



# Belfius 1H 2019 Results

Presentation to analysts and investors

9 August, 2019



# 1. Summary Highlights

- Belfius' **net income 1H 2019 stands at EUR 304m**, down 9% compared to 1H 2018 where net income stood at EUR 335m. In 1H 2019, the bank contributed EUR 179m and the insurer EUR 126m
- Belfius' focus on its strategic long term development continues to translate into **investments** in business model, customers and human and digital capacities, resulting into continued **strong commercial development** in all client segments of the Belgian economy
- The combination of this strategic investment-stance, the still challenging macro-economical context and some non-typical elements such as higher claims from natural catastrophes leads to an all-in lower net income compared to 1H 2018
  - Growing loan volumes compensate for the continuous low interest rate environment and result in a **resilient net interest income** of the bank for 1H 2019
  - **Slightly increasing fee & commission income** thanks to the good development of fees from classical life and non-life insurance products and from payment services. Stable fees from savings & investments
  - **Lower insurance contributions** as a result of (i) the material natural catastrophes in 1H 2019 impacting Belfius' non-life result, and (ii) lower Branch 21 reserves leading to lower guaranteed life insurance contribution, despite resilient financial margin
  - Strategic priorities result in continued investments in human capital as well as in IT and digitization, leading to an **increase of the costs** and to a C/I ratio of 61.5%
  - Sound risk management and good credit quality of the portfolios continue to translate into historically low cost of risk of the commercial activities. The overall **increase in cost of risk** is mainly stemming from Group Center which was positively impacted in 1H 2018 by a one-off effect from the sale of some Italian government bonds
- Note that excluding the special items<sup>1</sup> (which had a positive impact in 1H 2018), **Belfius' adjusted net income increases with 10%**, i.e. from EUR 349m in 1H 2018 to EUR 383m in 1H 2019
- Even with Belfius' strategy to continue to put more capital at work to further develop its commercial franchise, Belfius continues to demonstrate **solid solvency levels**: 15.5% CET1 at consolidated level and 185% SII ratio for Belfius Insurance
- **Net asset value** at EUR 9.6bn, up from EUR 9.4bn end 2018
- Belfius' Board of Directors of August 8, 2019 decided to pay an **interim dividend**, relative to 1H 2019 results, of EUR 100m, and to set the full year 2019 target pay-out ratio range at 40% to 50%

# From 1H 2018 to 1H 2019



## 2. Belfius at a glance

- **Integrated bank-insurer**
  - Net Income of EUR 304m, of which EUR 179m Bank and EUR 126m Insurance
  - Growing bank-insurance franchise, with Non-Life premiums growth of 12% via bank distribution channel
  - Continued diversification of Belfius Bank's profile from two sectors (Retail & Public sector) to all sectors within a full blown universal bank (Retail, Private, Wealth, Business, Corporate and Public Sector)
- **Anchored in all segments of the Belgian economy**
  - 3.6m customers in Retail & Commercial (RC) and 22k customers in Public & Corporate (PC)
  - Loans to customers of EUR 91.5bn, o.w. EUR 50.4bn to RC clients and EUR 41.1bn to PC clients
  - Savings and Investments of EUR 145.1bn, o.w. EUR 110.9bn RC and EUR 34.1bn PC
  - Well distributed physical distribution channel all over the country, complemented by top-notch digital and remote service channels
- **Focused on customer satisfaction**
  - 4.6 on average – on a 5 point scale – for Belfius' IOS and Android mobile app
  - > 95% of satisfied customers, all segments together
- **Risk and financial management, two key pillars supporting the dynamic commercial development**
  - Strong solvency and liquidity position, solidly respecting all regulatory minima
  - Sound credit quality, with continued solid Asset Quality Ratio (1.95% as of June 2019)

# Integrated bank-insurer anchored in all segments of the Belgian economy

- More than 50 years of experience as bank and insurer of proximity for more than 3.6 million customers: individuals, liberal professions, self-employed and companies
- 150 years of experience as the preferred partner to the public and social sector in Belgium

## Belfius Bank & Insurance

### Retail & Commercial Banking

### Insurance

### Public & Corporate Banking

#### Retail & Commercial (RC)<sup>1</sup>

- #2<sup>2</sup> bank-insurer with more than 3.6m customers
- #1 in mobile banking<sup>3</sup>
- #4<sup>4</sup> bank to 300,000 professional customers
- EUR 50.4bn loans to customers
- EUR 110.9bn savings and investments

#### Public & Corporate (PC)<sup>1</sup>

- #1 bank to 11k Public sector customers
- #4<sup>4</sup> bank to 11k Corporate customers
- EUR 41.1bn loans to customers
- EUR 34.1bn savings and investments

#### Group Center (GC)<sup>1</sup>

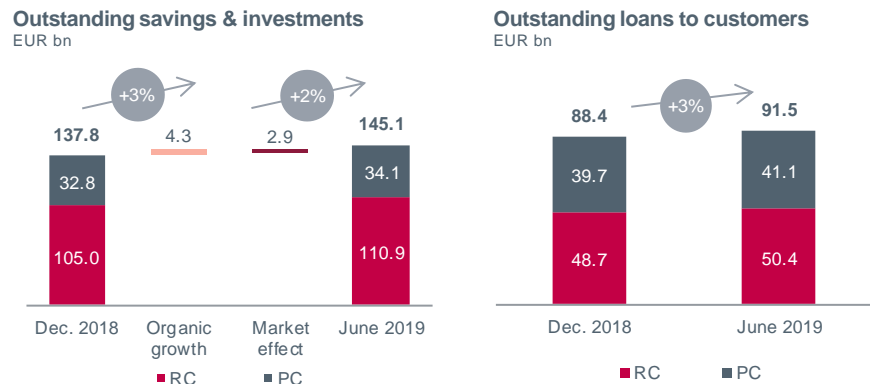
- ALM Liquidity Bond portfolio (EUR 8.0bn)
- Run-off portfolios
  - ALM Yield Bond portfolio (EUR 3.5bn)
  - Derivatives (EUR 20.5bn)
  - Credit guarantees (EUR 3.7bn)
- Other non-core activities

### 3. Group Highlights

- Continued strong **commercial momentum in 1H 2019, leading to volume growth** in customer balances, lending and insurance premiums
- Pressure from the continuing low interest rate environment (a.o. on (still growing) non-maturing deposits) counterbalance the higher loan volumes, strict tariff management in highly competitive landscape and continued interest rate risk hedging – hence leading to **resilient and stable NII** in 1H 2019
- **Slightly increasing fee & commission income** thanks to the good development of fees from classical life and non-life insurance products and from payment services. Stable fees from savings & investments despite slightly increasing fees from AuM, as the lower average volume was compensated by a change in product mix leading to higher average fees (in bps)
- **Lower insurance contributions** as a result of (i) the material natural catastrophes in 1H 2019 impacting Belfius' non-life result, and (ii) lower Branch 21 reserves leading to lower guaranteed life insurance contribution, despite resilient financial margin
- Strategic priorities result in continued investments in human capital (a.o. related to the development of new activities, Wealth Management and Corporate activities) as well as in IT and digitization, leading to an **increase of the costs**
- In line with Belfius' strong commercial momentum, slightly increasing but still historically low **cost of risk** in Belfius' commercial activities that are still benefitting from the benign credit risk environment; less positive impact in cost of risk from Belfius' non-core portfolios than in H1 2018 which was impacted by the sale of Italian government bonds and associated impairment reversal
- All-in-all reported **net income of EUR 304m**, down from EUR 335m in 1H 2018 as 1H 2018 was impacted by some positive special items (i.e., capital gains and losses on the sale of associates (“NEB participation”), the revaluation of the historical stake in Auxipar and the sale of some Italian government bonds)
- Excluding special items, **Belfius' adjusted net income increases with 10%**, i.e. from EUR 349m in 1H 2018 to EUR 383m in 1H 2019

# Continued strong commercial dynamics with significant volume growth in customer balances, lending and insurance premiums

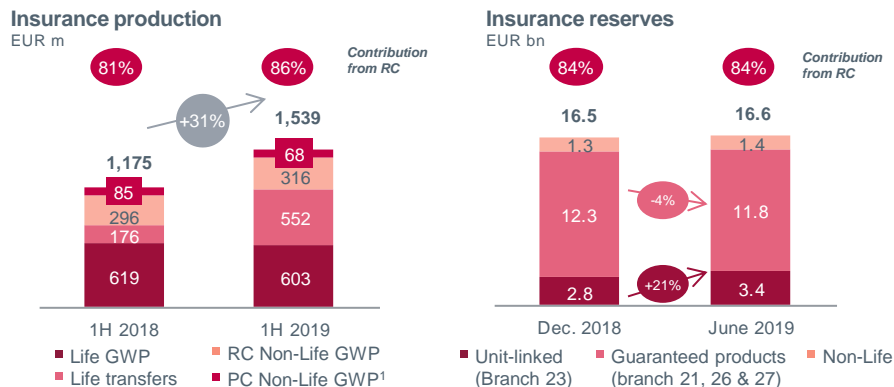
## Savings & investments and loans to customers



- Total savings & investments amounted to EUR 145.1bn in June 2019, up 5% compared to December 2018
  - RC strong organic growth (EUR 3.3bn) mainly in non-maturing products, combined with solid market effect (EUR 2.5bn)
  - PC increase in off balance sheet investments (EUR +1.8bn) slightly compensated by decreasing deposits (EUR -0.4bn)
- Increase of loans outstanding (+3%) mainly driven by
  - a strong increase in business and mortgage loans
  - successful commercial strategy towards Belgian corporates

Notes: 1. of which EUR 38m for PC activities in run-off in 1H 2019 and EUR 57m in 1H 2018

## Insurance sales and reserves



- Overall slightly increasing Non-Life GWP (+1%) as strong growth of RC Non-Life GWP to EUR 316m in 1H 2019 (up 7% compared to 1H 2018) more than offsets the foreseen decrease in PC (run-off strategy). RC registered an increase in all channels with a strong performance in the bank distribution channel (+12%)
- Life insurance production stood at EUR 1,155m in 1H 2019, up 45% compared to 1H 2018 (stemming from much higher transfers), with a continued positive evolution in terms of product mix
- Continued implementation of the strategy to switch from guaranteed yield products to unit-linked products (+21% increase in unit-linked reserves), boosted by the bank distribution channel

# Despite challenging macro-economical context, resilient NII and F&C income, both showing a slight increase

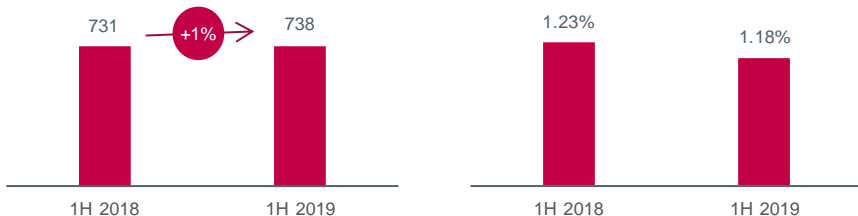
Bank

## Continuing low interest rate environment puts pressure on bank NII

### Net interest income

EUR m

### NIM<sup>1</sup>



- Resilience mainly resulting from efficient interest rate hedging, increasing commercial loan volumes and tariff management counterbalanced by the negative impact of the historically low interest rate environment especially on interest margin of further increasing volumes of non-maturing deposits
- Pressure on the NII illustrated by the decreasing NIM, at 1.18% as of 1H 2019, down by 5bps from 1H 2018

Bank

## Bank fee & commission income stable

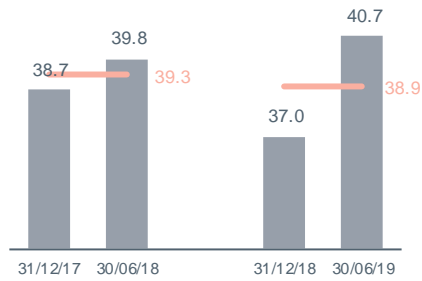
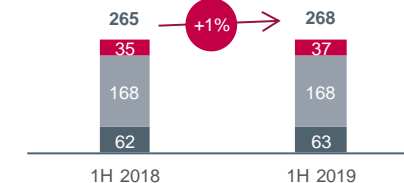
### F&C income

EUR m

### Assets under management<sup>4</sup>

EUR bn, end of period (■) and average (—)

- Distribution from insurance<sup>2</sup>
- Savings & Investments<sup>3</sup>
- Payments, credits & other



- Slightly increasing fee and commission income (EUR +2.7m)
  - Good development of fees from (classical life and non-life) insurance products sold through bancassurance channels and from payment services in RC segment
  - Stable fees from savings & investments despite slightly increasing fees from AuM, as the lower average volume (due to negative market effect in 2H 2018) was compensated by a change in product mix leading to higher average fees (in bps)

Notes: 1. NIM calculated as the sum of quarterly NII at Belfius Bank (without dividend income) of the last 4 quarters divided by the average of the interest earning assets at Belfius Bank of the last 4 quarters (see also APM document on Belfius' website); 2. Classical Life and Non-Life; 3. Including insurance distribution fee from insurance investments products (Branch 21, Branch 23, etc.); 4. Discretionary management as well as off-balance sheet customer investments in mutual funds, mandates and other products such as bonds, equities, etc.

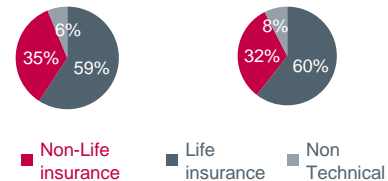


# Bancassurance model impacted by natural catastrophes and lower life financial results

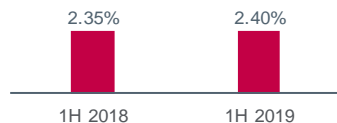
## Insurance

### Negatively impacted insurance contribution

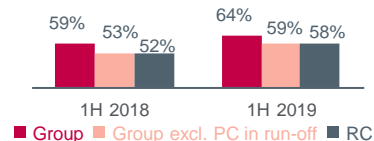
#### Insurance income<sup>1</sup>



#### Life margin



#### Non-Life net loss ratio

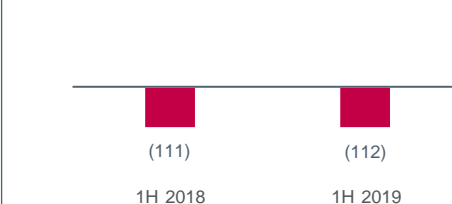


- Continued strategic transformation of product mix towards more non-life and unit-linked products
- Life Insurance contribution decreases from EUR 182m to EUR 171m as sustained income and margin development are more than offset by lower Branch 21 outstanding reserves and by the negative evolution stemming from last year's reassessment of technical provisions in line with risk appetite framework that led to a positive impact in 1H 2018
- Non-Life Insurance income decreasing (from EUR 106m to EUR 90m) mainly due to the high impact of natural catastrophes (higher than 1H 2018; in 1H 2019 expected to be at maximum full year level, considering the reinsurance treaties Belfius Insurance has in place) and to the deterioration of loss ratio in the PC channels in run-off (i.e. for PC insurance business through brokers and bank channels)

## Group

### Stable other income

#### Other income

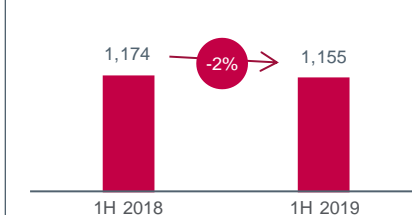


- Other income 1H 2019 in line with 1H 2018.
- 1H 2018 was positively impacted by special items<sup>2</sup> (step-up acquisition Auxipar, sale of NEB participation and Italian government bonds) and a reversal of the provision for potential settlements of ongoing disputes with third parties, whereas 1H 2019 is impacted by (i) a dotation to that provision, (ii) higher trading and hedge results mainly stemming from the tightening of credit spreads
- Other income impacted by bank levies<sup>3</sup>

## Group

### Slightly lower revenues

#### Total income



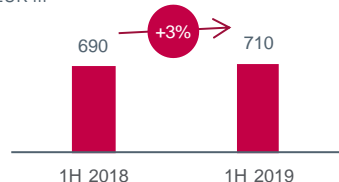
- Further successful development of Belfius' commercial franchise and bancassurance model leading to excellent commercial volumes (in loans, deposits and insurance production) compensating for the very challenging context for financial services industry. However, natural catastrophes, last year's reassessment of life technical provisions and some other non typical elements lead to negative evolution in income

# Strategic initiatives with further investments in IT and human resources, and rather stable and still historically low cost of risk in our commercial activities

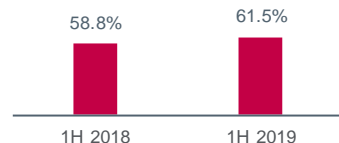
## Costs increase with strategic investments in IT & HR

