financial assets available for sale	543,849	542,839
Derivatives hedge accounting	0	0
Loans and Receivables	1,462,512	1,470,532
Investments held to maturity	165,572	165,572
FINANCIAL LIABILITIES	**120,542**	**0**
Financial liabilities held for trading	120,542	0

(In thousands of EUR)	31/12/16 Carrying amount	31/12/16 Maximum credit risk exposure
FINANCIAL ASSETS	**1,703,171**	**1,732,501**
Financial assets held for trading	309,864	269,340
Financial assets measured at fair value through profit or loss	0	0
Financial assets available for sale	42,936	43,406
Derivatives hedge accounting	0	0
Loans and Receivables	1,079,925	1,149,309
Investments held to maturity	270,446	270,446
FINANCIAL LIABILITIES	**21,714**	**0**
Financial liabilities held for trading	21,714	0

The increase of impairments on loans and advances to customers is mainly related to an additional impairment on US RMBS bonds in the Side portfolio. These bonds have been reclassified in the past from "Available for sale" to "Loans and advances".

XI. Related parties transactions

The standard IAS 24 "Related Parties Disclosures" provides a partial exemption from the disclosure requirements for government-related entities. Consequently these related entities are not included in the table "Related parties transactions". The exposure of Belfius on for instance Belgian Government bonds can be found in the chapter "Risk Management" of the management report.

1. Related parties transactions

	Directors and key management personnel[(1)]		Subsidiaries[(2)]	
(In thousands of EUR)	31/12/15	31/12/16	31/12/15	31/12/16
Loans[(3)]	1,752	1,373	0	0
Interest income	45	39	1	0
Deposits and debt securities[(3)(4)]	4,296	6,365	10,802	3,371
Interest expense	(10)	(5)	(20)	(1)
Net commission	0	0	113	107
Guarantees issued and commitments provided by the Group[(5)]	0	0	19,605	2,488
Guarantees and commitments received by the Group	3,521	3,795	0	0

	Associates		Joint ventures in which the entity is a venturer	
(In thousands of EUR)	31/12/15	31/12/16	31/12/15	31/12/16
Loans[(3)]	337,206	315,272	6,952	6,887
Interest income	11,149	10,132	326	79
Deposits and debt securities[(3)(4)]	114,033	68,202	10,242	3,222
Interest expense	(416)	(151)	(3)	(2)
Net commission	21,415	15,375	66	35
Guarantees issued and commitments provided by the Group[(5)]	185,886	214,321	3,888	28,592
Guarantees and commitments received by the Group	70,824	70,540	14,538	14,538

(1) Key management includes the Board of Directors and the Management Board, as well as these persons's children and spouses or domestic partners and children of these persons's spouses or domestic partners.
(2) The amounts reported relate to transactions with subsidiaries that are not consolidated due to immateriality.
(3) Transactions with related parties are concluded at general market conditions.
(4) The figures of 2015 have been restated to include the debt securities issued by Belfius.
(5) Unused lines granted.

No impairments were recorded on loans given to related parties.

2. Key management compensations[(1)]

(In thousands of EUR)	31/12/15	31/12/16
Short-term benefits[(2)]	3,785	3,637
Other long-term benefits	634	563

(1) Key management includes the Board of Directors and the Management Board.
(2) Short-term benefits include the salaries, bonuses and other advantages.

3. Dexia Real Estate Capital Markets

Dexia Real Estate Capital Markets (DRECM) was sold by Belfius in July 2010 to Dexia Holdings, Inc. (DHI). In June 2011, DRECM was sold by DHI to its parent, Dexia Crédit Local SA (DCL). In December 2016, DRECM assigned to DHI all of the assets, business and activities of DRECM, and DHI assumed all of DRECM's liabilities and obligations related thereto. Following such transfer, DRECM was liquidated into DCL with the DRECM legal entity being dissolved. DHI thus acts as the successor to DRECM.

Although DHI (as the successor to DRECM) is no longer a related party to Belfius, an overview of the remaining engagements of Belfius towards the former activities of DRECM is presented.

Note that no claims have been made up to the date of this report towards Belfius under these representations and warranties.

A. The purpose and context of the comfort letters

In the framework of three Commercial Real Estate Mortgage Loans securitisation operations in which DRECM was involved, DRECM entered into a Mortgage Loan Purchase Agreement as a seller of Commercial Mortgage Loans and into an Indemnification Agreement. In these agreements, DRECM gave certain representations and warranties in respect to some aspects of corporate standing and on some characteristics of the Commercial Mortgage Loans to certain CMBS trusts. Under the Mortgage Loan Purchase Agreement, a loan seller would be obligated under the reps and warranties to repurchase a loan if there was a material breach of the reps and warranties or a material document defect that can not be remedied, or cured, within a certain period of time (usually 90 days with extensions possible), so long as the repurchase demand was made in a timely manner. Given the fact that this was a kind of operational ongoing obligation of DRECM and DRECM was a non-rated entity, transaction participants and rating agencies required a larger first loss tranche (economically expensive for DRECM) or a counter guarantee from a rated entity. In this context Belfius Bank as a successor of Artesia Banking Corporation SA delivered the said comfort letters because the bank had a sufficient rating to reduce the requirement for credit enhancement.

