Creditreform Bank Rating
Belfius Bank SA/NV (Group)

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Rating object	Rating information		
Belfius Bank SA/NV (Group)	**Long Term Issuer Rating / Outlook:** A- / stable		**Short Term:** L2
Creditreform ID: 0403201185 Incorporation: 2012 (Main-) Industry: Banks Management: Marc Raisière (CEO) Johan Vankelecom (CFO)	**Rating of Bank Capital and Unsecured Debt Instruments:**		
	Senior Unsecured BBB+	Tier 2 BB+	Additional Tier 1 BB
	Rating Date: **09 July 2018** Monitoring until: withdrawal of the rating Rating Type: **unsolicited** Rating Methodology: bank ratings; rating of bank capital and unsecured debt instruments;		

Contents

SWOT-Analysis

Strengths

+ Sound asset quality
+ Adequate capitalization
+ Stability through the ownership of the Belgian State
+ Increasing customer deposits and loans to customers

Weaknesses

- Moderate earnings figures
- Moderate geographical diversification
- Limited growth opportunities in Belgium

Opportunities / Threats

+ Improving economic conditions in Belgium
+ Continuous reduction of its derivative portfolio with Dexia Group

+/- Relatively high amount of loans to public customers

+/- Digital transformation of the banking business

- Relatively high dependency on the economic situation in Belgium
- Low interest rate environment in Europe puts pressure on the Group’s interest income
- Increasing banking regulation leads to rising costs

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Company Overview

Belfius Bank SA/NV (hereafter: Belfius, bank or the Group) is a banking and insurance group wholly owned by the Belgian federal state through the Federal Holding and Investment Company (FHIC). The Group's roots date back to 1860. Until 2011, Belfius operated as Dexia Bank Belgium as part of the Dexia Group. However, the Belgian state acquired the bank after the separation from the Dexia Group in 2011 for €4 billion to prevent upcoming liquidity problems. Since 2012 the bank operates under its new name Belfius Bank SA/NV. The bank is the third largest financial institution in Belgium (in terms of total assets - leaving out Dexia SA managed in resolution), and has its headquarters in Brussels. The Group is considered as an "other systemically important institution" (O-SII), and must therefore comply with additional regulatory requirements. With 6,278 employees (average FTEs at year end 2017, 2016: 6,359) and 671 branches, the Group serves approximately 3.5 million customers.

Belfius acts as a universal bank and focuses on individuals, SMEs, Corporates, as well as on the Belgian public and social sectors with its financial and insurance products. It offers its clients primarily credit lending services, treasury management, insurance products, and financial market products, as well as financial IT tools. Belfius Insurance, a subsidiary of Belfius Bank, is an insurance company marketing life and non-life insurance products, savings products and investments for individuals, the self-employed, liberal professions, companies and the public and social sector. The Group is divided into the following three segments: *Retail and Commercial*, *Public and Corporate*, and its *Group Center*.

Retail and Commercial is responsible for the Group's commercial relationships with individual customers and small & medium-sized enterprises, both at bank and insurance level. *Public and Corporate* manages the Group's commercial relationships with its public sector, social sector and corporate clients, both at bank and insurance level. By contrast, *Group Center* is responsible for the remaining business activities such as managing the Group's bond and derivative portfolio as well as for liquidity management. See chapter Profitability for the contribution of each segment to the Group's operating profit in 2017.

The Group structure and the main subsidiaries of Belfius are as follows:

