



# Belfius 1H 2018 Results

Presentation to analysts and investors

10 August, 2018



# 1. Summary Highlights

- **Belfius' net income before tax 1H 2018 stands at EUR 473 m**, up 6% from 1H 2017. The bank contributed EUR 274m and the insurer EUR 199m
- Solid growth of the net income before tax is compensated by an increase of **tax expenses**, hence leading to **net income of EUR 335m in 1H 2018**, i.e. 7% down compared to a net income of EUR 361m in 1H 2017
- Adjusted<sup>1</sup> net income 1H 2018 (excluding special items) stands at EUR 348m
- **Further growing commercial franchise and efficient financial management continue to support the profit capacity of Belfius:**
  - Resilient net interest income of the bank despite low interest rate environment
  - Stable fee & commission income of the bank thanks to successful profit diversification and bancassurance strategy
  - Cost containment programs well on track, even in light of accelerating investments in both the digitalization of financial services in Belgium and in people to support the commercial growth, leading to operating costs of 690m and to C/I ratio of 58.8%
  - Sound risk management and good credit quality of the portfolios continue to translate into historically low cost of risk (EUR - 24m in 1H 2017 vs. EUR - 9m in 1H 2018), which further benefited from the sale of some Italian government bonds in 1H 2018
- Belfius continues to demonstrate **solid solvency levels**: 16.3% CET1 FL at consolidated level and 210% SII ratio for Belfius Insurance
- **Net asset value** at EUR 9.4bn, slightly below end 2017 level, as remaining part of FY 2017 dividend has been paid in April
- Belfius' Board of Directors of August 9, 2018 decided to pay an **interim dividend**, relative to 1H 2018 results, of EUR 100m to its shareholder

# From 1H 2017 to 1H 2018

1H 2017



1H 2018

€445m

Net Income  
before tax

Net Income  
before tax

€473m

€361m

Net Income

Net Income

€335m

58.3%

Cost/  
Income ratio

Cost/  
Income ratio

58.8%

16.1%

CET1 Ratio  
Basel III FL

CET1 Ratio  
Basel III FL

16.3%

228%

Solvency II  
ratio

Solvency II  
ratio

210%

€9.3bn

Net Asset  
Value

Net Asset  
Value

€9.4bn

€75m

Interim  
dividend

Interim  
dividend

€100m

Belfius continues to  
show solid balance  
sheet and growing profit  
capacity before tax

## 2. Belfius at a glance

- **Integrated bank-insurer**
  - Net Income of EUR 335m, of which EUR 185m Bank and EUR 149m Insurance
  - Growing bank-insurance franchise, with Non-Life premiums growth of 11% via bank distribution channel
  - Leadership position in public sector and successful development with upside potential in corporate
- **Anchored in all segments of the Belgian economy**
  - 3.5 m customers in Retail & Commercial (RC) and 23k customers in Public & Corporate (PC)
  - Loans to customers of EUR 85.5bn, ow EUR 46.5bn to RC clients and EUR 39bn to PC clients
  - Savings and Investments of EUR 139.4bn, ow EUR 106.5bn RC and EUR 32.9bn 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
- **Risk and financial management as two key pillars allowing dynamic commercial development**
  - Strong solvency and liquidity position, solidly respecting regulatory minima allowing to cope with general economical, geo-political and regulatory uncertainties

# Successful 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 3.5 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 3.5m customers
- #1 in mobile banking<sup>3</sup>
- #4<sup>4</sup> bank to 300,000 professional customers
- EUR 46.5bn loans to customers
- EUR 106.5bn savings and investments

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

- #1 bank to 12,000 Public sector customers
- #4<sup>4</sup> bank to 10,600 Corporate customers
- EUR 39bn loans to customers
- EUR 32.9bn savings and investments

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

- ALM Liquidity Bond portfolio (EUR 7.5bn)
- Run-off portfolios
  - ALM Yield Bond portfolio (EUR 3.6bn)
  - Derivatives and guarantees (EUR 30.7bn)
- Other non-core activities

### 3. Group Highlights

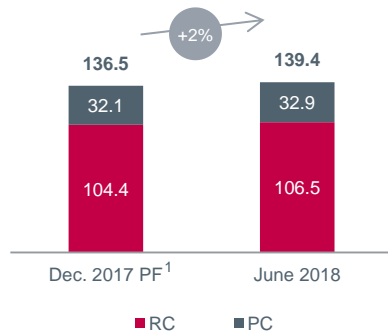
- Again, strong **commercial momentum in 1H 2018, leading to volume growth** in customer balances, lending and insurance premiums
- Higher volumes, strict tariff management in highly competitive landscape, continued interest rate risk hedging and some presentation changes following IFRS9 result in **resilient NII** despite continuing low interest rate environment. Resilient interest margin on loans on balance sheet versus margin pressure on (still growing) non-maturing deposits
- Good development of assets under management, mainly thanks to organic growth somewhat offset by more fragile markets and by some margin pressure, hence leading to **stable fee & commission income**
- Strategic transformation of insurance product mix towards more Non-Life insurance and more unit-linked Life-insurance leading to **sustained insurance contribution**
- **Some capital gains, cost containment program** and **historically very low cost of risk** are further supporting robust profit expansion, leading to a net income before tax of EUR 473m, up 6% from 1H 2017
- 1H 2017 **tax expense line** was positively impacted by the use of tax losses in 1H 2017 for which no deferred tax asset was recognized before. Following the corresponding increase in effective tax rate, from 19% in 1H 2017 to 29% in 1H 2018, the **net income 1H 2018 of 335m EUR** decreases compared to net income 1H 2017 of 361m EUR

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

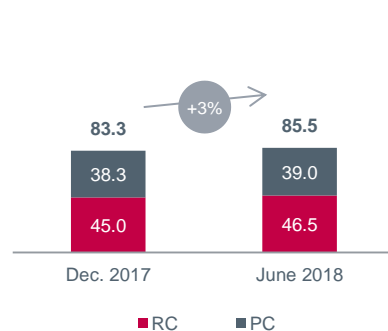
## Group

### Savings & investments and loans to customers

Outstanding savings & investments  
EUR bn



Outstanding loans to customers  
EUR bn

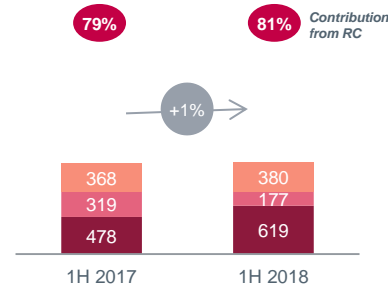


- Total savings & investments amounted to EUR 139.4bn in June 2018, up 2% compared to 2017
  - RC benefits from strong organic growth (c. EUR 2.6bn), mainly in non-maturing products
  - PC increase in off balance sheet investments partly compensated by decreasing deposits
- Increase of loans outstanding (+3%) mainly driven by
  - a strong increase in business and mortgage loans
  - successful commercial strategy towards Belgian corporates

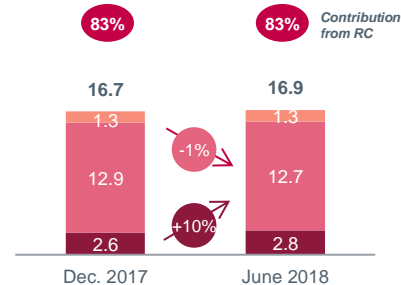
## Insurance

### Insurance sales and reserves

Insurance production  
EUR m



Insurance reserves  
EUR bn



- Life GWP
- Life transfers / renewals
- Non-Life GWP
- Unit-linked (Branch 23)
- Guaranteed products (branch 21, 26 & 27)
- Non-Life

- Strong increase of Non Life GWP to EUR 380m in 1H 2018 (up 3.5% compared to 1H 2017, ahead of the market at circa +2%), with a strong performance in the bank distribution channel (+11%)
- Life insurance production stood at EUR 796m in 1H 2018, stable compared to 1H 2017, and leading to a positive evolution in terms of product mix
- Continued implementation of the strategy to switch more from guaranteed yield products to unit-linked products (+9.7% increase in unit-linked reserves), boosted by the bank distribution channel

Notes: 1. On 6 March 2018, the Belgian Council of State cancelled the Arco co-operative guarantee scheme (which has been organized by Royal Decrees in 2011). Important uncertainties remain with respect to the contemplated sustainable and structured solution (i.e. position of the European Commission on the contemplated solution, adherence of Arco shareholders, the uncertain impact on the litigation proceedings, market circumstances, etc.). The reporting of Arco shares was adapted, and the current value of the shares has been set to "indeterminable". As a consequence the off-balance sheet investments and the total savings and investments have been decreased by EUR 1.5 billion; 2. Based on estimation published by Assuralia for 1Q 2018



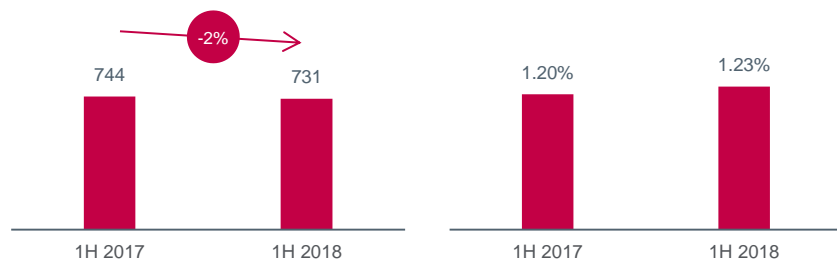
# Resilient bank NII despite historically low IR environment and stable F&C despite less favourable financial markets and regulatory constraints

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 volumes, strict tariff management and some presentation changes following IFRS9 partly counterbalanced by the negative impact of the historically low interest rate environment especially on interest margin of further increasing volumes of non-maturing deposits
- 1H 2017 and 1H 2018 were both impacted by the general standardization of derivatives (CSA) contracts and the related upfront NII impact thereof (higher in 1H 2017 than in 1H 2018).
- Slightly increasing NIM, at 1.23% in 1H 2018, up by 3bps from 1H 2017

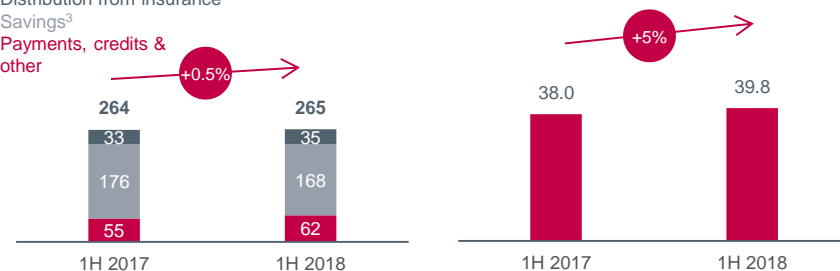
Bank

## Bank fee & commission income stable

F&C income  
EUR m

Assets under management<sup>4</sup>  
EUR bn

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



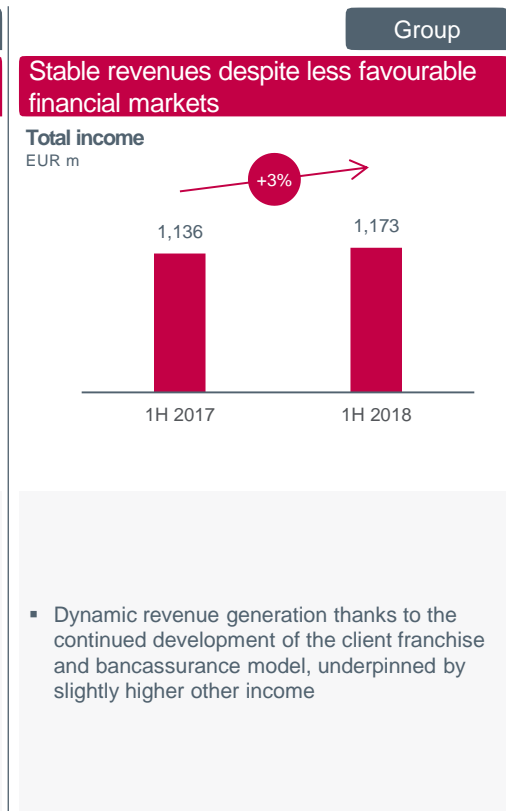
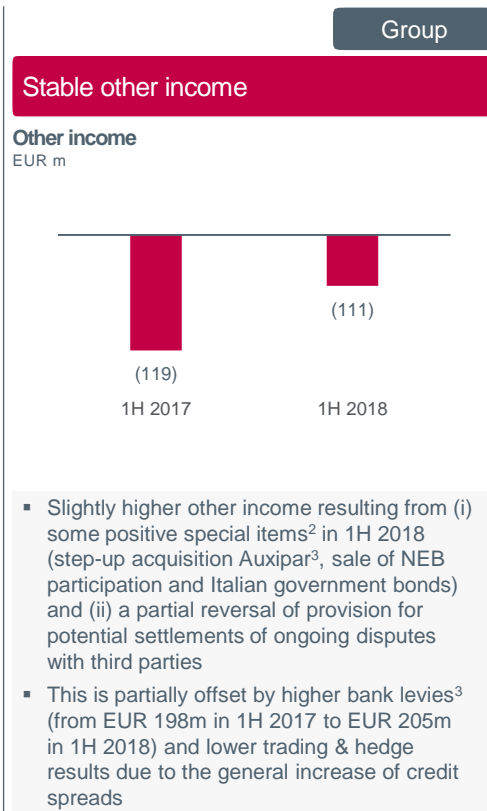
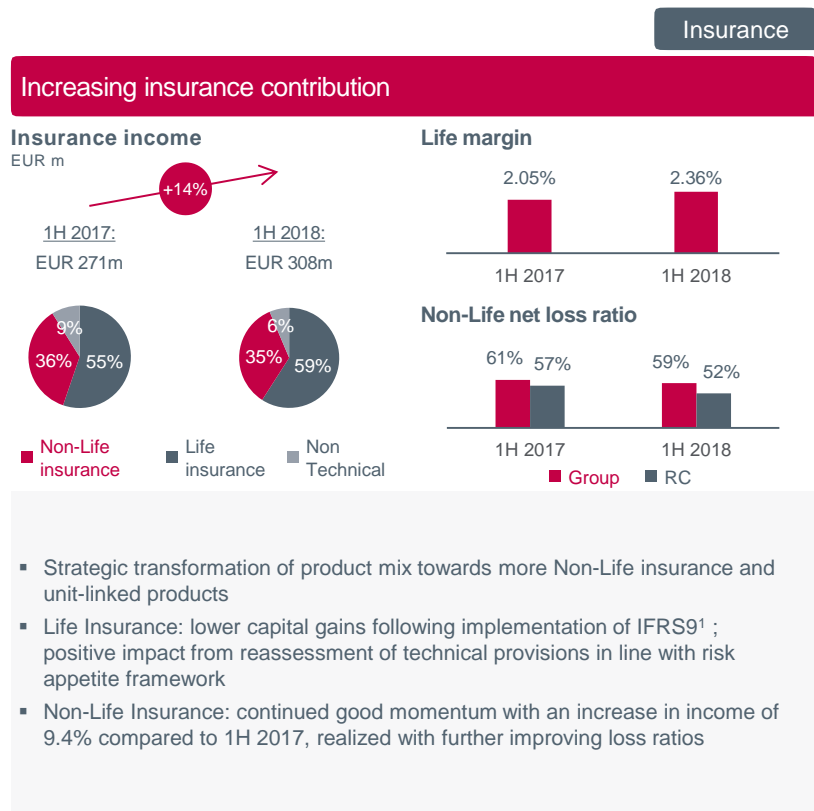
- Stable fee and commission income
  - Good development of assets under management mainly thanks to organic growth, even if implementation of MiFID II and less favourable financial markets are slowing down net inflows in investment products
  - Slow down in asset management market leading to some margin pressure, especially on subscription fees

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 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.