B. The legal nature of the comfort letters

The first obligation to respect the terms of the Mortgage Loan Purchase Agreements and the Indemnification Agreements is the responsibility of DHI (as the successor to DRECM). It is only in case DHI (as the successor to DRECM) would not be performing that Belfius Bank promised to intervene with all means be it, human, technical or financial. The obligations of Belfius are obligations to perform or to pay. It is not a guarantee on first demand, nor an obligation to buy any non performing loan but a stand by back-up agreement for performance or payment. Although the shares of Belfius in DRECM were sold to DHI on 16 July 2010, these comfort letters are still in place. However, we believe that the risks for Belfius are extremely remote, seen no repurchase demands are outstanding, no previous transactions have led to any repurchases, and DHI (as a successor to DRECM) is sufficiently capitalized to meet its contractual obligations.

XII. Securitisation

Belfius currently has four traditional securitisation vehicles: Atrium-2, Dexia Secured Funding Belgium, Penates Funding and Mercurius Funding. The total assets of these companies amount to EUR 6,154 million as at 31 December 2016 compared to EUR 12,425 million as at 31 December 2015. Atrium-1 was liquidated over the course of 2016.

Belfius decided to apply no derecognition and therefore, 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.

Atrium-1 is a Belgian securitisation transaction of social housing loans pursuant to a long term credit facility between Belfius and Domus Flandria NV (the borrower) and guaranteed by the Flemish Region. The guarantee of the Flemish Region was transferred to the special purpose vehicle (SPV). The original size of the transaction was EUR 188 million. Two classes of fixed-rate notes were issued on 30 April 1996. While the Class A1 Notes had previously been redeemed in full, the Class A2 Notes were redeemed in full over the course of 2016.

Atrium-2 is a Belgian securitisation transaction of social housing loans pursuant to a long-term credit facility between Belfius and Domus Flandria NV (the borrower) and guaranteed by the Flemish Region. The guarantee of the Flemish Region was transferred to the SPV. The original size of the transaction was EUR 129.3 million. Two classes of fixed-rate notes were issued on 19 June 1997, both carrying a Moody's rating equal to that of the Flemish Government (initially Aa2(sf), the Class A2 Notes currently Aa2(sf) as well, the Class A1 Notes have redeemed in full). As at 31 December 2016, EUR 3.7 million is still outstanding under the Class A2 Notes.

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. Another compartment, namely DSFB-4, became inactive over the course of 2016.

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 has guaranteed the full and timely payment of principal and interest on the notes. As at 31 December 2016, EUR 1,031 million were still outstanding. The notes had a rating of A-sf/A2/A-sf at 31 December 2016.

DSFB-4 (using the fourth ring-fenced compartment of DSFB) is a securitisation transaction of loans granted to Belgian public entities. This EUR 5,060 million transaction was launched on 14 December 2009. Three classes of floating rate notes were issued: EUR 4,700 million Class A Notes (rated AAsf at closing by Fitch), EUR 300 million non-rated Class B Notes and EUR 60 million non rated Class C Notes. The notes were redeemed in full at the exercise of the Optional Redemption Call over the course of 2016.

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-4 and Penates-5. Another compartment, namely Penates-1, became inactive over the course of 2016.

On 27 October 2008, Belfius closed a EUR 8,080 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-1, securitised Belgian residential mortgage loans originated by Belfius and issued five classes of notes: EUR 7,600 million Class A Mortgage-Backed Floating Rate Notes due 2041 (Fitch AAAsf/S&P AAAsf); EUR 160 million Class B Mortgage-Backed Floating Rate Notes due 2041 (Fitch AAsf); EUR 120 million Class C Mortgage-Backed Floating Rate Notes due 2041 (Fitch Asf); EUR 120 million Class D Mortgage-Backed Floating Rate Notes due 2041 (Fitch BBBsf) and EUR 80 million Subordinated Class E Floating Rate Note due 2041 (not rated). The notes were redeemed in full at the exercise of the Optional Redemption Call over the course of 2016.

On 19 December 2011, Belfius closed a EUR 9,117 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-4, securitised Belgian residential mortgage loans originated by Belfius and issued four classes of notes: EUR 8,077.5 million Class A Mortgage-Backed Floating Rate Notes due 2045 (Fitch AAAsf/Moody's Aaasf/DBRS AAAsf); EUR 472.5 million Class B Mortgage-Backed Floating Rate Notes due 2045 (Fitch Asf/Moody's A3sf/DBRS Asf); EUR 450 million Class C Mortgage-Backed Floating Rate Notes due 2045 (unrated) and EUR 117 million Subordinated Class D Floating Rate Notes due 2045 (unrated). As at 31 December 2016, the Class A and the Class B Notes have a A+sf and A-sf rating respectively by Fitch, Aaa(sf) and Aa1(sf) respectively by Moody's and AA(sf) and A(sf) by DBRS. As at 31 December 2016, the outstanding amounts for all classes of notes were still at their initial amount except for the Class A Notes where the balance decreased to EUR 1,112 million and the Class D Notes where the balance decreased to EUR 52 million. Hence there was EUR 2,087 million outstanding under Penates-4 at 31 December 2016.

On 16 November 2015, Belfius closed a EUR 1,030 million RMBS securitisation transaction. The SPV, Penates Funding acting through its compartment Penates-5, securitised Belgian residential mortgage loans originated by Belfius Bank and issued EUR 350 million Class A1 Mortgage-Backed Floating Rate Notes due 2049 (Fitch AAAsf/Moody's Aaa(sf)); EUR 450 million Class A2 Mortgage-Backed Floating Rate Notes due 2049 (Fitch AAAsf/Moody's Aaa(sf)); EUR 200 million Class B Mortgage-Backed Floating Rate Notes due 2049 (unrated); EUR 30 million Class C Floating Rate Notes due 2049 (unrated). As at 31 December 2016, these ratings were unchanged from their initial rating. The outstanding amount of the Class A1 Notes was EUR 131 million, while the outstanding amounts of the other classes of notes were still at their initial amount. Hence there was EUR 811 million outstanding under Penates-5 at 31 December 2016.