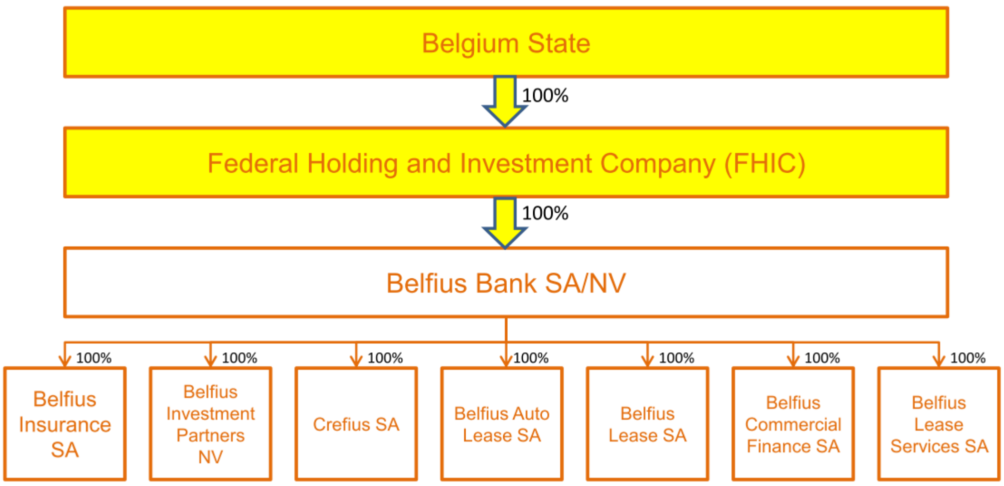

Chart 1: Group structure and main subsidiaries of Belfius
(Source: Annual Report of Belfius)

In 2015, the Group launched its “Belfius 2020” strategy for the business segment *Retail and Commercial*, according to which Belfius aims to reduce its cost income ratios, increase its market share in core products to at least to 15%, strengthen customer satisfaction, and accelerate its digitalization. Furthermore, Belfius aims to increase its operating income from cross-selling between insurance and banking products.

In July 2017, Belfius announced that the Belgian state had given Belfius the permission to prepare a partial privatization of Belfius by way of an initial offering (IPO) of a minority stake of the bank up to 49%.

In the second half of 2017, Belfius Insurance sold its equity participation in its joint ventures “Pole Star” and “North Light”. Belfius Insurance also sold its equity stake in “Aviabel” in the first half of 2017.

Business Development

Profitability

Belfius's operating income amounted to €2.36 billion in 2017, increasing by 4.2% in a year-over-year comparison (€94.6 million). In addition, the Group managed to record an increase in its operating income for the sixth consecutive year. This continuous trend is mostly attributable to the Group's positive development of its net fee & commission income as well as its trading income.

Net interest income contributed the major share to Belfius's income with 82.5% of operating income, remaining almost unchanged YOY (+€8.2 million). However, the Group notices a continuous reduction of its relative share in recent years. Thus, Belfius managed to improve its diversification of income sources in recent years. Moreover, Belfius was able to counteract the general decrease of its interest income by a stronger decrease in its interest expenses. Banking activities contributed 76% to the Group's net interest income in 2017. Net fee and commission income is the second major source of operating income, increasing by 8.9% YOY (€45 million), an increase achieved through increased client investments in off-balance sheet products as well as through improved and less volatile equity markets (mainly from its banking division). Belfius's net trading income nearly doubled in comparison to the previous year, increasing by €89.2 million YOY. There are several reasons for this increase, such as improved market conditions which led to lower losses on financial assets available for sale, the sale of Aviabel, North Light and Pole Star from its insurance line (for a total amount of €67 million), as well as some capital gains on divestments in bonds, funds and equities. The positive trend is also due to the Group's undertaking to de-risk its portfolio in this respect.

The technical net insurance income (other insurance results are included in the interest income item) amounted to -€208.8 million and is thus negative as in the previous year. Nevertheless, Belfius achieved a considerable improvement by €46 million YOY. While the technical results in the Group's non-life business is positive at €151 million and improved by €50 million YOY, its technical life insurance results worsened YOY by €4 million and were at a negative -€359.9 million in 2017. Notwithstanding, by taking financial activities in its insurance line into account, Belfius records a net income after taxation of €170.5 million for its insurance activities.

The Group's item 'other income' is negative at -€235.6 million and consists primarily of specific sector levies (€217.35 million) such as contributions to the deposit guarantee scheme and the single resolution fund.