### Expenses

EUR m

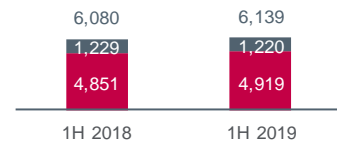


### Cost-Income ratio



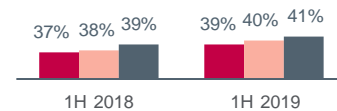
### FTE<sup>1</sup>

■ Belfius Bank  
■ Belfius Insurance



### Non-Life expense ratio

■ Group ■ Group excl. PC in run-off  
■ RC

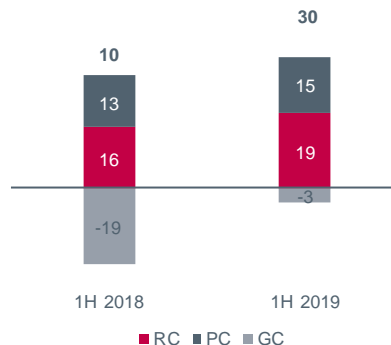


- Belfius has embarked on an ambitious growth journey driven by digitalization and modernization. To execute Belfius' strategic development and digital strategy and to achieve its transformation, costs increased by EUR 20m vs 1H 2018. This increase is mainly related to:
  - Investments in human capital to support Belfius' growth journey, as illustrated by an increase of average FTE by 59, mainly in areas related to new activities, such as Corporate and Wealth management, and IT and digitization
  - The standard wage indexation applicable in Belgium
  - Belfius' ambitious digitalization and innovation program (leading to cash investments of EUR 90m in 1H 2019 vs. EUR 141m in 2018)
  - Note that network fees still slightly benefited from the ongoing efforts to continuously decrease Belfius' network footprint

## Cost of risk in commercial activities remains at a low level

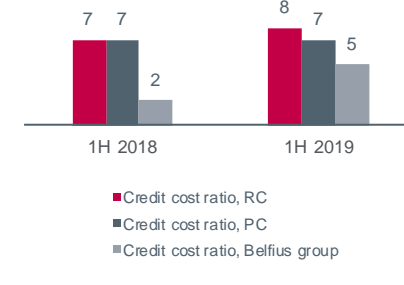
### Cost of risk

EUR m



### Credit cost ratio<sup>2</sup>

In bps



- Cost of risk in commercial activities remains at a historically low level, demonstrating continued good credit quality of commercial assets and benign credit risk context
- The increase in overall Cost of risk is mainly stemming from the one-off effect of the sale of some Italian government bonds in 1H 2018 which positively impacted (EUR 19m) GC Cost of risk

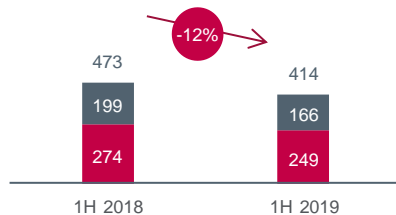
# Decreasing net income before tax leading to lower net income in 1H 2019. However, without special items, adjusted net income increases with 10%

## Decreasing NIBT

### Net income before tax

EUR m

■ Insurance  
■ Bank



- Combination of slightly decreasing income with (i) the higher expenses due to investments in digitalization and modernization as well as (ii) the increase in cost of risk (mainly in GC due to 1H 2018 one-off) lead to a decrease in net income before tax to EUR 414m

## Lower tax expenses

### Tax expenses

EUR m



### Effective tax rate

%



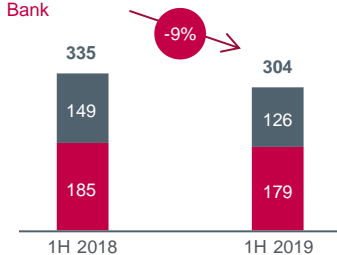
- Consolidated tax expenses amount to EUR 110m in 1H 2019 compared to EUR 138m in 1H 2018. This is partly due to a decreasing NIBT as well as a lower ETR following:
  - A lowering impact on the effective taxable base thanks to the Innovation Income Deduction regime
  - More favourable financial markets in 1H 2019 leading to less negative results in Belfius' ex-legacy book managed in Ireland, not translating into recognized DTA at this stage
  - However somewhat compensated by lower non taxable capital gains and dividends than in 1H 2018

## Decreasing all-in-all net income. Excluding special items, adjusted net income increases

### Net income

EUR m

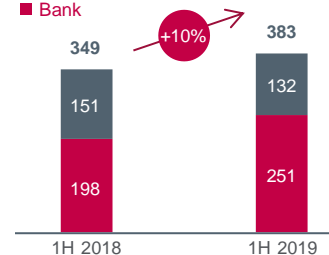
■ Insurance  
■ Bank



### Adjusted net income

EUR m

■ Insurance  
■ Bank



- All in all leading to a net income of EUR 304m in 1H 2019, down 9% compared to 1H 2018
- Excluding special items (see next slide), solid net income of EUR 383m in 1H 2019, up 10% compared to 1H 2018

# From reported to adjusted net income<sup>1</sup>

	Reported	Excluding special items				Adjusted
		IFRIC 21 adjustment for sector levies <sup>2</sup>				
<b>1H 2019, EUR m</b>						
Income	1,155		-111			1,266
Expenses	-710		-			-710
Cost of risk	-30		-			-30
Impairments	-		-			-
<b>Net income before tax</b>	<b>414</b>		<b>-111</b>			<b>525</b>
Taxes	-110		33			-143
<b>Net income</b>	<b>304</b>		<b>-78</b>			<b>383</b>
<i>Impact mainly in</i>			GC			
		Sale/unw ind w within the ex-legacy portfolio	IFRIC 21 adjustment for sector levies <sup>2</sup>	Impact of restructuring <sup>3</sup>	Other items <sup>4</sup>	
<b>1H 2018, EUR m</b>						
Income	1,174	10	-111	-	46	1,228
Expenses	-690	-	-	-5	-	-685
Cost of risk	-10	19	-	-	-	-29
Impairments	-1	-	-	-	-	-1
<b>Net income before tax</b>	<b>473</b>	<b>30</b>	<b>-111</b>	<b>-5</b>	<b>46</b>	<b>513</b>
Taxes	-138	-8	33	2	-	-164
<b>Net income</b>	<b>335</b>	<b>22</b>	<b>-78</b>	<b>-3</b>	<b>46</b>	<b>349</b>
<i>Impact mainly in</i>		GC	GC	GC	RC, PC, GC	

Notes: 1. Adjusted results and special items are Alternative Performance Measures and are defined and reconciled in the APM document available on Belfius' website ([www.belfius.com/results](http://www.belfius.com/results)); 2. Pursuant to IFRIC 21, sector levies should be recognized upfront. If the sector levies would have been spread out over the year, Belfius' 1H 2019 income would have been EUR 78m higher; 3. The "impact of restructuring" includes the recognition of formally approved restructuring provisions; 4. Other items include (i) capital gains and losses on the sale of associates ("NEB Participation") as well as (ii) the revaluation of the historical stake in Auxipar.

## 4. Segment results

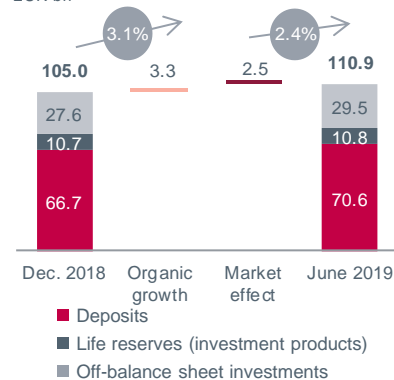
### 1. RC

- **Retail & Commercial continues to show strong commercial momentum** with growing
  - Customer savings & investments (+6%): strong organic growth (EUR +3.3bn) since end 2018, combined with a positive market effect (EUR +2.5bn) allowing to recover some of the losses of 2H 2018. Growth mainly in current & savings accounts (+7%)
  - Loans to customers (+3%)
  - Insurance production (+39%)
  - Sales of simple and frequently used products and services through direct channels
- **A strong digital track record in mobile - omnichannel banking**
  - Further increase of Belfius' active mobile users: 1.33m active mobile users connecting on average more than once a day
  - 4.6 on average – on a 5 point scale – for Belfius' IOS and Android mobile app
  - Belfius' omnichannel strategy to capture customer value has reshaped the distribution model for certain products and services, e.g. in 1H 2019, 63% of the new pension saving contracts were subscribed via direct channels
- Following continued risk aversion of RC customers, commercial volume growth in S&I continues to lead to a change in product mix with more non-maturing deposits. The margin pressure on these non-maturing deposits due to persistent low interest rates and the legal tariff floor on savings deposits, were compensated by strong RC loan volume growth at loan margins on average still slightly above margins on stock of RC loans, all-in-all leading to a **resilient NII**
- **Slightly increasing fee & commission income** thanks to the good development of fees from classical life and non-life insurance products and from payment services. Stable fees from savings & investments despite slightly increasing fees from AuM, as the lower average volume was compensated by a change in product mix leading to higher average fees (in bps)
- **Lower insurance contributions** as a result of (i) the material natural catastrophes in 1H 2019 impacting Belfius' non-life result, and (ii) lower Branch 21 reserves leading to lower guaranteed life insurance contribution, despite resilient financial margin
- Investments in strategic priorities such as Wealth Management Services, IT and digitization as well as slightly increasing (but still historically low) cost of risk in line with the development of the commercial franchise, leading to all-in-all **decreasing net income**
- Adjusted Net income of RC rather stable, as some special elements positively impacted 1H 2018

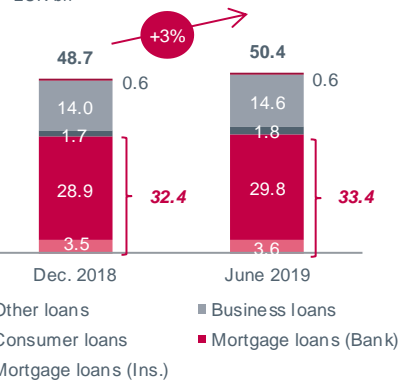
# Solid commercial activity leads to further volume growth and developing sales through direct channels

## Savings & investments and loans to customers

### Outstanding savings & investments



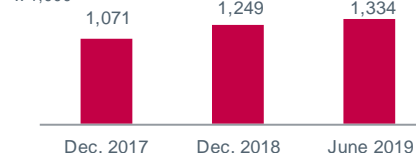
### Outstanding loans to customers



- Retail & Commercial continues to show overall excellent dynamics, with pressure from product mix on savings & investments side:
  - Strong organic growth (EUR 3.3bn), mainly in non-maturing products as clients show more interest for capital protected products, leading to a change in product mix with more non-maturing vs. asset management despite high market effect (EUR 2.5bn)
  - Outstanding loans increased by EUR 1.7bn (+3%) compared to Dec. 2018. The increase is present in all types of loans but is mostly driven by a strong growth in business loans (+4.3%) and mortgages (+3.0%)

## Growing activity on direct channels

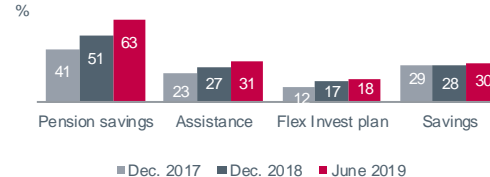
### Active mobile users



### Credit cards



### Sales through direct channels<sup>2</sup>



### Customer equipment rate



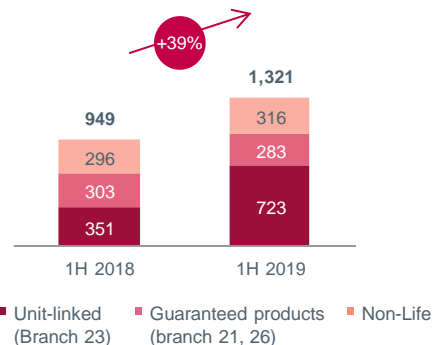
- Increasing customer engagement resulting into steady increase of active mobile users (+7% vs. Dec. 2018), with on average 34 logins per active user per month, and into a continued high degree of customer satisfaction (4.6 on average – on a 5 point scale – for IOS and Android)
- Belfius continues to extend the functionalities of its direct channels. In 1H 2019, 63% of the new pension savings contracts, 40% of the new credit cards and 30% of the new savings accounts were subscribed via direct channels
- Stable average equipment rate of RC customers, supported by increasing direct sales

Notes: 2. Belfius' direct channels are Belfius Connect, Belfius Mobile (smartphone and tablet) and Belfius Direct Net (computer)

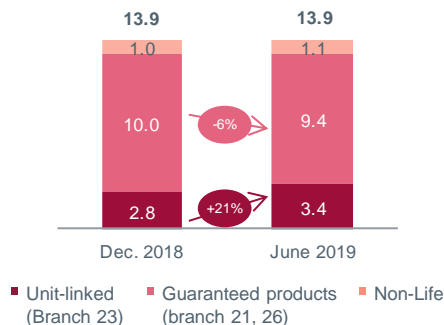
# Bancassurance strategy continues to support Belfius' insurance activities, undergoing at the same time a profound product mix transformation

## Insurance sales & reserves

**Insurance production**  
EUR m



**Insurance reserves**  
EUR bn



## Insurance

## Continuous solid bankinsurance cross-sell

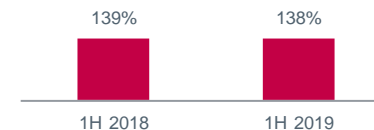
### Property insurance

Belfius Home & Family cross-sell (%)



### Credit linked Life insurance

Belfius Home Credit Protect cross-sell (%)<sup>3</sup>



## Bank-Insurance

- RC Non-Life insurance premiums in 1H 2019 stood at EUR 316m, up 7% compared to 1H 2018, boosted by the bank distribution channel (+12%) and Corona (+6%), Belfius' direct insurer in Belgium
- RC Life insurance (unit-linked and traditional) production stood at slightly more than EUR 1bn (EUR 1.005m in 1H 2019<sup>1</sup>) up 54% compared to 1H 2018<sup>2</sup>
  - Unit-linked (Branch 23) production increased strongly (+106%; boosted by large transfers from BR21 to BR23)
  - Traditional Life (Branch 21/26) production decreased with 6.6% following the low interest rates environment and product shift
- Total RC insurance reserves stood at EUR 13.9bn: unit-linked reserves increased by 21% while traditional Life reserves decreased by 6%, demonstrating the ongoing Life product mix transformation from guaranteed products to more unit-linked products
- Belfius continues to show solid mortgage loans related cross-sell ratios, confirming strong bank-insurance development

Notes: 1. Of which EUR 453m GWP and EUR 552m transfers; 2. of which EUR 478m GWP and EUR 176m transfers; 3. Mortgage-related cross-selling ratio based on contractual data and showing the average insured amount compared to the mortgage. This ratio is above 100% when both members of a household are insured

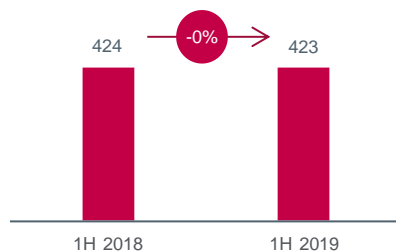
# Increase in legally tariff floored retail deposits puts pressure on bank NII, increase in F&C income

Bank

## Resilient NII in a continuously low interest rate environment

### Net interest income

EUR m



- Stable RC NII amounting to EUR 423m as of 30 June 2019, as growing outstanding non-maturing deposits and the negative impact thereon from the persistent low interest rates are compensated by the strong growth in RC loan volumes (especially in mortgage and business loans), at RC loan margins on new production that are still (slightly) above RC loan margins on stock

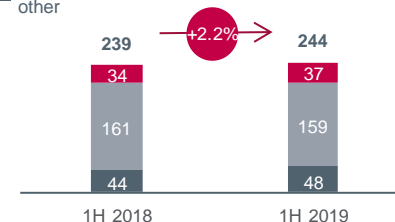
Bank

## Increasing Fee & Commission income

### F&C income

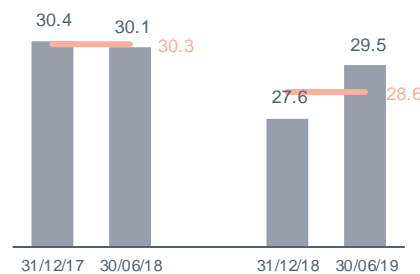
EUR m

- Distribution from insurance<sup>1</sup>
- Savings & investments<sup>2</sup>
- Payments, credits & other



### Assets under management<sup>3</sup>

EUR bn, end of period (■) and average (—)



- Good development of fees from classical life and non-life insurance products sold through bancassurance channels and from fees on payment services
- Stable fees from savings & investments despite slightly increasing fees from AuM, as the lower average volume (due to negative market effect in 2H 2018) was partially compensated by a change in product mix leading to higher average fees (in bps)



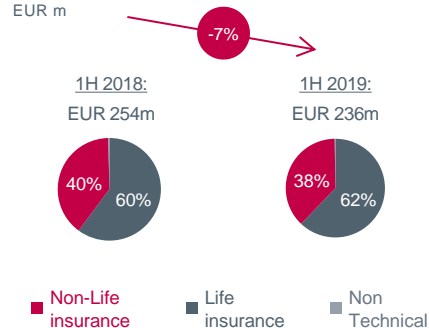
# Negative impact from natural catastrophes and lower life result lead to only slightly increasing overall RC revenues

## Insurance

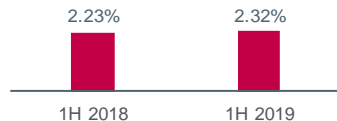
### Negatively impacted insurance contribution

