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THE STRENGTH OF A CONSISTENT LONG-TERM STRATEGY

For the sixth consecutive year, Belfius posted increased profits in 2017. Net income after tax for 2017 rose by 13% to EUR 606 million, enabling a dividend to be paid of EUR 363 million for the financial year. This strong performance, achieved against a background of persisting low rates, is the fruit of an increase of operational income, disciplined cost control and particularly efficient financial and risk management.

Thanks to a pertinent strategy aligned to the long term, its Belgian foothold and its financial solidity, Belfius is now among the best capitalised bank-insurers in Europe. With a distinctive and integrated business model, year after year Belfius achieves solid net results, attracts new customers every day, occupies a leading position in the digital domain, and constantly increases its added value for the Belgian economy.

- **In 2017, net pre-tax income rose by 23% to EUR 963 million.** After taxes, this represents 13% growth to EUR 606 million.
- The **Cost-Income ratio** was 58.1%, a further improvement by 2.4%.
- **EUR 15.4 billion of new long-term loans (+ 3%)** was granted to the Belgian economy. The grant of long-term loans was up 12% for **Corporate customers** and 14% for **Business customers**.
- Outstanding in **current accounts and savings accounts** held by Retail customers **rose by 5% to EUR 53 billion**. Outstanding in **fund investments increased by 11% to EUR 26 billion** for the same customer segment.
- The position held by Belfius as a **bank-insurer** consolidates year after year. Overall **receipts of Non-Life premiums** increased by **6% to reach EUR 674 million**. Receipts for banking channels largely **outperformed the market** by increasing 13 % to EUR 189 million.
- **Customer satisfaction** continued to increase, reaching **95.87%**, once more exceeding the target of 95% satisfied customers.
- **At 15.9%, the CET 1 Basel III (Fully Loaded) solvency ratio remained** at an excellent level.
- Compared to the end of 2016, Belfius **total equity capital increased** again by EUR 0.5 billion and amounts to **EUR 9.5 billion**. **This has practically trebled** since the purchase of Belfius by the Belgian authorities at the end of 2011.

THE STRONGEST PROFITS GROWTH ON AN ANNUAL BASIS SINCE BELFIUS WAS CREATED

Belfius net consolidated pre-tax income was EUR 963 million (+ 23%). After deduction of taxes, **net income is EUR 606 million (+ 13%)**. Not taking account of the unique impact of the revaluation of deferred corporate taxes due to new legislation, net income would be EUR 711 million (+ 33%).

The strategic approach adopted by Belfius consists of focussing essentially on the evolution of **operational income** that amounted to EUR 615 million (+ 12%). Belfius Bank contributed EUR 400 million (+ 13%) and Belfius Insurance EUR 215 million (+ 9%).

At EUR 2.355 billion, **total earnings** were up 4% on the previous year.

By virtue of an efficient commercial, balance sheet and liquidity policy, despite the persisting low level of interest rates, Belfius Bank succeeded in preserving its interest margin with an increase of **net interest income** by 5% to EUR 1,482 million. At the same time, the bank's **net fee and commission income** rose by 7% to EUR 534 million.

On the side of Belfius Insurance, **Life and Non-Life activities generated earnings** of EUR 268 million and EUR 200 million respectively.

Other income amounted to EUR -129 million. These were essentially impacted by sector levies of EUR -198 million, an amount partially offset by a more favourable environment on the financial markets and the ability of Belfius to take advantage of the general trend of standardisation of derivatives contracts.

Despite investments in digitalisation in an amount of more than EUR 130 million in 2017, costs remained stable compared to the previous year, at EUR 1,369 million. The increase of income enabled Belfius to achieve a **Cost-Income ratio** of **58.1%**, another improvement compared to 2016.

Cost of risk in operational banking activities was EUR -72 million. This low level is sustained by outstanding risk management, favourable market circumstances and the good quality of loan production and portfolios. Over all activities, cost of risk reached EUR -24 million. This exceptional result is explained in particular by the favourable economic environment from which Belfius has been able to take advantage for the remnants of the programme to reduce tactical risk.