Operating expenses amounted to €1.38 billion in 2017, remaining almost unchanged in a year-over-year comparison (+€0.3 million). Personnel expenses accounted for 40.7% of operating expenses, decreasing by 3% YOY (€17.9 million). The general decrease in this item over the previous years is primarily due to Belfius's continuous reduction of its number of employees (average 2017: 6,278 FTEs; average 2014: 6,817 FTEs). However, increased tech & communication expenses offset the decrease in operation expenses due to Belfius's increased IT spending as a result of the Group's investment program in the digital revolution. Belfius's other operating expense amounted to €416 million and consists of various positions such as network costs (€243 million) and other general and administrative expense (€77 million).

Belfius's pre-impairment operating profit amounted to €984.8 million in the fiscal year 2017. However, the Group recorded asset write-downs in the amount of €22.26 million in the same year which were attributable to loans and advances and provisions for credit commitments. The development in this positon is a result of Belfius's decision to sell some loans that were fully or significantly impaired to strengthen its asset quality. Furthermore, Belfius accomplished the last part of its former de-risking program by selling the remaining US RMBS bonds in the former side portfolio. After deduction of taxes, the operating net profit increased by 13.1% YOY (€70.2 million) to a total of €605.5 million in 2017.

Considering the corporate tax reform in Belgium as of year-end 2017 (which will gradually reduce the income tax rate to 25% in 2020) the bank has to face negative one-off effects with regard to its effective tax rate in 2017 (reassessment of net deferred tax assets in the amount of -€106 million), while it will benefit from the reform in the upcoming years.

A detailed group income statement for the years of 2014 through 2017 can be found in Figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	2,087,476	100.4%	2,023,685	91.9%	1,943,232	85.5%	1,951,473	82.5%
Net Fee & Commission Income	447,121	21.5%	497,000	22.6%	507,470	22.3%	552,663	23.4%
Net Insurance Income	-295,714	-14.2%	-285,881	-13.0%	-254,779	-11.2%	-208,814	-8.8%
Net Trading Income	-227,094	-10.9%	106,434	4.8%	119,546	5.3%	208,753	8.8%
Equity Accounted Results	1,980	0.1%	8,292	0.4%	5,018	0.2%	4,195	0.2%
Dividends from Equity Instruments	49,418	2.4%	61,647	2.8%	88,233	3.9%	73,083	3.1%
Rental Revenue	29,380	1.4%	24,844	1.1%	22,742	1.0%	20,615	0.9%
Lease and Rental Revenue	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Income	-13,350	-0.6%	-235,124	-10.7%	-159,752	-7.0%	-235,603	-10.0%
Operating Income	**2,079,217**	**100%**	**2,200,897**	**100%**	***2,271,709**	**100%**	***2,366,363**	**100%**
Expenses (€000)								
Depreciation and Amortisation	104,407	7.1%	94,565	6.7%	87,645	6.3%	96,638	7.0%
Personnel Expense	637,295	43.4%	610,419	43.2%	580,201	42.0%	562,324	40.7%
Occupancy & Equipment	38,752	2.6%	38,529	2.7%	35,542	2.6%	35,816	2.6%
Tech & Communications Expense	180,316	12.3%	185,543	13.1%	183,845	13.3%	214,038	15.5%
Marketing and Promotion Expense	42,863	2.9%	36,675	2.6%	44,948	3.3%	55,968	4.1%
Other Provisions	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Expense	463,840	31.6%	448,080	31.7%	449,024	32.5%	416,790	30.2%
Operating Expense	**1,467,473**	**100%**	**1,413,811**	**100%**	***1,381,204**	**100%**	**1,381,574**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**611,744**		**787,086**		**890,505**		**984,789**	
Asset Writedowns	52,874		105,138		110,982		22,261	
Net Income (€000)								
Non-recurring Revenue	0		0		0		0	
Non-recurring Expense	-860		NA		0		0	
Pre-tax Profit	**559,730**		**681,948**		***779,524**		**962,528**	
Income Tax Expense	99,849	17.8%	175,873	25.8%	244,272	31.3%	357,007	37.1%
Discontinued Operations	0		0		0		0	
Net Profit	**459,881**		**506,075**		***535,251**		***605,522**	

*differences due to rounding

Figure 1: Group income statement
(Source: S&P Global Market Intelligence)

Chart 2 shows the contribution of each segment to the operating net profit after taxation in 2017.

