EU-wide EBA 2018 Stress Test

Belfius strong solvency position confirmed

Brussels, November 2, 2018

Context

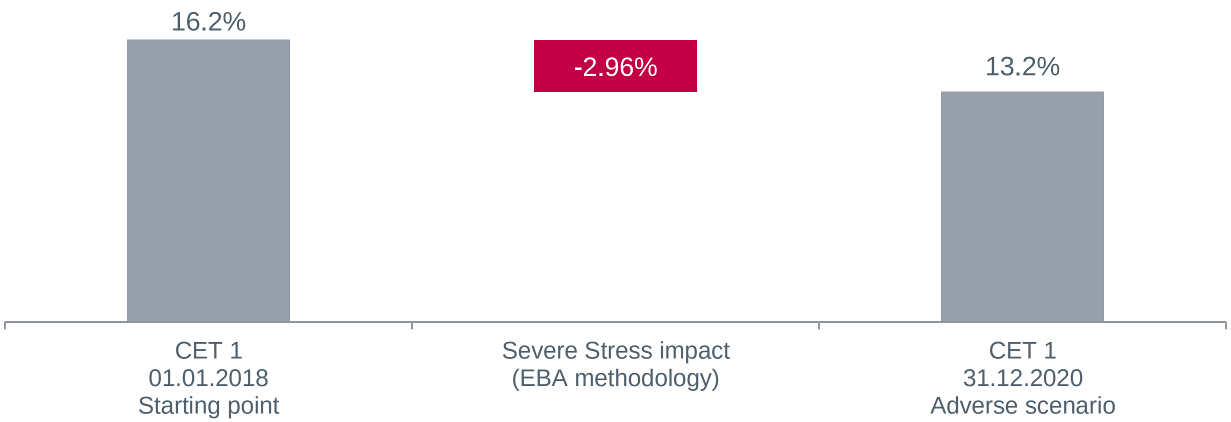
- **Belfius was subject to the 2018 EU-wide stress test** conducted by the European Banking Authority (EBA), in cooperation with the National Bank of Belgium, the European Central Bank (ECB), and the European Systemic Risk Board (ESRB).
- This EU-wide **stress test on 48 European banks** (representing about 70% of total assets held by EU banks) aims to **assess the resilience of those banks when confronted by a severe financial and economic stress**, defined by the ECB/ESRB, over a three-year time horizon (2018-2020).
- The exercise is carried out applying a **static balance sheet assumption** as at December 2017, restated for IFRS 9 (hence, on pro forma 01.01.2018 accounts), and therefore does not take into account future business strategies and management actions. Assets and liabilities that mature during the stress test horizon are replaced with similar financial instruments in terms of original maturity, credit quality, geographical exposure, etc. As a result, **business mix and model remain materially unchanged** and any additional countermeasures (not yet present end 2017) that a bank would take against the stressed assumptions over the three-year period are not taken into account. Hence, it is not a forecast of Belfius' profits or solvency.
- The 2018 EU-wide stress test **does not contain a pass fail threshold** and instead is designed to be used as an important **source of information for the purposes of the Supervisory Review and Evaluation Process (SREP)**. The results will assist competent authorities in assessing Belfius' ability to meet applicable prudential requirements under stressed scenarios.
- The EBA confirmed in its communication of January 31, 2018, that the **2018 stress test adverse scenario is the most severe scenario used for EBA/ECB/ESRB stress tests performed to date.**

Outcome *Summary*

- The 2018 stress test once again confirms **Belfius' strong solidity and resilience**. **Starting from a strong CET 1 ratio of 16.2%** as of 01.01.2018 and taking into account the CET 1 ratio **impact of -296 bps under the EBA defined severe stress test**, Belfius still displays a solid **CET 1 ratio of 13.2% at the end of the stress test period.**
- Please note that **the 2018 adverse scenario is the most severe one to date** in terms of shock on GDP growth, unemployment, real estate prices and increase of interest rates (in particular short term rates). In addition, it is important to underline that on **GDP, unemployment and real estate (in particular commercial real estate) the defined stress test shock is more severe for Belgium than for the average[1] of the European Union**
- Notwithstanding the fact that the 2018 stress test adverse scenario is the most severe financial and economic shock scenario to date, Belfius' CET 1 ratio **impact** resulting from this scenario (i.e. -296 bps) is the **lowest since the first stress test of 2014** (-620 bps in 2014 stress test and -449 bps in 2016 stress test). The **continuous strengthening of Belfius' solvency together with its strategy of solidifying its risk profile has contributed to this improved resilience.**
- **Belfius compares favourably to the European average** of the 48 participating banks, both at CET 1 ratio starting point (16.2% vs. 14.4%), adverse stress impact (-296 bps vs.-410 bps) and CET 1 ratio end point (13.2% vs. 10.3%).

