# Belfius clearly succeeds in the "comprehensive assessment (CA)" of the ECB

Information based on non-audited figures

Brussels, October 26th, 2014

# Solvency of Belfius confirmed

## Key messages

- The European Central Bank (ECB) performed over the last year a comprehensive assessment on the most significant European Banks. The comprehensive assessment takes as starting point December 31st, 2013 and **consists of an in-depth assessment of the accounts (asset quality review (AQR)) and a stress test**.

- Belfius clearly succeeds in both components:
  - The asset quality review confirms the accuracy of the accounts and leads to a **Basel III phased-in CET 1 capital ratio of 13.50 % on 01/01/2014 after the application of the AQR**.
  - Belfius posts a **Basel III phased-in CET 1 capital ratio** of **7.30 %** in 2016 after applying a severe stress test scenario.

    This is **well above the minimum required threshold of 5.5 %.**
  - **The corresponding capital buffer after stress test amounts as such to 1.13 billion EUR**.

- On top of that, Belfius created 328 million EUR of additional capital buffer resulting from operational results as well as continued derisking during 1H2014 which would lead to a **total capital buffer after stress test of 1.46 billion EUR**.

- This result proves once again that Belfius' future is built on solid grounds and hence enables Belfius to pursue its strategy focused on customer satisfaction.

- Belfius wishes to explicitly thank its customers, employees and agents which worked hard last year in order to succeed in the comprehensive assessment.



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# What is the purpose of the Comprehensive Assessment ?

The purpose of the comprehensive assessment:

1. **Transparence:**
   Improving available financial information of the banks;

2. **Recovery:**
   Assess and carry out necessary corrective measures where applicable;

3. **Increase confidence:**
   Ensure to all stakeholders that banks are fundamentally in good shape and trustworthy



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# What are the components of the Comprehensive Assessment ?

## The **Comprehensive Assessment:**

- **Assesses solvency of a bank:**
  this is the ratio between equity and risk weighted assets

AND

- **Contains 2 components:**
  1. **Asset Quality Review:**
     The accuracy and the transparency of the accounts on December 31st 2013 were assessed based on a thorough due diligence.

  2. **Stress Test:**
     The ECB applied some adverse scenarios spread over 3 years ( a.o. negative economic growth, drop in real estate prices…). This was done both on balance sheet as well as on Profilt & Loss account. The remaining solvency in 2016 is then compared to the minimum required threshold of 5.5%.



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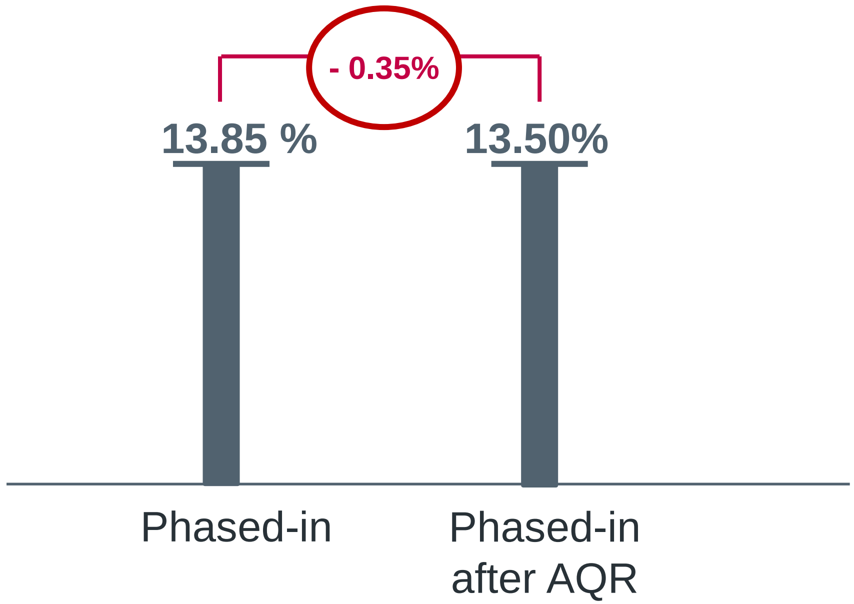
# Belfius clearly succeeds in the CA