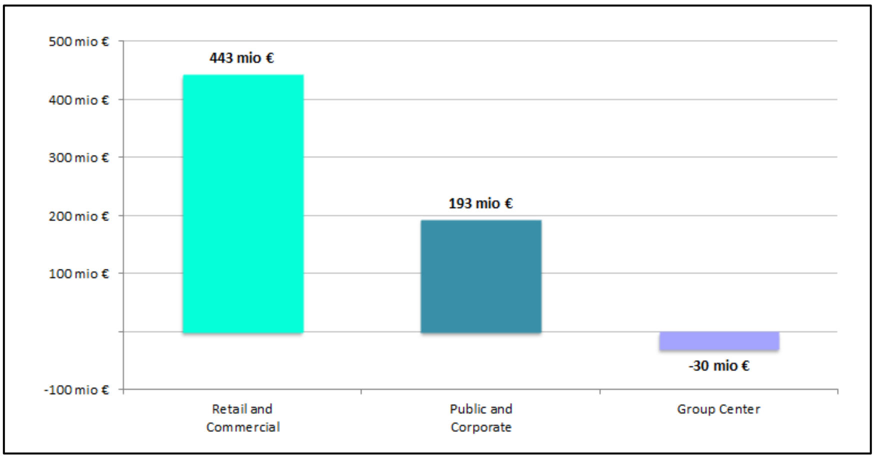

Chart 2: Belfius operating profit (after tax) by its operating segments in 2017
(Source: Own presentation based on data of annual report 2017 of Belfius)

Due to Belfius's improved performance in 2017, the Group recorded improved earnings figures; however, the bank is still behind its competitors with regards to its ratios.

The bank was able to improve in its figures of ROAA and ROAE, as well as in its RORWA in a year-over-year comparison. However, the peer group's figures are on average more favorable than those of Belfius. In addition, the peer group was able to improve its figures more significantly. Thus, Belfius lost ground to its competitors YOY in this respect.
Moreover, the bank's net interest margin is below the average of the peer group. However, while Belfius was able to improve in its ratios slightly over the previous year, the peer group's ratio deteriorated slightly in the same period. Furthermore, the low margin reflects the Group's relatively high amount of low risk exposures to the public sector. By contrast, the Group's cost income ratios are in line with the average of the peer group. It remains to be seen to what extent Belfius is able to reduce its cost income ratios as stated in its strategy 2020.

Belfius's earnings ratios are the least favorable performers in any of the areas analyzed.

The development of the key earnings figures for the years 2014 - 2017 is detailed as follows:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.24	0.02	0.27	0.03	0.30	0.03	0.35	0.05
Return on Equity (ROAE)	6.32	-1.12	6.10	-0.22	6.06	-0.04	6.53	0.48
RoRWA	1.00	0.04	1.05	0.05	1.14	0.09	1.24	0.10
Net Interest Margin	1.13	0.14	1.12	-0.01	1.13	0.01	1.15	0.02
Cost income Ratio ex. Trading	63.63	-8.82	67.50	3.87	64.18	-3.32	64.03	-0.14
Cost income Ratio	70.58	-7.55	64.24	-6.34	60.80	-3.44	58.38	-2.42
Change in %-Points								

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence)

Asset Situation and Asset Quality

In general, Belfius's consolidated balance sheet is composed of €148.5 billion for the banking group and €19.5 billion for the insurance group. The banks financial assets ac-

