Risk report 2023

Belfius

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2023 – key figures

RATIOS

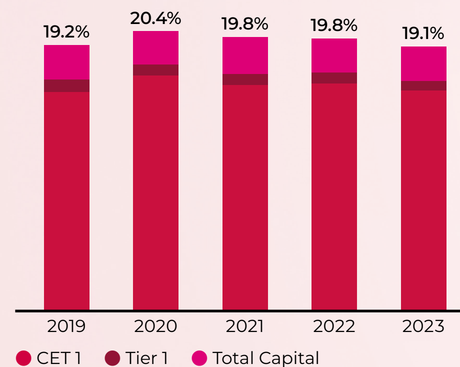
CET 1	LEVERAGE RATIO	LCR	NSFR
Percent	Percent	Percent	Percent
15.95 (16.55)	**6.5** (6.26)	**138** (173)	**128** (135)

CREDIT

COST OF RISK	ASSET QUALITY RATIO	COVERAGE RATIO
EUR Million	Percent	Percent
-109 (-105)	**1.95** (1.82)	**60** (60)

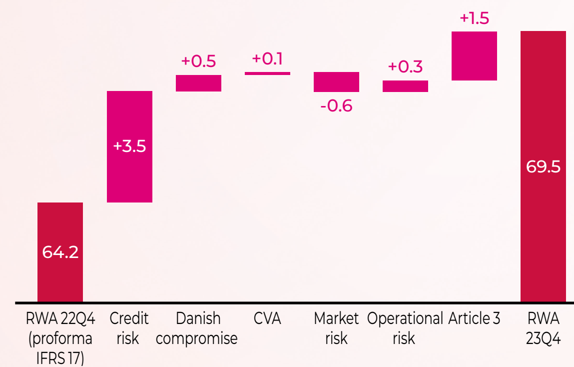
Capital ratio evolution

Percent



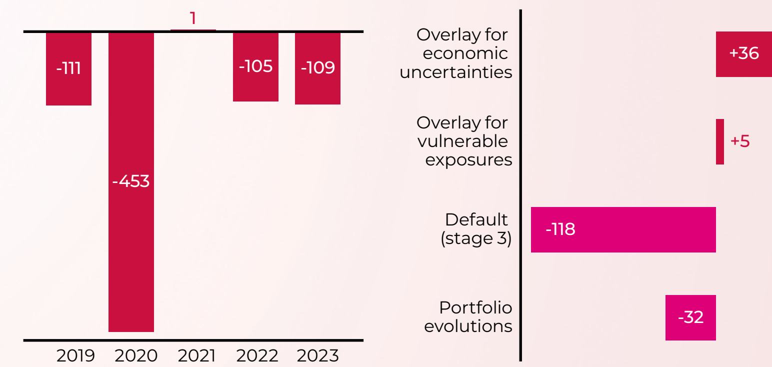
Risk-Weighted Assets evolution

EUR Billion



Cost of risk evolution

EUR Million



2023 – key figures

RATINGS

MOODY'S	S&P	FITCH
A1 positive (A1 stable)	**A stable** (A- Stable)	**A- stable** (A- Stable)

MREL CAPACITY (TREA)

Percent

29.0 (28.4)

NFC EXPOSURE TO CLIMATE SENSITIVE SECTORS (% of total loans & advances)

Percent

23 (22)

OPERATIONAL LOSSES
(3 last year average, excluding operational incidents related to the credit risk)

EUR Million

3.89 (2.53)

VALUE-AT-RISK (VAR) OF FINANCIAL MARKETS ACTIVITIES

EUR Million

11.5 (13.6)

Summary of risk profile

2023: another year full of unexpected events, making tail risks the new normal

2023 has been another challenging year full of unexpected events. From a geopolitical perspective, it has been marked by major shocks such as the escalation of the Israeli-Hamas war, the ongoing Russian-Ukrainian war and China's evolving geopolitical ambitions. Large cyberattacks, combined with major breakthroughs in technological developments - generative AI in particular - have also shaped 2023. The banking sector, particularly in the US, had a rough start to the year with the failure of three small to medium size US banks, triggering a sharp fall in global bank share prices and fears of global contagion, followed by the collapse of Crédit Suisse.

In Belgium, the banks also faced significant liquidity outflows at the end of the summer 2023 following the issuance of a short-term State Bond allowing bondholders to benefit from a tax advantage. All these events have shaped the risk landscape in 2023 and have led to acceleration of interest rate, liquidity, cyber and fraud risks, strong correlations between financial and non-financial risks, and increased volatility and uncertainty.

Against this backdrop, inflation fell sharply during the year, but core inflation remained elevated as wages continued to rise in a tightening labour market. To bring down longer-term inflation expectations, central banks continued to tighten monetary policy throughout the year.

In this unstable environment, 2023 ended on a rather positive note for the Belgian economy, which significantly outperformed its European peers in terms of economic growth (annual GDP growth of 1.5% in Belgium compared with 0.6% in the Euro Area), once again demonstrating its resilience. Investor sentiment has improved by the end of 2023, shifting from expectations of a possible recession to a “soft landing”. Nevertheless, the year was full of challenges and such an outcome was not certain at the beginning of the year (the NBB's forecast for Belgium at the end of 2022 was 0.6% GDP growth and subject to many uncertainties). Other countries have been less successful, as shown by the economic slowdown in Germany and some other European countries.

In this world of uncertainties, volatilities and complexities, Belfius has shown a good resilience and agility. The resilience demonstrated by Belfius in recent years is the result of its consistent and value-driven strategy, with its high quality and devoted staff, within a well-defined and prudent risk and financial framework and vision.

Belfius portfolios have remained sound, with a normalisation of the cost of risk in 2023. Potential deteriorations are adequately mitigated by ex-ante provisions.

The Belfius loan portfolio continued to perform well in a challenging environment. The fundamental risk indicators, such as portfolio default probabilities and non-performing loans, remained stable. However, the volume of non-performing loans in Corporate, and especially Business Banking, increased by around 20% year-on-year from a relatively low level. The most affected sectors are construction, transport, hotels and restaurants.

Taking into account the increasing risk in Commercial Real Estate (CRE), a fundamental reassessment of these portfolios was carried out in 2023, both from a concentration and an overall risk perspective. The analysis confirmed the strong resilience of the Belfius portfolio.

Belfius has set aside provisions for macroeconomic uncertainties (EUR 88 million at the end of 2023) and vulnerable exposures (EUR 106 million), which together form the "economic uncertainties and vulnerable exposures overlay" (EUR 194 million). These provisions will allow Belfius to absorb potential defaults in the coming quarters, if necessary.

The high interest rate environment led to further model refinements and hedging strategy adjustments

In the area of interest rate risk management, Belfius continued its interest rate strategy to hedge against rising interest rates and to adapt to a "higher for longer" interest rate environment. The bank entered into additional payer swaps and reduced the duration of individual savings accounts, while developing a robust commercial strategy to continue to meet customer needs. Belfius was the first (large) bank to increase its savings account tariff in 2023 and has continued to do so. Changes in customer preferences (for fixed-term liabilities) and the impact of the State bond have again highlighted the importance of sound interest rate risk management and scenario thinking in a world where tail risks are becoming the new normal. The IRRBB management and monitoring process was continuously improved during the year through refined and adjusted model assumptions and scenario thinking with continued focus on customer behavior in order to protect the future development of our economic value and earnings.

Belfius maintains comfortable solvency and liquidity buffers

Since several years, Belfius has decided to increase its liquidity buffer in context of phasing-out of the abundant liquidity on the market in order to maintain a prudent liquidity risk management.

This strategy proved to be a wise move when, in 2023, liquidity risk returned to the forefront and several shocks materialized. The collapse of Silicon Valley Bank and Crédit Suisse in the first quarter of 2023 did not have much impact on Belfius thanks to its anticipative de-risking strategy towards the Swiss bank. Later in the year, Belfius demonstrated its ability to manage significant outflows (ca. EUR 3.5 billion) related to the successful State bond issue thanks to the sufficient total liquidity buffer of EUR 45 billion at the start of the outflows and the swift actions taken to ensure that the Liquidity Coverage Ratio stayed above our internal target of 120%.

This new environment demonstrates the importance of sound liquidity management and a high quality liquidity buffer, together with a strong commercial strategy.

The CET 1 ratio remained strong at close to 16%, with higher than expected corporate loan production and lower than expected mortgage loan production. Net income could not fully offset the significant increase in RWA, which was mainly driven by commercial growth in the corporate segment and the initial impact of the new model landscape. The implementation of the new model landscape (resulting in the transfer of some sub-segments from the internal risk-based approach to the standardised approach) had a negative impact of 36 bps on the CET1 ratio. However, the capital buffer remains very comfortable and will allow to continue support the Belgian economy and to absorb unexpected shocks, which have become more frequent in recent years.

Operational losses from frauds remain a concern that needs to be tackled further

The resurgence of traditional risks (liquidity and credit) has been amplified by non-financial risks. The deterioration of the threat landscape and the materialisation of internal and external fraud events have led to an increase in operational losses in 2023, which has triggered the need to strengthen the fraud risk management framework, including a review of the control environment from an end-to-end perspective.

Despite these difficulties, Belfius has demonstrated its ability to effectively manage non-financial risks and is confident in its ability to continuously improve its non-financial risk framework to increase its resilience to unexpected events. In addition to the growing threat of fraud, Belfius is also focusing on IT-related risks and technological breakthroughs, including the impact of artificial intelligence on activities.

Belfius continues focussing on ESG risks

ESG risks have been less dominant in 2023 due to geopolitical tensions, but they remain important in the medium term and Belfius continues to recognize them as a top risk, both from a financial materiality perspective and an impact materiality perspective, and to consider them in the business strategy.

Since 2020, Belfius has been developing a general sustainability framework that provides the basis for a better framing and management of ESG risks. In 2023, Belfius submitted an updated ESG action plan to the supervisory authorities and conducted a comprehensive

materiality assessment to identify the climate and environmental risks that are or will be material in the short, medium, and long term. The assessment also measured the potential impact of these risks across several risk dimensions, including credit risk, market risk, liquidity risk, non-financial risk, and strategic risk.

In additional, Belfius developed an ESG Risk Management Framework, an ESG Data Collection Strategy and an ESG Data Management framework in 2023.

Hedging of key sensitivities also contributed to the strong results

The financial markets have been very challenging in 2023, with the bankruptcies of Silicon Valley Bank and Crédit Suisse, persistent inflation expectations and the impact of monetary policies on interest rates, and fears of imminent recession. Despite the major market movements (yield curves, real rates, credit spreads,etc), the overall performance of our portfolio during the year was positive, demonstrating that our hedging strategy remains appropriate, including for our XVA for which we actively hedge. This performance was also due to previous derisking efforts, which were continued in 2023 with the sale of some bond positions and a likely upcoming derisking on one of our few remaining open CDS positions.

Strengthened focus on compliance

Over the years, the compliance team has focused on continuously strengthening its framework in close cooperation with the business, with the same key compliance risks (AML/CFT, regulatory scrutiny, and consumer protection) remaining at the center of its work. The significant workload associated with managing these risks has led to the expansion of the compliance team, which is a common trend in the financial services industry. Belfius' compliance function has become a pioneer in the industry by rolling out AI for transaction monitoring and will continue to do so for sanctions screening and other domains, such as market abuse or MiFID, through a dedicated multi-year roadmap.

This multi-year roadmap is a significant improvement in Belfius' compliance risk management approach, enabling the compliance department to shift its focus on qualitative tasks and respond to risks faster and more efficiently. The success of this roadmap is a significant step towards maintaining alignment with Belfius' low compliance risk appetite and growth ambition.

2024 might be a challenging year too

Looking forward, 2024 will be marked as one of the most significant years election-wise globally. Unprecedented number of voters (54% of the global population) will head to polls and the notion of democracy will be tested again in both developed and developing world, with increasing threat of AI misuse after the breakthrough in 2023. The results of the US election might shape the evolution of the geopolitical conflicts, as well as the trade agreements, sanctions and embargo policies etc, therefore irrevocably affecting the economic activity. Performances of the economies will therefore be contrasting in 2024. On Belgian level, forming of the coalition government might take a long time with potential impact on investors' confidence in context of relatively large deficit and debt. Evolution of spreads from geopolitical risks will therefore continue to be monitored as well as their impact on the issuance strategy of Belfius.

All in all, the level of uncertainty is therefore expected to remain elevated in 2024, with a large number of potential risks which can overshadow Belgian, European and global economic development. The escalation of the Israel-Hamas war, echoed in the ongoing conflict around Suez Canal, might continue to disrupt supply chains, leading to additional price tensions and higher than expected inflation in 2024.

Belfius remains vigilant to any signs of further deterioration in the economic situation and changes in macroeconomic conditions (including sudden changes in the yield curve) and will continue to provide strong support to the Belgian economy, within the risk framework, including to avoid significant failures in specific customer segments (such as SMEs) that could be detrimental to financial stability as well as addressing the rise in non-financial risks.

Marianne Collin
CRO Belfius Bank

Declaration approved by the management body on the adequacy of risk management arrangements

Belfius Bank is a Belgian banking and insurance group fully owned by the Belgian Federal State through the Federal Holding and Investment Company (FHIC). Belfius Bank shares are not listed.

Belfius Bank is a locally anchored autonomous banking and insurance group serving individuals, professionals, companies, social profit institutions and public authorities in Belgium.

With a balance sheet mainly oriented towards Belgian businesses and customers in different segments, Belfius is committed to deliver value-added products and services through a modern proximity model. It aims at maintaining a healthy financial profile, reflected in a prudent investment strategy and a carefully managed risk profile, resulting into sound liquidity and solvency positions.

The Board of Directors of Belfius has defined a clear and straightforward business model focused on the long term. A clear Risk Appetite has been defined and approved by the Board of Directors, expressing the level of risk that Belfius is prepared to take – for the various types of risk (credit risk, market risk, liquidity risk, non-financial risk…) – taking into account the expectations of the main stakeholders (shareholders, creditors, regulators, rating agencies, customers and so on), in order to achieve the strategic and financial objectives.

The Risk Appetite is a key component in the planning process with a clear articulation between the group's capacities, the strategy and the Risk appetite framework (RAF). The three components are determined in parallel in an iterative process as they are linked and influence each other. The RAF is there to support strategy definition and planning, to support analysis of value creation - integrating the risk dimension, and to help making day to day decisions on investments and financing. This leads to business plan adjustments as necessary to ensure the global risk profile derived from the financial plan is consistent with the Belfius' Risk Appetite.

This dynamic exercise is steered by Finance and Risk in collaboration with the Business Lines.

The Management Board has the responsibility to implement the decided risk appetite into the daily transactions. The process is supported by a detailed limit framework, a committee structure and a cascade of information/decision briefings to risk management stakeholders, promoting an environment of open and constructive engagement.

Through this process, risk attention points and recommendations are communicated, understood, embraced and monitored throughout the bank. The mechanism ensures that risk appetite, risk management strategy, and business strategy are effectively aligned and embedded in decision-making and operations at appropriate levels.

All risks are managed in accordance with the Group framework for risk management. Each risk type is covered in the Risk Appetite, which is then further declined in operational limits on all risk types. The compliance with the risk appetite framework is monitored and reported quarterly to the Management Board and to the Board of Directors. If a RAF indicator is exceeded, the Management Board and the Board of Directors are notified and provided with an analysis of the reasons for the breaches and, if required an action plan to ensure the return to the RAF risk level.

The key ratios and figures of Belfius Bank are integrated in the "Summary of risk profile" of this Risk Report, as well as the main risks encountered in 2023. The way risks (credit market, liquidity, non-financial, ESG risk, other financial risks) are managed is further explained in each risk section of this risk report. In general, the Belfius risk management framework is based on the 3 Lines of Defence (3 LoD's) model with a set of adequate and effective guidelines, policies and internal controls.

Belfius Bank has consolidated risk data and systems supporting regulatory reporting and disclosures as well as regular or ad-hoc internal Risk management reporting. The various internal management reports are presented to the appropriate committees as indicated in the risk governance structure as well as in the table of section II.3.2.

In addition to the CRR 2/ CRD 5 regulations, Belfius is considered as a financial conglomerate with significant banking and insurance activities and is required to comply with the Financial Conglomerate Directive (FICO 2002/87/EC). For this purpose, specific reporting requirement with financial statements, regulatory capital, risk concentration, intragroup transactions and leverage ratio are sent to the regulator. These calculations are made on consolidated position of the Bank and insurance group. Regarding intragroup transactions, Belfius Bank provides liquidity and capital funding as well as capital guarantees to subsidiaries and related parties following its centralized position and based on the principles of consolidation with no material impact on the Group's risk profile.

In accordance with Article 435 of CRR, the Management Board is of the opinion that the risk management system is adequate regarding Belfius' risk profile and strategy. The Management Board considers that this Risk report demonstrates the assurance of the adequacy of the risk management framework.

This declaration is also approved by Belfius Bank's Board of Directors of 21 March 2024.

I. Regulatory framework and Pillar 3 disclosure

I.1. Regulatory framework

The capital adequacy regulations consist of three pillars.

The first pillar – minimum capital requirements – defines the way banking institutions calculate their regulatory capital requirements in order to cover credit risk (including counterparty credit risk), market risk, operational risk and credit valuation adjustment (CVA).

The framework provides different approaches for calculating credit risk (3 approaches: Standardised, Foundation Internal Rating-Based and Advanced Internal Rating-Based), market risk (2 approaches: Standardised Approach and Internal Model Approach), operational risk (3 approaches: Basic Indicator Approach, Standardised Approach and Advanced Measurement Approach) and CVA (2 approaches: Standardized Approach and Internal Model Approach). The Pillar 1 also encompasses the leverage requirement which is a non-risk-based ratio serving as backstop to the risk-based minimum capital requirements.

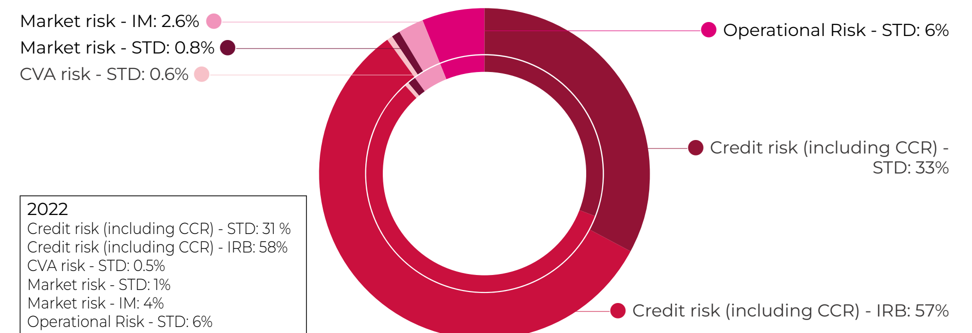
The second pillar – supervisory review – provides the European regulators acting under the Single Supervisory Mechanism (SSM) with a framework to help them in assessing the adequacy of banks' capital to be used to cover either risks identified in the first pillar but not sufficiently covered by the Pillar 1, and other risks such as among others concentration or interest rate risks.

The third pillar – market discipline – develops a set of qualitative and quantitative disclosures allowing market participants to make a better assessment of capital, risk exposure, risk assessment processes, and hence the capital adequacy of the institution. The requirements of the third pillar are met by this publication.

I.1.1. Pillar 1 implementation

Belfius uses different approaches for the determination of its minimum regulatory capital requirements under Pillar 1:

Reporting methods used (Outside 2023 – Inside 2022)



I.1.1.1. Credit Risk

Since 1 January 2008, Belfius has been authorised to use the Advanced Internal Rating-Based Approach (AIRB Approach) for the determination of its minimum regulatory capital requirements (see as well IV.2.2.1).

Belfius has also decided to maintain a Standardised Approach for some portfolios for which this approach is specifically authorised by the Basel framework, such as small business units, non-material portfolios, portfolios corresponding to activities in run-off, to be sold or portfolios and entities for which Belfius has adopted a phased roll-out of the AIRB Approach.

In total, credit risks (including CCR) capital requirements represented 90% of total risk exposure amount at the end of 2023.

I.1.1.2. Counterparty Credit Risk and CVA risk

Belfius calculates its exposures based on the standardised method for counterparty credit risk (SA-CCR). Capital requirements are calculated according to the same principles as for credit risk.

The additional charge to cover the risk of Mark-to-Market losses due to a deterioration in the creditworthiness of the counterparties, the CVA risk, is calculated according to the Standardised Method, and represented 0.6% of total risk exposure amount as of end of 2023.

I.1.1.3. Market Risk

Since June 25, 2013, Belfius has been authorized to use its historical VaR model for the determination of its regulatory capital requirements. This Internal Model Approach is currently granted for general interest rate risk and foreign exchange risk. Belfius applies the Standardised Approach for specific interest rate risk, equity risk and commodity risk (see as well V.3.6.).

In total, market risks requirements accounted for 3.2% of total risk exposure amount at year-end 2023.

I.1.1.4. Operational Risk

For operational risk, Belfius Bank applies the Standardised Approach, which accounts for 6% of total risk exposure amount.

I.1.2. Pillar 2 implementation

The Internal Capital Adequacy Assessment Process (ICAAP), applicable since the end of 2008, requires banks to demonstrate to the supervisors the adequacy of their risk profile and of their capital by providing an overview of the internal consolidated Belfius Bank process for assessing Capital Adequacy in relation with risk profile and organisation.

In this context, appropriate governance has been put in place for the calculation and management of the risks and for the assessment of the economic capital needs from a Risk Appetite perspective (see section III.4.3.1.). The Capital Adequacy Statement (CAS) formalizes all the ICAAP constituting elements of Belfius' assessment process with regards to its internal capital adequacy. It provides the official and comprehensive view of Management body on the ongoing assessment of the risks Belfius faces in a holistic and forward-looking manner, along with the level of capital needed, both now and in the future, having considered all necessary management actions. The CAS, endorsed and signed by the management body, has been communicated to the supervisors.

Next to the ICAAP, an ILAAP (Internal Liquidity Adequacy Assessment Process) describing how Belfius Bank monitors and assesses the adequacy of its liquidity and funding risk management is designed. Similarly, a Liquidity Adequacy Statement (LAS), endorsed and signed by the management body, demonstrating that Belfius Bank has an adequate management and monitoring of its liquidity and funding positions and risks, has also been communicated to the supervisors. A detailed description of the Belfius liquidity and funding risk management framework can be found in the chapter Risk management of the Belfius' Management Report (see section on liquidity risk).

The SSM imposes as well additional requirements above the first pilar. For 2023, The P2R and the P2G were respectively set at 2.14% and 0.75% (see section III.1. for more detail).

I.1.3. Pillar 3 – Disclosure policy & disclosure map

I.1.3.1. Pillar 3

The current report contains information about risk management, risk measurement and capital adequacy in accordance with the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD) of the European Union.

The current report contains information on all subjects included in the directives and implementing regulations, insofar as they apply to Belfius Bank SA:

- Part eight of CRR;
- Consolidated Pillar 3 disclosure implementing regulation (EU 2021/637);
- Implementing regulation on disclosure of MREL (EU 2021/763);
- Implementing regulation on disclosure of ESG risks (EU 2022/2453);
- EU Taxonomy implementing regulations;
- EBA guideline on IFRS 9 transitional arrangements (EBA/GL/2020/12).

The pillar 3 disclosures under the CRD /CRR framework only deal with parent companies, subsidiaries and associated companies in the financial sector, and exclude insurance companies. This means that disclosures requirements for Belfius Insurance are generally not included in this report. Belfius Insurance prepares its own Solvency Report (SFCR report), which will be published on 8 April 2024.

However, in order to give a representative view of Belfius Group's risk profile, Belfius Insurance figures have been included in some sections, when relevant. In this case, the reporting scope is always clearly indicated.

The information provided in this report has not been subject to an external audit, but the quality of information is guaranteed by a strong process of validation within the Belfius Bank SA Management Board.

The Risk report 2023 and its templates have been signed off by Belfius' Chief Risk Officer. The report was also presented to the Risk Committee and Audit Committee (in joint session) on 18 March 2024 and to the Board of Directors on 21 March 2024.

All aspects for which disclosure is required under part eight of CRR but that are not applicable to Belfius are listed in Appendix XI

No exceptions have been applied for the publication of information considered proprietary or confidential.

The Risk report is presented in euros (EUR), which is Belfius' accounting currency, rounded to the nearest million (unless otherwise stated). Due to rounding, numbers presented throughout this document may not add up precisely to the totals we provide, and percentages may not precisely reflect the absolute figures.

The Risk report is released on an annual basis. The next report's update is scheduled for April 2025. However, quantitative information will be released on a semi-annual basis in accordance with article 433 and article 433a of CRR.

This Risk report and the Risk report annex are available in the investors section of the Belfius website (www.belfius.be), under "Results and Reports".

I.1.3.2. Pillar 3 disclosure map

If information is already available in the Management report of Belfius or Belfius Insurance and if Belfius believes it is equivalent in nature and scope to the disclosure requirements, the Risk report 2023 clearly refers to it, without repeating this information. For this purpose, a Disclosure map is established.

Mapping with Pillar III disclosure

Article CRR	Disclosure requirement	Reference to the chapter in present document		Risk report annex	Reference to external documents: Management report (MR) / Financial statements (FS)
435	Risk Management objectives and policies	II.	Risk management governance	●	
436	Scope of application	I.	Regulatory framework and Pillar III disclosure	●	
437	Own funds	III.	Equity and capital adequacy	●	
437A	MREL	III.	Equity and capital adequacy	●	
438	Own funds requirements and risk-weighted exposures	III.	Equity and capital adequacy	●	
439	Exposure to counterparty credit risk	IV.2	Counterparty credit risk	●	
440	Countercyclical capital buffers	III.	Equity and capital adequacy	●	
441	Indicators of global systemic importance			Not applicable for Belfius	
442	Credit risk adjustments	IV.2	Counterparty credit risk	●	Accounting policies – section 6.5 Impairment of financial instruments
443	Encumbered and unencumbered assets	VI.3	Encumbered assets	●	Risk management – Section Liquidity Risk (MR)
444	Use of ECAIs	X.3	Risk methodology		
445	Exposure to market risk	V.3	Trading market risk	●	
446	Operational risk management	VII.2	Non-financial risk - operational risk		
447	Key metrics		Summary of risk profile	●	
448	Exposure to interest rate risk on positions not included in the trading book	V.2	Structural & ALM risk	●	Risk management – Section Market Risk (MR)
449	Exposure to securitisation positions	IV.4 VI.2	Securitisation risk Securitisation activity as originator	●	
449A	ESG risks	VIII	ESG risk management	●	Sustainability report (MR)
450	Remuneration policy			●	Corporate governance (MR)
451	Leverage	III.	Equity and capital adequacy	●	
451A	Liquidity requirements	VI	Liquidity Risk	●	
452	Use of the IRB Approach to credit risk	X.3	Risk methodology	●	
453	Use of credit risk mitigation techniques	X.2.4	Credit risk mitigation techniques	●	
454	Use of the Advanced Measurement Approaches to operational risk			Not applicable for Belfius	
455	Use of Internal Market Risk Models	V.3	Trading market risk	●	

I.1.3.3. Pillar 3 - Risk report annexes with all tables

As EBA encourages institutions to disclose the quantitative templates in an editable format, the tables listed in the Reference table are not included in the Risk report itself but published in a separate excel file referred as the Annex of the Risk report (Risk report Annex.xls) published on the same time as the Risk report itself. You will find this reference table here beneath.

Risk report annex reference table: quantitative templates

CAPITAL BASE AND CAPITAL REQUIREMENTS	
KM1	Key metrics
OV1	Overview of risk weighted exposure amounts
CC1	Composition of regulatory own funds
CC2	Reconciliation of regulatory own funds to balance sheet in the audited financial statements
INS1	Non-deducted participations in insurance undertakings
INS2	Financial conglomerates information on own funds and capital adequacy ratio
CCA	Main features of regulatory own funds instruments and eligible liabilities instruments
KM2	Key metrics for MREL
TLAC1	MREL capacity and composition
TLAC3	Creditor ranking
LRSUM	Summary reconciliation of accounting assets and leverage ratio exposures
LRCOM	Leverage ratio common disclosure
LRSPL	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)
IFRS9	IFRS 9 transitional arrangements
CCYB1	Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer
CCYB2	Amount of institution-specific countercyclical capital buffer

GROUP STRUCTURE AND SCOPE OF APPLICATION	
LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories
LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
LI3	Outline of the differences in the scopes of consolidation (entity by entity)

CREDIT RISK	
CR1	Performing and non-performing exposures and related provisions
CR1-A	Maturity of exposures
CQ1	Credit quality of forborne exposures
CQ3	Credit quality of performing and non-performing exposures by past due days
CQ4	Quality of non-performing exposures by geography
CQ5	Credit quality of loans and advances by industry
CR3	CRM techniques overview: Disclosure of the use of credit risk mitigation techniques
CR4	Standardised approach -Credit risk exposure and CRM effects
CR5	Standardised approach
CR6	IRB approach – Credit risk exposures by exposure class and PD range
CR6-A	Scope of the use of IRB and SA approaches
CR7	IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques
CR7-A	IRB approach – Disclosure of the extent of the use of CRM techniques
CR8	RWEA flow statements of credit risk exposures under the IRB approach
CR9	IRB approach – Back-testing of PD per exposure class (fixed PD scale)
CR10	Specialised lending and equity exposures under the simple riskweighted approach

COUNTERPARTY CREDIT RISK	
CCR1	Analysis of CCR exposure by approach
CCR2	Transactions subject to own funds requirements for CVA risk
CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights
CCR4	IRB approach – CCR exposures by exposure class and PD scale
CCR5	Composition of collateral for CCR exposures
CCR6	Credit derivatives exposures
CCR8	Exposures to CCPs

SECURITISATION	
SEC1	Securitisation exposures in the non-trading book
SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

MARKET RISK	
MR1	Market risk under the standardised approach
MR2-A	Market risk under the internal Model Approach (IMA)
MR2-B	RWA flow statements of market risk exposures under the IMA
MR3	IMA values for trading portfolios
MR4	Comparison of VaR estimates with gains/losses
PV1	Prudent valuation adjustments (PVA)

INTEREST RATE RISK IN THE BANKING BOOK	
IRRBB1	Interest rate risks of non-trading book activities

FUNDING & LIQUIDITY RISK	
LIQ1	Quantitative information of LCR
LIQ2	Net Stable Funding Ratio
AE1	Encumbered and unencumbered assets
AE2	Collateral received and own debt securities issued
AE3	Sources of encumbrance

OPERATIONAL RISK	
OR1	Operational risk own funds requirements and risk-weighted exposure amounts

REMUNERATION	
EU REM1	Remuneration awarded for the financial year
EU REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)
EU REM3	Deferred remuneration
EU REM4	Remuneration of 1 million EUR or more per year
EU REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

ESG	
TEMPLATE 1	Exposures towards carbon-related sectors
TEMPLATE 2	Energy efficiency of the collateral (EPC)
TEMPLATE 4	Exposures to top 20 carbon-intensive firms
TEMPLATE 5	Exposures subject to physical risks
TEMPLATE 6	Summary of GAR KPIs
TEMPLATE 7	Mitigating actions: Assets for the calculation of GAR
TEMPLATE 8	GAR (%)
TEMPLATE 10	Other climate change mitigating actions that are not covered in the EU Taxonomy

Risk report annex reference table: qualitative templates

Qualitative information has also been included in this Annex relating directly to the quantitative elements presented in order to facilitate their interpretation.

LIA	Explanations of differences between accounting and regulatory exposure amounts
LIB	Other qualitative information on the scope of application
SECA	Qualitative disclosure requirements related to securitisation exposures
IRRBBA	Qualitative information on interest rate risks of non-trading book activities
LIQA	Liquidity management
LIQB	Qualitative information on LCR
TABLE 1	Qualitative information on Environmental Risk
TABLE 2	Qualitative information on Social Risk
TABLE 3	Qualitative information on Governance Risk

II. Risk management governance

Risk management is rooted in Belfius' corporate governance and the principles for risk appetite are incorporated at the highest governance level.

Belfius risk profile is decided by the Board of Directors. The risk appetite framework is reviewed and updated (at least) once a year. The approved targets and limits are translated into risk management policies and guidelines, such as limits on authorisations and business activities.

The compliance with the risk appetite framework is monitored and reported quarterly to the Management Board and to the Board of Directors.

II.1. Governance arrangements

For the global governance arrangements at Belfius Bank and Belfius Insurance, we refer to the respective Annual Reports (see chapter Corporate governance).

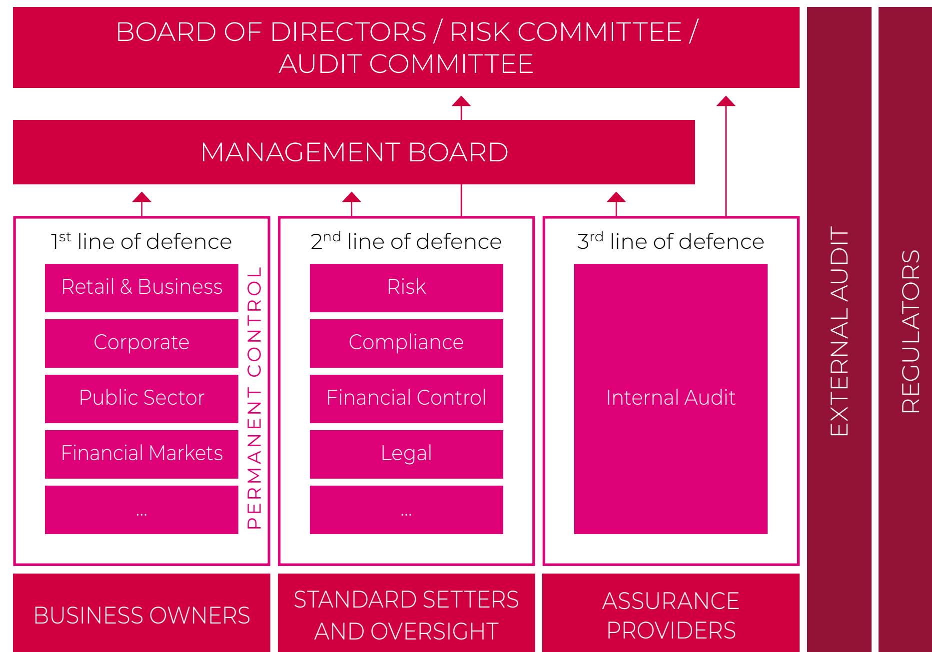
II.2. Risk governance model at Belfius Bank

II.2.1. Three lines of defence model

The Belfius risk management framework is based on the 3 Lines of Defence (3 LoD's) model with a set of adapted and effective internal controls.

- The **first line of defence** is the responsibility of the business (and support lines when applicable) and their management as this is where the risks are taken (handled) and where risks are potentially mitigated : they own, manage and control risk (Business Lines/Front) within the framework designed by the 2nd LoD.
  The Permanent Control functions within the business lines play a key pillar in this respect. These have been set up in each main business lines: one for PBR and one for WEP.
- The **second line of defence** is the responsibility of the (transversal) control functions assured, mainly but not exclusively, by Risk and Compliance, which are independent from the business: they define the risk management framework (policies, guidelines, Risk Appetite Framework...), monitor and control the risks in support of the 1st line (Risk, Financial control, Legal, Compliance) and keep global risk oversight.
- The **third line of defence** is the responsibility of the internal audit function, which provides an independent review of the first two lines of defence.

Although external parties are not formally considered to be among an organization's 3 lines of defense, groups such as external auditors and regulators play an important role regarding the organization's overall governance and control structure.

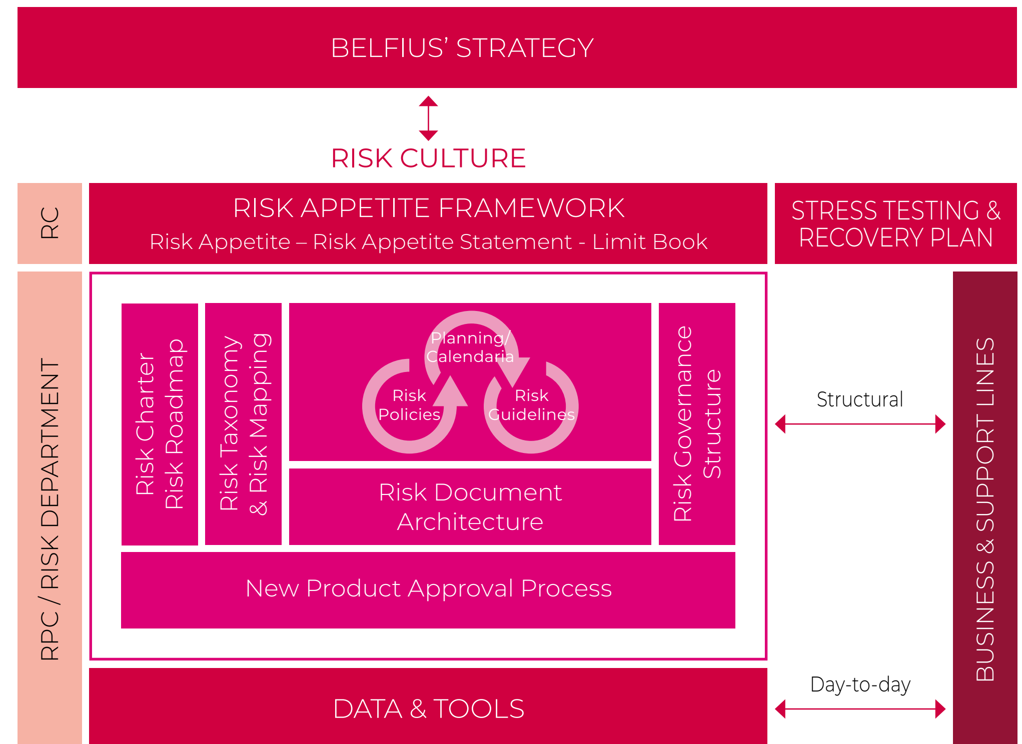


With regards to the 3 LoD model, the Risk Mapping enables a clear assignment of responsibilities and ensures a comprehensive risk coverage as well as an enhanced capacity to spot gaps and define action plans. This risk mapping is regularly updated, in order to capture all newly identified risk categories in accordance with the adjustments brought to the Belfius' Risk Taxonomy.

The Board of Directors reviews the Senior Management Report on the Assessment of the Internal Control, which includes assessments of the principal risk areas, on a yearly basis. The review documents the quality of the internal control and risk management and identifies weaknesses and needs for improvement.

II.2.2. Risk management framework

The risk management framework aims to implement sound, prudent and effective risk management and corporate governance. It aims to cover in a consistent way all elements required for a sound risk management.



II.2.2.1. The Risk Appetite Framework (RAF)

(see also Equity and Capital Adequacy – III.3.3.1. Risk Appetite)

The Risk Appetite Framework (RAF) is the expression, at the highest consolidated level, of the risks Belfius is prepared to take, or not to take, as a stand-alone group pursuing its own strategy and financial targets. It applies group-wide and all (sub-)limits and risk guidelines must be consistent with it. It is composed of 3 levels:

- Level 1 includes high level risk indicators and qualitative statements which reflects also risk culture (eg ethic, tax, compliance, fraud, ...);
- Level 2 includes more detailed KRI's on a broad range of key risks;
- Level 3 concerns the operational limit book and activity or entity specific risk indicators.

The RAF is consistent with the Belfius Group strategy and financial targets. The RAF must be seen as an evolutive process in which:

- risk coverage and risk level are revised on a yearly basis;
- defined key Risk Indicators (KRI's) and limits are regularly checked against business strategies with the annual check that the RAF limits are respected, both in base case and in case of stress scenarios, when designing the Financial plan.

The RAF covers both qualitative and quantitative indicators, both related to financial as non-financial risks. Qualitative indicators are embedded in the RAF under the form of statements, while quantitative indicators are based on regulatory requirements (CET 1, LCR, NFSR, MREL,...) and internal indicators deemed relevant to monitor Belfius' risk profile (credit risk concentrations, EaR, operational losses, data breaches, internal fraud, compliance, ESG risks,...).

For quantitative indicators, the Board of Directors defines tolerance levels which need to be respected at all times. In case of breaches, action plans must be submitted to the Board of Directors. The RAF report is presented to the Board of Directors on a quarterly basis.

As the RAF is the expression, at the highest consolidated level, of the risks Belfius is prepared to take or not to take, the Management Board has the responsibility to comply with the designed risk appetite framework in the daily transactions. This is done through the implementation of a detailed limit framework, a committee structure and a cascade of information/decision briefings to all risk management stakeholders.

The RAF has been rolled-out in the subsidiaries to strengthen the conglomerate dimension, The subsidiaries' RAF's are based on the RAF at group level, reflecting and monitoring their own (financial and non-financial) vulnerabilities and risks.

II.2.2.2. The Risk Charter

Belfius Bank has determined the main risk principles and guidance for all stakeholders and departments involved and more specifically for Belfius risk management, in a Risk Charter.

II.2.2.3. The Risk Roadmap

Via its risk roadmap, Belfius Bank sets and communicates the overall objectives, actions and priorities for the Risk department to its team members and its main stakeholders (1 to 2-year time horizon).

II.2.2.4. The Risk Taxonomy and Risk Mapping

The Risk Taxonomy is a common set of risk categories, used within Belfius. The Belfius Risk Taxonomy is integrated and standardized: one basic classification: same risk types and classification throughout the group & one description for each risk category & risk type.

The Belfius Risk Mapping defines clear roles and responsibilities for all risk types and tasks within the Bank.

The general Risk Taxonomy & Risk Mapping are updated regularly, integrating new aspects..

II.2.2.5. The Risk Governance Structure

The Risk Governance Structure defines a robust set-up of Risk Committees incorporating effective communication and reporting lines with clear and consistent assignment of responsibilities and authorities; consistently assigns roles and responsibilities to both Risk/Risk & Business Committees and positions decision taking (and their monitoring) at an adequate management level in a coherent way.

II.2.2.6. Risk Policies & Guidelines

The Risk Policies and Guidelines constitute an aggregated set of specific risk policies and guidelines to concretize the desired global risk management governance and culture; define strategies, roles and responsibilities, concepts and objectives of an activity; and give clear instructions for stakeholders to be applied in a day-to-day business context.

II. 2.2.7. Risk Document Architecture

The Risk Document Architecture describes the main Risk document types on a high level, together with the responsible issuer, the validation instance and the frequency of update.

II.2.2.8. New Product Approval Process (NPAP)

The process of developing a "product, activity, process or system" involves several steps that must be completed before the new (or changed) function can be implemented. The policy establishes the overall process and the accountability of the parties involved in this process. Therefore, it defines the governance and describes the new product approval process.

We also refer to VII.2.3.3. of this report.

II.2.2.9. Stress Testing & Recovery Plan

Stress tests are designed to measure the group' sensitivity (in terms of losses, additional weighted risks, liquidity needs or equity capital requirements) to scenarios featuring significant unexpected economic or market shocks and/or shocks affecting Belfius's own financial situation.