## 1. Asset Quality Review

**Basel III CET 1 ratio 01 01 2014**




- The ECB performed a thorough due diligence on the accounts, whereby a.o. > 50 % of risk weighted assets were deeply analyzed.
- The as such identified prudential changes are minimal (0.35 %) and are mainly explained by limited adjustments of valuation models of financial instruments.
- The prudential adjustments for credit risk are only 15 million EUR on a total portfolio of well over 100 billion EUR.
- This clearly demonstrates that Belfius' accounts are accurate and transparent and provide as such confidence for its future.



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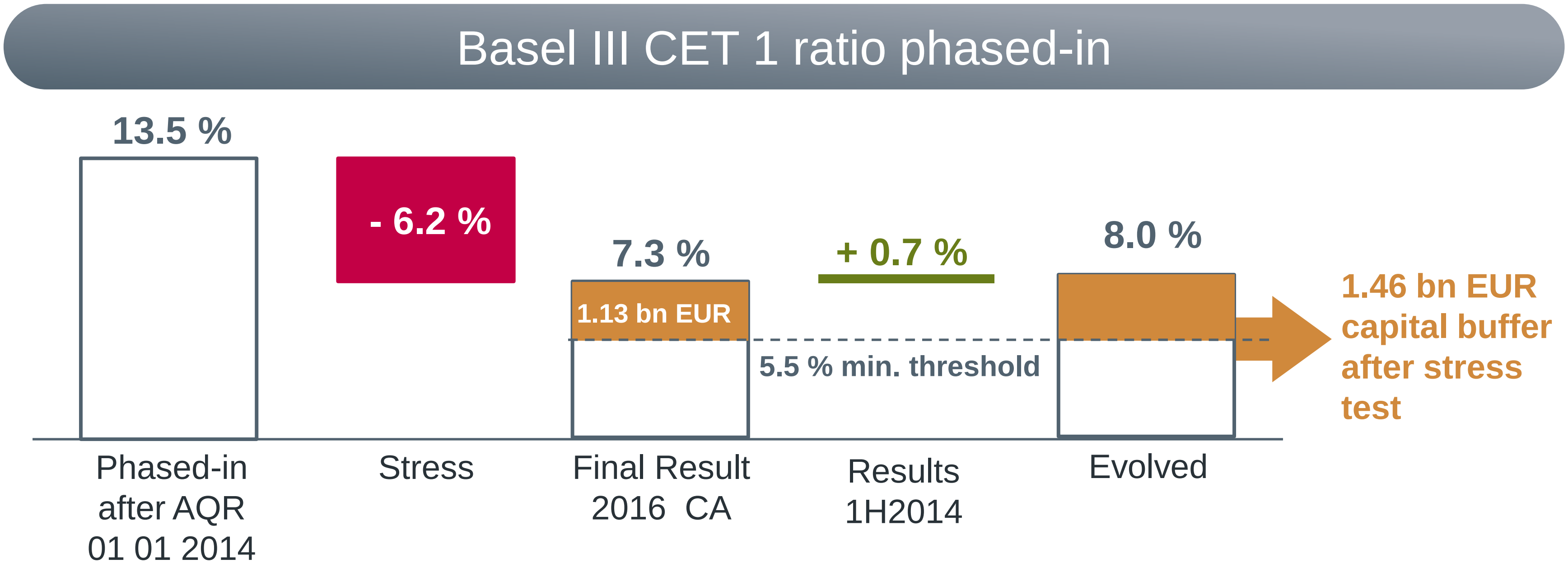
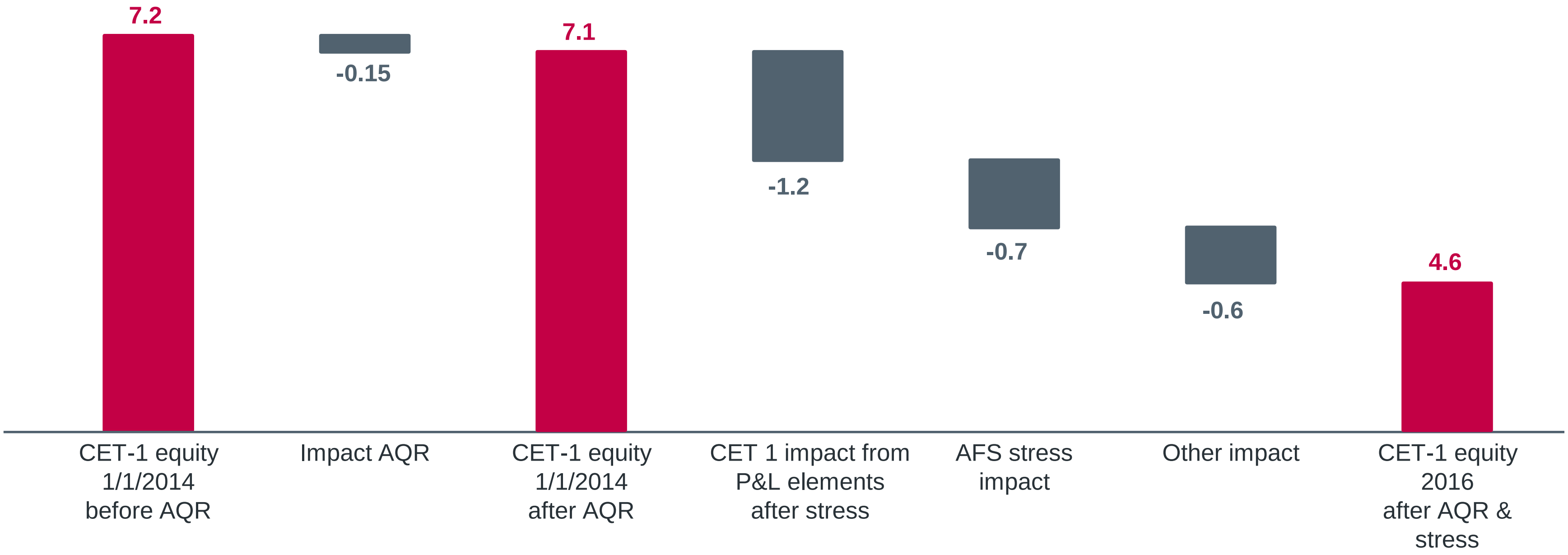
## 2. Stress Test