counted for 98% of total assets in 2017, decreasing by 5% YOY (€8.7 billion). Net loans to customers represent the largest share of assets, accounting for 53.6% of total assets, and increasing by 0.4% YOY (€0.3 billion). On one hand, Belfius was able to increase its commercial assets by €2.5 billion (primarily mortgage loans and term loans), while on the other the increase was almost entirely offset by decreased cash collateral paid (-€1.1 billion) and a decrease in bond positions (-€1.3 billion). Furthermore, Belfius denotes a relatively high amount of loans to the public and social sector (€27.4 billion) as well as mortgage loans (€30.6 billion). Total securities with an amount of €50.7 billion (thereof €24 billion derivative assets), as the second largest asset, represent 30.2% of Belfius's total assets and decreased significantly by 11.1% YOY (€6.35 billion). The reduction in this item is a result of various diminutions. While the bank revealed only a minor reduction of (public) bonds, the derivatives held for trading (primarily interest rate derivatives) reduced significantly by €4.75 billion YOY; however, Belfius still has large (externally fully hedged) derivative exposures outstanding with the Dexia Group (at the end of December 2017: notional amount of €34.3 billion with a fair value of €4.9 billion). Nevertheless, we consider these continuous reductions of derivatives with the Dexia Group as positive. Belfius's net loans to banks decreased significantly by €7.9 billion over the previous year. This development is on one hand a result of reduced cash collateral by €4 billion (among others due to the slight increase of interest rates compared to year-end 2016) and on the other due to reduced reverse repurchase agreements (€3.1 billion) as the bank recorded more cash deposits at the ECB (see accordingly the increase in the position of cash and balances with central banks).
The reduction in Belfius's balance sheet item of equity accounted results is a result of the aforementioned sale of Pole Star, North Light and Aviabel. Moreover, non-current assets held for sale in 2015 comprises the proposed sale of 'International Wealth Insurer SA'. The position of 'total other assets' comprises primarily payments in transit from clients (€647 million).

The Group's total assets amounted to €167.9 billion in 2017, decreasing by 5% YOY (€8.7 billion).

The development of Belfius's assets for the years 2014 - 2017 is shown in detail in the following:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	2,412,855	1.2%	576,276	0.3%	5,111,050	2.9%	10,236,669	6.1%
Net Loans to Banks	31,058,774	16.0%	24,318,002	13.7%	22,002,553	12.5%	14,121,427	8.4%
Net Loans to Customers	87,157,989	44.8%	87,189,152	49.3%	89,705,542	50.8%	90,060,069	53.6%
Total Securities	70,223,735	36.1%	58,290,180	32.9%	57,036,872	32.3%	50,685,551	30.2%
Financial Assets	**190,853,353**	**98%**	**170,373,610**	**96%**	***173,856,018**	**98%**	***165,103,714**	**98%**
Equity Accounted Investments	146,494	0.1%	106,775	0.1%	97,044	0.1%	31,481	0.0%
Other Investments	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Insurance Assets	312,235	0.2%	502,988	0.3%	436,916	0.2%	450,342	0.3%
Non-current Assets HFS & Discontinued Ops	24,932	0.0%	3,354,528	1.9%	28,772	0.0%	18,782	0.0%
Tangible and Intangible Assets	1,490,895	0.8%	1,385,696	0.8%	1,318,194	0.7%	1,325,252	0.8%
Tax Assets	694,928	0.4%	571,738	0.3%	416,509	0.2%	255,742	0.2%
Total Other Assets	884,337	0.5%	666,789	0.4%	567,473	0.3%	773,888	0.5%
Total Assets	**194,407,174**	**100%**	**176,962,124**	**100%**	**176,720,926**	**100%**	**167,959,201**	**100%**

*differences due to rounding

Figure 3: Development of assets
(Source: S&P Global Market Intelligence)

Belfius's asset quality improved largely in comparison to the previous year and is at an outstanding level in comparison to the peer group.

The NPL ratio of 2.02% is, as a result of a significant improvement by 0.56 percentage points YOY, more favorable than the average of the Group. In addition, this ratio is in general at a good level. However, the peer group was able to gain ground in this ratio. Moreover, the Group's NPL / RWA ratio is more favorable than those of the peer group. Belfius was even able to improve in this ratio more dramatically than the peer group.
Furthermore, Belfius's potential problem loans / NPL ratio, as well as its reverses / impaired loans ratio are clearly more favorable than those of the peer group on average. Thus, Belfius shows a prudent approach in this respect. In addition, the Group's net write-offs / risk-adjusted assets ratio is impressive and clearly more favorable than those of its competitors. Despite the worsening of the Group's risk-weighted assets / assets ratio by 3.7 percentage points, Belfius notes still a more favorable RWA ratio.

Belfius's asset quality figures are clearly the best performers in any of the areas analyzed.