1. EU average including Belgium

2018 stress test impact of - 2.96% on Belfius’ CET 1 ratio



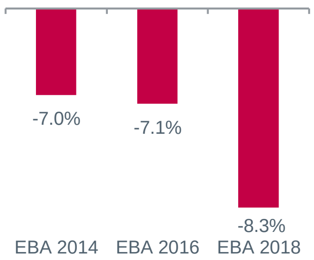
Belfius shows a **solid and resilient solvency**:

- Starting from a **strong CET 1 ratio of 16.2% as of 01.01.2018**, the severe stress test results in a **solid CET 1 ratio of 13.2 % end of 2020**
- The total severe stress impact of -296 bps over three years can be split into:
  - An impact of -229 bps stemming from CET 1 capital decrease
  - An impact of -67 bps stemming from regulatory risk exposures increase

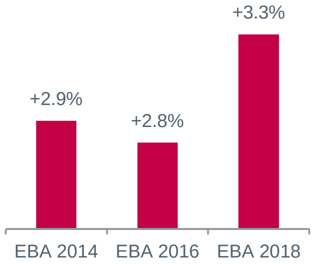
Most severe adverse scenario to date with Belgium modelled to be hit harder than European average on some components

2018 adverse scenario is the most severe one to date

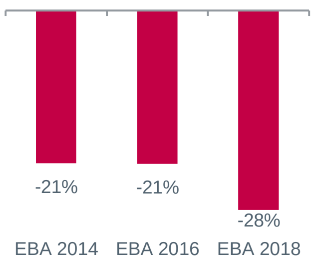
Shock on GDP growth
Deviation vs base, average EU



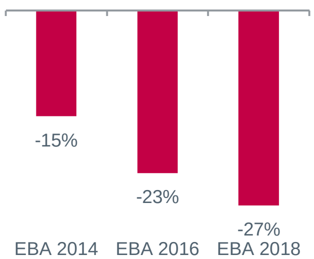
Shock on unemployment
Deviation vs base, average EU



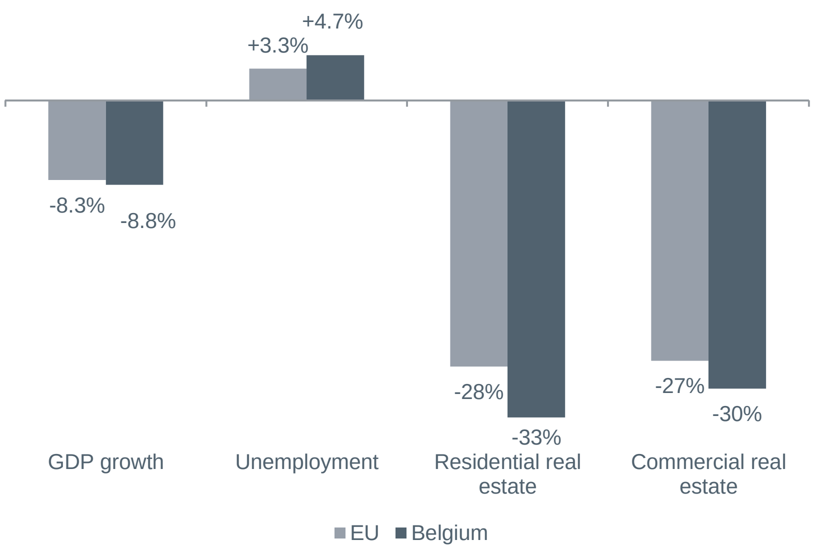
Shock on residential real estate
Deviation vs base, average EU



Shock on commercial real estate
Deviation vs base, average EU



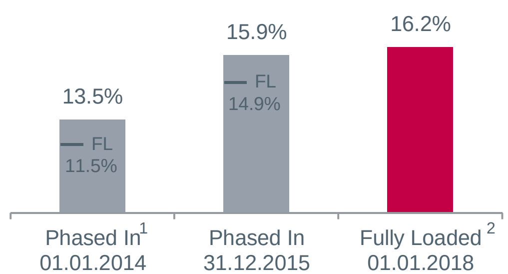
Shock is more severe for Belgium than for the average of the EU in 2018



Notwithstanding most severe stress test adverse scenario to date, Belfius shows the lowest impact over last 3 stress tests