INCREASED CUSTOMER SATISFACTION ENABLED BELFIUS TO INCREASE THE AVERAGE EQUIPMENT LEVEL

Customer satisfaction is a strategic priority for Belfius. In addition to that, it is the foundation of its solid results and the feeling of confidence it increasingly inspires, year after year, in its customers as a bank-insurer. This strategy also reflects an in-depth change of internal culture. Each cost and investment is in fact examined in view of its true added value for the customer. The increase of satisfaction, combined with the sale of Non-Life insurances through banking channels, allowed an increase of the **average equipment level** per Retail customer in 2017, and this contributed to the increase of commercial results.

In 2017, Belfius obtained a **global satisfaction score of 95.87%**, once again exceeding its strategic ambition of 95% of satisfied customers. The score was 94.8% among individual customers and 98% among Public, Social and Corporate customers.



RETAIL AND BUSINESS CUSTOMERS: ANOTHER EXCEPTIONAL YEAR FOR LOANS AND INVESTMENTS

■ Third consecutive exceptional year for mortgage loans

In 2017, **EUR 9.5 billion (+3%) in new long-term loans was granted to Retail and Business customers.**

In the **Retail segment**, that funding was essentially in the form of mortgage loans. Whilst 2015 and 2016 had already been exceptional years in this field, in 2017 Belfius succeeded, with production of **EUR 5.5 billion in mortgage loans**, to maintain that excellent level, taking its market share at a group level up by some 15.7%. The same applies to consumer loan production of EUR 0.7 billion, at the same level as the previous year.

■ Long-term loans to Business customers rose by 14%

For the **Business segment**, Belfius market share in long-term loans was some 13.5%, and the production of new long-term loans rose in 2017 to **EUR 3.3 billion (+ 14%)**.

In the **start-ups** segment, Belfius offers an extensive package of assistance and services. By virtue of the guarantees granted by the European Investment Fund (EIF), the bank can offer innovative start-up companies some additional advantages in relation to the grant of loans. What is more, in 2017 Belfius concluded an agreement with the start-ups and scale-ups accelerator "The Birdhouse" aimed at investing intensively each year in a programme intended for start-ups. It is reflected by the grant of favourable loan conditions to the more promising start-ups and investment capital to the best performing. Similar agreements have been concluded with W.IN.G (Wallonia Innovation and Growth) and Wikipreneur. In 2017, Belfius assisted **12,466 new start-ups**, an increase of 7% on 2016.

■ Savings and investment: investments in funds have grown sharply by 11%, as have investments via mandates and service contracts (+ 10%)

Although the total volume of savings and current accounts rose by 5% to EUR 53 billion, and recurrent investments by 38%, **investments in funds** also increased by EUR 2.6 billion net to EUR 26 billion (+ 11%). In 2017, outstanding in **savings and investments** by Retail and Business customers amounted to EUR 106 billion (+ 3%).

EUR 36.6 billion (+ 7%) came from the investments of 110,000 Private customers, who called on more than 251 local Private Bankers with a certification. This underlines the position held by Belfius as a first-class **private bank**. The amount of investments entrusted to Belfius via mandates and service contracts rose by 10% in 2017 to reach EUR 11.2 billion.

■ More than one million app users. Belfius continues to set the pace in the field of mobile banking in Belgium

Belfius continues to set the pace in mobile banking in Belgium. At the end of 2017, **Belfius apps** for smartphones and tablets had **1,071,000 users** (+ 26%) and were consulted by customers on average once a day. The **extremely high satisfaction figures** show that continuous innovation, focused on user-friendliness and utility for the customer is profitable.