Following the implementation of the Bank Recovery and Resolution Directive (BRRD) and the Belgian Banking Law, Belfius Bank has to prepare a recovery plan, which is updated on a yearly basis. As part of the crisis management framework, the recovery plan outlines how the Bank can react to a financial stress to avoid resolution. In this context, it aims at preparing the Bank to develop recovery measures to restore the financial strength under various types of stress scenarios. The plan is fully integrated in Belfius' Risk management framework.

For further information about the Stress Testing and Recovery Plan, we refer to III.3.3.2.3. and III.3.3.2.4.

II.2.2.10. The Risk Culture

The Risk Culture policy within Belfius takes as entry point the fact that within the group, we stand to maintain a collective ability to identify, understand and act on current and future risks and that everyone in the bank has a role and a responsibility in his/her daily business in that respect. Risk culture is a critical factor in the success of the group's strategy and long term resilience. It embeds the combined set of Corporate values, norms, competencies and behaviors related to risk awareness (perception of risk). As such, risk culture is about norms, ethics, behaviors, and judgements, playing an important role in guiding the actions and decisions taken by the management and employees within the group. It relates to risk awareness, risk-taking and risk management all within a strong risk governance and determines the collective ability to identify, understand, openly discuss, and act on the current and future risks. It reflects the shared values, goals, practices and reinforcement mechanisms that embed risk into the institution's decision-making processes and risk management into its operations (Risk Management Association and Protiviti, The RMA Journal).

Belfius' risk culture is fully aligned with Belfius' corporate values and culture. Within risk, we fully embrace the Belfius' corporate culture as all our actions and decisions have the Belfius purpose as main driver: to be meaningful and inspiring for the Belgian society, together.

The risk culture is is embedded at all levels of the Group starting with the tone from the top. The risk culture is developed via multiple complementary processes (trainings, messages from the CRO in the QRR, awareness campaigns and communications, the CORMs as risk culture ambassadors, a 'Risk Culture' file on the intranet, permanent controls in the first lines, key indicators in the management contracts of the staff (compliance, regulatory ratio, credit and market risks indicators, audit recommendations,….).

II.2.2.11 Data & Tools

Regarding tools and processes, Belfius continues to work on different initiatives in order to further improve the quality of data and increase efficiency of risk processes. Amongst those,

- the project aiming at the creation of a common data platform with specific attention for Risk and Finance data concepts enables further automation within Risk and Finance and allows to share a common view within the group.
- the implementation of a broad Core Banking Renewal program will a.o. address the credit risk processes from an end-to-end perspective and the risk engines.
- Risk is working on the development of a future proof financial simulation tool to be used in base and stress scenarios
- Reinforcement of the End-User Computing control framework
- …

II.2.3. Risk governance structure

A performant risk governance structure is considered as a central cornerstone to sound risk management. A robust risk committee set-up incorporates effective communication and reporting lines and a clear delineation of responsibilities and competences.

II.2.3.1. Risk Committee operating within the Board of Directors: Risk Committee (RC)

For a more extensive description of the Risk Committee (including remit and functioning), we refer to the Belfius Management report, chapter Corporate governance.

The Risk Committee (RC) is one of the advisory committees operating within the Board of Directors. It has been established in accordance with Article 27 and Article 29 of the Belgian Banking law.

II.2.3.2. Risk Committees on strategic level operating within the Management Board

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

- the **Risk Policy Committee (RPC)** supervises the definition and the implementation of the Bank's principal risk management and measurement policies, processes and methodologies, and their validation status;
- the **Non-Financial Risks (NFR)** Committee ensures a well-governed and coordinated non-financial risk framework for an effective Non-financial risk management.

In addition to these two risk committees, four functional areas also report to the Management Board without a separate committee being set up for them:

- the **Credit Risk Committee (CRC)** centralizes all credit risk related topics (origination, monitoring, impairment) into one committee in presence of the Management Board members who are directly involved (CRO, Head of PBR & WEP);
- the **Financial Markets Committee (FMC)** has as prime function the effective risk management oversight and steering of the Financial Markets activities. It is held once a month with a strict quorum including members of the Management Board (CRO, CFO and Head of WEP);
- the **Assets & Liabilities Committee (ALCo)**: the ALCo has received mandate for realising the effective ALM management within the regulatory framework. The Liquidity Management Committee has been mandated by the ALCo to take care of all aspects relating to liquidity management and steering as well as the reporting;
- the **Capital Group Committee (CGC)** anticipates, prepares, analyses & monitors all capital aspects on a conglomerate level (Bank, Insurance & related subsidiaries) in compliance with regulatory, legal and economic constraints. It also acts as Prudential Watch Committee (PwaC).

II.2.3.3. Risk Committees on tactical/operational level

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

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

II.2.3.3.1. At a general level

The **Risk Executive Committee (Risk ExCom)** is responsible for the day-to-day deployment of the Risk Appetite Framework of Belfius Bank as defined by the Board of Directors and/or the Management and bears the ultimate responsibility for the implementation of the Belfius Bank's risk roadmap.

II.2.3.3.2. Financial Markets Risk Management

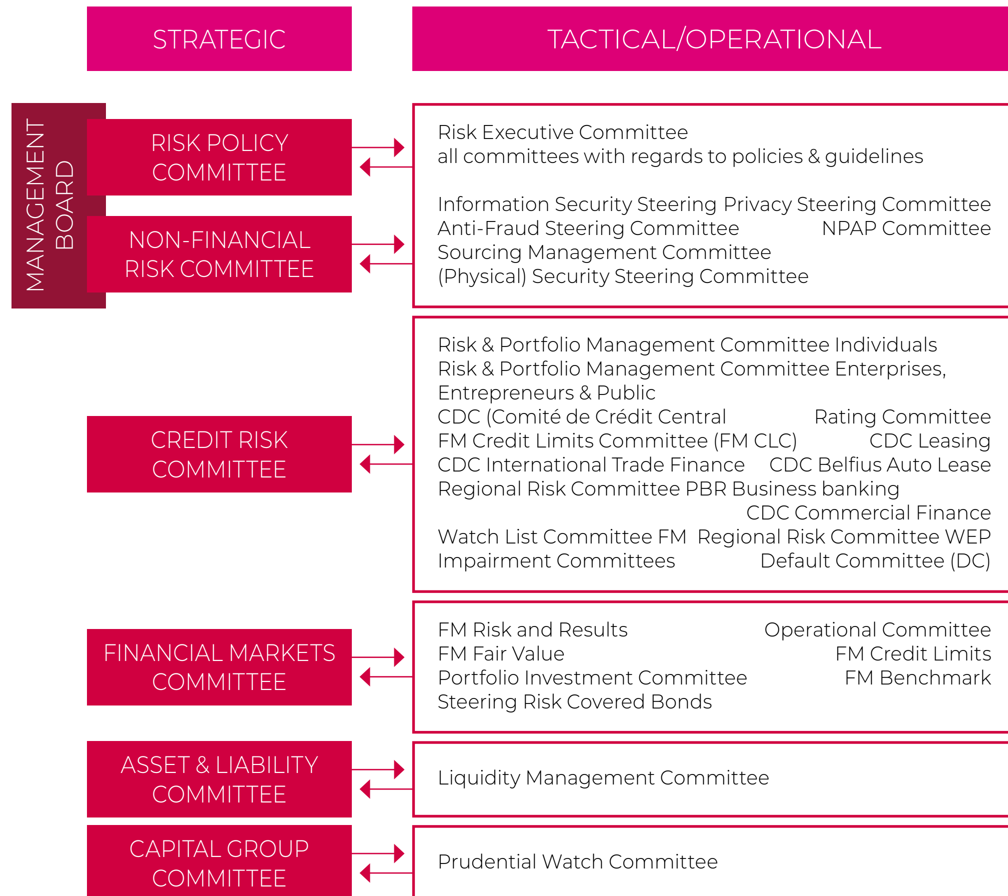
Besides the **Financial Markets Committee (FMC)** - at strategic level - several sub-committees at tactical/operational level cover financial market risk (The sub-committees are described in annex XI.4.1).

II.2.3.3.3. Credit Risk Management

Besides the **Credit Risk Committee (CRC)** - at strategic level - several sub-committees at tactical/operational level cover credit risk (The sub-committees are described in annex XI.4.1.).

II.2.3.3.4. Non-Financial Risk Management

Besides the Non-Financial Risks Committee (NFRC) - at strategic level - several sub-committees at tactical/operational level cover specific NFR risk (The sub-committees are described in annex XI.4.1.).



II.2.4. Risk reporting to the Boards of Directors

Belfius Risk Reporting is an essential part of the Risk Department responsibilities. Reporting should meet high standards. Timing versus reliability is the resulting balance between the level of information available and the response time available.

Recurrent reports are based on a robust data collection, data quality and data knowledge process based on both automated and upgraded central/end-users transactions related chains.

Ad hoc requests require tailor made solutions with adapted time-to-respond in order to support management decisions.

The internal control process ensures the completeness of reports as well as the reliability and (transversal - horizontal & vertical) overall consistency. Risk Reporting aims at making management aware of the overall risk profile and of material risks in order to ensure appropriate decision-taking process based on among others clear risk information/opinions.

The table on the next page shows the regular independent reports on risk and compliance sent to the Boards of Directors (this does not include ad hoc or specific risk reportings). In addition, the Board of Directors is informed in case of breach of risk appetite limits, threshold values in the recovery plan or other significant events or changes in the risk situation.

Intragroup transactions include all transactions which result in (financial) assets or liabilities being transferred between undertakings within the Belfius group.

The monitoring of Intra-Group Transactions (IGT) is executed following approved Belfius Bank & Belfius Insurance thresholds (capital, liquidity, concentration, leverage, MREL, encumbrance, duration gap), validated ex ante at Capital Group Committee (CGC) and reported ex-post to the regulators (FICOD reporting) on a quarterly basis.

A policy and governance is installed to identify and report intragroup transactions that could be qualified as “prudential arbitrage”. Please note that in recent years, no significant intragroup transactions that could be qualified as “prudential arbitrage” were recorded within the Belfius group.

Intragroup transactions (e.g. sales between different entities of the group) are performed at market price and consolidation adjustments are required to reset to the situation before the transaction. More in particular, seeing that the transaction remains within the consolidation scope, any realized gain/loss should be eliminated.

Reporting to the BoD

Frequency	Reporting	
QUARTERLY	The Quarterly Risk Report (QRR)	The QRR is the main quarterly report of Risk Management towards the Board of Directors. Besides a global risk executive summary on the global risk situation and the evolutioon during the last quarter, the report covers all relevant information on each risk type.
	The RAF Report	The RAF report is the quarterly reporting on the RAF and all Level 1 and Level 2 RAF indicators. In case of a breach, action plans are presented.
HALF-YEARLY	Compliance Activity report	Report on the main Compliance evolutions and activities over the past 6 month, with an overview of the main Compliance risks and the planned actions to remediate them.
YEARLY	Senior Management Report on the Assessment of the Internal Control	The yearly report on the effectiveness of the internal controls reports on the the status and effectiveness of the internal control, which includes assessments of the principal risk areas. The review documents the quality of the internal control and risk management efforts and identifies any weaknesses and needs for improvement.
	Risk Roadmap	The Risk Roadmap expresses the the risk management objectives, actions and priorities of the Risk department with a focus on their implementation during the strategic/tactical plan (1-2 years time horizon)
	ICAAP-ILAAP	The ICAAP and ILAAP documents must be reviewed at least annually by the Board. The ICAAP report contains a detailed description of Belfius' process for self-assessments of risk and the capital situation. The ILAAP report describes and assesses Belfius' liquidity situation.
	Recovery Plan	Following the implementation of the Bank Recovery and Resolution Directive (BRRD) and the Belgian Banking Law, Belfius Bank has to prepare a recovery plan, which is updated on a yearly basis. As part of the crisis management framework, the recovery plan outlines how the Bank can react to a financial stress to avoid resolution.
	Compliance Action plan	Report with the evaluation of the Compliance action plan of the previous year and the proposed Compliance action plan for the current year.
	AML year report	Annual report by the AML Compliance Officer, on the AML governance, organization, project, activities and risks within Belfius.
	Yearly evaluation of the Compliance Function	Evaluation by the Board of directors, based on the input of the internal audit department, whether the functioning of the Compliance Function is in line with the regulatory expectations, as defined by the circular of the FSMA/NBB
	Annual Model Report of the Validation (Model Management Framework)	The report provides a global overview of the situation of the models within the bank: quality of the models, compliance with regulatory requirements, developments over the last year, planning for the coming year.

The most important intragroup transactions are related to contributions in kind of direct property, sales of bonds and covered bonds and sales of shares and participations in order to centralize the management of participations.

II.3. Risk department organisation, role and responsibilities

II.3.1. General mission

The mission and role of the Risk department is to oversee the implementation of a robust risk management framework which relies on:

- A sound governance, with well-defined roles & responsibilities, reporting lines and escalation mechanisms;
- A sound and holistic risk appetite framework, with key financial & non-financial KRI's & internal controls to identify, manage & report risks in a timely manner;
- Well-defined policies, process covering all risks in their scope;
- Well-developed quantitative & qualitative methodologies to assess risks.

The Risk department has the responsibility to establish a set of risk policies and guidelines defining the risk governance and management including an adequate committee structure with clear and consistent assignment of responsibilities.

The overall objective of the Risk department is to ensure that the Group strategy is in line with the sound risk management framework defined by the BoD.

The Risk Department ensures the implementation of a sound, prudent and effective risk management, based on an extensive understanding of the existing and emerging risks. Based on a swift and proactive identification process alerting on potential evolution of financial as well as non-financial risks. Furthermore, the risk department helps building a risk culture within the organisation including a tone from the top and strong communication processes.

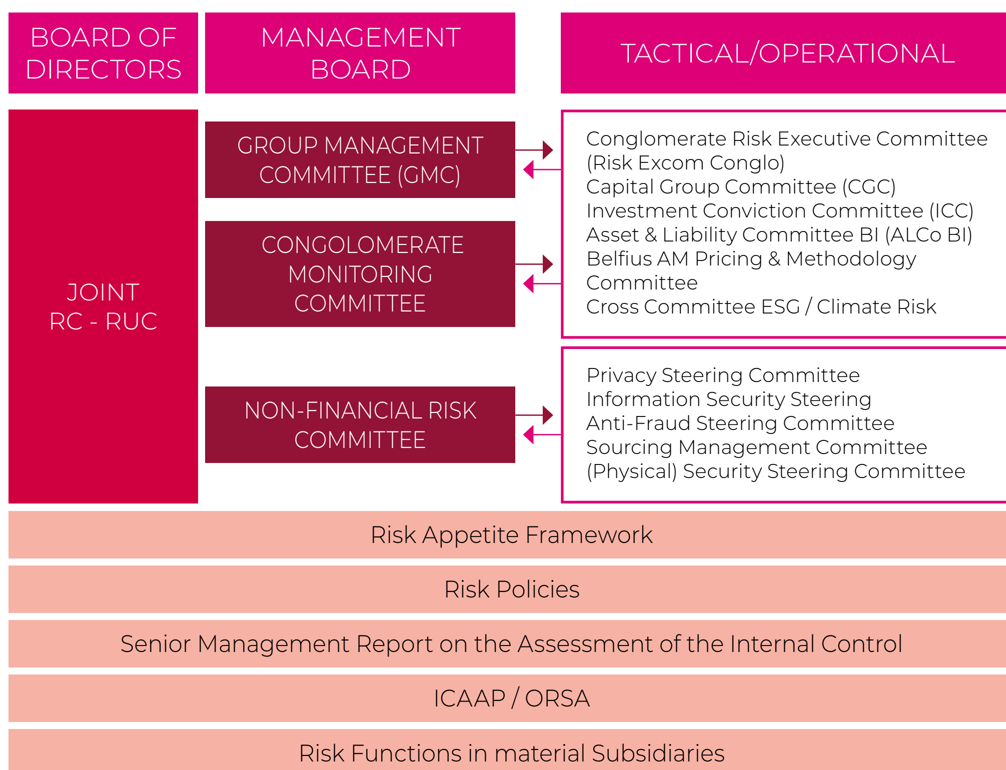
Under a more global picture, risk management is the keeper for the global balance between the bank's solvency, liquidity and profitability to be respected in all decisions.

II.3.2. Risk organisation

II.3.2.1. At conglomerate level

In line with Art. 194 of the Banking Law, Belfius is managing risks based on a group-wide[1], consolidated and integrated risk management framework. It assumes a risk-based approach to further strengthen the conglomerate dimension.

The overall objective is to have a risk management coordination at conglomerate level, ensuring consistency while respecting the entities' specificities, responsibilities and legal/regulatory obligations. The main pillars of this risk management are an appropriate risk governance structure, a robust and aligned risk framework, risk monitoring and decision-taking process.



(1) Belfius Bank, Belfius Insurance, Belfius Investment Partners.

- At the level of the Board of Directors : joint RC/RUC's (Risk Committee / Risk & Underwriting Committee).
- At the level of the Management Board (strategic level):
  - A Group Management Committee (GMC), with potential conflicts dealt with at the level of Intragroup Committee
  - A joint Non-Financial Risk Committee (NFRC), related to all NFR topics
  - A Conlgomerate Monitoring Committee, assuring an overview of all subsidiaries. It tackles amongst other the risk management framework of each subsidiary.
- At a general risk level (tactical/operational level), several committees are 'joint' or 'Belfius Together' (BB: Belfius Bank; BI: Belfius Insurance & Belfius AM (Belfius Asset Management):
  - The Conglo Risk Executive Committee (Conglo Risk ExCom) with participation of the CRO of Belins and Belfius AM
  - The Capital Group Committee (CGC) is a joint BB and BI committee
  - The Investment Conviction Committee (ICC) is a joint BB, BI and Belfius AM committee
  - The Assets & Liabilities Committee (ALCo) of Belins in which BB participates
  - The Belfius AM Pricing & Methodology Committee Belfius AM in which BB participates.
- At specific risk level, several sub-domains have a common governance with 'Belfius Together' sub-committees for various risks:
  - The Information Security Committee
  - The Anti-Fraud Steering Committee
  - The Privacy Steering Committee
  - The (Physical) Security Steering Committee
  - The Outsourcing Management Committee
  - A cross committee for ESG/Climate Risk.

The 3 main entities (BB, BI and Belfius AM) have similar risk policies, guidelines framework and approach. They use similar and/or common tools ensuring consistency and enabling coherence as well as an integrated management of risks and internal controls:

Risk Appetite Framework: defined and validated group wide by Belfius Bank and cascaded down to subsidiaries; based on the RAF at group level and reflecting and monitoring their own (financial and non-financial) vulnerabilities and risks.

Risk Management & Control executed through the "Senior Management Report on the Assessment of the Internal Control".

ICAAP (Belfius Bank & Belfius AM), Recovery Plan (Belfius Bank) and ORSA (Own Risk and Solvency Assessment; Belfius Insurance).

The Conglomerate dimension has been further developed with a closer oversight of all material subsidiaries, on other dimensions as well:

- Further alignment of major Risk policies in a conglomerate approach;
- The creation of a risk function in all material subsidiaries;
- An AML-risk assessment on conglomerate level was completed at the end of 2022.

More information regarding the risk governance of Belfius Insurance can be found in the Annual Report of Belfius Insurance, chapter Risk management.

The Risk department has further enhanced the conglomerate dimension, in line with the Group's bank-insurance strategy. The Risk Management organisation takes more systematically a conglomerate vision while ensuring quality, efficiency and expertise in both entities at all times.

For example:

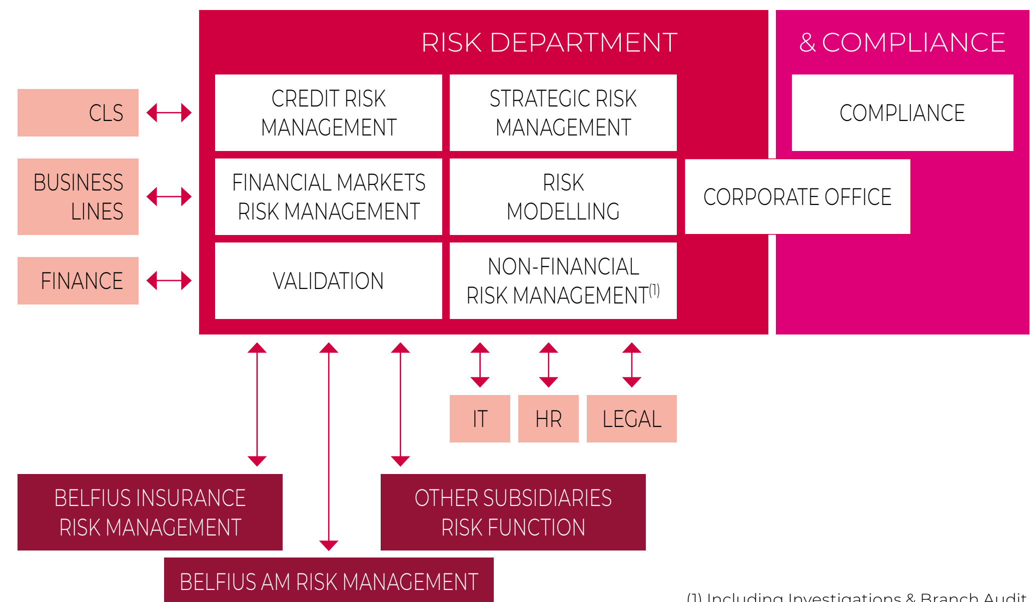
- With regards to the organisation of non-financial risks:
  - Mutual risk functions are in place ensuring coordination and alignment between both banking and insurance sides, including specialized functions such as DPO and CISO.
  - An NFR-related committee structure involving appropriate level of management from both banking and insurance sides has been set up.
  - A yearly internal control report is written, including risk profile overview of Belfius Insurance and Belfius Investment partners.
  - A risk management framework has been implemented at conglomerate level, including the adoption of NFR-related policies and the development of risk appetite frameworks with both NFR-related qualitative and quantitative indicators for all material subsidiaries.
- With regards to the organisation of financial markets risk:
  - Regarding the subsidiary Belfius Ireland is concerned, all risk management functions are centralized in the FM Risk Management team in Brussels.
  - Regarding Belfius Insurance, all aspects of risk management that belong to the competence of Financial Market Risk Management are also centralized at Belfius Bank's team.
  - For Belfius Investment Partners, FM Risk Management provides the credit risk analyses of the financial counterparties with whom Belfius AM engages.

II.3.2.2. At Belfius Bank level

This risk organisation considers:

- Belfius as a major actor in the Belgian financial sector/context serving Belgian society/economy;
- the size of Belfius;
- the strategic objectives of Belfius;
- the needed cooperation between methodological and operational risk teams;
- the extension and reinforcement of regulations (Basel III and beyond) and additional (inter)national regulatory frameworks;
- the liquidity, solvency and profitability challenges;
- the necessary promotion of a risk culture within Belfius.

The main missions of the various divisions of the Risk department (see graph on the right).



(1) Including Investigations & Branch Audit

II.3.2.2.1. Credit Risk Management
The goal pursued by Credit Risk Management is the development and maintenance of an efficient and robust risk management framework for the Retail, Business & Corporates and Public Sector credit activities, based on proactive risk control and risk-challenger view.

II.3.2.2.2. FM Risk Management
The focus of FM Risk Management is to develop and to maintain an efficient and robust risk management framework for treasury, portfolio management and financial markets activities, in strict compliance with the risk appetite and the business strategy of Belfius Bank.

II.3.2.2.3. Strategic Risk Management
The Strategic Risk Management team enhances the strategic dimension of risk management, increases consistency within the group and ensures a relevant and consistent risk approach. Strategic Risk Management includes a.o. the "Asset & Liability Management & Liquidity Risk" team (Risk –ALR), exercising the second line of defence on the ALM & Liquidity functions, the team responsible for the risk insights on financial planning and performing Stress Testing assessments, a Strategy Development Center active in 2023 in continuing setting robust building blocks of our ESG risk Framework, …

II.3.2.2.4. Risk Modelling team
The risk modelling team gathers the risk modelling teams that were previously included in the Credit Risk Management department and the Strategic Risk Management department.

II.3.2.2.5. Validation
The primary task of Validation is to independently ensure quality, reliability, proper functioning and adequate use of the models developed by Belfius Bank as well as their compliance with regulatory requirements during their entire life cycle. Validation also plays an important role in the assessments/communication of the strengths and weaknesses of models to help all stakeholders to improve their understanding and use.

II.3.2.2.6. Non-Financial Risk
The Non-Financial Risks department acts as the 2nd line of defence for the main non-financial risks and acts as a corporate crisis, BCP manager within Belfius. The division includes a Transversal NFR team, the DPO (Data Privacy Officer) as well as the CISO (Chief Information Security Officer).

The Non-Financial Risks team acts on behalf of Bank and Insurance entities.

II.3.2.2.7. Compliance
The Compliance department acts as the 2nd line of defence for the management of the Compliance Risks, as defined in the 2012 circular of the NBB and FSMA. The department consists of a team of Compliance Business Advisors, a Compliance Risk Monitoring teams, as well as an Anti-Money Laundering team.

II.3.2.2.8. CRO corporate office
A CRO corporate office has been created in 2021 with the objective of supporting the CRO and her teams in the journey towards a more efficient and more holistic risk management. Its responsibilities namely entail the following:

- Ensure an effective Risk & Compliance organisation with clear objectives and ambitions.
- Coordinate, monitor and assess strategic (risk) projects.
- Ensure consistency, prepare and monitor relationships with internal and external stakeholders.

II.3.2.2.9. Investigations & Branch Audit department
The Investigations & Branch Audit department conducts investigations into suspicions of internal fraud and provides, through on-site reviews, reasonable assurance regarding the management of the risks resulting from human interventions in the distribution channels.

The Investigations activities cover all entities of the Belfius group, including its subsidiaries as well as the independent distribution networks whereas the Branch Audit activities do not include Belfius Insurance.

II.4. Belfius Risk Cartography

The RICAP (Risk Identification and Cartography Assessment Process) was implemented in 2011. The RICAP consists of a series of meetings with key business representatives to ensure all risks are identified, accounting for current and forward-looking aspects.

The following table illustrates the risk identification process within Belfius. It represents the risk cartography of Belfius at 31 December 2023, which aims at screening all risks to ensure they are identified, quantified and monitored.

All risk types are classified as Financial, Non-Financial or Conglomerate risks (further segmented into financial or non-financial risk types).

Financial risks are capitalised except Liquidity Risk for which no capital is set aside as Belfius perceives that capital is not the adequate answer to cover this risk. The liquidity risk is actively monitored and managed through gap limits and stress tests.

Most of Non-financial risks are not capitalized but will generally be contained by adequate procedures and monitored through appropriate processes.

Business Risk, even if not covered by capital, is considered through Earnings at Risk and Stress Testing framework.

Conglomerate risks can be further broken down into financial and non-financial risks.

Credit risk, market risk and operational risks are subject to the Pillar 1 framework and are also included in the Pillar 2 framework.

The Pillar 1 and Pillar 2 approaches to the same risks might differ at four levels:

- the perimeter;
- the methodology;
- the risk parameters used;
- the level of severity.

			Pillar 1	Pillar 2	Covered by Capital
FINANCIAL RISKS	CREDIT RISK	Solvency Risk	●	●	Yes
		Country Risk	●	●	Yes
		Counterparty Credit Risk	●	●	Yes
		Residual/Recovery Risk		●	Yes
		Settlement Risk		●	Yes
	STRUCTURAL MARKET AND ALM RISK	Interest Rate Risk		●	Yes
		Price Risk[1]	●	●	Yes
		Currency Risk		●	Yes
		Spread Risk		●	Yes
		Liquidity Risk		●	No
		Funding Risk		●	Yes
	TRADING MARKET RISK	Interest Rate Risk	●	●	Yes
		Spread Risk	●	●	Yes
		Price Risk	●	●	Yes
		Currency Risk	●	●	Yes
		Liquidity Risk		●	No
		Other Market Risks[2]		●	Yes
	OTHER RISKS	Insurance Specific Risks (incl. Life, Non-Life and Health)		●	Yes
		Behavioural Risk (incl. Prepayment Risk)		●	Yes
		Pension Plan Risk		●	Yes
		Model Risk[3]	●	●	Yes
NON FINANCIAL RISKS	OPERATIONAL RISK	Operational Risk	●	●	Yes
	OTHER RISKS	Business Risk		●	No
		Strategic Risk		●	No
		Execution Risk		●	No
		Reputation Risk		●	No
		External Risk		●	No
		Compliance Risk		●	No
		Legal Risk		●	No
CONGLOMERATE RISKS		Conglomerate Risk		●	No

(1) Price risk includes risk on Equity exposure and Property exposure in the Banking Book.
(2) Including volatility / correlation, carbon and commodities risks.
(3) Consisting of Additional Value Adjustments (AVA) considered for Market and Credit Risks.

The perimeter of Pillar 2 risks is larger as Pillar 2 aims for exhaustiveness. Other risks than those included in the Pillar 1 framework are specifically included in the Belfius Pillar 2 framework i.e. settlement risk, residual/recovery risk, interest rate risk (Structural Market and ALM Risk), currency risk (Structural Market and ALM Risk), funding risk (Structural Market and ALM Risk), liquidity risk, behavioural risk, insurance specific risks, pension plan risk, business risk, strategic risk, execution risk, compliance risk, reputation risk, external risk and legal risk.

Methodologies and risk parameters used by Belfius lead to the calculation of economic capital. It is defined as the potential deviation of the Group's economic value from its expected economic value at a determined interval of confidence and time horizon. The choice made by Belfius is to estimate its risks at a severity level of 99.94% on a 1-year horizon instead of, respectively 99.9% and 1-year for Credit and Operational risks and 99% and 10-day for Market Risk as required by the Pillar 1 requirements.

As mentioned above, several risks such as business, reputation, strategic, liquidity, compliance, execution, conglomerate, external and legal risks are part of the Pillar 2 but are not capitalised, either because they are considered as non-material (currency risk) or because they are managed through appropriate processes.

In 2021, ESG risks have been embedded in the Risk Taxonomy, not as a separate risk category but as a potential driver of several traditional risk types, including credit, market, operational, strategic, business and reputational and legal risks. The ESG components of those risks are not yet capitalized but are identified, assessed, monitored and managed through specific processes. More details about ESG Risk Management can be found in Section VIII of this report.

II. 5. Risk governance by type of risk

II.5.1 Credit risk governance and committees

Belfius' counterparty limit framework, which is part of its global Risk Appetite Framework (RAF), is the main instrument to limit risk concentrations:

- it serves as a reference point to determine the risk levels for which the Management Board and the Board of Directors are qualified; and
- affects as a result also the decision limits of all (other) credit committees.

Belfius has a hierarchically organized structure of credit committees and delegation rules:

- this implies that decisions are made by a higher decision level as the amount of the credit transaction increases and/or the rating quality of the counterparty declines;
- credit committees have in general equal numbers of Risk or Credit department and Business representatives, and are always chaired by a Risk or Credit department member;
- Belfius relies increasingly on an advanced and automated decision-taking process with behavioural or financial indicators - determined by Risk - as cornerstones;
- furthermore, credit (and risk) committees are to a significant extent regionalized, strengthening the principle of decision-by proximity.

Once Belfius has credit commitments on a counterparty, it is essential to monitor and control the risk evolution, in order to take corrective measures in case of quality deterioration and, when appropriate, to establish provisions for expected credit losses:

- to this end, Belfius has set up an early warning system based on behavioural and/or financial indicators;
- counterparties showing signs of weakness are closely followed by the Watchlist Committees, whose main task is to detect emerging risks as quickly as possible and to monitor them subsequently;
- in this context, Belfius strictly applies the directives of the EBA regarding Forbearance measures, i.e. all concessions towards debtors facing or about to face difficulties in meeting their financial commitments;

- a counterparty that seriously fails to meet its obligations towards the Bank receives a default status; the formal decision is the competence of Belfius' Default Committee, composed exclusively by members of the Risk department;
- the Impairment Committees decide on the adequate impairment levels for exposures in respectively stage 1 (performing), stage 2 (performing but significant credit deterioration since inception) and stage 3 (default status).

Next to all afore-mentioned committees, Belfius also disposes of a set of:

- credit risk committees whose core mission is to provide an effective credit management oversight and steering regarding all business segments;
- Methodological committees whose main aim is to validate the internal rating systems and to ensure quality control.

We refer to annex X.5.1. for more information on the governance of credit committees.

II.5.2 Market risk governance

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

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

Committees

The Financial Markets Committee (FMC) is the main committee for Financial Markets Management. Its main objective is to provide effective risk management oversight and steering of the Financial Markets activities. This includes reviewing business, risk and P&L reports, and providing an appropriate risk management and governance framework aligned with the RAF and business objectives set forward by the Management Board. As a consequence, the FMC is responsible for determining market risk limits consistently with the Market Risk Appetite.

The Risk Policy Committee validates all major changes in risk governance. For the sub-committees, we refer to annex X.5.1.

II.5.3 Liquidity risk governance

Liquidity risk is managed on a consolidated level, which includes the bank, its subsidiaries and branches as well as the vehicles for securitization. Asset and Liability Management (ALM), a division situated within the scope of the Chief Financial Officer (CFO), is the first line manager for the liquidity requirements of Belfius Bank. This team is responsible for identification, analysis and reporting on the current and future liquidity positions and risks, it defines and coordinates funding plans and actions.

The second line of controls is performed by the ALM and Liquidity Risk team, falling under the Chief Risk Officer (CRO) responsibility, consisting in establishing the risk and control frameworks overseeing the first line of defence, ensuring thereby that risk management and control processes are properly designed and effectively operating. The third line of defence, the internal audit, guarantees the independent assurance on the adequacy and the effectiveness of the governance, risk management and controls performed around liquidity risk management.

II.5.4. Non-financial risk governance

The NFR department acts as an independent internal control function with a 2nd LoD role, and reports to the Chief Risk Officer (CRO). The NFR department also includes the specific functions of Anti-Fraud Officer, Data Protection Officer (DPO) and Chief Information Security Officer (CISO). Please note that NFR works closely with the CORM and Permanent Control functions in the business and support lines (1st LoD).

The reporting, is – besides several specific reports - mainly covered via a dedicated chapter in the Quarterly Risk Report or via dedicated sessions to the Management Board (also called NFR Committee) and senior management.

For more detailed information on Non-financial risks risk management framework and governance, please refer to Chapter VII of the Risk Report.

II.5.5. ESG risks governance

ESG-related themes have been integrated into the governance layers of Belfius Group. Accordingly, the terms of references of the main boards and committees have been adapted to explicitly integrate ESG responsibilities. At executive management level, a Strategic Sustainability Committee (SSC) has been created which operates as a central hub of the (operational) ESG governance. Below executive management level, various exchange platforms have been set up as well.

The responsibilities of the governance bodies with respect to ESG are detailed in section 7.3.1 of the Sustainability Report.

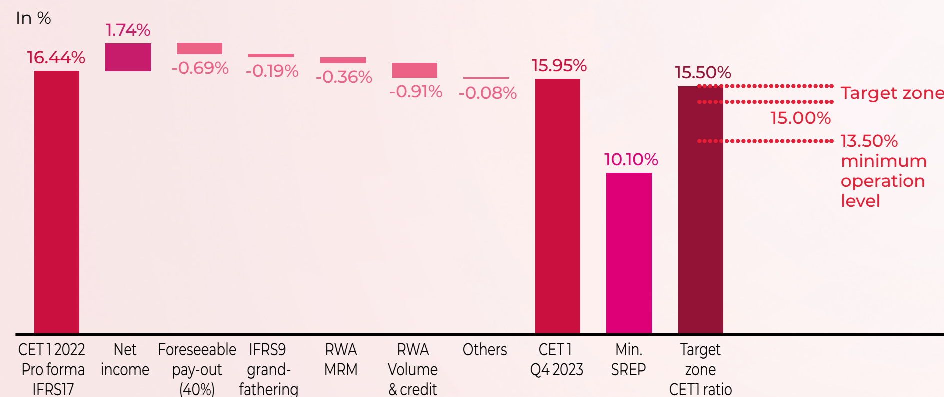
III. Equity & Capital adequacy

A solid CET1 ratio enables Belfius to continue to support the Belgian economy and to execute its commercial strategy.

- Belfius CET1 ended at 15.95% at the end of 2023. This CET1 ratio represents a continued strong and solid level, allowing Belfius to support its strong commercial franchise development.
- The solid capital basis compares very favourably with Belfius' minimum SREP requirements of 10.10% at year-end and minimum operational target of 13.5% and is above the target zone of 15%-15.5%.
- Already since the end of 2022, confirmed at the end of 2023, Belfius capacity in subordinated MREL and total MREL was exceeding the SRB final targets to comply with on January 1st 2024.

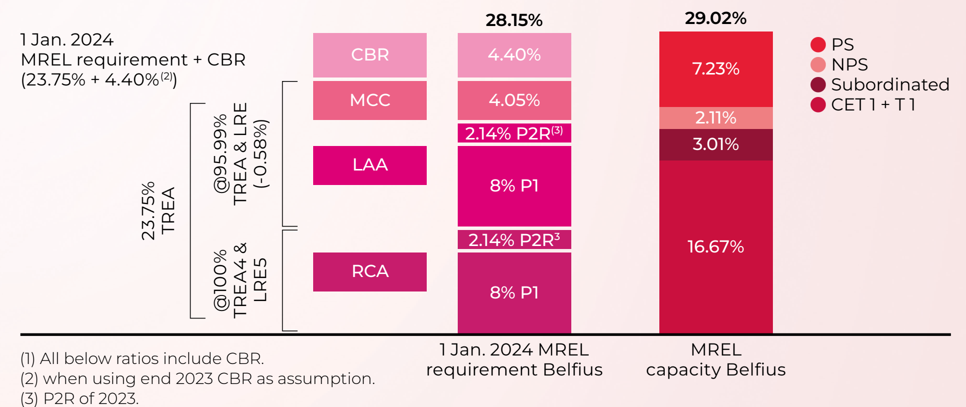
CET 1: solid at 15.95%

This solid capital base compares comfortably with Belfius' minimum SREP level and internally defined minimum operational zone



SRB MREL requirements[1]

SRB methodology and formal requirement compared to Belfius' compliance – in % of TREA



(1) All below ratios include CBR.
(2) when using end 2023 CBR as assumption.
(3) P2R of 2023.

III.1. Equity

III.1.1. Prudential supervision

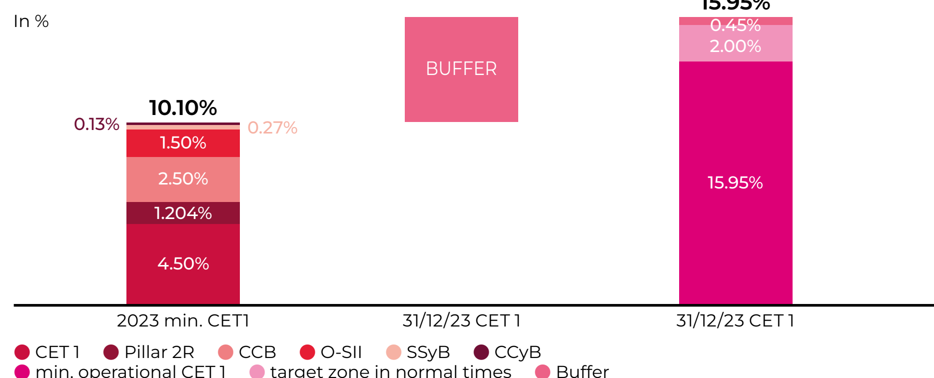
III.1.1.1 Minimum Requirement

Belfius Bank reports on its solvency position on a consolidated level and on a statutory level in line with the revised Capital Requirements Regulation and Directive, commonly referred to as CRR 2 and CRD 5:

- the minimum capital requirements ("Pillar 1 requirements") as defined by Article 92 of Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 (CRR 2);
- the capital requirements that are imposed by the SREP decision (Supervisory Review and Evaluation Process) pursuant to Article 16(2)(a) of Regulation (EU) No 1024/2013 and which go beyond the Pillar 1 requirements ("Pillar 2 requirements");
- the combined buffer requirement as defined in Article 128(6) of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU (CRD 5).

Belfius'minimum CET 1 requirements vs. Belfius' 2023 CET 1 capital position and target

In %



Following the annual "Supervisory Review and Evaluation Process" finalized at the end of 2022 and taking into account the sectoral systemic risk buffer for Belgian residential real estate exposures (notified by the NBB in May 2022), Belfius has to comply with a minimum CET 1 capital ratio for 2023 of 10.099% (before Pillar 2 Guidance).

- a Pillar 1 minimum of 4.5%;
- a Pillar 2 Requirement (P2R) of 1.204% (after split of 2.14% P2R);
- a capital conservation buffer (CCB) of 2.5%;
- a buffer for (other) domestic systemically important institutions (O-SII buffer) of 1.5% (imposed by the National Bank of Belgium);
- a sectoral systemic risk buffer of 0.27%;
- a countercyclical capital buffer (CCyB) of 0.13%.

Note that the Pillar 2 Requirement (P2R) was set at 2.14% (to compare with 2.13% in 2022) to be held in the form of 56.25% CET1 capital and includes a prudential add-on for non-performing exposures of 14 bps.

Also note that the countercyclical buffer was set at 0.13% (to compare with 0.06% in 2022), an increase of 7 bps mainly following the change in countercyclical buffer rate for Great Britain.

In line with the enhanced resilience of Belfius in the EBA stress test published in July 2021, the Pillar 2 Guidance (P2G) remained stable at 0.75% on the CET1 capital ratio. As a result, Belfius has to comply with a minimum CET1 ratio of 10.849% for 2023 (to compare with 10.801% in 2022). The consolidated CET 1 capital ratio of Belfius at the end of December 2023 stood at 15.95%, well above the 2023 applicable CET 1 capital ratio requirement of 10.099%.

Further to these regulatory requirements, Belfius stated in its Risk Appetite Framework that, in normal market circumstances and under stable regulations, it would strive to respect a minimum operational CET 1 ratio of 13.5%, on solo and consolidated levels.

Note that the prudential treatments regarding loss absorbency (Minimum Requirement Eligible Liabilities – MREL) are disclosed in chapter 7 hereunder.

III.1.1.2 Applied methodology

Following the amendments of CRR article 473a in 2020, Belfius requested and was granted by the ECB the application of transitional measures for the first time adoption impact and all subsequent impacts of IFRS 9 on the expected credit loss model as from 31 December 2020 onwards. As a result, the solvency metrics are referenced as "transitional" for both the CET 1 capital and the risk exposure amounts. These transitional measures apply until 31 December 2024.

The regulator authorised Belfius to apply article 49 of the CRR and to monitor and report solvency within the prudential scope, where Belfius Insurance is accounted for using the equity method (i.e. not fully consolidated), and to include all capital instruments of Belfius Insurance, subscribed by Belfius Bank, in the total regulatory risk exposure by applying a weighting of 370% (the so-called "Danish Compromise"). In addition to the CRR 2/CRD 5 regulations, Belfius is considered as a financial conglomerate with significant banking and insurance activities and is required to comply with the Financial Conglomerate Directive (FICO 2002/87/EC). For this purpose, specific reporting requirements with financial statements, regulatory capital, risk concentration, intragroup transactions and leverage ratio are sent to the regulator. These calculations and reports are made on the consolidated position of the Bank and insurance group.

