



EU-wide EBA 2021 Stress Test

Belfius confirms its strong solvency
position

July 30, 2021 =

General Context

- Following the postponement of the 2020 exercise, due to the COVID-19 pandemic, **Belfius was subject to the 2021 EU-wide stress test** conducted by the European Banking Authority (EBA), in cooperation with the National Bank of Belgium (NBB), the European Central Bank (ECB), and the European Systemic Risk Board (ESRB). Belfius notes the announcements made the EBA on the EU-wide stress test and fully acknowledges the outcomes of this exercise.
- The EU-wide stress test conducted on a sample of 50 EU banks covering roughly 70% of total banking sector assets in the EU and Norway **aims to assess the resilience of the banks when confronted by a severe financial and economic stress**, defined by ECB/ESRB, over a three-year horizon (2021-2023).
- The adverse stress test scenario was set by the ECB/ESRB and covers a three-year time horizon (2021-2023). Given the specific macroeconomic conditions caused by the COVID-19 pandemics the adverse scenario is based on a narrative **of a prolonged COVID-19 scenario in a 'lower for longer' interest rate environment, in which negative confidence shocks prolonged the economic contraction**. This adverse scenario is considered very severe having also in mind the already weaker macroeconomic starting point in 2021 as a result of the severe pandemic-induced recession. As announced by ESRB, given its severity measured in terms of deviation from the baseline levels, the **current scenario is the most severe** among the EBA exercises carried out to date.
- The exercise had to be carried out by applying a **static balance sheet assumption** as of December 2020 meaning that assets and liabilities that mature during the stress test horizon are replaced with similar financial instruments. Consequently, this exercise is not to be perceived as a forecast of Belfius' profits and solvency because the underlying methodology does not account for future business strategies and management actions (e.g. treatment of moratoria as they were excluded from starting points).
- As for previous exercises, the 2021 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 Evaluation Process (SREP)** and to assess Belfius' ability to meet applicable prudential requirements under stressed scenarios.

Outcome summary

Stress
Fully Loaded
CET 1 ratio

- With a stronger capital position at the start and the lowest CET 1 ratio depletion after severe stress since the start of the EBA stress testing framework, **Belfius shows a strong resilience to extreme financial and economic shocks**. The outcome confirms the resilience of Belfius' business models and highlights the relevance of its **diversification strategy framed within a disciplined risk and financial management**, which includes solid capital position, opportunistic de-risking, hedging strategies and prudent provisioning approach in the Covid-19 crisis.
- The benign results for Belfius are mainly driven by the following key drivers
 1. Profitability
 2. Credit Risk
 3. Market Risk
- **1. In terms of profitability, despite** the more severe 'Lower for Longer' interest rate scenario, Belfius' solvency depletion is strongly mitigated (and more than in previous stress tests) by the resilient level of **recurring P&L generated during stress**, mostly stemming from:
 - A higher profit capacity at start (+100 Mn€/year)
 - A higher increase of OLO spreads, during cumulated stress period, benefiting the repricing of assets,
 - Tiering for 5,8 Bn€ at 0 bps (not applicable in the EBA 2018 Stress Test)

-270 bps

+262bps



Outcome summary

- 2. The credit risk impact in the adverse scenario is somewhat higher than in previous EBA ST in view of the higher severity of the simulated shocks and the change in regulatory treatment. However, this is partly mitigated by Belfius prudent provisioning set up during the Covid-19 crisis.
 - **Impairment:**
 - Despite a much more severe macroeconomic stress, the P&L impact is not significantly higher than previous assessment.
 - For the performing exposures under the adverse scenario, the increase in cumulative expected losses over the stress horizon is limited to 300 mln EUR (440 mln EUR less than in 2018 EBA ST). This resilience comes mainly from the Covid-19 buffer, built up in 2020 that is released along the horizon of the stress test.
 - For the defaulted exposures under the adverse scenario, similar level of expected losses is observed compared to the 2018 EBA ST. The more severe shocks are compensated by a less pronounced EBA stress on the real estate segment.
 - **Risk Weighted Assets:**
 - Increased RWA are mainly stemming from the deterioration of the credit quality during stress period, in light of the much more severe scenario's
 - And are also affected by regulatory changes, stemming from RWA calculation on defaulted assets, which were not accounted for in the previous EBA ST.

-236 bps

-131 bps



Outcome summary

3. Market risk impact in adverse scenario, much lower than in previous EBA stress tests, is mainly driven by a better start position and derisking management actions and hedging strategies.