Belfius is constantly improving the **functionalities of its apps**. In 2017, it also introduced contactless payment at the till via an Android smartphone and, in collaboration with its innovative subsidiary "The Studio", developed "Pengo", which enables payment requests to be generated and sent via messaging platforms. Furthermore, within the framework of the PSD2 directive, Belfius intends this year to be among the first banks to take on the management of other accounts and the execution of payment transactions of those accounts via Belfius Mobile. A chatbot has also been added to the direct sale and advice channel (Belfius Connect) in order to deal with questions in relation to credit cards. It is not a coincidence that 31% of new credit cards, 41% of new pension-savings contracts and 29% of new savings accounts are purchased via direct channels.



THE STRATEGIC ALIGNMENT OF BELFIUS BANK AND BELFIUS INSURANCE PAYS OFF

The strengthening of **strategic and structural alignment** undertaken last year between Belfius Bank and Belfius Insurance is bearing fruit. It facilitates even more robust growth of Life and Non-Life insurance products and a framework favourable to the launch of an innovative range of insurance-Branch 23/Branch 44 investment products. It also allows a digital offer of a range of even better performing banking and insurance products as well as an integrated and tailored experience for banking and insurance customers. In addition, in October, Belfius and Touring concluded a strategic partnership to serve customers even better in the field of assistance insurances and to develop innovative solutions in the field of mobility.

As for the growth of **Non-Life premium receipts**, Belfius has once more largely exceeded the market average. At a group level, Non-Life premium receipts rose 6% compared with 2016 and amounted to EUR 674 million. Premium receipts rose by 13% to EUR 189 million for banking channels. Cross-selling ratios are excellent, both for fire and family insurances (85%) and outstanding balance insurances (144%). The combined operating ratio for damage insurances via banking channels is 95%, a profitable level.

With regard to **Life insurances**, Branch 23 reserves increased sharply by 18% to EUR 2.5 billion compared to the previous year. This rise partially offsets the fall in reserves for Branch 21, an insurance investment product which, against the background of low rates, attracts increasingly fewer customers. Total Life reserves fell slightly to EUR 15.4 billion.

STRONG GROWTH OF LOANS GRANTED TO CORPORATE CUSTOMERS. UNCONTESTED LEADERSHIP IN THE PUBLIC AND SOCIAL SECTOR

■ Exceptional performances in the field of long-term loans

In 2017, out of a total of EUR 15.4 billion, Belfius granted **EUR 5.9 billion** (+ 3%) of new long-term loans in the Belgian economy for Corporate customers and the public sector. Long-term loan production for Corporate customers increased by 12% to EUR 3.8 billion. Belfius is thus one of the four largest Belgian banks, with an estimated market share in terms of assets up from 9% to 12.2% between the end of 2015 and the end of 2017. This exceptional increase is a.o. the result of our growth ambition over this segment, the use of additional resources and a pertinent and clear positioning as a “Business to Government” market specialist.

Despite poor market demand in 2017, Belfius granted **EUR 2.1 billion** in new long-term funding to the public sector. The bank is and remains uncontested market leader, and replies to every funding tender from public sector entities under conditions that are sustainable for itself. It manages the treasury of practically all local authorities and was attributed 73% of loan files in 2017. Moreover, in December, Belfius was once again chosen as the exclusive cashier of the Brussels-Capital Region, a role which the bank has played constantly since 1991.

■ EUR 5.4 billion in DCM issues

Belfius also confirmed its position as leader in **Debt Capital Markets (DCM) issues** for (semi-)public and Corporate customers by taking part in 86% and 58% respectively of available mandates on the Belgian market. In 2017, the bank issued **EUR 5.4 billion** in innovative means of funding in the form of short-term issues (average outstanding on Commercial Papers) and long-term issues (Medium Term Notes and bonds).

For the fifth consecutive year, Euronext crowned Belfius “**No. 1 Bond Finance House of the Year**”. This prestigious award again confirms the strategic role played by the bank in bond issues for Belgian issuers.

By virtue of the **strategic partnership** which Belfius concluded at the end of last year with **Kepler Cheuvreux**, the largest independent stock broker in Europe, Belfius can gain the same leading position in Belgium as currently in DCM and further strengthen its offer of services for Corporate and Wealth Management customers. Together, the two companies guarantee a high-quality offer in the field of Equity Capital Markets (ECM transactions), equity research, institutional sales and brokerage.