- After applying the most adverse stress scenario, Belfius' Basel III phased-in CET 1 solvency ratio still stands at 7.3 %.
- Belfius hence clearly succeeds in the Comprehensive Assessment and posts a surplus of 1.8 % which corresponds with **a capital buffer after stress test of 1.13 billion EUR**.
- An additional capital buffer of 328 million EUR was created during 1H2014 through the combination of further continued tactical derisking and underlying operational results
- Starting from 1H2014 would hence lead to a Basel III phased-in CET 1 ratio in 2016 of 8.0 % within the stress test framework.
  **This would result in a total capital buffer after stress test of 1.46 billion EUR.**
- Even under the future Fully Loaded prudential framework, Belfius remains significantly above the 5.5 % threshold with a Basel III CET1 ratio 2016 after stress test of 6.5 %.

# Belfius clearly succeeds for CA

## Evolution CET-1 capital in adverse stress scenario




- **Decrease of CET-1 capital explained by:**
  - **0.15 bn EUR AQR impact**
  - **1.2 bn EUR impact P&L mainly due to**
    - higher funding cost
    - lower trading income *(2011-2013 trading losses repeated in stress, default on largest counterpart, CVA and market effects)*
    - higher impairments on loans and bonds
  - **0.7 bn EUR impact AFS mainly due to**
    - spread impact on AFS-reserve
    - phasing-in of AFS reserve deduction
  - **0.6 bn EUR other impact**
    - Deduction & phase in of tax losses carried forward and of participation in Belfius Insurance



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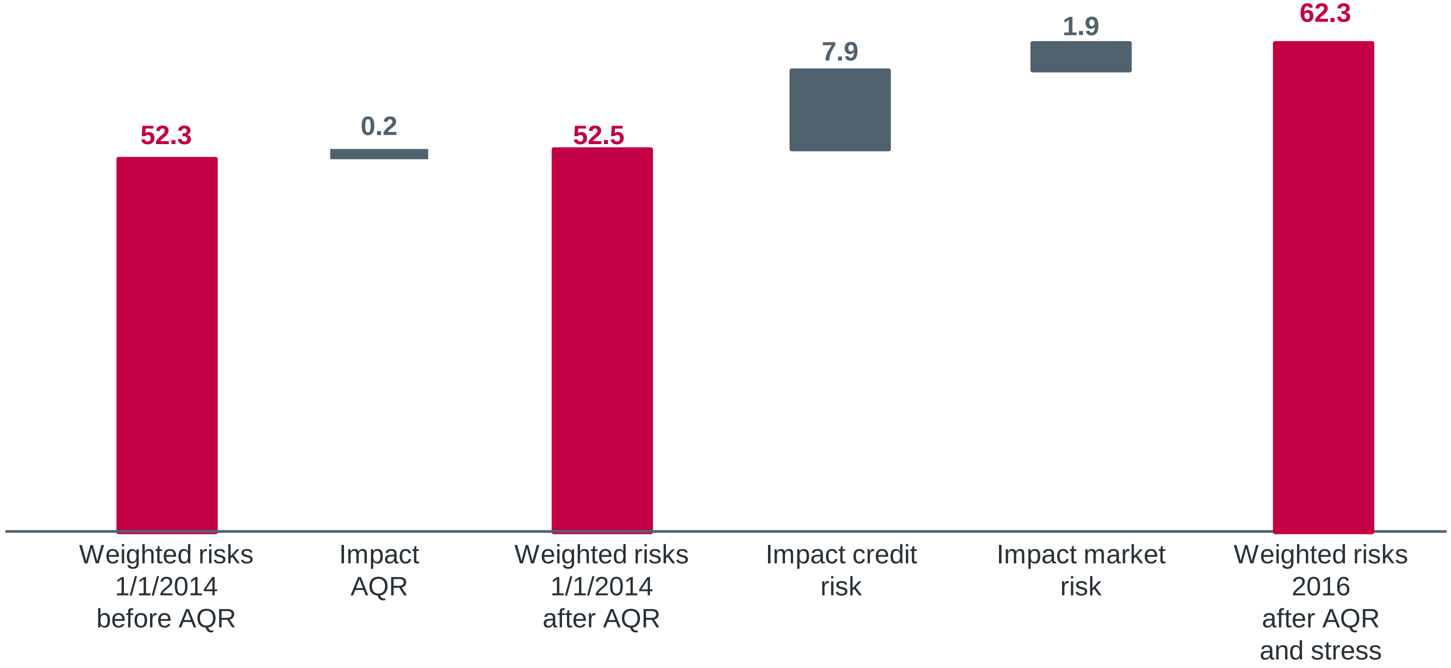
## Evolution weighted risks in adverse stress scenario




- **Increase of weighted risks explained by:**
  - 0.2 bn EUR impact AQR
  - 7.9 bn EUR impact credit risk
  - 1.9 bn EUR impact market risk