The Penates transaction 4 is held by Belfius Bank and its subsidiary Belfius Ireland.The Penates transaction 5, Classes A1 and A2 Notes are held by institutional investors; Class B and C Notes are held by Belfius Bank. The Penates-4 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 2016.

On 7 May 2012, Belfius 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.

At the end of 2016, the ratings on the Class A Notes were AA(sf) at DBRS, A+(sf) at Fitch and Aa2(sf) at Moody's. The balance of the Class A Notes decreased to EUR 1,387 million. The outstanding amounts for the Class B Notes were still at their initial amount. Hence there was EUR 2,311 million outstanding under Mercurius-1 at 31 December 2016.

The Mercurius transaction is held by Belfius Bank and its subsidiary Belfius Ireland. The notes can be used as collateral in agreements with the European Central Bank or other counterparties.

Belfius Bank NV
Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2016

The original text of this report is in Dutch/French

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2016, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of Belfius Bank NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated balance sheet shows total assets of 176,720,926 (000) EUR and the consolidated statement of income shows a consolidated profit (group share) for the year then ended of 535,229 (000) EUR.

Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the consolidated financial statements of Belfius Bank NV give a true and fair view of the group's net equity and financial position as of 31 December 2016, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

→ The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Zaventem, 3 April 2017

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by

Philip Maeyaert   Bart Dewael

Non-consolidated financial statements (be gaap)

as at 31 December 2016

Balance sheet (after appropriation)

Assets (In thousands of EUR)		31/12/15	31/12/16
I.	Cash in hand, balances with central banks and post office banks	463,097	4,111,307
II.	Treasury bills eligible for refinancing with central banks	157,329	2,508
III.	Loans and advances to credit institutions	23,318,887	22,448,946
	A. Repayable on demand	16,230,757	15,864,629
	B. Other loans and adv. (with agreed maturity dates)	7,088,130	6,584,317
IV.	Loans and advances to customers	68,361,312	76,745,104
V.	Debt securities and other fixed-income securities	22,524,932	18,000,282
	A. Issued by public bodies	6,939,991	7,115,813
	B. Issued by other borrowers	15,584,941	10,884,469
VI.	Shares and other variable-yield securities	99,800	132,389
VII.	Financial fixed assets	2,480,431	2,637,614
	A. Participating interests in affiliated enterprises	1,994,640	1,992,837
	B. Participating interests in other enterprises linked by participating interests	105,595	94,972
	C. Other shares held as financial fixed assets	29,196	29,805
	D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests	351,000	520,000
VIII.	Formation expenses and intangible fixed assets	64,469	93,521
IX.	Tangible fixed assets	635,343	549,533
X.	Own shares	0	0
XI.	Other assets	3,226,340	3,439,976
XII.	Deferred charges and accrued income	22,044,882	21,763,247
TOTAL ASSETS		143,376,822	149,924,427

Liabilities

(In thousands of EUR)		31/12/15	31/12/16
I.	Amounts owed to credit institutions	11,026,388	12,371,461
	A. Repayable on demand	7,489,946	7,084,588
	B. Amounts owed as a result of the rediscounting of trade bills	0	0
	C. Other debts with agreed maturity dates or periods of notice	3,536,442	5,286,873
II.	Amounts owed to customers	80,039,488	75,697,683
	A. Savings deposits	32,654,733	34,886,903
	B. Other debts	47,384,755	40,810,780
	1. Repayable on demand	21,781,192	24,854,112
	2. With agreed maturity dates or periods of notice	25,603,563	15,956,668
	3. As a result of the rediscounting of trade bills	0	0
III.	Debts evidenced by certificates	19,803,790	28,662,637
	A. Debt securities and other fixed-income securities in circul.	16,694,380	23,263,553
	B. Other	3,109,410	5,399,084
IV.	Other liabilities	3,794,945	4,083,576
V.	Accrued charges and deferred income	19,812,575	19,562,203
VI.	A. Provisions for liabilities and charges	195,586	160,032
	1. Pensions and similar obligations	328	254
	2. Taxation	18,600	21,334
	3. Other liabilities and charges	176,658	138,444
	B. Deferred taxes	0	0
VII.	Fund for general banking risks	988,737	988,737
VIII.	Subordinated liabilities	897,469	1,203,980
CAPITAL AND RESERVES		**6,817,844**	**7,194,118**
IX.	Capital	3,458,066	3,458,066
	A. Subscribed capital	3,458,066	3,458,066
	B. Uncalled capital (-)	0	0
X.	Share premium account	209,232	209,232
XI.	Revaluation surpluses	219	217
XII.	Reserves	3,150,327	3,526,603
	A. Legal reserve	345,807	345,807
	B. Reserves not available for distribution	2,344	2,344
	1. In respect of own shares held	0	0
	2. Other	2,344	2,344
	C. Untaxed reserves	26,167	26,167
	D. Reserves available for distribution	2,776,009	3,152,285
XIII.	Profits (losses (-)) brought forward	0	0
TOTAL LIABILITIES		143,376,822	149,924,427