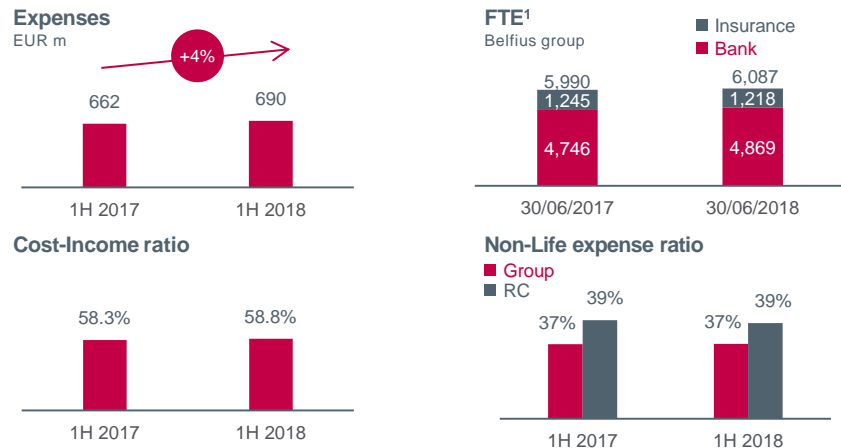
# Successful implementation of the bancassurance model leading to revenue diversification and revenue growth



Notes: 1. Following the classification of equity instruments at fair value through other comprehensive income, the realized result on equity instruments is no longer recognized in P&L; 2. Adjusted results and special items are Alternative Performance Measures and are defined and reconciled in the APM document available on Belfius' website ([www.belfius.be/results](http://www.belfius.be/results)); 3. sector levies of Belfius Insurance (20m in 1H 2017 vs. 17m in 1H 2018) are included in Insurance income; 3. Belfius has increased, on March 29, its stake in Auxipar from 39.7% to 74.99% for a price of EUR 29.4m. As a consequence and according to IFRS 3, the previously held stake was revalued resulting in a capital gain of EUR 23m.

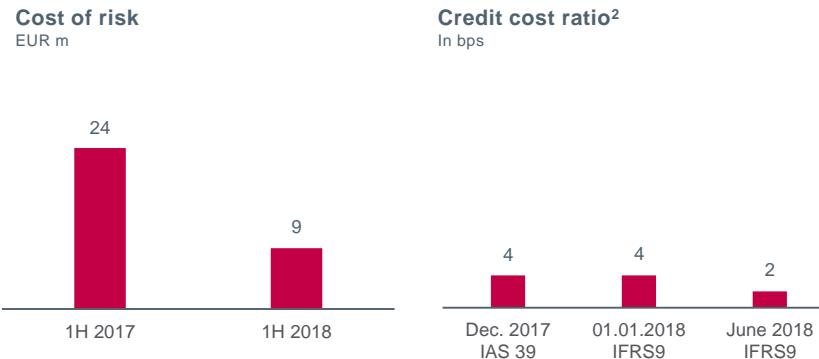
# Cost containment with further investments in IT and our human resources, and historically low cost of risk

## Cost containment with important investments in IT & HR



- Even with a program of important investments in digitalization (70m in 1H 2018 vs 62m in 1H 2017), Belfius is able to execute its cost containment program, and to keep Cost-Income ratio below 60%, at 58.8%
- Continuously delivering great service to a growing customer base, attracting the best talent as well as developing and retaining staff are key drivers for the future success of the company. Please also note that Belfius is preparing the 2020-2025 period, where it is anticipated that approximately 1,000 people of Belfius will leave the company following retirement
- To note: 1H 2017 costs have been positively impacted by one-off pension plan restructuring for EUR 27m, partially compensated by restructuring costs of network agencies (EUR 15m); 1H 2018 costs were negatively impacted by restructuring costs at Belfius insurance (EUR 5m). Hence adjusted costs show a slight increase of 2%

## Strong reduction in cost of risk



- Cost of risk in commercial activities remains at a historical low level, demonstrating continued good credit quality of commercial assets in current benign environment
- Cost of risk in GC positively impacted by the sale of some Italian government bonds in 1H 2018 (19m)

# Solid growth of the net income before tax, more than compensated by the higher continued tax expenses, leading to lower net income in 1H 2018

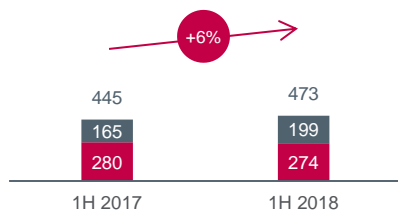
## Continued NIBT expansion

### Net income before tax

EUR m

■ Insurance

■ Bank

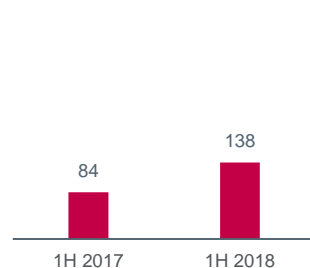


- Continued diversification through bancassurance growth coupled with some exceptional capital gains and very low cost of risk leading to solid net income before tax expansion

## Higher tax expenses

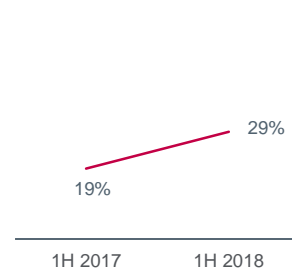
### Taxes

EUR m



### Effective tax rate

%



- Consolidated tax expenses amount to EUR 138m in 1H 2018 compared to EUR 84m in 1H 2017. This ETR increase is mainly due to :
  - Low ETR 1H 2017 thanks to the recognition of formerly unrecognized Deferred Tax Assets (DTA: EUR +33m) and linked to Belfius' ex-legacy book managed in Ireland
  - Higher ETR in 1H 2018 due to a higher profit before tax level in Belgium (even if somewhat compensated by the lower corporate tax rate in 2018 compared to 2017) and more unfavourable financial markets in 1H 2018 leading to negative trading and hedge results in Belfius' ex-legacy book managed in Ireland, not translating into recognized DTA at this stage.

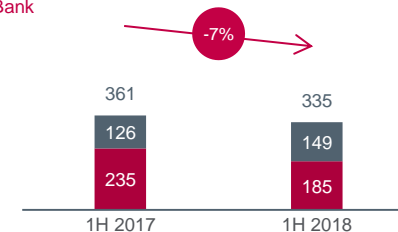
## Decreasing all-in-all net income

### Net income

EUR m

■ Insurance

■ Bank



- All in all leading to a net income of EUR 335m in 1H 2018, down 7% compared to 1H 2017

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

	Reported	----- Excluding special items ----->				Adjusted
		Sale/unw ind w within the ex-legacy portfolio	IFRIC 21 adjustment for sector levies	Impact of restructuring <sup>2</sup>	Recognition previously unrecognized DTA	
<b>1H 2017, EUR m</b>						
Income	1,136	7	-109	-	-	1,237
Expenses	-662	-	-	13	-	-674
Cost of risk	-24	10	-	-	-	-35
Impairments	-5	-	-	-	-	-5
<b>Net income before tax</b>	<b>445</b>	<b>17</b>	<b>-109</b>	<b>13</b>	<b>-</b>	<b>523</b>
Taxes	-84	-5	37	-5	33	-144
<b>Net income</b>	<b>361</b>	<b>12</b>	<b>-72</b>	<b>8</b>	<b>33</b>	<b>379</b>
<i>Impact mainly in</i>		<i>GC</i>	<i>GC</i>	<i>RC</i>	<i>GC</i>	
		Sale/unw ind w within the ex-legacy portfolio	IFRIC 21 adjustment for sector levies	Impact of restructuring <sup>2</sup>	Other items <sup>3</sup>	
<b>1H 2018, EUR m</b>						
Income	1,173	10	-111	-	46	1,227
Expenses	-690	-	-	-5	-	-685
Cost of risk	-9	19	-	-	-	-28
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	-	-165
<b>Net income</b>	<b>335</b>	<b>22</b>	<b>-78</b>	<b>-3</b>	<b>46</b>	<b>348</b>
<i>Impact mainly in</i>		<i>GC</i>	<i>GC</i>	<i>GC</i>	<i>RC, PC, GC</i>	

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.be/results](http://www.belfius.be/results)); 2. The "impact of restructuring" includes (i) recognition of formally approved restructuring provisions and (ii) impacts from pension plan restructuring; 3. 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.



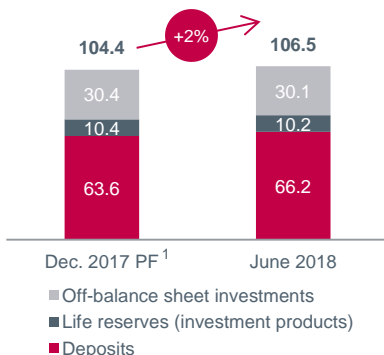
## 4. Segment results RC

- **Retail & Commercial continues to show strong commercial momentum** with growing
  - Customer savings & investments (+2%), mainly in current & savings accounts (+4.5%)
  - Loans to customers (+3%)
  - Insurance production (+4%)
  - Sales through direct channels supporting customer equipment
- **A strong digital track-record in mobile - omnichannel banking**
  - Further increase of Belfius' active mobile users
  - 4.6 on average – on a 5 point scale – for Belfius' IOS and Android mobile app
  - Over 1m active mobile users connecting on average approximately once a day
- Following less favorable financial markets and some regulatory changes, commercial volume growth in S&I 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, was partially compensated by strong RC loan volume growth, at loan margins on average still slightly above margins on stock of RC loans
- Resilient fee & commission income despite increased **margin pressure**
- **Increasing contribution of profitable insurance activities**
- Cost containment and low cost of risk leading to all-in-all **resilient net income**

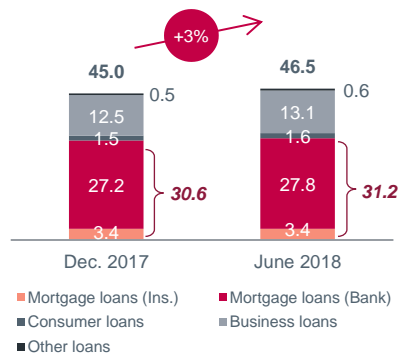
# Solid commercial activity leads to further volume growth and developing sales through direct channels

## Savings & investments and loans to customers

**Outstanding savings & investments**  
EUR bn



**Outstanding loans to customers**  
EUR bn

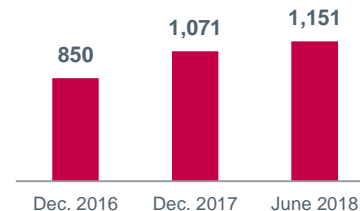


▪ Retail & Commercial continues to show excellent dynamics:

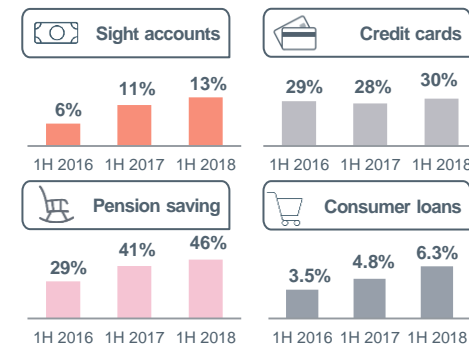
- Strong growth in RC Savings & Investments of EUR 2.1bn in 1H 2018, mainly as a result of growth in current & savings accounts (+4.5%), hence leading to a change in product mix with more non-maturing vs. asset management products due to less favorable financial markets & MiFID regulation
- Outstanding loans increased by EUR 1.4bn (+3.2%) compared to Dec. 2017, driven by a strong growth in consumer loans (+10.7%), business loans (+5.0%) and mortgages (+2.1%)

## Growing activity on direct channels

**Active mobile users**  
x 1,000



**Sales through direct channels<sup>2</sup>**  
%



**Customer equipment rate**



- Increasing customer engagement resulting into steady increase of new active mobile users (+7% vs. Dec. 2017, with on average 31 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)
- Stable, customer average equipment rate of RC customers, supported by slowly increasing direct sales

Notes: 1. On 6 March 2018, the Belgian Council of State cancelled the Arco co-operative guarantee scheme (which has been organized by Royal Decrees in 2011). Important uncertainties remain with respect to the contemplated sustainable and structured solution (i.e. position of the European Commission on the contemplated solution, adherence of Arco shareholders, the uncertain impact on the litigation proceedings, market circumstances, etc.). The reporting of Arco shares was adapted, and the current value of the shares has been set to "indeterminable". As a consequence the off-balance sheet investments and the total savings and investments have been decreased by EUR 1.5 billion. 2. Belfius' direct channels are Belfius Connect, Belfius Mobile (smartphone and tablet) and Belfius Direct Net (computer)

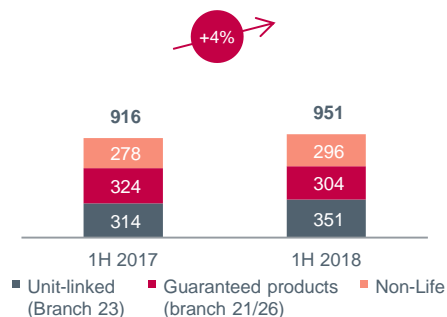


# Bancassurance strategy continues to support Belfius' insurance activities, undergoing at the same time a profound product mix transformation

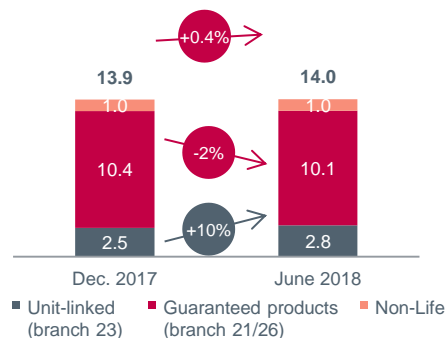
## Insurance

### Insurance sales & reserves

#### Insurance production EUR m



#### Insurance reserves EUR bn

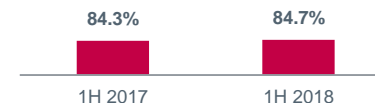


## Bank-Insurance

### Continuous solid bank insurance cross-sell

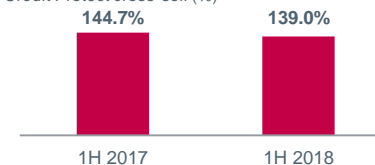
#### Property insurance

Belfius Home & Family cross-sell (%)



#### Credit linked Life insurance

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



- Non-Life insurance premiums in 1H 2018 stood at EUR 296m, up 6.3% compared to 1H 2017, boosted by the bank distribution channel (+11%) and good performance in all other strategic distribution channels (e.g. Corona, DVV)
- Life insurance (unit-linked and traditional) premiums stood at EUR 656m in 1H 2018<sup>1</sup>, up 2.7% compared to 1H 2017<sup>2</sup>
  - Unit-linked (Branch 23) premiums went up strongly (+11.9%) thanks to growing product suite and customer demand
  - Traditional Life (Branch 21/26) premiums decreased with 6.1% following the low interest rate environment
- Total RC insurance reserves stood at EUR 14.0bn: unit-linked reserves increased by 9.8% while traditional Life reserves decreased by 2.1%, demonstrating the 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 478m GWP and EUR 177m transfers/renewals; 2. of which EUR 320m GWP and EUR 319m transfers/renewals; 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

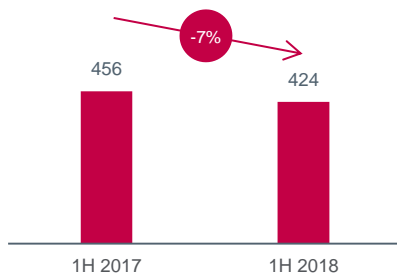
# Legally floored retail deposits tariffs put pressure on net interest income, Fees & commissions impacted by slow down in AM market