At the end of December 2023, Belfius complied with all requirements requested from a financial conglomerate point of view.

III.1.2. Regulatory own funds

At the end of 2023, CET 1 capital amounted to EUR 11,087 million, compared with EUR 10,547 million at the end of 2022. The increase in CET 1 capital of EUR 539 million resulted mainly from the increase in regulatory core own funds by EUR 715 million, an increase of "gains and losses not recognized in the statement of income" for EUR 71 million partially offset by the increased correction for foreseeable dividend for EUR 56 million (amounting to EUR 443 million in 2023 compared to EUR 387 million in 2022, both based on a 40% pay-out ratio and including the AT1 cost), the decreased add-back of IFRS9 provisions thanks to the transitional arrangements stated in the CRR 2 for EUR 128 million, and an increase of the prudential deductions for EUR 63 million.

The deduction for foreseeable dividends, as stipulated in article 3 of CRR2, amounts to EUR 443 million, the sum of EUR 440 million based on the pay-out ratio of 40% on the result of 2023 and the correction for the Additional Tier 1 cost (accounting wise to be treated as dividend) which remained stable at EUR 3 million.

Furthermore, the transitional measure IFRS 9 on impairments amounts to EUR 88 million, the decrease of EUR 128 million is mainly due to the degressive character of this transitional measure of EUR 116 million (decrease of the multiplicators for the static and the dynamic components) and the decrease of the current stock of impairments of EUR 12 million.

The "gains and losses not recognised in the statement of income" amount to EUR 322 million, the increase of EUR 71 million is stemming from the sum of the net increase of EUR 65 million of the increase fair value revaluations on assets mainly at Belfius Insurance (EUR 391 million), partially offset be the decrease of the re(insurance) finance component at Belfius Insurance (EUR 326 million), and the increase of EUR 6 million in the remeasurement of defined benefit pension plans.

The prudential deductions amounted to EUR -371 million (compared to EUR -308 million in 2022), the increase mainly relates to:

- an increase in the deduction of software and other intangible assets of EUR 17 million following increased activated software eligible for prudential amortization;
- an increase of the deduction of Defined Contribution net pension plan assets of EUR 31 million due to the evolution of the plan assets and the discount rate;
- the increase of insufficient loss coverage for Non Performing Exposures of EUR 23 million due to new non-performing exposures coming in the scope of the NPE loss coverage regulation (CRR2); partially offset by a decrease of EUR 4 million of the deduction for own credit risk and a decrease of EUR 4 million of the deduction for additional value adjustments for regulatory prudent valuation
- note that the deduction for goodwill and for irrevocable payment commitments (IPC) with regard to single resolution funds remained stable.

The significant and non-significant investments in own funds instruments of financial entities and the stock of not recognized deferred tax assets remain below the thresholds for deduction of the regulatory own funds and are included in the credit risk exposure amount.

Tier 1 capital amounted to EUR 11,584 million, compared with EUR 11,045 million at the end of 2022, the increase of EUR 539 million is related to the increase in CET 1 capital. The Tier 1 capital includes the additional Tier 1 issue of EUR 500 million (nominal value) dated February 2018.

Tier 2 capital decreased to EUR 1,718 million compared with EUR 1,632 million at the end of 2022. The increase of EUR 87 million was mainly related to the increase of EUR 87 million of the regulatory value of existing Tier 2 capital instruments, the issuance of EUR 500 million Tier 2 notes and the calls of EUR 267 million Tier 2 notes in 2023. The total of other Tier 2 elements remained stable, the increase related to the higher excess of provisions in comparison to expected losses for IRB portfolios is offset by a decrease of the general credit risk adjustments for SA portfolios.

We refer to the disclosure in the financial statements regarding subordinated debts for a brief description of the additional Tier 1 and Tier 2 instruments and to the detailed characteristics of these instruments in the Pillar 3 – Risk Report.

At the end of 2023, total regulatory own funds amounted to EUR 13,302 million, compared with EUR 12,676 million at the end of 2022.

The composition of capital is detailed further in the Risk report annex (Tables CC1 and CC2).

The main characteristics of the additional Tier 1 and Tier 2 instruments are detailed further in the Risk report annex (Table CCA).

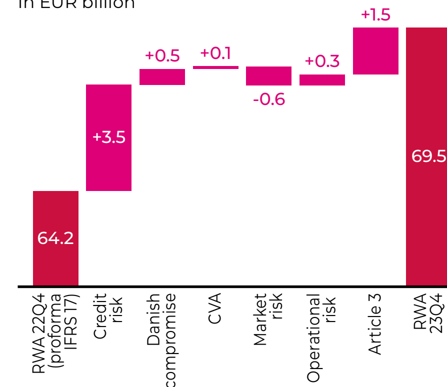
For more information on regulatory own funds on a consolidated level, please refer to the capital management section of the Annual Report.

III.2. Capital requirements by type of risk

Total Risk Exposure Amount (TREA) includes risk-weighted exposures for credit risk including counterparty credit risk, CVA risk, market risk and operational risk. Each of the underlying risks is detailed elsewhere on in this report (section IV, V & VII). The risk exposure amount also stems from the Danish Compromise, whereby the capital instruments issued by Belfius Insurance and held by Belfius Bank are included in the TREA via a weighting of 370%.

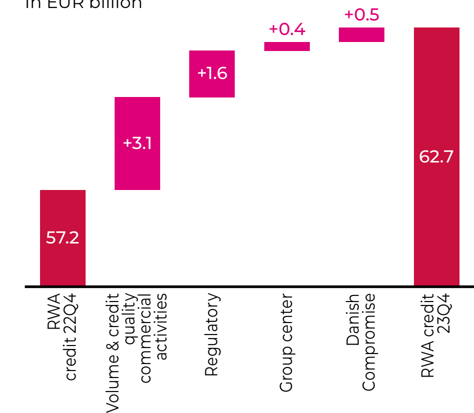
RWA evolution by type of risk

In EUR billion



RWA credit drivers

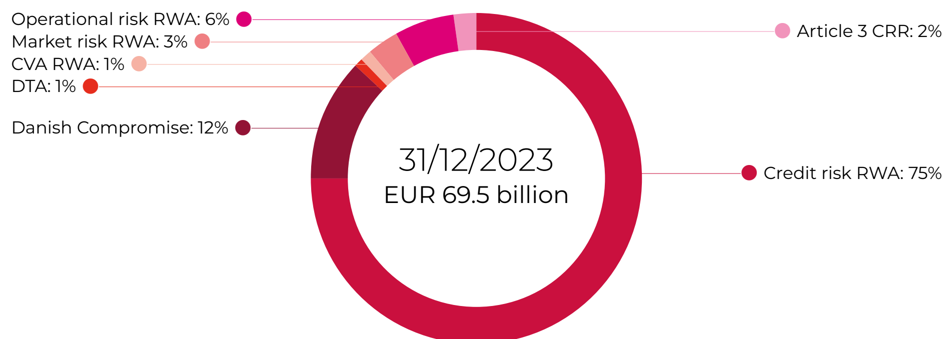
In EUR billion



At the end of 2023, Belfius TREA amounted to EUR 69,504 million, an increase of EUR 5,353 million compared with EUR 64,150 million at the end of 2022[1].

(1) Including pro forma Danish Compromise under IFRS 17.

RWA by risk type



The risk exposure amount for credit risk amount including counterparty credit risk increased by EUR 5,021 million to EUR 54,291 million due to:

- a growth in commercial activities (EUR +3.1 billion), and particularly in the Corporate segment;
- regulatory changes (EUR +1,6 billion) mostly driven by the first phase of Belfius model landscape review (EUR +1.5 billion) consisting in a planned reversal to the standardized approach of some low default portfolios;
- various factors affecting Group Center (EUR +0.4 billion).

The risk exposure amount for the Danish Compromise increased by EUR 511 million to EUR 8,422 million, mainly as a result of the increased equity value of Belfius Insurance following the increases in reserves and net income (EUR 114 million) and OCI reserves (EUR 23 million).

The risk exposure amount for CVA remained stable over the year (+EUR 85 million) while encountering some volatility in the last quarter following rates movements.

The risk exposure amount for market risk decreased (EUR -611 million) The sharp drop observed in Q1 2023 due to the methodological changes in the VaR calculation method was partially offset in the course of the year due to scenario volatility and position increase.

Risk exposure amount for Operational risk increased (EUR +348 million) over the period, in line with the increase in income.

Further details are provided in the Risk report annex (Tables OV1, INS1, INS2, MR1, MR2, MR3, CCR2, OR1).

III.3. Capital adequacy

III.3.1. Belfius Bank

III.3.1.1. Solvency ratios for Belfius Bank on consolidated level

At the end of 2023, the CET 1 capital ratio amounted to 15.95%, a decrease of 49 bps compared with 2022. Note that 2022 are proforma figures, taking into account the implementation of IFRS17 as well as the IFRS9 business model reassessment on 1 January 2023. Note that this transitional CET 1 capital ratio takes into account the transitional IFRS 9 measures with impacts on prudential capital and risk exposure for 14 bps, a decrease by 22 bps compared with the end of 2022.

The decrease in CET 1-capital ratio is the result of higher risk exposures (-133 bps) partially compensated by the increase of the prudential capital (+84 bps).

At the end of 2023, Tier 1 capital ratio amounted to 16.67%, a decrease of 55 bps compared with2022.

The total capital ratio amounted to 19.14%, a decrease of 62 bps with the end of 2022.

Note that without the application of the IFRS 9 transitional measures, the fully loaded CET 1-capital ratio would amount to 15.81%, the Tier 1 capital ratio would amount to 15.53% and the Total Capital ratio would decrease by 14 bps amounting to 19%.

Applying the “Danish Compromise” compared with the deduction method for capital instruments of Belfius Insurance (equity deducted from CET 1 capital and subordinated debt instruments deducted from Tier 2 capital) would have the following impacts: an increase of 37 bps of the CET 1-capital ratio and a decrease of 17 bps of the Total Capital ratio.

Further details are provided in the Risk report annex (Table IFRS9).

III.3.1.2. Leverage ratios on consolidated level

The leverage requirement is, as from June 2021, a binding CRR 2 requirement. The CRR 2 integrated the leverage ratio in the Pillar I requirement and set the level of minimum requirement at 3%, and a surcharge has also been fixed by the EBA for G-SIB with a mandate to analyse whether some O-SIB (like Belfius) should be given the same or similar additional buffer requirement.

The leverage ratio is defined as the Tier 1 capital (the numerator) divided by the exposure measure (the denominator), computed as balance sheet assets after certain restatements on derivatives, securities financing transactions, off-balance-sheet items and prudential adjustments (for items already deducted from the numerator).

In order to be consistent with the calculation of the regulatory Tier 1 capital (numerator), the calculation of the leverage exposure (denominator) is based on the prudential consolidation perimeter, where Belfius Insurance is accounted for using the equity method.

Furthermore, the application of transitional measures for IFRS 9 provisions from December 2020 has an impact on the numerator (cf. above) and the denominator.

Also note that the date of 31 December 2022 refers to the situation as of 1st January 2023, so including the impact of IFRS17 as well as the reassessment of the business models under IFRS 9 for Belfius Insurance, with impacts on the leverage ratio numerator and denominator.

The risk of excessive leverage is managed through the Financial Plan process. The leverage ratio as defined in the CRR 2 is further an integrated part of the Risk Appetite Framework for which internal limits and targets are set and which is validated by the Board of Directors. The risk of excessive leverage is included in the Belfius reporting and control processes and is monitored regularly. Any important deviation and/or prudential changes in the leverage ratio is reported to the appropriate committees for management actions. Please note that Belfius stays well below the prudential threshold indicators of 8% on SFT leverage exposure and derivatives leverage exposure.

At the end of 2023, the Belfius transitional leverage ratio stood at 6.55%, an increase of 38 bps compared with the end of 2022 and well above the minimum pillar 1 requirement of 3%.

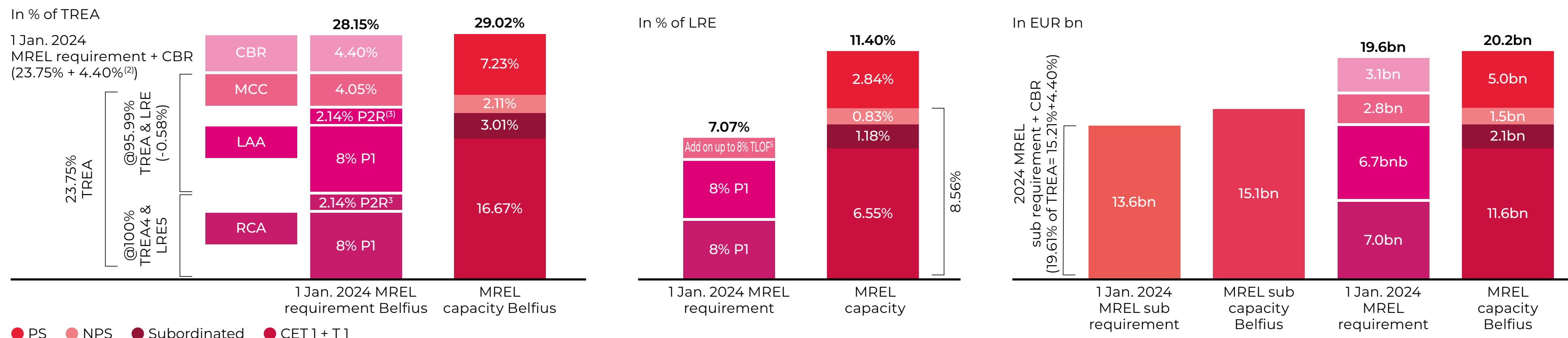
The increase is the result of positive effects (30 bps) from the higher level of Tier 1 capital (see above) and the positive effect (8 bps) from the decreased total leverage exposure measure due to a further increase of the loans mainly to corporates and mortgage loans, offset by a decrease in securities financing transaction exposures due to decreased off-balance commitments, the decrease of derivatives exposures due to rising interest rates (reducing LT uncollateralized derivatives) and derivatives add-ons due to a refinement of the calculation methodology.

Please note that the fully phased-in leverage ratio, excluding the transitional measures for IFRS 9 provisions would decrease by 5 bps.

Further details are provided in the Risk report annex (Tables LRSum, LRSpl and LRCom).

III.3.1.3. Minimum requirement for own funds and eligible liabilities

On 15 December 2023, the NBB notified Belfius that going forward it has to execute the SRB MREL instruction regarding the minimum requirement own funds and eligible liabilities at the consolidated level of Belfius Bank under BRRD2. For Belfius Bank, the MREL requirement on a consolidated basis is set at 23.75% of Total Risk Exposure Amount (TREA) and 7.07% of Leverage Ratio Exposure (LRE). Belfius Bank must meet the target no later than 1 January 2024. The SRB MREL instruction also defines a subordination requirement: Belfius Bank must meet at least 15.21% of TREA and 7.07% of LRE by means of subordinated MREL. Own funds used to meet the combined buffer requirement (CBR) set out in Directive 2013/36/EU (at 4,40% of TREA for Belfius as expected for end 2023) are not eligible to meet the requirements expressed in TREA. Belfius Bank must comply with this subordination requirement by 1 January 2024



(1) All below ratios include CBR.
(2) when using end 2023 CBR as assumption.
(3) P2R of 2023.

Belfius already meets its expected BRRD2 MREL requirements at the end of 2023. Indeed, expressed in TREA, Belfius MREL realised of EUR 20.2 billion amounts 29.02% to be compared with 28.15% of the 2024 binding target (including CBR).

In the same way, Belfius MREL subordination of EUR 15.1 billion amounts 21.79% of TREA to be compared with EUR 19.61% of the binding target (including CBR). Expressed in LRE, Belfius MREL subordination of 8.56% stands in excess of 7.07% MREL requirement.

III.3.2. Belfius Insurance

For more information regarding the solvency position of Belfius Insurance, we refer to the chapters Risk Management of the Annual Report 2023 of Belfius Insurance, Risk Management and Belfius' Management report (see dedicated section on insurance risks).

III.3.3. Internal capital adequacy

III.3.3.1. Risk appetite

Risk appetite is the level of risk that an institution is prepared to take given the expectations of the main stakeholders (shareholders, creditors, regulators, rating agencies, customers, employees…), in order to ensure the safeguard of a sound risk and financial profile. This risk appetite is defined by the Board of Directors, on proposals from the Management Board. The Risk Department prepares the Management Board's proposals and the Board of Directors' decisions, and also sets the rules and the framework for implementation of those rules.

Based on a holistic approach, risk appetite is a central reference point:

- for guiding strategy and planning;
- for framing performance in terms of growth and value creation;
- for facilitating day-to-day operating and commercial decisions.

The Bank's risk appetite consists of a series of quantitative elements (Key Risk Indicators) and qualitative elements (statements) that are designed to express the risk levels that are not acceptable, that are tolerated and targeted in order to achieve the business strategy. They reflect also the risk culture (eg ethics, tax, compliance, fraud, …). The quantitative

framework is based on a mix of accounting ratios (gearing), regulatory ratios (solvency, liquidity), economic ratios (economic capital, earnings at risk) and internal KRIs. The different metrics cover a wide range of risks (credit risks, solvency, liquidity, market risks, concentration risks, non-financial risks, compliance risks, model risks, ESG risks …).

Limits have been defined for each of these ratios with different zones, which lead to different governance and measures in case of breach. They are reviewed and updated on a yearly basis by the competent bodies. The Risk department is responsible for monitoring these ratios and, if risk appetite is breached, for proposing measures to the Management Board to ensure the limits are met back within a reasonable timeframe.

The RAF is deployed in the main subsidiaries, thereby allowing for increased consistency throughout the group and close monitoring of the risk profile by the Conglomerate Monitoring Committee.

Next to the quantitative part, the qualitative statements consist of guiding rules aiming at defining the risk appetite that cannot be expressed through quantitative ratios.

As each year, the Risk Appetite Framework (RAF) has been updated and approved by the Board of Directors in December 2023.

III.3.3.2. Economic Capital

III.3.3.2.1. Definition

The economic capital is defined as the potential deviation of Belfius' economic value from its expected economic value, and this within a given interval of confidence and time horizon. The confidence threshold (99.94%) chosen for scenarios involving losses in value corresponds to the Bank's targeted senior unsecured debt rating at a horizon of one year (A rating for 2023).

The economic capital quantification process is organized in three phases: identifying the risks (definition and cartography, reviewed on an annual basis, in collaboration with the various business lines), measuring the risks (mainly on the basis of statistical methods and/ or scenarios) and aggregating the risks based on an inter-risk correlation matrix.

Most risks are capitalized based on measuring the unexpected loss. However, if alternative management techniques (limits, other buffers than capital, governance) are considered more appropriate to cover them, some risks are not capitalized.

The economic capital is central in the context of Belfius' risk appetite and is also complementary to the Stress Test framework for Internal Capital Adequacy Assessment Process (ICAAP) purposes. It is also involved in pricing as well as in the assessment of Belfius' profitability.

III.3.3.2.2. Economic capital adequacy

The Management Board is responsible for managing the capital level and allocation process and has authority in all matters relating to economic capital informed by output of various economic capital models and monitoring of ratios, limits and triggers (regulatory and economic levels).

Belfius economic capital was EUR 6,661 million at the end of December 2023 (against EUR 5,745 million at the end of 2022).

Credit risk represented approximately 51% of the economic capital and was the main contributor; market risk (inter alia including interest rate risk, foreign-exchange rate risk, spread risk and equity risk) was 24%, underwriting risk 11%, operational risk 6% and other risks (prepayment, funding,…) 8%.

By business line, the economic capital was allocated as follows: Individuals and Entrepreneurs, Enterprises & Public represented 26% and 44% respectively of Belfius' economic capital; the balance was made up of 30% allocated to the Group Center (mainly for the Belfius' general balance sheet management in terms of interest and funding risks, including the bonds investment portfolios and for the portfolios of derivatives and run-off credit guarantees).

III.3.3.2.3. Stress Tests

Belfius conducts annual stress tests as part of the ICAAP to assess its ability to withstand adverse scenarios and identify vulnerabilities in its solvency, profitability, and liquidity positions. Each year, stress test scenarios are reviewed and designed in a way to make sure they remain relevant and reflect current and potential threats.

The financial plan stress scenario is built around the main uncertainties surrounding the financial plan driven by the rapid changes in the economic context and in the behavior of all economic actors. The scenario focusses on the Belfius position in terms of interest rates evolutions, the competition both for deposits, loans and insurance products the economic impacts of a recession in which specific sectors could be more vulnerable. This

scenario includes the second round effects and the solvency-liquidity feedback loop of this changing environment. The main scenario is complemented by two additional stress layers, focusing, on one hand, on additional stress applied on Commercial Real Estate and Residential Real Estate portfolios as well as on exposures to CCP, and on the other hand, on extreme liquidity stress resulting in the LCR ratio of 0%. Under the granularly applied stress, our Commercial Real Estate portfolio proved its resilience even though pockets of risk have been identified (ex: smaller projects, watchlist files) for which actions are already in place. The stress test also highlight a limited impact from the public sector on cost of risk and own funds requirements.

The EBA EU-wide stress test that took place in 2023 confirmed Belfius' anticipative risk management, as key cornerstone of the strategy. In light of a very severe scenario impacting both covid sensitive and energy sensitive sectors, credit impairments remained overall in line with 2021 stress test results, mainly thanks to Belfius' anticipative provisioning approach applied during last crises, through stage 1 and 2 overlay buffers that allow to mitigate the simulated credit impacts of higher default rates. RWA increases mainly stem from the simulated credit quality decline on Corporates, SME and Individuals, from an acute impact on commercial and residential real estate assets. Belfius' commercial franchise and diversification strategy allows for resilient profit capacity (+2.91% CET 1 ratio impact, before credit risk losses and market risk impacts), even during severe stress periods.

III.3.3.2.4. Recovery plan

Belfius submitted an updated Recovery Plan to the ECB in the second half of 2023. This plan outlines recovery measures that would be taken to restore the bank's long-term viability in the event of a significant deterioration of the macroeconomic environment.

In 2023, the focus was put on developing four extreme reverse stress scenarios resulting in the bank reaching its near default point in a short timeframe: a system-wide scenario (severe recession accompanied by high inflation and unemployment, crash of stock exchange and high funding spreads); idiosyncratic scenario (Belfius primarily hit through its UK and US exposures) and two liquidity stress scenario (fast and slow moving events leading to the bank run). The recovery plan demonstrates that Belfius benefits from sufficient recovery options. In extreme scenarios, the bank has enough measures at its disposal to restore solvency and LCR liquidity ratios within one year.

III.3.3.2.5. Resolution

Belfius cooperates with the Single Resolution Board to prepare resolution plans, in particular by providing them with all information conform the requirements. Workshops with the SRB and their communications (working priority letters) confirmed that Belfius has made significant progress in the last 3 years in terms of quality, completeness and timely deliveries in order to achieve full resolvability by the end of 2023. Belfius remains fully committed to further develop its resolvability capabilities in accordance with the revised SRB expectations.

In December 2023, Belfius successfully conducted a second resolution dry-run exercise to test governance, communication as well as the IT capacity to produce the bail-in datapoints, as bail-in is the preferred resolution strategy.

IV. Credit Risk

The Belgian economy was quite robust and performed well in 2023 with positive and better than anticipated growth at moderate levels. Belgium showed even higher economic resilience than other European countries. Since the end of 2022, the European Central Bank's interest rate increases managed to get control of the high inflation that occurred in the aftermath of Covid. The persistent geopolitical turbulence and the difficulty for leading European economies to regain track continued to fuel the sentiment of economic uncertainty. In Belgium, the decrease of the energy prices contributed significantly to the easing of the inflationary pressure.

The number of bankruptcies in Belgium increased in 2023, particularly among small companies. Bankruptcies are not yet at the pre-covid level (2019), but the gap is reducing. The particularly affected sectors are hotel and catering, construction and transport, which are performing poorly compared to the long-term trend. Given the uncertainty surrounding the future growth path, the evolution of interest rates and inflation, the outcome of elections in Belgium and abroad, the impact of the geopolitical conflicts,… vigilance is required in credit risk management.

The Belfius loan portfolio has demonstrated strong resilience in 2023. The real estate sector, both residential and commercial, was an attention point for the banking industry and regulators at national and international level. The in-depth analysis of the Belfius portfolio did not reveal significant weaknesses. Belfius continues to apply its sound credit standards, with an increasing focus on ESG transition-supporting projects. In 2023, Belfius, in line with its purpose, has provided and will continue to provide support to companies facing challenging market conditions.

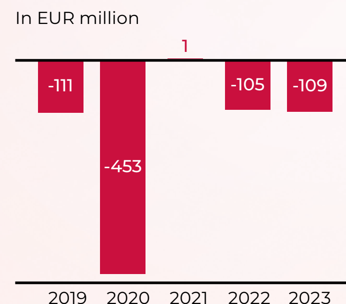
The cost of risk 2023 amounted to EUR -109 million, slightly larger than the cost of risk of EUR -105 million in 2022. This cost of risk was essentially driven by stage 3 provisions for an amount of EUR -118 million, slightly offset by a limited reversal of the Overlay for economic uncertainty for an amount of EUR +41 million. With the remaining Overlay for economic uncertainty of EUR 194 million, the provision cushion remains robust.

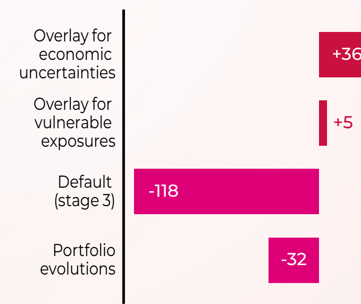
Definition

Credit risk is defined as, on the one hand, the possibility that a bank's borrower or counterparty will fail to meet its obligations (in the form of non-payment or non-performance) in accordance with the agreed terms, also called the payment default risk, and on the other hand, the possibility that the bank will not be able to recover its outstanding debt by means of the collateral that is linked to the debt, i.e. the risk of non-recovery.

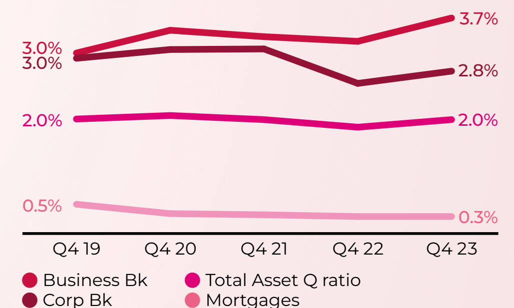
Cost of Risk

In EUR million





NPL ratios



IV.1. Fundamentals of credit risk in 2023

Starting from the end of 2022, the ECB's interest rate hikes have successfully reduced the inflation that peaked after the Covid-19 pandemic. Belgium's inflationary pressure has been significantly reduced, a.o. thanks to the decrease in energy prices. However, persistent geopolitical turbulence and the difficulty of leading European economies to regain their footing have continued to fuel economic uncertainty. Despite this environment, Belgium has shown a higher economic resilience than other European countries. Given the uncertainty surrounding future growth, interest rates, inflation, election outcomes, and the impact of geopolitical conflicts, it is still necessary to remain vigilant in risk management and provisioning

Against this background, the Belfius loan portfolio has shown good resilience on its key risk indicators. The overall credit quality remained stable of for all customer segments without significant impacts from the Covid-19 pandemic, the energy crisis nor from the geopolitical tensions. Most of the households and non-financial corporations have weathered the crises a.o. by means of financial buffers and public and private support measures. The expected turn in the credit cycle has been orderly so far with a gradual increase of some of the credit risk indicators (watchlist, arrears and non-performing loans). During the last months residential and commercial real estate prices have shown greater resilience than in neighbouring countries.

High interest rates however restrained mortgage production and refinancing risk will appear more pronounced for weaker companies if and when a high for long cycle materializes. Within the Belfius' loan portfolio, an increase of bankruptcies is observed, although not yet at the pre-Covid level (2019), especially affecting smaller companies as well as the construction, transportation and hotel & catering sector. The development segment of the real estate industry, both residential and commercial, is hit in multiple ways by higher construction costs, higher interest rates and a lower demand, creating liquidity issues. The Covid-19 related measures and inflation impacts on the financial stability of public sector entities (including hospitals) is causing higher deficits and a rising government debt while next challenges such as energy transition, climate adaptation and infrastructure needs are in the middle of the public debate.

IV.1.1. Evolution of the portfolio by segment

IV.1.1.1. Individuals

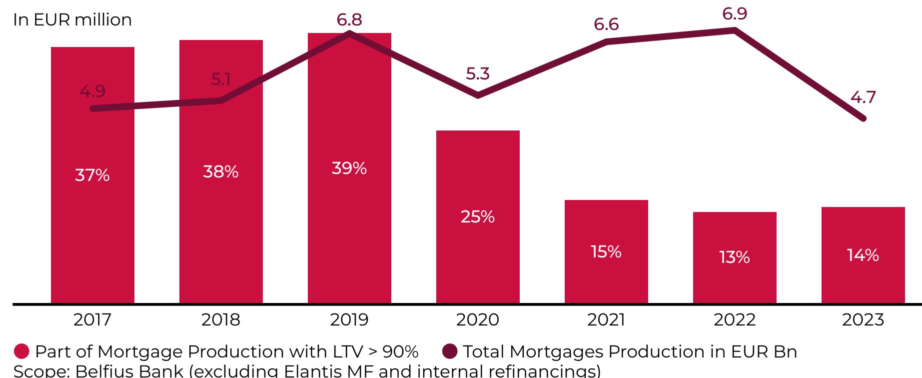
Due to a challenging macroeconomic environment, with moderate inflation and higher interest rates, the 2023 mortgage lending production saw a 30% decrease compared to the previous years. Nonetheless, the current mortgage portfolio increased from an FEAD of EUR 41,9 billion at the end of 2022 to EUR 43 billion in 2023.

Belfius was largely compliant with the NBB expectations set in 2019 regarding newly originated loans. The share of loans with LTV>90% remained relatively stable at 13.7%, while the loans with both an LTV>90% and a DSTI>50% represented 3% of the total 2023 production, well below the 5% threshold. Despite rising maturities and due to significantly larger interest payments, DSTI values were on average higher in 2023 compared to 2022.

Similar to last year, Belfius continued to monitor its mortgage portfolio for signs of deterioration. The negative impact of rising energy costs and inflation remained rather limited, mainly due to government energy subsidies as well as (partial) automatic wage indexations. A limited number of clients requested deferrals on capital payments in the context of the 2022 Febelfin initiative which ended in March of 2023. The volume of forborne mortgages decreased from EUR 419 million in 2022 to EUR 346 million in 2023 as a result of a large outflow of Covid-19 loans, more than compensating for the inflow related to higher energy costs.

Mortgage loan production

In EUR million



Scope: Belfius Bank (excluding Elantis MF and internal refinancings)

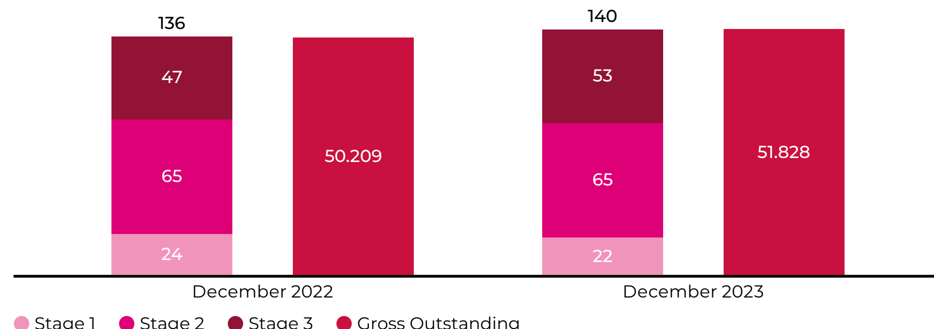
Despite challenges posed by the current macroeconomic environment, the portfolio of mortgages performed well. Both the PD level and the NPL ratio of this portfolio remained stable at around 0.5% and 0.3% respectively. The share of newly originated fixed-rate interest rate mortgages remained high at 99%, reducing the impact of rising interest rates on the performance of these loans.

Similarly to mortgages, consumer loans experienced a slowdown in production growth compared to previous year. The FEAD amounted to EUR 5.7 billion at the end of the year, an increase of 3.7% compared to last year. The average PD decreased from 0.8% in 2022 to 0.7% in 2023. However, the NPL ratio slightly worsened, rising from 2.3% at the end of 2022 to 3.0% a year later. The opposite movement of these two risk indicators can be attributed to a single large file that transitioned from performing to non-performing loan.

We remain vigilant in monitoring the performance of loans granted to individuals but the slowdown in inflationary pressures and potential monetary easing could boost production and improve the quality of these two portfolios.

Impairments & gross outstandings in Individuals segment

In EUR million

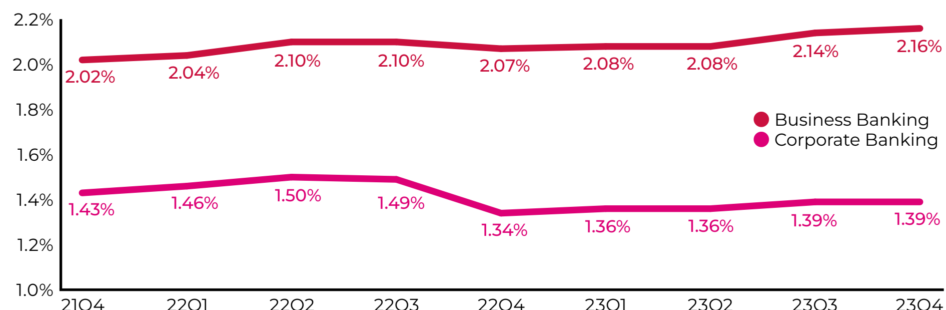


IV.1.1.2. Enterprises & Entrepreneurs (E&E)

The economic environment remains challenging. Business confidence is showing some volatility, driven by variable energy prices, continued pressure on margins, a reduced potential for pass-through of higher costs, and higher interest rates, all within an ongoing search for a new normal. Some prudent signs of economic stabilization are visible: inflation pressure has dropped significantly, supply chain issues have been resolved, and the labour market tightness has slightly softened. While most companies appear rather resilient, building cash buffers and maintaining investment plans (mainly to boost productivity through digitalization and automation) and workforce, for a growing part, the economic situation seems to be at a turning point. Geopolitical circumstances currently do not create a significant negative economic impact but are adding uncertainty in case nearby war conflicts were to spread to other countries.

These general observations hide sectoral differences. Fundamentals for the manufacturing industry remain weak, especially for high energy-intensive activities, but are stabilizing after a period of softening demand because consumers have increasingly become cost-conscious. A notable exception in this segment is the construction and building materials sector, suffering heavily from the important cool-down of the real estate (development) market driven by the combination of higher construction costs and higher interest rates. On the other side of the spectrum, the services industry still has a positive drive, mainly in a B2B context, but has slowed down as well in real estate-related activities and retail trade (due to falling demand).

Average PD of the portfolios Business and Corporate Banking



Scope: unrated exposures and exposures in default not included.

This mixed view is visible in the overall portfolio monitoring of Belfius' E&E loan portfolio, amounting to EUR 62.2 billion at the end of 2023:

- overall credit quality in the E&E segment is stable (average PD of 1.64% end 2023 compared to 1.58% end 2022) but with increasing watchlist volumes and, in the SME segment, also rising PD and NPL levels;
- production, especially in Corporate Banking, continued to be very dynamic with high credit quality driven by good rated large tickets while increasing concentration to some extent;

- the credit quality of the Commercial Real Estate portfolio showed a stable pattern but with attention points in the development sector and on smaller, less diversified, projects;
- bankruptcies are gradually returning to pre-Covid levels but with regional and sectoral differences with a more pronounced growth in the sectors construction, transportation, and hospitality and catering industry.

The Covid-19 pandemic and the war in Ukraine caused a significant increase in the price of construction materials. This was followed by an increase in interest rates. As a result, the real estate values came under pressure, financing conditions became more difficult and expensive, and real estate companies have been confronted with refinancing needs at higher costs. At the same time, the cash flows generated by their projects and asset disposals became more complicated. Sales to individuals are running less smoothly because rising interest rates are affecting their overall budget capacity. Institutional investors, such as insurers and pension funds, shun real estate as they have new alternatives such as bonds. Property developers are thus forced to look for other ways to reduce their cash outflows and costs in anticipation of a new interest rate equilibrium.

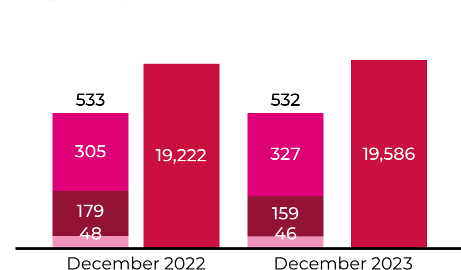
Taking into account the uncertainty about the construction and commercial real estate outlook, a fundamental reassessment of these sectors was performed in 2023, both from a concentration point of view and from an overall risk perspective. The deep dive analysis confirmed the fundamental credit quality of the portfolio but additional guidance has been given to cover for the increasing risk profile of smaller projects and individual concentrations.

The EU Green Deal has started to create full awareness of ESG in all economic activities. E&E clients are accompanied by Belfius, a.o. through the Corporate Ambition programme, to implement a sustainable transition. In addition, the integration of ESG aspects in the credit granting process is accelerating, capitalizing on the building blocks that have been implemented earlier.

Impairments and gross outstandings by segment

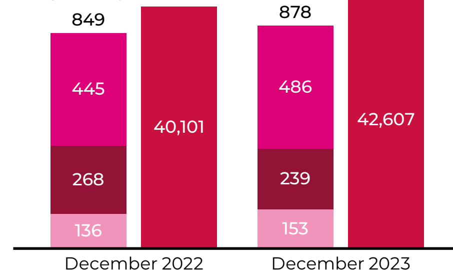
Business Loans

In EUR million



Corporate Loans

In EUR million



Stage 1 Stage 2 Stage 3 Gross Outstanding

IV.1.1.3. Public sector clients

Belfius' loan portfolio for the Public & Social sectors amounted to an FEAD of EUR 36.1 billion at the end of 2023, contributing to the diversification of the Belfius' global loan portfolio. Overall, the public and social sector kept showing high credit standards and maintained its historically low risk profile, characterised by an average PD of 0.17% and an NPL ratio of 0.03%. However, this sector continues to face a number of challenges.

Belgian cities and municipalities had to deal with inflation peaking at 12.3% in October 2022. Although this figure has dropped drastically since then, to 1.35% last December, its effects have been felt strongly. Three factors were of particular concern. Firstly, general expenditure and interest payments rose sharply. Secondly, wages increased due to indexation, which is connected to inflation. And thirdly, energy bills more than doubled while the cost of building materials rose as well, putting pressure on public investments. A positive point can be found in the unexpected rise of municipal revenues due to the fact that some municipal income sources (taxes, funds, allowances) are also subject to indexation mechanisms.

All in all, these developments have potential impacts on the financial stability of municipalities. In spite of budgets generally being balanced, financial reserves have steadily decreased since 2020. Rising public debt levels will therefore hamper the ability of (local) authorities to react effectively in case of economic shocks, as was the case, for instance, during the Covid-19 pandemic. Regarding the performance of the Belgian Regions and Communities, the situation remains challenging as well, prompting Belfius to lower the outlook for some of these entities.

In addition, some necessary long-term expenditures will limit the space for budgetary manoeuvring for the public sector. Geopolitical risks may require higher investments in national security, and high energy costs have impaired the economic competitiveness of Europe since the start of the Russian invasion of Ukraine. Large investments are required with regard to infrastructure (rail, roads etc.), the energy transition and climate adaptation. Moreover, the Belgian Federal Planning Bureau forecasts the costs of the ageing population to outpace economic growth until 2050, when social expenditure is expected to peak at 30.1% of Belgian GDP. Furthermore, the lack of clarity regarding the fiscal reform will persist until at least the federal elections of June 2024.

Consequently, the National Bank of Belgium warns that the current federal budget might not be sustainable for the future, as it will push the deficit above 5% in 2026, while national debt would be around 110% of GDP in that same year. On a positive note, economic growth levels will remain healthy, amounting to 1.5% for 2023. The labour market continues to be robust, albeit tight.

Similar to the cities and municipalities, the Belgian hospitals were confronted with a sharp rise in energy and personnel costs, the latter due to indexation in an inflationary environment. The sector is dealing with a structural deficit while it needs to invest in new buildings and technology and increasingly expensive medical treatments. All the while, staff shortages are considered one of the sector's main challenges in Belfius' MAHA analysis, which is especially noticeable in the nursing workforce. The rise in day admissions may lift this financial and capacity burden somewhat, but the structural challenges of staff shortages, the need for continuous investments and the requirements of an ageing population will continue to put pressure on this sector.

IV.1.1.4. International exposures

The sharp rise of the energy prices over the course of 2022 has abated in 2023. Together with decreasing food prices, the lower energy prices have resulted in a decrease of the inflation by the end of 2023. The resurfaced conflict between Israel and Hamas could however somewhat slow this decreasing trend. Long term interest rates were on the rise in 2023 before coming down again in the final quarter of 2023 following markets expectations of rate cuts by central banks in the course of 2024. In this difficult context, the credit risks in the different Belfius portfolios managed within Financial Markets performed relatively well. Nevertheless, some risks remain.

The ALM Liquidity portfolio, consisting of LCR eligible bonds, has increased by EUR 0.7 billion over the year 2023, from EUR 7.3 billion to EUR 8.0 billion. The majority of the new investments were done in covered bonds with a good diversification over different countries. The portfolio's average rating has improved from A- to A, with all positions being of investment grade. Although the credit risk remains acceptable, there is still an important concentration of Italian sovereign bonds in this portfolio.

The run-off portfolios, consisting of the Yield bond portfolio, the credit derivatives portfolio and other legacy derivatives portfolio have remained fairly stable over the year, with only a slight decrease from EUR 8.0 billion to EUR 7.9 billion. The average ratings of the different sub portfolios also remained stable at respectively A-, A- and BBB+. Even though there is some pressure on the credit quality of these portfolios, 94% to 97% of the positions are still of investment grade nature. The most important concentrations within these portfolios are UK inflation linked Utilities, mainly water and gas, and UK Healthcare bonds. Initially, the UK real rate continued its rise in 2023, but the trend reversed in the last quarter of the year. Overall, the increase over 2023 has been rather limited. Hence, our concentration (which partially depends on UK real rate) on the UK utility and healthcare sectors remained relatively stable. About 75% of these positions benefit from a lifetime guarantee from an investment grade rated credit insurer.