Off-balance sheet

(In thousands of EUR)		31/12/15	31/12/16
I.	Contingent liabilities	16,985,546	16,897,877
	A. Non-negotiated acceptances	78,683	138,447
	B. Guarantees serving as direct credit substitutes	15,347,742	15,198,507
	C. Other guarantees	1,420,567	1,401,339
	D. Documentary credits	138,554	159,584
	E. Assets charged as collateral security on behalf of third parties	0	0
II.	Commitments which could give rise to a risk	26,208,396	25,323,219
	A. Firm credit commitments	107,951	478,605
	B. Commitments as a result of spot purchases of transferable or other securities	297,095	507,205
	C. Undrown margin on confirmed credit lines	25,803,350	24,337,409
	D. Underwriting and placing commitments	0	0
	E. Commitments as a result of open-ended sale and repurchase agreements	0	0
III.	Assets lodged with the credit institution	98,962,289	106,401,859
	A. Assets held by the credit institution for fiduciary purposes	0	0
	B. Safe custody and equivalent items	98,962,289	106,401,859
IV.	Uncalled amounts of share capital	11,393	10,057

Statement of income (presentation in list form)

(In thousands of EUR)		31/12/15	31/12/16
I.	Interest receivable and similar income	2,610,178	2,605,765
	of which: from fixed-income securities	*670,201*	*615,441*
II.	Interest payable and similar charges (-)	(1,337,694)	(1,297,536)
III.	Income from variable-yield securities	176,332	170,186
	A. From shares and other variable-yield securities	5,957	10,387
	B. From participating interests in affiliated enterprises	161,830	145,073
	C. From participating interests in other enterprises linked by participating interests	6,901	13,794
	D. From other shares held as financial fixed assets	1,644	932
IV.	Commissions receivable	608,225	611,655
	A. Brokerage and commissions	0	0
	B. Allowances for services of administration, advice and custody	0	0
	C. Other commissions receivable	608,225	611,655
V.	Commissions payable (-)	(480,933)	(410,410)
VI.	Profit (loss (-)) on financial transactions	(47,445)	61,501
	A. On trading of securities and other financial instruments	(346,361)	(100,013)
	B. On disposal of investment securities	298,916	161,514
VII.	General administrative expenses (-)	(947,539)	(932,189)
	A. Remuneration, social security costs and pensions	(517,031)	(497,112)
	B. Other administrative expenses	(430,508)	(435,077)
VIII.	Depreciation/Amortization of and other write-downs on (-) formation expenses, intangible and tangible fixed assets	(63,905)	(65,730)
IX.	Decrease/Increase (-) in write-downs on receivables and in provisions for off balance sheet items "I. Contingent liabilities" and "II. Commitments which could give rise to a risk"	(86,046)	(89,625)
X.	Decrease/Increase (-) in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	30,649	71,335
XI.	Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet items "I. Contingent liabilities" and "II. Commitments which could give rise to a risk"	103,424	59,814
XII.	Provisions for liabilities and charges other than those included in the off balance sheet items "I. Contingent liabilities" and "II. Commitments which could give rise to a risk"	(28,970)	(21,904)
XIII.	Transfer from (Transfer to) the fund for general banking risks	0	0
XIV.	Other operating income	128,643	155,045
XV.	Other operating charges	(141,077)	(183,501)
XVI.	Profits (Losses (-)) on ordinary activities before taxes	523,842	591,736
XVII.	Extraordinary income	14,942	15,461
	A. Adjustments to depreciation/amortization of and to other write-downs on intangible and tangible fixed assets	1,080	0
	B. Adjustments to write-downs on financial fixed assets	0	3,421
	C. Adjustments to provisions for extraordinary liabilities and charges	0	0
	D. Gain on disposal of fixed assets	13,862	12,040
	E. Other extraordinary income	0	0
XVIII.	Extraordinary charges (-)	(12,154)	(5,781)
	A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets	(11,642)	(483)
	B. Write-downs on financial fixed assets	(20)	(3,898)
	C. Provisions for extraordinary liabilities and charges	0	0
	D. Loss on disposal of fixed assets	(456)	(1,307)
	E. Other extraordinary charges	(36)	(93)
XIX.	Profits (Losses (-)) for the period before taxes	526,630	601,416
XIX*bis*.	A. Transfer to deferred taxes (-)	0	0
	B. Transfer from deferred taxes	0	0
XX.	Income taxes	(19,397)	(10,142)
	A. Income taxes (-)	(21,435)	(11,869)
	B. Adjustement of income taxes and write-back of tax provisions	2,038	1,727
XXI.	Profits (Losses (-)) for the period	507,233	591,274
XXII.	Transfer to untaxed reserves (-)	0	0
	Transfer from untaxed reserves	0	0
XXIII.	Profit (Losses (-)) for the period available for approbation	507,233	591,274

Approbation account

(In thousands of EUR)		31/12/15	31/12/16
A.	Profits (Losses (-)) to be appropriated	507,233	591,274
	1. Profits (Losses (-)) for the period available for approbation	507,233	591,274
	2. Profits (Losses (-)) brought forward	0	0
B.	Transfers from capital and reserves	0	0
	1. From capital and share premium account	0	0
	2. From reserves	0	0
C.	Appropriations to capital and reserves	432,233	376,274
	1. To capital and share premium account	0	0
	2. To legal reserve	0	0
	3. To other reserves	432,233	376,274
D.	Result to be carried forward	0	0
	1. Profits to be carried forward (-)	0	0
	2. Losses to be carried forward	0	0
E.	Shareholders' contribution in respect of losses	0	0
F.	Distribution of profits (-)	75,000	215,000
	1. Dividends(1)	75,000	215,000
	2. Director's entitlements(1)	0	0
	3. Other allocations(1)	0	0

(1) Only applicable to Belgian limited liability companies

Belfius Bank NV
Statutory auditor's report to the shareholders' meeting on the annual accounts for the year ended 31 December 2016

The original text of this report is in Dutch

Statutory auditor's report to the shareholders' meeting of Belfius Bank NV on the annual accounts for the year ended 31 December 2016

As required by law and the company's articles of association, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the annual accounts together with our report on other legal and regulatory requirements. These annual accounts comprise the balance sheet as at 31 December 2016 and the income statement for the year then ended, as well as the summary of accounting policies and other disclosures.