#### Insurance income

EUR m



#### Life margin



#### Non-Life net loss ratio



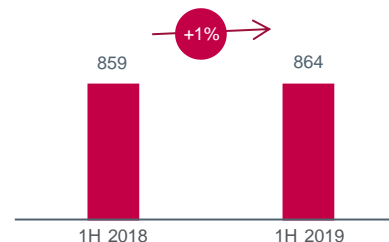
- RC Insurance results show decrease in both Life and Non-life income, despite high premium growth. This results from
  - Life Insurance contribution decreasing by 4% compared to 1H 2018 and amounting to EUR 147m, mainly resulting from the decrease in Branch 21 outstanding reserves and the high positive impact of the reassessment of life technical provisions performed in 1H 2018, in line with risk appetite framework
  - Non-Life Insurance contribution negatively impacted by claim charges for natural catastrophes in 1H 2019, reaching EUR 89m (-11% vs. 1H 2018)

## Bank-Insurance

### Slightly increasing total income

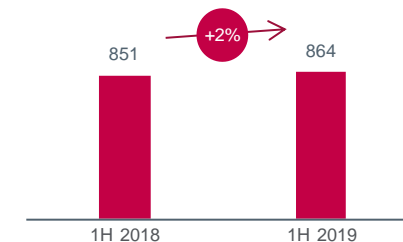
#### Total income

EUR m



#### Adjusted total income

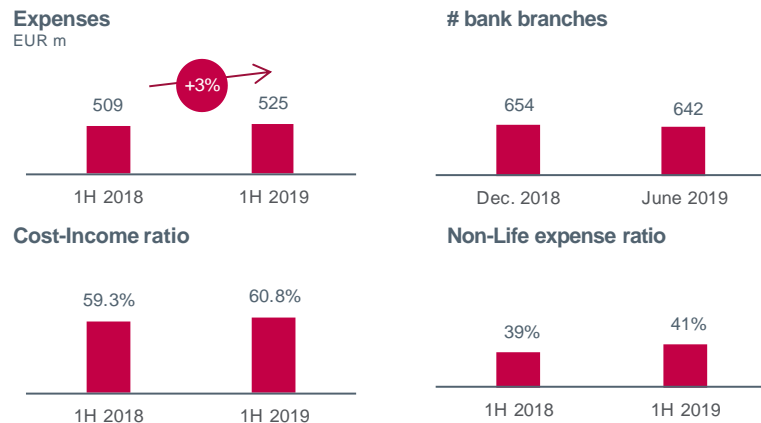
EUR m



- Resilient revenues demonstrating the resilience of Belfius' RC business model in the context of the adverse interest rate environment
- Adjusted total income amounted to EUR 864m in 1H 2019, up 2% compared to 1H 2018

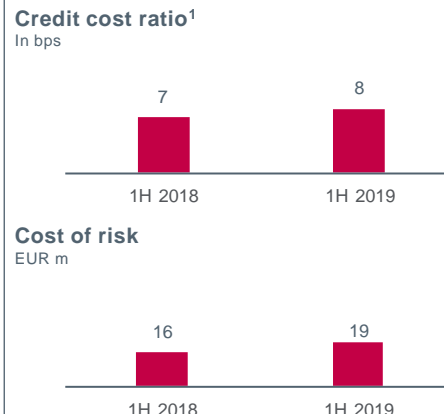
# Strategic initiatives with further investments in IT and human resources, and historically low cost of risk

## Important investments in IT & HR, resulting in cost increase



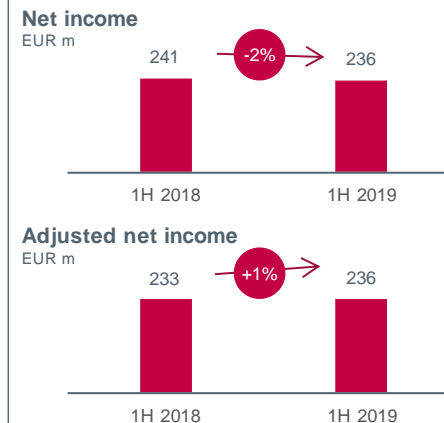
- In line with Belfius' group strategic development and digital and staff investment programs, RC expenses are increasing
- Belfius continues to adjust step by step its physical branch network, in line with customer behaviour, digitalisation trend and bank-insurance platform integration

## Low risk profile



- Slightly increasing but still historically low credit cost ratio and cost of risk, hence demonstrating a good credit quality in current benign environment

## Lower net income



- Due to the pressure on net interest income and non-life insurance income, total net income decreases slightly by 2% and amounts to EUR 236m in 1H 2019.
- The adjusted net income is slightly increasing (+1%) compared to 1H 2018.

## 4. Segment results

### 2. PC

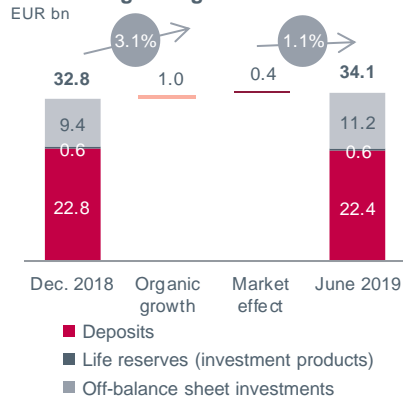
- **Public & Corporate continues to strongly develop its Corporate segment, and remains the leading full service provider in the Belgian Public & Social segment**
  - Strong increase in loans to Belgian Corporates (+12%)
  - Continued momentum in Debt Capital Markets; participation rate of 86% with Public and Social segment clients and 80% with corporate clients in Belgian market
  - 6 capital market transactions within Equity Capital Markets for various corporate clients building on the partnership with Kepler Cheuvreux
- **Growing NII** thanks to continued pricing discipline and higher loan volumes especially in the Corporate segment
- **Stable contribution of fees and commissions**
- **Decrease of insurance** contribution mainly due to higher claims in Non-Life and the lower Branch 21 reserves leading to lower guaranteed life insurance contribution, despite resilient financial margin
- Investments in strategic priorities such as corporate banking, IT and digitization as well as continued historically low cost of risk leading to all-in-all **decreasing net income**
- Excluding special items (capital gain on the sale of NEB participation in 1H 2018), the **adjusted net income shows a solid improvement** of 13% and reaches EUR 117m in 1H 2019

# PC continues to strongly develop its Corporate segment, and remains leading full service provider in the Public & Social segment

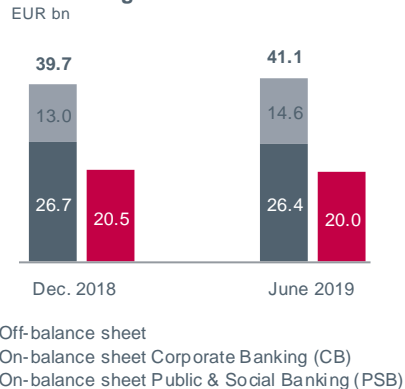
Public & Corporate

## Savings & investments and loans & commitments to customers

### Outstanding savings & investments



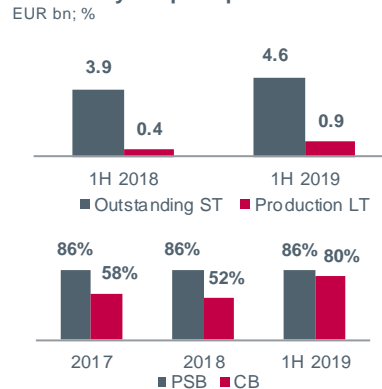
### Outstanding loans and commitments



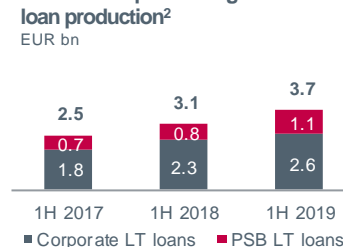
- Public & Corporate segment continues to benefit from the diversification strategy towards the Corporate segment
  - Total customer balances amounted to EUR 34.1bn, up 4.1% compared to end 2018, with marked positive evolution in off-balance sheet investments, especially in the Corporate segment
  - Continued commercial strategy towards Belgian corporates results in a 12% increase of outstanding loans over 1H 2019, to EUR 14.6bn as per June 2019
  - Outstanding loans in PSB slightly decreased in 1H 2019 (-1%) and reflect the continued shift to more alternative financing (i.e. desintermediation), for which Belfius is also market leader in the PSB segment, and the continued historically lower demand

## Debt Capital Markets (DCM) activity and PSB and Corporate loan production

### DCM activity and participation rate



### PSB and corporate long term loan production<sup>2</sup>



### Equity Capital Markets (ECM)

**6** Transactions in 1H 2019

- PC clients maintain diversified financing profiles through DCM activity
  - During 1H 2019, Belfius has placed a total funding (allocated amount) of EUR 3.4bn short term and EUR 0.6bn long term notes for P&S sector clients and kept its participation rate at 86%, hence confirming its leadership position
  - With a participation rate of 80% in new LT bond issuances, Belfius also confirmed during 1H 2019, its position as leader in bond issues for Belgian corporate clients, and placed a total amount of EUR 1.2bn short term and EUR 0.3bn long term notes
  - In line with Belfius' growth strategy, the production of corporate LT loans is steadily increasing with 13%. Production of PSB LT loans is increasing to EUR 1.1bn in 1H 2019
  - Belfius also structured and placed a total of 6 capital market transactions within ECM for various corporate clients and in close cooperation with Kepler Cheuvreux with whom Belfius entered into a strategic partnership in November 2017

Notes: 1. Based on a Belfius' estimate; 2. Belfius Lease and Autolease for PC customers included

# Price discipline and strong momentum with corporates driving NII expansion

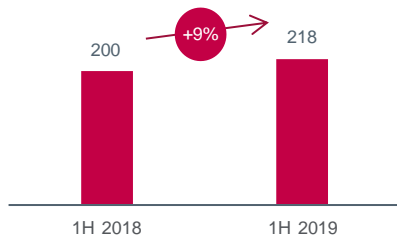
Public & Corporate

Bank

## Increasing net interest income despite adverse rate environment

### Net interest income

EUR m



- Increasing bank NII of PC mainly thanks to higher volumes in corporate loans and pricing discipline more than compensating pressure on interest margin especially on non-maturing deposits

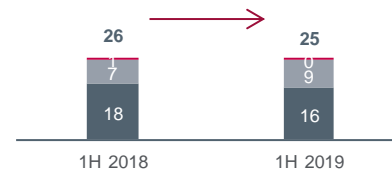
Bank

## Stable fees & commissions

### F&C income

EUR m

- Distribution from insurance<sup>1</sup>
- Savings & investments<sup>2</sup>
- Payments, credits & other



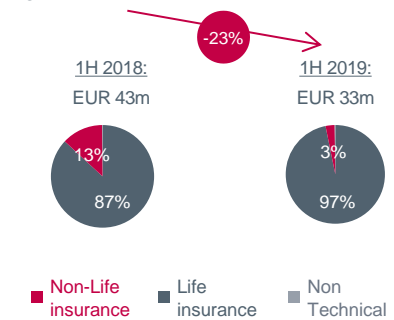
- Good commercial interaction between lending and non-lending services leads to stable fee and commission income

# Lower Life insurance contribution leading to overall PC stable revenues despite NII expansion

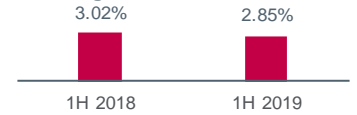
## Insurance

### Increase of insurance contribution

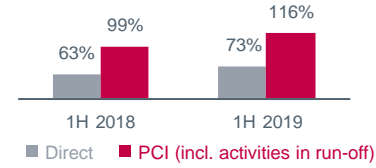
#### Insurance income EUR m



#### Life margin



#### Non-Life net loss ratio

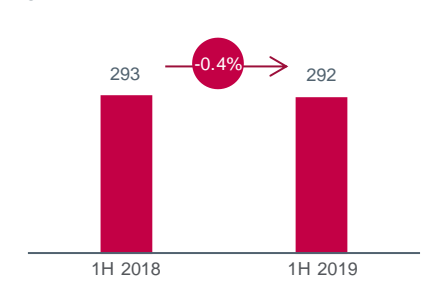


- PC Life insurance results evolving negatively in 1H 2019 following the reassessment of technical life provisions (in line with risk appetite framework) positively impacting PC segment in 1H 2018
- Non Life result was negatively impacted by higher loss ratio in the non-life activities

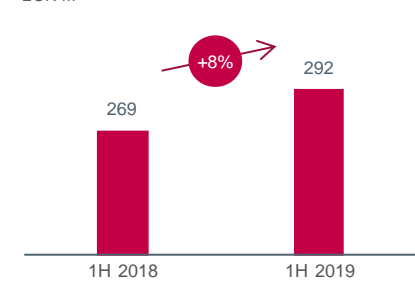
## Bank-Insurance

### Stable revenues

#### Total income EUR m



#### Adjusted total income EUR m

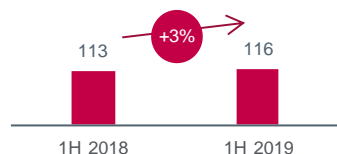


- Higher net interest income and resilient fee and commission income, combined with decreasing insurance income lead to an overall stable PC total income, reaching EUR 292m as of 30 June 2019
- 1H 2018 revenues were also impacted by the capital gain on the sale of NEB participation; excluding this element, the 1H 2018 adjusted total income amounted to EUR 269m, hence showing the solid improvement of 8% to reach EUR 292m in 1H 2019

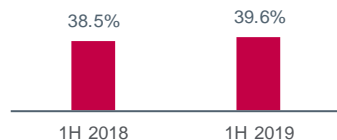
# Strategic initiatives with further investments in IT and human resources, and slightly increasing but still low cost of risk lead to net income decrease

## Important investments in IT & HR, resulting in cost increase

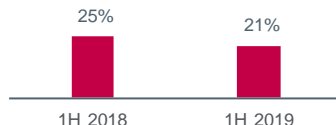
### Expenses EUR m



### Cost-Income ratio



### Non-Life expense ratio



- In line with the development of its commercial franchise, Belfius' group strategic development and digital and staff investment programs, PC expenses are increasing
- Reported Cost-Income ratio (39.6%) still at level below group average

## Cost of risk remains at historical lows

### Credit cost ratio<sup>1</sup> In bps



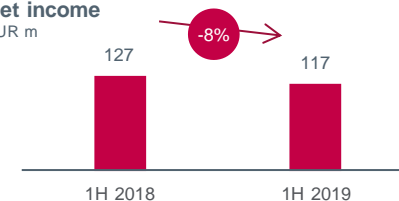
### Cost of risk EUR m



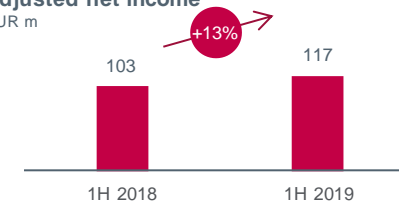
- Credit cost ratio remains at historical low levels
- Low cost of risk (EUR 15m) despite strongly growing corporate franchise, benefitting from the benign credit risk context

## Excluding special items, net income increases

### Net income EUR m



### Adjusted net income EUR m



- Stable income, increasing costs and cost of risk leading to decreasing net income (EUR 117m, i.e. -8%)
- Excluding capital gain on the sale of NEB participation in 1H 2018, adjusted net income shows an increase of +13%

## 4. Segment results

### 3. GC

- **GC income is decreasing** to EUR -1m following (i) the historically low interest rate environment that is negatively impacting the NII, and (ii) special items that positively impacted 1H 2018 income. This is somewhat compensated by higher trading and hedge results mainly stemming from the tightening of credit spreads
- **Costs are stable** at EUR 69m
- **Less positive impact from cost of risk** (from EUR 19m in 1H 2018 to EUR 3m in 1H 2019) as 1H 2018 was positively impacted by the sale of some Italian government bonds
- Negative GC net income before tax leads to a tax income of EUR 18m in 1H 2019. This compares to a tax expense of EUR 6m in 1H 2018 which was partly due to a larger negative result in Belfius' ex-legacy book managed in Ireland (as a result of unfavourable financial markets of 1H 2018), not translating into recognized DTA.
- All in all, **GC net income stands at EUR -49m in 1H 2019** compared to EUR -34m in 1H 2018
- The **run-off portfolios continue their progressive (natural) run-off**, helped by some opportunistic derisking actions (unwind of collateralized derivatives and novation of uncollateralized derivatives). The ALM Liquidity bond portfolio increased with 4% compared to December 2018, mainly due to a reinvestment program in LCR eligible bonds.