- **RWA** is driven by the better start position stemming among other from opportune historical derisking management actions.
- **Market risk P&L impact** is less pronounced than EBA stress tests thanks to a better start situation, mainly stemming from:
 - A lower risk sensitivity thanks to the better hedged positions and
 - Improved client revenues on financial market activities
 - And no more AFS bonds to account for

For the first time since the start of the EBA Stress Test framework, Belfius is able to even **distribute some dividends (-22 bps) at the end of the stress** horizon due to a lower capital depletion, and as such allowing Belfius to remain above the MDA trigger and to generate positive P&L. The rest of the impact is due to other components mainly stemming from Belins OCI's, Pension Fund, Other reserves MDA.

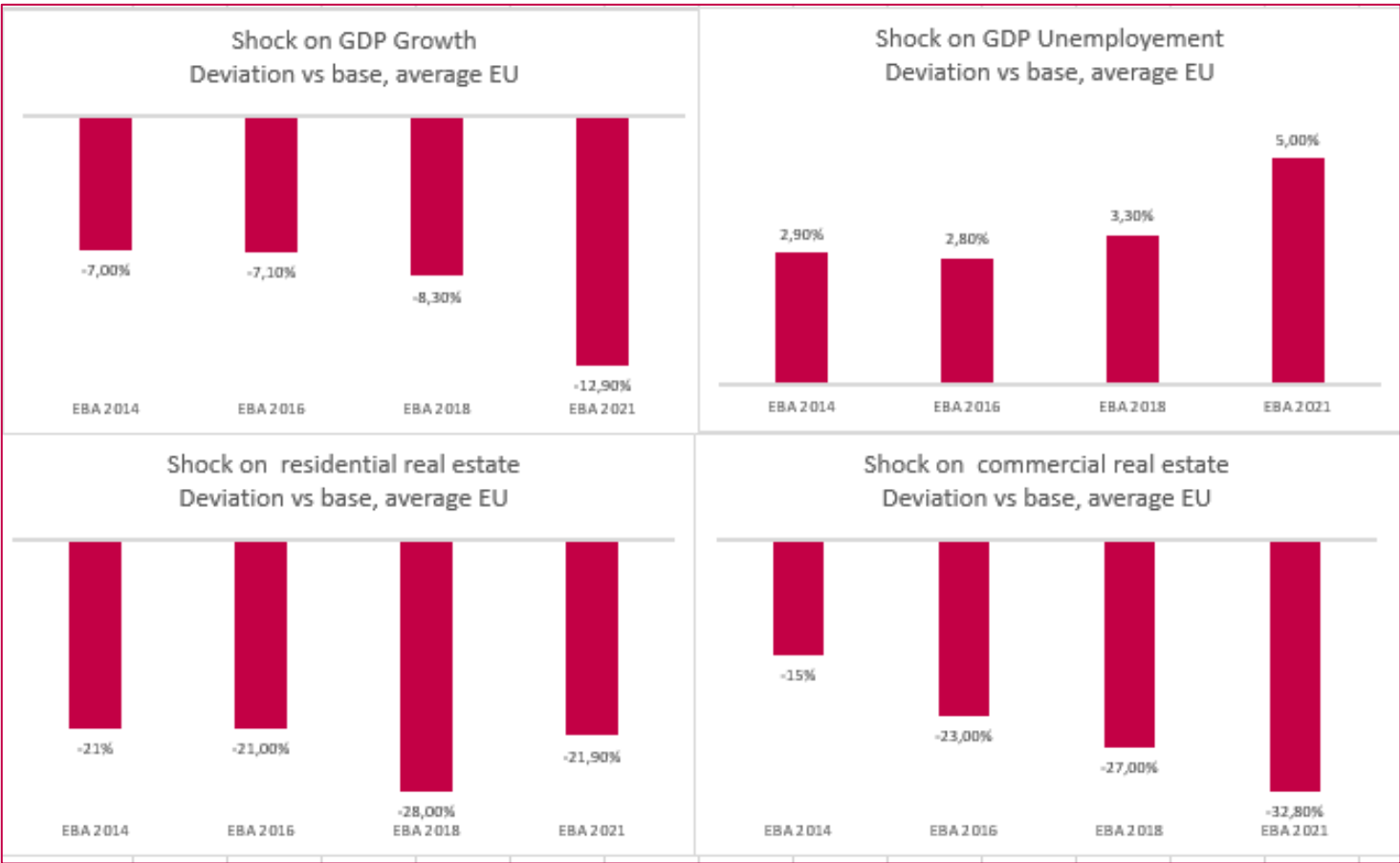
-11bps

-82 bps

-72 bps



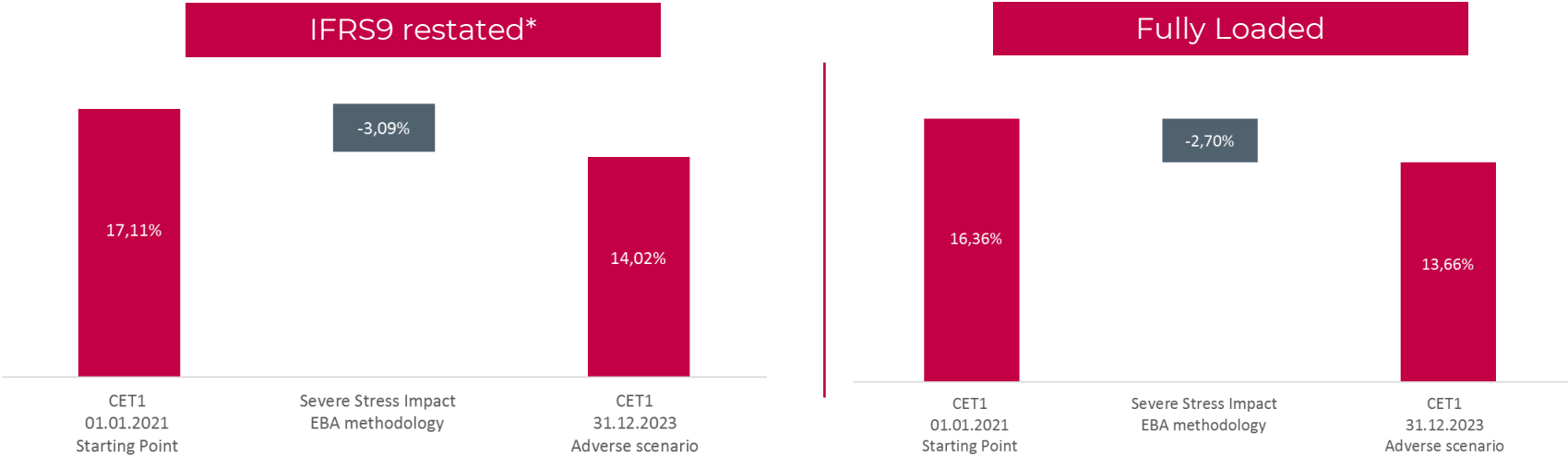
Evolution of macroeconomic scenario's through EBA stress test



As announced by ESRB, given its severity measured in terms of deviation from the baseline levels, the **2021 scenario is the most severe of the EBA Stress Tests carried out to date (when compared to base case as announced by ESRB)**



2021 stress impact on Belfius' CET 1 ratio



Under the adverse scenario, the impact of the EU-wide stress test on Belfius' fully loaded CET 1 ratio amounts to 270 bps at the end of the 3-year stress horizon.

Belfius shows a strong resilience to stress.

The IFRS9 restated CET 1 depletion of -309 bps can be split as follows:

- An impact of -165 bps stemming from CET 1 capital decrease
- An impact of -144 bps stemming from RWA increase