Report on the annual accounts – Unqualified opinion

We have audited the annual accounts of Belfius Bank NV ("the company") , prepared in accordance with the financial reporting framework applicable in Belgium, which show total assets of 149,924,427 (000) EUR and a profit for the year of 591,274 (000) EUR.

Board of directors' responsibility for the preparation of the annual accounts

The board of directors is responsible for the preparation and fair presentation of annual accounts in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the annual accounts. We have obtained from the company's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the annual accounts of Belfius Bank NV give a true and fair view of the company's net equity and financial position as of 31 December 2016 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the annual accounts, as well as for maintaining the company's accounting records in compliance with the legal and regulatory requirements applicable in Belgium and for the company's compliance with the Companies Code and the company's articles of association.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statements, which do not modify the scope of our opinion on the annual accounts:

- The director's report, prepared in accordance with articles 95 and 96 of the Companies Code and to be filed in accordance with article 100 of the Companies Code, includes, both in form and in substance, the information required by law, is consistent with the annual accounts and is free from any material inconsistencies with the information that we became aware of during the performance of our mandate.
- The social balance sheet, to be filed in accordance with article 100 of the Companies Code, includes, both in form and in substance, the information required by law and is free from any material inconsistencies with the information available in our audit file.
- Without prejudice to certain formal aspects of minor importance, the accounting records are maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting is in accordance with the relevant requirements of the law and the company's articles of association.
- There are no transactions undertaken or decisions taken in violation of the company's articles of association or the Companies Code that we have to report to you.
- An interim dividend was distributed during the year on which we have issued the attached report in accordance with legal requirements.

Zaventem, 3 April 2017

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by

Philip Maeyaert Bart Dewael

Belfius Bank NV
Statutory auditor's report concerning the statement of assets and liabilities as per 30 June 2016 with respect to the proposed distribution of an interim dividend

Free Translation - the original text of this report is in Dutch

Introduction

In accordance with the Company's articles of association, article 26.3, the Board of Directors proposes the distribution of an interim dividend, based on the results of the current period.

In accordance with article 618 of the Companies Code, we have performed a limited review of the enclosed statement of assets and liabilities for the period from 1 January 2016 till 30 June 2016, which shows a balance sheet total of 154,499,476 (000) EUR.

The statement of assets and liabilities per 30 June 2016 was drawn up under the responsibility of the Board of Directors in order to verify whether the net profit of the period, determined in accordance with the below mentioned article 618, is sufficient in order to declare an interim dividend of 75,000 (000) EUR.

The wording (translated from Dutch) of article 618 reads as follows:

"The articles of association empower the Board of Directors to declare an interim dividend with respect to the results of the financial year.

The distribution can only relate to the profit of the current financial year, and, in such case, decreased by losses carried forward or increased by profit carried forward excluding the reserves set aside based upon a legal or statutory requirement.

In addition, the distribution can only be realized after the Board of Directors has verified that the profit, determined in accordance with the second paragraph, is adequate in order to declare an interim dividend on the basis of the statement of assets and liabilities, which is reviewed by the statutory auditor.

The verification report of the statutory auditor is attached to his annual report.

The Board of Directors' decision to declare an interim dividend should be taken no later than 2 months subsequent to the date on which the statement of assets and liabilities has been drafted.

The distribution can be decided upon as early as 6 months after the closing of the previous financial year and following the approval of the financial statements of that financial year.

Subsequent to a first interim dividend distribution, a new distribution can be decided upon as early as 3 months after the first interim dividend was decided upon.

If the interim dividends exceed the amount of the year-end annual dividend, which is decided upon by the General Assembly, the surplus is considered as an advance on the next dividend."

Limited review

Our review was performed in accordance with the ISRE 2410, "Review of interim financial information performed by the independent auditor of the entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and administrative matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with the International Standards on Auditing (ISA) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on this statement of assets and liabilities.

We also ensured that, following the by-laws of the company, the Board of Directors has the required legal power to distribute an interim dividend.

Comments on the statement of assets and liabilities

The statement of assets and liabilities as per 30 June 2016 was drawn up under the responsibility of the Board of Directors in accordance with the accounting law and the Company's valuation rules, and follows from the accounting records of Belfius Bank NV. The accounting policies applied are consistent with those followed as per the previous year.

The attached statement as per 31 December 2015 is compared to the statement of assets and liabilities as per 30 June 2016 and is part of the annual accounts at that date. We certified these accounts and they were approved by the General Meeting of Shareholders of 27 April 2016.

Events occuring after balance date

On the date of this report and following discussions with management, no important events occurred after 30 June 2016, closing date of the statement of assets and liabilities, which would have a material impact on the statement of assets and liabilities as per 30 June 2016.