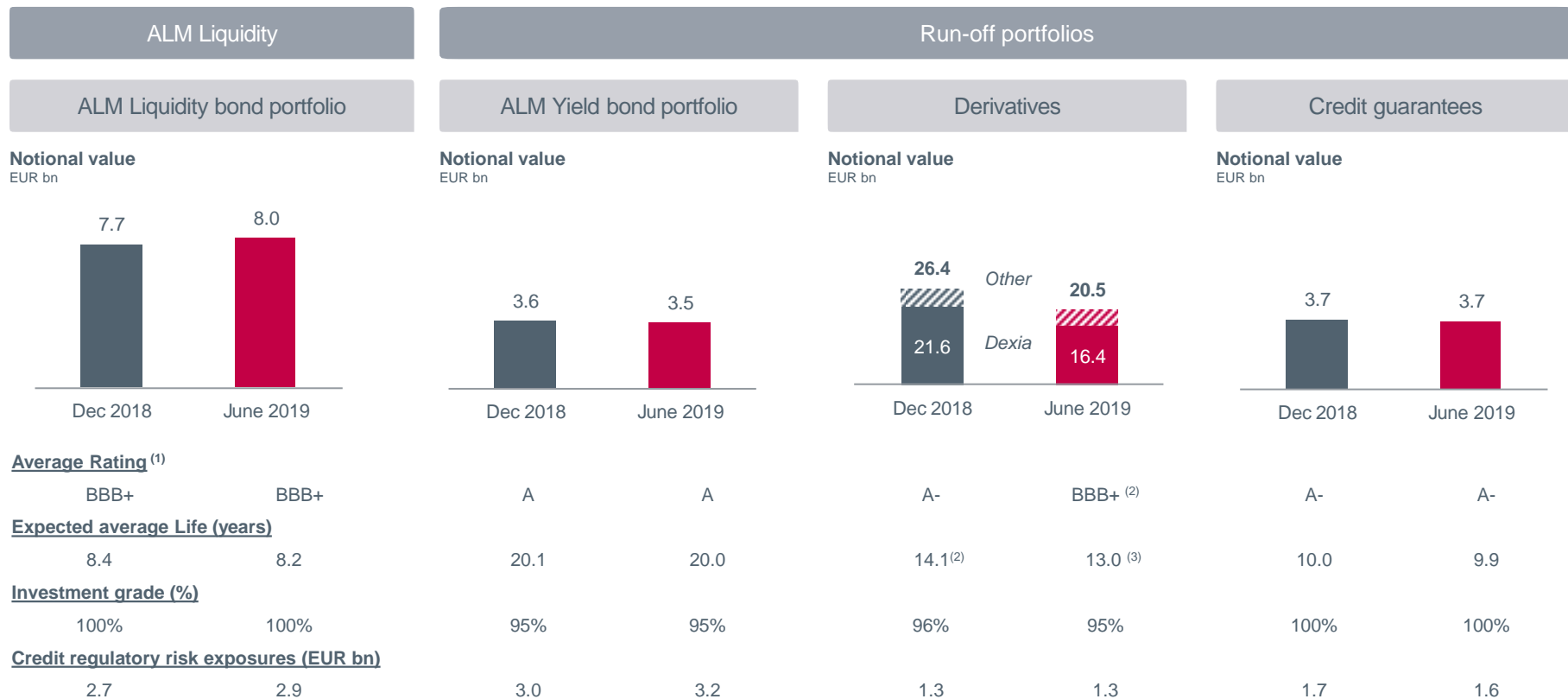
# Reminder – summary overview of Belfius' Group Center

Belfius' Group Center (notional amounts as of June 2019)

		Bond portfolio		Derivatives and guarantees	Other GC activities
		ALM Liquidity	Run-off ALM Yield	Run-off portfolio	
		<ul style="list-style-type: none"> <li>■ LCR eligible bonds (EUR 8.0bn)</li> </ul>	<ul style="list-style-type: none"> <li>■ Non-LCR eligible bonds (EUR 3.5bn)</li> <li>■ Bought credit protection for some ALM yield bonds</li> </ul>	<ul style="list-style-type: none"> <li>■ Collateralized derivatives with Dexia entities, intermediated and hedged with Financial Markets (notional of EUR 16.4bn)</li> <li>■ Non collateralized derivatives with international non financial counterparts (notional of EUR 4.1bn)</li> <li>■ Credit guarantees: protection given, partly reinsured with monolines (notional of EUR 3.7bn)</li> </ul>	<ul style="list-style-type: none"> <li>■ Management of specific credit risk files (Holding Communal &amp; Arco entities)</li> <li>■ Various other items:                             <ul style="list-style-type: none"> <li>■ ALM derivatives for B/S management</li> <li>■ Financial markets services (mostly to business lines and ALM)</li> <li>■ Central assets</li> <li>■ Insurance GC</li> <li>■ Other</li> </ul> </li> </ul>
Considerations	<ul style="list-style-type: none"> <li>■ Part of Belfius Bank's total LCR liquidity buffer</li> <li>■ Well diversified, high credit quality and highly liquid portfolio</li> </ul>	<ul style="list-style-type: none"> <li>■ Bond portfolio historically used to manage excess liquidity</li> <li>■ Mainly high quality bonds of international issuers with a ~20 years residual duration</li> <li>■ Managed in natural run-off and standard credit risk management</li> </ul>	<ul style="list-style-type: none"> <li>■ Originates from former competence center for derivatives within the Dexia Group</li> <li>■ Derivatives and credit guarantees managed in natural run-off and standard risk management</li> </ul>		

*Run-off portfolios*

# Evolution of GC portfolios



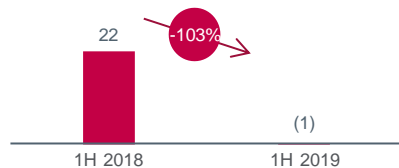
Notes: 1. Includes rating impact from bought credit protection for some ALM yield bonds; 2. Decrease in average rating relates to derisking action (novation of uncollateralized derivatives from a AAA-rated counterparty); 3. Calculated based on EAD

# Decreasing revenues and stable costs leading to a reduced reported net income. Excluding special items impacting 1H 2018 income, adjusted NI increases

Group Center

## Income reduction and stable costs

**Income**  
EUR m



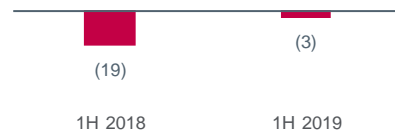
**Expenses**  
EUR m



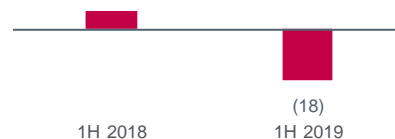
- Income decrease mainly resulting from (i) a lower net interest income (EUR -10m) in a lower interest rate environment, (ii) special items of 1H 2018 no longer positively impacting 1H 2019 income, i.e. realized gains on the sale of Italian government bonds and the revaluation of the historical stake in Auxipar (iii) a dotation in 1H 2019 to the provision for potential settlements of ongoing disputes with third parties (vs. a reversal in 1H 2018). These impacts are somewhat compensated by higher trading and hedge results mainly stemming from the tightening of credit spreads
- 1H 2019 costs remain stable

## Positive but lower CoR and positive tax income

**Cost of risk**  
EUR m



**Tax expenses**  
EUR m



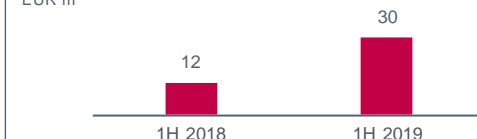
- Positive cost of risk of EUR 3m. In 1H 2018, the sale of Italian government bonds resulted in an even higher positive CoR of EUR 19m
- Negative GC net income before tax leads to a tax income amount of EUR 18m. This compares to a tax expense of EUR 6m in 1H 2018 which was partly due to a more negative taxable result in Belfius' ex-legacy book managed in Ireland (as a result of unfavourable financial markets of 1H 2018), not translating into recognized DTA.

## All-in-all leading to a negative net income

**Net income**  
EUR m



**Adjusted net income**  
EUR m



- All in all, negative net income of GC of EUR -49m
- Excluding the special items (the linearized part of the sector levies, the restructuring provisions, the sales/unwind within the ex-legacy portfolio and the capital gain on the revaluation of the historical stake in Auxipar), adjusted net income amounts to EUR +30m as of June 2019

## 4. Segment results

### 4. RoE

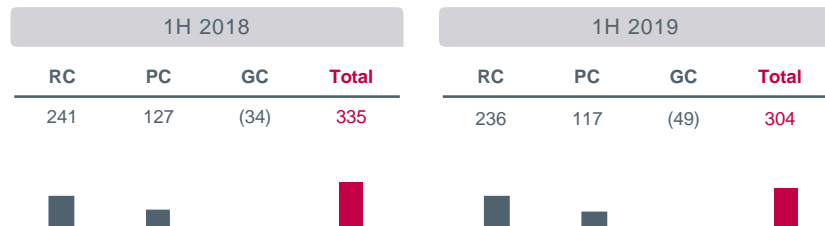
- Belfius' strategy is based on the development of a **strong commercial franchise** that is to be supported by **solid risk and financial profile** foundations
- This translates into **growing commercial activities growing their footprints in a profitable way** and investments in future business model developments, on the basis of solid solvency foundations
- In line with Belfius' continued solidity and long term strategic focus, Belfius continues to invest in its franchise, and human and digital capacities. This in combination with (1) the challenging macro-economic environment, (2) concentration of natural catastrophes in 1H 2019 and (3) lower special items than in 1H 2018 leads to **some negative impacts**, especially showing up on reported metrics
- **Return on Average Equity at group level** amounts to 6.8% in 1H 2019

# Continued sound commercial Return on (adjusted) Average Equity, some pressure on reported group metrics

Increasing adjusted net income but lower reported net income

## Net income

EUR m



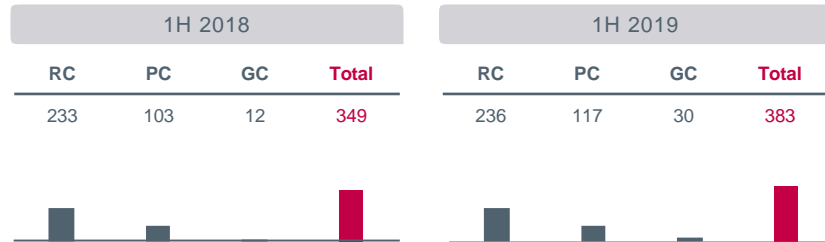
## RWA

EUR bn

18.6	17.8	14.9	51.2	20.1	19.8	14.9	54.8
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## Adjusted net income

EUR m



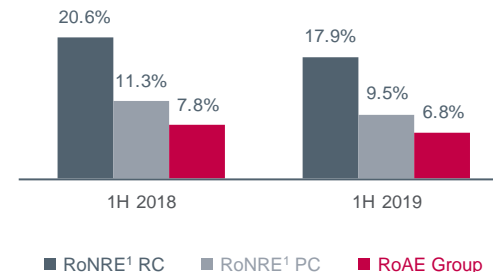
## RWA

EUR bn

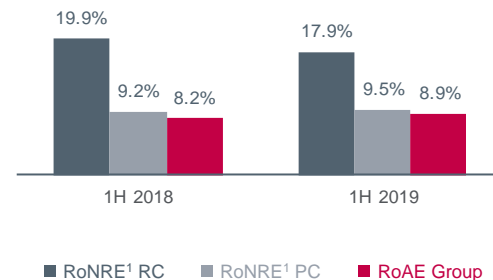
18.6	17.8	14.9	51.2	20.1	19.8	14.9	54.8
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Lower reported net income leading to lower return on equity

## Return on Average Equity



## Adjusted Return on Average Equity



Notes: 1. Return on average normative regulatory equity based on Common Equity Tier 1 capital at 13.5% RWA

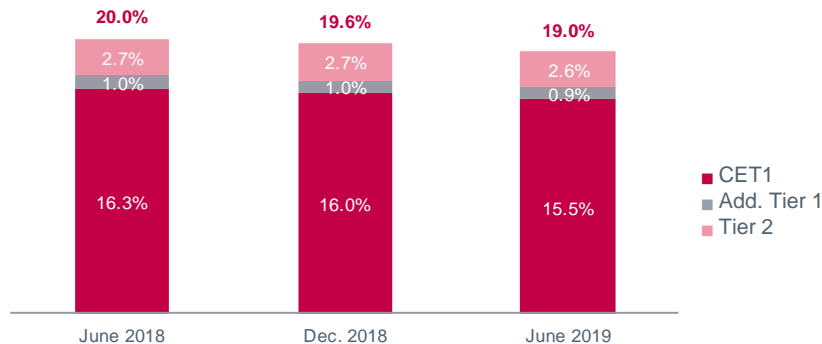
## 5. Financial solidity

- With its 1H 2019 solvency metrics, even considering its strategy to put more capital at work to support its commercial dynamics, Belfius continues to **show solid metrics**:
  - CET1 ratio of 15.5% as of end of June 2019, down 47 bps compared to December 2018 mainly as a result of Belfius' commercial dynamics leading to an increase of RWA
  - Continued solid leverage ratio of 5.8%
- This solid capital base **compares well to Belfius' SREP level and internally defined minimum operational and target levels**
  - Minimum CET1 supervisory requirement currently at 10.82% for 2019 (including 0.07% countercyclical buffer as of end of June 2019<sup>1</sup>). Belfius' P2G is set at 1%
  - CET1 of 15.5% well above the internally defined minimum operational CET1 ratio of 13.5% and within the target CET1 zone of 15.0%-15.5%
- **Insurance activities also show continued solid solvency metrics**, with Solvency II ratio of 185% (of which 141% in the form of Tier 1 capital) end of June 2019
- **Continued strong liquidity and funding profile**
  - LCR ratio of 132% and NSFR of 115%
  - Liquid assets representing 4.5x one year wholesale refinancing needs
  - Loan to deposit ratio (for commercial balance sheet) roughly stable at 93%
- **Continued strong asset quality**
  - Sound asset quality with a slightly improving asset quality ratio, at 1.95% as of June 2019 (vs. 2.05% in Dec. 2018) and coverage ratio of 62.1%

Note 1: Note that the countercyclical buffer is quarterly assessed

# Belfius shows solid capital and leverage ratios

## CET1, Tier 1 and Total capital ratio<sup>1</sup>

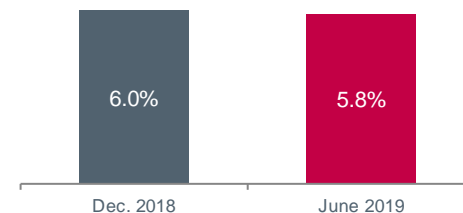


In EURm

	June 2018	Dec. 2018	June 2019
CET1	8,341	8,329	8,508
T1	8,838	8,826	9,005
CAD	10,232	10,230	10,408
RWA	51,218	52,065	54,793

- CET1 ratio stood at 15.5%, 47bps down compared to December 31, 2018
- Total Capital ratio remained strong in 1H 2019 at 19.0%
- Decrease of capital ratios stemming from increasing regulatory credit risk exposure essentially driven by (i) the higher commercial loan production (mainly in business and corporate banking), and (ii) market evolutions (especially lower interest rates) leading to higher exposure values.

## Leverage ratio

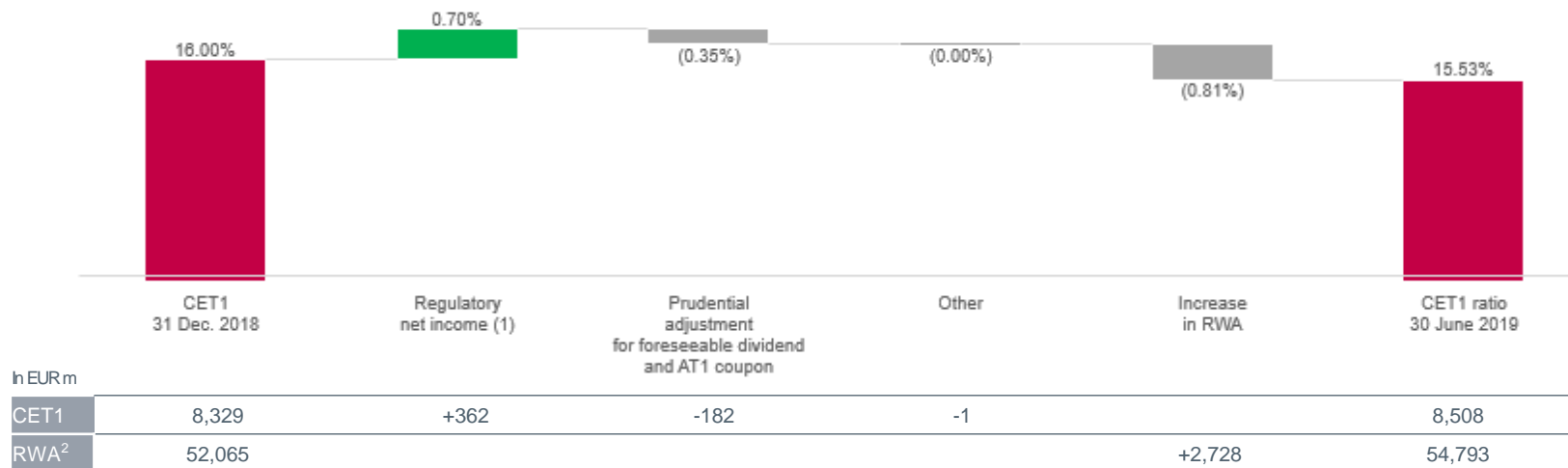


- Leverage ratio stands at 5.8%, in line with the level of Dec. 2018
- The slight decrease is due to the higher level of the total leverage exposure measure, partially offset by the higher regulatory Tier 1 capital

Note: 1. Regulatory ratios at Belfius Bank consolidated level using the Danish Compromise. For the determination of the Common Equity Tier 1 capital: the regulatory authority requires Belfius to apply a prudential deconsolidation of Belfius Insurance and to apply a risk weighting of 370% on the equity instruments held by Belfius Bank in Belfius Insurance after deduction of goodwill

# Strong CET1 ratio enabling Belfius to support its commercial dynamics

This solid capital base compares well to Belfius' SREP level and internally defined minimum operational and target levels