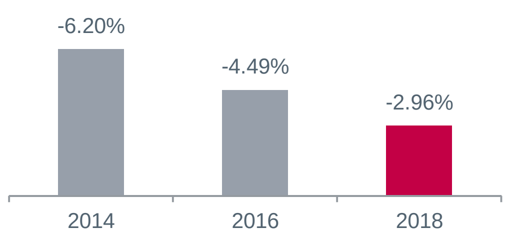
Growing solvency at CET 1 starting point

CET 1 ratio, starting point



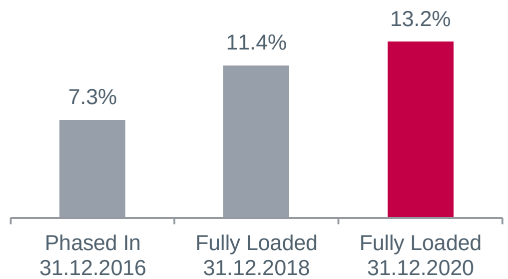
Improved resilience during adverse stress

Adverse stress test impact on CET 1 ratio



Appropriateness of Belfius' strategy confirmed

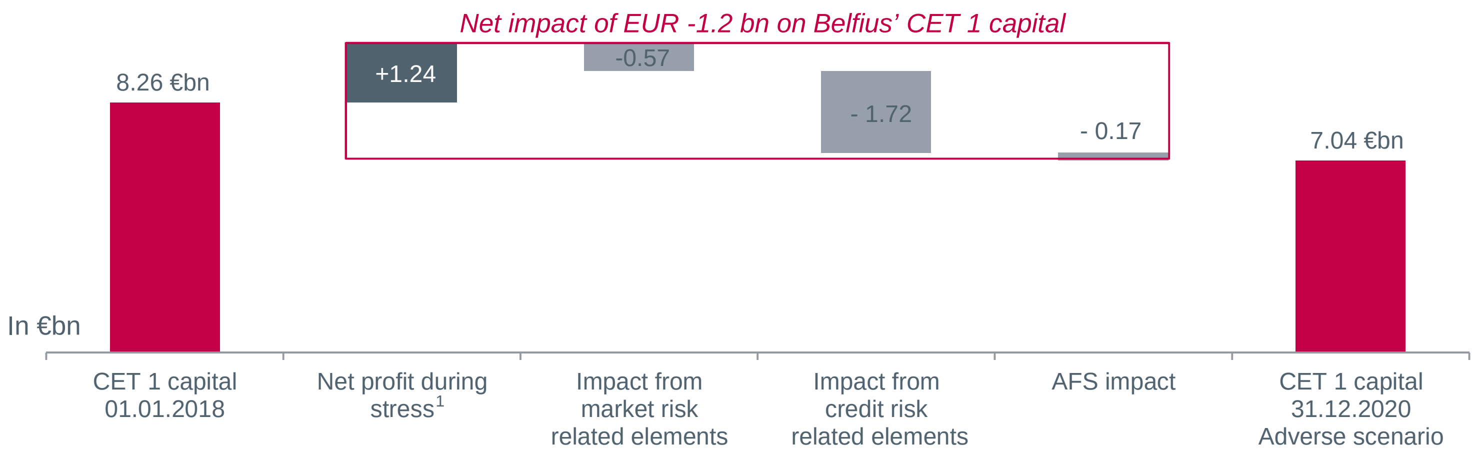
CET 1 ratio after adverse scenario



- The improvement of Fully Loaded CET 1 ratio from 11.5% as of 01.01.2014 to 16.2% as of 01.01.2018 confirms the **appropriateness of Belfius' strategy** over the past years. This illustrates our solidity and resilience capacity, all of which are crucial in the current challenging macro-economic environment.
- The stress test impact of 2018 is below the impacts on CET 1 ratio in both the 2014 and the 2016 stress tests. As the 2018 stress test adverse scenario is qualified by the EBA as the most severe scenario to date, **having a lower impact further underlines Belfius' positive solvency evolution over the past years.**