Limitation of the profit distribution

In accordance with article 616 of the Companies Code, an amount of at least one twentieth of the net profit is to be annually withheld for the creation of a legal reserve. The obligation to withhold ends when the reserve fund has reached one tenth of its nominal capital.

In accordance with article 617 of the Code of Companies, no distribution may occur if, as a result of that distribution, the net assets would fall below the paid-in capital, or when this is higher, of the called-upon capital, increased by the reserves, which according to the legal and statutory requirements cannot be distributed. The net assets concern the total amount of assets, as shown in the balance sheet, less provisions and debts. In the event of a distribution of dividends, the shareholders' equity may not include the amount of formation costs not written down, and, subject to motivation in exceptional instances, the amount of research and development costs not written down.

In accordance with article 618, the distribution of an interim dividend can be made on the profit of the current year and, if applicable reduced by the losses carried forward or increased with the profit carried forward, excluding the reserves set aside based upon a legal or statutory requirement.

Conclusion

Our review did not reveal any facts or circumstances which would lead to important modifications of the statement of assets and liabilities for the period from 1 January 2016 till 30 June 2016.

The profit of the current financial year, as mentioned in the statement as per 30 June 2016, increased by the profit carried forward, excluding the reserves set aside based upon a legal or statutory requirement, exceeds the amount of the proposed interim dividend.

The present report is solely intended for the exclusive use of the Board of Directors and the Company's shareholders within the framework of the planned distribution of an interim dividend as set out above and can therefore not be used for any other purpose. In accordance with article 618, it should be annexed to the statutory report on the financial statements for the year ended 31 December 2016.

Diegem, 30 August 2016

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by

Philip Maeyaert Bart Dewael

Alternative Performance Measures – APM

COMMON EQUITY RATIOS

The CET 1 ratio presents the ratio between the CET 1 capital and the total regulatory risk exposures.

Calculation (%)	Reference	2015	2016
CET 1 Phased In	Management report/ Capital Management	15.9%	16.6%
CET 1 Fully Loaded	Management report/ Capital Management	14.9%	16.1%

TOTAL CAPITAL RATIO

The total capital ratio presents the ratio between the total regulatory own funds and the total regulatory risk exposures.

Calculation (%)	Reference	2015	2016
Phased In	Management report/ Capital Management	17.7%	19.4%
Fully Loaded	Management report/ Capital Management	16.2%	18.4%

LEVERAGE RATIO

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

Calculation (%)	Reference	2015	2016
Phased In	Management report/ Capital Management	5.3%	5.4%
Fully Loaded	Management report/ Capital Management	4.9%	5.3%

COST-INCOME RATIO

Gives an impression of the relative cost efficiency (expenses relative to income)

Calculation (in millions of EUR or %)	Reference	2015	2016
Expenses (A)	Consolidated Income Statement	1,396	1,366
Income (B)	Consolidated Income Statement	2,184	2,259
COST-INCOME RATIO (=A/B)		63.9%	60.5%

The Cost-Income ratio is also calculated for each segment according to a similar definition.

ASSET QUALITY RATIO

The ratio between impaired loans and advances to customers and the gross outstanding loans and advances to customers.

Calculation (in millions of EUR or %)	Reference	2015	2016
Impaired outstanding (A)	Note 5.18. Quality of financial assets	2,029	2,320
Gross outstanding (B)	Note 5.18. Quality of financial assets	88,717	91,292
ASSET QUALITY RATIO (=A/B)		2.29%	2.54%

COVERAGE RATIO

The ratio between the specific impairments and impaired loans and advances to customers.

Calculation (in millions of EUR or %)	Reference	2015	2016
Specific impairment (A)	Note 5.18. Quality of financial assets	1,158	1,262
Impaired outstanding (B)	Note 5.18. Quality of financial assets	2,029	2,320
COVERAGE RATIO (=A/B)		57.1%	54.4%

LIQUIDITY COVERAGE RATIO (LCR)

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 equal to or greater 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.

Calculation (in millions of EUR or %)	Reference	2015	2016
Stock of quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	16,329	18,742
Net cash outflow over a 30-day period under stress (B)	Based on the European Commission's Delegated Act on LCR	12,366	14,751
LCR (=A/B)		**132%**	**127%**

NET STABLE FUNDING RATIO (NSFR)

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding, and is based on Belfius' interpretation of the current Basel Committee guidelines, which may change in the future. 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.

Calculation (in millions of EUR or %)	2015	2016
Amount of available stable funding (A)	90,715	94,792,
Amount of required stable funding (B)	84,259	86,362,
NSFR (=A/B)	**108%**	**110%**

RETURN ON EQUITY (ROE)

Return on equity (ROE) is an indication of how profitable a company is relative to its equity. The return on equity is calculated as the annualized net income as a percentage of the average shareholders equity minus the dividend, not yet paid (based on N and N-1 figures).

Calculation (in millions of EUR or %)	Reference	2015	2016
Net income group share (A)	Consolidated Income Statement	506	535
Average core shareholders' equity (B)	Consolidated Balance Sheet	8,019	8,394
RETURN ON EQUITY (=A/B)		**6.3%**	**6.4%**

RETURN ON ASSETS (ROA)

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. The return on assets is calculated as the annualized net income as a percentage of the average total assets (based on N and N-1 figures).