Bank

## Decrease of NII due to continuous low interest rate environment

### Net interest income

EUR m



- NII decrease by 7% in RC driven by margin pressure on non-maturing deposits due to persistent low interest rates, partially compensated by strong RC loan volume growth, at loan margins on average still slightly above margins on stock of RC loans

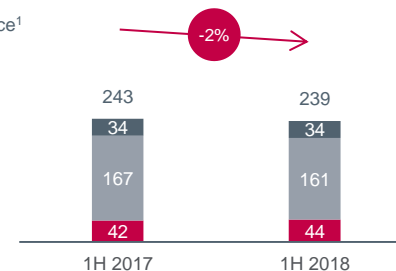
Bank

## Resilient Fee & Commission income

### F&C income

EUR m

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



- Slightly decreasing RC Fee & Commission income as MiFID II and less favourable financial markets are slowing down net inflows in investment products
- Slow down in asset management market leading to some margin pressure, especially on subscription fees



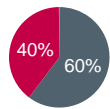
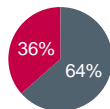
# Ongoing revenue diversification allows for safeguarding of revenues

## Insurance

### Sustained insurance contribution throughout transformation of product mix

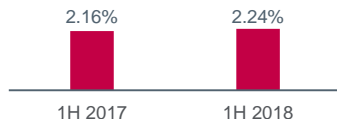
#### Insurance income

EUR m



■ Non-Life insurance ■ Life insurance ■ Non Technical

#### Life margin



#### Non-Life net loss ratio



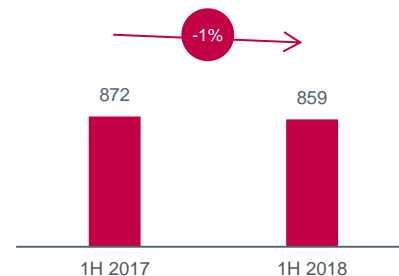
- RC Insurance results showing excellent dynamics in Non-Life income (+23.5%) with premium growth above Belgian market level<sup>1</sup>
- Life income increase of 7.7% resulting from the analytical reallocation of the revaluation of the previously held interest of Belfius Insurance in Auxipar following step-up acquisition as well as from the reassessment of technical Life provisions in line with risk appetite framework
- Non-Life Insurance: good momentum, with an increase in income realized with further improving loss ratios

## Bank-Insurance

### Safeguarding of total income

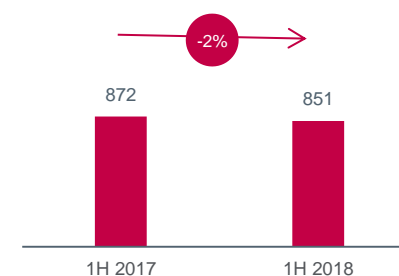
#### Total income

EUR m



#### Adjusted total income

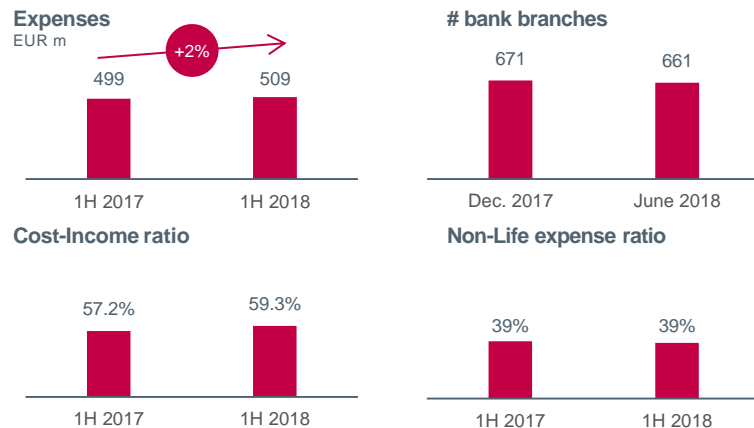
EUR m



- Resilient revenues demonstrating the resilience of Belfius RC business model in the context of the adverse interest rate environment and the less favourable financial markets
- Adjusted total income amounted to EUR 851m in 1H 2018, down 2% compared to 1H 2017

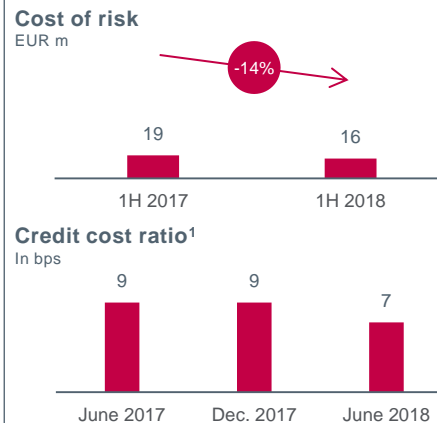
# Cost containment with digital and staff investments and historically low cost of risk allow for resilient net income

## Cost containment with important investments in IT & HR



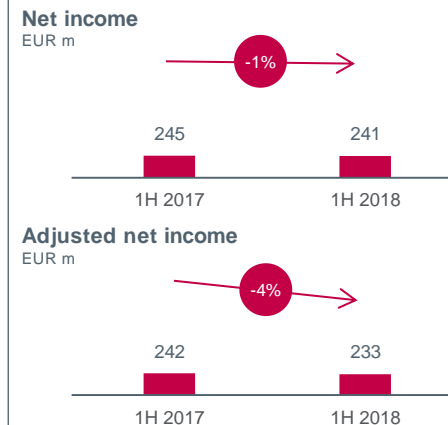
- In line with Belfius' group digital and staff investment program, RC expenses are slightly increasing
- Belfius continues to adjust step by step its physical branch network, in line with customer behaviour, digitalisation trend and bank-insurance platform integration

## Low risk profile



- Cost of risk remains at a historical low level, demonstrating continued good credit quality/management in current benign environment

## Resilient net income



- Despite the pressure on net interest income and unfavourable financial markets, stable total net income RC (-1% compared to 1H 2017) amounting to EUR 241m in 1H 2018
- The adjusted net income decreases by 4% compared to 1H 2017

## 4. Segment results PC

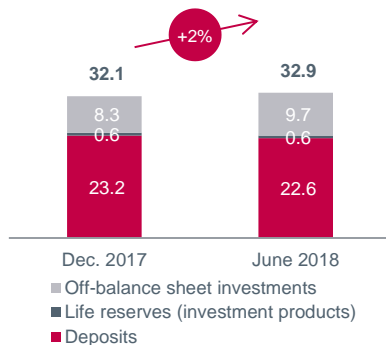
- **Public & Corporate continues to strongly develop its Corporate segment, and remains the leading full service provider in the Belgian Public & Social segment**
  - Strong increase in loans to Belgian Corporates (+8.8%)
  - Continued momentum in DCM; participation rate of 85% with PSB clients and 44% with corporate clients
- **Growing NII** thanks to strict pricing discipline, higher volumes especially in the Corporate Segment and some presentation changes following IFRS9
- **Stable contribution of fees and commissions**
- **Increase of insurance** contribution driven by growing **Life** income
- **Cost containment program, historically low cost of risk and lower tax expenses** lead to **net income growth**

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

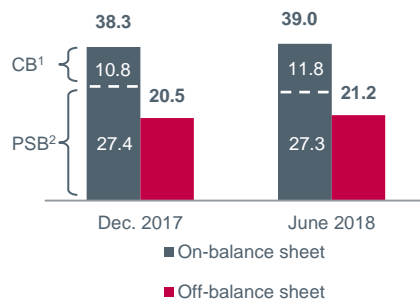
Public & Corporate

## Savings & investments and loans to customers

**Outstanding savings & investments**  
EUR bn



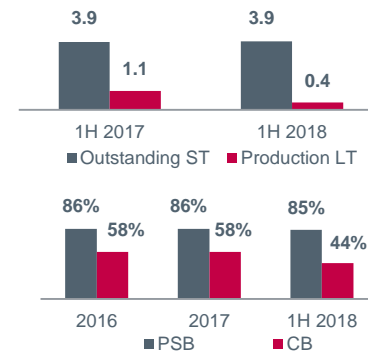
**Outstanding loans to customers**  
EUR bn



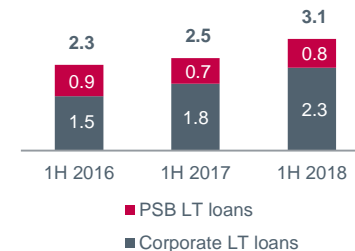
- Public & Corporate segment continues to benefit from the diversification strategy towards cross-sell & corporate segment
- Total customer balances amounted to EUR 32.9bn, up 2.4% compared to end 2017, with marked positive evolution in off-balance sheet investments, especially in the Corporate segment
- Continued commercial strategy towards Belgian corporates results in a 8.8% increase of outstanding loans over 1H 2018, to EUR 11.8bn as per June 2018
- Outstanding loans in PSB remained stable over 1H 2018 and confirms the recent shift to more alternative financing (i.e. desintermediation), for which Belfius is also market leader for PSB in Belgium

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

**DCM activity and participation rate**  
EUR bn; %



**PSB and corporate long term loan production<sup>3</sup>**  
EUR bn



- PC clients maintain diversified financing profiles through DCM activity
- During 1H 2018, Belfius has placed a total funding (allocated amount) of EUR 2.9bn short term and EUR 0.3bn long term notes for P&S sector clients, this is lower than in 1H 2017 partly due to a delayed benchmark transaction towards the second half of the year. However, with a participation rate of 85%, Belfius confirmed its leadership position
- With a participation rate of 44% in new LT bond issuances, Belfius also confirmed during 1H 2018, its position as leader in bond issues for Belgian corporate clients, and placed a total amount of EUR 1.0bn short term and EUR 0.1bn long term notes
- Sustained production in PSB and corporate long-term loans in competitive landscape

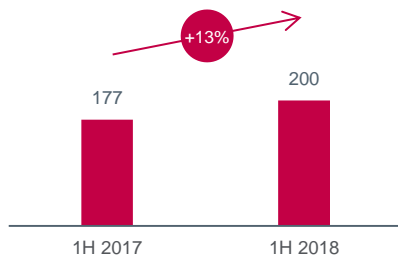
# Price discipline and strong momentum with corporates driving NII expansion

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, strict pricing discipline and some presentation changes following IFRS9 (positive result of EUR 5.3m now booked in NII, formerly in other income) compensating pressure on interest margin especially on non-maturing deposits

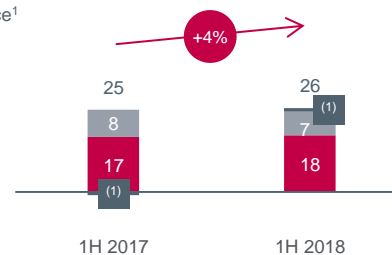
Bank

## Stable fees & commissions

### F&C income

EUR m

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



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

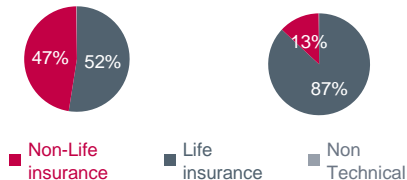
# Higher Life insurance contribution further supports revenue growth

## Insurance

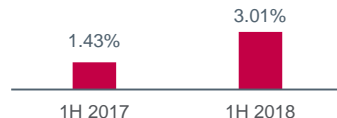
### Increase of insurance contribution

#### Insurance income

EUR m



#### Life margin



#### Non-Life net loss ratio



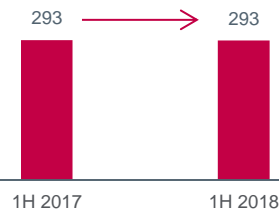
- PC Life insurance results evolving positively in 1H 2018 following the positive impact from the reassessment of technical Life provisions in line with risk appetite framework compared to negative impact from provisions for (discretionary) profit sharing in 1H 2017
- Non Life result was impacted by higher loss rates in Car insurance and Workers Compensation (partly linked to 1Q 2018 storms in Belgium)
- In 2Q 2018, Belfius Insurance decided to focus its Non-Life insurance business on the segment of social sector through direct distribution and to put the Non-Life-activities towards other institutional and corporate customers through the brokerage channel in run-off, and to reallocate freed-up resources to its strong developing Non-Life insurance business with SME customers through its own (bank and DVV) distribution channels.

## Bank-Insurance

### Stable revenues

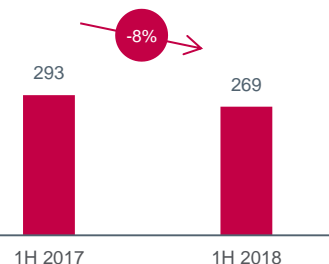
#### Total income

EUR m



#### Adjusted total income

EUR m

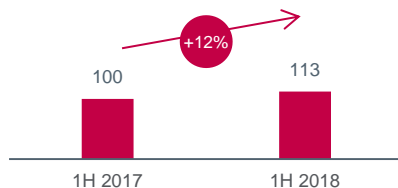


- Overall, PC shows resilient stable total income
- Revenues were also impacted by the capital gain on the sale of NEB participation, excluding this element, the adjusted total income amounts to EUR 269m in 1H 2018, down 8% from 1H 2017

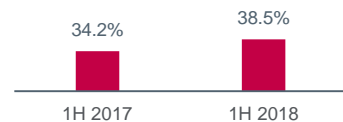
# Cost control program combined with historically low cost of risk and lower tax expenses lead to net income growth

## Cost containment with important investments in IT & HR

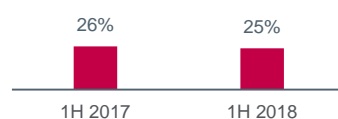
Expenses  
EUR m



Cost-Income ratio



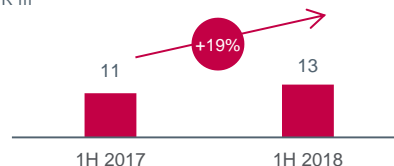
Non-Life expense ratio



- In line with the development of its commercial franchise and Belfius' digital and staff investment program, PC expenses are increasing
- Reported Cost-Income ratio still at low level (38.5%)

## Cost of risk remains at historical lows

Cost of risk  
EUR m



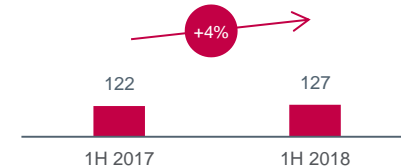
Credit cost ratio<sup>1</sup>  
In bps



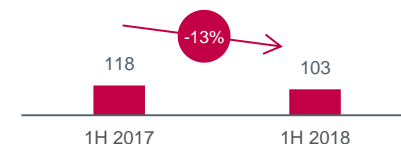
- Although cost of risk increases in line with commercial momentum in the corporate segment, it remains at a historical low level

## Net income growth

Net income  
EUR m



Adjusted net income  
EUR m



- Despite IT and HR investment program as well as Non-Life NCR, PC net income grows with 4% and amounts to EUR 127m
- Excluding capital gain on the sale of NEB participation, adjusted net income amounts to EUR 103m

## 4. Segment results GC

- Despite the historically low interest rate environment, **net interest income of GC increased**, leading to a total income of EUR 22m compared to EUR -30m in 1H 2017
- In line with Belfius' digital and staff investment program, **GC expenses are also slightly increasing**
- Sale of EUR 0.8bn (notional) Italian government bonds in 1Q 2018 leads to a **strongly positive cost of risk of EUR 20m**
- The impact of the before mentioned higher ETR in 1H 2018 is mainly present in GC result, with the 1H 2018 GC tax expenses amounting to EUR -7m vs. EUR +81m in 1H 2017.
- All in all, **GC net income stood at EUR -33m in 1H 2018** compared to -6m in 1H 2017
- The **ALM Yield, derivatives and credit guarantees portfolios continue their progressive (natural) run-off**
- **RWA of GC have decreased** mainly following the sale of some Italian government bonds in 1Q 2018