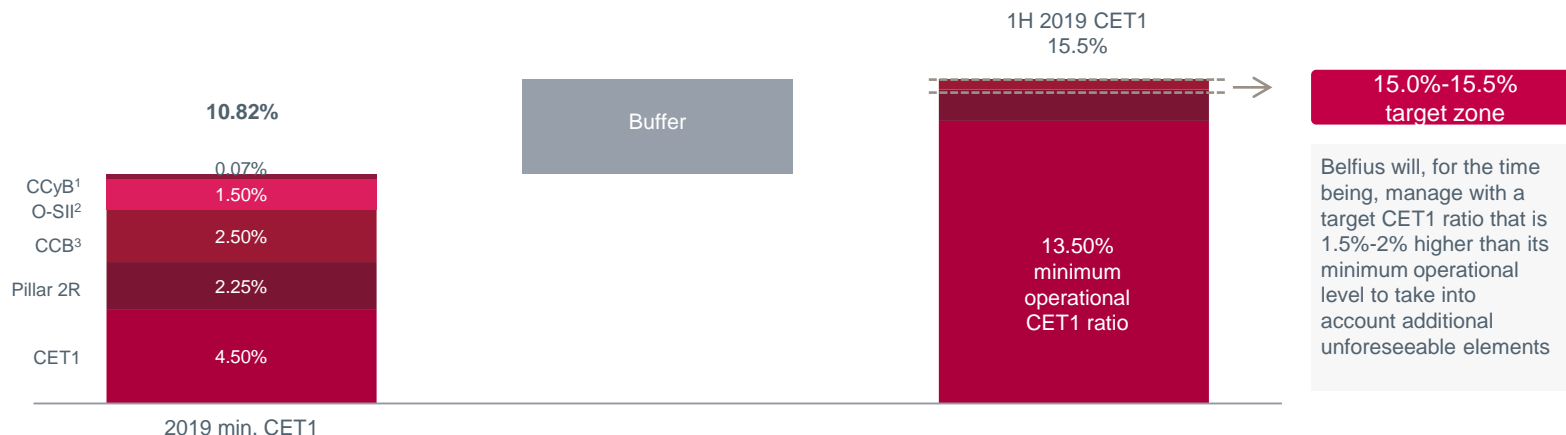
- CET1 capital is reduced by
  - The provisional “foreseeable” dividend of EUR 179 m. This prudential adjustment is based on a target dividend pay-out ratio of 40%-50% for 2019, as decided by the Board of Directors of August 8, 2019. For prudential purposes, a pay-out ratio of 50% (higher of the range) is applied to the 2019 regulatory net income after AT1 coupon
  - The foreseeable but not yet paid out AT1 coupon of EUR 3m [for the period April – June 2019]
- In 1H 2019, the increase in RWA results mainly from regulatory credit risk exposure essentially driven by (i) the higher commercial loan production (mainly in business and corporate banking), and (ii) market evolutions (especially lower interest rates) leading to higher exposure values.
- Using the deduction method instead of the Danish Compromise, the CET1 ratio would amount to 16.0% as of end of June 2019

Notes: 1. Including the dividend paid by Belfius Insurance (EUR 160m); 2. Includes the RWA equivalent for Belfius Insurance based on Danish Compromise



# Capital framework in line with strategic priorities

## Belfius' minimum CET1 requirements vs. Belfius' 1H 2019 CET1 capital position & target

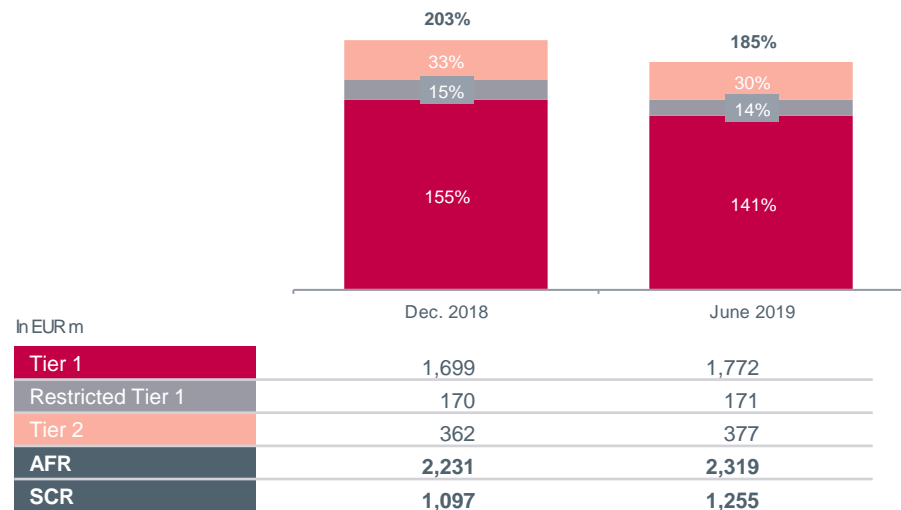


- The SREP review for 2019, finalized by the ECB in the beginning of 2019, resulted in a minimum CET1 ratio of 10.75% (without countercyclical buffer) and 10.82% including the countercyclical buffer.
- The ECB also notified Belfius of a Pillar 2 Guidance (P2G<sup>4</sup>) of 1% CET 1 ratio for 2019 (same as in 2018), a recommended buffer to be held over the minimum requirements set forth above
- As of end of June 2019, Belfius' CET1 ratio stood at 15.5%, well above the minimum supervisory requirement as well as its internally defined minimum operational CET1 ratio and within its target zone
- Pursuant to its macroprudential powers laid down in the Belgian Banking Law of 2014, the National Bank of Belgium decided on 28 June 2019 to increase the countercyclical buffer rate for credit risk exposures to the Belgian private non-financial sector from 0 % to 0.5 % for 3Q 2019. This decision will be binding as from 1 July 2020 onwards as it is subject to a one-year implementation period. Considering that Belgian private non-financial sector represents c. 85% of Belfius' exposures, it is expected to lead to an additional Ccyb of c. 42.5 bps for Belfius. Note that if cyclical systemic risks would decrease and the credit cycle would turn, these additional buffer requirements could still be relaxed by the NBB, commensurate with the cycle.

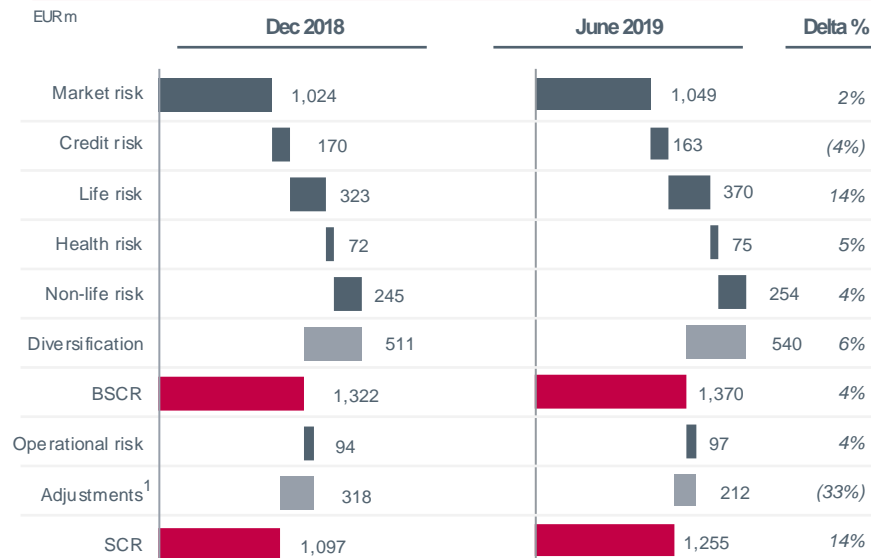
Notes: 1. Countercyclical buffer, based on the calculation at the end of June 2019. Note that the countercyclical buffer is quarterly assessed; 2. Other Systemically Important Institutions Buffer; 3. Capital Conservation Buffer; 4. P2G is set above the level of binding capital requirements (Pillar 1 and Pillar 2 Requirement (P2R)) and on top of the combined buffers. According to the EBA clarification, the Pillar 2 capital guidance is not relevant for the Maximum Distributable Amount trigger and calculation.

# Belfius Insurance still displays solid solvency metrics, decrease mainly stemming from lower LAC DT

## Available Financial Resources and Solvency Capital Requirement



## Decomposition of Solvency Capital Requirement



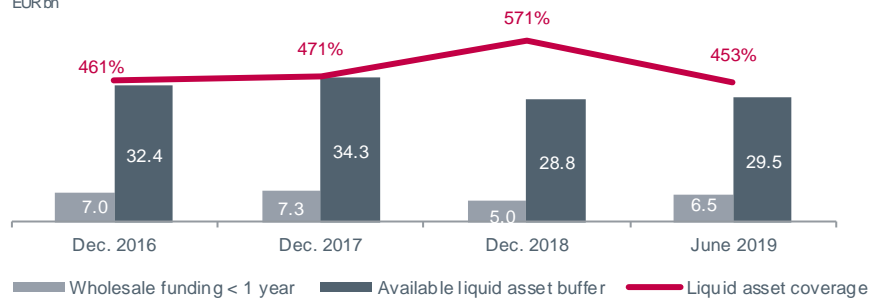
- Strong and high quality capital levels
- Most important solvency sensitivity is related to market risk, with credit spread movements being the most impacting market element<sup>2</sup>

# Belfius Bank continues to display strong liquidity stance

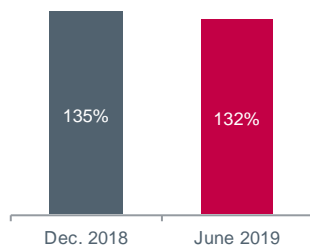
Bank

## Strong liquidity profile

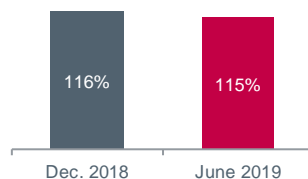
EUR bn



## LCR<sup>1</sup>



## NSFR<sup>2</sup>

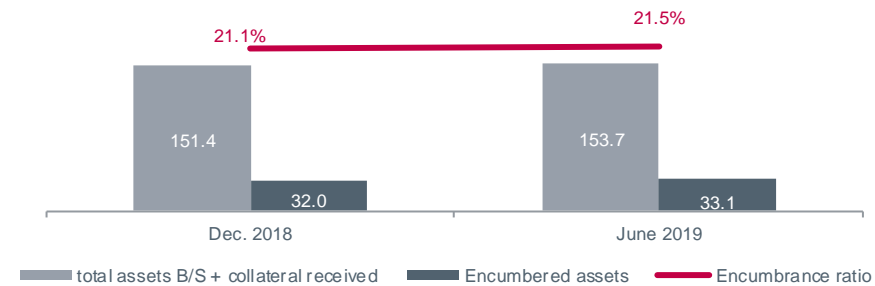


Notes: 1. Calculation based on 12 months average. The Liquidity Coverage Ratio (LCR) refers to the regulatory ratio between the stock of high quality liquid assets and the total net cash outflow over the next month under stress ; 2. The Net Stable Funding Ratio (NSFR) refers to the regulatory ratio between the available amount of stable funding and the required amount of stable funding and is based on Belfius' interpretation of the current Basel Committee guidelines, which may change in the future; 3. Based on median values as required by the EBA

Bank

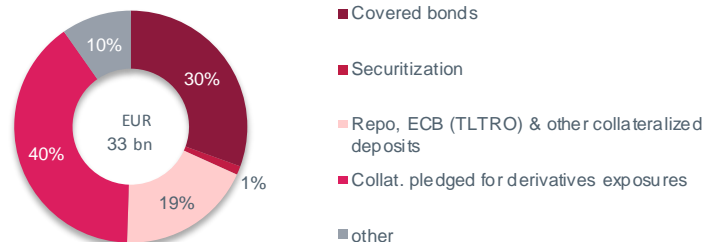
## Encumbered assets<sup>3</sup>

EUR bn

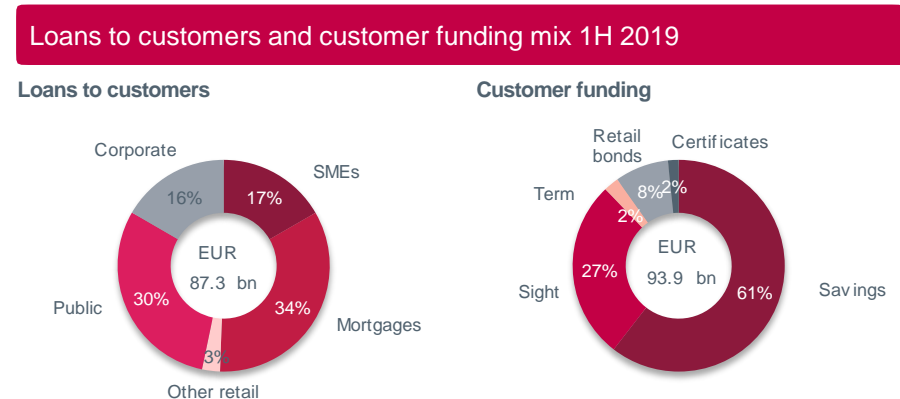
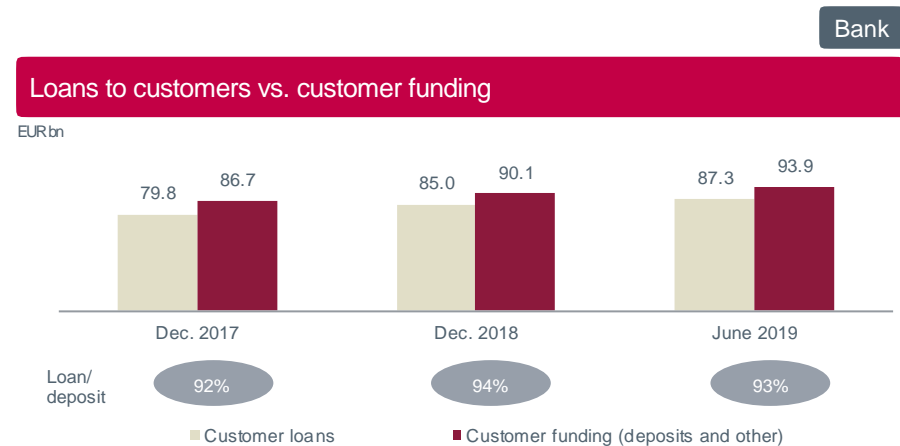
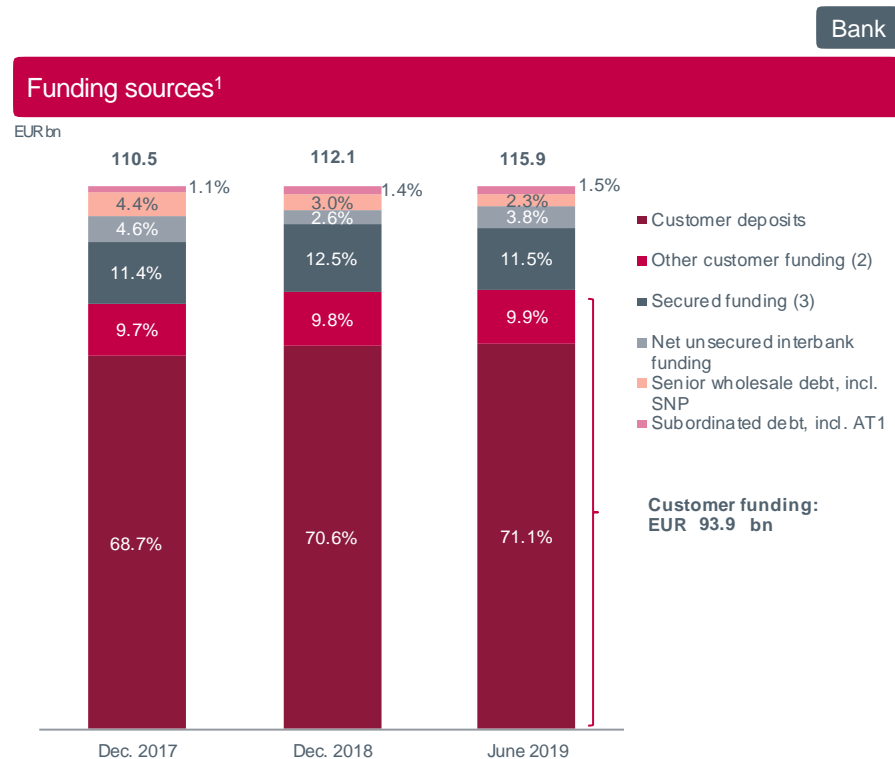


## Detail of the encumbered assets

EUR bn



# Belfius Bank has a continuously increasing funding base, mainly driven by significant contribution from RC and PC customers

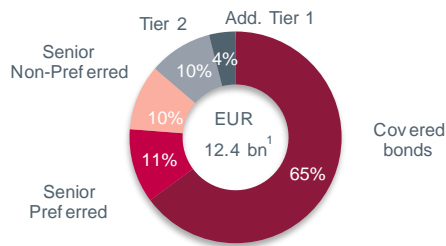


Notes: 1. Belfius Bank only; 2. Other customer funding includes retail bonds and savings certificates (8.6% and 1.3% as percentage of total funding, respectively); 3. Secured funding includes Covered Bonds (6.9%), TLTRO (3.5%) and other longer term secured funding (1.1%)