Calculation (in millions of EUR or %)	Reference	2015	2016
Net income group share (A)	Consolidated Income Statement	506	535
Average total assets (B)	Consolidated Balance Sheet	185,685	176,842
RETURN ON ASSETS (=A/B)		**0.27%**	**0.30.%**

RETURN ON NORMATIVE REGULATORY EQUITY (RoNRE)

Return on Normative Regulatory Equity (RoNRE) is calculated for Franchise (and its main segments RC and PC). RoNRE is calculated as the annualized net income as a percentage of the average Normative Regulatory Equity. The Normative Regulatory Equity is defined as the CET 1 capital that is required to bring Franchise (and its sub-segments) to a CET 1 ratio (Fully Loaded) of 10.5%.

Calculation (in millions of EUR or %)	Reference	2015	2016
Net income group share Franchise (A)	Management report/ Segmentreporting	611	666
Average Normative Regulatory Equity (B)[1]	Management report/ Segmentreporting	4,260	4,051
RoNRE (=A/B)		**14.3%**	**16.4%**

(1) Franchise: without excess capital

The RoNRE is also calculated for RC and PC according to a similar definition.

SOLVENCY II RATIO (INSURANCE)

The Solvency II ratio is calculated as the amount of own funds as a percentage of the solvency capital requirement.

Calculation (in %)	Reference	2015	2016
Solvency II ratio (before dividend)	Management report/ Capital Management	209%	217%
Solvency II ratio (after dividend)	Management report/ Capital Management	199%	207%

TOTAL SAVINGS AND INVESTMENTS

Total savings and investments allocated to the different business lines, are composed of total deposits, off-balance sheet investments and life insurance reserves.

Total savings and investments	Retail and Commercial		Public and Corporate	
(in billions of EUR)	2015	2016	2015	2016
A. Total deposits	60.1	62.0	21.6	22.9
B. Off-balance sheet investments	28.0	29.6	7.5	8.2
C. Life insurance reserves	11.7	10.9	0.5	0.6
TOTAL CUSTOMER ASSETS	99.8	102.5	29.6	31.7

A. The **total deposits** consist of the deposits from RC clients and PC clients:

Calculation of RC deposits	Retail and Commercial (RC)		
(in billions of EUR)	Reference	2015	2016
RC Savings accounts	Component of note 6.2 Customer borrowings and deposits	37.3	40.0
RC Current accounts	Component of note 6.2 Customer borrowings and deposits	8.9	10.4
RC Term accounts	Component of note 6.2 Customer borrowings and deposits	0.5	0.5
RC Savings certificates	Component of note 6.3 Debt securities	5.2	2.8
RC Bonds issued by Belfius	Component of note 6.3 Debt securities	4.0	3.6
	Component of note 6.4 Financial liabilities measured at FV	4.2	4.8
TOTAL RC DEPOSITS		60.1	62.0

Calculation of PC deposits	Public and Corporate (PC)		
(in billions of EUR)	Reference	2015	2016
Public and Social	Component of note 6.2 Customer borrowings and deposits	15.2	16.9
Corporate	Component of note 6.2 Customer borrowings and deposits	6.4	6.1
TOTAL PC DEPOSITS		21.6	22.9

B. **Off-balance sheet investments** are customer assets products which are not on the balance of the bank nor are an insurance contract. Off balance sheet investments contain:

- customer assets managed by "allied or own asset management companies" in the form of mutual funds or by advisory or discretionary mandates; and
- Customer assets managed directly by the customer (a.o. shares, bonds (not issued by Belfius)). The size and the development of asset managed by allied or own asset management companies is a major contributor to the fee income (asset management fees, entry fees).

C. **Life insurance reserves** are composed, on the one hand, of the Branch 21 investment products, or insurance products with a guaranteed income, with its mathematical reserves on the balance sheets of our insurance company; on the other hand, there are the Branch 23 unit linked (investments) products, which are measured at fair value of the underlying assets (mainly off-balance). These products contribute to Belfius group's result by entry fees, commissions' income on underlying assets, and net income on B21 investment products.

TOTAL LOANS TO CUSTOMERS

Total loans allocated to the customers of the different business lines, are composed of loans granted to these customers.

Calculation (in billions of EUR)	Reference	2015	2016
Mortgage loans	Component of note 5.4 Loans and advances to customers	27.2	28.8
Consumer loans	Component of note 5.4 Loans and advances to customers	1.3	1.4
Other retail loans	Component of note 5.4 Loans and advances to customers	0.5	0.5
Business loans	Component of note 5.4 Loans and advances to customers	10.8	11.4
TOTAL LOANS TO CUSTOMERS RC		39.9	42.1

Calculation (in billions of EUR)	Reference	2015	2016
Public and Social	Component of note 5.4 Loans and advances to customers	29.6	28.8
Corporate	Component of note 5.4 Loans and advances to customers	8.9	10.0
TOTAL LOANS TO CUSTOMERS PC		38.4	38.9

THE LEGACY BOND PORTFOLIO

Bonds which Belfius inherited from the Dexia Group.

Calculation (in billions of EUR)	Reference	2015	2016
Bonds	Component of note 5.4 Loans and advances to customers	5.2	4.7
	Component of note 5.6 Financial assets available for sale	2.5	1.5
	Component of note 5.7 Financial assets measured at fair value through profit or loss	0.4	0.4
TOTAL LEGACY BOND PORTFOLIO		8.1	6.3

THE LEGACY CREDIT GUARANTEE (INTERMEDIATION) PORTFOLIO

The Legacy credit guarantees refer to the intermediation transactions whereby, on different types of reference obligations, the former Dexia Bank sold credit protection to a financial counterpart and purchased credit protection with monoline insurers.

