Press release
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2023 EU-wide EBA Stress Test :
Belfius continues to demonstrate its strong resilience

In summary

The 2023 EU-wide stress test, an exercise carried out every two years, has delivered its results. Like in previous stress tests and even under this edition featuring in Belfius' view the most severe stress simulated since inception of these tests, **Belfius is again able to confirm its sound financial solidity and resilience**.

Starting from a fully-loaded CET 1 ratio of 16.19% as of 31.12.2022[1], **Belfius maintains that fully-loaded CET1 ratio well above its Minimum Distributable Amount requirement (MDA) throughout the whole stress period, and ends up at very solid solvency level at the end of the stress period, with a fully-loaded CET 1 ratio of 12.07% at 31.12.2025**. Abstraction made of the cumulative dividends that Belfius is still able to pay out in this simulation and during the stress period, the end 2025 fully-loaded CET 1 ratio would have landed at 12.39%.

At the start of this stress test exercise, the European Banking Authority (EBA) and the European Central Bank (ECB) stated[2] that the adverse scenario for the 2023 exercise assumes for several macro-financial variables more severe shocks than in previous stress tests. In terms of GDP decline, unemployment rate increase and inflation rates, the 2023 adverse scenario is the most severe used in the EU wide stress tests since inception, and the severe nature of the adverse scenario reflected a deliberate choice and its purpose to assess the resilience of the European banking system to a hypothetical severely deteriorated macro-environment.

The outcome for Belfius is in line with that general statement of most adverse scenario since inception, with a fully-loaded CET 1 ratio depletion of -4.12% CET 1 ratio in current stress test (versus -2.70% in 2021 stress test). At the same time, **the outcome continues to clearly demonstrate Belfius' solid resilience towards material adversities and the pertinence of having a sound financial & risk management as a cornerstone of its consistent long-term diversification strategy**. Indeed, even during such materially adverse simulated and hypothetical stress, Belfius remains able to maintain some dividend pay-out capacity and to combine that with a highly manageable CET 1 ratio depletion of -4.12% over the period (-3.80% abstraction made of such dividends following Belfius' estimate).

Belfius' outcome also compares favorably to that of the participating banks, displaying on average less dividend pay-out capacity than Belfius during the simulated stress period (+0.24% of CET 1-ratio vs +0.32% for Belfius) and a higher fully loaded CET 1 ratio depletion over the period (-4.59% vs -4.12% for Belfius).

[1] Corresponding to Belfius' published CET 1 ratio on a transitional basis of 16.55% as of end 2022.
[2] Public hearing 21/03/2023 with Andrea Enria, Chair of the Single Supervisory Mechanism (SSM) (europa.eu) – page 10-11; Press release of EBA, 31 January 2023.

Deep dive into the stress test 2023

In short, the outcome of such a stress test can be summarized by the evolution of the fully-loaded CET 1 ratio during the stress period and its level at the end of the period :

- during the simulated stress period 2023-2025, **Belfius is able to pay out dividends** (in total 210 m€ of dividends, impacting the CET 1 ratio by 0.32% at the end of the stress period), as Belfius does not fall in solvency terms below its MDA requirement during the complete period;
- starting from a strong fully-loaded CET 1 ratio of 16.19% end 2022, Belfius displays a **still solid fully-loaded CET 1 ratio of 12.07% end 2025**, at the end of such severe stress.

Please also note that according to Belfius, a technical feature of the Stress Test methodology imposes an "extra" negative impact on Belfius' CET 1 ratio after stress, and this because of the way how the Danish Compromise for certain financial conglomerates[3] is treated within the stress test methodology. **Excluding this extra impact, Belfius' fully-loaded CET 1 ratio would stand at 12,40% at the end of the stress test period, according to Belfius' estimates.**

The extreme adverse scenario was designed by the ESRB's taskforce on stress testing, in close collaboration with the ECB. The narrative at origin of this adverse scenario depicts a material adverse economic situation related to a hypothetical severe worsening of geopolitical developments, accompanied by an increase in commodity prices and resurgence of COVID-19 contagion. This scenario translates among others into very high inflation and materially adverse effects on private consumption and investments, coupled with a worldwide economic contraction.

The worsening of economic prospects is further reflected in a substantial global increase of long-term interest rates, a sustained drop in GDP and increased unemployment. Belfius believes that this 2023 stress test is the most severe designed for EBA/ECB stress testing exercises since origin. In addition and very relevant for Belfius being mostly exposed to Belgian economy and its economic actors, **some parameters underlying the stress scenario to simulate are for the Belgian economy more severe when compared to the EU average (e.g. shock on residential and commercial real estate prices).**

Despite the material shocks to simulate, Belfius resiliently withstands that simulated stress. In Belfius' opinion, the key drivers of its sound results are the following :

- **Improved resilient profit capacity** even under the extreme adverse scenario and despite the rapid changes in interest rates and high pressure on commercial margins, translating after some time into positive P&L which allows Belfius to continue to generate some core equity and to distribute even dividends during the stress period.
- **Continued anticipative credit risk management, leading to manageable credit risk impacts even in such adverse scenario** and in light of the severity of the shocks, thanks to the combination of strict credit risk origination processes, forward looking credit risk provisioning and management, and more recently the implementation of some new Advanced Internal

[3] Indeed, the equity value used to compute the credit risk exposure amount stemming from Belfius Bank's holding in Belfius Insurance has to be kept stable from its start value as of 31.12.2022, during the full stress test period. In reality, this risk exposure amount would decrease during stress periods a.o. by lower (more negative) Other Comprehensive Income (OCI) booked at the level of Belfius Insurance, as such dampening the negative CET 1 capital impact stemming from that lower OCI by that lower related risk exposure amount.

Rating Models that are aligned to the latest regulatory requirements and as such embed at origin already a higher level of conservatism.

To conclude

Belfius' strong financial solidity and resilience to material adversities have again been confirmed seeing the results of the 2023 EU Bank-wide Stress Test, both in absolute terms and in perspective of the 70 largest participating banks :

- A sound starting point of the stress test, with a fully-loaded CET 1 ratio of 16.19% (vs. the average of 14.97% for the full sample),
- A CET 1 ratio depletion from the adverse stress test scenario of -4.12% (vs. -4.59%)
- A fully Loaded CET 1 ratio end point of 12.07% (vs. 10.38%)
- A capacity to pay dividends during stress test equal to +0.32% of CET 1 ratio (vs +0.24%)

Marc Raisière, CEO: *"Once again, we come out of the EU-wide Stress Test with great serenity. Even accounting for the most adverse macroeconomic scenario since start of these tests, leading to a slightly higher impact on our CET 1 ratio than in former exercises, our solidity has again been demonstrated. This is clearly the result of our pertinent strategic vision that relies on our strong commercial franchise, sound financial and risk management, robust diversification of revenues and controlled cost environment. These stress test results are in addition shedding a positive light on the resilience of our credit portfolios, the lower market risk profile reached thanks to diligent management and opportunistic de-risking actions of the past years, and demonstrating the effectiveness of our efficient asset and liability management. All these strengths are the building blocks of a secure environment deployed for our clients present in all segments of the Belgian economy, and allowing us, for them, to remain meaningful and inspiring. Together."*

Press contact:
Belfius Bank & Insurance
Ulrike Pommee, + 32 (0)2 222 02 57 / ulrike.pommee@belfius.be - press@belfius.be
www.belfius.be