# Belfius continues its diversification focused funding strategy

## MLT wholesale funding strategy

As of June 2019



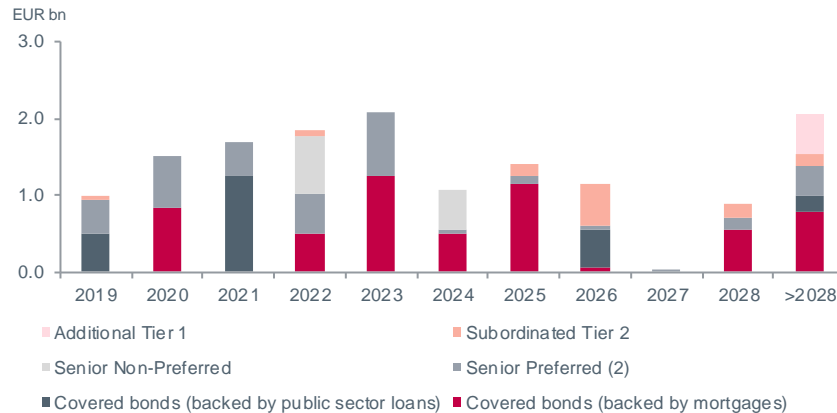
- Focus on diversification of funding sources and investor base
  - First Preferred Senior benchmark since 2014 (Aug 2018)
  - Inaugural AT1 issuance (1Q 2018)
  - First Belgian Issuer Senior Non Preferred (Sept 2017)
  - Inaugural Tier 2 issued (Apr 2016)
  - First (since 2007) Belgian Issuer of a public RMBS transaction (Oct 2015)
  - First Issuer of Belgian Public Covered Bonds (Oct 2014)
  - First Issuer of Belgian Mortgage Covered Bonds (Nov 2012)

Notes: 1. Wholesale funding of EUR 12.4bn, representing 10.7% of total funding of EUR 115.9bn as illustrated on previous slide, ie 6.9% covered bonds + 2.3% senior wholesale debt + 1.5% subordinated debt, 2. Senior Preferred also includes other secured funding and savings certificates

Group

## Redemption profile MLT wholesale funding

Group



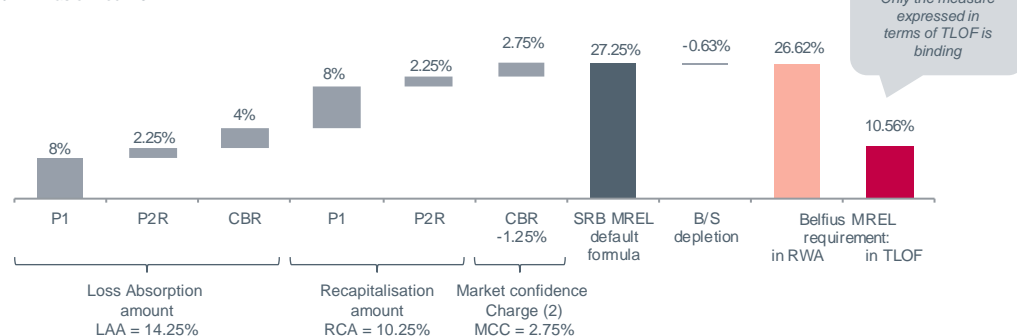
- Belfius' funding needs are in line with the redemptions, however can be adapted to general evolutions within the banking environment
- Over the coming 3 years, around EUR 5bn wholesale funding comes to maturity
- Various instruments can be targeted both under benchmark or private placement format

# SRB MREL requirement for Belfius

## SRB methodology and formal requirement

### Used Methodology and SRB Requirement<sup>1</sup>

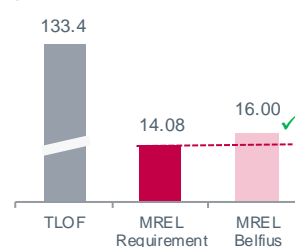
% RWA as of Dec. 2017



## Belfius' compliance

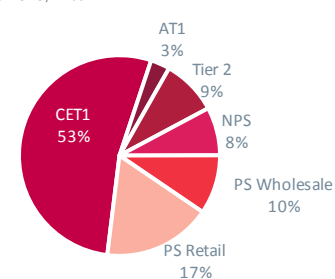
### Compliance as of June 2019

EUR bn



### MREL eligible instruments

June 2019, in %

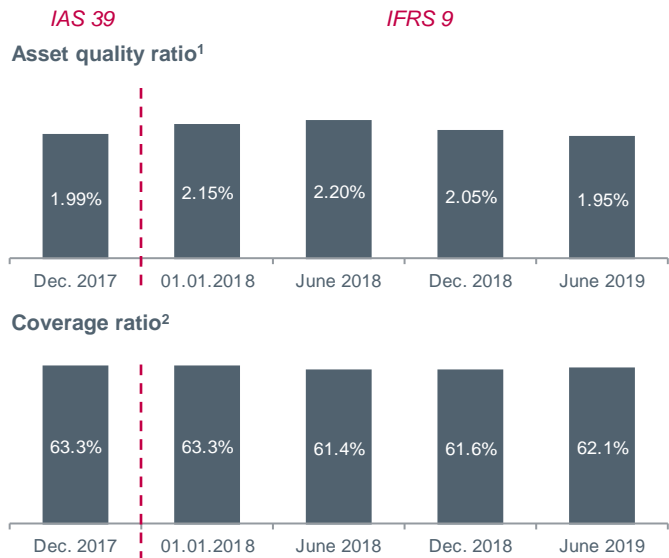


- The Single Resolution Board (SRB) determines the consolidated MREL requirement for Belfius Group at the level of **10.56% of Total Liabilities and Own Funds (TLOF<sup>3</sup>)**, to be met at all times and taking into account an evolving balance sheet. Based upon data as of 30 June 2019, Belfius' MREL of EUR 16 bn exceeds the MREL requirement of EUR 14.08bn
- Following the current SRB methodology, Belfius Group exceeded the MREL requirement based on data as of 31 December 2017, and hence no transitional period has been defined by the SRB for Belfius.
- According to the latest SRB MREL policy<sup>4</sup>, a subordinated MREL floor of [14%+CBR] of RWA has been indicated as benchmark for O-SIIs<sup>5</sup>. Applying this benchmark, using current CBR applicable to Belfius, would lead to a benchmark level of subordinated MREL of 18.07% of the total risk exposures as of 30 June 2019. Based upon data as of 30 June 2019, Belfius achieves a subordinated MREL level of 21.3% of RWA and hence already exceeds this benchmark
- The SRB intends to publish by beginning of 2020 its "MREL policy 2020" which will form the basis for MREL setting under BRRD2 / SRMR2. The SRB expects to communicate the BRRD2 MREL decisions to banks end 2020 / early 2021. Until end 2020, SRB MREL decisions continue to be based on SRMR1 / BRRD1.
- Following the publication of the Banking Package in the Official Journal of the EU on 7<sup>th</sup> June 2019 and the CRR2 that came into force on 27<sup>th</sup> June 2019, Belfius will be impacted by a change in MREL eligibility as "liabilities should be directly issued and should not be owned by an undertaking in which the institution has a participation of more than 20%". As a consequence, Belfius will have to exclude liabilities issued by Belfius Financing Company, i.e. Belfius' Luxembourg based issuance vehicle for CP and Retail Bonds (that are currently partly accounted for as MREL eligible instruments). Excluding these retail senior securities may lead to a manageable MREL shortage. Current understanding is that, in case of shortage, the SRB will define a transition period that it will communicate together with the updated MREL requirement based on BRRD2, expected to apply from 1H 2021 onwards.

Notes: 1. As officially notified by the NBB in April 2019; 2. Belfius' current countercyclical buffer of 7bps (mainly stemming from UK exposures) not yet included in current Belfius' MREL requirement. 3. TLOF: based on regulatory conso scope with prudential netting of derivatives exposures; 4. second wave of the 2018 SRB policy; 5. O-SIIs: Other Systemically Important Institutions

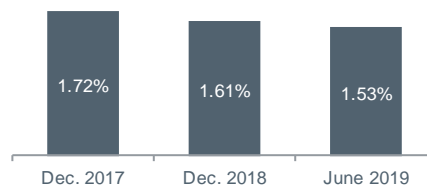
# Belfius displays continued strong asset quality

## Historical excellent asset quality ratio

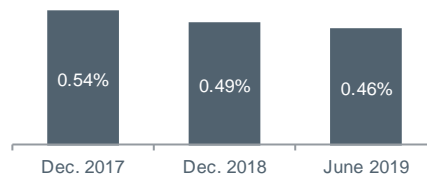


## RCB

### Asset quality ratio<sup>3</sup>, RCB

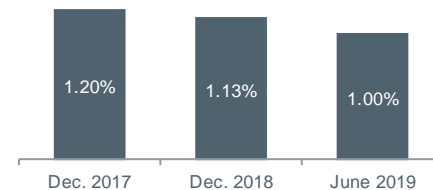


### Asset quality ratio, mortgages<sup>4</sup>

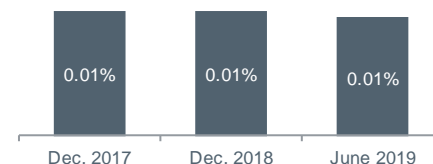


## PCB

### Asset quality ratio<sup>3</sup>, PCB



### Asset quality ratio, Public & Social<sup>5</sup>



- Excellent asset quality ratio (1.95%), slightly improving compared to December 31, 2018 following the positive scissor effect stemming from decreasing impaired loans and strong increase in gross outstanding loans. The coverage ratio stands at 62.1%. In Q2 2019, Belfius ended a credit risk pruning action plan within part of its shipping loans portfolio, that had a small positive impact on the stock of non performing loans and cost of risk in 1H 2019. Good credit quality lending is visible in all Belfius' segments
  - Decreasing AQR for RCB to 1.53%, also illustrated by the further decreasing AQR in RCB mortgage loans to 0.46%
  - Very low AQR for PCB (1.00%) and Public & Social sector loans (0.01%)

Section 6

Appendices

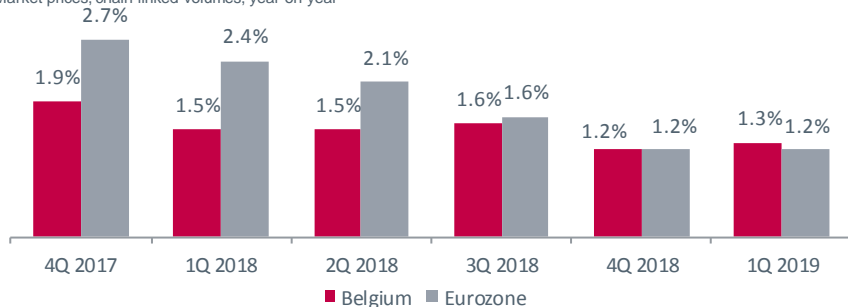


# Some Belgian economical statistics

## Rather stable GDP trend

### GDP

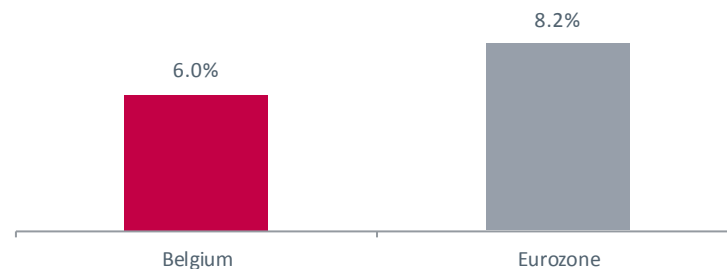
Market prices, chain-linked volumes, year-on-year



## Unemployment level below Eurozone average

### Unemployment rate

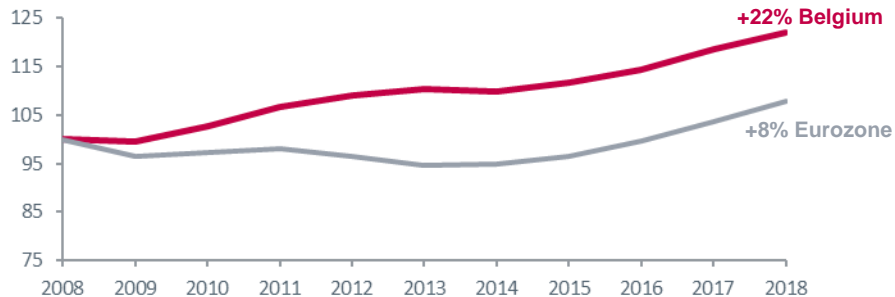
% of active population, Avg. Q1-Q4 2018



## House prices continued to grow

### Increase in real house prices since 2008

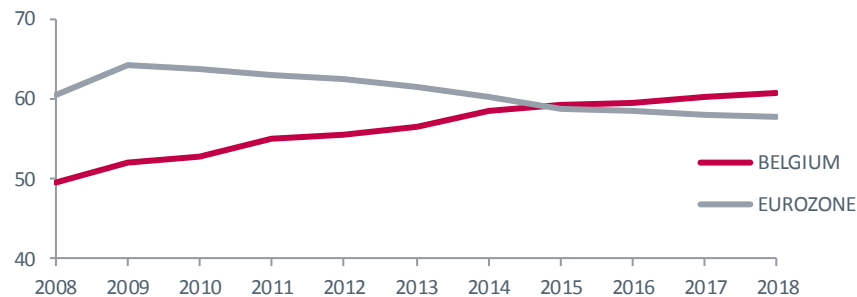
Rebased at 100 in 2008



Sources: ECB Supervisory Banking Statistics, Eurostat, OECD.

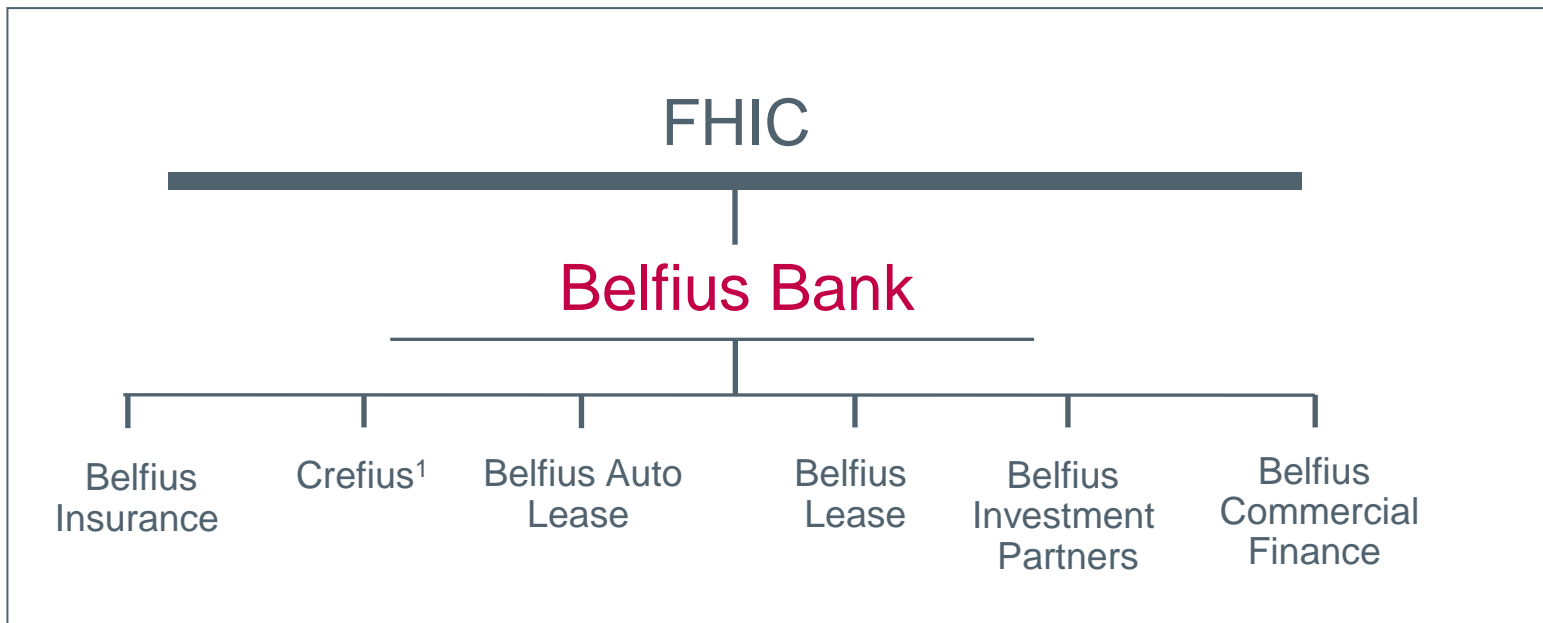
## Continued growth in Belgian household debt

### Household debt as a % of GDP



# Simplified organizational chart Belfius

A bank-insurer with one sole shareholder



- Since October 2011, the Belgian federal state, through the Federal Holding and Investment Company (FHIC) has been the sole shareholder of the bank