Current tariff agreements are putting pressure on credit metrics for some UK water and gas utilities, exacerbated by sustained high inflationary conditions. By the end of the second quarter, one of the primary UK water companies faced severe pressure. A new regulatory price framework coming into force in 2025 will be crucial for the sector's future evolution. Combining significant investments necessary to improve performance with attracting sufficient new equity to improve resilience and at the same time keeping a strong focus on client affordability will be an extremely difficult challenge.

In 2023, the UK Healthcare sector continued to face significant challenges. The strained relationships between the parties involved in healthcare projects, due to a lack of adherence to project agreements, has led to a notable decline in an important credit deterioration for some of these counterparties.

We continue to closely monitor the situation and future developments within these pressured sectors. There are currently no assets in stage 3 and the provisions for stage 2 assets within these portfolios amount to EUR 140 million.

Despite the permanent trading derogation from the NBB allowing to keep the remaining credit derivatives in trading, we continued actively seeking to unwind or derisk these positions. A negotiation took place on 2 of our positions, to restructure the transaction and reduce the remaining risks. Thanks to our conservative pricing at the end of 2022, this resulted in a positive impact in fair value at the end of 2023. This has been our main de-risking focus in 2023 and will continue to be so in 2024.

IV.1.2. Cost of risk in 2023

IV.1.2.1. IFRS 9 impairment methodology at Belfius

Reference is made to the Appendix IX.1.4. of the Risk Report 2019 for a full description of the Belfius process to compute IFRS 9 expected credit losses (ECL).

The basic principles of the process to compute IFRS 9 expected credit losses (ECL) are as follows:

Belfius Bank and its subsidiaries recognise loss allowances for ECL on financial instruments at amortized cost or at fair value through Other Comprehensive Income (OCI).

ECL are measured through a loss allowance that depends on the financial instrument's status:

- for performing exposures (i.e. instruments that have not incurred a significant increase in credit risk since origination), referred to as stage 1, a 12-month ECL is calculated;
- for underperforming exposures (i.e. instruments that have incurred a significant increase in credit risk since origination), referred to as stage 2, Lifetime ECL are calculated;
- non-performing exposures (i.e. exposures that become credit-impaired), are classified in stage 3 and the ECL reflect the remaining exposure after a best-estimate of future recoveries.

ECL are probability-weighted estimates of credit losses. This is expressed as the present value of cash shortfalls i.e. the difference between the cash flows that are due to the entity in accordance with the contract and the cash flows that the entity expects to receive.

ECL calculations use probability of default (PD) and loss given default (LGD) parameters. Point-in-time PDs are used that inter alia incorporate forward-looking macroeconomic information through the use of four different macroeconomic scenarios. These scenarios are built upon internal information delivered by the Belfius Research department, who uses external and internal information to generate a forecast "neutral" scenario of relevant economic variables along with a representative range of other possible forecast scenarios. The external information includes economic data and forecasts published by governmental bodies and monetary authorities.

Belfius assigns probabilities to the four forecast scenarios (neutral, optimistic, pessimistic and stress) and makes the link between macroeconomic variables and credit risk and credit losses through identified and documented relationships between key drivers of credit risk and credit losses for each portfolio of financial instruments on the one hand and statistical analysis of historical data on the other hand.

In the context of Covid-19 pandemic, followed by the Russia/Ukraine conflict and the resulting energy crisis, Belfius' basic principles for ECL computations have remained fundamentally unchanged, however some adjustments to the aforementioned approach were required in order to maintain an adequate coverage for potential risks. The adjustment mainly concerned the length of the reference period use to project macroeconomic factors (taking a longer history and backward- and forward-looking e into account to avoid one-off effects from a turbulent period).

In 2023, entering into a post-Covid era, Belfius:

- decided in course of H1 to abandon the long term average of historic data in the calculation of the macroeconomic factors, and only use 2022-2024 macroeconomic data. By the end of 2023, Belfius returned to a full point-in-time and forward looking approach in macroeconomic factor calculation, that is based only on 2023-2025 macroeconomic data;
- maintains the system of four probability weighted forward-looking scenarios each with their own macroeconomic parameters to build optimistic, neutral, pessimistic and stress cases. Yet, the scenarios have been adapted to the updated macroeconomic environment;

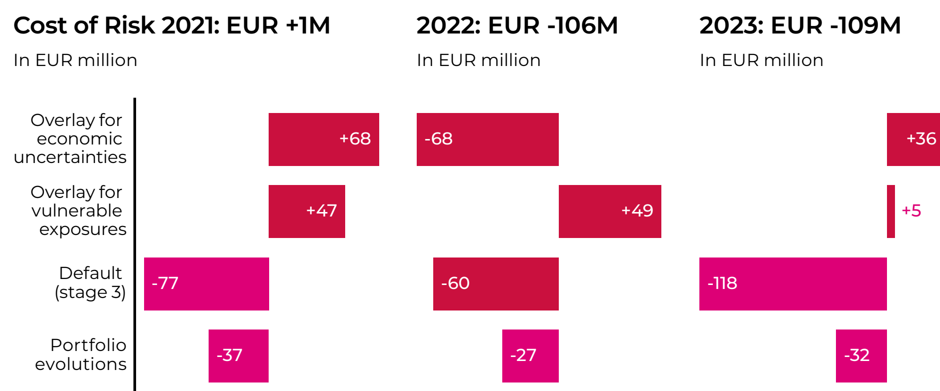
Given that ECL estimations are complex and to a certain extent judgmental, the aforementioned mechanical approach is completed by management judgment through "management call" layers authorised by the IFRS 9 accounting references. These layers can be positive or negative and aim to include any elements entering in the ECL calculation which have not been taken into account by the mechanical computation on an individual level or a (sub)portfolio level. Belfius continued its portfolio analysis and monitoring process, in order to determine and keep up to date the sectors and/or clients vulnerable to inflation and energy price risks. For these risk pockets, an overlay for vulnerable exposures was constituted.

We recall that stage 1 and 2 provisions constitute anticipative provisioning against expected credit losses on files that could enter into default. To what extent these stage 1 and 2 provisions will be transformed into stage 3 provisions, covering incurred credit losses on defaulted loans, or be released, remains subject to uncertainty. If the macroeconomic environment improves to the extent that the anticipated transitions to default do not occur, part of these impairments will be reversed over time.

At the end of 2023, an ESG layer has been introduced for Environmental risks, related to specific risk pockets within the mortgage and E&E portfolios, in order to anticipate potential risks from the climate transition.

IV.1.2.2. Drivers of the cost of risk in 2023

The 2023 cost of risk amounts to EUR -109 million and is composed of EUR +36 million reversals due to the update of the macroeconomic factors and perspectives, EUR +5 million reversals following the reassessment of the overlay for vulnerable exposures, EUR -118 million specific provisions for loans in default and EUR -32 million allowances for portfolio evolutions[1],



(1) o.w. EUR -20m due to capital losses on the sale of LCR bonds,which are per Belfius policy presented as a component of the Cost of Risk.

Macroeconomic factors used in 2023 ECL calculations

The macroeconomic projections, used for ECL calculations, were updated in line with the Belfius Research department expectations. Compared to the data used in 2022, the GDP growth expectations for 2023 were revised upwards for Belgium (1.5%), and the US (2.4%). For 2024, the GDP growth expectations have been revised slightly downwards (from 1.6% to 1.2%) for Belgium, the Eurozone (from 1.5% to 0.9%) and the United States (1.2% to 1.1%). The recovery of the growth has shifted to 2025.The sharp slowdown of inflation, that initially was expected for 2023, was spread out over 2023 and 2024, to reach an expected level of 2.1% in 2025. The unemployment data were not materially adjusted compared to the data used in 2022; the unemployment figure still includes the exceptional temporary unemployment that is expected to be, to a certain extent, converted into a structural unemployment.

Macroeconomic factors[1] used in 2023 ELC calculations

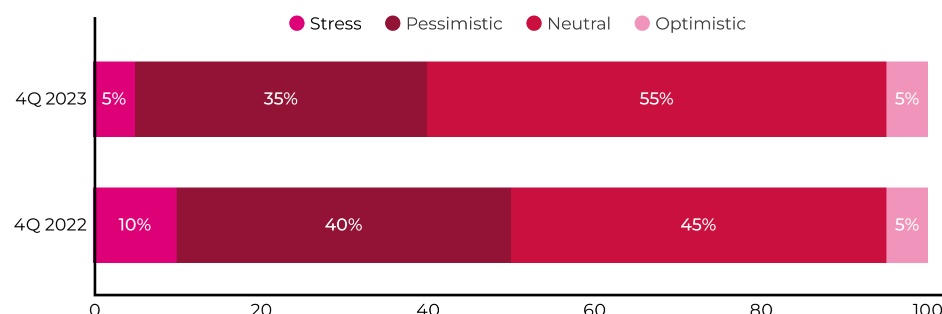
	As of end 2022			As of 2Q 2023			As of 4Q 2023		
	2022	2023	2024	2022	2023	2024	2023	2024	2025
GDP (% Y-O-Y)									
Belgium	2.8	0.1	1.6	3.1	0.9	1.2	1.5	1.2	1.4
Eurozone	3.0	0.0	1.5	3.5	0.7	1.1	0.5	0.9	1.5
United States	1.6	1.0	1.2	2.1	1.4	0.4	2.4	1.1	1.6
CPI (% Y-O-Y)									
Belgium	10.4	6.1	3.0	10.3	5.1	3.4	2.6	4.7	2.1
UNEMPLOYMENT (%)[2]									
Belgium	9.3	8.8	8.3	8.5	8.2	8.0	8.3	8	7.8
Eurozone	9.9	8.5	7.1	9.6	8.2	6.8	8.6	7.2	7
GDP BE (% YoY) Scenarios									
Optimistic	3.4	0.7	2.2	3.1	1.5	1.8	2.1	1.8	2
Neutral	2.8	0.1	1.6	3.1	0.9	1.2	1.5	1.2	1.4
Pessimistic	1.7	(1.6)	0.5	3.1	(0.2)	0.1	0.4	0.1	0.3
Stress	1.2	(1.6)	(0.1)	3.1	(0.8)	(0.5)	(0.2)	(0.5)	(0.3)

(1) Figures might differ from those presented in the section dedicated to the macroeconomic environment as IFRS 9 expected credit losses are performed during the quarter.
(2) Unemployment figures include the exceptional temporary unemployment.

The neutral case is completed with an optimistic, a pessimistic and a stress scenario. The table above illustrates the Belgian GDP Growth assumptions, as of end 2023, under the four scenarios.

- The scenario weights have been changed by shifting more weight to the neutral scenario (from 45% to 55%), simultaneously reducing the weight associated with pessimistic (from 40% to 35%) and stress (from 10% to 5%) scenarios.
- The update of the macroeconomic factors and reinforced forward-looking character of the ECL calculations have induced a reversal of EUR +36 million provisions in 2023.

Scenario weights (in %)



Sensitivity of the impairment stock stage 1 & 2 to changes in scenario weights

The following table provides an overview of the stage 1 & 2 impairments sensitivity to the weight of macroeconomic scenarios. Under the current methodology, the most relevant macroeconomic factors are GDP and Unemployment. Note that the sensitivity is not linear and cannot be simply extrapolated.

(In millions of EUR)	What if 85% optimistic[1]	Weighted average scenario 4Q23	What if 85% pessimistic[1]	What if 85% stress[1]
Impairment stock stage 1&2	724	904	1.072	1.283
% change vs WA scenario	-20%	0%	19%	42%
		Optimistic 5% Neutral 55% Pessimistic 35% Stress 5%		

(1) 5% on each of the 3 other scenarios.

The overlay approach

The mechanical calculations are completed with expert overlays. These overlays are designed to result in best estimate coverage of ECL in some specifically identified risk pockets of vulnerable exposures (defined in terms of sectors, groups of companies or individual exposures) when the credit risk is estimated to be (potentially) insufficiently covered by the mechanically-computed provisions.

In such case, one or more IFRS 9 parameters have been stressed when computing the ECL. For mortgages, a stressed LGD value has been applied, while for companies vulnerable to inflation and energy price risk, an add-on has been applied on the mechanically computed expected credit loss,. The add-ons correspond to an increased expected credit loss, equivalent to a 1 to 2 notch rating downgrade(s). This approach feeds the formal quarterly impairment process and results into shifts of individual files or risk pockets from stage 1 to 2. The approach results into ECL levels deemed more adequate to cover the related (increased) credit risk.

In 2020 and 2021, an overlay was constituted to cover for the risks related to the Covid-events. Credit exposures to individuals and companies with payment moratoria and companies in sectors that were hit more severely by the pandemic and the sanitary measures were included.

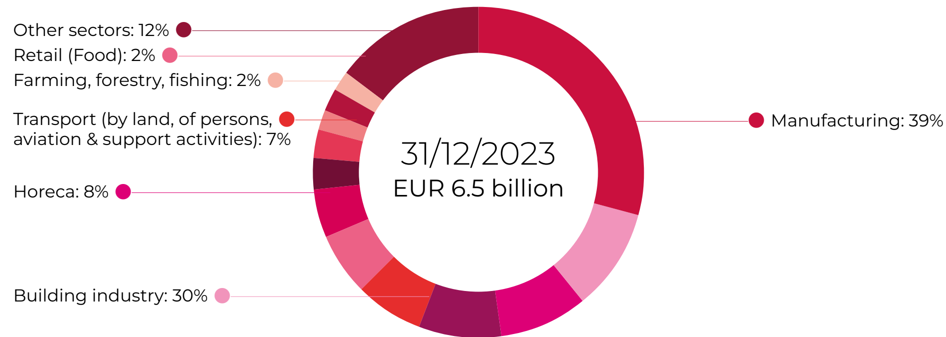
In 2022, the driver of risk gradually shifted also to sectors with a sensitivity to inflation and energy prices' increases.

In 2023, the Covid-related exposures completely disappeared from the overlay. The scope of the overlay was only linked to exposures that were vulnerable to energy and inflation. The definition of the scope did not change in 2023, the evolution of the provisions was driven by exposure evolutions and rating migrations.

The overlay for these vulnerable exposures was reduced by EUR 5 million in 2023. Vulnerable exposures with an initial Covid-effect phased out and so the overlay merely serves to cover for potential risks caused by inflation and higher energy prices.

Belfius' exposure towards these vulnerable sectors or counterparts is limited to 3.4% of the total portfolio and can be split as follows:

E&E overlay – Exposures by sector

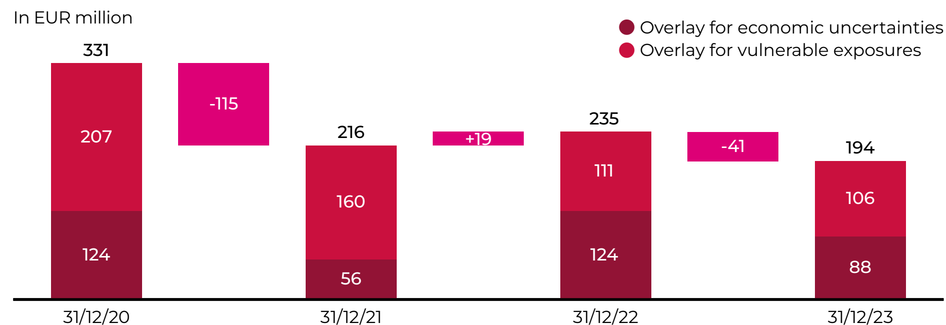


The provision for macroeconomic uncertainties and the overlay for vulnerable exposures combined form the Belfius "Overlay for economic uncertainties and vulnerable exposures", of which the stock as of end 2023 amounts to EUR 194 million (compared to EUR 235 million at the end of 2022):

- EUR 88 million for economic uncertainties (vs EUR 124 million end 2022);
- EUR 106 million for vulnerable exposures (vs. EUR 111 million end 2022).

Overlay

In EUR million

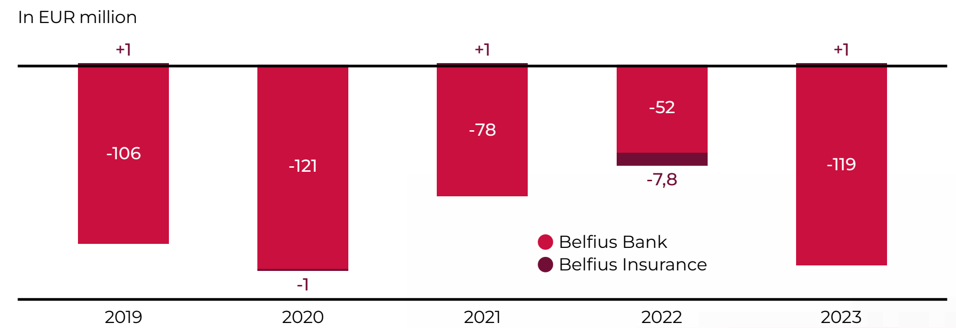


Stage 3 provisions for files in default

Belfius continues to apply its standard impairment process for non-performing exposures. The stage 3 provisions represent a cost of risk of EUR 118 million in 2023, which is close to the annual natural level for the Belfius portfolio. The stage 3 provisions for exposures in default have increased, and the related Cost of Risk Stage 3 is higher than the one of last year (EUR -60 million for 2022), stemming from exposures entering into default status in SME (in sectors real estate, construction, retail trade & hotel/catering) and Corporate (in sectors manufacturing, real estate and construction) segments.

Stage 3 component in the Cost of Risk

In EUR million



IV.1.3. The risk management process concerning Forbearance, Watchlist, Default and Impairments

IV.1.3.1. Forbearance

Forbearance measures imply the granting of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments. These concessions may take the form of modifications to the loan contract or debt restructuring.

They apply to all loans and debt securities that are on-balance sheet and also to some off-balance sheet commitments. They do not apply to debt securities held for trading exposures.

Specific criteria are established for each business segment. These provide for a practical interpretation of the concepts of "financial difficulties" and "concession".

When granting a concession, the Bank is always led by a number of mainly business-related and economic factors. The fact that concessions are made, is one of the Watchlist indicators at Belfius and leads to a transfer of the exposures from stage 1 to stage 2 under IFRS 9.

Faced with the Covid-19 pandemic and its potential consequences on the financial situation of borrowers, Belfius has reviewed its forbearance policy in 2020-2021 in line with the EBA guidance: there is no automatic change in the forbearance classification for borrowers only based on the fact of a new loan granted under the state guarantee scheme or EBA compliant requested moratoria. In this context, the most vulnerable clients associated with high PD's and, with potentially longer-term use of moratoria were recognized as forborne.

Contracts which have reached their probation period of 2 years are assessed to determine if they are eligible for deflagging and should no longer be considered as forbearance measures.

Forbearance outflow linked to Covid started mid 2022 and continued in 2023.

At the end of 2023, an amount of EUR 1,598 million of loans at Belfius met the forbearance definition, of which EUR 60 million related to Belfius Insurance compared to, respectively, EUR 1,826 million and EUR 97 million at the end of 2022. Customers in the Corporate (EUR 686 million) and Business segment (EUR 443 million) represent the highest volumes with a forbearance status.

In 2023, the forbearance volumes decreased with EUR 228 million but volumes still remain above pre-Covid levels. This is mainly explained by the outflow of forborne exposures related to Covid measures, and by the increase in Corporate Banking forborne exposures since the end 2022, concentrated in the commercial real estate portfolio.

More details on forborne exposures are provided in the Risk report annex (Table CQ1).

IV.1.3.2. Watchlist

The Watchlist Guideline defines internal and external (early warning) indicators to identify a significant increase of credit risk that may lead to an intensive follow-up and/or management of credit files. This allows the bank to closely monitor increasing credit risks and to take adequate credit mitigation measures in order to reduce them.

This is also reflected in the provisioning policy by applying a stage 2 for the majority of these exposures. On a quarterly basis, dedicated Risk Committees identify the files requiring a higher level of monitoring.

More details on the ageing of past-due exposures are provided in the Risk report annex (Table CQ3).

IV.1.3.3. Default

A transversal default definition is applied within the entire Belfius Group and on all market segments in line with the EBA Guideline.

A default status is assigned to debtors which meet one or both of the following criteria:

- the debtor has material exposures which are more than 90 days past due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless the existence of any past due amount or the number of days past due.

When a debtor belonging to a Risk Group defaults, all other debtors belonging to the same Risk Group will not be considered automatically as being in default. In such a case, Belfius' Default Committee will decide - based on a well documented analysis - whether or not other companies belonging to the same group will experience difficulties fulfilling their commitments due to this specific default and, if so, extend the default to the other members of the Risk Group.

Belfius Default guideline provides an in-depth description of indicators used to categorize an exposure in default.

The Default Committee within the Risk department is competent to define the default status.

Based on regulatory evolutions, Belfius has implemented the EBA updated definition of default as of mid-March 2020. Its internal guidelines were updated accordingly. The aim of the EBA guideline is to harmonize the definition of default across the EU prudential framework.

Main impacts are the materiality thresholds for obligations past due that are now composed of both an absolute and a relative threshold, and the introduction of a probation period of 3 months before reclassification into a non-defaulted status.

Indicators of credit quality

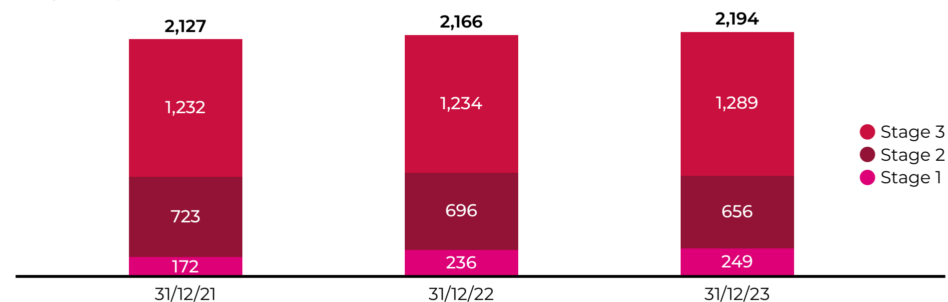
		20Q4	21Q4	22Q4	23Q4
INDIVIDUALS	TOTAL FEAD	43.340	46.743	50.209	51.828
	Of which exposures with forbearance	199	450	463	379
	Of which in default	192	186	189	217
E&E BUSINESS	TOTAL FEAD	16.929	18.131	19.222	19.586
	Of which exposures with forbearance	356	813	666	443
	Of which in default	524	539	558	658
E&E CORPORATE	TOTAL FEAD	31.358	34.315	40.101	42.607
	Of which exposures with forbearance	394	597	548	686
	Of which in default	615	658	617	744
PUBLIC & SOCIAL	TOTAL FEAD	36.672	38.213	36.847	36.060
	Of which exposures with forbearance	3	37	51	30
	Of which in default	20	31	1	1

IV.1.3.4. Impairments

At the end of 2023, the total impairment stock (stages 1-2-3) amounted to EUR 2,194 million compared to EUR 2,166 (restated) million at the end of 2022. This increase of EUR +28 million is explained by an increase in the Stage 3 provisions, slightly offset by reversals in the combined stage 1 and stage 2 provisions relating to the update of the macroeconomic factors and perspectives and to the reassessment of the Overlay for vulnerable exposures.

Stock impairments by stage (consolidated)

In EUR million



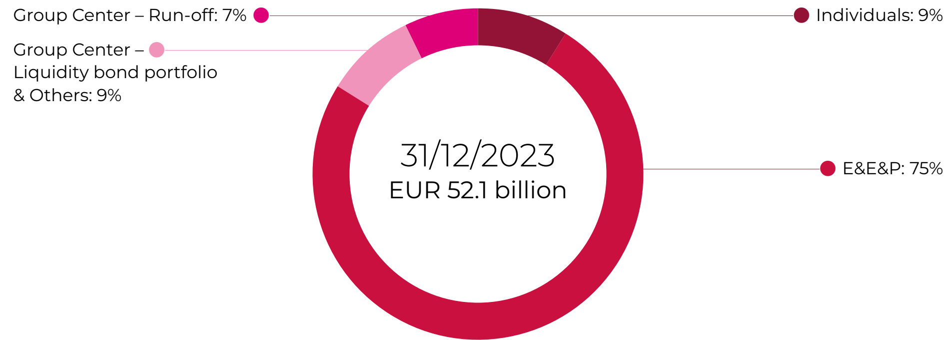
IV.1.4. Asset quality

At the end of 2023, the amount of impaired loans on a consolidated basis amounted to EUR 2,259 million, an increase of +11.5% compared to year-end 2022. During the same period, the gross outstanding loans to customers increased by +4.1% and amounted to EUR 115,778 million at the end of 2023. As a consequence, the asset quality ratio amounted to 1.95% at the end of 2023. The stage 3 impairments increased by 4.8% and amount to EUR 1,266 million. The coverage ratio on impaired loans is 56.0%, compared to 59.6%. The decrease is mainly explained by a number of new defaulted files with strong collateral and recovery perspectives amplified by reversals on existing files in default and the write-off of files with a high coverage without material additional impairment.

More details on the credit quality by exposure classes are provided in the Risk report annex (Table CR1).

IV.1.5. Credit risk RWA by segment

Credit risk RWA by segment



The risk exposure amounts for credit risk (EUR 52.1 billion on 31/12/23) are stemming for 75% from E&E&P (driven by Corporates and, to the lesser extent, by Business segments), followed by Group Center (16%) and Individuals (9%).

IV.2. Counterparty credit risk

Since June 2021, counterparty credit risk exposure for derivatives is measured via the standardised method for counterparty credit risk (SA-CCR). No change in method has been made in 2023 nor for derivatives nor for securities financing transactions (SFT).

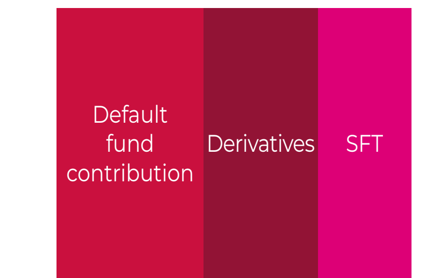
The overall counterparty credit risk exposure remained fairly stable over the year 2023 compared to 2022. The slight increase in exposure towards central clearing counterparties was compensated by a further decrease of securities financing transactions with other counterparties. We continue to clear as much transactions as possible through the use of central clearing counterparties (CCP's), reducing our individual counterparty risks.

Definition

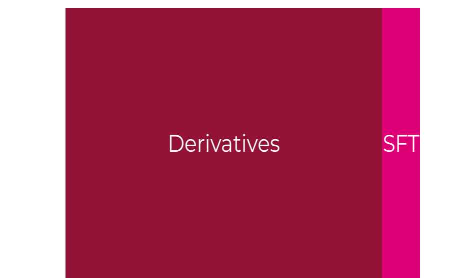
Counterparty Credit risk is defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows and applies to derivatives and securities financing transactions. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Exposure may be reduced via netting of transactions and the application of collateral posting/receipt under legal agreements (ISDA/EMA/CSA for derivatives and GMRA/GMSLA for SFT).

Exposure after netting and collateralisation

CCPs (EUR 0.9 Bn)



Other counterparties (EUR 3.4 Bn)



IV.2.1. Management of the risk

Counterparty credit risk on derivatives exists in all Over-The-Counter (OTC) transactions such as interest rate swaps, foreign exchange swaps, inflation or commodity swaps, credit default swaps and securities financing transactions.

Counterparty credit risk is measured and monitored according to the general principles described in Belfius credit risk measurement guideline

The measurement of the exposure at default for derivatives transactions has been changed on 30 June 2021 to SA-CCR. This method is a more risk-sensitive method than the previously applied Current Exposure Method (CEM). SA-CCR penalizes uncollateralised transactions while netting benefits are better recognised for margined transactions.

To reduce the counterparty risk, Belfius' OTC derivatives are in most cases concluded within the framework of a master netting agreement (ISDA or EMA),taking into account the general rules and procedures set out in the Belfius credit risk measurement guideline. Collateral exchanges for derivative contracts are regulated by the terms and rules stipulated in a Credit Support Annex (CSA).

The exposure at default for securities financing transactions is based on the cash or securities given, reduced by the collateral received (cash or securities) and taking into account regulatory haircuts as defined by the CRR. Belfius applies netting when eligible agreements (GMRA or GMSLA) are in place.

All OTC transactions are monitored within the credit limits set up for each individual counterparty as well as on group level. Sub-limits may be put in place per type of product or activity. Credit Limits are decided by competent committees (FM CLC and CDC) and breaches to these limits are monitored on a daily basis and reported to the respective committees.

In order to avoid direct OTC counterparty risk more and more transactions are done via central clearing counterparties (CCP's).

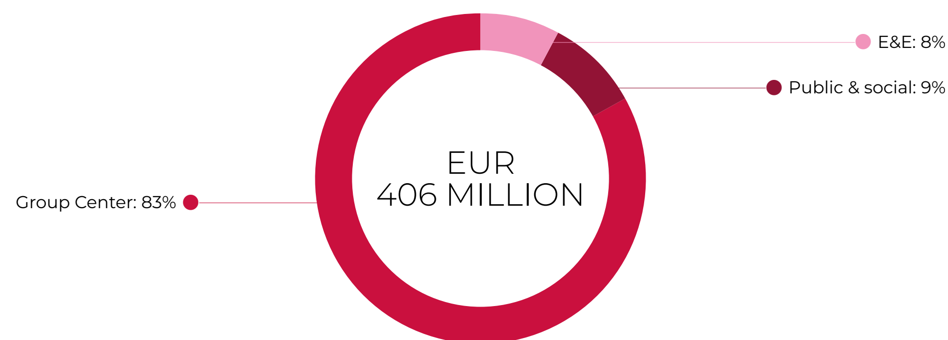
Both for derivatives and securities financing transactions, strict guidelines are in place to avoid wrong-way risk in order to avoid that received collateral has a direct link to the counterparty or any of its affiliates.

An adjustment, called Credit Value Adjustment (CVA) reflecting the market value of the counterparty credit risk, is calculated on all non-collateralised derivatives (concluded with a limited number of counterparties, such as local authorities, project SPVs, some corporates or monoline insurers), as well as on collateralised derivatives (although limited in credit risk amount due to the daily exchange of collateral). This adjustment is updated, monthly, based on the evolution of the value of the derivatives and the credit quality of the counterparty. Note also that, along the credit value adjustment, other types of adjustments are applied on derivatives (funding value adjustment, debit value adjustment).

The stock of CVA at end 2023 for Financial Markets, amounted to EUR 39.2 million, which represented an important decrease, mainly coming from decreasing credit spreads, compared to the EUR 51.6 million as of year end 2022.

The capital charge for CVA risk is calculated according to the standardised approach. The CVA RWA amounted to EUR 406 million and remained relatively stable over the year (+EUR 85 million) while encountering some volatility in the last quarter following rates movements.

CVA RWA by segment



CVA capital charge is detailed further in the Risk report annex (Table CCR2).

Exposures to counterparty credit risk, including exposures to central counterparties are detailed in the Risk Report annex (tables CCR1, CCR3, CCR4 and CCR8).

To avoid direct OTC risk, more and more transactions are transferred to central counterparties (CCP's).

IV.2.2. Counterparty credit risk mitigation

The impact of credit risk mitigation techniques is illustrated in the Risk report annex (tables CCR1, CCR5-A and CCR5-B). Collateral may be posted/received in the form of cash and/or securities in the form of variation margin or net independent collateral amount.

The exposure after netting and collateralisation at year-end 2022 on CCP's and other counterparties was EUR 3,653 million for derivatives and EUR 580 million for securities financing transactions.

Concentration limits are an essential part of the Risk Appetite Framework of Belfius and are monitored on a continuous basis. This also includes concentrations that might arise following credit risk mitigation techniques In particular, in order for collateral to be effective in times of need, Belfius monitors:

- the concentration of the received collateral;
- the liquidity of the received bonds;
- the impact on collateralization of a possible rating downgrade of one of the contractual parties (either Belfius or the counterparty).

In the event of a one-notch downgrade of Belfius, the impact on the collateral to be posted will be limited as this downgrade will only affect a small portion of the collateral agreements in place.

IV.2.3. Credit derivatives exposures

Exposures to credit derivatives transactions in the trading portfolio, are detailed in the Risk report annex (Table CCR6).

The portfolio contains:

- Single-name CDS: portfolio of open derivatives where protection is sold to banking counterparts. These sold derivatives are collateralized;
- Index CDS are used as mitigants of the CVA risk and are ultimately cleared through a CCP.

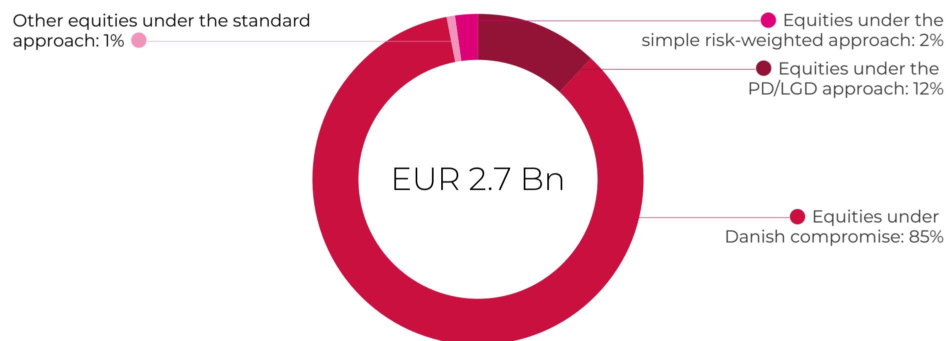
IV.3. Focus on equity exposure

For the calculation of the capital requirement for equity exposure, Belfius Bank applies the PD/LGD method. If the PD/LGD method cannot be applied (e.g. no available ratings), the simple risk weight (standardized) method is used.

Besides:

- at the beginning of 2014, the NBB granted the Danish Compromise option (financial conglomerate) to Belfius allowing a new prudential treatment for Belfius Insurance participation and subordinated debts (370% risk weight), classified under the standard approach;
- items classified as significant investments according to Article 48 of CRR are weighted at 250%.

Equity method by exposure



Further details are provided in the Risk report annex (Tables OV1, CR10.5, INS1 and CR5).

Note that as Bank-insurer group, the largest part of the equity portfolio is held as an economic hedge for long-term insurance liabilities. For information on Belfius Insurance equity exposure, we refer to the chapters Risk Management of the Annual Report 2023 of Belfius Insurance, and the Belfius' Management report (see dedicated section on insurance risks).

IV.4. Securitisation risk

Depending on the role played by Belfius Bank regarding securitisation transactions, the objectives can vary from bringing differentiation in the long-term funding mix, reduction of the economic capital requirement or improvement of the risk-return ratio.

Belfius Bank currently has retained asset-backed securities which can for instance be used as collateral for secured funding agreements.

IV.4.1. Objectives and roles of Belfius Bank

As Originator: Belfius Bank carries out securitisation transactions related to various asset classes: mainly residential mortgage loans, public finance loans and loans to SMEs. These transactions are in general carried out with a view to manage adequately the liquidity and funding profile.

The securitisation activity as originator is described in the Section VI.2.

As Servicer: In transactions where Belfius Bank is the originator, Belfius Bank in general continues to service the assets being securitised.

As Arranger of Securitisation Transactions for Customers: Belfius Bank acts as arranger or advisor on securitisation transactions for customers. In general, Belfius Bank receives fees for structuring or advising on transactions.

Another Role: depending on the specific details of a transaction, Belfius Bank may undertake various roles in securitisation transactions ranging from account bank to hedging provider or liquidity facility provider. Belfius Bank may also act as calculation agent, paying agent or corporate services provider.

Belfius Bank does not act as a sponsor for ABCP, third party assets or multi-seller programmes, and it does not provide liquidity facilities to such programmes.

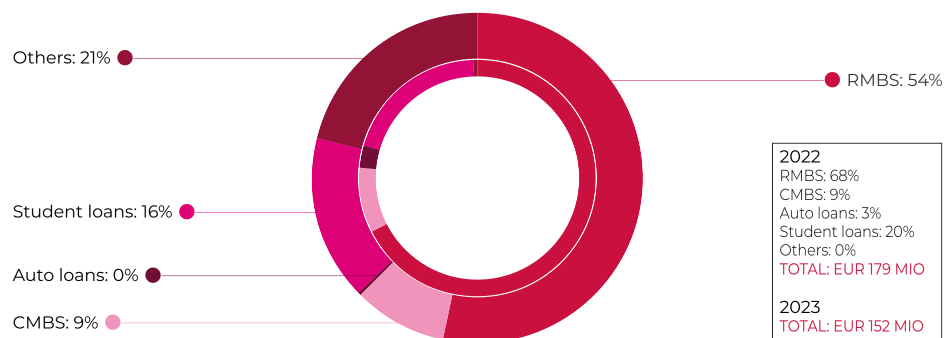
IV.4.2. Securitisation activity as investor

Belfius' investment framework for the ALM Liquidity (LCR) portfolio allows for the investment in well rated, Simple, Transparent and Standardised (STS) and LCR eligible securitisations. No investments in re-securitisations are allowed. These investments are purely done from a diversification perspective within the liquidity objective of this portfolio. Capital requirements on these investments are calculated based on the STS framework, meaning with an external rating-based approach. No new acquisitions have been done during 2023 within the liquidity portfolio.

Exceptionally securitisations can be purchased as an alternative funding source for corporate clients. These can be non-STS and non-LCR eligible. No acquisitions have been made in this context during 2023.

Belfius uses the external rating-based approach (SEC-ERBA) for its securitisations as investor (only STS positions possible) as mentioned in the risk report annex (where the STS category and distinction by underlying asset type is mentioned). Moody's, Fitch and S&P are used for the SEC-ERBA approach applied on the investments made. If an external rating is unavailable SEC-SA is used.

Securitisation activity as investor – by underlying (Outside 2023 – Inside 2022)



All investments within the ALM liquidity portfolio are booked at Amortised Cost. Re-securitisations are considered to be non-basic in terms of IFRS9 and would be booked at fair value through P&L but these are not allowed to be invested in.

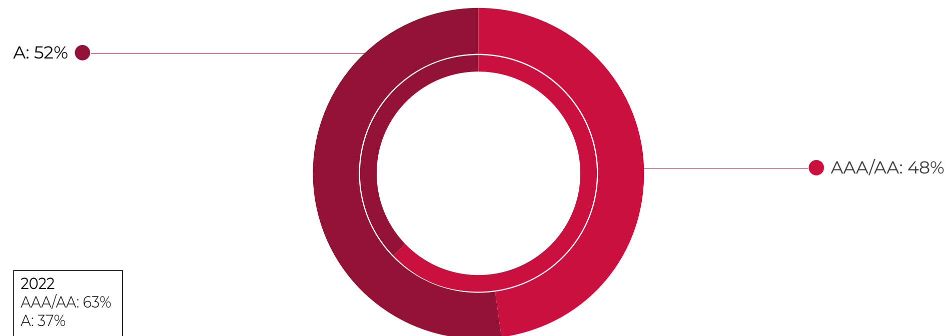
At the end of 2023, the Belfius Bank's investment portfolio was EUR 152 million, compared to EUR 179 million at the end of 2022.

The decrease is the result of the amortisation of the existing (legacy and liquidity) portfolio (EUR -27 million).

The portfolio is only composed of senior granular ABS transactions and EUR 31 Million of this exposure are STS securitisations.

Further details on underlying assets and capital requirements are provided in the Risk report annex (Tables SEC1 and SEC3).

Securitisation activity as investor – by rating (Outside 2023 – Inside 2022)



V. Market risk

V.1. Overview

V.1.1. Market risk definition

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

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

In the Risk report we make the distinction between the Structural & ALM risk, on the one hand, and Trading Market Risk, on the other hand.

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

V.1.2. Risk types

The changes in market risk can be triggered by the fluctuations in the levels of:

- interest rates;
- credit spreads;
- inflation;
- foreign-exchange rates;
- equity prices;
- commodity prices;

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

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

Credit spread risk is linked to the credit spread curve that can change for a counterparty even if the credit quality (rating) remains unchanged. This impacts the XVAs and mainly the Credit Value Adjustment (CVA) which applies only on derivatives. Credit spreads also affect the bond asset price, but these are mostly value at amortized cost and exposure in trading portfolios at fair value is limited.

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

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

V.2. Market Risk – Structural & ALM Risk

The interest rate hike cycle began in 2022 and continued at a rapid pace throughout the first half of 2023, resulting in a historic high in September of the year. This significant increase led to a general flattening of the longer end of the yield curve, coupled with heightened volatility driven by ambiguous macroeconomic indicators, oscillating between a potential soft landing and an inflationary rebound. This occurred within a context of exacerbated geopolitical tensions, central bank balance sheet reduction, and banking crisis events during the second quarter of 2023.

In this environment, our strategy to mitigate rising interest rates, well anticipated already since early 2022, was further enhanced in 2023 to preserve our equity's economic value. This was achieved by shortening the duration of non-maturing deposits and rolling-out our hedging strategy covering substantial long-term payer swaps execution or hedging our LCR bonds. Also, in anticipation of a downward interest rate trend, our Risk Management is proactively challenging our strategy aiming to maintain both the economic value and the enduring profitability of our operations.

Definition

The structural & ALM risk exposure at Belfius results from the imbalance between its assets and liabilities in terms of volumes, durations and interest rate sensitivity.

With respect to the interest rate risk, Belfius Bank pursues a prudent risk management of its interest rate positions in the banking book within a well-defined internal and regulatory limit framework, with a clear focus on generating stable earnings and preserving the economic value of the balance sheet - macro-hedging approach - thoughtfully considering natural hedges available in the bank balance sheet.

The long-term sensitivity of the ALM perimeter was EUR -75 million per 10 bps at 31 December 2023 (compared to EUR -59 million per 10 bps at 31 December 2022), excluding interest positions of Belfius Insurance and of the pension funds of Belfius Bank.

A 100 bps increase of interest rates has an estimated negative impact on net interest income (before tax) of EUR -14 million of the next book year and an estimated cumulative positive effect of EUR +71 million over a three year period, whereas a 100 bps decrease would lead to an estimated impact of EUR -2 million of the next book year and an estimated cumulative effect of EUR -187 million over a three year period.

V.2.1. IRRBB risk management

The interest rate hike cycle, initiated last year, continued at a swift pace throughout the first half 2023, culminating in a historical high in September 2023. This marked increase led to a general flattening of the longer end of the yield curve, coupled with heightened volatility driven by ambiguous macroeconomic indicators, oscillating between a potential soft landing and an inflationary rebound. This occurred within a context of exacerbated geopolitical tensions, central Bank balance sheet reductions and banking crisis events during the second quarter. The more recent significant flattening movement, characterized by expectations of cuts in key interest rates shows the need to keep exercising significant caution to protect our economic value and earnings on the long run and the importance from a risk management point of view to rely on scenario-thinking approaches.

In this turbulent environment, Belfius has continued its strategy to protect itself against rising interest rates preserving the bank's economic value and protecting its net interest income. This has been achieved by shortening the duration of Non-Maturing Deposits and through the execution of long-term payer swaps while developing a robust commercial strategy to keep meeting evolving clients' needs. In this context, Belfius Bank was the first (large) Belgian bank in 2023 to increase its tariff on saving accounts and has continued to do so.