Calculation (in billions of EUR)	Reference	2015	2016
Legacy credit guarantees	Component of mainly note 8.2 Guarantees and note 5.9 Derivatives	5.4	4.2
TOTAL LEGACY CREDIT GUARANTEES		5.4	4.2

FUNDING DIVERSIFICATION AT BELFIUS BANK

(in billions of EUR)	2015	2016
A. Commercial funding	82.7	84.9
B. Secured funding	13.9	13.2
C. Wholesale unsecured funding	5.9	5.0
D. Net unsecured interbank funding	4.4	6.8

A. Commercial funding

The total deposits collected within the commercial Franchise (RC and PC) – see total savings and investments.

B. Secured funding

Funding for which specific collateral has been provided as (additional) security

Calculation (in billions of EUR)	Reference	2015	2016
ECB: (T)LTRO	Component of note 6.1 Due to banks	1.7	3.0
Repo	Component of note 6.1 Due to banks	0.7	0.2
LT secured funding	Mainly component of note 6.2 Customer borrowings and savings	4.2	1.6
Covered bonds	Component of note 6.3 Debt securities	7.3	8.4
TOTAL SECURED FUNDING		13.9	13.2

C. Wholesale unsecured funding

Funding obtained in the wholesale market for which no specific collateral has been provided.

Calculation (in billions of EUR)	Reference	2015	2016
LT senior unsecured funding	Mainly Component of note 6.3 Debt securities	4.9	3.6
LT subordinated funding	Note 6.7 Subordinated debts	0.9	1.4
TOTAL WHOLESALE UNSECURED FUNDING		5.9	5.0

D. Net unsecured interbank funding

Calculation (in billions of EUR)	Reference	2015	2016
ST unsecured funding	Mainly component of note 6.3 Debt securities	4.3	6.8
TOTAL NET UNSECURED INTERBANK FUNDING		4.4	6.8

Abbreviations

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

Additional information

Additional addresses of Belfius Bank and Belfius Insurance's main subsidiaries and branch(1)

Belfius Auto Lease
Operational vehicle leasing and car fleet management, maintenance and claims management services
Place Rogier 11
B-1210 Brussels
Tel.: + 32 2 285 35 94
Fax: + 32 2 285 35 35
www.belfius-autolease.be

Belfius Bank, Dublin Branch
Credit Spread Portfolio management
23, Shelbourne Road
IRL-IFSC Dublin 4
Tel.: + 353 15 31 15 00
Fax: + 353 18 29 15 77

Belfius Commercial Finance
Financing commercial loans to debtors, debtor insolvency risk cover and debt recovery from debtors
Place Rogier 11
B-1210 Brussels
Tel.: + 32 2 285 26 11
Fax: + 32 2 285 26 99
www.belfius-commercialfinance.be

Belfius Insurance
Insurance company marketing life and non-life insurance products, savings products and investments for individuals, the self-employed, liberal professions, companies and the public and social sector
Avenue Galilée 5
B-1210 Brussels
Tel.: + 32 2 286 76 11
Fax: + 32 2 286 76 99
www.dvvlap.be
www.belfius-assurances.be

Belfius Insurance Invest
Investment management company for Belfius Insurance
Avenue Galilée 5
B-1210 Brussels
Tel.: + 32 2 286 69 22
Fax: + 32 2 286 72 20

Belfius Ireland Unlimited Company
Managing a Public Sector bond portfolio
23,Shelbourne Road
IRL-IFSC Dublin 4
Tel.: + 353 15 31 15 00
Fax: + 353 18 29 15 77

Belfius Lease
Financial leasing and renting of professional capital goods to the public sector
Place Rogier 11
B-1210 Brussels
Tel.: + 32 2 222 37 08
Fax: + 32 2 222 26 23
www.belfius-lease.be

Belfius Lease Services
Financial leasing and renting of professional capital goods to the self-employed, companies and liberal professions
Place Rogier 11
B-1210 Brussels
Tel.: + 32 2 222 37 08
Fax: + 32 2 222 26 23
www.belfius-lease.be

(1) Are included in this list: all subsidiaries and the branch which are operating in the banking and insurance sector (or whose operations are contributing to banking and insurance activities).

Corona

Direct life and non-life insurance products for individuals

Avenue de la Métrologie 2
B-1130 Brussels
Tel.: + 32 2 244 22 11
www.coronadirect.be

Crefius

Granting and managing mortgage loans

Registered office

Boulevard Pachéco 44
B-1000 Brussels
Tel.: + 32 2 222 11 11
Fax: + 32 2 222 40 32

Operating offices

Chaussée de Dinant 1033
B-5100 Wépion
Tel.: + 32 81 46 82 11
Fax: + 32 81 46 05 55

H. Consciencestraat 6
B-8800 Roeselare
Tel.: + 32 51 23 21 11
Fax: + 32 51 23 21 45

Elantis

Granting and managing mortgage loans and consumer loans through a network of contributors

Registered office

Rue des Clarisses 38
B-4000 Liège
Tel.: + 32 4 232 45 45
Fax: + 32 4 232 45 01

Operating office

Boulevard Saint-Michel 50
B-1040 Brussels
Tel.: + 32 2 732 12 12
Fax: + 32 2 737 29 27
www.elantis.be

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Company name and legal form
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B-1210 Brussels

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RPM Brussels VAT BE 403.201.185

FSMA number
19649 A

Website
www.belfius.be
www.belfius.com

Complaints

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

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

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

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

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

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

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

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

Contact

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

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

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

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Bank & Insurance