# Consolidated statement of income

Belfius Bank Conso

EUR m	1H 2018				1H 2019				Evolution
	RC	PC	GC	Total	RC	PC	GC	Total	%
<b>Income</b>	<b>859</b>	<b>293</b>	<b>22</b>	<b>1,174</b>	<b>864</b>	<b>292</b>	<b>-1</b>	<b>1,155</b>	<b>-2%</b>
Net interest income bank	424	200	107	731	423	218	97	738	1%
Fee and commission bank	239	26	1	265	244	25	-1	268	1%
Life insurance contribution	153	38	-9	182	147	32	-8	171	-6%
Non-Life insurance contribution	101	6	-0	106	89	1	-0	90	-15%
Other (1)	-57	24	-77	-110	-39	16	-88	-112	2%
<b>Expenses</b>	<b>-509</b>	<b>-113</b>	<b>-68</b>	<b>-690</b>	<b>-525</b>	<b>-116</b>	<b>-69</b>	<b>-710</b>	<b>3%</b>
<b>Gross income</b>	<b>350</b>	<b>180</b>	<b>-46</b>	<b>483</b>	<b>339</b>	<b>176</b>	<b>-70</b>	<b>445</b>	<b>-8%</b>
Cost of risk	-16	-13	19	-10	-19	-15	3	-30	215%
Impairments	-1	-0	-	-1	-1	0	-	-0	-37%
<b>Net Income before tax</b>	<b>333</b>	<b>167</b>	<b>-27</b>	<b>473</b>	<b>319</b>	<b>162</b>	<b>-66</b>	<b>414</b>	<b>-12%</b>
Taxes	-92	-40	-6	-138	-83	-45	18	-110	-21%
Non-controlling interests	-0	-0	-0	-0	0	-0	-0	-0	
<b>Net income group share</b>	<b>241</b>	<b>127</b>	<b>-34</b>	<b>335</b>	<b>236</b>	<b>117</b>	<b>-49</b>	<b>304</b>	<b>-9%</b>
o/w bank contribution	118	108	(41)	185	134	102	(58)	179	-4%
o/w insurance contribution	123	19	7	149	101	15	9	126	-16%

# Statement of income Belfius Insurance, consolidated accounts

Belfius Insurance

EUR m	1H 2018	1H 2019	Evolution
<b>Income</b>	<b>297</b>	<b>282</b>	<b>-5%</b>
<i>Of which</i>			
Net interest income	213	206	-4%
Dividend income	41	36	-10%
Net income from equity method companies	0	1	105%
Net income from financial instruments at fair value through profit or loss	-3	4	-234%
Net income on investments and liabilities	43	56	30%
Net fee and commission income	12	8	-30%
Technical result from insurance activities	-20	-43	120%
<b>Expenses</b>	<b>-114</b>	<b>-122</b>	<b>7%</b>
<b>Gross income</b>	<b>183</b>	<b>160</b>	<b>-12%</b>
Impairments on financial instruments and provisions for credit commitments	4	4	-10%
Impairments on tangible and intangible assets	0	0	-
<b>Net income before tax</b>	<b>187</b>	<b>164</b>	<b>-12%</b>
Tax (expense) income	-49	-40	-18%
Current tax (expense) income	-31	-22	-27%
Deferred tax (expense) income	-18	-18	-5%
Attributable to non-controlling interests	0	0	-66%
<b>Net income group share</b>	<b>138</b>	<b>124</b>	<b>-10%</b>

# Consolidated balance sheet

Belfius Bank Conso

EUR m	31/12/2018	30/06/2019	Evolution
<b>TOTAL ASSETS</b>	<b>164,165</b>	<b>171,692</b>	<b>7,527</b>
of which			
Cash and balances with central banks	8,314	9,018	704
Loans and advances due from credit institutions	13,107	14,529	1,422
Loans and advances	91,123	93,005	1,882
Debt securities & equity instruments	28,569	29,195	626
Unit linked products insurance activities	2,838	3,418	580
Derivatives	12,768	14,335	1,567
<b>TOTAL LIABILITIES</b>	<b>154,206</b>	<b>161,534</b>	<b>7,329</b>
of which			
Cash and balances from central banks	3,962	3,954	-8
Credit institutions borrowings and deposits	5,867	7,139	1,272
Borrowings and deposits	79,661	83,287	3,626
Debt securities issued and other financial liabilities	26,687	26,399	-288
Unit linked products insurance activities	2,838	3,418	580
Derivatives	17,740	20,203	2,463
Provisions for insurance activities	13,908	13,360	-547
Subordinated debts	1,219	1,214	-6
<b>TOTAL EQUITY</b>	<b>9,960</b>	<b>10,158</b>	<b>199</b>
of which			
Shareholders' core equity	9,055	9,095	40
Gains and losses not recognised in the statement of income	392	543	151
Additional Tier-1 instruments included in equity	497	497	0
Non-controlling interests	16	23	7

# Balance sheet Belfius Insurance, consolidated accounts

Belfius Insurance

EUR m	31/12/2018	30/06/2019	Evolution
<b>Total assets</b>	<b>20,309</b>	<b>20,808</b>	<b>500</b>
Of which			
Loans and advances due from credit institutions	401	224	-177
A Measured at amortised cost	401	224	-177
Loans and advances	4,101	4,246	145
A Measured at amortised cost	3,981	4,132	151
C Measured at fair value through profit or loss	121	114	-6
Debt securities & equity instruments	11,878	11,891	14
A Measured at amortised cost	5,987	6,096	109
B Measured at fair value through other comprehensive income	4,999	4,952	-46
C Measured at fair value through profit or loss	892	843	-49
Unit linked products insurance activities	2,838	3,418	580
Derivatives	28	2	-26
Investments in equity method companies	32	38	6
Tangible fixed assets	492	488	-4
Intangible assets	53	59	6
Technical insurance provisions - part of the reinsurer	100	109	9
<b>Total liabilities</b>	<b>18,514</b>	<b>18,838</b>	<b>324</b>
Of which			
Credit institutions borrowings and deposits	541	863	321
A Measured at amortised cost	541	863	321
Unit linked products insurance activities	2,838	3,418	580
Provisions for insurance activities	13,920	13,371	-550
Subordinated debts	583	585	2
A Measured at amortised cost	583	585	2
<b>Total equity</b>	<b>1,794</b>	<b>1,970</b>	<b>176</b>
Of which			
Shareholders' core equity	1,499	1,471	-28
Gains and losses not recognised in the statement of income	279	476	197
Non-controlling interests	16	23	7

# Focus on regulatory capital

EUR m	Dec. 2018	June 2019
<b>Core shareholders' equity</b>	<b>9,055</b>	<b>9,095</b>
Elimination of Belfius Insurance (*)	-178	-130
<b>Core regulatory equity</b>	<b>8,877</b>	<b>8,965</b>
Elimination of foreseeable dividend	-266	-182
<b>Gains and losses not recognised in the statement of income</b>	<b>99</b>	<b>112</b>
Remeasurement Defined Benefit Plan	39	54
OCI reserves - portfolios measured at FVTOCI	60	58
<b>Items to deduct</b>	<b>-380</b>	<b>-386</b>
Deferred tax assets	-1	-1
Transitory measures	-	-
Other	-379	-379
<b>Common equity Tier 1 - CET1</b>	<b>8,329</b>	<b>8,508</b>
Additional own funds Tier 1	497	497
<b>Tier 1 equity</b>	<b>8,826</b>	<b>9,005</b>
Tier 2 - Capital instruments	1,120	1,110
Other	284	293
<b>Total regulatory capital</b>	<b>10,230</b>	<b>10,408</b>

Notes: 1. For the determination of the Common Equity Tier 1 capital the regulatory authority requires Belfius to apply a prudential deconsolidation of Belfius Insurance and to apply a risk weighting of 370% on the equity instruments held by Belfius Bank in Belfius Insurance, after deduction of goodwill. This is commonly known as 'Danish compromise'

# Focus on regulatory risk exposures

## Regulatory risks exposures - by type of risk

<u>EUR m</u>	<u>Dec. 2018</u>	<u>June 2019</u>
Regulatory credit risk exposure	38,931	41,571
Regulatory CVA exposure	1,606	1,950
Regulatory market risk exposure	1,801	1,437
Regulatory operational risk exposure	2,975	2,975
Danish Compromise <sup>1</sup>	6,751	6,860
<b>Total Regulatory Risks Exposures</b>	<b>52,065</b>	<b>54,793</b>

## Regulatory risks exposures - by segment

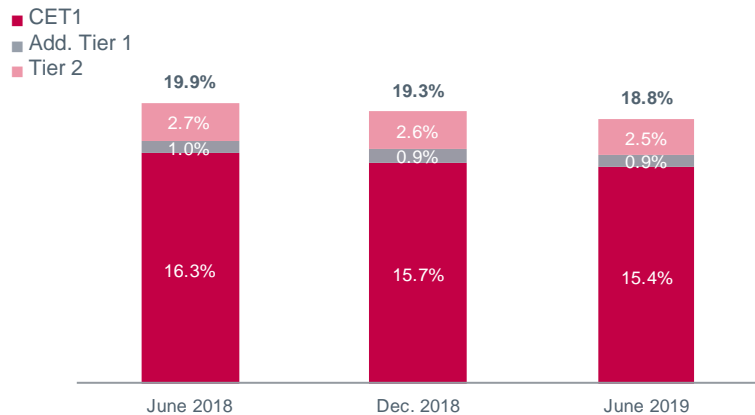
<u>EUR m</u>	<u>Dec. 2018</u>	<u>June 2019</u>
Retail and Commercial	19,519	20,120
Public and Corporate	18,056	19,762
Group Center	14,491	14,911
<b>Total Regulatory Risks Exposures</b>	<b>52,065</b>	<b>54,793</b>

Notes: 1. For the determination of the Common Equity Tier 1 capital under Basel III, the regulatory authority requires Belfius to apply a prudential deconsolidation of Belfius Insurance and to apply a risk weighting of 370% on the equity instruments held by Belfius Bank in Belfius Insurance, after deduction of goodwill. This is commonly known as "Danish compromise"



# Focus on solo capital ratios

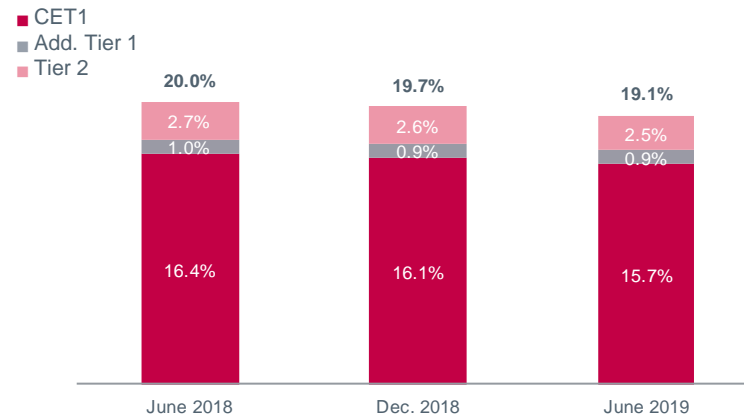
Basel III ratios Belfius Bank Solo, excluding<sup>1</sup> result of the year



EURm

	June 2018	Dec. 2018	June 2019
CET1	8,447	8,273	8,498
Tier 1	8,944	8,771	8,995
CAD	10,318	10,153	10,371
RWA	51,810	52,615	55,279

Basel III ratios Belfius Bank Solo, including result of the year



EURm

	June 2018	Dec. 2018	June 2019
CET1	8,512	8,488	8,677
Tier 1	9,009	8,985	9,174
CAD	10,383	10,367	10,550
RWA	51,810	52,615	55,279

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

## Belfius' ST & MLT funding overview

	Outstanding June 2019	Issuer	Listing
<b>Belfius Euro Commercial Paper Programme</b> (Institutional)	EUR 1.2bn	Belfius Financing Company with guarantee of Belfius Bank	Not listed
<b>Belfius CD Programme</b> (Institutional)	EUR 3.9bn	Belfius Bank	Not listed
<b>Belfius Mortgage Pandbrieven Programme</b> (Institutional)	EUR 5.6bn	Belfius Bank	Euronext Brussels
<b>Belfius Public Pandbrieven Programme</b> (Institutional)	EUR 2.5bn	Belfius Bank	Euronext Brussels
<b>EMTN Programme</b> (Institutional)	EUR 2.6bn	Belfius Bank	Luxembourg Stock Exchange
<b>Tier 2 Stand Alone Documentation</b> (Institutional)	EUR 0.6bn	Belfius Bank	Euronext Brussels
<b>Tier 1 Stand Alone Documentation</b> (Institutional)	EUR 0.5bn	Belfius Bank	Euronext Brussels
<b>Belfius Notes Issuance Programme</b> (Retail)	EUR 9.2bn	Belfius Bank, and Belfius Financing Company with guarantee of Belfius Bank	Not listed

# Continued positive rating actions

Updated ratings of Belfius Bank as at 8 August 2019

	Moody's	S&P	Fitch
Senior	A1 Stable outlook	A- Stable outlook	A- Stable outlook
Standalone Rating	baa1	a-	a-
Non-Preferred Senior	Baa2	BBB+	
Tier 2	Baa2	BBB	BBB+
Additional Tier 1	Ba1	BB+	

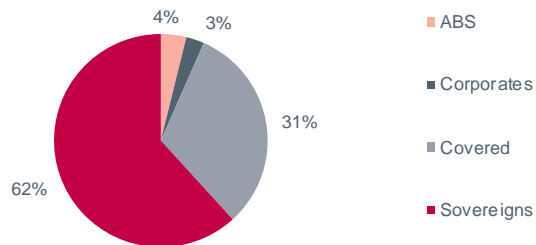
- Latest rating actions

- In May 2019, Moody's upgraded Belfius' Baseline Credit Assessment (BCA) to baa1 from baa2 and its long-term deposit and senior unsecured debt ratings to A1 from A2. The short-term deposit ratings were affirmed at Prime-1. The outlook has changed from positive to stable.
- November 2018, Fitch affirmed Belfius' long- and short-term ratings
- In October 2018, S&P affirmed Belfius' rating at A- and raised the ratings on Belfius' subordinated and capital instruments by one notch following the bank's improved unsupported group credit profile

# ALM Bank Liquidity bond portfolio

## Breakdown by type of counterpart

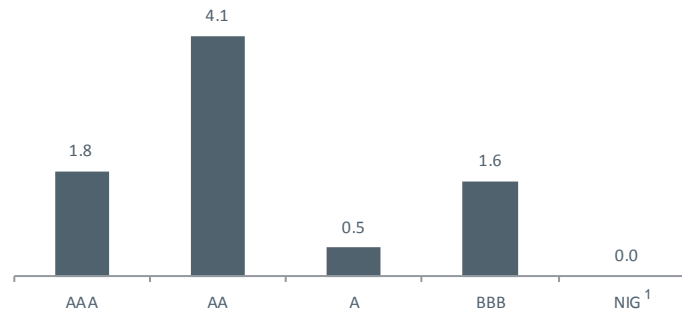
EUR 8.0bn  
30 June 2019



## Breakdown by rating

EUR bn

Average rating: BBB+

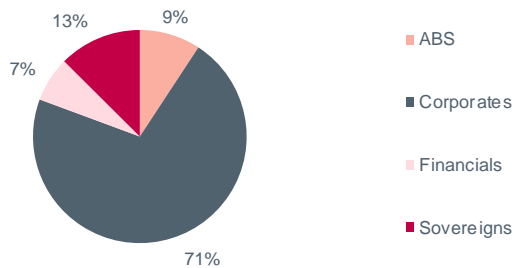


- ALM Bank Liquidity bond portfolio stood at EUR 8.0bn as at 30 June 2019, compared to EUR 7.7bn as at year-end 2018. This increase is mainly due to a reinvestment program in LCR eligible bonds.
- The portfolio is of good quality
  - 100% of the portfolio is Investment Grade
  - The average rating stood at BBB+
- Expected average Life: 8.2 years

# ALM Bank Yield bond portfolio

## Breakdown by type of counterpart

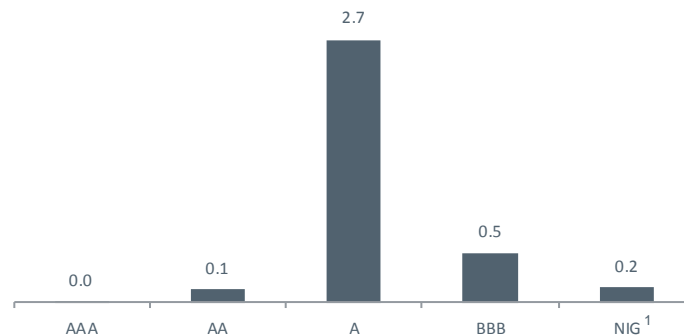
EUR 3.5bn  
30 June 2019



## Breakdown by rating

EUR bn

Average rating: A

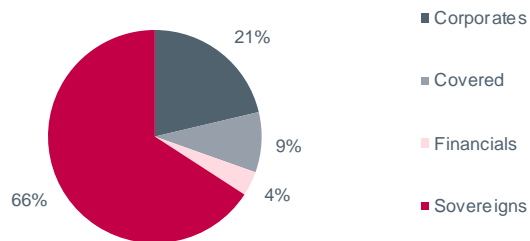


- ALM Bank Yield bond portfolio stood at EUR 3.5bn as at 30 June 2019, compared to EUR 3.6bn as at year-end 2018, mainly due the natural amortization of the portfolio
- The portfolio is of good quality
  - 95% of the portfolio is Investment Grade
  - The average rating stood at A
- Expected average Life: 20.0 years