2023 witnessed a strong diversified growth in Belfius loan book combined with the favourable asset/liability yield differential dynamics enabled a solid net interest income growth. Nevertheless and in summary, the uncertain evolution of interest rates, the fierce competition in pricing of loans and liabilities among peers, future potential new competitors (ex: future EURO digital currency) and change of clients' behaviors are key components being deeply challenged in our interest rate risk management framework.

V.3. Market Risk – Trading Market Risk

With the default of one of the biggest banks and an acute banking crisis, coupled with an ongoing battle of central banks in fighting inflation, 2023 was marked by periods of high volatility, exacerbated by ongoing conflicts in Europe. Despite the challenging economic and geopolitical environment,

- Market risks have remained well within our risk appetite, with limited VaR as Belfius hedged the main risks and sensitivities.
- Market RWA has dropped following the correction applied at the end of 2022, resulting in less volatile Internal Model VaR.

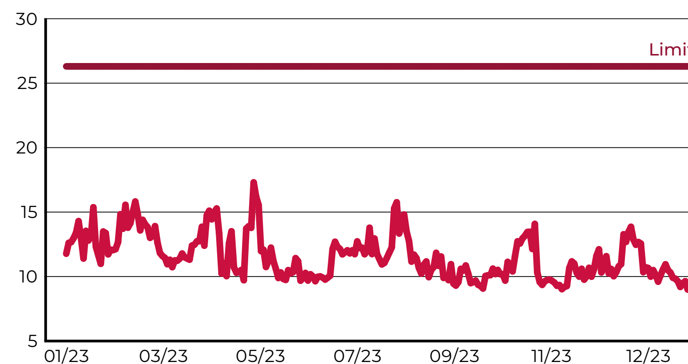
Remaining ex-legacy exposures are still sensitive to real interest rate, which has considerably increased in 2022, thereby reducing the exposures. Further increases have been observed in the first three quarters of 2023, however a significant drop of the interest rates in the last quarter of 2023 has led to an increase in these exposures back to levels similar to the end of 2022.

Definition

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

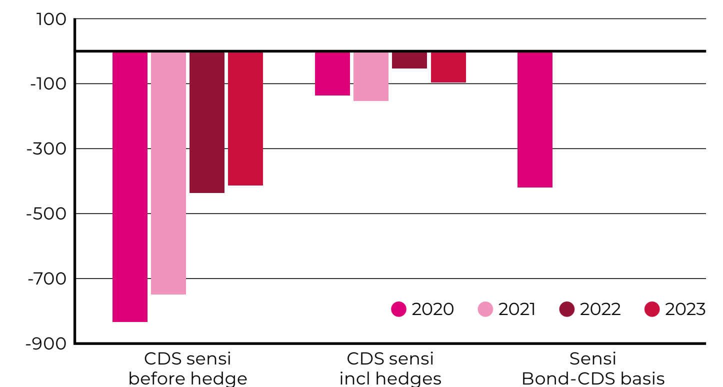
Evolution of global VaR in 2023

In EUR million



Sensi CDS (before and after hedge)

In EUR million



V.3.1. Fundamentals of market risk in 2023

Despite the challenging economic and geopolitical environment, Belfius Bank's market risks management remained sound. The year 2023 was marked by periods of high volatility due to the default of a major bank, an acute banking crisis, ongoing central bank efforts to combat inflation, and ongoing conflicts in Europe. However, the final quarter of 2023 delivered a welcome Christmas present for investors, with growing excitement that in 2024 central banks would cut interest rates sooner than previously expected, resulting in an "almost everything rally".

Main market risks measures indicate continuing sound management:

- The VaR used for internal limit control and as RAF indicator was also much less volatile than in 2022. The VaR consumption ended the year at low levels (EUR 9.4 million vs limit of EUR 26.3 million) and even the maximal consumption (EUR 17.3 million) was limited.
- The XVA risk framework developed and improved over 2020/2021 kept performing well, keeping the P&L volatility to low levels and allowing to maintain the reduction of RWA (CVA).

In Q1, Market RWA decreased following a correction applied at the end of 2023, with a residual impact from the effect of 60 days averaging. As a result, the Internal Model VaR was less volatile over the year, although it steadily increased due to slightly higher exposures and new volatile scenarios.

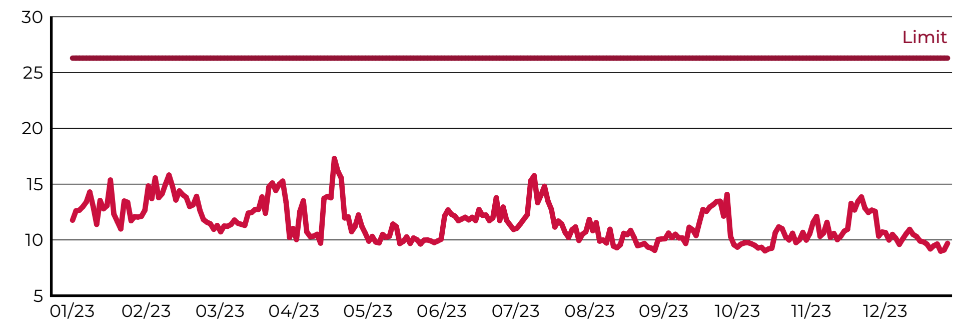
The ex-legacy market risk exposures remained limited, as the important increase in UK real rate in the first quarters of 2023 has had a positive impact on Belfius' UK inflation bonds exposures. The increases in interest rates until the last quarter also reduced our uncollateralized exposures and, therefore, sensitivities like the one on our funding spread decreased. However, significant drop in interest rates in the last quarter of 2023 has led to increase of these exposures back to levels similar to the end of 2022.

Efforts were made to contain tail events for the remaining CDS's benefiting from a trading derogation. Negotiations were conducted on two of these to eliminate specificities that could lead to possible extreme events, with a landing of these negotiations expected in the first quarter of 2024.

V.3.2. Market risk measures

Belfius Bank uses the Value-at-Risk (VaR) concept as the primary metric for managing its market risk. VaR measures the maximum potential loss in Net Present Value (NPV) that the bank may face in normal or historical market conditions over a ten-day period with a 99% confidence interval. Belfius monitors the following risks using VaR computation[1]:

Evolution of global VaR in 2023
In EUR million



(1) The interest rate, inflation and foreign exchange (forex) rate risk: this risk category is monitored via a historical VaR based on an internal model approved by the National Bank of Belgium and ECB. The historical simulation approach consists of managing the portfolio through a time series of historical asset yields. These revaluations generate a distribution of portfolio values (yield histogram) on the basis of which a VaR (% percentile) may be calculated. The main advantages of this type of VaR are its simplicity and the fact that it does not assume a normal but a historical distribution of asset yields (distributions may be non-normal and the behaviour of the observations may be non-linear).

V.3.3. Market risk exposure

Value-at-risk by activity

VaR[1] (99% 10 days) In EUR million	31/12/22				31/12/23			
	IR[2] & FX[3]	Equity	Spread	Other risks[4]	IR[2] & FX[3]	Equity	Spread	Other risks[4]
By activity								
Average	7.5	4.6	1.1	0.4	6.1	3.5	1.3	0.6
End of Year	6.3	5.8	0.8	0.4	5.3	2.8	1.0	0.3
Maximum	17.5	12.0	2.3	0.8	11.3	7.9	2.0	3.8
Minimum	3.7	2.2	0.2	0.4	3.5	2.1	0.7	0.3
Global								
Average	13.6				11.5			
End of Year	13.3				9.4			
Maximum	25.3				17.3			
Minimum	7.8				9.0			
Limit	26.3				26.3			

(1) The Value at Risk (VaR): is a measure of the potential change in market value with a probability of 99% and over a periode of 10 days.
(2) IR: interest rate risk and inflation risk.
(3) FX: forex risk.
(4) CO_2 risk.

The overall average VaR of Financial Markets activities decreased from EUR 13.6 million in 2022 to EUR 11.5 million in 2023.

The VaR decrease was spread out over the different quarters, with positions decreasing steadily as trading performance was positive throughout the year.

V.3.4. Stress testing

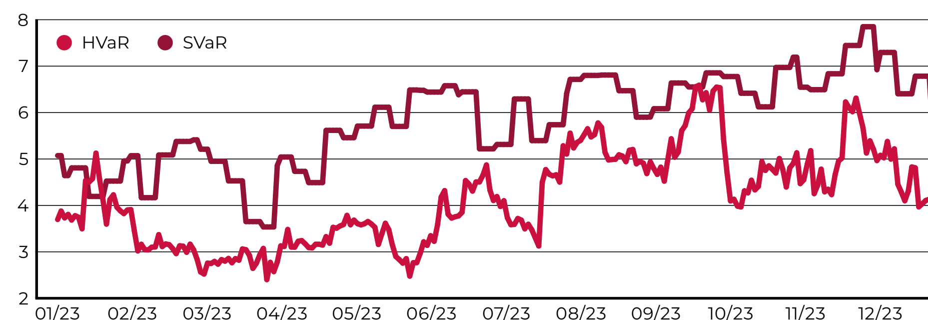
Although the VaR is a very useful risk management tool for controlling day-to-day loss-risk exposures, it does not fully withstand the test of abnormal market movements, and it does not always give a total accurate picture of market exposure. Stress tests reveal sometimes better such information by gauging Belfius market positions vulnerability to exceptional events and hence by providing additional information about market risks alongside the information embedded in the VaR. These risks include those associated with extreme price movements and those associated with scenarios not reflected in recent history or implied by the parameters used to compute the VaR. Consequently, Belfius Bank uses stress tests in addition to the VaR approach[1].

Three types of scenarios are considered: calibrated scenarios (shocks on each risk factor, calibrated as quantiles of their historical distribution), specific scenarios (specific shocks on some risk factors) and historical scenarios (scenarios based on previous crises, e.g. Covid stress).

The results of these stress tests are reported on a monthly basis.

V.3.5. Regulatory internal model and back testing

Evolution HVaR and SVaR (internal model) in 2023
In EUR million



Belfius Bank uses its internal VaR model for the regulatory capital requirement calculation on foreign exchange risk and general interest rate risk within the trading scope.

In 2023, the Internal Model VaR amounted to EUR 13.1 million on average versus EUR 18.5 million for the SVaR. The SVaR dropped very briefly below 1.1 times the HVaR, but this ratio stabilized quickly after that at a higher level.

The main drop in the market risk RWA has been observed in the first quarter of 2023, but it is not directly linked to lower risk exposures in that quarter.

(1) The main advantages of this type of VaR are its simplicity and the fact that it does not assume a normal but a historical distribution of asset yields (distributions may be non-normal and the behaviour of the observations may be non-linear). The general and specific equity risks are measured on the basis of a historical VaR with full valuation based on 1 year of history. The spread risk is measured via a historical approach, applying 1 year of observed variations on the sensitivities. The commodity risk is measured via a simplified VaR approach where calibrated shocks are multiplied with the sensitivities.

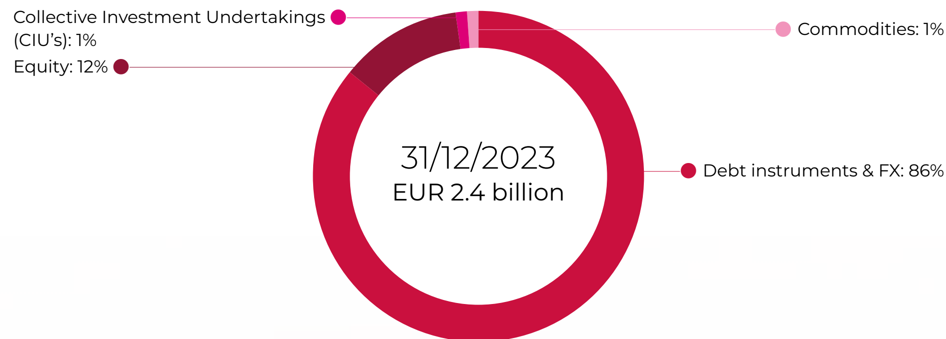
The drop is explained by the model change that was put into production in the fourth quarter of 2022 to correct inconsistent model behaviour, which has therefore led to a decrease in VaR/SVaR at the end of 2022. Given the 60-day average, this has affected the end of year 2022 market risk RWA with approximately EUR 1.2 billion. After the RWA drop in the first quarter of 2023, a slow increase in market risk RWA has taken place over the second and third quarter of 2023 stemming from the small increases in positions.

At the end of 2023, the RWA for market risk under the internal model approach stood at EUR 1.8 billion and at EUR 0.5 billion for the standardised approach.

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

In terms of products, the market risk RWA (EUR 2.4 billion on 31/12/23) are stemming for 86% from Debt instruments & FX, followed by Equity (12%), Collective Investment Undertakings (CIU's, 1%) and Commodites (1%).

Market risk RWA by product



Further details are provided in the Risk report annex (Tables MR1, MR2-A, MR3 and OV1).

The aim of back testing is to test the accuracy and the mathematical soundness of the internal market risk measurement methodologies by comparing the calculated market risk figures with the volatility of the actual results. Back testing is a prerequisite for Belfius Bank since we use internal models to calculate the regulatory capital requirement for some market risks.

The result of the back test is the number of actual market losses greater than their corresponding VaR figures (i.e. "the number of exceedings"). According to this number, the regulators will also decide on the multiplier to be applied for determining the regulatory capital requirement for market risks.

Technical aspects of the VaR

VaR is scaled by considering the scaling of time rule (VaR 10d equals VaR 1d times √10).

VaR returns are either relative or absolute, with most IR curves having absolute shocks; FX Spot and IR volatilities have relative shocks.

The VaR is calculated by taking into account the currency of collateral.

A final approved change concerns the inclusion on the FVA sensitivities in the internal model calculation. Although approved, implementation of this inclusion is awaiting final regulatory approval after closure of recommendations.

Where it is possible, the VaR is simulated in full revaluation. For the credit derivatives and FVA, the simulations of interest rate and Fx shocks is done in sensitivities.

Discrepancies between full eval and sensitivities as well as effect of non-material risk factors is analyzed in the regulatory Risks Not In Model framework (RNIM) in order to ensure that their individual and global effect remain low.

Beside the VaR described above, Belfius Bank calculates a Stressed VaR (SVaR). The SVaR is computed on a weekly basis using 250 historical daily evolutions of parameters from the stressed period March 2008-April 2009.

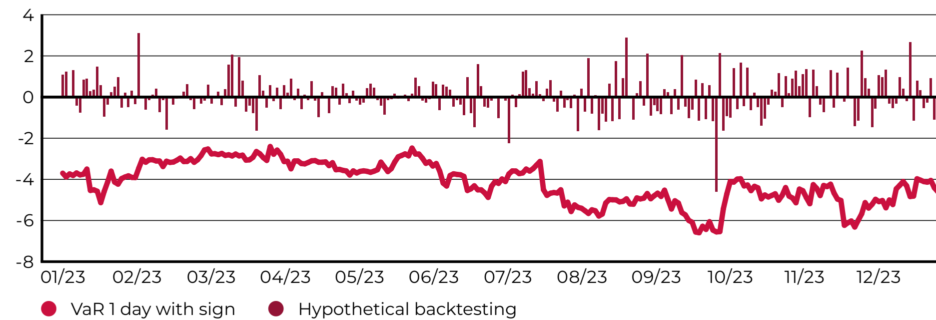
Both VaR and SVaR are calculated on the same scope:

- Flow management trading (with the exception of equity trading which is treated in standardized approach): these IR and IR options desk externalize internal flows coming from sales, structuring and ALM, within a strict limit framework.
- Credit derivatives: legacy trading scope for which Belfius has a trading derogation.
- XVA hedges: internal hedges of IR and inflation exposure coming from XVA exposure.
- FVA: exposure coming from uncollateralized trades.

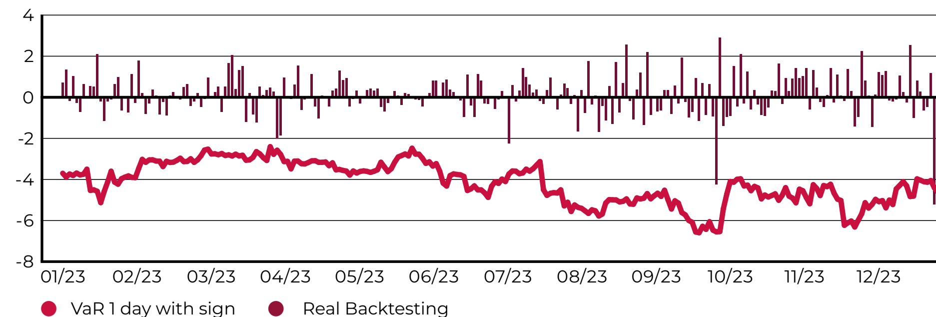
Currently, two types of back testing are implemented at Belfius Bank:

- **Hypothetical back testing** compares the hypothetical results of the portfolio's end-of-day value and, assuming unchanged positions, its value at the end of the subsequent day. This result is therefore without any provisions adjustments and other non-involved risk factors. The holding period is one day. During 2022, there were no negative exceptions to the hypothetical back testing.
- **Real back testing** compares the portfolio's end-of-day value and its actual value at the end of the subsequent day excluding fees, commissions, and net interest income. In 2022, there was one exception to the real back testing, linked to the methodology change in the funding cost used in FVA. Such FVA impacts are included in the real back testing since the internal model methodology change of the fourth quarter of 2022.

Hypothetical Back Testing
In EUR million



Real Back Testing
In EUR million



Therefore, the back testing processes provide a view on the number of (hypothetical and real) exceptions. The maximum between these two numbers is taken into account to adjust the VaR and SVaR multiplier used for calculating the Bank's risk capital requirements for market risk under the internal model approved by the regulator. The one actual exception is below the regulatory maximum of 5 for an add-on.

The charts above show real and hypothetical back testing in 2023 for interest rate and foreign exchange perimeters.

V.3.6. Validation

Validation is responsible for the independent overall assessment of the market risk and valuation models. The process set up to endorse the validation of models deployed within Belfius Bank is multi-layered, ensuring compliance with regulatory requirements. Validation controls the models from a methodological but also an operational (implementation, usage) viewpoint. It intervenes prior to the first use of a new model or of any significant change of an existing model. It also reviews periodically the performance of the models. Validation works are summarised in reports indicating the controls that were performed, their findings, proposed corrective actions and a validation status.

The decisions regarding the Market models are taken by the FMFV Committee composed amongst others of the Head of Market Risk, the head of Dealing Room, the head of Accounting and the head of Validation.

The FM FV reports the main topics to the FMC itself composed of the CRO, the CFO, the Board Member in charge of Financial Markets and their direct reports in charge of Market activities:

- green light to put new models or model updates in production;
- endorsement of the corrective action plans recommended by Validation.

Once a year the Management Board and the Risk and Audit Committees are informed of the status of the Market Models (evolutions, points of attention, outlook).

V. 3.7 Systems and controls

On a daily basis, FM Risk Management follows up, analyses and reports the risks and results of the FM desks. On a monthly basis, the FM Committee (FMC) meets to discuss the risks and results, the market limits, procedures, guidelines and policies and approves or amends new valuation methodologies.

All market activities are backed by specific guidelines describing the objectives, the authorised products, sensitivity, VaR and/or outstanding limits. The systems and controls that are established within Belfius are described in various procedures to ensure a complete and formal framework that is established to support all market risk responsibilities.

V.3.8 Valuation

Within Financial Markets we have financial instruments with complex features and sometimes limited liquidity that are valued using internally developed pricing models. To avoid Valuation errors, a sound valuation risk framework is therefore of utmost importance. Different components are key to limit the risk: validation policy, model change policy, market data policy, IPV process and Value Adjustments guidelines.

The above ensures that all models used are validated by an independent team, that changes brought to the models, when material, are correctly reviewed by an independent team, that the data that feeds the models is correctly controlled, that independent price reviews are conducted (e.g. consensus exercise, alternative price sources, collateral controls) and that, when required, value adjustments are applied in the fair value. All those elements are further detailed in section 9.1.5. Valuation techniques and data (level 1, 2 en 3) of the financial statements.

In addition to the above, an important building block for a Valuation Risk framework is Prudent Valuation. Additional valuation adjustments (AVAs) are designed to ensure that institutions prudently value their fair-valued financial instruments. The prudent value is the value at which institutions are 90% confident that they will exit a position based on the applicable market conditions at the time of the assessment.

Belfius uses the core approach to calculate its AVA. This approach prescribes the calculation of 9 AVAs, referring to different sources of valuation uncertainty, as the excess of valuation adjustments required to achieve the prudent value:

- Market price Uncertainty (MPU)
- Close out Costs (CoC)
- Model risk (MoRi)
- Unearned credit spread (UCS)
- Investing and funding costs (IFC)
- Concentrated positions (CP)
- Future administrative costs (FAC)
- Early termination (EaT)
- Operational risks (OpR)

The prudent valuation scope includes all fair-valued positions, regardless of whether they are held in the trading book or banking book. Positions for which a change in accounting valuation has no impact on CET 1 capital are excluded.

Belfius computes, for market price uncertainty, close-out costs and model risk category-level AVAs, individual AVAs for separate valuation exposures. Those are then aggregated to provide total category-level AVAs using the Method 2 provided in the Annex to the Delegated Regulation 2016/101. Unearned Credit Spread and Investing and Funding Costs AVAs are split into their MPU, CoC and MoRi components.

In 2023, the AVA results were relatively stable with a small decrease from EUR 64 million to EUR 60 million, mostly coming from decreased MPU and FAC.

Details can be found in table PV1.

VI. Liquidity Risk

The change in monetary policy that began in 2022 has had an impact on liquidity and funding conditions in 2023, bringing liquidity to the forefront once again. For years, Belfius has been managing liquidity risks in a sound manner, which has allowed the bank to handle unprecedent events as, for instance, the unexpected shock induced by the 2023 1-year Belgian (1-year Belgian state bond) state bond together as well as the expected reimbursement of T-LTRO.

This sound management has enabled Belfius to maintain comfortable liquidity position with a buffer of EUR 45 billion, a LCR of 139% well above the regulatory requirement of 100% and a loan-to-deposit ratio of 93% at the end of 2023.

In light of increasing interest rates, risk management has focused on maintaining a well-balanced balance sheet as, on the one hand, a change of clients' behaviour has been observed with stronger preference for more profitable products, leading, consequently, to the need to closely manage and anticipate transfers from non-maturing deposits to fixed-terms products, while, on the other hand, keeping a strong commercial dynamic on all segments on the asset side.

In this new liquidity environment, and in line with its strategic goals of business growth and compliance with regulatory liquidity requirements, Belfius has effectively secured EUR 2.4 billion in long-term financing (covered bonds, preferred senior unsecured, and Tier 2) in 2023.

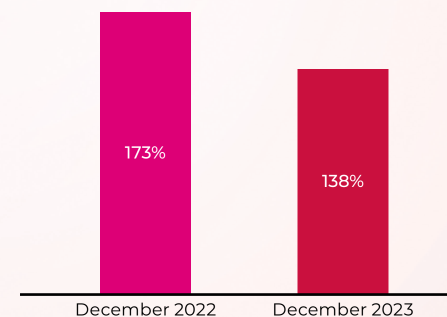
Definition

The liquidity risk at Belfius Bank is mainly stemming from:

- commercial funding collected from customers and the way these funds are allocated to customers through different types of loans/products;
- the volatility of the collateral that is to be deposited at counterparties as part of the CSA framework for derivatives and repo transactions (so called cash & securities collateral);
- the value of the liquid reserves by virtue of which Belfius Bank can collect funding on the repo market and/or from the ECB;
- the capacity to obtain interbank and institutional funding.
- concentration risk of funding sources, counterparties and maturities

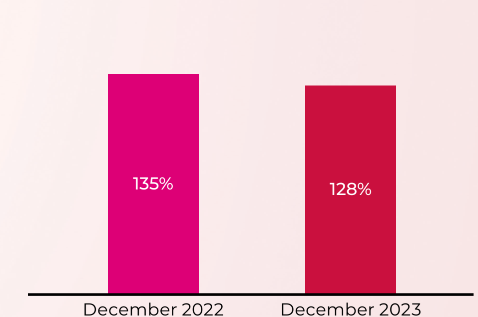
LCR & NSFR

LCR[1]



(1) Calculation based on 12 months average.

NSFR



Risk framework

The Belfius liquidity risk management framework is articulated around several building blocks.

First, the risk identification process ensures that the evolution of risks is appropriately and pro-actively captured and the emergence of new risks enters our risk management framework in a good timely manner.

In terms of the risk measurement, Belfius relies on a close monitoring of a set of regulatory and internal liquidity risk metrics as part of its Risk Appetite Framework defined with the following main objective: "Belfius wants to maintain at all times sufficient liquidity even after severe but plausible stress". The Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Asset Encumbrance ratio (AE) are the regulatory metrics in its scope. The Risk Appetite Framework imposes an additional buffer on top of the regulatory minima to be respected at all times. This buffer combined with a set of predefined recovery measures ensures that Belfius will respect regulatory minima even under stress conditions.

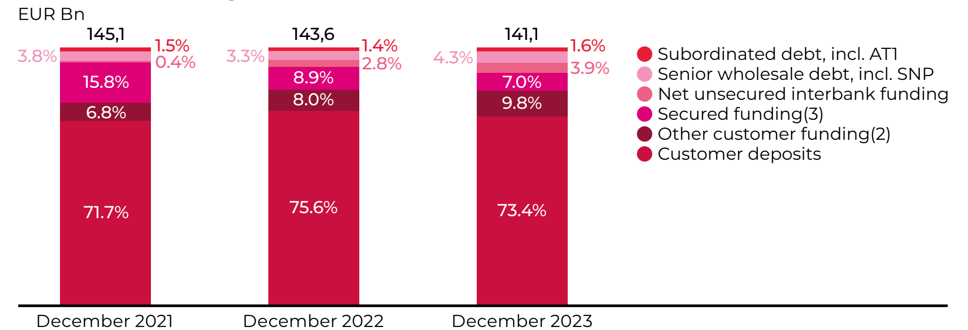
Another control of the second line of defence includes the early warning system that proactively warns for potential liquidity crisis. By means of a detailed Liquidity Risk Dashboard, a set of internal Key Risk Indicators are continuously monitored and enhanced.

Belfius also relies on forward-looking assessments as part of its financial plan and conducts multiple (reverse) stress testing activities to account for concentration risks, clients behaviour changes, potential future non-maturing deposits' outflows, simulated bank runs, changes in monetary policies, interest rates potential evolutions and future changes in the regulatory environment. That way, Belfius ensures to have a sufficient liquidity buffer and a well 'balanced balance sheet' under normal and various stress conditions on the short, medium and long term, always embedding impact on Belfius liquidity position in case of materialization of tail risks.

Diversification of funding

Belfius is strategically maintaining a diverse mix of funding sources cultivating a broad investor base. Fully aligned to the bank's business model and strategy, customer deposits constitute approximately 73% of its funding sources (composed of 58% of individual customers and 42% from professional clients).

Evolution funding sources



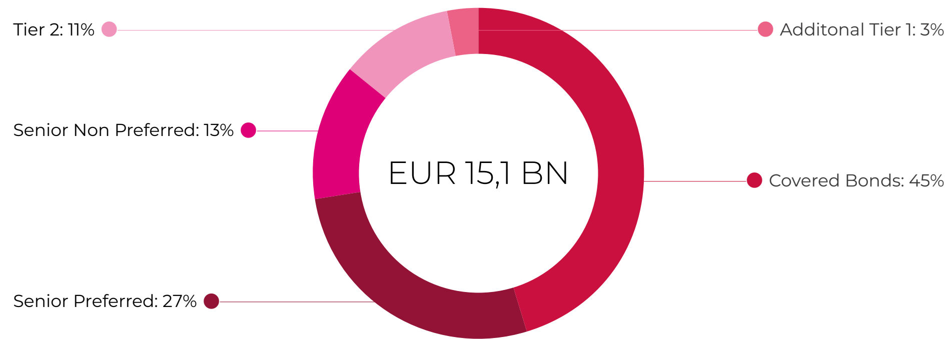
Belfius is leveraging on multiple wholesale funding sources, encompassing both mid/long-term (MTL) and short-term financing, in addition to secured and unsecured funding. This strategic approach enhances the bank's funding base by diversifying across various funding types, maturity profiles, and levels of seniority.

In 2023, in line with its strategic goals of business growth and compliance with regulatory liquidity requirements, Belfius Bank effectively secured EUR 2.4 billion in long-term financing. This funding included EUR 1.8 billion in Preferred Senior Notes, featuring a notable issuance of EUR 0.75 billion in Senior Green bonds. The funding mix was further diversified with the issuance of EUR 0.45 bio Covered bonds and EUR 0.5bio of Subordinated debt.

In 2023, the bank increased its short-term wholesale funding compared to previous year (from EUR 3.8 billion at the end of 2022 to EUR 5.9 billion in 2023). This increase was primarily driven by the issuance of Commercial Paper and Certificates of Deposit with maturities under one year.

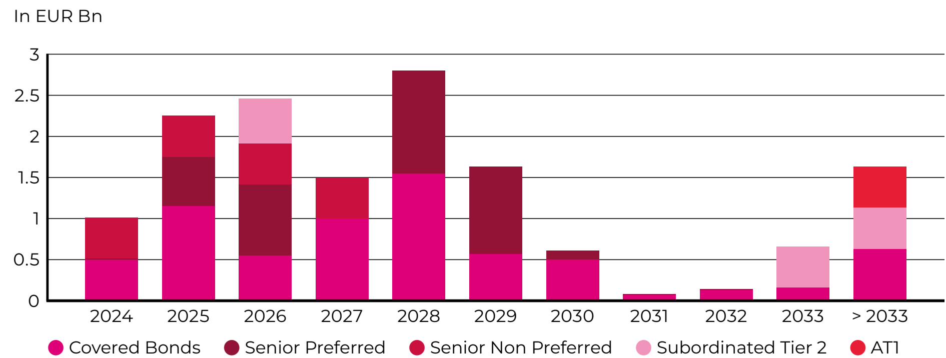
These issuances played a crucial role in reinforcing the bank's LCR ratio, ensuring it remained above the internal target of 120% throughout the year. This robust liquidity position was maintained despite the challenges following the August 1-year Government Bond issuance, which led to roughly EUR 3.5 billion of outflows (including EUR 3 billion from savings accounts and EUR 500 million from payment accounts), and also in the context of the maturing of TLTRO funding. Wholesale funding is closely monitored due to its volatility, especially during stress periods. In this context, the Risk Appetite Framework review was reinforced at the end of the year, setting limits on short term money market funding in order to remain, for instance, LCR compliant, even in times of market turbulence.

MLT wholesale funding strategy



Redemption profile MLT wholesale funding

In EUR Bn



Overall, Belfius' strategy in terms of liquidity risk management is to be a bank with a low risk profile by maintaining a conservative level of buffers and a diversified funding mix.

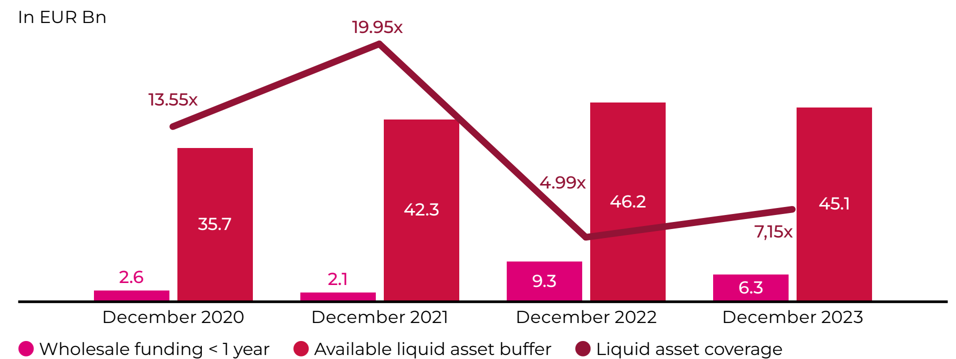
T-LTRO & ECB collateral

With the ECB starting to phase out the Covid-19 related measures concerning eligible collateral, Belfius Bank has anticipatively issued retained covered bonds to offset the diminishing expected collateral value. The issuance of retained bonds, amounting to EUR 3.5 billion, has been instrumental in bolstering the bank's liquidity buffer, which reached EUR 45 billion by the end of December 2023.

The EUR 16 billion of cost-effective T-LTRO funding from which Belfius benefitted in 2021-2022 reduced to EUR 1.4 billion by the end of 2023, and is about to mature in 2024, marking the conclusion of the era of abundant liquidity. The redemption of EUR 3.4 billion by the end of Q2 2023 was followed by the December maturity of a EUR 1.3 billion tranche, resulted in a total reduction of EUR 4.6 billion in T-LTRO funding over the course of the year.

Liquidity coverage evolution

In EUR Bn



For more specific information on liquidity risk we refer to the risk report annex (Tables LIQ1, LIQ2, Liq A and LIQ B).

VI.1. Covered bond activity

Belfius Bank has set up 2 programmes for the continuous offer of Belgian covered bonds (Belgische pandbrieven/lettres de gage belges) in accordance with the legal framework for Belgian covered bonds, i.e. a Mortgage Pandbrieven and a Public Pandbrieven programmes.

The main asset class of the special estate of the Mortgage Pandbrieven programme consists of residential mortgage loans that were originated by Belfius Bank. The main asset class of the special estate of the Public Pandbrieven programme consists of public sector loans that were originated by Belfius Bank.

The main characteristics of those 2 programmes are provided in Appendix XI.3.2. and XI.3.3.

VI.2. Securitisation activity as originator

The securitisation activity as investor is described in the Section VI.6.2.

The steering of the set-up for securitisation transactions is performed by the FIG (Financial Institutions Group) & Structured Finance department with the support of the dedicated organisation/project management departments. As such, both prior to and after the closing of a transaction, transversal task forces are set up including all relevant departments, such as accounting, asset and liability management, credit risk, market risk, back-office, transaction processing, etc.

Post-closing, the transaction follow-up concerns the efficiency and effectiveness of the servicing, the appropriate monitoring of the transaction from a credit, market and liquidity risk perspective on the one hand and the reliability of the reporting being produced on the other hand.

All outstanding transactions were carried out with a view of obtaining long-term funding or establishing a liquidity buffer.

No assets have been originated with the intention to securitise. The underlying assets have been originated in the regular course of lending business to retail, public and corporate customers of Belfius Bank. Only performing assets are included in the securitisation transactions. No profit or losses are realised upon sale of the assets to the Special Purpose Vehicle.

Engaged ECAIs include Moody's, Fitch Ratings, Standard & Poor's and DBRS..

The main evolution in 2023 is the continued amortisation in the underlying portfolios of assets securitised, with only public sector loans remaining as underlying (EUR 537 million at the end of 2023 compared to EUR 613 million at the end of 2022)

For more specific information on Belfius 'Securitisation activity as originator' we refer to Table EU SECA in the risk report annex.

VI.3. Encumbered assets

The regulatory consolidation scope used for the purpose of the disclosures on asset encumbrance is the same as the scope retained for the application of the liquidity requirements on a consolidated basis as defined in CRR.

According to EBA guidelines, the unused portion of pledged assets above the minimum required by the counterparty should not be considered encumbered. It is the case, for instance, for the collateral pledged to the ECB.

Following the EBA guideline and based on the median values of the encumbrance reportings of the last four quarters, the encumbered assets at Belfius Bank decreased sharply to EUR 23 billion at the end of 2023. This represents a decrease of EUR 17.8 billion compared to end 2022. The asset encumbrance ratio based on the median values

amounted to 13.9% at the end of 2023. The decrease is mainly due to the maturing of the T-LTRO tranches, which set the ratio well below the internal RAF Level 2 indicator's first limit of 25%

The encumbered assets are located within Belfius Bank, which is the only banking entity of the group generating encumbrance. One of the main sources of encumbrance are linked to the T-LTRO for a median amount of EUR 4.2 billion, the derivatives exposures for EUR 4.7 billion median value under the form of cash or securities. A significant part of collateral is financed through collateral received from other counterparties with whom the Bank concluded derivatives in the opposite direction.

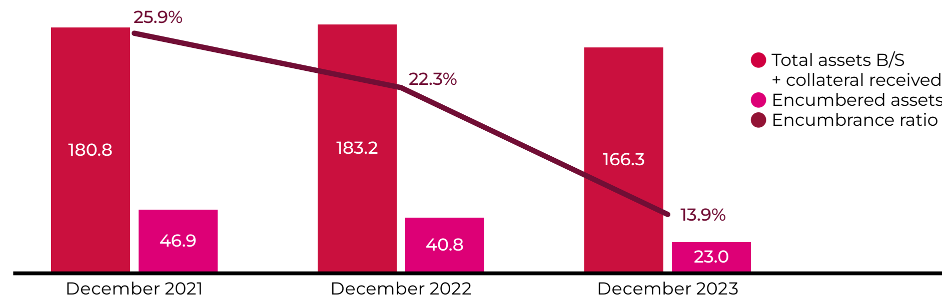
Other main sources of encumbrance for funding purposes are loans in cover pools underlying covered bonds issues (EUR 7.9 billion median).

Given that no other currency is representing more than 5% of total Belfius liabilities, all encumbrance figures are computed in EUR.

Further details are provided in the Risk report annex (Tables AE).

Encumbered assets

In EUR billion



VII. Non-Financial Risk

In recent years, non-financial risks have increased further in view of the evolution of external threats (cyber, fraud, outsourcing, IT, climate, geopolitical) in a VUCA (Volatility, Uncertainty, Complexity and Ambiguity) world. Belfius' ambitious strategy 2020-2025 reinforces the emergence of the different types of non-financial risks, requiring a continuous reinforcement of the NFR Risk Framework, including the enhancement of the internal controls.

In 2023, the focus was on starting the implementation of a new GRC (Governance, Risk management, Compliance) platform, continuing the reinforcement of our framework landscape (third-party risk, Schrems2 compliancy, NPAP etc.) and on staff development through certificate training program in operational risk management, new e-learning modules and awareness-raising initiatives.

Throughout the years, key compliance risks remain financial crime, consumer protection and regulatory scrutiny. Similarly to NFR, the compliance framework has been strengthened to successfully manage the risk in line with the bank's low risk appetite. In particular, a market abuse detection tool has been rolled out in 2023.

The compliance department has been a pioneer in introducing AI for transaction monitoring to manage the AML risk. It will leverage on the acquired expertise to expand AI to cover other key compliance risks in the future via a dedicated roadmap.

Definition

The term Non-Financial Risk (NFR) must be understood as a broad umbrella covering among others operational risks (including fraud, HR, IT, IT security, business continuity, outsourcing, data-related risks, privacy ...) as well as reputational, compliance, anti-money laundering, legal risks, etc.

Average annual potential net losses from operational incidents (2021-2023)

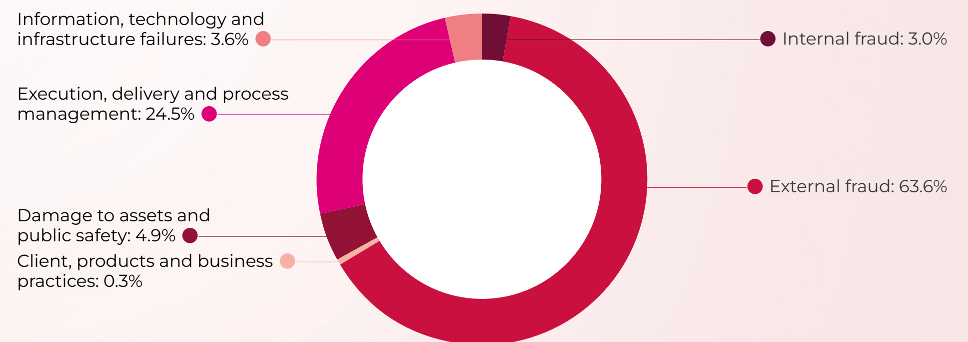
EUR

3.89 million

2.7% of events represent **95%** of impact

Operational incidents

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



VII.1. Fundamentals of Non-Financial Risks in 2023

In recent years, there has been an increase in non-financial risks due to external threats such as cyber, fraud, outsourcing, IT, climate, and geopolitical factors in a VUCA world. Belfius' ambitious strategy 2020-2025 reinforces the emergence of different types of non-financial risks, requiring a reinforcement of the NFR Risk Framework, including internal controls. In this context, the Permanent Control functions are playing a leading role in the 1st LoD risk management by ensuring that risks are correctly identified and that internal controls are well designed and effective.

In 2023, we continued to focus NFR efforts to the new (external) challenges and recent developments we faced as well as to the expectations of the regulator in order to stay up to date and ensure sound non-financial risk management. In an increasingly complex and threatening environment, our ambition is to keep Belfius safe and resilient following a risk-based approach, and to sustain our Love for our customers with secure & reliable solutions.

In terms of non-financial risks, IT-related risks remain a focal point of attention in 2023.

In 2023, the successful management of non-financial risks was attributable to several NFR achievements, including but not limited to the following :

- Crisis management has been reviewed to enhance Belfius' response in crisis situation, especially in the event of cyber-attack.
- A global roadmap has been developed for addressing the different initiatives on information security, such as compliancy with Digital Operational Resilience Act (DORA).

New technologies, such as Artificial Intelligence, have been investigated from both a business and risk perspective to provide staff members with a better understanding of the associated risks and opportunities. This is especially important following the emergence of ChatGPT.

- Considering the size of the third-party portfolio, regulatory changes such as DORA, the evolution of the economic context, and an evolving landscape including cyber-attacks, models, and artificial intelligence, an enhanced framework for third-party risks management has been implemented to ensure closer monitoring of our critical third-party relationships.
  Another milestone was the preparation of the 2024 ECB stress test on cyber resilience. The different initiatives related to information security have been synthesized into a global roadmap.
- A reconciliation exercise was carried out between loss events and accounting databases in order to provide additional assurance on the quality of the loss data collection and operational losses (as required by Basel regulations).
- A new project has been initiated to provide Belfius with a new IT solution that supports processes in Governance, Risk management & Compliance (GRC). The contract was signed and implementation is ongoing.
- The global permanent control campaigns, which aim to demonstrate the sound design and effectiveness of Belfius' internal controls system, have been further defined and deployed in collaboration with the Permanent Control functions across the organization. During these campaigns, internal controls are tested for their design and effectiveness in an independent way.

The integration of Investigation and Audit Branch within the NFR department has resulted in new synergies towards a more holistic and integrated risk management. For instance, enhanced detection controls have been implemented for monitoring consultation of client accounts from both an internal fraud and GDPR perspective.

- In 2023, frauds, including cyber events, have remained an important point of attention due to a worsening threat landscape of external fraud risks. For the period 2021-2023, Belfius Bank's average annual potential net losses stemming from operational incidents amounted to EUR 3.89 million (excluding operational incidents related to the credit risk). The main areas of operational losses remain essentially due to incidents associated with external fraud and incidents in relation to execution, delivery, and process management. Other categories remain limited in amount but not necessarily in the number of events. The retail business accounted for the most significant part of the financial impact resulting from operational incidents.

This led to
- the implementation of an adapted governance framework with specialized panels to ensure a more comprehensive fraud risk management approach, and to
- a strengthening of internal control investments and initiatives against fraud. Additional actions are under evaluation.