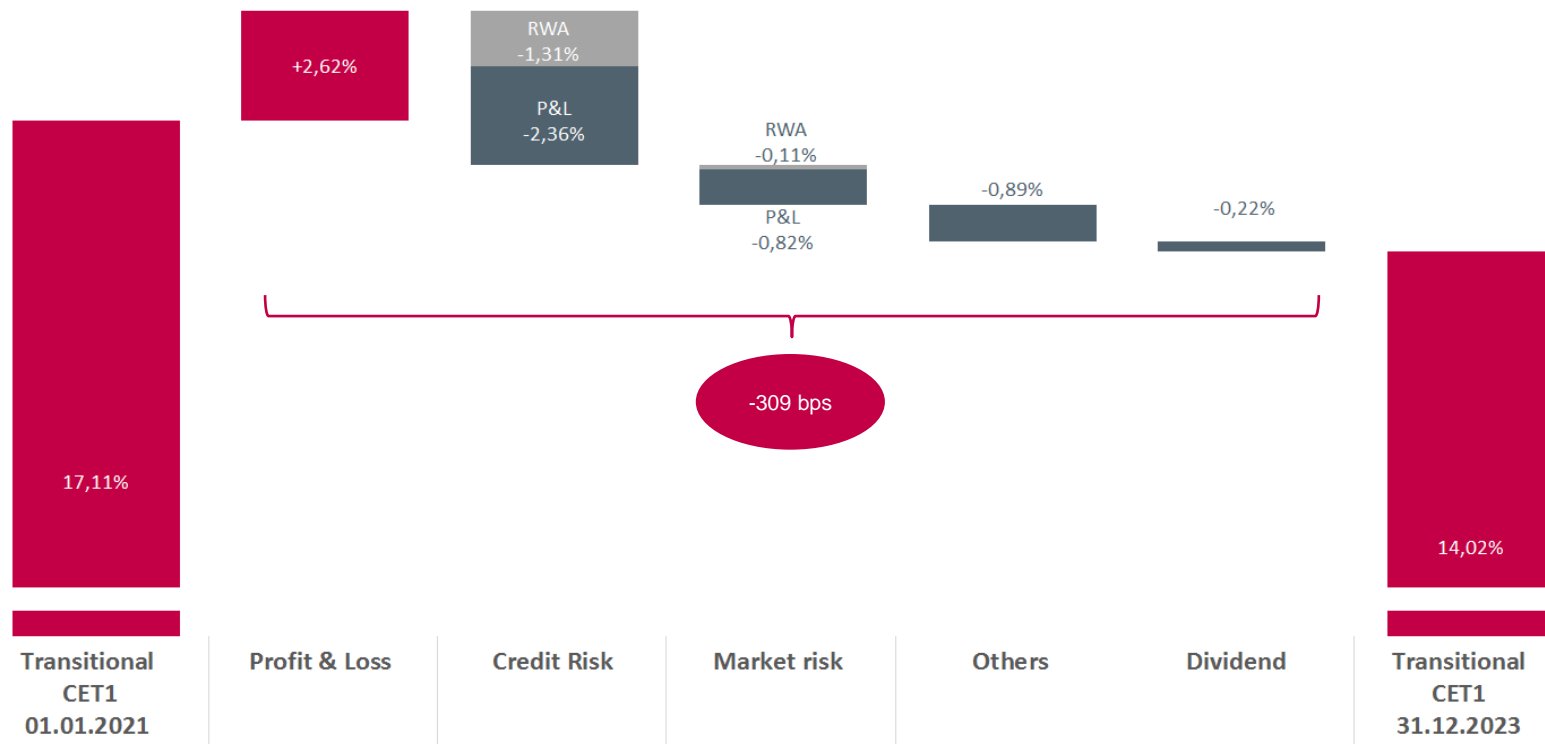
The fully loaded CET 1 depletion of -270 bps can be split as follows:

- An impact of -133bps stemming from CET 1 capital decrease
- An impact of -137 bps stemming from RWA increase



*Banks making use of IFRS 9 transitional arrangements are required to report the adjustments due to this transition in accordance with Article 473a of the CRR in their projections

Waterfall impact 2021 stress on Belfius Transitional CET 1 ratio



Profit & Loss: Profit or (-) loss before tax from continuing operations before credit risk losses and market risk losses, Loss hedges accounting, CCR