# Reminder – summary overview of Belfius Group Center

Belfius Group Center (notional amounts as of June 2018)

		Bond portfolio		Run-off portfolio derivatives and guarantees	Other GC activities
		ALM Liquidity	Run-off ALM Yield		
Ex-legacy		<ul style="list-style-type: none"> <li>■ LCR eligible bonds (EUR 1.2bn)</li> </ul>	<ul style="list-style-type: none"> <li>■ Non-LCR eligible bonds (EUR 3.5bn)</li> </ul>	<ul style="list-style-type: none"> <li>■ Collateralized derivatives with Dexia entities, intermediated and hedged with Financial Markets (EUR 25.8bn)</li> <li>■ Non collateralized derivatives with international non financial counterparts (EUR 4.9bn)</li> <li>■ Credit guarantees: protection given, partly reinsured with monolines (EUR 3.8bn, incl. TRS, part of former GC)</li> <li>■ Bought credit protection for some ALM yield bonds</li> </ul>	<ul style="list-style-type: none"> <li>■ Management of old credit risk files (Holding Communal &amp; Arco entities)</li> </ul>
	Other	<ul style="list-style-type: none"> <li>■ ALM LCR eligible bonds (EUR 6.3bn)</li> </ul>	<ul style="list-style-type: none"> <li>■ ALM non-LCR eligible bonds (EUR 0.1bn)</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> <li>■ Ex-legacy LCR bonds are similar to ALM LCR bonds, except for geography of issuer (non-core EU countries (e.g. UK), Australia, Japan)</li> </ul>	<ul style="list-style-type: none"> <li>■ Bond portfolio used to manage excess liquidity</li> <li>■ Mainly high quality bonds of international issuers (non-core EU) in ex-legacy part with a ~20 years residual duration</li> <li>■ Managed in natural run-off and standard credit risk management for ex-legacy part</li> </ul>	<ul style="list-style-type: none"> <li>■ Originates from former competence center for derivatives within the Dexia Group</li> <li>■ Ex-legacy derivatives managed in natural run-off and standard risk management</li> </ul>	



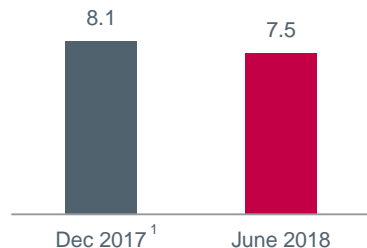
# Continued natural decrease of run-off portfolios stemming from ex-legacy

## Group Center portfolios

### ALM Liquidity

#### ALM Liquidity bond portfolio

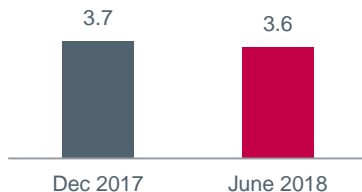
Notional value  
EUR bn



### Run-off portfolios

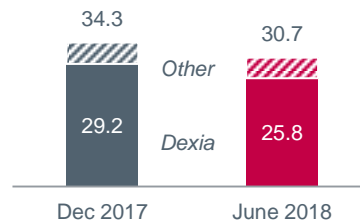
#### ALM Yield bond portfolio

Notional value  
EUR bn



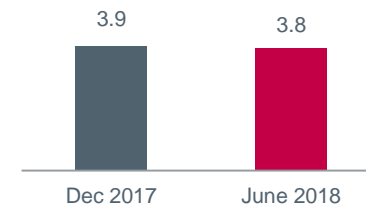
#### Derivatives

Notional value  
EUR bn



#### Credit guarantees

Notional value  
EUR bn



#### Average Rating <sup>(2)</sup>

BBB+	BBB+	A	A	A-	A-	A-	A-
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#### Expected average Life (years)

9.0	8.9	20.8	20.5	14.4 <sup>(3)</sup>	14.3 <sup>(3)</sup>	10.3	10.1
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#### Investment grade (%)

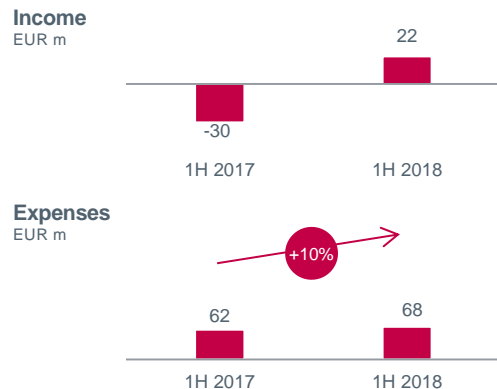
100%	100%	95%	95%	96%	96%	100%	100%
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#### Risk weighted assets (EUR bn)

4.3	2.6	2.8	2.6	1.5	1.4	1.8	1.7
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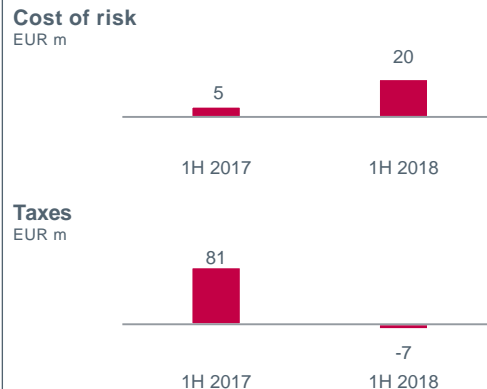
# GC income positively impacted by some capital gains & positive cost of risk and negatively impacted by higher tax expenses, all-in leading to lower net income

## Solid income expansion and costs under control



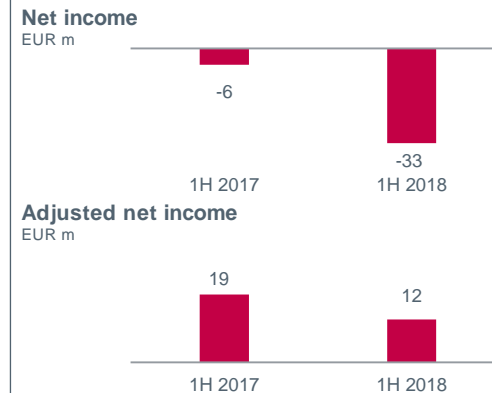
- Solid income improvement mainly driven by the revaluation the historical stake in Auxipar, the sale of EUR 0.8bn Italian government bonds as well as by the partial reversal of provision for potential settlements of ongoing disputes with third parties
- In line with Belfius' digital and staff investment program, GC expenses are slightly increasing from EUR 62m to EUR 68m

## Positive CoR and normalization of tax expenses



- Positive CoR of EUR 20m mainly following the reversal of impairments related to the sold Italian govies
- Tax expenses amount to EUR -7m compared to EUR +81m in 1H 2017. The evolution is a.o. impacted by:
  - Low ETR 1H 2017 thanks to the recognition of formerly unrecognized Deferred Tax Assets (DTA: EUR +33m) and linked to Belfius' ex-legacy book managed in Ireland
  - Higher ETR in 1H 2018 due to a higher profit before tax level in Belgium (even if somewhat compensated by the lower corporate tax rate in 2018 compared to 2017) and more unfavourable financial markets in 1H 2018 leading to negative trading and hedge results in Belfius' ex-legacy book managed in Ireland, not translating into recognized DTA at this stage.

## Tax expenses lead to negative net income



- All in all, net income of GC decreasing mainly following the higher tax expense (compared to tax income in 1H 2017)
- The adjusted net income amounts to EUR 12m, a slight decrease compared to 1H 2017

## 4. Segment results RoE

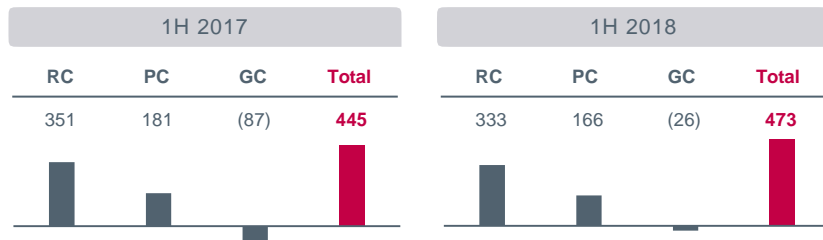
- Belfius' strategy is based on the development of a **strong commercial franchise** that is to be supported by **solid risk and financial profile** foundations
- This translates into **commercial activities that are enabled to grow their footprints in a profitable way** and invest in future business model developments, on the basis of solid solvency foundations
- All in all, this strategy leads to sound **Return on Average Equity** at commercial segment level and should enable Belfius to gradually improve its Return on Average Equity at group level
- When one would exclude the tax expenses (as commented before), the profit before tax return on average equity continues to show this gradual improvement. On net income, the ROAE is slightly decreasing

# Solid solvency and focus on commercial growth and diversification allows for sound RC and PC RoE. Before tax, Belfius group shows gradual RoE improvement

## Increasing reported profit before tax

### Net income before tax

EUR m



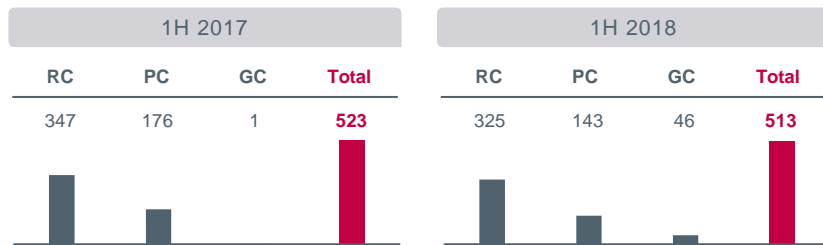
### RWA<sup>1</sup>

EUR bn



### Adjusted net income before tax

EUR m



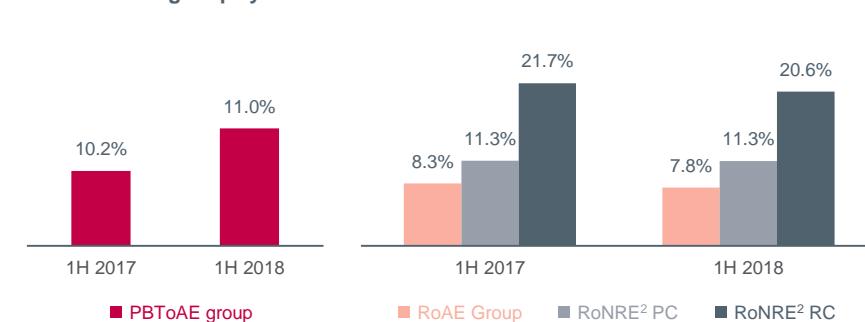
### RWA<sup>1</sup>

EUR bn

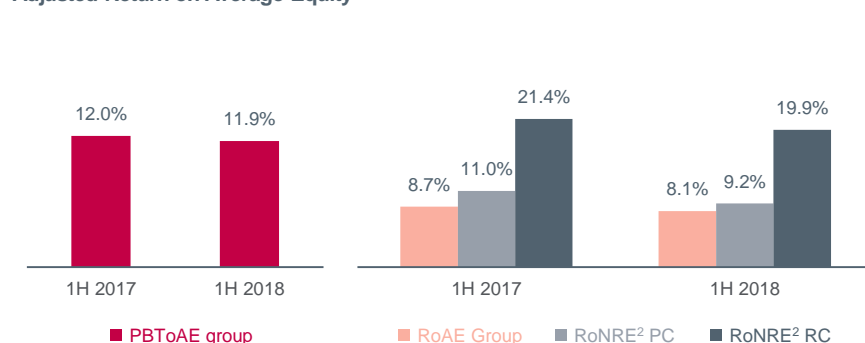


## ... leading to gradual RoE before tax improvement

### Return on Average Equity



### Adjusted Return on Average Equity

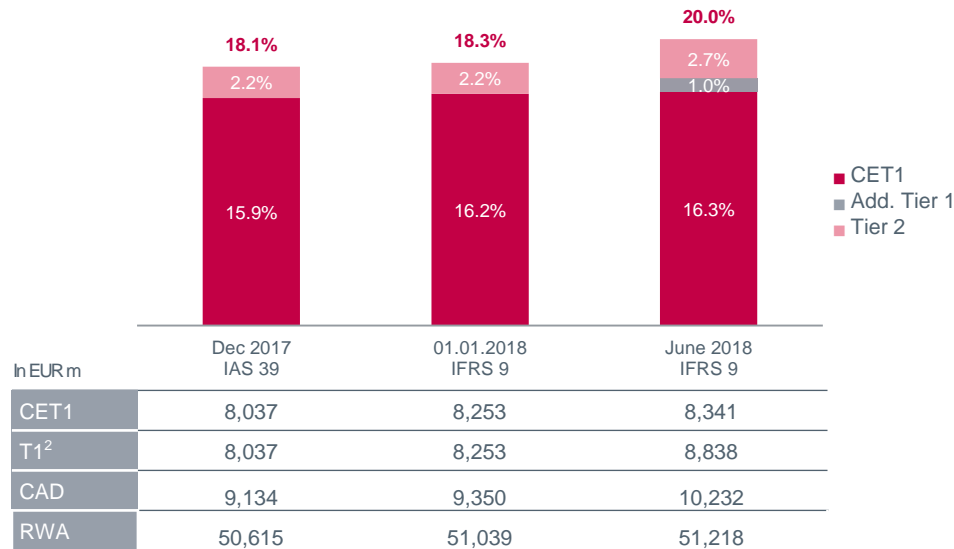


## 5. Financial solidity

- Based upon its 1H 2018 solvency metrics, Belfius **ranks amongst the well capitalized European banks**:
  - CET1 ratio of 16.3% end of June 2018, 11bps higher than end January 1<sup>st</sup>, 2018 pro forma, mainly thanks to the result of positive effects in CET 1 capital (+17 bps) offset by negative effects in total risk exposure (-6 bps).
  - Solid leverage ratio of 5.9%
- This solid capital base **compares well to Belfius' SREP level and internally defined minimum operational and target levels**
  - Currently estimated fully Loaded minimum CET1 supervisory requirement of 10.75% for 2019 (supposing 0% Countercyclical Buffer and constant Pillar 2 Requirements at 2.25%) and P2G of 1%
  - Fully Loaded actual CET1 of 16.3%, well above the minimum operational CET1 ratio of 13.5% and in full compliance with the target CET1 ratio of 15.5%
- **Insurance activities also show solid solvency metrics**, with Solvency II ratio of 210% (of which 164% in the form of Tier 1 capital) end of June 2018
- **Continued strong liquidity and funding profile**
  - LCR ratio of 133% and NSFR of 116%
  - Liquid assets representing 5.1x one year wholesale refinancing needs
  - Loan to deposit ratio (for commercial balance sheet) roughly stable at 92%
- **Continued strong asset quality**
  - Sound asset quality with an asset quality ratio of 2.20% and coverage ratio of 61.4%

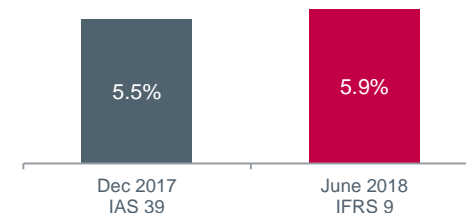
# Belfius among well capitalized European banks thanks to its solid capital and leverage ratios

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



- Fully Loaded CET1 ratio stood at 16.3%, 11bps above CET1 as of January 1<sup>st</sup>, 2018
- Total Capital ratio remained strong in 1H 2018 with Fully loaded ratio of 20.0%, a strong increase compared to January 1<sup>st</sup>, 2018. This increase is mainly stemming from (i) the EUR 500m inaugural Perpetual Additional Tier 1 issuance of 1Q 2018 and (ii) the new issuance of EUR 200m Tier 2 capital in 1Q 2018