A detailed overview of the asset quality for the years of 2014 through 2017 can be found in Figure 4 below:

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non-Performing Loans (NPL) / Loans	2.37	-0.03	2.33	-0.04	2.59	0.26	2.02	-0.56
NPL / RWA	4.17	-0.76	4.31	0.14	4.96	0.65	3.60	-1.37
Potential Problem Loans / NPL	2.40	-0.53	1.64	-0.76	1.93	0.29	1.71	-0.22
Reserves / Impaired Loans	72.52	1.48	75.30	2.78	68.51	-6.79	80.29	11.78
Net Write-offs / Risk-adjusted Assets	0.16	-0.02	0.28	0.13	0.11	-0.17	0.32	0.21
Risk-weighted Assets/ Assets	25.47	2.07	26.57	1.11	26.44	-0.13	30.14	3.70
Change in %-Points								

Figure 4: Development of asset quality
(Source: S&P Global Market Intelligence)

Refinancing and Capital Quality

Belfius's financial liabilities accounted for 89% of total liabilities in 2017, decreasing by 5.7% YOY (€8.5 billion). Total deposits from customers represent the largest share of the Group's liabilities with 48.1%, increasing by 2.8% YOY (€2.1 billion) due the growth of sight and savings accounts. Total debt, accounting for 18.6% of Belfius's liabilities, decreased by 3.9% YOY (€1.2 billion) and consists primarily of senior debt. In addition, Belfius reveals an amount of €7.2 billion of covered bond debt securities, in particular mortgage and public bonds. Noteworthy is the continuous reduction of the bank's total debt in recent years. Derivative liabilities account for 13.5% of the bank's liabilities, decreasing dramatically by 28.2% YOY (€8.4 billion). The decrease in the fair value of derivatives can be noted as a result of the slight increase in interest rates compared to year-end 2016 as well as a result of additional offsetting due to additional clearing with London Clearing House (offsetting amounted to €8.7 billion). Total deposits from banks accounted for only 7% of the Group's liabilities, decreasing by 11.7% YOY (€1.5 billion), primarily as a result of lower cash collateral received (-€1.7 billion). Noteworthy is the bank's participation in the ECB's targeted longer-term refinancing operations (TLTRO II). At year-end 2017, Belfius participated with €4 billion in this program.

According to the asset side of the balance sheet, the non-current liabilities held for sale in 2015 item comprises the sale of 'International Wealth Insurer SA'. The item 'total other liabilities" comprises various positions such as pending payments to clients. Furthermore, we consider Belfius's continuous increase in its total equity in recent years through retained earnings as positive.

A detailed overview of the development of liabilities for the years of 2014 through 2017 can be found in Figure 5 below:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	21,407,816	11.5%	11,537,622	6.9%	12,581,830	7.5%	11,109,893	7.0%
Total Deposits from Customers	66,513,874	35.7%	68,162,754	40.5%	74,171,040	44.2%	76,274,483	48.1%
Total Debt	35,089,217	18.8%	33,615,562	20.0%	30,714,579	18.3%	29,521,169	18.6%
Derivative Liabilities	38,459,381	20.6%	30,286,557	18.0%	29,779,995	17.8%	21,369,049	13.5%
Securities Sold, not yet Purchased	2,334	0.0%	918	0.0%	40	0.0%	0	0.0%
Other Financial Liabilities	4,074,435	2.2%	1,990,545	1.2%	2,189,714	1.3%	2,597,572	1.6%
Total Financial Liabilities	**165,547,057**	**89%**	**145,593,958**	**87%**	* **149,437,199**	**89%**	**140,872,166**	**89%**
Insurance Liabilities	18,243,840	9.8%	17,068,129	10.1%	16,304,224	9.7%	15,483,681	9.8%
Non-current Liab. HFS & Discontinued Ops	0	0.0%	3,243,438	1.9%	0	0.0%	0	0.0%
Unit-Linked Insurance and Investment Contr.	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Tax Liabilities	258,560	0.1%	314,336	0.2%	333,486	0.2%	228,315	0.1%
Non-current Asset Retirement Obligations	184,634	0.1%	185,645	0.1%	229,927	0.1%	210,711	0.1%
Other Provisions	292,535	0.2%	219,898	0.1%	182,316	0.1%	214,589	0.1%
Total Other Liabilities	1,953,951	1.0%	1,677,003	1.0%	1,222,052	0.7%	1,428,332	0.9%
Total Liabilities	**186,480,577**	**95.9%**	**168,302,407**	**95.1%**	**167,709,206**	**94.9%**	**158,437,793**	**94.3%**
Total Equity	**7,926,597**	**4.1%**	**8,659,717**	**4.9%**	**9,011,720**	**5.1%**	**9,521,408**	**5.7%**
Total Passiva	**194,407,174**	**100%**	**176,962,124**	**100%**	**176,720,926**	**100%**	**167,959,201**	**100%**
Deposits from Customers Growth*	7.93	NA	2.48	-5.45	8.81	6.34	2.84	-5.98
Change in %-Points								