# ALM Insurance Bond portfolio

## Breakdown by type of counterpart

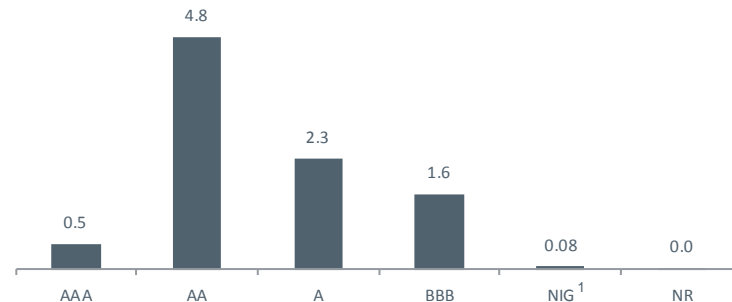
EUR 9.2bn  
30 June 2019



## Breakdown by rating

EUR bn

Average rating: BBB+

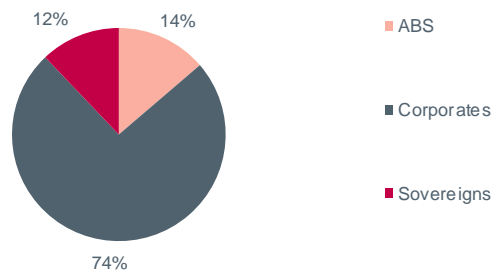


- ALM Insurance fixed income portfolio stood at EUR 9.2bn as at 30 June 2019, compared to EUR 9.4bn at year-end 2018
- The ALM Insurance portfolio remains of good quality
  - 99% of the portfolio is investment grade
  - The average rating at BBB+
- Expected average Life: 9.1 years

# Credit guarantees

## Breakdown by type of counterpart

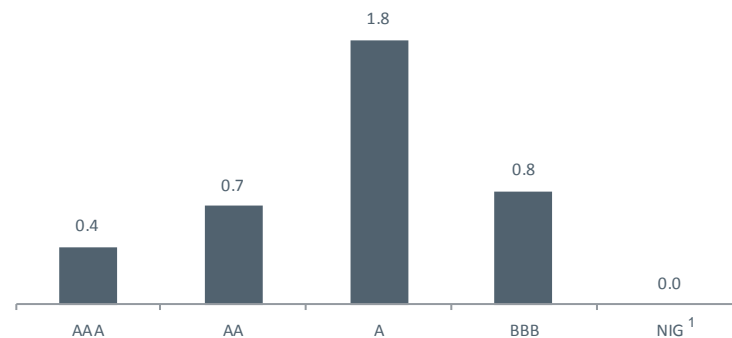
EUR 3.7bn  
30 June 2019



## Breakdown by rating

EUR bn

Average rating: A-



- Credit guarantees portfolio stood at EUR 3.7bn as at 30 June 2019, stable compared to year-end 2018.
- The credit guarantees portfolio is of good quality
  - 100% of the portfolio is Investment Grade
  - The average rating stood at A -
- Expected average Life: 9.9 years

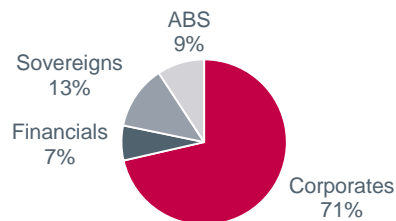
# Hedging strategy to manage residual risks

## Run-off portfolios as of June 2019

### ALM Yield bond portfolio

- 39% inflation linked bonds issued by high quality UK utilities and infrastructure companies
- Part of the portfolio is insured by Assured Guaranty, leading to an A average rating after credit enhancement
- Inflation component hedged with inflation linked collateralised swaps

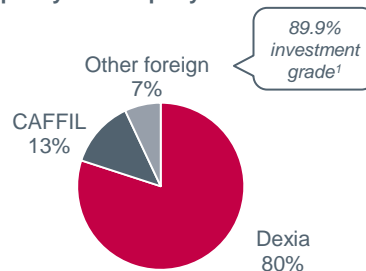
Notional split by type



### Derivatives

- 80% notional exposure to Dexia, fully cash collateralised, leading to an EaD (including add-on) of EUR 27 million end of June 2019
- Derivatives with other foreign counterparts and with CAFFIL are uncollateralised (BBB+ average rating)

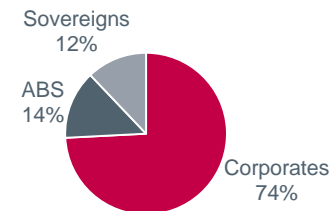
Notional split by counterparty



### Credit guarantees

- Mostly reinsured CDS with
  - sold protection to market counterparties with two-sided collateral posting agreement
  - bought equivalent protection with monoline insurers (25% from Assured Guaranty) with one-sided collateral posting agreement

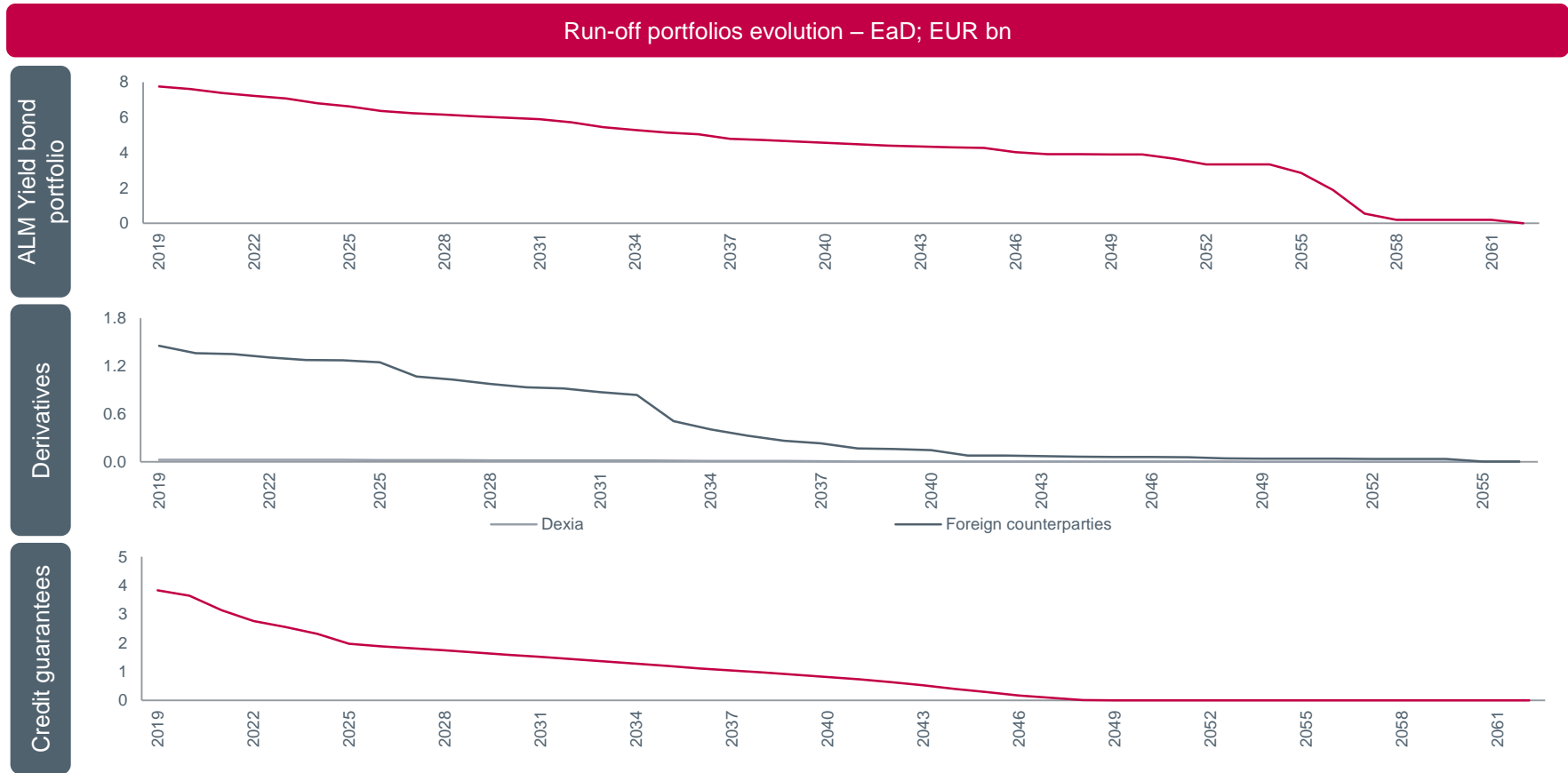
Notional split by type of underlying



Notes: 1. Calculated based on EAD



# Progressive run-off of GC run-off portfolios in the coming years



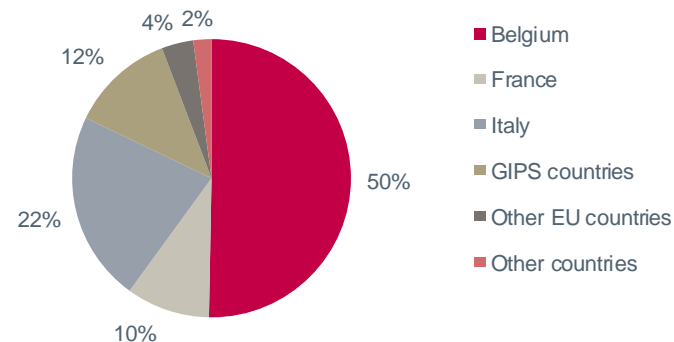
Note: Based on current markets

# Outstanding exposures on government bonds

## Evolution<sup>1</sup>

EUR m	Dec. 2018	June 2019
Belgium	5,180	4,920
France	875	949
Italy	2,231	2,165
GIPS countries	792	1,181
Other EU countries	351	360
Other countries	195	206
<b>Total<sup>1</sup></b>	<b>9,625</b>	<b>9,782</b>

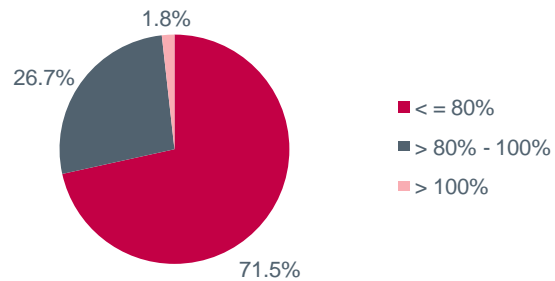
## Breakdown as of end of June 2019



- Total government bond portfolio stood at EUR 9.8bn<sup>1</sup>, relatively stable compared to December 2018
- Half of the portfolio (50%) is invested in Belgian government bonds

# Credit risk statistics on mortgage loans

## Mortgage loans Belfius Bank Loan-to-value ratio

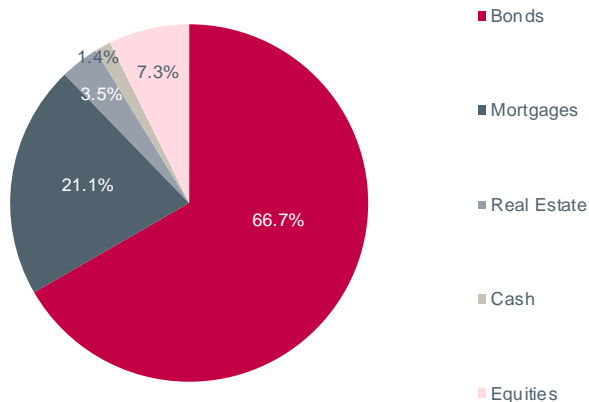


- Very sound LTV-ratio's
  - Average LTV-ratio, based on outstandings (with indexation of real estate prices) stood at 60.5% at end of June 2019
  - The part of the portfolio with an LTV > 100% is limited to 1.8 %

# ALM Belfius Insurance

## Diversified asset allocation

EUR 18.6bn  
30 June 2019

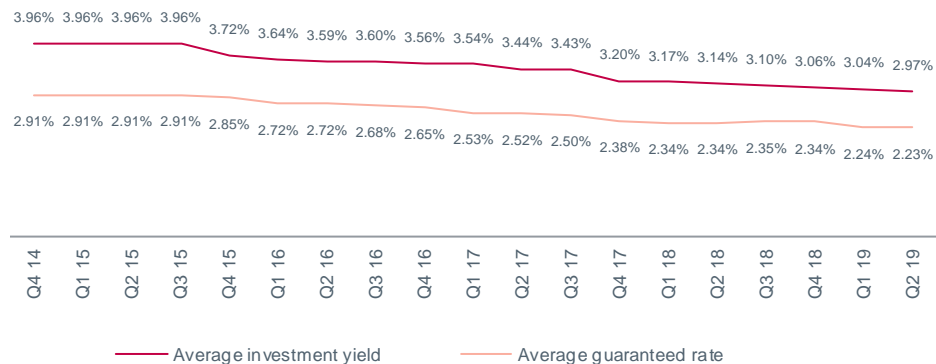


- Prudent investment strategy of the asset portfolio with a well-diversified asset allocation
- Efficient insurer on the Belgian market enjoying high customer satisfaction

## Duration Gap Life and Non-Life

	Dec. 2018	June 2019
Total Life	-1.00	-1.30
Total Non-Life	-0.33	-0.96
<b>Total</b>	<b>-0.66</b>	<b>-0.93</b>

## Investment yield vs. guaranteed rate<sup>1</sup>



Notes: 1. excluding a.o. reassessment of life insurance reserves and capital gains

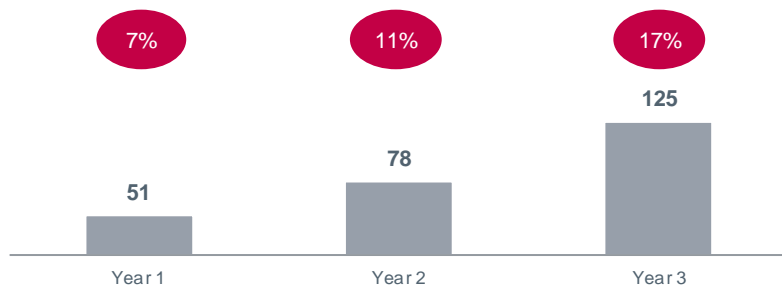
# Solvency II ratio sensitivity table

Solvency II Sensitivities 1H 2019	Δ SCR (in EUR m)	Δ AFR (in EUR m)	Δ Solvency II ratio (in %)
<b>Base Case</b>	<b>1,255</b>	<b>2,319</b>	<b>185%</b>
<b>Interest rate:</b> Shock +50bps	<b>(21)</b> (2%)	<b>10</b> 0%	<b>189%</b> +4%
<b>Interest rate:</b> Shock -50bps	<b>44</b> +4%	<b>(8)</b> (0%)	<b>178%</b> (7%)
<b>Credit spread:</b> Spread on fixed income (corporate) +50bps	<b>19</b> +2%	<b>(91)</b> (4%)	<b>175%</b> (10%)
<b>Credit spread:</b> Spread on fixed income (government) +50bps	<b>42</b> +3%	<b>(125)</b> (5%)	<b>169%</b> (16%)
<b>Credit spread:</b> Spread on fixed income (government and corporate) +50bps	<b>57</b> +5%	<b>(204)</b> (9%)	<b>161%</b> (24%)
<b>Credit Spread:</b> No Volatility Adjuster	<b>33</b> +3%	<b>(79)</b> (3%)	<b>174%</b> (11%)
<b>Equity:</b> Downward shock - 30%	<b>(129)</b> (10%)	<b>(361)</b> (16%)	<b>174%</b> (11%)
<b>Real estate:</b> Downward shock -15%	<b>3</b> 0%	<b>(73)</b> (3%)	<b>179%</b> (6%)
<b>UFR:</b> Downward adjustment to 3%	<b>23</b> +2%	<b>(54)</b> (2%)	<b>177%</b> (8%)

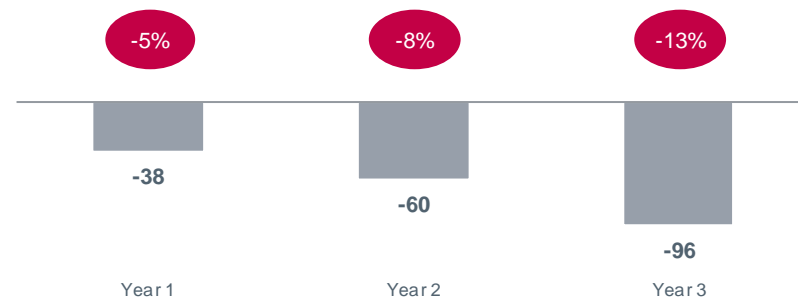
# Belfius sensitivity to interest rates

Bank

NII impact from +50 bps immediate parallel shift in rate curve, EUR m



NII impact from -35 bps immediate parallel shift in rate curve, EUR m



- Belfius would benefit from rising rates with net interest income increasing 7% within one year in case of a +50bps parallel shift in rate curve
- The bank would then benefit from limited transfer of interest rates to customers deposits while the loan book would then rolled over at higher rates
- Should rates rise sharply, rates on non-maturing deposits could increase at a faster pace than historical observations

% Change in net interest income (NII) as % of 1H 2019 net interest income bank

Notes: NII sensitivity analysis assumes a constant Belfius' balance sheet as of 30 June 2019

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