## Leverage ratio



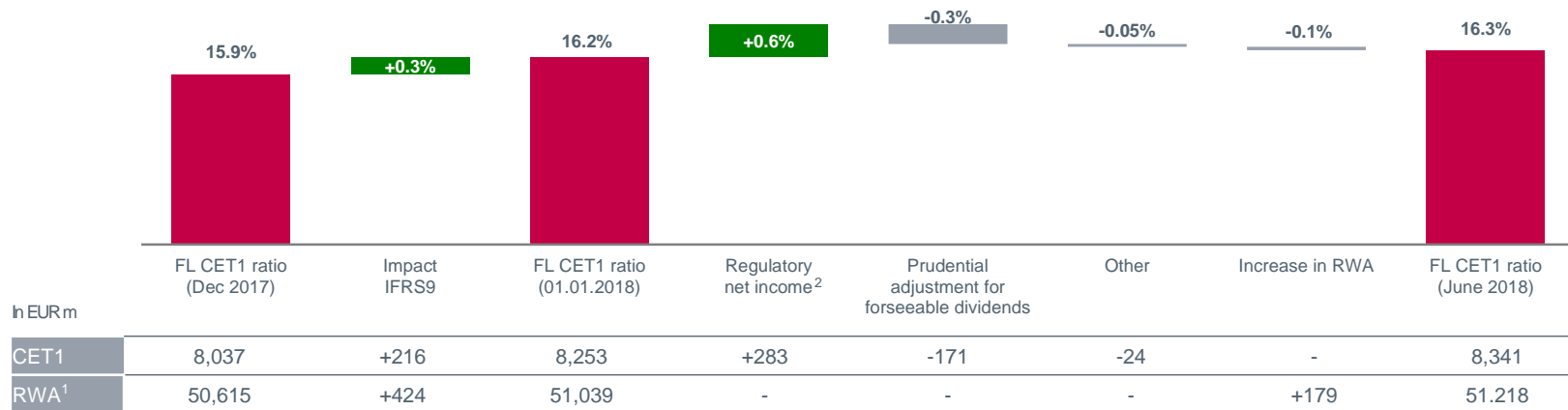
- Leverage ratio further increased compared to Dec. 2017, Fully Loaded ratio stood at 5.9%
- The increase is mainly due to the inaugural Perpetual Additional Tier 1 issuance of 1Q 2018 partially offset by higher total leverage exposure measure

Notes: 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 participation after deduction of goodwill and on the additional capital subscribed by the bank; 2. Until Dec. 2017, Tier 1 capital ratio is equal to CET1 ratio because Belfius did not hold any additional Tier 1 Capital. In 1Q 2018, Belfius issued EUR 500m inaugural Perpetual Additional Tier



# CET1 ratio remains strong

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



- The implementation of IFRS 9 as of 1 January 2018 had an impact on Belfius' solvency ratios
  - CET1 impacts mainly relate to the reversal of the AFS and frozen AFS reserve as Belfius has opted for a "hold to collect" business model for the majority of debt instruments
  - The impact on regulatory risk exposures is twofold with (i) an increase on the portfolio hedge and (ii) a decrease following reclassification and remeasurement on certain assets
- The deduction of foreseeable dividend of EUR 171 m in June 2018 is a prudential adjustment of the year-to-date regulatory net profit, considered not eligible for CET 1 capital, based on 60% target dividend pay-out ratio<sup>3</sup>. At 1 January 2018, a deduction of an estimated remaining dividend of EUR 288 million over the full year profit of 2017 was made (of which EUR 75m already paid out as interim dividend in 3Q 2017).
- The increase in RWA results from market risk exposures somewhat compensated by a decrease in credit risk

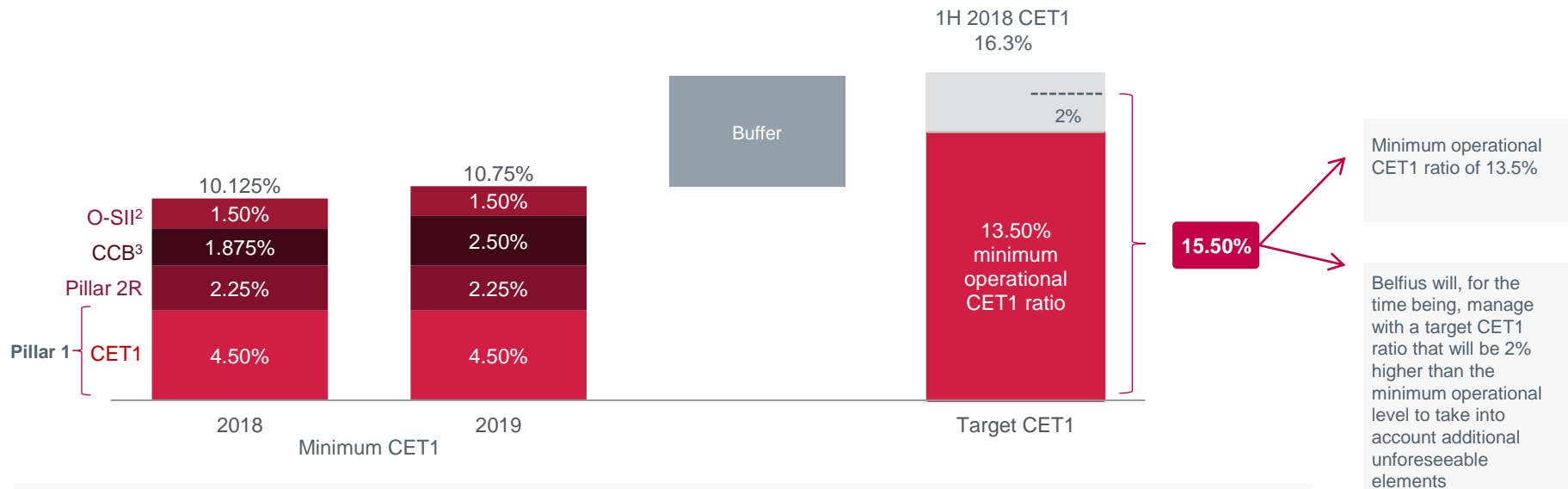
Notes: 1. Includes the RWA equivalent for Belfius Insurance based on Danish Compromise; 2. Including the dividend paid Belfius Insurance (EUR 120m); 3. In line with Belfius Bank's current dividend policy.





# Capital framework in line with strategic priorities

## Belfius' Minimum CET1 Requirements<sup>1</sup> vs Belfius 2017 CET1 Capital Position & Target

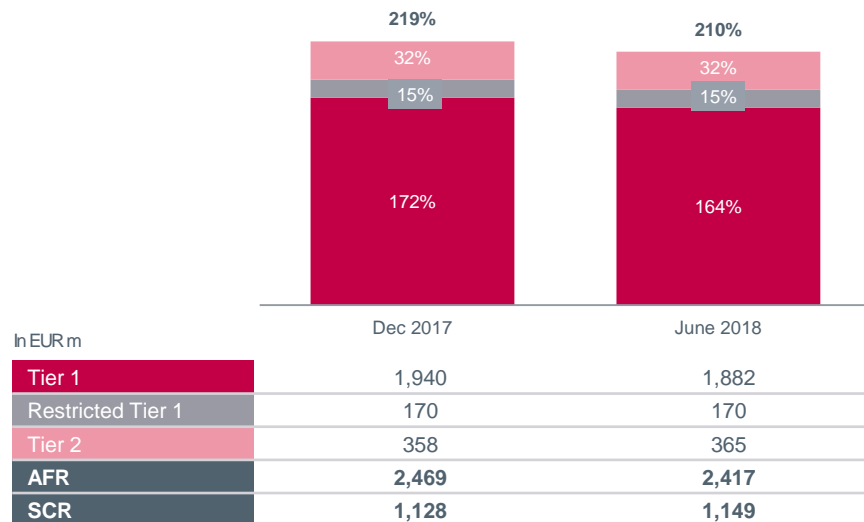


- For 2018, phased-in minimum CET1 requirement for Belfius is 10.125%
- Based upon gradual phasing in of the Capital Conservation Buffer to 2.5% and all other things remaining equal, this would lead to a 10.75% Fully Loaded minimum CET1 requirement for 2019
- The ECB also formally notified Belfius to set a Pillar 2 Guidance (P2G<sup>4</sup>) of 1%
- In June 2018, CET1 ratio stood at 16.3%, well above the minimum supervisory requirement as well as above the target CET1 ratio

Notes: 1. Assumes for 2019 0% Countercyclical Buffer and constant Pillar 2 Requirements at 2.25%; 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 also displays solid solvency metrics

## Available Financial Resources and Solvency Capital Requirement



## Decomposition of Solvency Capital Requirement

EURm	Dec 2017	June 2018	Delta %
Market risk	1,111	1,125	1%
Credit risk	157	149	(5%)
Life risk	288	291	1%
Health risk	69	73	6%
Non-life risk	246	248	1%
Diversification	-491	-493	0%
<b>BSCR</b>	<b>1,381</b>	<b>1,393</b>	<b>1%</b>
Operational risk	97	96	(1%)
Adjustments <sup>1</sup>	-350	-341	(3%)
<b>SCR</b>	<b>1,128</b>	<b>1,149</b>	<b>2%</b>

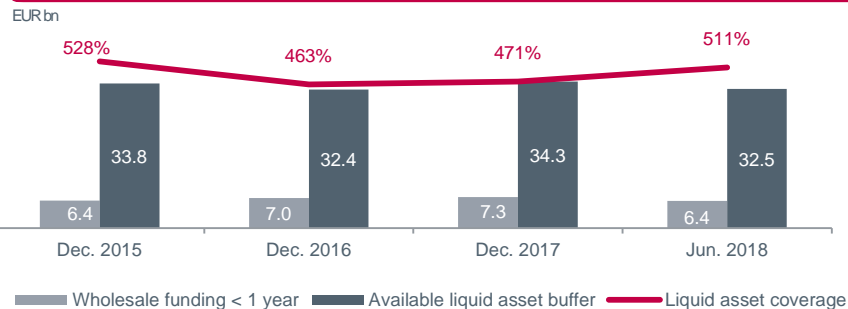
- Strong and high quality capital levels supporting dividend to bank
- Most important solvency sensitivity is related to market risk, with credit spread movements being the most impacting market element<sup>2</sup>



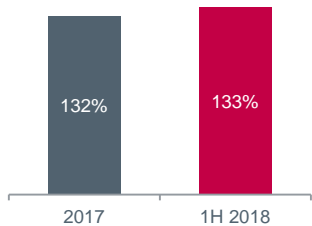
# Belfius Bank continues to display strong liquidity stance

Bank

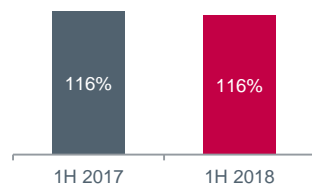
## Strong liquidity profile



## LCR<sup>1</sup>

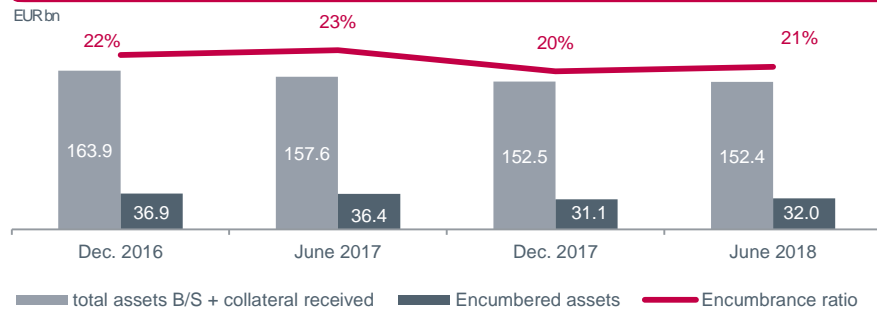


## NSFR<sup>2</sup>



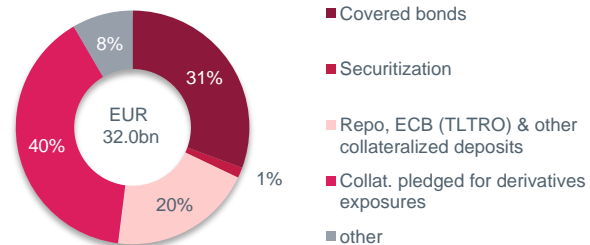
Bank

## Encumbered assets



## Detail of the encumbered assets

30 June 2018



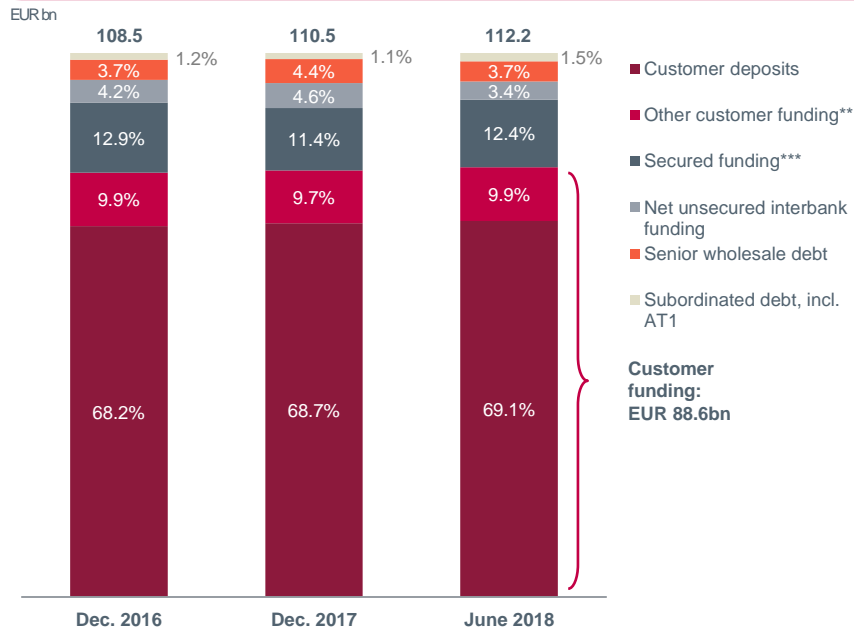
Notes: 1. Calculation based on 12 months average. The Liquidity Coverage Ratio (LCR) refers to the regulatory ratio between the stock of high quality liquid assets and the total net cash outflow over the next month under stress ; 2. The Net Stable Funding Ratio (NSFR) refers to the regulatory ratio between 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



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

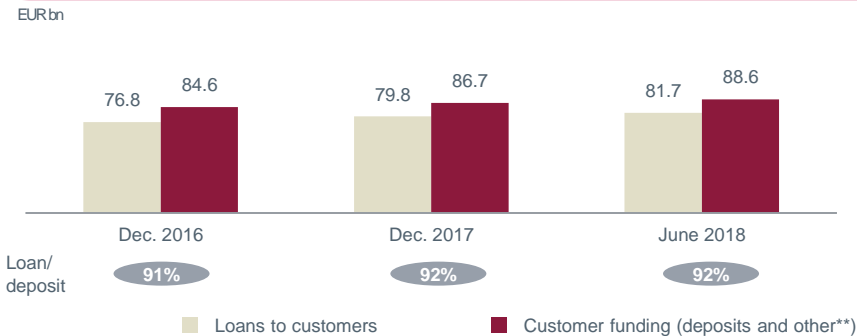
Bank

## Funding sources\*



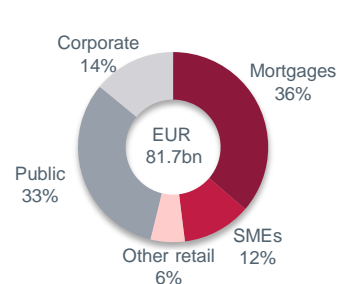
Bank

## Loans to customers vs. customer funding

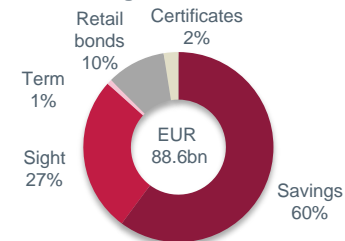


## Loans to customers and customer funding mix 1H 2018

### Loans to customers



### Customer funding



(\*) Belfius Bank only

(\*\*) Other customer funding includes retail bonds and savings certificates (7.9% and 2.0% as percentage of total funding, respectively)