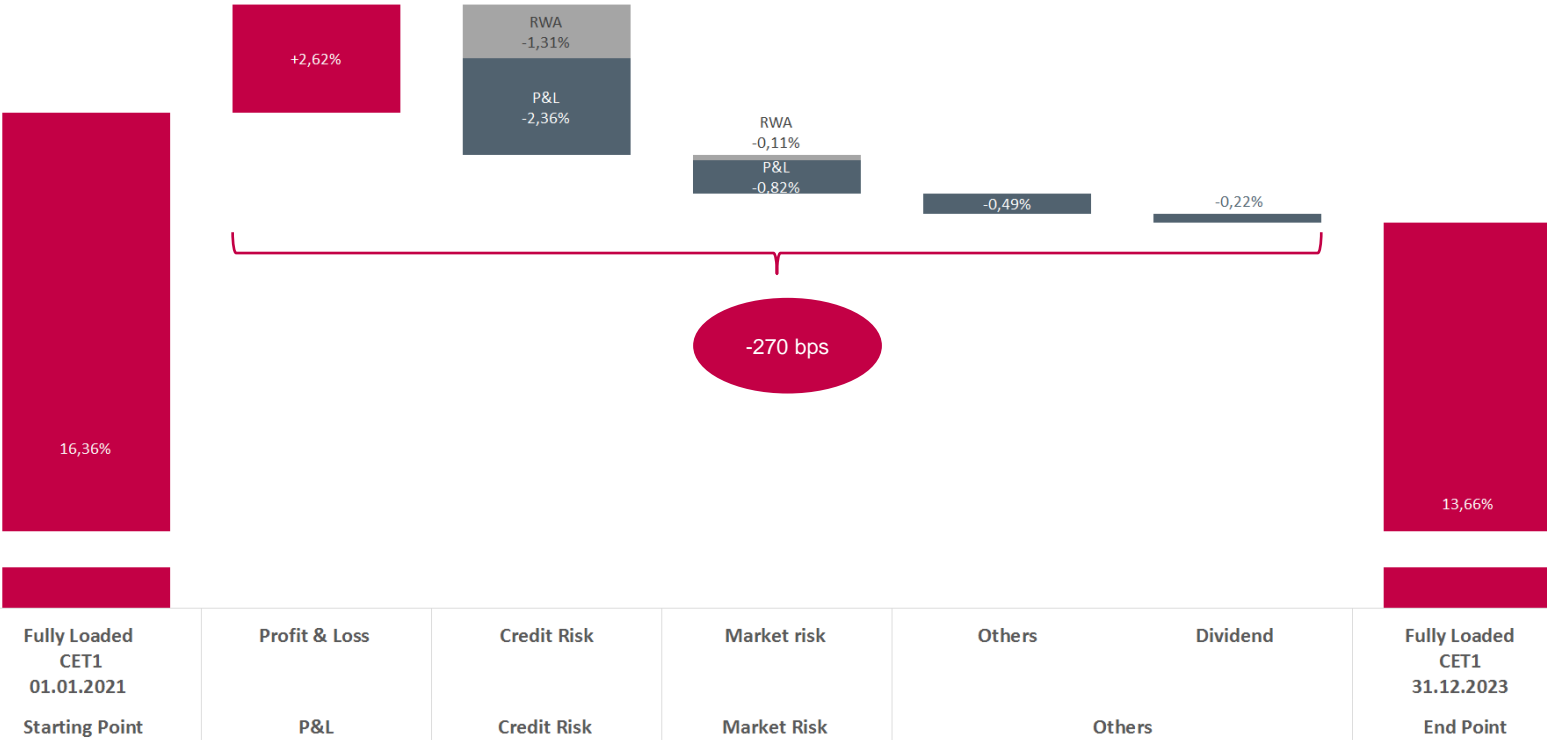
Credit risk: RWA Credit, Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, backstop

Market risk: RWA Market, Market risk losses (mainly from CVA, Liquidity reserve P&L, Equity & bonds OCI's, AVA OCI, HFT Trading)

Dividends: Distributed amount after MDA-related adjustment

Others: mainly from Belins OCI's, Pension Fund, Other reserves MDA, Belins REA, reduction in capital due to IFRS9 transitional arrangements

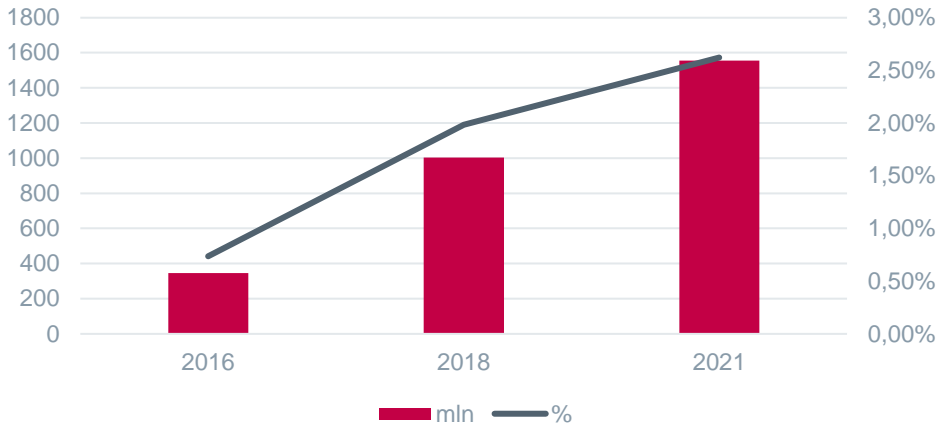
Waterfall impact 2021 stress on Belfius Fully Loaded CET 1 ratio