VII.2. Non-Financial Risk – operational risk

VII.2.1. Non-Financial Risk Management Framework

Non-Financial Risk (NFR) must be understood as a broad umbrella covering all risks except “financial risks” (the latter encompassing market, ALM, liquidity, credit, and insurance risks). NFR covers among others operational risks (including fraud, HR, IT, IT-security, business continuity, outsourcing, data-related, privacy …) as well as reputational, compliance, legal, tax, ESG risks.

The NFR management framework determines the principles that ensure an effective management of the non-financial risks. The principles are further elaborated in specific policies and guidelines adapted to the business activities. These general principles are following the applicable legal and regulatory requirements.

The framework is based on the following pillars:

- a risk taxonomy and risk mapping in order to ensure consistency within the organization, including a regular review of this mapping and taxonomy to identify emerging risks;
- clear roles and responsibilities, as well as a well-defined way of working together for all the risks based on the three lines of defense (3 LoD) model (decentralized responsibility);
- a strong governance/committee structure involving the appropriate level of management;
- a Risk Appetite Framework (RAF) definition and monitoring;
- transversal risk processes and dedicated risk management frameworks, which are structured into the following main domains: Change Risk Management, Integrated Risk Management, Risk Culture & Governance, Operational, Resilience, Information Security and Data Privacy.

This framework provides a comprehensive risk management and sound risk governance, to ensure an effective and efficient identification, assessment, mitigation and monitoring of non-financial risks.

VII.2.2. Transversal risk processes – NFR domains

VII.2.2.1. NFR domain - Change risk management

Change Risk Management

Being and staying ‘inspiring and meaningful for the Belgian society’ implies continuous innovation. In that context, change risk management is a corner stone of the global risk management framework, with the New Product Approval Process (NPAP) and Project Risk Management as the main contributions.

New Product Approval Process

The process of developing or changing a function (product, service, activity, process, or system) involves a sound (ex-ante) risk assessment, the so-called New Product Approval Process (NPAP). Its purpose is to ensure that all risks related to any new or changed function are assessed by relevant experts and addressed accordingly and that they are overseen by a dedicated steering committee. It is a risk-based process with special attention to the due implementation of binding conditions.

Project Risk Management

The ability to deliver projects with high-quality standards within the designated timeframe is a key success factor. In this context, a Project Risk Management framework aims at correctly and timely identifying risks and implement the necessary controls and mitigating plans following a risk-based approach. This framework has been applied to strategic programs and their sub-projects, and the outcomes have been integrated into the Strategic Project Reporting presented to the Board of Directors.

VII.2.2.2. NFR domain – Integrated risk management

Incident Management

The systematic collection and control of data on operational incidents is one of the main requirements of the Basel Committee regarding operational risk management.

The reporting mechanisms ensure that the responsible parties are notified quickly when incidents occur. Major incidents are investigated thoroughly and reported to the CRO/ Management Board. Such incidents are also subject to specific action plans and appropriate follow-up, under the responsibility of the concerned line management, for avoidance, mitigation, or limitation of the related risk.

In 2023, an extensive exercise of reconciliation with accounting information has been further carried out in order to provide additional quality assurance.

For the period 2021-2023, Belfius Bank's average annual potential net losses stemming from operational incidents amounted to EUR 3.89 million[1]. The main areas of operational losses remain essentially due to incidents associated with external fraud and incidents in relation to execution, delivery, and process management. Other categories remain limited in amount but not necessarily in the number of events. The retail business accounted for the most significant part of the financial impact resulting from operational incidents.

Self-Assessment of Risks and Internal Controls

Another important task of risk management is the analysis of the overall main potential risks and related key controls, performed within Belfius Group's main entities. This is achieved through a bottom-up self-assessment of risks and internal controls (SARIC) in all departments and subsidiaries, using the COSO methodology to determine the internal control level. These exercises may result in the development of additional action plans to further reduce potential risks. They also provide an excellent overview of the main risk areas in the various businesses. They are conducted annually and the results are submitted to the respective Boards of Directors. Belfius Bank also submits the senior management report on the assessment of the internal controls to the regulators.

The risk profile resulting from the SARIC exercise is quite stable in terms of identified major inherent risks and remains acceptable regarding the global level of both quality of controls & residual risk profile.

Fraud risk management & 2nd LoD Branch Audit

Belfius applies a zero-tolerance policy for all forms of fraud (internal, external, and mixed fraud schemes), monitors the threats continuously and manages these risks based on a global anti-fraud policy defined and steered by senior management. The roles and responsibilities have been clearly defined with business and support lines as the first risk managers. The CRO and NFR team, including the Anti-Fraud Officer as expert, have a 2nd LoD role. With the integration of Investigation & Branch Audit with NFR, a step towards a more holistic approach towards prevention, detection and remediation of fraud risk management has been taken. Processes are screened and internal controls evaluated to prevent fraud and this to protect the interests of Belfius and its employees, customers, suppliers, and other stakeholders.

Branch Audit, as part of the Risk function and from a 2nd LoD perspective, focusses specifically on traditional 'physical' distribution channels for which it provides, through on-site reviews, an assurance on the degree of control for the risks generated during human interventions in the distribution process. Branch Audit also formulates advices in order to improve the functioning of the internal control system within these distribution channels.

Managing insurance policies

Belfius mitigates the possible financial impact of operational risks by taking insurance policies, principally covering professional liability, fraud, theft, and interruption of business and cyber risk. This is standard practice in the financial services' industry.

Outsourcing risk

Belfius recognizes the importance of addressing outsourcing and third-party risk and fully assumes its responsibilities, including but not limited to overseeing and managing the concerned arrangements and the risks involved, whilst ensuring compliancy with the "Final Report on EBA Draft Guidelines on Outsourcing Arrangements". A dedicated steering (risk) committee ensures a well governed and coordinated outsourcing strategy in line with Belfius strategy, risk appetite and regulatory requirements. The framework has been recently thoroughly revised, including a new target operating model and an extended coverage for all third parties (vendors, suppliers, partners, etc), which will further ensure their life-cycle (risk) management from engagement to termination, based on a new risk-based approach. This new framework will be progressively implemented as from the beginning of 2024.

Permanent control

Effective risk management requires special attention to internal systems control. Belfius has implemented Permanent Control functions to provide ongoing assurance on the adequacy and effectiveness of the control environment.

In addition to the organisational deployment of the permanent control function, control testing campaigns have been launched to test the main internal controls within the Bank and evaluate their appropriateness, effectiveness and efficiency. If major gaps are identified during testing, action plans are developed to address them.

(1) Losses incurred by clients are not included.

VII.2.2.3. NFR domain – Risk culture & governance

Risk appetite

The formal definition of a Risk Appetite Framework (RAF) is the key reference for the group Risk Management practice covering both financial and non-financial risks. The RAF for NFR contains quantitative elements (target values or ratios) and qualitative statements.

The RAF is continuously updated and improved regarding key risk indicators, with constant challenging at the governance level and an improving level of maturity.

VII.2.2.4. NFR domain – Operational resilience

Business continuity & crisis management

Belfius is committed towards clients, counterparties and regulators to establish, maintain, and test viable alternative plans that, in the event of an incident, enable the continuation or resumption of critical business activities at the agreed operational level and in compliance with Belgian regulations.

The supporting process, the business continuity and crisis management, is aligned with the ISO22301 standard and the BCI Good Practice Guidelines. It is applied in a uniform way in all Belfius entities and relies a.o. on threat analysis, business impact analysis, reallocation strategies (dual office, remote and homeworking, etc.), effective management reporting, business continuity plans as well as exercise and maintenance programs.

Several exercises have been conducted to test Belfius' ability to react, of which several tabletop exercises to test our capacity to react to tail risks, such as staff reallocation on sites in case of telework failure or resolution planning in accordance with SRB expectations.

Crisis management has also been reviewed to enhance Belfius' response in crisis situations, particularly in the event of cyber-attack.

As a result, Belfius' Business Continuity Management process is highly developed and ensures the institution's future resilience.

Employment Practices (HR) & Workplace Safety, Damage to Assets & Public Safety risk

Belfius has a very low appetite for physical security and workplace safety risks and strives to provide a safe environment for its staff, clients, guests and assets by ensuring that its physical security measures and procedures meet high standards. In this regard, a dedicated risk committee systematically monitors the overall situation, especially in case of potential incident.

VII.2.2.5. Information security management

The purpose of information security is to protect Belfius' data and information, including that belonging to Belfius' customers, against loss of integrity, loss of confidentiality, and unplanned unavailability. To this end, Belfius has developed and deployed its own Information Security Management System (ISMS) framework, which is inspired by ISO 27000 but includes additional control objectives.

In 2023, Belfius continued to deploy ISMS controls, following a risk-based approach. Additionally, the publication of the regulatory technical standards for the Digital Operational Resilience Act (DORA) marked a milestone as they now need to be integrated into our ISMS deployment effort. Another milestone was the preparation of the 2024 ECB stress test on cyber resilience. The different initiatives related to information security have been synthesized into a global roadmap.

VII.2.2.6. Data privacy management

Data privacy Respect for privacy and customer satisfaction

The respect for privacy and the protection of personal data is a key commitment at Belfius, which is translated into a sound internal governance and principles to be followed in the respect of GDPR.

To continuous ensure data privacy within Belfius, the Privacy Committee related to GDPR meets regularly. Belfius' Management and several committees are regularly informed about GDPR at Belfius.

The Data Privacy Officer (DPO) is part of the 2nd line of defence. A network of privacy correspondents, active in each department, work closely with the DPO to continuously raise awareness, control, and monitor processes and activities being in line with GDPR.

GDPR conformity, including a risk assessment for the rights and freedom of the owners whose personal data is treated, is ensured in every process involved in offering existing, adapted, and new products, innovative digital tools, services, and information sharing to its clients.

This includes reviewing the privacy notice, implementing an adapted cookie policy and adhering to the rulings of the European Court of Justice on eventual international transfers or access to personal data.

All activities treating personal data are documented in a privacy register by the business lines, and Belfius is highly committed to avoiding personal data breaches and managing any incidents as quickly as possible.

Data subjects can exercise their rights through various means, including the Belfius' online and mobile applications. More than 98% of the data subject rights requests are made through Belfius' online app and receive a response on the same business day.

In 2023, no major personal data breaches have been identified. However, 11 minor incidents were reported to the Data Protection Authority, which is a decrease from 14 in 2022 (7 in 2021 and 8 in 2020). In each case, prompt responses and appropriate actions were taken to prevent future incidents.

VII.3. Business, strategic & execution risks

VII.3.1. Business risk

Definition

Business risk reflects the unexpected decrease of profitability (emerging from day-to-day operations) compared to the expected (or budgeted) plan resulting from changes in competitive environment, lack of responsiveness to changes in the business environment (macroeconomic, regulations, client behaviour, competitive landscape, socio-demographic, climate, ...) or adverse/ improper implementation of business decisions.

Organisation and management of the Risk

The business risk is at the heart of the daily management of the Bank. Indeed, Management control, as an independent department, is responsible for the consolidation of data necessary to calculate income, expenses and profitability, as well as related reporting. Additionally, with regards to the Financial Plan, sensitivity analyses and stress-testing are executed to tackle the business risk in a forward-looking manner.

Capitalisation

Business risk is not capitalized through Economic Capital but treated through Earnings at Risk and Stress Testing frameworks.

VII.3.2. Strategic risk

Definition

Strategic risk is defined as the current or prospective loss of value arising from adverse business decisions or the lack of responsiveness to changes in the business environment. Strategic risks are related to the long-term success of the strategy and often focusses on the adequate risk/opportunity balance.

Organisation and management of the Risk

The steering of future profitability as well as the strategic vision and strategic risks are operated through the various business line committees, by the Management Board and ultimately by the Board of Directors. The latter defines strategic decisions to achieve the levels of expected profitability and ensure the group's survival and the continuity of its activities.

Capitalisation

Strategic risk is not covered by capital but is handled and managed through an appropriate governance process.

VII.3.3. Execution risk

Definition

Execution Risk corresponds to the risk of not being able to fully execute the decided strategy or the improper implementation of decisions. Examples of execution risk are insufficient resources (HR, IT, ...), failing new product introductions or rolling out complex new systems, etc.

Capitalisation

Execution risk is not covered by capital but is handled and monitored through an appropriate reporting and follow-up.

VII.4. Reputation risk

Definition

Reputation risk is defined as the potential decrease in the value of the Belfius brand arising from adverse perception of the image of the financial institution by customers, counterparties, shareholders, investors, regulators or other stakeholders.

Risk Appetite

Belfius aims to remain perceived as a reliable and trustworthy partner by its stakeholders (mainly prospects, customers, investors and regulators). This is accomplished by demonstrating a deep-rooted commitment to achieving client satisfaction and focusing on a long-term profit strategy with a low risk profile.

Belfius wants to affirm, promote and protect its excellent reputation.

Reputation risk is a top strategic business risk and a key business challenge. As the business model is built on trust, managing reputation risk is crucial. It is essential for us to avoid any threats that could potentially undermine the trust of our stakeholders.

Organisation and management of the Risk

Reputation risk (mainly image and branding) is steered by the Brand, Experience and Communication Department in direct line with the CEO and the BoD Chairman. The CRO and NFR teams are active partners in this field.

The reputation risk policy, the integration of the reputation risk in the RAF, and in general in the Risk Charter, Risk Culture, Risk Roadmap, Ethical codes and codes of conduct cover reputation risks and are proof that all team members are handling reputation risks as an overall and common responsibility.

The reputation strategy aims to implement sound, prudent and effective risk management and is based on three pillars:

- prevention: transparency regarding the reputation risk governance, combined with well-defined processes, guidelines and procedures, mainly to identify sources of reputation risk;
- detection: an early warning reporting ensures a proactive detection of factors affecting reputation risk and stimulates the alertness and speed of response both having a significant Impact on the level of reputational damage;
- mitigation: tactical and operational mitigation actions are top-down driven with adapted short decision & communication lines ensuring a clear and univocal response to incidents or crises. The emphasis is given, amongst others, on effective response to press, interaction on social media, sound complaint management and crisis communication.

The key internal control actors, i.e. the Brand, Experience and Communication department, the Risk department, and all business departments, have set up appropriate risk management frameworks and policies to prevent, detect and monitor potential reputation impacts.

Capitalisation

The risk is not capitalised and is managed through strong corporate governance and compliance rules within Belfius as described above.

VII.5. Compliance risk

Definition

Compliance risk is associated to any financial institution's failure to comply with laws, regulations, rules, internal policies or prescribed best practices that can result in financial sanctions or loss of reputation.

Organisation and management of the Risk

Compliance is organised around a central Compliance department based on 3 pillars:

- Business Advisors (advisory function),: responsible for the preventive framework, including the regulatory watch, advises (e.g. to the business or for new products or services), and general trainings. They are responsible for all compliance domains except AML.
- the Compliance Risk Monitoring team (control function); and responsible for the second line monitoring of the effectiveness of the compliance framework, advising & supporting the involved first line units to enhance their control framework, coordinating the compliance risk assessments, analysis and management of potential market abuse cases reported by the first line controls, and detection and management of market abuse cases by employees.
- the anti-money laundering unit (AML); responsible for the AML risk management end-to-end (framework, trainings, monitoring, case investigation, etc.).

These three teams are supported by a specific unit which frames projects at IT and organisational levels.

The Compliance department may also call on the services of a large network of Compliance correspondents within the Bank divisions, as well as on a network of Compliance managers within the branch network. They play an important role, particularly in the introduction of Compliance policy and procedures as well as in the training and awareness programs.

A Compliance Officer recognised by the FSMA and the NBB is at the head of the Compliance organisation. The Compliance Officer reports directly to the Chief Risk Officer and to the Audit Committee and, if necessary, may directly approach the Chairman of the Board of Directors, the external auditor and the regulators.

As required by the regulations, the department also has an Anti-Money Laundering Compliance Officer.

The Anti-Money Laundering Compliance Officer (AMLCO) is the head of the anti-money laundering team, which combats money laundering practices. Belfius is committed to preventing any involvement in laundering money from illegal activities, the organisation of tax fraud, terrorism financing or circumventing international embargos, in accordance with legal requirements. To underline this commitment, the AMLCO has established preventive measures and broadened controls. Key elements in preventing such practices include proper customer knowledge and identification (through Know Your Customer process), investigation on the origin of financial flows on accounts and detection of dubious transactions (though Know Your Transaction process).

The Compliance Officer of Belfius Bank ensures that a coherent and effective Compliance policy is applied within all the Belfius Group subsidiaries. Belfius Bank traces out the group policy and defines the Compliance methodology to be used. Each regulated subsidiary company has a Compliance Officer who is responsible for the application of the transposed policy within his/her company. These Compliance officers report functionally to the Compliance Officer of Belfius Bank.

Capitalisation

The lack of sufficient data and history to support a statistically robust quantification process is the primary reason why Compliance risk cannot be covered by capital. Therefore, we consider more relevant to monitor this risk through a strong compliance culture, procedures and processes and to allocate 'ad hoc' provisions for this type of specific events that often involve long-term procedures.

VII.6. Legal risk

Definition

Legal risk results from the following risks:

Risks relating to the regulatory framework:

- non-compliance with the regulatory framework: the risk of not applying, in whole or in part, applicable laws and regulations;
- incorrect application of the regulatory framework: the risk of incorrectly applying laws and regulations, which could be challenged by a third party;
- non-optimal use of the regulatory framework: the risk of not providing the appropriate or optimal legal support, or of not benefiting from an advantage resulting from the regulatory framework, due to a lack of sufficient knowledge of that framework;
- breach of the general duty of care: the risk of a behaviour, fact or decision adopted in violation of the general duty of care, which may involve Belfius' non-contractual civil liability.

Risks relating to the contractual framework:

- inadequate drafting of contracts: the risk of not protecting Belfius' interests in the contracts with third parties (contracts with terms that are either inadequate, unfair or unenforceable);
- ignorance of the contractual framework: the risk of not taking into account all the commitments made by Belfius with or towards any third party (failure to keep track of and meet or enforce contractual obligations or rights).

The materialization of the legal risk may entail the following consequences for Belfius:

- a financial impact;
- a reputational impact;
- litigation, liability (civil or criminal), sanctions (administrative or criminal), or measures imposed by a (supervisory) authority; and/or
- an impact on customer satisfaction.

Organisation and management of the Risk

In order to control legal risks, a Legal Risk Framework (also known as Legal Risk Policy - including a Risk Assessment Matrix) has been set-up and approved by Belfius' Management Board. This Legal Risk Framework is being implemented and a risk measurement & management process is applied.

This process involves successively:

- a risk assessment, in terms of impact and probability of occurrence;
- a risk taxonomy & risk appetite; and
- the implementation of risk management measures.

A Legal report, including a dashboard of the identified major legal risks is submitted to the Risk and Audit Committees on a half-yearly basis.

Capitalisation

Legal risk is not covered by capital, as there is a lack of sufficient available data and/or history to support statistically robust quantification. Therefore, we consider more relevant to monitor the Legal risk through procedures and processes and to allocate "ad hoc" provisions for this type of specific events that often involve long-term procedures.

VII.7. External risk

Definition

External Risk relates to the risks that arise from events outside the company and which are beyond its influence or control. These risks can offer negative and/or positive benefits. Organizations cannot influence the likelihood of these risk events but can reduce the impact cost. Sources of these risks include political disasters and major macroeconomic shifts.

Capitalisation

External risk is not covered by capital but is handled and monitored through appropriate processes.

VIII. ESG Risk Management

Environmental and climate-related issues are one of the greatest challenges the world is facing and there is no doubt it will have a significant and lasting impact on economic growth and prosperity. Accordingly, ESG risks have been identified by Belfius as one of the top risks for a few years now and are being gradually embedded in the risk management framework.

Main ESG risk achievements of 2023 include the update of the Belfius ESG action plan, the carrying out of a thorough and comprehensive climate and environmental risks materiality assessment and several portfolio-level screenings aiming at identifying main risk pockets, the drafting of a dedicated ESG Risk Management Framework, the roll out of the in-house ESG scores for corporates and further integration of the ESG dimension in the cost of risk calculations, decision-making and operational processes. Although ESG risks are deemed material for the banking activities (in particular, for the credit risk dimension), potential financial impacts stemming from those risks are considered fully manageable, especially taking into consideration existing and future risk mitigating actions.

Definition of ESG risks

ESG risks are the risks of any negative financial impact on an entity, sovereign or individual stemming from current or prospective impacts of Environmental, Social or Governance factors on its financial performance or solvency.

These risks can exacerbate other risk types such as credit, market, liquidity, operational, reputational, legal and strategy risks.

Climate-related risks

Climate-related risks relate to the risks associated with global warming and represent a sub-type of ESG risks.

Climate risk drivers include acute or chronic weather events (physical risks) but also policy, technological and behavioural changes (transition risks).

Transmission channels include property damages, business disruptions, loss of income, higher costs and investments, lower profitability and asset values but also macro-economic changes (such as price increases and labour productivity decreases).

Climate Sensitive Exposures

Total loans & advances 31/12/23

Please refer to Belfius' Sustainability Report for more information regarding generic sustainability matters (including Belfius' ESG strategy, corporate governance and climate actions) as this section of the Risk Report focusses primarily on ESG risks and their management.

VIII.1. What are ESG risks and why do they matter?

The ESG metrics help measure the sustainability and societal impact of business activities.

What does E.S.G. stand for?

Environmental: Pillar "E" usually includes topics relating to greenhouse gas emissions, use of natural resources, impact on biodiversity, waste, pollution,...

Social: Pillar "S" usually includes topics relating to human rights, workforce, impact on community, product responsibility, employee training,...

Governance: Pillar "G" usually includes topics relating to management, stakeholders engagement, compliance, ethical behaviour,...

ESG factors create opportunities but entail risks as well.

Within the ESG risks, environmental and climate-related risks (i.e. financial risks associated with global warming, biodiversity loss, pollution, natural resources depletion,..) are currently in the foreground. Climate-related and environmental (C&E) issues are indeed one the greatest challenges the world is facing and rank amongst the most pressing risks, both in the immediate and distant future. There is no doubt those issues will have a significant and lasting impact on the economic growth and prosperity as evidenced by the World Economic Forum's (WEF) Reports[1], that have consistently identified climate change impacts amongst the top short-term global risks over the past three years. In the long term, climate change is even assessed as the most significant global risk, while the continuous inclusion of other emerging environmental risks shows growing concern over the preservation of our ecological systems and the use of natural resources. Accordingly, ESG risks have been identified by Belfius as one of the top five risks facing the group for a few years now.

(1) World Economic Forum (2022); The Global Risks Report 2022; World Economic Forum (2023) The Global Risks Report 2023; World Economic Forum (2024); The Global Risks Report 2024.

Considering the urgency for action to avoid climate tipping points and regulatory scrutiny, Belfius decided to first focus on climate-related issues. It should be noted, however, that the social dimension also remains at the heart of our concerns, which is why Belfius feels compelled to tackle the financial impacts stemming from climate factors in a holistic way, with sufficient weight attributed to the social consequences.

Both physical and transition risk drivers are being considered in Belfius' risk inventory:

- **Physicals risks** arise from the physical effects of climate change and environmental degradation and include acute risks (mostly weather-related events and natural disasters such as storms, floods, fires or heatwaves) and chronic risks resulting from incremental pattern changes (such as rising sea levels, water stress or biodiversity loss).
- **Transition risks** arise from the transition to a low-carbon, climate-resilient and environmentally sustainable economy and include policy risks (such as the introduction of a carbon tax, new energy efficiency requirements for buildings), technological risks (rendering old technologies obsolete in favour of new ones that are less damaging for the climate), market risks (such as a shift in consumer preferences towards more sustainable products and services), legal risks (i.e. the risk of litigation for failing to address climate-related issues) and reputational risks.

For sound implementation of its business strategy, Belfius looks into risks and opportunities including environmental and climate-related (C&E) risks that are already material or will become material in the future. Using the necessary and available standards and frameworks, Belfius wishes to identify risks and opportunities that are material from both financial materiality perspective and impact materiality perspective to ensure its long term profitability and value creation for all stakeholders.

Climate financial materiality		**Climate impact materiality**	
Direct risk/ opportunity	Indirect risk/ opportunity	Direct negative/ positive impact	Indirect negative/ positive impact
The impact of climate change on Belfius' business continuity, reputation, capital and liquidity	The impact of climate change on Belfius through Belfius' loans, investment and insurance portfolios	The impact of Belfius on climate through Belfius' own assets and operations	The impact of Belfius on climate through Belfius' financing, investing and insuring activities
TCFD recommendations		United Nations Principles for Responsible Banking (UNPRB)	
Non-financial Reporting Directive (NFRD) and Corporate Sustainability Reporting Directive (CSRD)[1]			

(1) Belfius is currently working on the integration and implementation of the European Sustainability Reporting Standards (ESRS) in its sustainability reporting.

VIII.2. Belfius' ESG Strategy and Framework

All three components of sustainability (i.e. Environmental, Social and Governance) are at the core of Belfius' mission and vision (i.e. being meaningful and inspiring for Belgian society). Belfius overarching goal is thus threefold: it is about adequately managing ESG risks in order to ensure that Belfius remains resilient and stays profitable while also limiting its potential negative impact on the world and maximizing its positive impact and contribution to society. When assessing ESG risks and investigating materiality, Belfius therefore always relies on the concept of double materiality, as explained earlier. For more details on Belfius' ESG strategy, please consult the Sustainability Report.

Since 2020, Belfius started developing a general sustainability framework that sets the foundation for better framing and management of ESG risks.

In 2021, Belfius moved forward with the design of an ambitious ESG action plan aimed at aligning its practices and plans with the expectations set by the ECB in its "Guide on climate-related and environmental risks" published in 2020 (the so-called "ECB ESG action plan"), which was updated in 2023.

Climate and Environmental (C&E) risks have also become an increasingly central focus of the European Central Bank's (ECB) supervisory agenda and the European Banking Authority's (EBA) Sustainable Finance Roadmap. The ECB has repeatedly emphasized the need for financial institutions to enhance their ability to not only identify, but also adequately address those emerging risks and has called upon banks to take decisive action to build a resilient and sustainable future.

Since the publication of its guide on C&E risks, the ECB has undertaken various actions (such as requiring banks to submit action plans to ensure a full alignment with the supervisory expectations outlined in the guide, conducting a supervisory stress test exercise focusing on climate-related risks and performing a thematic review to assess the adequacy of existing practices) and published several reports (including papers highlighting good practices in the field of climate risk management, climate stress testing and climate-related disclosures, describing the results of the EU economy wide climate stress test and discussing the integration of those risks within the prudential framework which have brought valuable insights regarding potential approaches, methodologies and best practices.

To encourage banks to speed up their efforts, the ECB decided in 2022 to set staggered institution-specific deadlines for banks to progressively meet all supervisory expectations by the end of 2024. Accordingly, Belfius ESG Action Plan was reviewed in March 2023 to accelerate the process towards full integration of ESG into day-to-day risk management activities and practices. In 2023, the ECB made multiple public announcements warning that laggards might be faced with financial sanctions[1].

The whole financial sector expects the supervisory scrutiny to remain high in 2024 as the EBA launched a consultation relating to its draft guidelines on the topic of the management of ESG risks, as well as new climate stress testing exercise (the so-called "Fit-For-55 climate risk scenario analysis") and an ad hoc ESG data collection exercise.

Overview of main achievements

Year 2021

- Belfius designs its ECB ESG Action Plan aimed at aligning its practices with the expectations set by the ECB in its "Guide on climate-related and environmental risks".
- Belfius sets up its ESG Risk Competence Centre and ESG Data Team.
- Belfius defines an ESG Data Program and puts an ESG regulatory watch in place.
- Belfius starts collecting ESG data, such as EPC data for mortgages.
- Belfius publishes its Transition Acceleration Policy.
- Belfius launches dedicated ESG surveys in the framework of its yearly SARIC and RICAP exercises and includes ESG in its Risk Taxonomy
- Belfius performs its first high-level portfolio screenings for climate sensitive and fossil fuel exposures.
- Belfius integrates its first environmental and climate related key risk indicators (mainly relating to Belfius' own operations) in the Risk Appetite Framework (RAF).

(1) Climate-related and environmental risks – a vital part of the ECB's supervisory agenda to keep banks safe and sound (europa.eu) ; "Running up that hill" – how climate-related and environmental risks turned mainstream in banking supervision and next steps for banks' risk management practices (europa.eu) ; Making finance fit for Paris: achieving "negative splits" (europa.eu) ; Powers, ability and willingness to act – the mainstay of effective banking supervision (europa.eu)

Year 2022

- Belfius further integrates ESG in its governance bodies and creates the Strategic Sustainability Committee.
- Belfius develops an in-house ESG scoring methodology for corporates.
- Belfius develops a climate risk assessment and simulation tool for its mortgage loans.
- Belfius participates in various supervisory exercises (including the ECB climate stress test and the ECB thematic review).
- Belfius carries out its first internal climate stress test.
- Belfius integrates additional environmental and climate related key indicators relating to its financing activities in the Quarterly Risk Report (QRR).
- Belfius sets new limits regarding its exposure to fossil fuel activities and the share of collateral showing a low energy performance in its Risk Appetite Framework (RAF).

Year 2023

- Belfius updates its ECB ESG Action Plan.
- Belfius thoroughly assesses the materiality of climate and environmental risks to its activities and products.
- Belfius drafts a comprehensive ESG Risk Management Framework.
- Belfius rolls out its ESG score for corporates and develops a similar tool for sovereigns.
- Belfius adopts more stringent limits related to fossil fuel exposures and collateral exhibiting poor energy performance.
- Belfius tightens it criteria on fossil fuels and energy production in the Transition Acceleration Policy.

VIII.3. Integration of ESG considerations in the Risk Management Framework

VIII.3.1. Governance and organization

ESG-related themes have been integrated into the governance layers of Belfius Group. Accordingly, the terms of references of the main boards and committees have been adapted to explicitly integrate ESG responsibilities, including C&E risks. At executive management level, a Strategic Sustainability Committee (SSC) has been created which operates as a central hub of the (operational) ESG governance. Below executive management level, various exchange platforms have been set up as well.

The responsibilities of the governance bodies with respect to ESG are detailed in section 4.2 of the Sustainability Report.

Organization-wise, Belfius has chosen to work with a limited number of dedicated teams (such as the ESG central team, the ESG data team and the ESG Risk Competence Centre detailed below) and a network of ESG champions across the organization to strike the right balance between expertise on the one hand, and company-wide ESG integration on the other.

The management of C&E risks and opportunities is thus being progressively embedded across all layers of the organization as well via a clear allocation of roles and responsibilities regarding the identification, assessment, measurement, monitoring, management and reporting of these risks along the three lines of defence model. Each line of defence takes on its traditional role while extending it to the new C&E risk drivers.

- As a rule, the business lines are the **first line of defence** from risks, including climate-related risks. While sustainability has been integral part of the Belfius Inspire 2025 strategy, Belfius conducted awareness raising exercises for that first line of defence through the Self-Assessment of Risks and Internal Controls (SARIC) annual process, Risk Identification and Cartography Assessment Process (RICAP), the New Product Approval Process (NPAP) adjustment and a variety of webinars.
- The ESG Risk Competence Centre sits at the heart of the second line of defence and is in charge of setting up a comprehensive ESG risk management framework in collaboration with other groupwide risk departments.
  Its role encompasses among others:
  - providing general advice on climate-related strategy and recommendations on key risk indicators (KRIs), limits, and mitigation actions;
  - setting up a comprehensive ESG risk management framework, in collaboration with the ESG Risk Ambassadors that each specialized risk team (in charge of a specific area of prudential risk) appointed, supported by new committees dedicated to ESG;
  - developing Belfius' climate risk assessment methodologies (e.g. materiality assessments, due diligence) and ESG Risk Dashboard;
  - keeping oversight of the integration of ESG dimensions in risk policies, processes and internal reporting;
  - designing the overall ECB ESG action plan and subsequent coordination and monitoring of the roll out of the component actions. Each specialized risk team is responsible for the timely execution of the actions assigned to it, to meet the ECB's requirements on climate as well as to fully embed ESG risks in its day-to-day activities.

  The legal and compliance departments also closely monitor legislative and regulatory requirements and ensure Belfius is compliant with all of them. The legal department upholds the ESG regulatory watch through regular mailings and quarterly meetings. Belfius' legal team is also in charge of the prevention and mitigation of risks associated with legal, liability, litigation and greenwashing risks related to climate.
- As for the **third line of defence**, Belfius conducts annual internal audit reviews on ESG risk management covering a variety of topics such as strategy, governance, risk management processes and policies. The goal of these reviews is to assess Belfius' overall level of readiness, compliance and performance, as well as the comprehensiveness and effectiveness of its practices. In addition to these thematic audits, sustainability aspects are also considered in other audits (for instance, audits targeting financing solutions).

VIII.3.2. The ESG Action Plan

For a few years now, ESG risks (including but not limited to C&E risks) have been identified as a top risk than can affect Belfius both directly and indirectly through its financing, insurance and asset management activities. As a result, ESG considerations have become an increasingly integral part of Belfius' risk management framework.

These risks have therefore been included in Belfius' risk taxonomy, albeit not as a separate risk category but as a potential driver of credit, market, operational, strategic, business and reputational and legal risks. Belfius' risk mapping was also adjusted in 2021 to reflect the integration of ESG as a new risk driver in the risk taxonomy. Consequently, these risks are now explicitly mentioned in the Belfius Risk Culture Policy and Risk Charter as well. And have also been embedded in Belfius' risk yearly identification and assessment processes (including, for instance, the Risk and Control Self-Assessment (RCSA), the Risk Identification and Control Assessment Process (RICAP) and the Self-Assessment of Risks and Internal Controls (SARIC)). Dedicated surveys have been carried as well to ensure the proper identification and assessment of ESG-related risks across the whole organization and the three lines of defence. ESG dimensions are increasingly being considered as well in risk policies, guidelines and processes, including the risk appetite policy, credit acceptance policies, underwriting standards, relevant product approval processes, stress test frameworks and suppliers' charters, amongst others.

As sustainability dimensions have gradually been included into business practices for all Group activities these past years, Belfius decided to go further in 2023 and draft a dedicated ESG Risk Management Framework in order to better frame the management of ESG risks within the organization.

ESG Risk Management Framework

This framework outlines how ESG risks are identified, assessed, quantified, mitigated, monitored and reported.

This internal document expresses Belfius' commitment to sustainability, which is inextricably linked to its mission to be meaningful and inspiring for Belgian society. It complements other existing frameworks and policies, including the Belfius ESG Framework, the Climate and Environmental Policy, the Human Rights Policy and the Transition Acceleration Policy (all published externally). These guidelines reflect best practices and industry standards but are tailored to the specific needs and characteristics of Belfius.

The framework recalls Belfius' objective to be a responsible banker, investor and insurer and play a leading role towards the transition to a low-carbon, inclusive and environmentally sustainable economy .amongst others through a sustainable balance sheet. It also stresses the importance of addressing ESG risks in a holistic way in order to guarantee the group's long term resilience and preserve employee satisfaction, investor confidence and customer loyalty.

The framework summarizes the tools, methodologies and processes used by Belfius to:

- Identify and assess ESG risks that have already or are likely to become material in the future;
- Quantify the potential financial impact of ESG risks (through, amongst others, scenario analysis, simulation tools and stress testing);
- Reduce the risk of occurrence and/or the potential impact of these risks through mitigation measures taken at portfolio or individual client/asset level;
- Ensure that identified ESG risks are continuously monitored, reported and remain within the approved risk appetite limits.

The document also aims to ensure that roles and responsibilities are clearly defined, assigned and understood across all lines of defence. The framework applies to all Belfius' subsidiaries and activities, but a proportionality principle considering the size of each subsidiary and the importance of ESG-related topics for each business line is applied.

The framework is periodically reviewed to reflect the latest requirements regarding the management of ESG risks, including supervisory expectations and new EBA guidelines.

VIII.3.2.1. Identification and assessment of ESG risks

Risk identification and assessment are a prerequisite for strategic decisions and detailed risk management actions, which in turn help ensuring the group's long term resilience. However, as C&E risks impact several assets and liabilities risk categories through different drivers, the assessment of these risks remains a challenging exercise, especially coupled with the lack of data available on the market. Therefore, Belfius applies a flexible and gradual approach to tackle these challenges and is expecting further clarity on rapidly evolving regulatory expectations.

The outcome of these identification exercises helps Belfius prioritize actions while feeding its business and sustainability strategy. This includes decisions on how to ensure a sustainable growth, the identification of the most valuable products and service offerings and the possible influence on pricing, as well as, amongst others, the adaptation and mitigation activities that should be pursued.

Comprehensive climate and environmental risks materiality assessment

The potential impact of C&E risks on the bank's risk profile was further assessed in 2023.

Objective

This exercise, named CERMA or Climate and Environmental Risks Materiality Assessment, aimed to evaluate the impact of a wide range of climate and environmental risk drivers on the bank's main risk categories (credit risk, market risk, non-financial risk, liquidity risk and strategic risk) through various transmission channels (loss of revenues, increase of costs and investments, etc) and over different time horizons (short, medium and long term).

Methodology used for the materiality assessment

The assessment applies to Belfius Bank's consolidated scope, excluding Belfius Insurance who performed its own climate-related materiality assessment, and was carried out at portfolio level. It was performed with the support of external climate experts and internal banking experts and included both quantitative and qualitative approaches.

Two scenarios were considered:

- Hot house scenario for physical risks;
- Orderly transition, aligned with the Belgian federal transition plan, for transition risks.

Three horizons were contemplated: short term (2026), medium term (2030) and long term (2050).

Different methodologies have been used, based on their suitability for the analyzed banking risks:

	Assessment type	Analyzed areas
CREDIT RISK (E&E)	Exposure analysis	Loans and investment portfolios
CREDIT RISK (INDIVIDUALS)	Scenario driven sensitivity analysis	Mortgage loan portfolio
MARKET RISK	Scenario driven sensitivity analysis	Trading book portfolio
LIQUIDITY RISK	Scenario driven sensitivity analysis	Liquidity buffer, funding access & cost
NON-FINANCIAL RISK	Expert-based risk cartography	Own assets, own operations & third parties
STRATEGIC & BUSINESS RISK	Expert-based risk cartography	Competitive positioning, strategy, partnerships and governance

Each aforementioned risk category is impacted by multiple transition and physical risk drivers through various transmission channels. Generic economic impacts were translated into Belfius-specific financial impacts taking into account Belfius' specificities such as the balance sheet composition, the portfolios' sectorial distribution and their credit quality, or, for instance, the geographical location of physical assets.

The exercise will be repeated on a bi-yearly basis and will gradually be refined as data availability improves and methodological best practices emerge.

Conclusions in terms of importance of risks drivers

Overall, transition risks which require large scale transformations and investments in the whole economy appear more impactful for Belfius than physical risks.

- The most impactful transition risks for the real economy are risks arising from new mandates and regulations (such as new carbon pricing mechanisms and restrictions, bans on certain products, assets or processes that contribute to climate change and/or have negative impacts on the environment) and technology shifts (transitioning to lower emissions technologies or substituting existing products by low-carbon alternatives).
- The most prevalent physical risks in Belfius's core market, Belgium, include several acute natural hazards such as floods, heavy precipitations, storms and heatwaves but also chronic weather patterns changes leading to soil subsidence and water stress.

Conclusions in risk types affected

The conclusion from this materiality assessment is that climate and environmental factors are expected to impact Belfius across various dimensions: credit risk is expected to be the most impacted risk category, followed by strategic and business risk and non-financial risk. Market and liquidity risks are expected to be less materially affected.

This must be seen as a relative ranking however: in absolute terms, even the credit risk impacts remain fully manageable. It should also be noted that this ranking does not account for existing or future risk mitigating measures.

Risk Type	Materiality Level Ranking[(1)]	Assessment
CREDIT RISK	●●●	New policies and regulations, carbon pricing mechanisms and technology shifts may lead to a decrease of revenues and an increase of operational expenses and capital expenditures for companies active in the most climate sensitive sectors. This is susceptible to deteriorate their credit risk profiles if not anticipated and managed correctly. Belfius is conducting individual assessments on top of portfolio analyses in order to mitigate the impacts this can have on the bank's risk profile.
STRATEGIC & BUSINESS RISK	●●	Belfius has to account for the changes in its business environment and keep at pace with competitors with respect to sustainable products development and ESG strategies. It is key to have a fully transparent and informed strategy in order to maintain customers and investors' confidence.
NON-FINANCIAL RISK	●●	Some physical risks could cause disruptions in our own operations or in operations conducted by suppliers/third parties. These risks are, and will be further, mitigated. Belfius is also confronted with the need to substitute existing products and services by lower emission alternatives. Finally, Belfius is screening its own, customers' and suppliers' ESG practices in order to avoid direct or indirect reputation risks that could affect investor confidence or talent retention.
LIQUIDITY RISK	●	The liquidity impacts potentially caused by C&E risk drivers are expected to be spread over time and not leading to abrupt changes in our strong liquidity profile.
MARKET RISK	●	The limited market activities at Belfius, the very short maturity of market risk positions and the possibilities to hedge most risks reduce the risk that C&E risks drivers could lead to large devaluations of assets and negative P&L impacts.

(1) Relative assessment based on expert judgment, average across all time horizons and before mitigation. The number of dots indicates the relative importance of the impact.

Conclusions on time dimension

From a timing perspective, Belfius identified a risk of increasing climate and environmental risks over longer horizons, especially for physical risks. The events' probabilities and their impacts are largely dependent on the speed and scale of the implementation of transition policies and adaptation measures. Therefore, the importance of drivers and transmission channels will be regularly revised to account for policy, technological and societal evolutions.

Outcome of assessment

After consideration of the potential deterioration of credit quality resulting from the assessed C&E risks, financial impacts remain fully manageable, even in the long term. As impacts should only materialize gradually, management actions will be taken in the meantime in order to maintain a sound low-profile balance sheet while supporting future earning capacity.

Mitigating actions and strategy adjustments are considered for the identified risks and will be further developed for residual risks. This includes the materialization of the bank's commitments to support the Belgian transition and the attention paid to the composition of the bank's portfolio to lower the exposure to C&E risks. This strategy includes a focus on - and support to - encouraging counterparties to develop clear transition pathways and implement adaptation and mitigation measures against physical risks. This will be made by deep diving into individual practices within a sector, starting from the areas of higher risks according to the CERMA.

The CERMA already resulted in the computation of additional sector-specific layers driven by climate vulnerability criteria in the cost of risk computations.

More details on the CERMA (including the relative importance of risk drivers by sector and comments on the ranking of impacts by sector) are available in the section 6.1.2.1 of Sustainability Report.

Deep dive on operational risks

For several years, attention has been dedicated to the impact of climate-related risks on Belfius' operational resilience. The bi-yearly threat analysis exercise measures the impact of physical risks, including natural disasters on assets such as Belfius data centers, with a view on business continuity. If necessary, adequate mitigating actions are then taken to ensure ability to continue or quickly resume critical activities in case of extreme events. It should be noted that most critical activities are executed simultaneously in different places and that the use of adequate technologies are also limiting the potential impact of climate-related risks on activities.