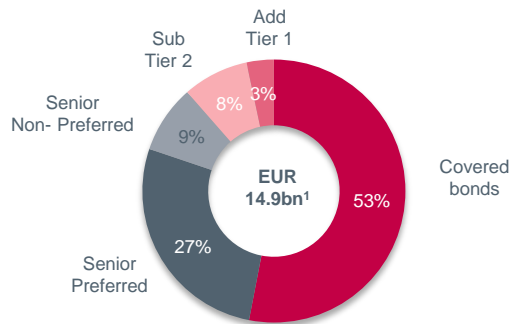
(\*\*\*) Secured funding includes Covered Bonds (7.0%), TLTRO (3.6%), Repo (0.6%), and other longer term secured funding (1.2%)



# Belfius continues its diversification focused funding strategy

## MLT wholesale funding strategy

As of June 2018

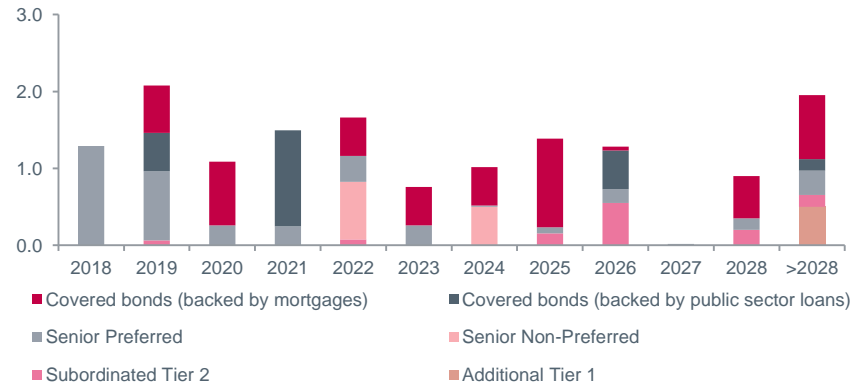


- Focused on diversification of funding sources and investor base
  - Inaugural AT1 issuance (1Q 2018)
  - First Belgian Issuer Senior Non Preferred (Sept 2017)
  - Inaugural Tier 2 issued (Apr 2016)
  - First (since 2007) Belgian Issuer of a public RMBS transaction (Oct 2015)
  - First Issuer of Belgian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

Notes: 1. Wholesale funding of EUR 14.9bn, representing 13.4% of total funding of EUR 112.2bn as illustrated on previous slide; i.e. 7.0% of Covered Bonds + 1.2% of other longer term secured funding + 1.5% of subordinated debt and 3.7% of Senior Wholesale debt; 2. MREL strategy can be amended in function of changing SRB

## Redemption profile MLT wholesale funding

EUR bn



- Belfius' funding needs are in line with the redemptions, however can be adapted to general evolutions within the banking environment
- Over the coming 2.5 years, around EUR 4.5bn wholesale funding comes to maturity
- Various instruments can be targeted both under benchmark or private placement format
- Belfius will further manage its MREL buffer including use of the new layer of Senior Non Preferred notes<sup>2</sup>

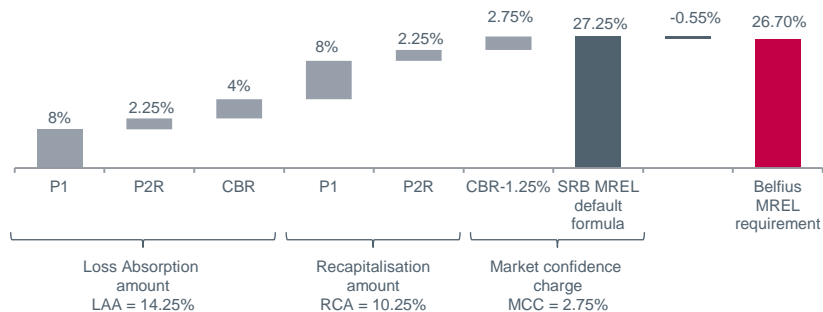


# SRB MREL requirement for Belfius

## SRB methodology and formal requirement

### Used Methodology<sup>4</sup>

% RWA as of Dec. 2016



### SRB Requirement

In TLOF %



### SRB Requirement

In EUR bn



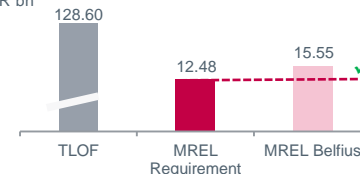
- The Single Resolution Board (SRB) determines the consolidated MREL requirement for Belfius Group at the level of **9.70% of Total Liabilities and Own Funds (TLOF<sup>1</sup>)**, to be met at all times and taking into account an evolving balance sheet.
- Taking into account data as of 31 December 2016, this MREL requirement corresponds to an amount of **EUR 12.48bn**
- Based upon data as of 30 June 2018, the MREL requirement of 9.70% of TLOF amounts to EUR 12.52 billion.
- Following the current SRB methodology, Belfius Group exceeded the MREL based on data 31 December 2016, and hence no transitional period has been defined by the SRB for Belfius.
- As mentioned in the SRB 2017 MREL Policy, the SRB has also set a subordination benchmark for O-SIIs<sup>2</sup>. The total subordination benchmark for Belfius has currently been set at 16%<sup>3</sup> of the total risk exposures as of December 2016.
- The SRB reserves the right to adjust the aforementioned policy at a later stage in the light of the future design of the BRRD and further development of the MREL policy.

Notes: 1. TLOF: based on regulatory conso scope with prudential netting of derivatives exposures; 2. O-SIIs: Other Systemically Important Institutions; 3. This subordination benchmark is composed of two components: (i) a general level depending on the systemic importance of banks ((12% + fully-fledged CBR) of total RWA for O-SIIs) and (ii) a potential bank specific add-on depending on the outcome of the NCWO principle (not yet finally defined by SRB); 4. Based on "SRB Policy for 2017 and Next Steps" as published on December 20, 2017

## Belfius' levels

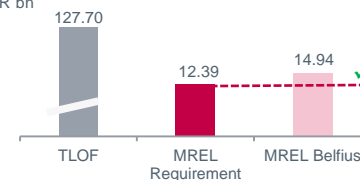
### Dec. 2016

EUR bn



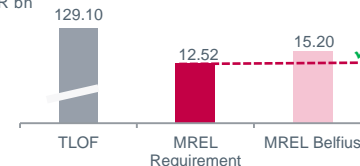
### Dec. 2017

EUR bn



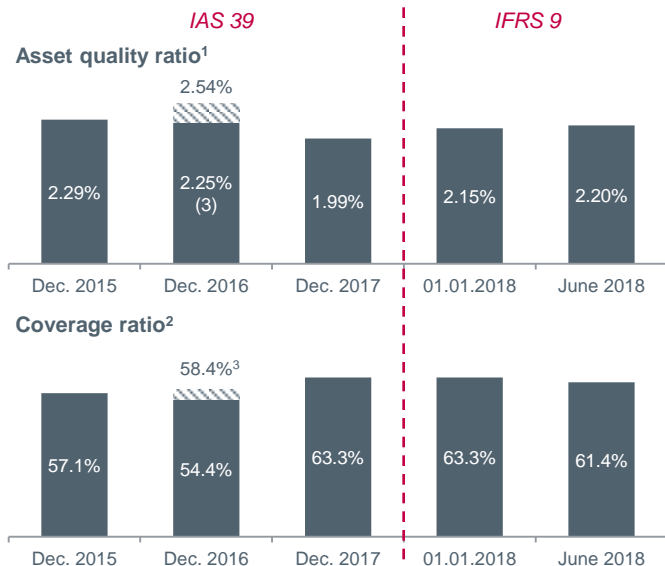
### June 2018

EUR bn



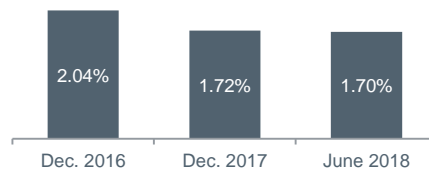
# Belfius displays continued strong asset quality

## Historical excellent asset quality ratio

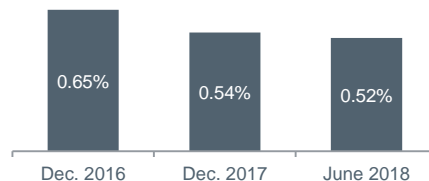


## RCB

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

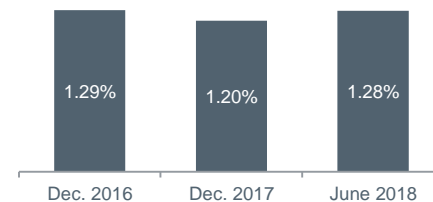


### Asset quality ratio, mortgages<sup>5</sup>



## PCB

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



### Asset quality ratio, Public & Social<sup>6</sup>



- Excellent asset quality ratio (2.20%), slightly deteriorating compared to January 1<sup>st</sup>, 2018 following some defaults in Corporate loans. As these were adequately covered by collateral, the coverage ratio slightly decreased to 61.4%
- Good credit quality lending also visible in Belfius' segments
  - improving AQR for RCB to 1.70%, also illustrated by the improving AQR in RCB mortgage loans to 0.52%
  - very low AQR for PCB (1.28%) and Public & Social sector loans (0.01%)

Notes: 1. The ratio between impaired loans and advances to customers and the gross outstanding loans and advances to customers; 2. The ratio between the stage 3 impairments and impaired loans and advances to customers; 3. 2016 was strongly impacted by a specific impairment related to an US RMBS that has been sold in 2017. Excluding this exposure, the asset quality ratio of December 2016 would have been 2.25% and the coverage ratio 58.4%; 4. The ratio between impaired loans and the commercial outstanding loans; 5. The ratio between impaired RCB mortgage loans and the commercial outstanding RCB mortgage loans; 6. The ratio between impaired Public & Social sector loans and the commercial outstanding Public & Social sector loans

Section 7

Appendices

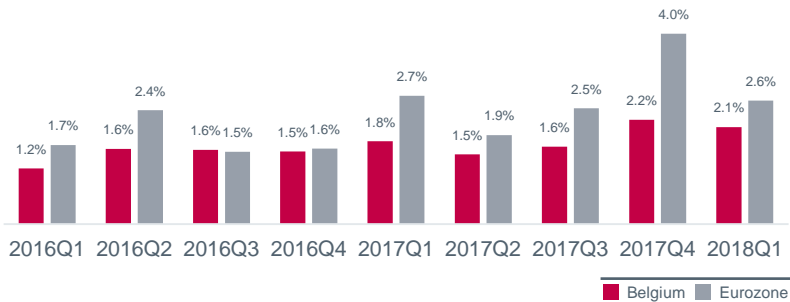


# Some Belgian economical statistics

## Stable GDP Growth

### GDP

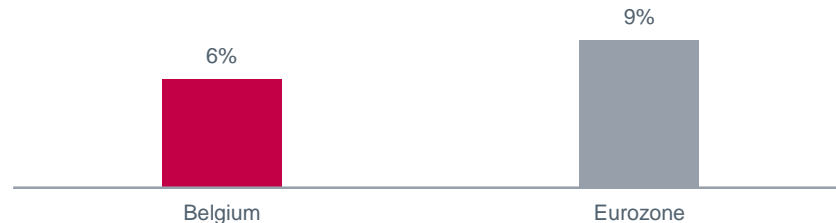
Market prices, chain-linked volumes, year-on-year



## Unemployment level below Eurozone average

### Unemployment rate

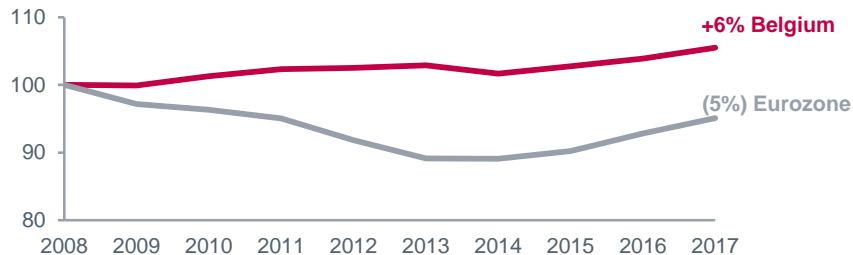
% of active population, Avg. Q3 2017 – Q2 2018



## House prices continued to grow through crisis

### Increase in real house prices since 2008

Rebased at 100 in 2008



## Continued growth in household debt

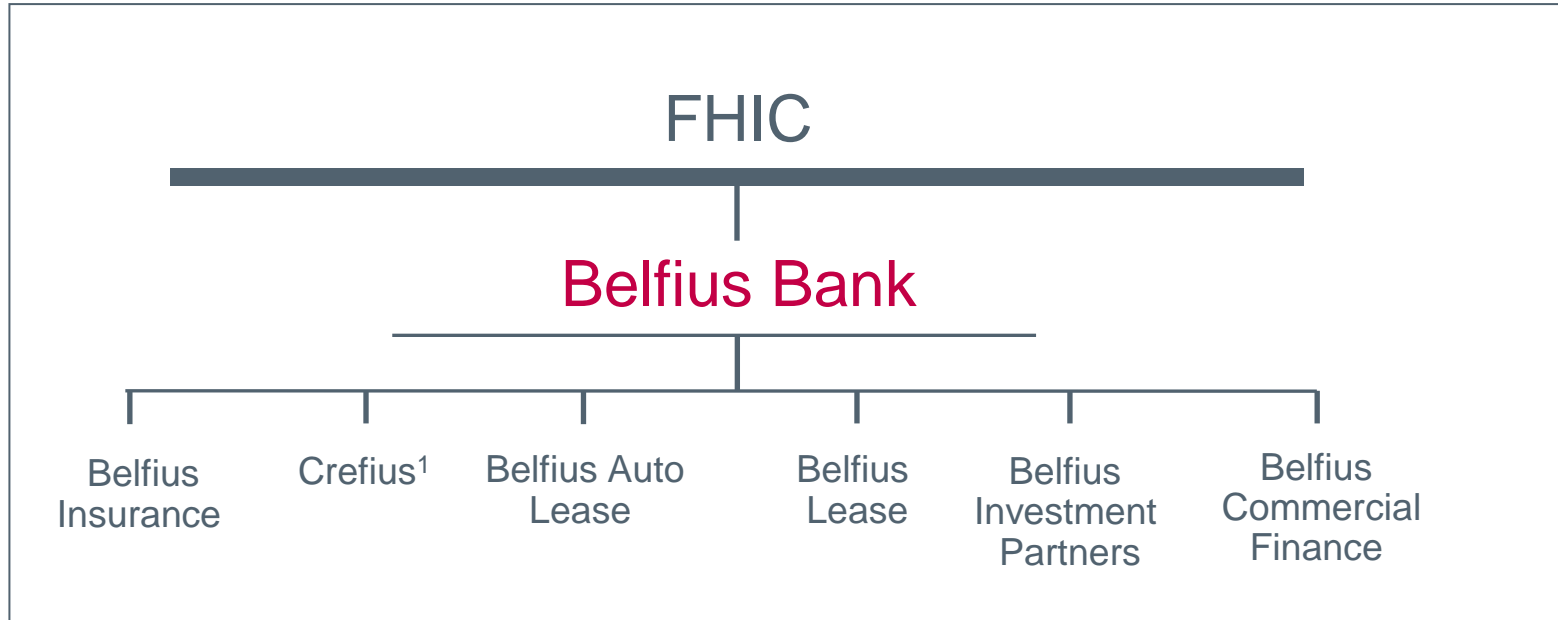
### Compounded growth rate in household debt