1. Phased In after AQR, i.e. prudential adjustments for credit risk
2. IFRS 9 restated

Evolution of the CET 1 capital in adverse stress scenario

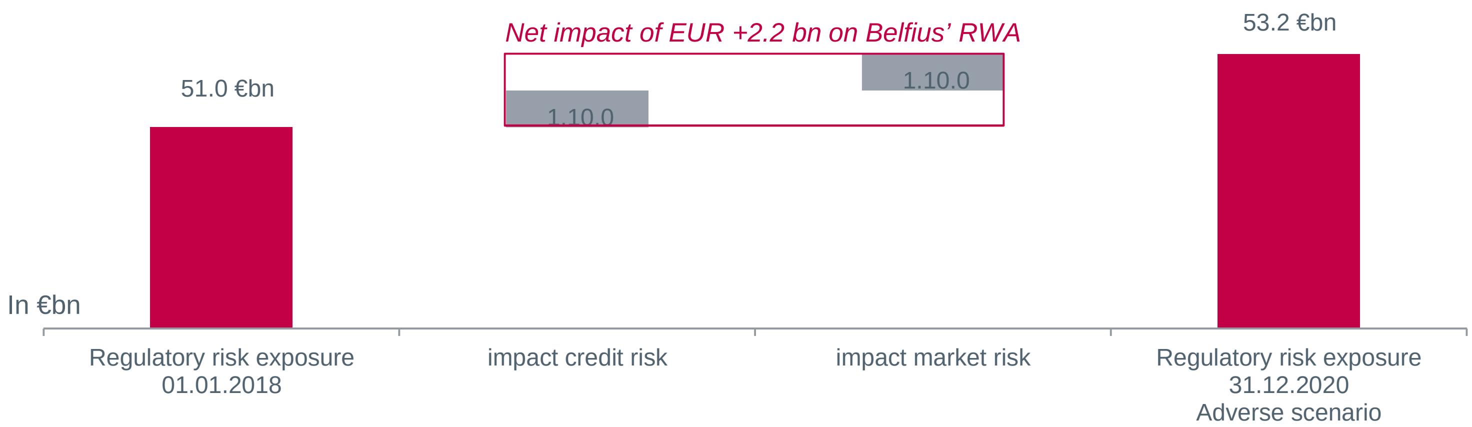


Evolution of Belfius' CET 1 capital under the severe stress scenario is explained by:

- + 1.24 bn EUR mainly stemming from profit capacity during stress period, mainly stemming from net interest income, fee & commission income, dividend and other income, net of operating expenses
- - 0.57 bn EUR P&L impact from market risks mainly stemming from
  - hedge accounting inefficiencies
  - more credit value adjustments (CVA) losses due to deterioration of the counterparty (e.g. widening spreads)
  - increasing fair value reserves following the widening of the bid-offer spread on some derivatives (liquidity and modelling uncertainty reserves)
- - 1.72 bn EUR P&L impact from cost of credit risk due to higher impairments on loans and bonds, partly stemming from residential and commercial real estate loans for which Belgium is hit harder than the European average in terms of scenario (cfr. slide 5)
- - 0.17 bn EUR AFS impact mainly due to a stress impact on equities (participations) and a stress test impact on Italian government bonds (under IFRS 9 booked in AFS) that were in the meantime sold in 1Q 2018 (1.1 € bn EAD)

1. Apart from market risk and credit risk related elements

Evolution of the regulatory risk exposure in adverse stress scenario

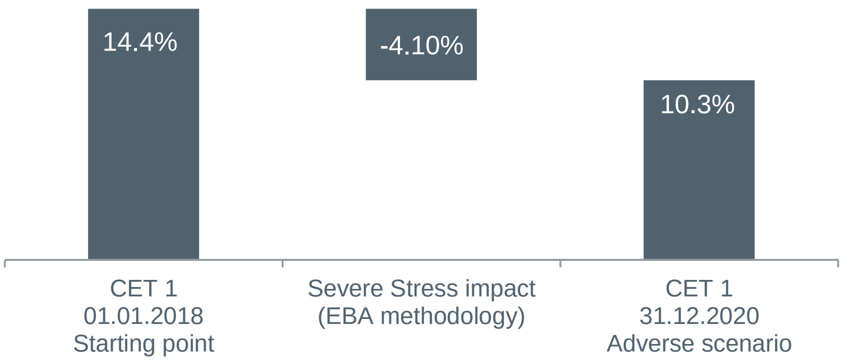


Evolution of Belfius' regulatory risk exposures under the severe stress scenario is explained by:

- Increase of credit risk RWA mainly stemming from the deterioration of the credit quality of financial institutions and corporates
- Increase of market risk RWA mainly explained by:
    - An increase of the CVA RWA, especially on non-collateralized derivative exposures
    - An increase of the VaR beyond Belfius' limits due to stress test imposed market shocks

Belfius compares favourably to the European average

European average of the 48 banks stress tested by the EBA



Belfius Bank

- Belfius' strong solidity and resilience are confirmed when comparing to peers
- **Belfius compares favourably to the European average** of the 48 participating banks
  - At starting point (16.2% vs. 14.4%)
  - In terms of impact from the adverse stress test scenario (-2.96% vs. -4.10%)
  - At end point (13.2% vs. 10.3%)