Belfius has also significantly strengthened its approach regarding its suppliers with the integration of ESG criteria in its Procurement Policy, Procedures and General Termes and Conditions (e.g. respect of GDPR). This includes the Sustainability Code of Conduct for suppliers, which was updated in 2023, the conducting of vendor assessment with a third party and ESG scorecard monitoring. For more information, please refer to section 7.3. Sustainable Procurement of Belfius' Sustainability Report.

Deep dive on credit risks

The CERMA performed by Belfius Bank in 2023 confirmed that credit risk is the risk category that will be most subject to climate risks, through both corporate and business loans, on the one hand, and mortgage loans, on the other.

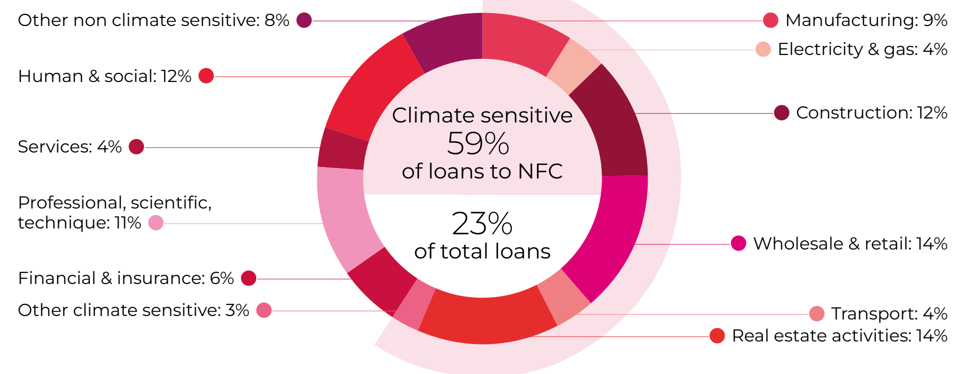
As Belfius' loans and advances exposures are primarily concentrated on Belgian counter-parties (> 95%), analyses focus on transition and physical risks that are material for Belgium.

At portfolio level

Corporate and business loans

Belfius monitors the evolution of its exposure to climate sensitive sectors in general and, particularly, in fossil fuel activities.

Climate-sensitive sectors NFC



The in-house definition used by Belfius to identify climate sensitive sectors takes into account definitions provided by CPRS (list of industries particularly vulnerable to policy changes), but also the climate stress methodology provided by the ECB (list of carbon intensive industries), and Pillar III ESG standards (list of sectors that highly contribute to climate change). It includes exposures on NACE codes A to H and L.

The proportion of climate sensitive exposures in loans and advances to non-financial corporations and total loans and advances is globally unchanged compared to 2021 and 2022 and amounts, respectively, to 59% and 23%.

Belfius' exposure to fossil fuel projects and companies amounted to EUR 983 million as of 31/12/23. In this screening, a customised fossil fuel definition aimed to identify companies deriving any revenues from fossil fuel value chain activities was used based on data provider information and on NACE-codes referenced in either CPRS or Pillar III. The methodology used for this fossil fuel value chain screening is constrained by data limitations. Most of the exposure (EUR 772 million) is part of the legacy run-off portfolio. De-risking opportunities of the run-off portfolios are assessed on a regular basis and counterparties' ESG profiles, including climate transition risks, are factored into the analyses. In the meantime, mitigating actions (e.g. swaps) have been taken for these most climate sensitive exposures.

Zoom on the potential magnitude of the credit risk impacts on enterprises per sector and time horizon

The next table provides the expected credit risk impacts per sector and per time horizon taking into account the specificities of Belfius' portfolio (companies' activities within their sector, companies credit quality and size of exposures per sector) based on current credit portfolio composition.

CR impacts per sector and time

	ST	MT	LT
RESIDENTIAL REAL ESTATE	●	●	●●●●
MANUFACTURING	●	●	●●●●
PUBLIC	●	●●	●●●●
BUILDINGS & CONSTRUCTION	●	●	●●●●
COMMERCIAL REAL ESTATE	●	●●●	●●●
WATER & WASTE	●	●	●●●
AGRICULTURE	●	●	●●●
ROAD TRANSPORT	●	●	●●
HEALTH	●	●	●●
POWER	●	●●	●●
SOVEREIGNS	●	●	●●
ENERGY	●	●	●
SEA TRANSPORT	●	●	●
BANKS	●	●	●
AIR TRANSPORT	●	●	●
RAIL TRANSPORT	●	●	●
INSURANCE	●	●	●

The number of ● indicates the relative magnitude of impact per sector

Mortgage loans

In order to be able to better assess and simulate the evolution of the risk profile of its mortgage loan portfolio, Belfius developed a mortgage simulation tool to project possible evolutions of mortgage loan portfolios in the long term (up to 2050), triggered by physical and transition climate risks.

The prospective module simulates both the possible long-term impact of transition policies and the potential impacts of flooding on asset values and debtor's credit risk profiles.

The tool shows how loan-to-value and debt service-to-income ratios evolve over time in each scenario considering the expected improvement in the energy performance of the property and, thus, changes in the value of the building, the loan amount and the income and expenses of the debtor.

Using the Climate Risk Assessment and Simulation Tool for Mortgages, an analysis to assess the physical flood risks of Belfius' mortgage portfolios was conducted. The real estate assets used as collateral have been geo-localized and mapped to the latest available regional maps on flood risk existence and severity.

The results showed that 1.9% of Belfius Bank' mortgage exposures are in medium or high risk zones. The increase compared to last year is due to an update of the regional map in Flanders that now considers an increased number of flood types compared to the previous version of the map (e.g. including coastal floods).

Scenario analysis tables

Scenario	Risks evaluated	Time horizons and intervals	Modelling assumptions	Sector exposure and business segment scope	Granularity of the assessment	Approach and methodology	Portfolio scope, coverage and exclusions	Output metric
NGFS[1] 2021-Net Zero 2050 NGFS 2021-Delayed Transition NGFS 2021-Current policies	Transition risks (EPC driven) and physical risks (flood risk)	2025- 2030- 2040-2050	Dynamic balance sheet EPC improvement trajectories	Mortgage loans	Asset and debtor	Sensitivity analysis based on location and energy performance of immovable property used as collateral	100% of the portfolio for flooding risk and 85% of the portfolio for transition risk	Intermediary metrics: LTV[2] and EDSTI[3]

(1) NGFS: Network for Greening the Financial System.
(2) Loan to Value.
(3) EDSTI: Energy bill & Debt servicing to income.

Zoom on mortgage loan transition risk analysis

Mortgage loans constitute a significant share of Belfius' financing activities. In addition, Belfius wants to ensure that affordable energy efficient housing is available to Belgian society. Consequently, further scenario analyses have been performed with the goal of assessing the possible impact of climate-related transition policies on assets and debtors under various NGFS inspired scenarios, using the in-house mortgage simulation tool.

The considered transition policies focus on minimum EPC requirements and mandatory energy renovations set by Belgian regional authorities within the framework of the decarbonization trajectory described in the Belgian regional climate plans.

The magnitude of impact on key credit parameters, mainly the deterioration of loan-to-value ratio and debt servicing to income ratio, depends on various factors for which assumptions have to be made, including, for instance:

- the degree of awareness and willingness of individuals to upgrade the energy performance of their asset;
- the households' financial means to do so;
- the severity level, enforceability and speed of implementation of new EPC policies;
- the timing of the renovation waves;
- the evolution of energy prices, raw material and construction labour costs;
- the evolution of future market value haircuts for the least efficient homes;
- the removal of technical constraints (via technology breakthroughs) and current workforce limitations within the construction sector.

The main conclusion of the simulations remains that the "delayed transition" scenario appears riskier than the "net zero" or "current policies" ones, with risks peaking in 2030.

This conclusion is aligned with the outcome of the second economy-wide climate stress test performed by the ECB. Comparing three potential pathways for the transition with differing timing and level of ambition for reducing emissions, the study shows that delayed and late-push transitions (where the current path towards a net-zero economy is not sped up until 2026) entail higher financial risks for firms, households and the banks that lend to them. An accelerated green transition, on the other hand, would provide significant benefits for the euro area's economy and financial system.

This assessment was complemented through a socio-economic analysis aimed at identifying the proportion of our customers who might struggle to finance required energy renovations. The results of this high-level study (that should be interpreted with caution given the use of assumptions and certain data availability limitations) indicate that those households could represent around 20% of our customers. While Belfius is committed to reinforcing its actions to tackle this challenge and is developing innovative solutions to help its customers in their renovation journey, further support measures from public authorities will be instrumental in addressing this issue to allowing a fair socially inclusive transition to take place.

At counterparty /asset level

Since there is more data available at sector-level than company-level, a top-down approach to materiality assessment is a logical first step to gaining quick insights on risks. However, the added value of these approaches remains limited as sector-level data do not take into account the large differences between firms within a sector, such as companies' production processes and technologies, company specific strategies and dynamics over time. The same is true for the mortgage portfolio analysis, from which Belfius can gather interesting insights at portfolio level. These are based on numerous assumptions and proxies however.

Consequently, Belfius uses a bottom-up approach that is complementary to the top-down approach in order to assess the risks.

ESG scores of companies

Belfius began evaluating the individual ESG profile of companies and groups through an in-house tool. The tool factors in a range of qualitative and quantitative ESG indicators relating, amongst others, to GHG emissions, energy consumption, workforce and supply chain management, diversity and equality, governance bodies and business ethics. The final score reflects the company's or group's positioning amongst a benchmark population.

This tool enables Belfius to rank counterparties based on their exposure to ESG factors, their willingness to take ESG issues into consideration, their ability to assess and measure ESG risks and opportunities, their capacity to monitor ESG risks, their current ESG risks management practices, the results of their mitigation actions, their level of transparency and their overall performance with regards to ESG.

This risk scoring approach is fully integrated into a customer dialogue. Indeed, the questionnaire used to capture the relevant data serves as a basis for engaging more deeply with clients to better understand where they stand, what their key issues are, how they plan to transition to a low carbon economy and how Belfius can support them to this end. As such, the ESG score is gradually being embedded not only in Belfius' operational processes but also in Belfius' commercial strategy. Relationship managers discussed sustainability topics with more than 1500 customers in 2023, leading to more than 200 counterparties being rated. The scope of customers whose ESG risk profile will be assessed will be further broadened in 2024.

The evolution of ESG scores over time will indicate to what extent customers are improving their performance and practices and adhering to the transition to a low-carbon economy. In turn, this will allow us to measure how resilient to climate and environmental risks our corporate loan portfolio is expected to be in the longer term.

Finally, ESG scores will inform credit granting decisions and are expected to contribute to quantification of credit risks if and when a robust statistical link can be made between these scores and risk parameters, such as probability of default and loss given default.

Belfius has developed a similar ESG risk scoring tool for its sovereign exposures that will be rolled out in 2024.

Energy performance of buildings held as collateral

Another focus of our practices lies in the measurement of the potential magnitude of transition risks impact on real estate assets held as collateral. Since 2021, Belfius has been actively collecting the energy performance certificates (EPC) of residential and commercial real estate assets held as collateral from its customers due to the fact that Belgian banks, unlike some of their European peers, have not been granted access to regional EPC registers.

For residential real estate assets where Belfius lacks EPC data, a workaround was set via a proxy tool provided by a third party that estimates energy efficiency based on the property's address and other known characteristics, such as the year of construction or the surface measurement).

Even poorer EPC data are available for commercial real estate as it is often not subject to the legal obligation of performing an energy audit. We believe that methodologies estimating the energy performance level of commercial real estate are not yet mature yet and/or reliable enough, preventing us from using proxies for these types of assets at the current time.

The energy performance level of a building can affect various credit risk parameters:

- The probability of default on the part of the borrower can be impacted by mandatory energy renovation obligations and/or rising energy prices as those factors can erode the wealth and revenues of the owners and occupiers of properties presenting poor energy efficiency.
- The loss given default of the loan can also be impacted following downward adjustments to the collateral value due to an expected decrease in the market value of properties with poor energy efficiency.

The evolution of both the availability of true up-to-date information and the distribution of EPC scores is monitored via dedicated key risk indicators . Our approach for the coming years remains to increase the share of energy efficient properties in our mortgage production and to keep improving the average energy intensity of this portfolio.

The potential impact of transition risk on our mortgage portfolio is accounted for in our cost of risk calculations through an ESG-related layer covering additional potential losses for the least energy efficient houses and apartments collateralizing those exposures.

VIII. 3.2.2. Monitoring and reporting of ESG risks

In order to properly monitor C&E risks, Belfius is in the process of setting up an ESG Risk Dashboard to support strategic objectives and ensure the institution's global resilience (e.g. decisions on limits at individual or portfolio-level, TAP adjustments etc).

Some of the climate indicators are integrated in the Quarterly Risk Report (QRR) submitted to the Management Board and the Board of Directors, e.g. statistics about climate sensitive exposures, the collection of EPC data and the distribution of EPC scores within the mortgage loans portfolio and a breakdown of the ESG scores assigned to the suppliers, as well as metrics about operational events in the field of ESG (e.g. litigations, fines, penalties).

Scaling our ESG data strategy and conquering the ESG data challenge

Gathering crucial granular data (at counterparty/asset level)remains challenging, especially for non-listed or smaller companies where most data points are not yet publicly available and sometimes even non-existent.

A mix of internal and external data sources such as opensource data, data from external service providers or data submitted directly by the customers are being used to this end. Proxies and estimations are also being developed to fill the gaps.

In 2023, Belfius finetuned its approach by drafting an overarching ESG Data Collection Strategy and ESG Data Management Framework. The overall purpose of this framework is to describe how data will be ingested, processed, stored, governed and distributed within Belfius, as well as how data needs are identified, data is collected and data gaps are closed.

Combining existing data management policies at Belfius, best practices observed in the market and regulatory requirements described in BCBS 239, the design of the aforementioned processes, whose implementation is currently ongoing, is structured around key data management capabilities, including:

- Data capture (identification of critical data, hierarchy of sources, vendor selection criteria, etc);
- Data governance (data ownership, allocation of roles and responsibilities, etc);
- Data storage (data architecture, design of data flows, etc);
- Data management (data catalogue, business glossary, data quality monitoring and issues resolution, etc).

Finally, the key risk indicators have been translated in limits incorporated in the Risk Appetite Framework (see section “mitigation of ESG risks” below for more details). In addition to these financing limits, the RAF includes dedicated KRI’s relating to the follow-up of the timely implementation of the ECB ESG action plan. The evolution of the average CO_2 emission of Belfius Auto Lease’s car fleet is also subject to a monitoring process.

Other sustainability related commitments and targets are also monitored on a regular basis throughout the year. A summary KPI dashboard that includes key performance indicators relating, amongst others, to commercial KPIs for meaningful investing, insurance and financing offerings is reported half-yearly to the Board of directors. Further, relevant teams (e.g. legal, risk, ESG central team) monitor environmental and climate-related regulatory risks on quarterly basis to ensure the full compliance with the related regulations.

VIII. 3.3. Mitigation of ESG risks

Belfius has put in place a series of key measures to mitigate identified C&E risks.

Financing limitations with the Transition Acceleration Policy (TAP)

The TAP serves as a risk management tool for the entire group by excluding or restricting the financing of activities deemed non sustainable, enabling Belfius to lower its exposure to those activities, that present increased financial and reputational risks. This policy is applicable to all types of activities and was reviewed 2023, resulting in a tighter version for 2024. In addition, the tighter TAP criteria trigger modifications to other policies and guidelines, such as the credit acceptance policy and investment risk framework.

Financing limits with the Risk Appetite Framework

The Belfius Risk Appetite Framework (RAF), which already included social and governance key risk indicators, is gradually enhanced year on year with a revision of ESG-related qualitative statements and the inclusion of additional ESG quantitative risk indicators. The governance around these climate-related key risk indicators follows what has been defined for the RAF in general.

New limits were implemented as from 2023, including further restrictions on fossil fuel exposures and the share of mortgage loans collateralized by immovable property with poor energy performance certificates.

Targets set on a one year horizon, are revised on a yearly basis and are expected to become stricter over time so as to meet long term objectives. A first threshold is set that triggers internal escalation to relevant management bodies, a second threshold requires corrective actions.

Belfius aims to gradually extend the number of key risk indicators, to include a monitoring and control of indirect impacts through financed activities, and to implement additional and more granular targets and limits.

Integration of ESG at inception, with New Product Approval Process

The NPAP (New Product Approval Process) procedure is initiated for every new or adapted product, service, activity, process or IT system, regardless of the business line, support activity, branch or subsidiary. Through this process, relevant stakeholders with in the Belfius organization are consulted to identify and assess the risks in their respective areas. Their opinions may be either positive, or they may set binding ("Must Have") or non-binding ("Nice to Have") conditions.

The central ESG team is a relevant stakeholder in this process. It identifies potential ESG risks associated with a new product or service and formulates conditions to avoid or reduce them. In this way, climate and environmental considerations are tackled at the inception of new developments. The advice of all relevant stakeholders is consolidated in the NPAP advice of the NPAP Committee, which consists of compliance, legal and non-financial risk representatives. If binding conditions have been set by a stakeholder, the project cannot be rolled out until these conditions are met.

Other measures

Climate and sustainability dimensions are gradually included into business practices for all Group activities, leading to certain climate risk mitigation by design (such as the ESG score or the environmental due diligence).

Opinion regarding Belfius' resilience

Belfius is convinced that, in the context of significant expected macro- and microeconomic changes stemming from the transition to low carbon, climate-resilient and environmentally sustainable economy, its climate-aware business strategy and risk management framework combined with its robust balance sheet structure and reinsurance program will ensure resilience and growth opportunities. This conviction is underpinned by the outcome of the CERMA conducted in 2023 and the results of the supervisory and internal climate stress tests that confirm C&E risks do not pose a significant threat to Belfius' profitability, capital position and liquidity buffers in the given scenarios for the time being.

IX. Other financial risks

IX.1. Settlement risk

Definition

Settlement risk is defined as the risk that the credit institution will deliver the sold asset or cash to the counterparty and will not receive the purchased asset or cash in return as expected.

This risk is not to be confused with the operational risk classified under "Execution, delivery and process management risk". The settlement risk only refers to the situation where the delivery process fails because of a solvency issue.

Organisation and management of the Risk

A common practice to reduce settlement risk is to proceed through an intermediary performing Delivery Versus Payment (DVP). For Forex in particular, there is one main agent: Continuous Linked Settlement (CLS). With DVP, one can say that the risk becomes immaterial. Belfius aims to generalise the recourse to DVP.

Historically, there has been no instance of loss related to this risk at Belfius and very few externally. In fact, losses would only occur if Belfius simultaneously faces a mismatch in the delivery against settlement process and the default of the counterparty bearing the resulting temporary exposure. Of course, both events can be strongly correlated: a bank close to bankruptcy is much more likely to fail in its settlement duties.

Capitalisation

Settlement risk capital is currently not computed via a statistical model but rather results from the occurrence of a single settlement problem (a presumably very rare event that never impacted Belfius so far). It therefore consists of a fixed amount set a priori based on a judgemental assessment.

IX.2. Funding risk

Definition

Funding risk refers to potential losses linked to Belfius' ability to raise the funds necessary to refinance its debt, cash requests, margin calls, … Funding risk also results from unexpected changes in Belfius funding mix that may impact the refinancing cost. In some unfavorable cases, assets may have to be sold at stressed market price to close the funding gap, impacting the P&L through capital losses.

Organisation and management of the Risk

For more details regarding the Organisation and Management of funding risk, please refer to Risk Management Governance - II.4.2.3.3. .Risk organisation.- Strategic Risk Management.

Capitalisation

Funding risk capital is not computed via a statistical model. Its calculation is based on scenario analysis, with a severe liquidity stress test considering a combined systemic and severe lack of confidence of the market about Belfius solvency during a global liquidity crisis and affecting its income statement.

This liquidity stress scenario will generate a funding risk which can be defined as the sum of P&L impacts resulting from the cost linked to the replacement of the existing funding that left the balance sheet by funding obtained through pledging the assets from the liquidity buffer at ECB.

In line with economic capital standards, the loss incurred over one year is measured and the confidence interval of the considered scenario (a presumably very rare event) is assumed to be 99.94%.

IX.3. Behavioural risk

Definition

Behavioural risk is defined as the potential change of exposure to interest rate and funding risks due to the uncertain behaviour of customers.

On the liability side, it includes the uncertain amortization of non-maturing liabilities, such as deposits, and the uncertain rate of termination of insurance contracts (also referred to as "lapse" risk within Solvency 2). On the asset side, it includes uncertain prepayment schedules.

The uncertain amortisation of non-maturing liabilities, such as certain types of deposits, forms the outflow risk and is integrated within the funding risk approach as described in the previous section. For example, customers may decide to reduce their savings or their sight accounts impacting the Bank's interest rate position.

Organisation and management of the Risk

Behavioural risk is managed through sensitivity reported to the members of the Belfius ALM Committee. In addition, this risk is included in the Belfius Economic Capital reporting.

Capitalisation

Behavioural risk is capitalised through a prepayment risk capital approach which relies on a statistical model.

IX.4. Pension plan risk

Definition

Pension plan risk is the risk stemming from commitments on employee pensions plans (e.g., pension and post-employment employee benefits).

These commitments and the related assets are externalized to an insurance company or an OFP (Organization for Financing Pension – legal form in Belgium) . Belfius Bank pays premiums to the insurance company or pays contributions to the OFP. The contributions in the OFP are invested in assets (equity and bonds). Belfius Bank remains the ultimate responsible for the commitments.

The risk for a pension plan is that the net present value of its liabilities (commitments to employees) is higher than the net present value of its assets (investments in the OFP or the value of the commitments of the insurance company).

As a result, pension plan risk covers a set of underlying risk drivers. The most important are market risk (interest rate risk, equity risk, inflation risk), credit risk and behavioural risk (turnover, mortality).

Organisation and management of the Risk

The OFP grants an investment mandate to the pension fund asset manager. This investment mandate establishes clear investment objectives for the pension fund, consistent with the characteristics and the risk appetite of the pension fund.

The approach for achieving these objectives takes into account the need for effective risk management, diversification needs and asset allocation limitations.

The ALCo evaluates the risks in the OFP and insured pension plans and decides if further mitigation is required.

Capitalisation

Pension plan risk is capitalised. The risk capital is based on a mix of several risk factors.

IX.5. Model risk

Definition

Model risk is defined as the potential risk assessment errors resulting from inadequate methodology and models, and/or data uncertainty or from the inappropriate use of models.

The major issues that should be addressed by model risk are the following:

- risk of poor model development/back testing;
- risk of incorrect model calibration or rank ordering power;
- wrong data use and/or data problems;
- inadequate model usage;
- risk of population and/or performance non-stationarity.

Organisation and management of the Risk

In addition to the Economic Capital assessment that is carried out for model risk, the risk of each issue described above is mitigated by a process-oriented handling of model risk.

Without being exhaustive, the following practices are used for containing model risk:

- allocating experienced professionals to the development of risk models;
- developing a specific margin of conservatism layer on top of the model output
- providing a systematic "four eyes approach" via the independent model validation;
- monitoring and capitalising model risk within the Belfius Economic Capital framework.

Capitalisation

For each risk type and each economic capital calculation methodology, the potential increase (not decrease) of economic capital resulting from model risk is assessed using a unified scorecard approach. It includes the result of quantitative and qualitative assessments of the models and is also linked to the outstanding validation recommendations. This judgement results in an "uncertainty coefficient" depending on the perceived comfort "with which the model has been developed and implemented and is being fed and used".

IX.6. Conglomerate risks

Definition

A distinction is made between:

- "Group consolidated risk" which is the risk inherent to a "group" i.e. a company owning and consolidating other companies, whatever the sector the company and its affiliates belong to; and
- "Conglomerate risk" which is the risk arising from a group of companies - a financial conglomerate - composed of credit institutions, insurance undertakings and investment firms. The conglomerate manages financial companies regulated under at least two different prudential frameworks (Banks and Insurance).

Conglomerate risk comes on top of "group consolidated risk" as the financial conglomerate will be submitted to "group consolidated risk" and to "conglomerate risk".

A distinction is made between financial risks on the one hand, and non-financial risks on the other hand. The following conglomerate risks are defined at Belfius:

Financial Risk

- Regulatory inconsistency could lead to 'double gearing', where the same capital, issued by the conglomerate, is being counted twice, to satisfy both banking and insurance capital requirements. Another result of inconsistency is 'excessive leveraging', which can occur when debt is issued by the conglomerate and the proceeds are given as equity to the regulated subsidiary. Because of regulatory inconsistency a financial conglomerate could shift activities from one of its banks to one of its insurance firms, or vice versa, if the respective capital requirements are lower.
- Intragroup insurance contracts are contracts between the insurance and the bank. These will not be effective at conglomerate level (e.g. property risk).

Non-Financial Risk

- Contagion/reputation: financial difficulties in one subsidiary in one sector could have contagion and/or reputation effects on another subsidiary in a different sector, especially when using the same brand name. In that case, the conglomerate may be more vulnerable than its stand-alone subsidiaries.
- Moral hazard – subsidiaries: subsidiaries may assume help from the holding company in cases of financial stress and behave riskier in a financial conglomerate than as a stand-alone institution.
- Moral hazard – conglomerate level: at conglomerate level, the moral hazard risk associated with the 'too big to fail' position may exist.
- Size & complexity: it becomes more difficult to manage and understand the operation of a firm as the organization grows. Both these issues are not specific to financial conglomerates but arise because financial conglomerates tend, generally, to be larger than pure sectorial players.
- Governance and conflict of interest: as financial conglomerates run activities in different sectors (Bank, Insurance, Investment services …) they may be more exposed to conflict of interest. These may arise from subsidiaries vs mother company, from promoting banking products vs insurance or investment products, confidentiality conflicts, etc.
- Concentration between sectors linked to outsourcing (same service providers, back office services, …), continuity (BCP, DRP, workplace safety, employment…), business practices (products, new business, CSR, ….), strategic risk, legal, tax and compliance risks and IT risks.

Organisation and management of the Risk

With regards to conglomerate risks, Belfius has put in place several mitigating actions. We refer to some of them (not exhaustively) below.

The Belfius Capital Group committee in charge of monitoring the adequacy of capital management at conglomerate and sector level.

There exist a capital and dividend policy at Group level with consistency at entity level.

FICOD test give a view of the regulatory capital needed to cover risks in each part of the conglomerate.

Stress Tests are designed and run at Group level but also at bank and insurance levels. ECAP and EaR are computed at group level giving an exhaustive view of the capital needed to cover all major risks.

A cartography of intragroup insurance contracts has been set up and monitoring takes place on a regular basis.

There are reinsurance rules above specific thresholds.

There is a common communication and reputation follow-up at Group level.

At Group level, several joint committees are in place at the highest level: Joint RC/RUC Committee, Joint AC Committee, Joint Management Committee (Group Management Board), Conglomerate Monitoring Committee, potential conflicts between Bank and Insurance BoD are dealt at the level of the Intragroup Committee.

Capitalisation

The conglomerate risks are not covered by capital seen the multiple mitigating actions in place.

X. Appendices

X.1. Information exempted from disclosure

The following templates have been identified as not applicable to Belfius and therefore are not included in this report:

- Disclosure of templates CQ2, CQ6, CQ8 and CR2a is only required for entities with a non-performing loan ratio (NPL) of 5% or above. The NPL ratio of Belfius is below this threshold and therefore these 4 templates are not applicable, while partial disclosure is allowed for templates CQ4 and CQ5.
- CQ7 Collateral obtained by taking possession and execution processes: the recovery procedures used by Belfius are based on the best possible performance of the available collateral. The legal procedures used are based on the transfer of property received as collateral and not on the transfer of ownership.
- CR7 – IRB approach – Effect on the RWA of credit derivatives used as CRM techniques: Belfius does not typically secure its credit exposure by buying protection via credit derivatives. At the current time, the Belfius credit derivatives are not used for RWA reduction via credit risk mitigation but are used in the context of its market risk activities, including CVA risk hedging.
- Templates CR10.1, CR10.2, CR10.3 and CR10.4 refer to the slotting approach for specialised lending which is not applied by Belfius (No approved model or no exposure).
- CCR7 – RWA flow statements of CCR exposures under the IMM: Belfius does not use the Internal Model Method (IMM) methodology for measuring the EAD for counterparty credit risk exposures.
- SEC2 - Securitisation exposures in the trading book: Belfius does not have any exposure to securitisation positions in its trading book under the credit risk framework.
- The role of Belfius on securitisation is described in the sections IV.6 and VI.2. Belfius acts either as original lender or as investor. Consequently, the tables SEC3 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor and SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments are not applicable

The following templates are partially included in this report as part of their requirements have been identified as not applicable to Belfius:

- As Belfius does not apply the Foundation IRB approach to credit risk exposures, disclosures related to the F-IRB approach are not provided in the templates CR6 and CR7-A
- Template MRB: qualitative disclosure is limited to the VaR/ SVaR models as Belfius has no correlation trading portfolio and is not subject to capital requirements for incremental default and migration risk

X.2. Credit risk exposure

X.2.1. Overview

The tables in the following chapter provide an overview of the overall credit risk. As prescribed by the Commission implementing regulation (EU) 2021/637 different metrics referring either to accounting or to risk concepts are used in the quantitative templates disclosed in the risk report annex.

In addition to these metrics, Belfius uses also the term of Full EAD or FEAD.

Full Exposure At Default (FEAD) is determined as follows:

- for balance sheet assets (except for derivatives): the gross carrying amounts (before credit risk adjustments);
- for derivatives: the exposure at default calculated under the standardized approach for counterparty credit risk (SA-CCR);

for Securities Financing Transactions: the carrying amount as well as the excess collateral provided for repurchase agreements;
for off-balance sheet commitments: either the undrawn part of credit facilities or the maximum commitment of Belfius for guarantees granted to third parties.

FEAD for instance provides a consistent metric to present a combined view of the Bank and Insurance respective exposures to credit risk.

X.2.1.1. Contribution Belfius Bank – Belfius Insurance

The figures in the below table are after elimination of intra-group exposures, but with inclusion of credit exposure from trading activities and counterparty credit risk.

Exposures are allocated to the final counterparty. This means that if substitution is applied to a certain exposure to a borrower guaranteed by another party, the exposure is shifted to the region, type of exposure and rating of the guaranteeing party.

As at 31 December 2023, the total credit risk exposure within Belfius amounted to EUR 207.7 billion, a decline of EUR 1.4 billion or 0.65% compared to the end of 2022.

Breakdown of credit risk by counterparty

	31/12/2022	31/12/2023	Of which	
(FEAD, in EUR million)			Bank	Insurer
Central governments	37,236	30,856	25,790	5,067
of which government bonds	8,082	8,163	3,823	4,340
of which EU Central Bank	27,283	24,418	24,418	0
Public sector entities	41,084	40,613	39,225	1,388
Corporate	50,921	54,250	52,154	2,096
Project Finance	2,341	2,444	2,444	0
Retail	61,703	63,046	59,137	3,909
Financial Institutions	11,856	12,066	9,983	2,083
Other[1]	3,937	4,440	3,854	586
TOTAL	209,078	207,717	192,588	15,129

(1) Other include a.o. deferred tax assets, tangible and intangible assets and gains and losses on the hedged item in portfolio hedge of interest rate risk.

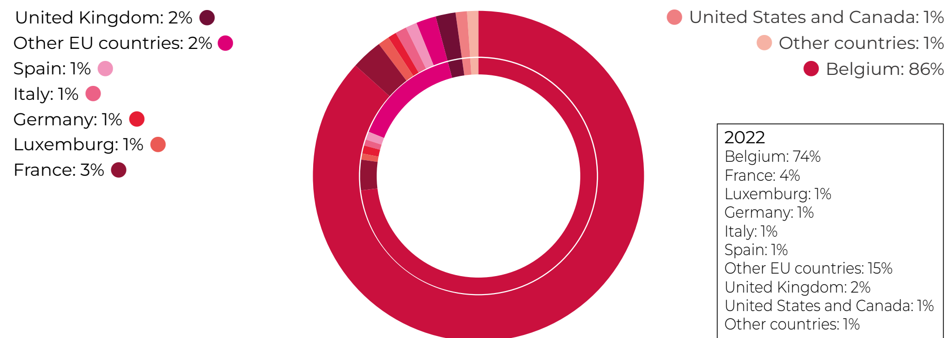
This decline is attributable to banking activity (by EUR 1.5 billion), slightly offset by the increase for Belfius Insurance (by EUR 166 million).

The decline by EUR 6.4 billion observed on the segment central governments is mostly due to the reduction of liquidity reserves deposited at the NBB. In terms of government bonds, the exposure has slightly increased on the bank side (by EUR 77 million), while remained stable for Belfius Insurance year-on-year. Nearly half (46%) of the government bonds portfolio is invested in Belgian government bonds at the Group level. While at bank level the Belgian government bonds represents 41% of the total government bond portfolio, the relative proportion at Belfius Insurance stood at 49%.

The credit risk exposure on individuals, self-employed and SMEs (30.3% of the total) and corporates (26% of the total) constitute the two main categories. These exposures increased by EUR 1.3 billion and EUR 3.3 billion respectively, reflecting Belfius' strategy to support the Belgian economy.

The credit risk exposure on public sector entities and institutions that are guaranteed by these public sector entities declined slighlty in 2023 by EUR 0.5 billion.

Evolution credit risk by geographical region(Outside 2023 – Inside 2022)

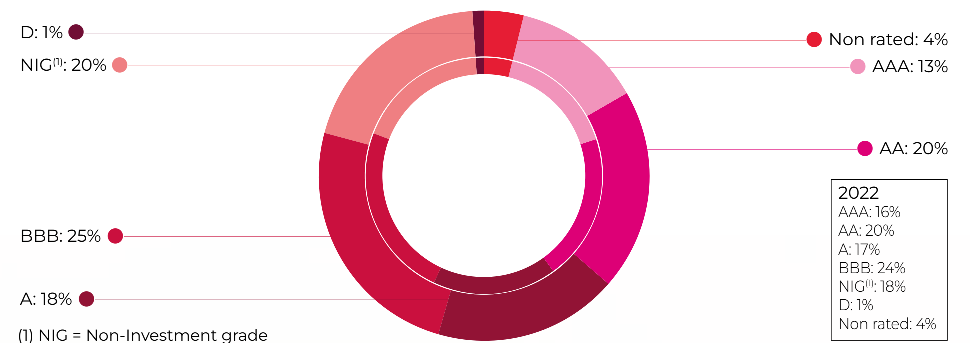


Belfius' positions are mainly concentrated in the European Union: 95% or EUR 183.0 billion at bank level and 95% or EUR 14 billion for Belfius Insurance. The total credit risk exposure distribution is 86% in Belgium, 3.4% in France and 2.5% in the United Kingdom, 1.3% in the United States and Canada, 1.2% in Luxemburg, 0.9% in Spain, 0.7% in Germany and 0.6% in Italy. The increase in the total credit risk exposures in Belgium (from 74% to 86% year-on-year) is explained by the reclassification of the deposits at central bank from Other EU countries to Belgium.

The credit risk exposure to counterparties in the United Kingdom amounted to EUR 5.1 billion, a slight increase of EUR 124 million compared to last year. About 60% of this credit risk exposure concerns bonds, of which close to two-third are inflation-linked. They are issued by utilities and infrastructure companies in the United Kingdom that operate in regulated sectors such as water, gas and electricity distribution. These bonds are of good credit quality, and moreover most of them benefit from a credit protection issued by a credit insurer that is independent from the bond issuer and is of high quality (investment grade rating). The remainder of the bond portfolio is made of exposures located in Belfius Insurance, a short-term credit portfolio for treasury management of Belfius Bank and receivables on clearing houses. The credit risks of these portfolios are also of good credit quality.

At the end of December 2023, 76% of the total credit risk exposure had an investment grade internal credit rating.

Breakdown of credit risk by rating (Outside 2023 – Inside 2022)



(1) NIG = Non-Investment grade

X.2.1.2. Overview credit risk under the prudential scope of consolidation

The differences between the accounting and regulatory scopes of reporting are described in the Risk report annex (Tables LI1 LI2 and LI3).

FEAD 31/12/2023 (In EUR million)	Credit risk		Counterparty credit risk			Total
	On-balance-sheet amount	Off-balance-sheet amount	Securities Financing Transactions	Derivatives	Prefunded default fund contribution	
IRB EXPOSURE CLASSES						
Central governments and central banks	11,271	7,252	278	73	0	18,873
Institutions	19,121	3,637	179	1,411	0	24,347
Corporates	35,056	16,307	1,656	647	0	53,666
of which Corporates- SME	13,525	2,706	1	39	0	16,271
Retail	50,943	6,221	0	0	0	57,165
of which secured on RE SME	9,591	249	0	0	0	9,840
of which secured on RE non-SME	30,382	731	0	0	0	31,113
of which Qualifying Revolving	0	13	0	0	0	13
of which other retail SMEs	8,199	2,249	0	0	0	10,449
of which other retail non-SMEs	2,770	2,980	0	0	0	5,750
Equity	377	0	0	0	0	377
Securitisation	152	0	0	0	0	152
TOTAL IRB APPROACH	**116,918**	**33,417**	**2,113**	**2,131**	**0**	**154,579**
STANDARDISED EXPOSURE CLASSES						
Central governments or central banks	20,386	73	0	74	0	20,533
Regional government or local authorities	740	63	0	17	0	819
Institutions	250	215	235	278	0	979
Corporates	6,641	3,275	0	584	0	10,499
Retail	855	108	0	0	0	964
Secured by mortgages on real estate	444	14	0	0	0	459
Other[1]	7,045	278	0	0	355	7,678
TOTAL STD APPROACH	**36,361**	**4,027**	**235**	**953**	**355**	**41,931**
TOTAL	**153,279**	**37,444**	**2,348**	**3,084**	**355**	**196,510**

(1) includes exposure classes past due items, items belonging to regulatory high-risk categories,or other items and equity , including exposures under Danish Compromise.

At year-end 2023, 79% of the total credit risk exposures were calculated using the IRB approach. IRB exposures mainly consist of retail, corporate exposures and public and social exposures.

For further details on the credit quality of exposures by geography, economic sector or maturity, please refer to the Risk report annex (tables CQ4, CQ5 and CR1-A).

X.2.2. Internal rating-based approaches

X.2.2.1. Competent Authority's Acceptance of Approach

By a letter sent on 21 December 2007 by the Banking, Finance and Insurance Commission (CBFA), the Belgian Regulator, Dexia SA was authorised to use the Advanced Internal Rating-Based Approach (AIRB Approach) for the calculation and the reporting of its capital requirements for credit risk starting from 1 January 2008. This acceptance was applicable to all entities and subsidiaries consolidated within the Dexia Group, which are established in a Member State of the European Union and are subject to the Capital Requirement Directive, and among them Belfius Bank (formerly Dexia Bank Belgium).

X.2.2.2. Internal Rating Systems

The internal models used by Belfius Bank are set up to evaluate the three Basel parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For the portfolios under the advanced method, a set of two models has been developed, one for PD and one for LGD. Regarding CCF, Belfius makes a distinction between retail and non-retail counterparties: an advanced approach is applied for retail counterparties, while non-retail counterparties use the regulatory values.

The PD models estimate the one-year probability of default on a through-the-cycle basis. Each model has its own rating scale for which probability of default is defined. The correspondence between rating and PD for each scale is set during the calibration process and is reviewed during the yearly maintenance process. The number of ratings on each scale depends on the characteristics of the underlying portfolio (the number of counterparties, their homogeneity, whether it is a low default portfolio or not) and varies between 6 and 17 non-default classes.

The LGD models estimate the ultimate loss incurred in a downturn situation on a defaulting counterparty, including the indirect/direct costs related to the recovery process. For non-retail, the LGD is composed of a secured part which takes into account the effect of

credit mitigants with appropriate haircuts and an unsecured part which depends on various factors such as the product type or the level of subordination. For retail, LGD is based on workout recoveries and is mainly determined by product type and by collateralisation level.

Counterparty ratings and internal estimates of Basel risk parameters are widely used within Belfius Bank beyond the calculation of the regulatory risk weighted exposure amounts, namely the decision-making process, credit risk management and monitoring, internal limit determination, and risk-based pricing.

We refer to Appendix XI.2. for more details regarding Internal Rating Systems, including the organisational structure, governance and the control mechanisms at the different stages of the model lifecycle.

In 2020, Belfius has launched a transformation plan of its IRB model landscape as a response to the latest EBA roadmap for the implementation of the regulatory review of internal models (focusing on the definition of default, PD and LGD estimations and the credit risk mitigation framework), and as a response to TRIM ("Targeted Review of Internal Models") findings.

In that context special attention is given to:

- Enhancing the data quality framework;
- Aligning with the new EBA Definition of Default;
- Reviewing the models to align with the EBA guidelines on PD and LGD estimations, including the simplification of the model structure for certain models, the revision of the downturn period and the implementation of a Margin of Conservatism (MoC) framework;
- Rationalizing the IRB model landscape (see section IV.2.3.1) by reducing the number of internal models.

This transformation plan will provide Belfius with a renewed set of models, as a cornerstone of the credit acceptance, loan life cycle management, credit risk management processes, pricing and reporting, and fully compliant with the latest regulatory requirements.

By the end of 2023, most models have been submitted to ECB for approval and one model has been approved and implemented in the production environment. In 2024, a set of new models are expected to be fully implemented as well.

An overview of the Probability of Default (PD) and the Default Rates (DR) on the Bank's main portfolio under advanced method is available in table CR9.

X.2.2.3. Annual review

The purpose of the annual review is to assess the performance of the internal rating system through the back-test of the risk parameters (PD, LGD and CCF) and to recalibrate these risk parameters, if need be. Note that even if the non-retail CCF parameters are not the result of a dedicated model, they are still subject to a monitoring in order to ensure the used values are appropriate.

In general, the back-test procedure aims at assessing the discriminatory power of the model (ranking of the clients from "good" to "poor" grades), the calibration level (a rating system is well calibrated if the estimated PDs (or LGDs) deviate only marginally from the actual default rates) and the stability of the model's population/risk drivers. It covers both the quantitative and more judgemental aspects of the model.

The outcome of the annual review drives action plans at individual model level, e;g. implementation of the recalibration or more in-depth re-development of the model.

X.2.3. Standardised approaches

X.2.3.1. Scope

Belfius Bank uses the Advanced Internal Rating-Based Approach (AIRB Approach) to calculate its capital requirements for credit risk. Nevertheless, it applies the Standardised Approach for some portfolios corresponding to cases specifically authorised by regulation such as:

- small business units;
- non-material portfolios;
- portfolios corresponding to activities in run-off or to be sold;
- portfolios for which it has adopted a phased roll-out of the AIRB Approach.

In the context of the rationalization of the IRB model landscape, a request to move to less sophisticated approaches has been submitted in 2023 to ECB for approval. This request covers low default portfolios for which historical default and/or loss data is not deemed sufficient to develop a compliant internal model. While the ECB decision is expected in 2024, the RWA impact (increase) has already been taken into account in 2023 for some portfolios (banks and project finance), as per regulation.