2008 – 2016, rebased at 100 in 2008



# 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 2017 (IAS39)				1H 2018 (IFRS 9)				Evolution
	RC	PC	GC	Total	RC	PC	GC	Total	%
<b>Income</b>	<b>872</b>	<b>293</b>	<b>-30</b>	<b>1,136</b>	<b>859</b>	<b>293</b>	<b>22</b>	<b>1,173</b>	<b>3%</b>
Net interest income bank	456	177	111	744	424	200	107	731	-2%
Fee and commission bank	243	25	-4	264	239	26	1	265	1%
Life insurance contribution	143	17	-10	150	153	38	-9	182	21%
Non-Life insurance contribution	82	16	-0	97	101	6	-0	106	9%
Other (1)	-51	59	-127	-119	-58	24	-77	-111	-7%
<b>Expenses</b>	<b>-499</b>	<b>-100</b>	<b>-62</b>	<b>-662</b>	<b>-509</b>	<b>-113</b>	<b>-68</b>	<b>-690</b>	<b>4%</b>
<b>Gross income</b>	<b>373</b>	<b>193</b>	<b>-92</b>	<b>474</b>	<b>350</b>	<b>180</b>	<b>-47</b>	<b>483</b>	<b>2%</b>
Cost of risk	-19	-11	5	-24	-16	-13	20	-9	-62%
Impairments	-4	-1	-0	-5	-1	-0	0	-1	-86%
<b>Net Income before tax</b>	<b>351</b>	<b>181</b>	<b>-87</b>	<b>445</b>	<b>333</b>	<b>166</b>	<b>-26</b>	<b>473</b>	<b>6%</b>
Taxes	-106	-59	81	-84	-92	-40	-7	-138	65%
<b>Net income</b>	<b>245</b>	<b>122</b>	<b>-6</b>	<b>361</b>	<b>241</b>	<b>127</b>	<b>-33</b>	<b>335</b>	<b>-7%</b>
o/w bank	138	110	(13)	235	118	108	(40)	185	-21%
o/w insurance	107	12	7	126	123	19	7	149	18%

# Consolidated statement of income Belfius Insurance

Belfius Insurance

EUR m	1H 2017 (IAS 39)	1H 2018 (IFRS9)	Evolution
<b>Income</b>	<b>272</b>	<b>297</b>	<b>9%</b>
Net technical income	-108	-20	-81%
Financial income	371	305	-18%
Other income	9	12	33%
<b>Expenses</b>	<b>-108</b>	<b>-114</b>	<b>6%</b>
<b>Gross income</b>	<b>164</b>	<b>183</b>	<b>12%</b>
Cost of risk	13	4	-69%
<b>Net income before tax</b>	<b>177</b>	<b>187</b>	<b>6%</b>
Taxes	-43	-49	14%
<b>Net income</b>	<b>134</b>	<b>138</b>	<b>3%</b>
Non-controlling interests	-	-	
<b>Net income group share</b>	<b>134</b>	<b>138</b>	<b>3%</b>
of which contribution to consolidated results Belfius Bank	126	149	18%

# Consolidated balance sheet

Belfius Bank Conso

EUR m	01/01/2018 <sup>(1)</sup> (IFRS 9)	30/06/2018 <sup>(2)</sup> (IFRS 9)
<b>TOTAL ASSETS</b>	<b>167,218</b>	<b>166,951</b>
of which		
Cash and balances with central banks	10,237	11,168
Loans and advances due from credit institutions	13,802	13,174
Loans and advances	85,406	87,558
Debt securities & equity instruments	30,776	28,880
Unit linked products insurance activities	2,598	2,824
Derivatives	16,415	14,995
<b>TOTAL LIABILITIES</b>	<b>157,772</b>	<b>157,063</b>
of which		
Cash and balances from central banks	3,979	3,971
Credit institutions borrowings and deposits	7,131	7,252
Borrowings and deposits	76,328	78,125
Debt securities issued and other financial liabilities	28,269	27,040
Unit linked products insurance activities	2,598	2,824
Derivatives	21,196	19,834
<b>TOTAL EQUITY</b>	<b>9,444</b>	<b>9,888</b>
of which		
Shareholders' core equity	8,788	8,832
Gains and losses not recognised in the statement of income	657	544
Additional Tier-1 instruments included in equity	0	497
Non-controlling interests	0	15

Notes: 1. IFRS 9 - opening balance sheet: for more information, see the transition tables from IAS 39 to IFRS 9 in the Condensed consolidated interim financial statement; 2. 30/06/2018: based on management reporting, unaudited



# Consolidated balance sheet Belfius Insurance

Belfius Insurance

EUR m	01.01.2018 IFRS9	June 2018 IFRS9	Evolution
<b>Total assets</b>	<b>21,467</b>	<b>20,932</b>	<b>-535</b>
of which			
Loans and advances due from banks	374	297	-77
Financial investments	13,265	12,619	-646
Financial assets measured at fair value through profit and loss	2,598	2,824	226
Mortgage and other loans	3,975	3,951	-24
Investment property	424	465	41
Other assets specific to insurance companies	451	465	14
<b>Total liabilities</b>	<b>19,576</b>	<b>19,095</b>	<b>-481</b>
of which			
Due to banks	1,032	585	-447
Technical provisions for insurance companies	14,594	14,334	-260
Financial liabilities measured at fair value through profit and loss	2,598	2,824	226
Other liabilities specific to insurance companies	346	360	14
<b>Total equity</b>	<b>1,891</b>	<b>1,837</b>	<b>-54</b>
of which			
Core shareholders' equity	1,412	1,430	18
Gains and losses not recognized in the statement of income	479	378	-101
Non-controlling interests	-	15	15
Discretionary Participation Feature	-	14	14



# Focus on regulatory capital

EUR m	Fully Loaded		
	Dec. 2017	01.01.2018	June 2018
<b>Core shareholders' equity</b>	<b>9,088</b>	<b>8,794</b>	<b>8,832</b>
Elimination of Belfius Insurance <sup>1</sup>	-49	-61	-107
<b>Core regulatory equity</b>	<b>9,039</b>	<b>8,733</b>	<b>8,725</b>
Elimination of foreseeable dividend	-288	-288	-171
<b>Gains and losses not recognised in the statement of income</b>	<b>-325</b>	<b>196</b>	<b>175</b>
Remeasurement Defined Benefit Plan	112	112	114
AFS reserve	-437	84	61
Transitory measures & filter on govies	-	-	-
<b>Items to deduct</b>	<b>-389</b>	<b>-388</b>	<b>-388</b>
Deferred tax assets	-0	-	-
Transitory measures	-	-	-
Other	-389	-388	-388
<b>Common equity Tier 1 - CET 1</b>	<b>8,037</b>	<b>8,253</b>	<b>8,341</b>
Additional own funds TIER 1			497
<b>Tier 1 equity</b>		<b>8,253</b>	<b>8,838</b>
Tier 2 - Capital instruments	939	939	1,131
Other	158	158	264
<b>Total regulatory capital</b>	<b>9,134</b>	<b>9,350</b>	<b>10,232</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 participation after deduction of goodwill. This is commonly known as "Danish compromise"

# Focus on regulatory risk exposures

## Regulatory risks exposures - by type of risk

EUR m	Dec. 2017	01.01.2018	June 2018
Market risk	1,841	1,841	2,322
Operational risk	2,932	2,932	2,932
Credit risk	39,078	39,438	39,181
Danish compromise <sup>1</sup>	6,769	6,828	6,783
<b>Total Regulatory Risks Exposures</b>	<b>50,620</b>	<b>51,039</b>	<b>51,218</b>

## Regulatory risks exposures - by segment

EUR m	Dec. 2017	June 2018
Retail and Commercial	17,476	18,568
Public and Corporate	16,805	17,763
Group Center	16,339	14,887
<b>Total Regulatory Risks Exposures</b>	<b>50,620</b>	<b>51,218</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 participation after deduction of goodwill. This is commonly known as "Danish compromise"

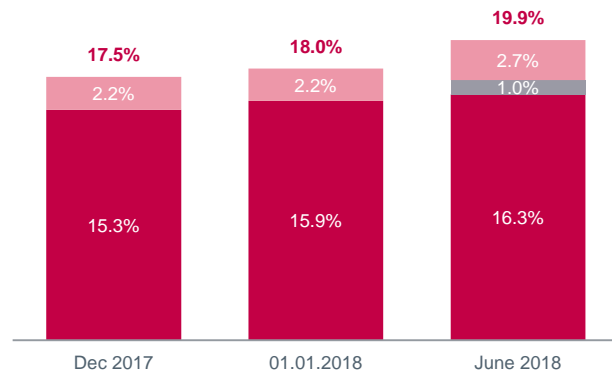




# Focus on solo capital ratios

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

- CET1
- Add. Tier 1
- Tier 2

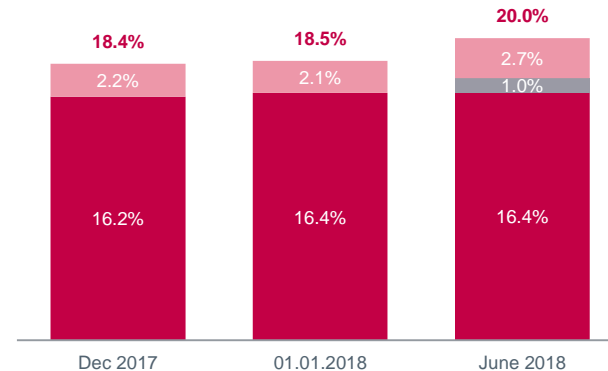


EURm

CET1	7,596	8,092	8,447
Tier 1	7,596	8,092	8,944
CAD	8,688	9,184	10,318
RWA	49,716	50,946	51,810

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

- CET1
- Add. Tier 1
- Tier 2



EURm

CET1	8,030	8,355	8,512
Tier 1	8,030	8,355	9,009
CAD	9,122	9,447	10,383
RWA	49,716	50,946	51,810

Notes: 1. Solo ratios as communicated to the regulator



## Belfius' ST & MLT funding overview

	Outstanding 1H 2018	Issuer	Listing
<b>Belfius Euro Commercial Paper Programme</b> (Institutional)	EUR 0.7bn	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 5.5bn	Belfius Bank	Euronext Brussels
<b>Belfius Public Pandbrieven Programme</b> (Institutional)	EUR 2.4bn	Belfius Bank	Euronext Brussels
<b>EMTN Programme</b> (Institutional)	EUR 3.8bn	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 8.4bn	Belfius Bank, and Belfius Financing Company with guarantee of Belfius Bank	Not listed

# Continued positive rating actions

Ratings of Belfius Bank as at 9 August 2018

	Moody's <i>last action on</i> 29/03/2017	S&P <i>last action on</i> 10/11/2016	Fitch <i>last action on</i> 07/12/2017
Senior	A2 Positive outlook	A- Stable outlook	A- Stable outlook
Standalone Rating	baa2	bbb+	a-
Non-Preferred Senior	Baa3	BBB	
Tier 2	Baa3	BBB-	BBB+
Additional Tier 1	Ba2	BB	

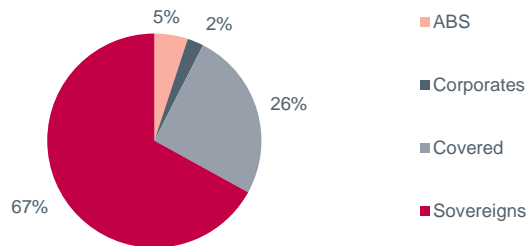
## Latest rating actions

- In January 2016, Moody's upgraded Belfius' stand-alone Baseline Credit Assessment (BCA) to baa3 and its LT-rating to A3
- In April 2016, Fitch upgraded Belfius' stand-alone Viability Rating (VR) to a- and its LT-rating to A-
- In November 2016, S&P revised Belfius' outlook from negative to stable and confirmed its ratings
- In March 2017, Moody's upgraded Belfius' stand-alone Baseline Credit Assessment (BCA) to baa2 and its LT-rating to A2. The ST-rating has been upgraded from Prime-2 to Prime-1. The outlook has changed from stable to positive
- In October 2017, S&P replaced the transitional notch with a notch for ALAC support as they believe Belfius will sustain its current capitalization and bail-in-able debt levels, hence affirming Belfius' ratings
- In December 2017, Fitch affirmed Belfius' rating of A-

# ALM Bank Liquidity bond portfolio

## Breakdown by type of counterpart

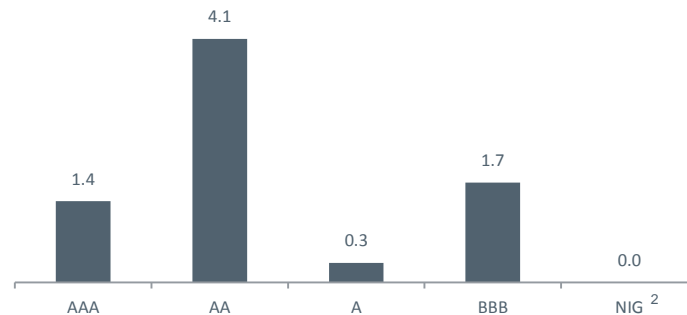
EUR 7.5bn  
30 June 2018



## Breakdown by rating

EUR bn

Average rating: BBB+

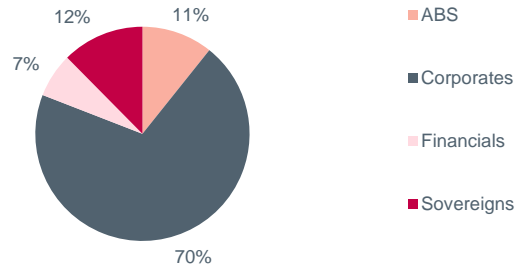


- ALM Bank Liquidity bond portfolio stood at EUR 7.5bn<sup>1</sup> as at 30 June 2018, compared to EUR 8.1bn as at year-end 2017. The decrease is mainly due to the sale of Italian sovereign bonds (EUR 0.8 billion) in January 2018 partially compensated by a reinvestment program of EUR in LCR eligible bonds.
- The portfolio is of good quality
  - 100% of the portfolio is Investment Grade
  - The average rating stood at BBB+
- Expected average Life: 8.9 years

# ALM Bank Yield bond portfolio

## Breakdown by type of counterpart

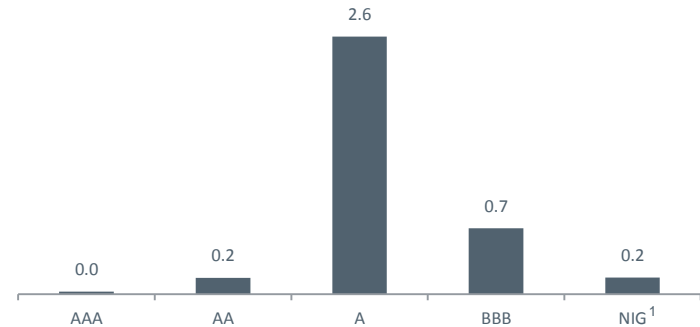
EUR 3.6bn  
30 June 2018



## Breakdown by rating

EUR bn

Average rating: A

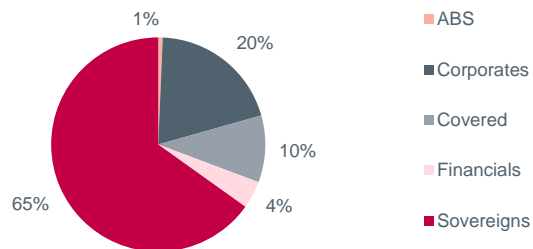


- ALM Bank Yield bond portfolio stood at EUR 3.6bn as at 30 June 2018, stable compared to year-end 2017, mainly due the natural amortization of the portfolio
- The portfolio is of good quality
  - 95% of the portfolio is Investment Grade
  - The average rating stood at A
- Expected average Life: 20.5 years