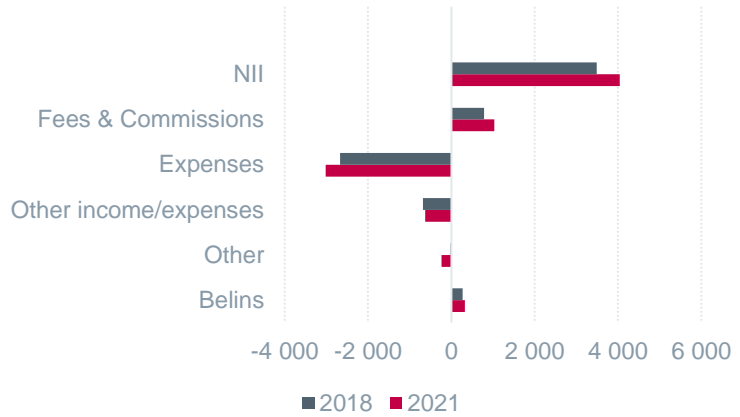
Profit & Loss: Profit or (-) loss before tax from continuing operations before credit risk losses and market risk losses, Loss hedges accounting, CCR
Credit risk: RWA Credit, Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, backstop
Market risk: RWA Market, Market risk losses (mainly from CVA, Liquidity reserve P&L, Equity & bonds OCI's, AVA OCI, HFT Trading)
Dividends: Distributed amount after MDA-related adjustment
Others: mainly from Belins OCI's, Pension Fund, Other reserves MDA, Belins REA, increase of RWA due to IFRS9 transition

Driver for lower capital depletion impact: Higher P&L contribution

Evolution of change of transitional CET 1 ratio in adverse scenario due to P&L



P&L drivers after stress*
(Cumulative impact over stress horizon)

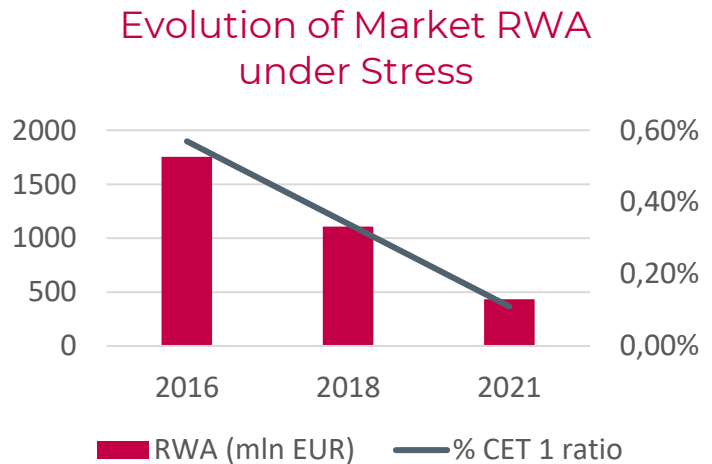
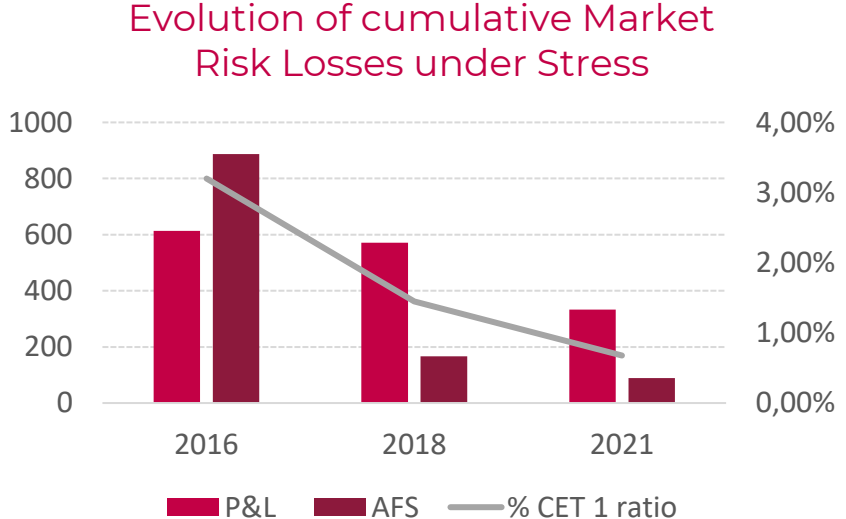


The profit capacity of Belfius before credit and market losses keeps on improving over the years of the EU-wide Stress Tests confirming the importance and relevance of Belfius' diversification strategy in terms of revenue sources and of its disciplined financial and risk management,



*Internal view of P&L drivers – not fully aligned to EBA waterfall methodology

Driver for lower capital depletion impact: Better market risk profile

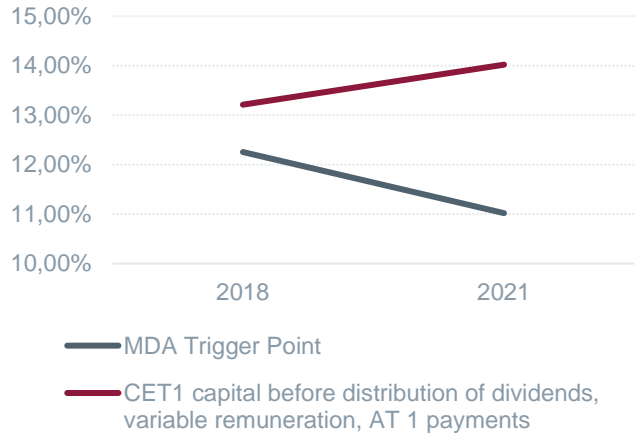


The lower market risk impact in adverse scenario is mainly driven by a better start position impacting RWA and P&L. The latter is also positively impacted by opportune historical derisking management actions (e.g. no more Available For Sale bonds) and hedging strategies.