■ Smart Belgium: a new ecosystem for a more sustainable and smarter society

With the project “Smart Belgium”, Belfius not only performs its task of supporting all pillars of the Belgian economy, but it is also building a sustainable and “smarter” society in collaboration with the public and social sector, businesses and the academic world. In November, the company **Smart Belgium Services** was created to provide advice on the design and implementation of their “Smart” strategy to all the operators involved in the development of “Smart Cities” in Belgium. For the funding of these projects, participants may make use of advantageous loans within the framework of a cooperation agreement which Belfius concluded with the European Investment Bank (EIB) in 2014. More than EUR 660 million in loans has already been granted to more than 100 projects.

BELFIUS REMAINS ONE OF THE BEST CAPITALISED BANK-INSURERS IN EUROPE

The robust position held by Belfius in terms of **liquidity and solvency** arises from a successful strategy of funding diversification, efficient cost and risk management and sustainable commercial performances.

The CET 1 Basel III (Fully Loaded) ratio was **15.9%** and remains at an excellent level. **The Solvency II ratio** of Belfius Insurance was 219%, one of the highest in Europe. Risk-Weighted Assets increased by 8% to EUR 50.6 billion, particularly by virtue of the strong increase of operating activities.

With an **LCR ratio of 130%**, Belfius broadly meets the liquidity requirements imposed by the ECB and the NBB. The NSFR ratio improved further to 116%.

Compared to the end of 2016, **Belfius total equity capital** rose again by EUR 0.5 billion to EUR 9.5 billion. This has practically trebled since Belfius was purchased by the Belgian authorities in 2011.



CONCLUSION

As a result of increased operating earnings, intense cost control and efficient financial and risk management, the excellent net result for 2017 confirms the sustainable profitability of Belfius, a fortiori against the background of a persistently difficult rate environment.

Making a maximum contribution to the Belgian economy and offering customers the best in terms of service and experience: this is what motivates Belfius ambition to increase its results each year. In addition to the sound financial and risk profile which constantly drives Belfius through diversification and the increase of its operating earnings as well as its efficiency, the long-term strategy of Belfius relies on:

- an integrated bank-insurance model, which offers possibilities of one-stop shopping for all its customer's banking and insurance requirements and constitutes an important level for diversification and future earnings growth,
- a footing in all segments of the Belgian economy which enables Belfius to reinvest savings in the grant of loans and fully to exploit the synergies which exist between customer segments, products and business lines, in order to diversify risks, increase income and control costs,
- the priority given to customer satisfaction, the best guarantee of a rising percentage of recommendation and equipment, and of increased added value for all stakeholders,
- local and easily accessible touch points and decision-taking centres within the framework of an integrated omni-channel distribution strategy,
- a distinctive "human-digital" customer approach which harmoniously combines digital leadership, accompanied by its user-friendly and high-performance applications and digital channels, with first-class relationship management, thanks to its commercial personnel.
- a commitment to society, with Belfius as pioneer of a new banking culture and promoter of initiatives which contribute to the quality of society.

Belfius is convinced that this long-term strategy offers the best guarantee of a robust growth of operating results and sustainable added value for all stakeholders.

Jos Clijsters, Chairman of the Board of Directors: *"Thanks to the constant increase of operating income, cost control and efficient financial and risk management, in 2017 Belfius again showed its capacity to improve its results each year. Whilst maintaining our excellent financial and risk profile, the extremely good results for 2017 consequently offer the Board of Directors the opportunity to propose to the Shareholders' Meeting for the year 2017 that a dividend is paid of EUR 363 million, corresponding to a payout ratio of 60%. Out of that amount, an interim dividend of EUR 75 million was already paid in September last year."*