# ALM Insurance Bond portfolio

## Breakdown by type of counterpart

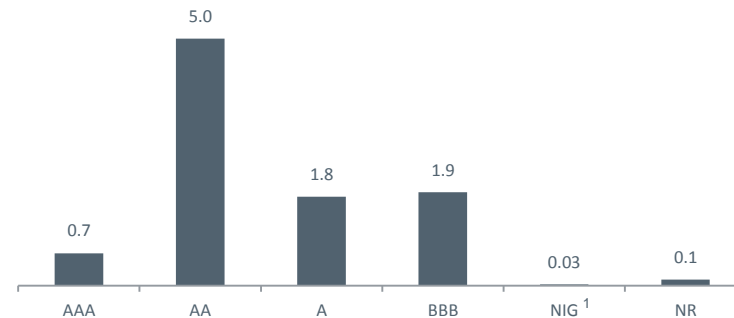
EUR 9.5bn  
30 June 2018



## Breakdown by rating

EUR bn

Average rating: BBB+

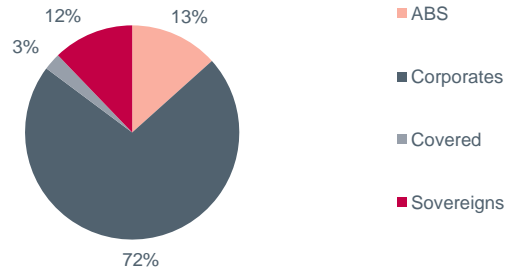


- ALM Insurance fixed income portfolio stood at EUR 9.5bn as at 30 June 2018, compared to EUR 9.6bn at year-end 2017
- The ALM Insurance portfolio remains of good quality
  - 98% of the portfolio is investment grade
  - The average rating at BBB+
- Expected average Life: 8.9 years

# Credit guarantees

## Breakdown by type of counterpart

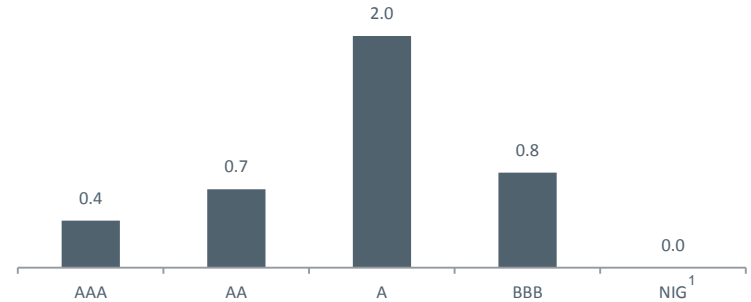
EUR 3.8bn  
30 June 2018



## Breakdown by rating

EUR bn

Average rating: A-



- Credit guarantees portfolio stood at EUR 3.8bn as at 30 June 2018, compared to EUR 3.9bn at year-end 2017, mainly due to amortizations
- The credit guarantees portfolio is of good quality
  - 100% of the portfolio is Investment Grade
  - The average rating stood at A -
- Expected average Life: 10.1 years

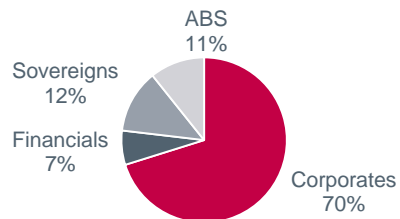
# Hedging strategy to manage residual risks

## Run-off portfolios as of June 2018

### ALM Yield bond portfolio

- 38% 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

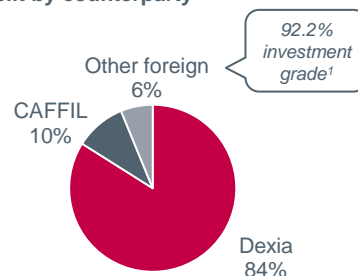
### Notional split by type



### Derivatives

- 84% notional exposure to Dexia, fully cash collateralised, leading to an EaD (including add-on) of EUR 65 million end of June 2018
- Derivatives with other foreign counterparts and with CAFFIL are uncollateralised (A- average rating)

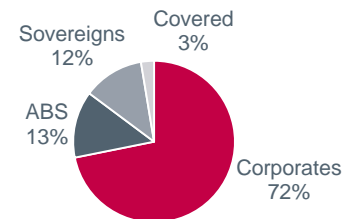
### Notional split by counterparty



### Credit guarantees

- Mostly reinsured CDS with
  - sold protection to market counterparties with two-sided collateral posting agreement
  - bought equivalent protection with monoline insurers (27% from Assured Guaranty) with one-sided collateral posting agreement

### Notional split by type of underlying

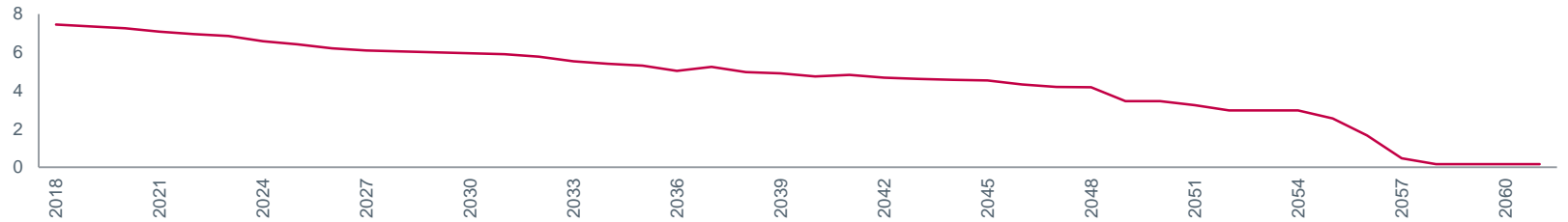




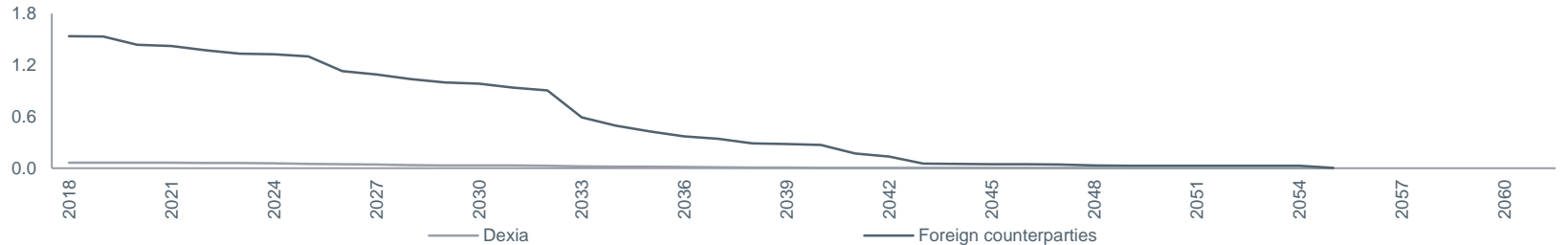
# Progressive run-off of GC run-off portfolios in the coming years

Run-off portfolios evolution – EaD; EUR bn

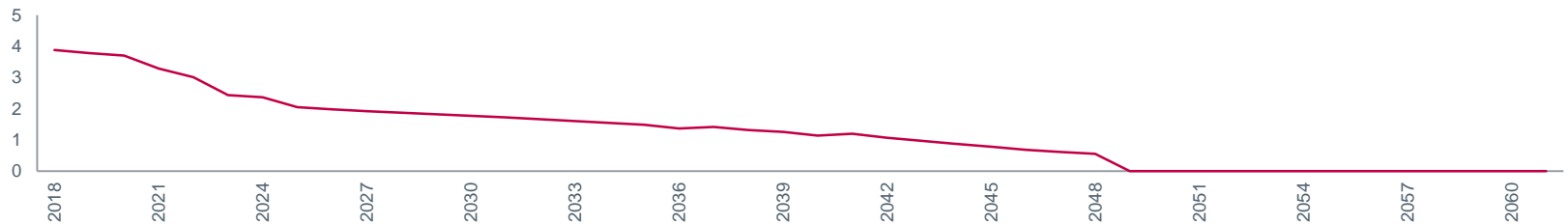
ALM Yield bond portfolio



Derivatives



Credit guarantees



Note: Based on current markets

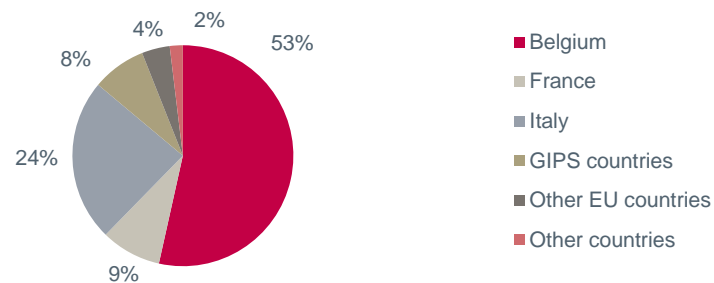


# Outstanding exposures on government bonds

## Evolution<sup>1</sup>

EUR m	Dec. 2017	June 2018
Belgium	7,199	5,208
France	796	860
Italy	3,733	2,314
GIPS countries	535	769
Other EU countries	393	400
Other countries	204	186
<b>Total<sup>1</sup></b>	<b>12,860</b>	<b>9,737</b>

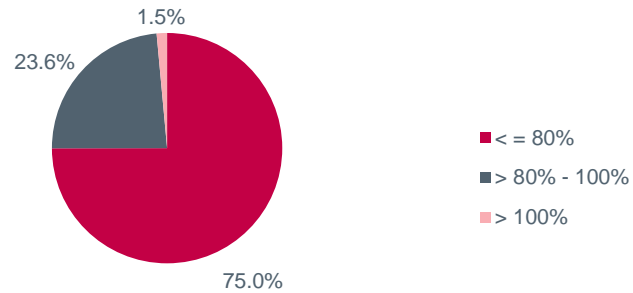
## Breakdown as of end of June 2018



- Total government bond portfolio stood at EUR 9.7bn<sup>1</sup>, down EUR 3.1bn compared to December 2017
  - The decrease in the Belgian sovereign exposure is both due to sales of some government bonds at Belfius Insurance as well as the implementation of IFRS9 whereby the majority of the bonds within the banking group are defined as held to collect and thus no longer measured at fair value but at amortized cost
  - The decrease in the Italian sovereign exposure is mainly due to the sale of some Italian government bonds in 1Q 2018
- More than half of the portfolio (53%) remains invested in Belgian government bonds

# Credit risk statistics on mortgage loans

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

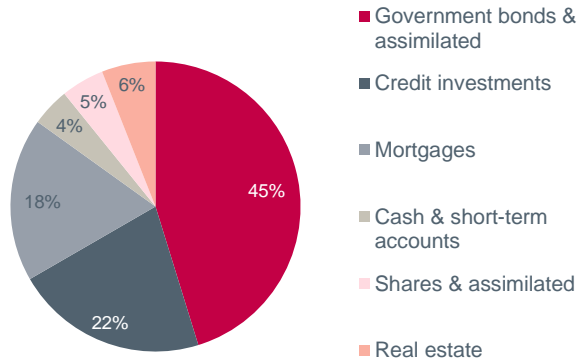


- Very sound LTV-ratio's
  - Average LTV-ratio, based on outstandings (with indexation of real estate prices) stood at 57.91% at end of June 2018
  - The part of the portfolio with an LTV > 100% is only 1.5 %

# ALM Belfius Insurance

## Diversified asset allocation

30 June 2018

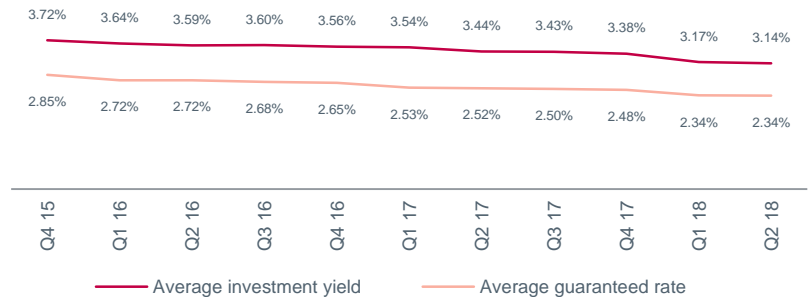


- Prudent investment strategy of the asset portfolio with a well-diversified asset allocation
- Efficient insurer on the Belgian market enjoying high customer satisfaction

## Duration Gap Life and Non-Life

	Dec. 2017	June 2018
Total Life	-1.28	-0.97
Total Non-Life	-0.04	0.44
<b>Total</b>	<b>-0.91</b>	<b>-0.57</b>

## Investment yield vs. guaranteed rate



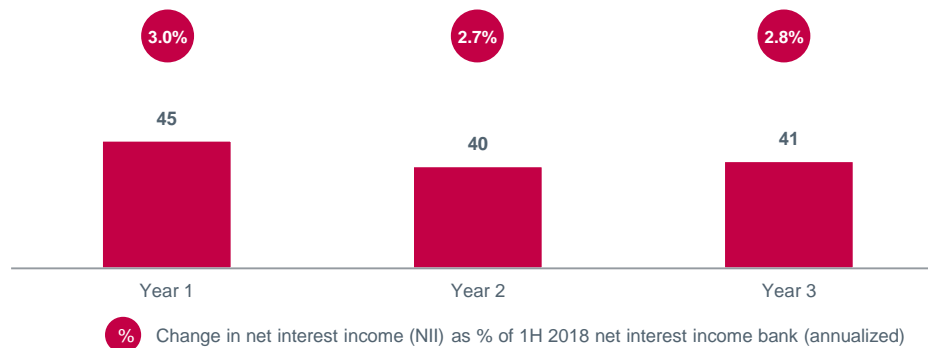
# Solvency II ratio sensitivity table

Solvency II Sensitivities 1H 2018	Δ SCR (in EUR m)	Δ AFR (in EUR m)	Δ Solvency II ratio (in %)
<b>Base Case</b>	<b>1,149</b>	<b>2,418</b>	<b>210%</b>
<b>Credit spread:</b> Spread on fixed income (government and corporate) +50bps	<b>111</b> <i>10%</i>	<b>(208)</b> <i>(9%)</i>	<b>175%</b> <i>(35%)</i>
<b>Equity:</b> Downward shock - 30%	<b>(144)</b> <i>(13%)</i>	<b>(383)</b> <i>(16%)</i>	<b>202%</b> <i>(8%)</i>
<b>Real estate:</b> Downward shock -15%	<b>22</b> <i>2%</i>	<b>(63)</b> <i>(3%)</i>	<b>201%</b> <i>(9%)</i>
<b>UFR:</b> Downward adjustment to 3%	<b>20</b> <i>2%</i>	<b>(37)</b> <i>(2%)</i>	<b>204%</b> <i>(7%)</i>
<b>Interest rate:</b> Shock -25bps	<b>23</b> <i>2%</i>	<b>(14)</b> <i>(1%)</i>	<b>205%</b> <i>(5%)</i>
<b>Credit Spread:</b> No Volatility Adjuster	<b>44</b> <i>4%</i>	<b>(79)</b> <i>(3%)</i>	<b>196%</b> <i>(14%)</i>

# Belfius sensitivity to rising rates

Bank

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



- Belfius benefits from rising rates with net interest income increasing 3% within one year in case of a +50bps parallel shift in rate curve
- The bank benefits from limited transfer of interest rates to customers while the loan book is rolled over at higher rates
- Should rates rise sharply, rates on non-maturing deposits could increase at a faster pace than historical observations.

Notes: NII sensitivity analysis assumes a constant Belfius' balance sheet as of 30 June 2018



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