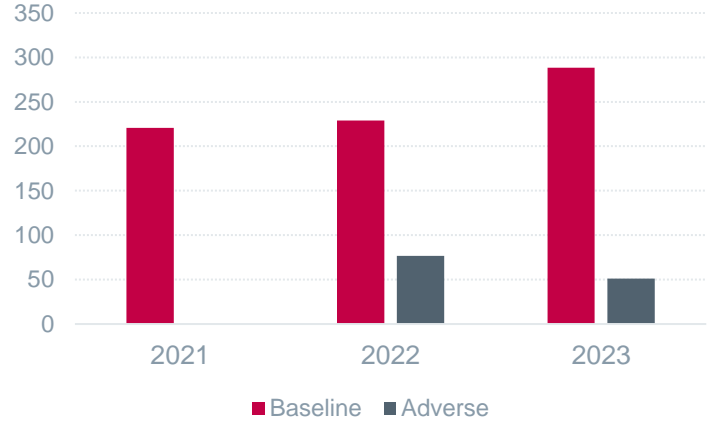


Positive P&L at the end of stress allows to distribute dividends

Increasing distance to MDA* trigger point at end of stress



Amount of dividends paid and minority interests after MDA-related adjustments (mIn EUR)

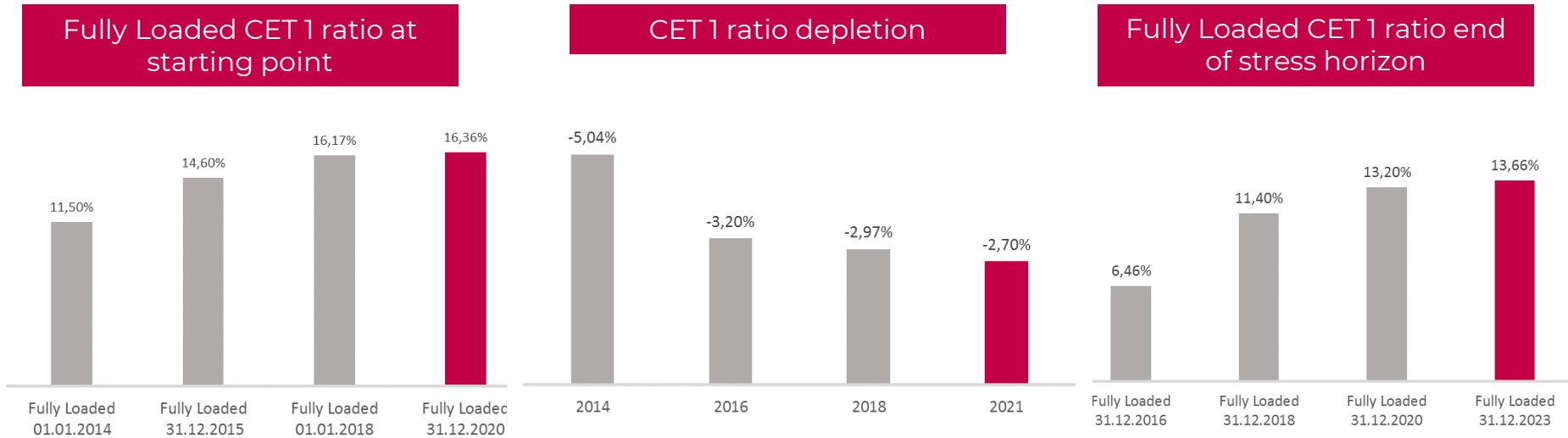


For the first time since the start of the EBA Stress Test framework, Belfius is able to even distribute some dividends at the end of the stress horizon due to a lower capital depletion, and as such allowing Belfius to remain above the MDA trigger and to generate positive P&L

*Regulatory framework for Minimum Distributable Amount not yet binding during 2016 Stress Test