*differences due to rounding

Figure 5: Development of refinancing and capital adequacy (Source: S&P Global Market Intelligence)

Belfius's regulatory capital ratios declined in comparison to the previous year; nevertheless, they are slightly above the average of the peer group.

The drop in the Group's (phased in) CET1 ratio by 0.54 percentage points (and accordingly in the phased in Tier 1 ratio due to the lack of Tier 1 capital until year end 2017) is attributable on one hand to the capital requirement grandfathering rules (negative impact of about 20 bp) and on the other to the relatively strong increase of the bank's risk-weighted assets in comparison with the common equity tier 1 capital. This increase in the bank's RWA had a corresponding negative impact on the Group's phased in total capital ratio (-0.8 percentage points). The bank's increase in RWA is a result of higher risk-weighting of sovereign exposure on Italy (following the downgrade of internal rating to BBB-) and an increase of the exposures on SME, corporate, and mortgage loans. The credit risk exposure of Belfius counterparties in Italy at the end of 2017 amounted to €5.6 billion (of which €3.7 billion Italian government bonds [we note that Belfius sold €1.1 billion exposure value of Italian government bonds in Q1 2018]). Despite the negative development of its regulatory capital ratios YOY, Belfius's capital ratios are still satisfying and reflect an adequate capitalization. The peer group, however, was able to catch up to Belfius. The Group complies with all regulatory capital requirements in its ratios, in particular with the SREP CET1 ratio of 9%.

In February 2018, Belfius issued for the first time €500 million of AT1 securities to improve its capital position. In addition, the bank issued Tier 2 capital in the amount of €200 million in the first quarter of 2018. Depending on the development of the Group's RWA, this might enable it to gain ground on its competitors. The Group's fully-loaded capital ratios are in line with the average of the peer group.

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By contrast, Belfius's fully-loaded leverage ratio of 5.52% is just in line with the average of the peer group, and Belfius was able to improve in this ratio to a greater extent than its competitors did on average.

The development of capital ratio for 2014 - 2017 is detailed as follows:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	7,981,000	13.17	8,328,000	4.35	9,076,000	8.98	9,429,000	3.89
Total Risk-weighted Assets	49,512,068	15.77	47,025,639	-5.02	46,730,331	-0.63	50,620,000	8.32
Capital Ratios (%)								
Core Tier 1 Ratio	14.70	-0.67	15.90	1.21	16.62	0.72	16.08	-0.54
Tier 1 Ratio	14.70	-0.67	15.90	1.21	16.62	0.72	16.08	-0.54
Total Capital Ratio	16.12	-0.37	17.71	1.59	19.42	1.71	18.63	-0.80
Leverage Ratio	4.24	NA	4.90	0.66	5.30	0.40	5.52	0.22
Fully Loaded: Common Equity Tier 1 Ratio	13.23	-2.13	14.85	1.62	16.08	1.23	15.88	-0.20
Fully Loaded: Tier 1 Ratio	13.23	-2.13	14.85	1.62	16.08	1.23	15.88	-0.20
Fully Loaded: Risk-weighted Capital Ratio	14.27	-2.22	16.22	1.95	18.44	2.22	18.05	-0.39
Total Equity/ Total Assets	4.08	0.45	4.89	0.82	5.10	0.21	5.67	0.57
Change in %-Points								

Figure 6: Development of capital ratios
(Source: S&P Global Market Intelligence)

Due to Belfius's bank capital and debt structure, the Group's preferred senior unsecured debt instruments have been notched down by one notch in comparison to the long-term issuer rating. However, the Group's Tier 2 capital rating is four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

Liquidity

Belfius liquidity coverage ratio remained at the same level YOY; however, it is below the average of its competitors. In this respect, the peer group was able to improve in this ratio to a greater extent than Belfius was.