X.2.3.2. Nominated External Credit Assessment Institutions (ECAI)

Belfius uses the regulatory defined risk buckets to assess the quality, and linked risk weight, for all exposures calculated according to the Standardised approach. It also uses external ratings from S&P's, Fitch and Moody's to define the risk bucket of exposures.

The EBA standard table is used for mapping these external ratings.

If two external ratings are available, the lower of the two is used. If there are three external ratings with different risk weights attached to them, the risk weight corresponding with the second-best rating is applied. If no rating is available, the risk weight provided by the Standardised approach is used.

X.2.4. Credit risk mitigation techniques

X.2.4.1. Description of the Main Types of Credit Risk Mitigants (CRM)

A Credit Risk Mitigant (CRM) is a technique used to protect or mitigate the credit risk associated with one or more risk exposures. Based on the regulation, CRMs can be classified into two main categories:

Funded CRMs, encompassing

- On balance-sheet netting;
- Netting agreements (covering repo-style transactions or OTC derivatives);
- Collaterals:
- cash, debt securities, equities, gold, ...,
- immovable property collateral,
- receivables,
- leasing,
- other physical collateral (e.g. on floating charge).

Unfunded CRMs, encompassing

- Guarantees;
- Credit derivatives.

Immovable property collateral can be in the form of mortgages or mortgage mandates on physical assets such as homes, commercial property or vessels. In addition, loan agreements may contain a negative pledge clause prohibiting the customer from pledging assets to other lenders.

Guarantees can be given by private individuals, companies, national or regional governing bodies, municipalities, guarantee institutes and banks. As it is the case for the original obligor, the guarantor will be attributed a rating taking into account its debt-servicing capacity and financial wealth to intervene when the former goes into default. The rating of the guarantor is subject to an annual review in order to capture recent and forward-looking evolutions of his financial performance and his financial strength. Legal restrictions to use a guarantee as CRM are taken into account as well.

The main principle for valuing collateral is to determine and make use of the expected realisation value at the time of a possible future default when the Bank might have to realise the collateral. The valuation of collateral used in the credit origination and life-cycle:

- must be done in connection with all new credit applications;
- periodically during the credit life cycle in a risk-based and proportional manner (depending on the type of collateral, remaining level of credit exposure and evolution of the credit quality of the obligor); and
- are part of the basis for credit decisions and the credit review process.

Credit requests for residential or commercial real estate are considered based on the property's market value, external appraisals or internal value estimates as set out in Belfius' internal credit risk guidelines.

Financial collaterals are considered based on their market value with haircuts for market volatility, correlation with obligor and holding period. In order to reduce the risk, margin calls can be added to the loan or the pledge agreement. The use of financial collateral (except for cash in the case of derivatives transactions) is rather limited.

For Corporate and Specialized Lending credit files, in addition to the credit quality assessment and the credit risk mitigation techniques, moral commitments may be added e.g. in the form of financial covenants in order to monitor the evolution of the financial performance of the obligor and to take precautionary actions in case of non-respect. Examples of financial clauses are requirements for Net Debt/EBITDA (leverage) and minimum level of equity (solvency).

X.2.4.2 Policies and Processes

Within Belfius, managing the CRM involves the following tasks:

- analysis of the eligibility of all CRM under the Standardised and Advanced Approaches;
- periodic collateral valuation in mark-to-market;
- description of all CRM characteristics in internal Risk Systems, such as:
- mortgage: rank, amount and maturity;
- financial collateral: valuation frequency and holding period;
- guarantee/credit derivative: identification of the guarantor, analysis of the legally mandatory conditions, check whether the credit derivative covers restructuring clauses;
- security portfolio: description of each security.

All relevant data concerning eligibility criteria, minimum requirements, specific characteristics and valuation are captured in various IT tools and detailed procedures are documented and implemented in the internal management process, both in line with the Basel II standards (Basel III for OTC and SFT).

More specifically, Belfius applies prudent collateral valuation rules integrating adequate haircut layers based on the relevant items influencing the value of the collateral for the Bank. Depending on the nature of the collateral, revaluation procedures based on automated information flows, on indexes or expert analysis are in place.

X.2.4.3 Regulatory Treatment

For derivatives and securities financing transactions netting agreements, Belfius recognises their impact (subject to eligibility conditions) by applying the netting effect of these agreements on the calculation of the Exposure at Default (EAD).

For guarantees and credit derivatives, Belfius recognises the impact by substituting the PD, LGD and risk weight formula of the guarantor to those of the borrower (i.e. the exposure is considered to be directly towards the guarantor) if the risk weight of the guarantor is lower than the risk weight of the borrower.

For financial and physical collateral, Belfius methodology relating to eligible CRM depends on the approach:

- IRB Approach:
- for retail exposures, CRM are incorporated into the calculation of LGD based on internal loss data and calculated by the AIRB Approach models;
- for non-retail exposures, an unsecured LGD is used, CRM (after regulatory haircuts) are taken into account directly through the EAD.

Standardised Approach: eligible CRM (after regulatory haircuts) are directly taken into account in the EAD.

In the Risk report annex, following detailed specifications are provided:

- an overview of the credit mitigation techniques (Table CR3);
- for exposures under the standardised approach, details on the effect of credit risk mitigation techniques and the decomposition in risk weight bands (Tables CR4 and CR5);
- for exposures under the IRB approach, the same information for the significant portfolios (Tables CR6 and CR7-A).

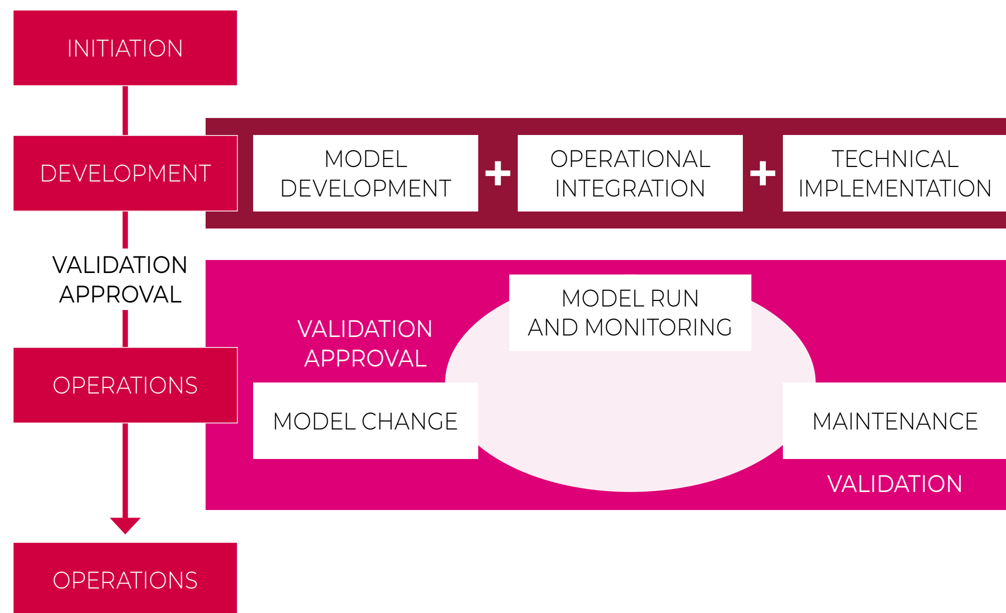
X.3. Risk methodology

X.3.1. Qualitative disclosure information related to IRB approach

In accordance with CRR2 Article 452, Institutions calculating risk-weighted exposure amounts under the IRB approach are required to disclose not only quantitative information on the IRB metrics and their impacts on capital requirements but also qualitative information on the internal rating systems, including the organisational structure and control mechanisms around models' development, calibration and validation, the methods and data for estimating and validating the risk parameters, and the internal use of the internal risk parameters and measurements in the internal risk management and decision-making processes. This section aims to address these qualitative disclosure requirements

X.3.1.1. Internal rating system organisational structure and governance

The internal rating process is organised around the main phases of the model life cycle as shown in the following figure: model initiation, development, operations and decommissioning.



- The team Scoring and Rating Models, part of the Risk Modelling division, bears the overall responsibility for the entire IRB model lifecycle although some activities might be driven by other team (e.g. Data and IT team being in charge of the technical implementation, Analyst team being responsible for the rating override).
- As provided for in point II.4.2.3.4 the validation division of the risk department is set up as a single, independent expert control team responsible for the independent initial validation of the internal models before their implementation and use for the estimation of minimum own funds requirements and other use tests, and after their implementation by performing regular assessment on the compliance of the models and associated processes (including model use) to the relevant regulations. The validation division reports directly to the CRO and is not involved in any model development in order to guarantee its independence. The activities of the validation team are summarised in reports indicating the controls that were performed, their findings, proposed corrective actions and, when required, a validation status. These reports are also used to inform senior management through the Risk Executive Committee about the performance of the rating models and rating processes, areas needing improvement, and the status of efforts to improve previously identified deficiencies in line with Article 189 of Capital Requirements Regulation.
- In line with the corporate governance of Belfius, internal audit acts as third line of defence with regards internal rating systems. In this context, Internal Audit conducts each year a dedicated mission by credit activity segment/type (Retail, Corporate, Public) that aims at assessing the origination and the servicing of the credit activity line including the related models, with the aim to provide the oversight bodies with reasonable assurance with regards to the evolution of the models developed and used, the material changes and the validation process (respect of planning, evolution of major recommendations raised by the Validation team...)
- Model validation is also responsible of some KRI's of the Belfius RAF aiming to monitor the status of the credit and market IRB models validation.

The Internal Rating System's (IRS) decisions are governed through two main committees:

The Credit Model Committee

Composed of the CRO, Modelling, Validation and key IRB model users. It takes the final decisions regarding the IRB models:

- Approve the IRB model changes either for submission for approval by the Board of Director before ECB submission (major changes) or for direct implementation of the model change (minor changes) ;
- Endorsement of the validation reports on the models maintenance (review of estimates and operational audit);
- Endorsement of the corrective action plans recommended by Validation.

The Rating Committee

The key role of the Rating Committee is to monitor the appropriate use of internal rating systems within the Bank as a whole and to ensure that these IRS are effective. For these reasons, the Rating Committee:

- validates overrides, above tolerance threshold, proposed by the risk analysts[(1)];
- monitors the homogeneous application within the Bank of the rating and derogation principles;
- validates operational establishment of the models once they are validated by the Risk Executive Committee .

For the broader view of the different risk committees, we refer to section II.2.3 on Risk governance structure

(1) ECB guide to internal models, October 2019, point 3 – Internal governance, 3.7 – Review of estimates.

X.3.2 Internal rating system main processes

Model development

The development process covers main activities between model initiation and model running in operations:

- the model development where data are collected, the model is designed and calibrated, the model is tested and documented
- the integration into operations clarifying which model output metric(s) will be used for what type of information/decision-making process
- the technical implementation which covers the coding of the model producing the output metrics, and the IT integration of the model into the data operational systems.

While the model development steps are led by tbe Scoring & rating model team, the operational integration is jointly decided between the Scoring & rating model team and the model users; and the technical implementation is run by the Data and IT team suppor-ted by the Scoring & rating model team.

All the steps are independently assessed by Validation before being submitted for approval.

Model Operations

The activities related to model operations cover:

- the recurring activities around the model execution for the models where a judgemental layer is foreseen (e.g. override made by analysts) and around ongoing monitoring, which is performed by a Credit Risk Control Unit.
- the model maintenance covering the annual review of estimates where the model is back-tested and recalibrated, and the in-depth review of estimates where deeper analyses are run to verify model performance and adequacy. This is in accordance with Capital Requirements Regulation Article 179(1)(c) stating that risk estimates should be reviewed when new information comes to light but at least on an annual basis.

The review is structured around the following control components:

Review Component	
ENVIRONMENT STABILITY	Identify whether the in-force model based on historical information is still representative for the current and foreseen evolution of the environment
MODEL PERFORMANCE	Verify that the performance of the model is still sufficient for the expected uses both in terms of risk differentiation and risk quantification
MODEL BEHAVIOUR	Assess whether the model behaviour over time or under various scenarios is aligned with expectations
BENCHMARKING	Compare the model outcome to alternative sources of information, when relevant
MARGIN OF CONSERVATISM	Assess whether the MoC still represents the current view on model uncertainty quantification
MODEL OPERATIONS	Assess whether the risk parameter calculation process is aligned with the developed model

For some controls, multiple tests can be employed (e.g. from visual inspection using boxplots and benchmarking analyses to statistical metrics accepted by industry practice[1] such as AUROC and kendall's tau for assessing the discriminatory powers, Wilcoxon signed rank test for the calibration accuracy, population stability index (PSI) for stability…). The selection of controls and relevant metrics to execute depends on the materiality of the portfolios being reviewed, number of available defaults and loss experiences and the type of review (annual or in-depth).
The review outcome is either to confirm the model appropriateness, to decide to implement the recalibrated values or to re-develop (partially) the model. In the first case, the model goes back to the recurring activities, while In the two last cases, this is considered as a model change.
The Scoring & rating model team takes the responsibility of the model maintenance, which is run at least annually as per CRR and ECB requirements. The validation team also perform an annual review of the IRS, its functioning and compliance with all minimum regulatory requirements.

(1) Dedicated "Overrides Committees" are regularly organized for that purpose.

- the model change encompassing modifications to the data, methodology, calibration or implementation. All proposed changes to internal models are independently validated and the process also ensures that, before actual implementation, the material changes receive appropriate competent authorities approval, while other non-material extensions and changes are notified to the competent authority in line with Commission Delegated Regulation 529/2014 with regard to regulatory technical standards (RTS) for assessing the materiality of extensions and changes of the IRBA.

X.3.3 Definitions, methods and data for Estimating PD, LGD and CCF

Internal Rating Based Approach models

In order to harmonize risk identification and reduce unwanted RWA difference between institutions, EBA has issued guidelines on the default definition, which has led to a material change to Belfius definition of default. This has been implemented in March 2021 within Belfius internal processes and models have been recalibrated accordingly.

Equity and Securitisation Transactions

No internal models have been developed specifically for equity or securitisation transactions which follow a different regulatory approach. Securitisation risk weighting is based on external and not internal ratings (see IV.6.).

Equities do not require the development of specific models (see IV.5.). the equities under the PD/LGD approach are assigned the same parameters as a debt obligation on the same counterparty using the existing internal models.

Main Principles used for estimating the PD

Type of counterparties	Number of models	Portfolios	Model methodology	Time Series Used	Internal/ External Data	IRB asset class
Sovereigns	1	Countries, central banks, embassies, debtors of which liabilities are guaranteed irrevocably and unconditionally by central governments or central banks	Expert scorecard	> 10 years	External	Central government
Banks	1	Credit institutions	Statistical model	> 10 years	External	Institutions
Insurance Companies	1	Insurance companies/Monoliners	Statistical model	> 10 years	External	Corporates
Corporates	1	Large non listed or listed companies with annual sales >= 50 MEUR or belonging to a group with total annual sales >= 50 MEUR	Statistical model	> 10 years	Internal + External	Corporates
Local Public Sector	1	Belgian regional governments/ Belgian local authorities and Belgian Public interest organisations (PIO) assimilated to Belgian central and regional governments	expert based approach or assimilation approach	> 10 years	Internal + External	Central government/ institutions
Specialised Lending	1	Project finance - Energy and infrastructure	Statistical model	6 years	Internal	Corporates
Mid-Corporates	1	non-listed companies with total turnover <50 MEUR and belonging to a group with a consolidated turnover < 50 MEUR and total assets > 5 MEUR	Statistical model	6 years	Internal + External	Corporates
Other Satellites	1	Non Public undertakings sponsored by public authorities	Mixed statisrical & expert based approach	5 years	Internal	Corporates
Public Satellites	1	Belgian Public undertakings sponsored by public authorities		5 years	Internal	Institutions
Retail	4	Individuals, self-employed & Small entreprises	Statistical models	2 years	Internal	Retails

Main Principles used for estimating the LGD

Type of counterparties	Number of models	Main Hypotheses	Time Series Used	Internal/ External Data
Sovereigns	1	Expert score function on the basis of Fitch country loss risk methodology and internal expert knowledge to discriminate between high and low loss risk.	> 10 years	Internal + External
Banks	1	Statistical model derived from LGD corporate model and integrating additional risk factors adapted to banking counterparties (country of residence, business profile, etc).	> 10 years	Internal + External
Insurance Companies	1	Statistical model based on external rating agencies loss data. The LGD depends on counterparty rating, exposure seniority level, geographic region and macro-economic factors.	> 10 years	Internal + External
Corporates	1			
Local Public Sector	1	Statistical model based on the internal existing default cases observed which were related to French municipalities. Final LGD are segmented on the basis of the number of inhabitants and on an economic parameter.	> 10 years	Internal
Specialised Lending	1	This model belongs to the 'Workout LGD' type: the LGD computation was developed according to the workout of the bank during a 10-year period concerning internal Project Finance default facilities. Cash flows are estimated on the basis of the observed historical recovery process, and LGD is computed by means of discounted cash flows.	10 years	Internal
Mid-Corporates	1	The LGD model is a white box model with explanatory variables: number of workout years. The LGD is calculated as the multiplication of the LGD unsecured (LGD when the loans are not collateralised) and of the haircut factor taking into account the collateralisation of the loan.	7 years	Internal
Other Satellites	1	On the basis of internal observation and expert judgement.	5 years	Internal
Public Satellites	1			
Retail	3	LGD determined by product type based on workout recoveries flows. Huge number of counterparts, individual valorization of collateral impossible. Professional loans are segmented in 5 classes based on value of collateral.	7 years	Internal

X.3.4. Business integration of internal estimates

Internal estimates of Basel parameters are used within Belfius Bank, at present covering a large number of applications in addition to the calculation of the regulatory risk-weighted exposure amounts. They are notably used in the following fields:

- decision-making process;
- credit risk management and monitoring;
- internal limit determination;
- provisioning methodology;
- pricing;
- Financial Planning & Stress Testing;
- ...

Decision-Making Process

Basel parameters are key elements considered by the Credit Committee in assessing the opportunity to accept or reject a transaction. Credit guidelines have been updated in order to integrate Basel parameters while assessing credit proposals.

Credit Risk Management and Monitoring

Basel parameters are actively used in periodic credit Risk reporting and also for the individual follow-up of distressed transactions and counterparties within Watch List Committees.

Belfius Bank integrates the Basel parameters to define new internal reporting on the basis of a unique and common reporting credit risk data warehouse and uniform concepts. The counterparty internal ratings, the LGD, the level of EL and the regulatory weighted risks are the key Basel parameters used within the new internal reporting and the credit risk portfolio review.

A central database registers internal ratings and keeps them available for all relevant needs.

Internal Limit Determination

Basel parameters have been integrated for fine-tuning the Belfius Bank credit limit system and determining delegation levels for credit acceptance.

Provisioning Methodology

The implementation of Basel parameters has made it possible to develop more synergies between accounting and prudential issues (IFRS/Basel), while relying on the processes, data and tools developed for the regulatory risk estimates.

The Basel notion of default and the accounting notion of impairment have converged in relation to Stage 3 impairments.

As a consequence, only defaulted assets identified as such in the Basel compliant risk management systems are identified as impaired assets for both accounting and risk management purposes.

Pricing

To support the credit decision process, a RoNRE (Return on Normative Regulatory Equity) based on Normative Regulatory Equity is calculated, to measure the expected profitability of the credit transaction and/or even the full credit relationship with the customer. Not only the expected income in the form of interest margins is taken into account, however also, inter alia, the operational costs and losses which might be statistically expected on loans are also considered. As a consequence, the Basel parameters are therefore integrated in the pricing.

Financial Plan & Stress Testing

The Internal rating model outputs are used by the strategic risk department teams to feed the Financial planning and its stress test version. They are of upmost relevance when assessing also forward-looking view regarding external economic event to account for as it was the case for the Covid-19 outburst or for the energy crisis during which PD's and LGD's were heavily challenged and used to forecast potential evolutions.

X.3.5. IFRS 9 impairment methodology

The definitions of 'past-due' and 'impaired' exposures used in the risk perspective are similar to the definitions used for accounting purposes. For more information on those definitions, we refer to the section accounting policies and the disclosure 9.2 credit risk exposure.

The methods and approaches used for determination of Expected Credit Losses is briefly described in the section accounting policies of the consolidated financial statements. For an extensive description, we refer to the Risk Report of 2019.

X.4. Additional disclosures on the liability side

X.4.1. Belfius Bank originations

Belfius currently has two traditional securitisation vehicles: DSFB and Mercurius Funding. The total assets of these companies amount to EUR 537 million at 31 December 2023 compared to EUR 613 million at 31 December 2022.

According to the definition of control under IFRS 10, DSFB and Mercurius Funding are included in the consolidated financial statements. Belfius has:

- full power over its securitisation vehicles;
- exposure to their variable returns; and
- the ability to use its power to affect the amount of the returns.

DSFB is a Belgian securitisation vehicle of which one compartment is active namely DSFB-2.

DSFB-2 is a securitisation transaction of loans granted to Belgian entities (public and other). All the loans are 100% guaranteed by a Belgian regional government. Under this transaction a single tranche of floating rate notes, fully guaranteed by Belfius Bank, was issued 25 April 2008. On 31 December 2023, EUR 537 million were still outstanding. The DSFB-2 Notes are held by Belfius Bank.

Mercurius Funding is a Belgian securitisation vehicle with the purpose of securitising SME loans. Over the course of 2023, there was no transaction outstanding under Mercurius Funding.

XI.4.2. Belfius mortgage pandbrieven programme

Belfius Mortgage Pandbrieven Programme

Total Amount Outstanding (in EUR)	13,287,000,000
Current Weighted Average Fixed Coupon	2.01%
Weighted Average Remaining Average Life	6.84

a/ Residential Mortgage Loans	
Outstanding balance of residential mortgage loans	16,256,400,787
Number of borrowers	158,129
Number of loans	263,361
Average outstanding balance per borrower	102,805
Average outstanding balance per loan	61,727
Weighted average original loan to initial value	77.10%
Weighted average current loan to current value	43.15%
Weighted average seasoning (in months)	71.02
Weighted average remaining maturity (in years, at 0% CPR)	13.42
Weighted average initial maturity (in years, at 0% CPR)	19.40
Remaining average life (in years, at 0% CPR)	7.15
Remaining average life (in years, at 2% CPR)	6.49
Remaining average life (in years, at 5% CPR)	5.59
Remaining average life (in years, at 10% CPR)	4.45
Remaining average life to interest reset (in years, at 0% CPR)	6.49
Percentage of fixed-rate loans	88.29%
Percentage of resettable-rate loans	11.71%
Weighted average interest rate	2.06%
Weighted average interest rate fixed rate loans	2.04%
Weighted average interest rate resettable-rate loans	2.26%

b/ Registered Cash	
Registered cash proceeds under the residential mortgage loans	293,337,406

c/ Liquid Bond Positions	
Mark-to-Market Value	308,427,764
Accounting Value	348,442,651

XI.4.3. Belfius public pandbrieven programme

Belfius Mortgage Pandbrieven Programme

Total Amount Outstanding (in EUR)	1,711,000,000
Current Weighted Average Fixed Coupon	1.25%
Weighted Average Remaining Average Life	6.99

a/ Residential Mortgage Loans	
Outstanding Balance of Public Sector Assets	2,318,488,411
Number of borrowers	706
Number of loans	20,481
Average Outstanding Balance per borrower	3,283,978
Average Outstanding Balance per loan	113,202
Weighted average seasoning (in months)	106.19
Weighted average remaining maturity (in years, at 0% CPR)	12.71
Weighted average initial maturity (in years, at 0% CPR)	21.60
Remaining average life (in years, at 0% CPR)	6.94
Remaining average life (in years, at 1% CPR)	6.63
Remaining average life (in years, at 3% CPR)	5.97
Remaining average life (in years, at 5% CPR)	5.41
Remaining average life to interest reset (in years, at 0% CPR)	6.15
Percentage of Fixed Rate Loans	84.38%
Percentage of Resettable Rate Loans	15.62%
Weighted average interest rate	2.69%
Weighted average interest rate Fixed Rate Loans	2.82%
Weighted average interest rate Resettable Rate Loans	1.99%

b/ Registered Cash	
Registered cash proceeds under the Public Sector Exposures	37,391,268

c/ Liquid Bond Positions	
Mark-to-Market Value	16,163,056
Accounting Value	17,994,168

X.5. Additional information on risk governance structure

X.5.1 Risk Committees on tactical / operational level

The sub-committees for **Non-Financial Risk Management** are:

- the **Information Security Steering (ISS)** ensures a well governed and coordinated information security strategy;
- the **Anti-Fraud Steering Committee** is a platform for the internal control functions (Risk/Compliance/Internal Audit) and a forum to reflect and organize a dialogue between the internal control functions and all the stakeholders (mainly operating in the decentralised expert units) regarding fraud risk management;
- the **Privacy Steering Committee** ensures a well governed and coordinated privacy strategy in line with regulatory requirements regarding privacy and personal data protection;
- the **(Physical) Security Steering Committee** oversees the (physical) security risk management in order to prevent and provide appropriate protection for all organizational assets of Belfius, with focus on people, from crime incidents and damaging natural elements such as fire;
- the **NPAP Committee** oversees the “New Product Approval Process” (NPAP) management, implementation and execution in order to ensure appropriate risk analysis to any new or changed function. In particular, the committee delivers a final opinion based on the advices of risk experts;
- the **Outsourcing Management Committee** defines and monitors Outsourcing Management. It is organised by Strategic Planning and Performance Management

The sub-committees for **Credit Risk Management** are

- the **Risk & Portfolio Management Committee Individuals** is a platform for structural consultation and dialogue, in order to increase the involvement of all stakeholders in the strategy and the functioning of risk management regarding individuals;
- the **Risk Portfolio Management Committee Enterprises, Entrepreneurs & Public (E&E&P)** is a platform for structural consultation and dialogue, in order to increase the involvement of all stakeholders in the strategy and the functioning of risk management regarding E&E&P;
- the **CDC (Comité de Crédit Central)**: the main Credit Committee, the CDC Central (specific delegations have been given to various lower credit committees): approves new credit transactions PC and RC and annual reviews of existing credit files (based on updated financial statements, i.e. without any adjustment of the current risk), that do not exceed its delegation limits and/or that do not lead to an exceeding of the prevailing credit limits; advises on new deals or limits that must be presented to the Management Board;
- the **FM Credit Limits Committee (FM CLC)** is described above under the Financial Market Risk Committees;
- the **CDC International Trade Finance** makes decisions with regard to transactions managed by the International Trade Finance department of Distribution ITF;
- the **Rating Committee**: the main purpose of the Rating Committee is to supervise the correct and coherent application of the various Internal Rating Systems within Belfius Bank and its subsidiaries, together with an assessment of their performance;
- the **CDC Leasing** and the **CDC Belfius Auto Lease** handle new credit applications, extension of lines with a specific duration as well as the periodic review of files;
- the **CDC Commercial Finance** handles new credit applications, extension of lines with a specific duration as well as the periodic review of files;
- the **Regional Risk Committee PBR Business Banking** monitors the regional loan portfolio, with a special focus on the counterparties whose credit profile is weakened (watch list). It is organised by region (NO, NW, SE, SO and Centrum & Branches);
- the **Regional Risk Committee WEP** monitors the regional loan portfolio, with a special focus on the counterparties whose credit profile is weakened (watch list). It is organised by region (NO, NW, SE, SO and Centrum);
- the **Default Committee (DC)**: the objective of the DC is to decide on and follow up the default status of counterparties, i.e. being a necessary condition for an impairment to be recognised;
- the **Impairment Committees**: the need of Belfius to oversee and govern IFRS 9 impairments resulted in a committee structure, consisting of one Expert Panel and three dedicated Impairment Committees (Stage 1, Stage 2 & Stage 3);

The sub-committees for **Financial Market Risk Management** are:

- **FM Risk and Results (FM RR)** reviewing business, risks, P/L reports and providing for an appropriate risk management and governance framework;
- **FM Fair Value (FM FV)**, in its capacity of Fair Value assessor, acts as a body in charge of "Fair Value Validation";
- **FM Benchmark**: follow-up of obligations of the Bank as panel bank for the contribution of Euribor and €STR;
- **Operational Committee (FM OC)** makes the follow up of operational issues;
- **FM Credit Limits (FM CLC)** approves credit limits requests related to all FM activities, Belins and WEP Trade Finance and monitors the associated credit risk for all the counterparties in scope;
- **Portfolio Investment Committee (PIC)** acts as the central supervisory and decision body on all matters regarding the management of legacy portfolios (ALM Yield portfolio and Credit Derivatives portfolio). The PIC also receives delegation from the ALCo for the follow-up of the ALM Liquidity portfolio;
- **Steering Risk Covered Bonds (SRCB)**: common Risk forum in order to communicate and to discuss regarding the Covered Bonds programs, reporting to the ALCO

X.6. Glossary

ABS *Asset-Backed Securities*
Securities issued by a vehicle created for the purpose of buying assets from a bank, a company or a state, like trade receivables or inventories, and to provide the seller with cash and the buyer with a financial product that is characterised by a certain risk profile and a rate of return.

AIRB *Advanced Internal Rating-Based Approach*
Institutions using the AIRB approach are allowed to determine borrowers' probabilities of default and to rely on own estimates of loss given default and exposure at default on an exposure-based on an internal model approved by the supervisor. These risk measures are converted into risk weights and regulatory capital requirements by means of risk weight formulas specified by the Basel Committee.

ALM *Asset and Liability Management*
Managing of the net risk position between assets and liabilities, particularly with respect to imbalances generated by the evolutions of interest rates, currencies and inflation, but also maturity mismatch, liquidity mismatch, market risk and credit risk.

BRRD *Bank Recovery and Resolution Directive*
The Bank Recovery and Resolution Directive (BRRD) provides the authorities with comprehensive and effective arrangements to deal with failing banks at national level and with cooperation arrangements to tackle cross-border banking failures. The directive requires banks to prepare recovery plans to overcome financial distress. It also grants national authorities powers to ensure an orderly resolution of failing banks with minimal costs for taxpayers. The directive includes rules to set up a national resolution fund that must be established by each EU country.

CBFA *Commission bancaire, financière et des assurances*
The Belgian Banking, Finance and Insurance Commission is the former Belgian Financial Institutions regulator, since April 2011 succeeded by the FSMA.

CCF *Credit Conversion Factor*
The ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment will be determined by the advised limit, unless the unadvised limit is higher.

CDS *Credit Default Swap*
Swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a pay-off if a credit instrument (typically a bond or loan) undergoes a defined "Credit Event", often described as a default (fails to pay).

CRD *Capital Requirements Directive*
The Capital Requirements Directive (CRD) for the financial services industry introduces a supervisory framework in the EU which reflects the Basel II and Basel III rules on capital measurement and capital standards.

CRM *Credit Risk Mitigant*
Range of techniques whereby a bank can, partially, protect itself against counterparty default (for example by taking guarantees or collateral, or buying a hedging instrument).

CRR *Capital Requirements Regulation*
The CRD is the legal framework for the supervision of credit institutions, investment firms and their parent companies in all Member States of the European Union and the EEA. The CRR came into force on 27 June 2013, while the supervised entities within its scope are subject to it as of 1 January 2014.
The CRR-Regulation is directly applicable to anyone in the European Union and is not transposed into national law. Much of the CRR is derived from the Basel III standards issued by the Basel Committee on Banking Supervision (BCBS). It includes most of the technical provisions governing the prudential supervision of institutions.

CSA *Credit Support Annex*
A credit support annex provides credit protection by setting forth the rules governing the mutual posting of collateral.

CVA *Credit value adjustment*
Market CVA is the difference between the risk-free portfolio value and the true value portfolio value that takes into consideration the possibility of a counterparty's default.
In addition to default risk capital requirements for counterparty credit risk, Basel III introduced an additional capital charge to cover the risk of mark-to-market losses.

DR *Default Rate*
The rate of borrowers who fail to remain current on their loans.

DVP *Delivery Versus Payment*
A settlement practice stipulating that cash payment must be made prior to or simultaneously with the delivery of the security.

EAD *Exposure At Default*
Estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in case the borrower defaults.

EAD *post CRM*
Refers to the amount relevant for the capital requirements calculation having applied CRM techniques; including financial collateral

EBA *European Banking Authority*
The European Banking Authority (EBA) is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.
The main task of the EBA is to contribute to the creation of the European Single Rulebook in banking whose objective is to provide a single set of harmonised prudential rules for financial institutions throughout the EU. The Authority also plays an important role in promoting convergence of supervisory practices and is mandated to assess risks and vulnerabilities in the EU banking sector.

ECAI *External Credit Assessment Institutions*
Under the Basel II agreement of the Basel Committee on Banking Supervision, banking regulators can allow banks to use credit ratings from certain approved Credit Rating Agencies when calculating the risk weight of an exposure. Competent authorities will recognise an ECAI as eligible only if they are satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency.

ECB *European Central Bank*
The ECB is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power and thus price stability in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999.

EL *Expected Loss*
The amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one-year period.

EOPIA *European Insurance & Occupational Pensions Authority*
European Union financial regulatory institution aiming at promoting a sound regulatory framework and consistent supervisory practices in order to protect the rights of policyholders, pension scheme members and beneficiaries and contribute to the public confidence in the European Union's insurance and occupational pensions sectors.

FEAD *Full Exposure At Default*
FEAD is the total exposure at default (EAD), including the total amount of a free credit line and other off-balance-sheet transactions (with the exception of derivatives), before application of credit conversion factors (CCF). EAD is hence seen in this report as an estimation of the maximum extent to which a bank may be exposed to a counterparty in the event of, and at the time of, that counterparty's default.

FRTB *Fundamental Review of the Trading Book*
FRTB is the commonly used denomination of the revised market risk framework. The final version was published by the Basel Committee of Banking Supervision (BCBS) on 14 January 2016. According to BCBS, national supervisors are expected to issue final regulations by January 2019, with banks required to report under the new standards by year-end 2023.

FSMA *Financial Services and Markets Authority*
The FSMA is the successor to the former Banking, Financial and Insurance Commission (CBFA), which on 1 April 2011 changed its name as a consequence of the changes in its mandate, in particular its exclusive competence for the supervision of rules of conduct. The FSMA is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the "social supervision" of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.

G-SIB *Globally Systemically Important Banks*
G-SIBs are defined as institutions whose failure would have a significant impact on the financial system or the real economy. The Financial Stability Board in consultation with the Basel Committee on Banking Supervision and national authorities reviews each year the list of G-SIBs based on a common methodology that takes into consideration a.o. the size, complexity and interconnectedness of those institutions. G-SIBs are subject to higher capital buffer requirements, Total Loss-
Absorbing Capacity (TLAC) requirements and higher supervisory expectations in terms of risk management and governance, risk data aggregation capabilities and resolvability.

HVar *Historical VaR*
HVaR corresponds to the VaR measurement based on the historical market conditions for the Bank, putting them in order from worst to best. It then assumes that history will repeat itself, from a risk perspective.

ICAAP *Internal Capital Adequacy Assessment Process*
The ICAAP file describes how a bank monitors and assesses the adequacy of its minimum capital level regarding the risk it is taking. The file is accompanied by a series of appendices that describe in details the various Ecap models and stress tests methodologies, the complete Risk Appetite policy, Ecap and stress tests policies, Risk Cartography (RICAP) procedure and the Recovery and Resolution Plan (RRP).

ISDA *International Swap and Derivative Association*
Trade organisation of participants in the market for over-the-counter derivatives. Its headquarters are in New York, and it has created a standardised contract (the ISDA Master Agreement) to enter into derivatives transactions.

LCR *Liquidity Coverage Ratio*
The Liquidity Coverage Ratio forces financial institutions to maintain a sufficient stock of quality liquid assets to withstand a crisis that puts their cash flows under pressure. The assets to hold must be equal to or higher than their net cash outflow over a 30-day period under stress (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III.

LGD *Loss Given Default*
The ratio of the loss on an exposure due to the default of a counterparty to the amount out-standing at default.

LTV *Loan To Value*
Ratio between the amount borrowed and the appraised value of a property, used in mortgage underwriting to assess the lending risk.

LRE *Leverage Ratio Exposure measurement*
The IFRS balance sheet after netting of derivatives & cash collateral and including the off balance sheet commitments. The leverage ratio is the% of LRE which is covered by the Tier 1 capital.

MBS *Mortgage-Backed Securities*
Asset-backed securities or debt obligations representing a claim on the cash flows from mortgage loans.

MDA *Maximum Distributable Amount*
The MDA is an amount calculated by the banks in line with article 141 of the CRR. In case banks fall under the MDA, dividend payment, AT1 coupon and variable remuneration will be restricted.

NBB *National Bank of Belgium*
The National Bank of Belgium is the current Belgian Financial Institutions regulator. The NBB is in charge of prudential supervision of the less significant institutions and of the insurance sector. However, some tasks are performed in close cooperation with ECB under the Single Supervision Mechanism.

NBB LAC DT *Circular NBB Loss Absorbing Capacity of Deferred Taxes Circular*
In Solvency II, the computation of the regulatory capital requirement is based on the loss of economic own funds in case an adverse event would happen . In such an event, the amount of expected taxes to be paid would also be reduced. The LAC DT mechanism enables insurers to reduce the capital requirement by the expected tax decrease.

Netting amount
Is the reduction in exposure due to the use of legally enforceable netting agreements, including the effect on potential future exposure in accordance with Article 298 of the CRR.

NSFR *Net Stable Funding Ratio*
NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance-sheet (OBS) exposures.

ORSA *Own Risk and Solvency Assessment*
ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios.

O-SII *Other Systematically Important Institutions*
O-SII is the term used in the EU legislation to designate domestically important banks. National authorities (NBB for Belgium) reviews each year the list of O-SIIs in accordance with the methodology specified by the EBA. Belgian O-SIIs are subject to a capital surcharge.

OTC *Over-The-Counter*
Over-the-counter (OTC) or off-exchange trading is carried out directly between two parties, negotiating bilaterally and privately without any supervision of an exchange.

PD *Probability of Default*
The probability of default of a counterparty over a one-year period.

PFE *Potential future exposure*
Potential future exposure (PFE) is the product of the notional amounts or underlying values as applicable by specific percentages set out in Article 274 of the CRR (Gross Add-on).

RAROC *Risk Adjusted Return On Capital*
Risk-based profitability measurement framework for analysing risk-adjusted financial performance and providing a consistent view of profitability across businesses.

RC *Replacement cost*
The Replacement cost (RC) is the current exposure value, meaning the larger of zero and the fair value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in insolvency or liquidation.

RMBS *Residential Mortgage-Backed Securities*
RMBS are securities for which the primary source of payments is a mortgage loan or a pool of mortgage loans secured mostly on residential real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

REA *Risk Exposure Amount & RWA Risk-weighted assets*
Risk exposure amount (REA) is the total risk exposure calculated as the sum of risk-weighted exposures for credit risk, market risk, counterparty risk and operational risk. The term Risk Weighted Assets (RWA) is still commonly used and refers to the same as well as Total Risk Exposure amount which is the term used by the SRB when referring to MREL.

SARIC/RCSA *Self-Assessment of Risks and Internal Controls/Risks and Controls Self-Assessment*
Process through which the likelihood and potential impact of operational risks and the effectiveness of controls used to circumnavigate them are assessed and examined.

SFT *Securities Financing Transactions*
SFTs are transactions where securities are used to borrow cash (or other higher investment-grade securities), or vice versa – this includes repurchase transactions, securities lending and sell/buy-back transactions.

SPV *Special Purpose Vehicle*
Separate legal entity created specially to handle a venture on behalf of a company. In many cases, the SPV belongs from a legal standpoint to banks or to investors rather than to the company. The IASB has however stipulated that the company should consolidate the SPV if it enjoys the majority of the benefits or if it incurs the residual risks arising from the SPV even if it does not own a single share of the SPV.

SRB *Single Resolution Board*
The SRB has been operational as an independent EU Agency since 1 January 2015. The SRM started its work on developing resolution plans for banks from January 2015 and became fully operational, with a complete set of resolution powers, on 1 January 2016. The SRB is the resolution authority for banks which are considered significant or in relation to which the ECB has decided to exercise directly all of the relevant supervisory powers, and other cross-border groups, where both the parent and at least one subsidiary bank are established in two different participating Member States of the Banking Union.

SREP *Supervisory Review and Evaluation Process*
The key purpose of SREP is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks the institution may pose to the financial system.

SRM *Single Resolution Mechanism*
The Single Resolution Mechanism entered into force on 19 August 2014 and is directly responsible for the resolution of the entities and groups directly supervised by the European Central Bank as well as other cross-border groups.

SSM *Single Supervision Mechanism*
The SSM operates as a system of common bank supervision in the EU that involves national supervisors and the European Central Bank. From 4 November 2014, banks deemed "significant" are supervised directly by the ECB. Smaller banks, called less significant, continue to be directly monitored by their national authorities, though the ECB has the authority to take over direct supervision of any bank.

SVar *Stressed VaR*
SVaR corresponds to the VaR measurement based on the worse historical market conditions (stressed period) for the bank.

TLOF *Total Liabilities & Own Funds*
The IFRS balance sheet after netting of derivatives & cash collateral. The amount is used to
- compute the MREL requirement in Bank Recovery & Resolution Directive 1
- compute the MREL subordination requirement in Bank Recovery & Resolution Directive 2 and
- determine the level from which a bank may have access to the Single Resolution Fund.

TLTRO(-III) *Targeted Longer Term Refinancing Operations*
One of the ECB's unconventional monetary policy instruments. They provide long-term loans to banks and thereby encourage them to increase their lending activity for the benefit of businesses and consumers in the euro area.

TRIM *Targeted Review of Internal Models*
Large scale project conducted by the ECB over 2016-2020 aiming at reducing inconsistencies and unwarranted variability when banks use internal models to calculate the risk weighted assets.

UCITS *Undertakings for Collective Investment in Transferable Securities*
Set of European Union directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorisation from one member state. In practice many EU member nations have imposed additional regulatory requirements that have impeded free operation with the effect of protecting local asset managers.

VaR *Value at Risk*
VaR represents an investor's maximum potential loss on the value of an asset or a portfolio of financial assets and liabilities, based on the investment timeframe and a confidence interval. This potential loss is calculated on the basis of historical data or deduced from normal statistical laws.

List of ESG-related acronyms

BACA: Belgian Alliance for climate Action
CPRS: Climate Policy Relevant Sectors
ESG: environmental, social and governance
EPC: energy performance certificate
GHG: greenhouse gas
NGFS: Network for Greening the Financial System
PACTA: Paris Agreement Capital Transition Assessment
PCAF: Partnership for Carbon Accounting Financials
SBTi: Science-based targets initiative
SFDR: Sustainable Finance Disclosure Regulation
TAP: Transition Acceleration Policy
TCFD: Taskforce on Climate-related Financial Disclosures
UNEP FI: United Nations Environment Programme Finance Initiative