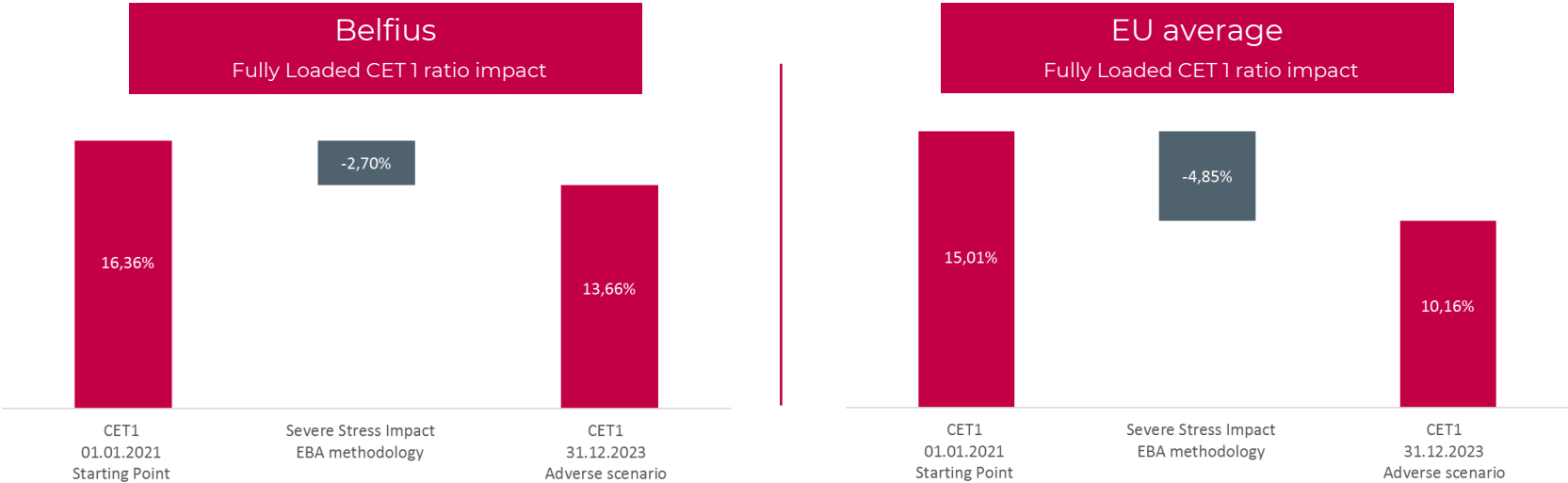
Continuous enhancement of resilient solvency position



Comparing the outcomes of the 4 EBA stress tests already performed, the enhancement of starting point and capital depletion confirms the resilience of Belfius' business model and highlights the relevance of its diversification strategy and its disciplined risk and financial management



Solidity and resilience confirmed compared to EU benchmark



Belfius' strong solidity and resilience are also confirmed when comparing results to those of peers. Indeed, Belfius strongly withstands any comparison to the European average of the 50 participating banks in terms of (i) Fully loaded CET 1 ratio starting point (16.36% vs. 15,01%), (ii) impact of the adverse stress test scenario (-2,70% vs. -4,85%) and (iii) Fully Loaded CET 1 ratio end point (13.66% vs. 10,16%).



Appendix: Macroeconomic scenario's

- The adverse scenario is based on a **prolonged COVID-19 scenario**. The prolonged Covid-19 crisis is explained by the assumption of mutation of the virus, setbacks in distribution of the vaccines, inefficiency of the vaccines, leading to a prolongation of the economic contraction; The scenario assumes neither monetary nor fiscal policy reactions
- Economy: **negative GDP growth, strong increase unemployment and low inflation**.
- **Interest Rates: "Lower for longer"**, decline in LT interest rates, with negative short and long term rates, inverted curve in 2021, flattening in 2022 and 2023 (rates remaining at -0,5%);
- **Financial markets: abrupt and sizeable adjustment** of financial asset valuations, very severe correction stock markets
- **Sovereign credit spreads: widening** triggered by rising debt sustainability concerns, however dispersity increases among countries (+75 bps on 10Y gov bond yields for countries with high concerns, -30 bps for countries with low concerns).
- Corporate sector: **extra pressure on corporate indebtedness, wide spread insolvencies** leading to increase of credit spreads. Different impact in function of type of sector.
- Property prices: very severe correction for residential and commercial real estate
- EBA methodology 2021 is aligned to 2018 except for the exclusion of Moratoria in the starting points.



As announced by ESRB, given its severity measured in terms of deviation from the baseline levels, the current scenario is the most severe among the EBA exercises carried out to date.



Appendix: Macroeconomic scenario's comparison BE vs EU



More severe stress for Belgium compared to EU for Real estate segment