Marc Raisière, CEO: *"In 2017, Belfius achieved its strongest profits growth on an annual basis since its creation and our net pre-tax income brushed the symbolic limit of one billion euros. Despite a persisting low rate environment, our net interest income increased, but also and even more so our net fee and commission income. At the same time, we granted EUR 15.4 billion in long-term funding, or 3% more, to the Belgian economy. The reasons are clear: the pertinence of our long-term strategy, our imperturbable focussing on operational efficiency and the constant increase and diversification of our operating income, and increasing customer satisfaction. We can rightly be proud of our excellent results. For all that, we must not our guard slip in the face of future challenges in our sector. I would like to thank all of our customers for their confidence and warmly to congratulate our staff members at head office and in the networks as well as our independent agents and their staff for their contribution to our excellent results in 2017."*



KEY FIGURES⁽¹⁾

CONSOLIDATED STATEMENT OF INCOME

(in millions of EUR)

	2016	2017
INCOME	2,259	2,355
EXPENSES	(1,366)	(1,369)
GROSS OPERATING INCOME	893	986
Cost of risk	(116)	(33)
Impairments on (in)tangible assets	3	9
NET INCOME BEFORE TAX	780	963
Tax expense	(244)	(357)
NET INCOME AFTER TAX	535	606
Non-controlling interests	0	0
NET INCOME GROUP SHARE	535	606
<i>of which Bank</i>	<i>335</i>	<i>435</i>
<i>Insurance</i>	<i>201</i>	<i>171</i>

CONSOLIDATED BALANCE SHEET

(in millions of EUR)

	2016	2017
TOTAL ASSETS	176,721	167,959
<i>of which Loans and advances due from banks and central banks</i>	<i>27,114</i>	<i>24,358</i>
<i>Loans and advances to customers</i>	<i>89,702</i>	<i>90,057</i>
<i>Investments held to maturity</i>	<i>5,393</i>	<i>5,442</i>
<i>Financial assets measured at fair value through profit or loss</i>	<i>2,986</i>	<i>3,240</i>
<i>Financial assets available for sale</i>	<i>18,820</i>	<i>17,983</i>
<i>Derivatives</i>	<i>25,307</i>	<i>20,303</i>
TOTAL LIABILITIES	167,709	158,438
<i>of which Due to banks</i>	<i>12,582</i>	<i>11,110</i>
<i>Customers borrowings and deposits</i>	<i>74,171</i>	<i>76,274</i>
<i>Financial liabilities measured at fair value through profit or loss</i>	<i>7,524</i>	<i>8,893</i>
<i>Debt securities and subordinated debts</i>	<i>25,380</i>	<i>23,226</i>
<i>Derivatives</i>	<i>29,573</i>	<i>21,264</i>
TOTAL EQUITY	9,012	9,521
<i>of which Core shareholders' equity</i>	<i>8,694</i>	<i>9,084</i>
<i>Gains and losses not recognised in the statement of income</i>	<i>318</i>	<i>437</i>

RATIOS

	2016	2017
Return on equity (ROE)	6.4 %	7.0 %
Cost- income ratio (C/I ratio)	60.5 %	58.1 %
Asset quality ratio	2.54 %	1.99 %
Coverage ratio	54.4 %	63.3 %
Liquidity Coverage Ratio (LCR)	127 %	130 %
Net Stable Funding Ratio (NSFR)	110 %	116 %

SOLVENCY RATIOS

	2016	2017
CET 1- ratio Phased In ⁽²⁾	16.6 %	16.1 %
CET 1- ratio Fully Loaded ⁽²⁾	16.1 %	15.9 %
Total capital ratio Phased In ⁽²⁾	19.4 %	18.6 %
Total capital ratio Fully Loaded ⁽²⁾	18.4 %	18.1 %
Leverage ratio Phased In	5.4 %	5.6 %
Leverage ratio Fully Loaded	5.3 %	5.5 %
Solvency II – ratio (before dividend)	217 %	230 %
Solvency II – ratio (after dividend)	207 %	219 %

(1) Unaudited

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



Belfius' annual accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS-EU'). Belfius' Financial statements for 2017 are in progress and may be subject to adjustments from subsequent events, till the Board of Directors of March 22, 2018. All figures in this document are hence unaudited at this stage.

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