The Group's interbank ratio is markedly higher than that of the peer group on average. The increase in this ratio YOY is a result of the Group's relatively strong decrease in its net loans to banks. In addition, this reflects the bank's relatively high amount of net loans to banks in comparison that of its deposits from banks. Belfius's loan to deposit ratio remained very stable over the previous years, and is slightly above the average of the peer group.

The development of the liquidity ratios for the years 2014 - 2017 is shown in detail as follows:

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	122.00	NA	132.05	10.05	127.06	-4.99	129.86	2.81
Interbank Ratio	145.08	42.04	210.77	65.69	174.88	-35.90	127.11	-47.77
Loan to Deposit (LTD)	131.04	-11.76	127.91	-3.12	120.94	-6.97	118.07	-2.87
Change in %-Points								

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence)

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Conclusion

Overall, Belfius can look back on 2017 as another year of improving performance while continuously enhancing its asset quality. In addition, Belfius benefits from good economic conditions.

Despite the improvements in its performance, Belfius still denotes below-average earnings figures. In addition, the low-interest rate environment in Europe puts pressure on the bank's profitability, and the bank's low margins reflect its high public-sector exposures (which usually denote a low risk profile). However, the Group has managed to continuously increase its net profit in recent years. Furthermore, Belfius will benefit from the corporate tax reform in Belgium in the upcoming years. On the other hand, Belfius acts in a highly concentrated market in Belgium and is subject to high geographical concentration.

The asset quality of the bank is convincing. In addition, Belfius manages to continuously improve its asset quality and reveals only low net write-offs on financial assets. Furthermore, the Group's loan portfolio is still characterized by a high proportion of public sector exposures. Thus, Belfius reveals a relatively high dependency on the public sector, in particular in Belgium. By contrast, Belfius manages to continuously reduce its (externally fully hedged) derivative positions with the Dexia Group.

On the liabilities side, Belfius reveals a sound funding base and shows continuously increasing deposits from customers. The Group complies with all regulatory capital requirements and is in line with its peers regarding its capitalization. Furthermore, the liquidity situation of the group is adequate.

It remains to be seen to what extent the partial privatization of the Group will succeed and influence its development in the future. Despite the ownership of the Belgian state, we do not assume any essential public interest in supporting the bank in the event of financial distress. This is owing to the high debt burden of the Belgian state, the announced privatization, the banks role in the market, as well as to the implementation of the legal framework (BRRD and SRM) in the EU.

In the near future, growing regulations, ongoing digitization, as well as the low interest rate environment in the EU pose a general challenge for the banking landscape. Notwithstanding, an interest rate reversal is becoming more likely, as well as the termination of the ECB bond-buying program. In particular, a rapid increase in the interest rates goes hand-in-hand with an interest rate adjustment risk for banks, which have adjusted to long-term low-interest rates.

In a scenario analysis, the rating developed significantly better in the "best case" scenario and slightly worse in the "worst case" scenario. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A- / stable / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

‘preferred‘ senior unsecured debt: **BBB+**
Tier 2 (T2): **BB+**
Additional Tier 1 (AT1): **BB**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	09.07.2018	25.07.2018	BBB+ / BB+ / BB

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	09.07.2018	25.07.2018	A- / stable / L2

Figure 8: Ratings Detail and History

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence. Subject to a peer group analysis were 40 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

On 09 July 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Belfius Bank SA/NV, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is subject to one-year monitoring from the rating date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated to comply with the provisions of the CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved nor any other natural persons whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

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The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our ‘Rating Committee’ policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used the following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded the available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

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