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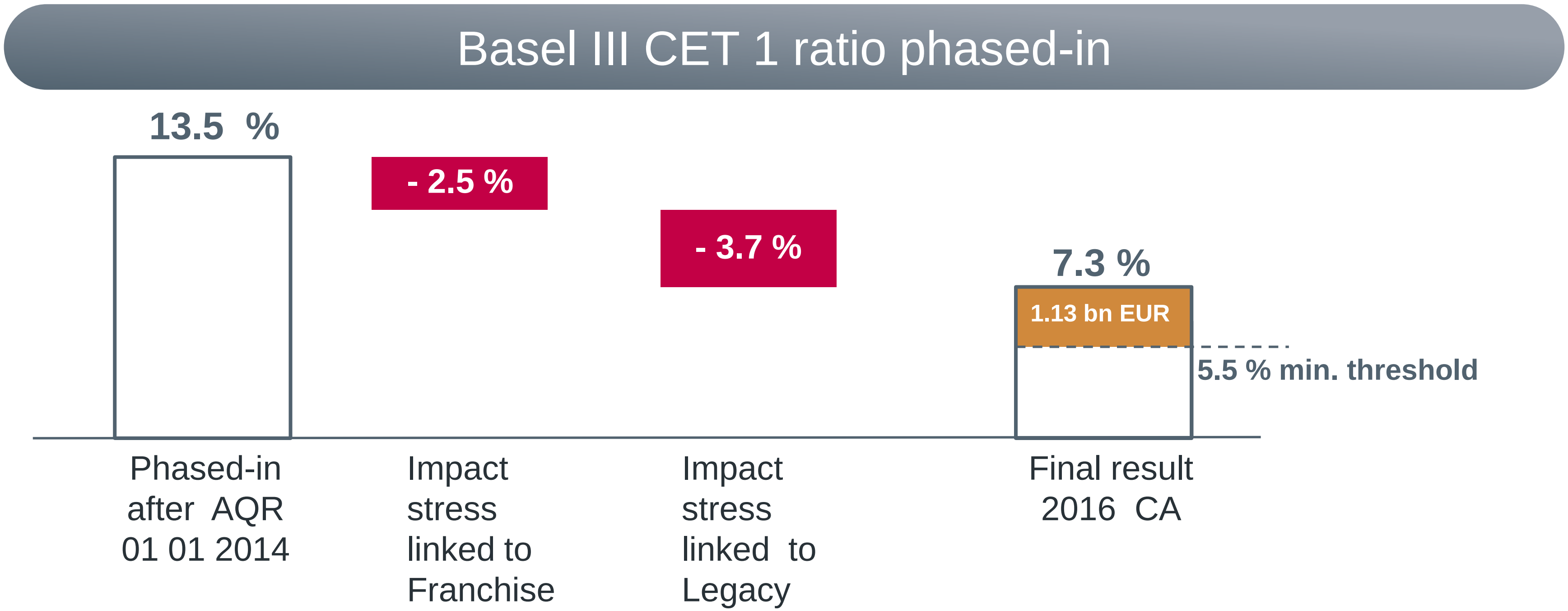
## Impact of the Legacy *

The commercial franchise of Belfius clearly resists to the ECB severe stress scenarios. The largest impact of the stress test stems from the Legacy portfolios. This underpins once again the pertinence of the derisking strategy which has been pursued so far.




** Own estimates based on analytical reporting of Belfius*



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## Impact of the Legacy *

**Impact Franchise 2.5 %**

- **The impact is mainly explained by:**
  - A higher funding cost for the bank.
  - An increase of credit defaults caused by an adverse economic scenario.

**Impact Legacy 3.7 %**

- **The impact is mainly explained by:**
  - The negative impact of the AFS reserve which is directly deducted from equity.
  - Impairments on bond portfolio & credit guarantees.

** Own estimates based on analytical reporting of Belfius*

# Confirmation of pertinence of Belfius' strategy

**Result of Comprehensive Assessment clearly confirms the pertinence of Belfius' strategy:**

- Focus on **strengthening** its commercial **franchise:**
  - Improvement of operational results through focus on customer satisfaction and strict cost discipline.
- Focus on **derisking** of the **Legacy:**
  - Decrease of risk weighted assets in the Legacy portfolios



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