2023 EU-wide EBA stress test Belfius' results

28 July 2023

Table of contents

1. Summary Highlights

- Today, the EBA published the results of the 2023 EU-wide stress test. At the start of this year's exercise, it was stated that **the adverse scenario assumes for several macro-financial variables more severe shocks than in previous stress tests** (for instance, in terms of GDP decline, unemployment rate increase and inflation rates).

- Even in such severe stress test, the most severe since inception of these tests in Belfius' view, **Belfius is again able to confirm its sound financial solidity and strong resilience**.

- **Starting from a fully loaded CET 1 ratio of 16.19%**[1] as of 31.12.2022, Belfius **maintains that fully loaded CET 1 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%**[2]. If one would make abstraction for 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%.

- This outcome continues to 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**.

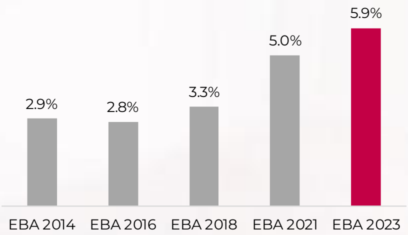
- Belfius' outcome also compares favorably to that of the participating banks, displaying on average less dividend pay-out capacity than Belfius during the simulated stress period and a higher fully loaded CET 1 ratio depletion of -4.59% over the period.

Note 1. Corresponding to Belfius' published CET 1 ratio on a transitional basis of 16.55% as of end 2022. 2. The exercise has to be carried out by applying a static balance sheet assumption as of 31 December 2022. Hence, this stressed assessment is not to be perceived as a forecast of Belfius' profits and solvency, as a.o. the underlying methodology does not account for future impacts of business strategies and management actions.

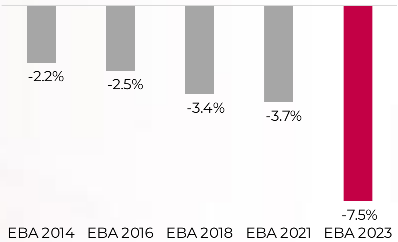
2. Severity of Stress simulated

The adverse scenario assumes for several macro-financial variables more severe shocks than in previous stress tests

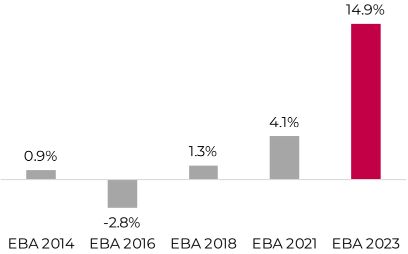
Unemployment shock (deviation vs base, EU avg.)



Sum of GDP declines during stress period[1] (EU)



Inflation 2023-2025 (BE)



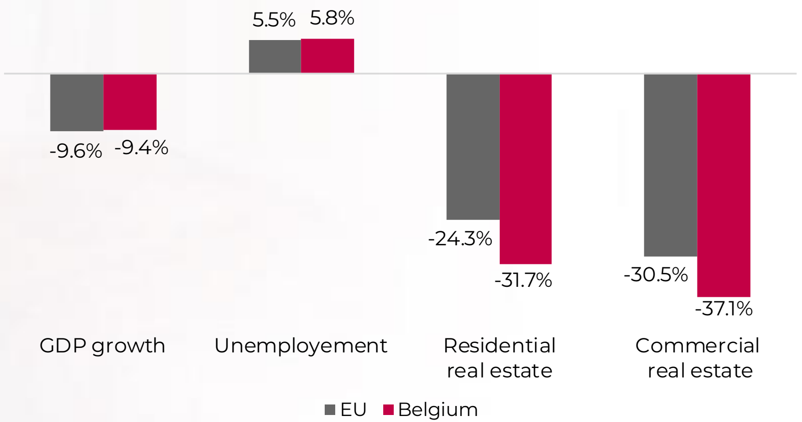
The extreme adverse scenario depicts a material adverse economic situation related to a hypothetical severe worsening of geopolitical developments, accompanied by an increase in commodity prices and resurgence of Covid-19 contagion. The worsening of economic prospects is further reflected in a substantial global increase of long-term interest rates, a sustained drop in GDP and increased unemployment.

Note 1. Sum of y-o-y GDP growth figures from start, where we only sum the GDP y-o-y growth figures if they are negative, to illustrate the lowest GDP level from start during stress period.

More specifically for Belgium and most relevant for Belfius, some shocks are larger than EU average

2. Severity of Stress simulated

Stressed shocks (BE vs EU average)
Level of deviation in 2025

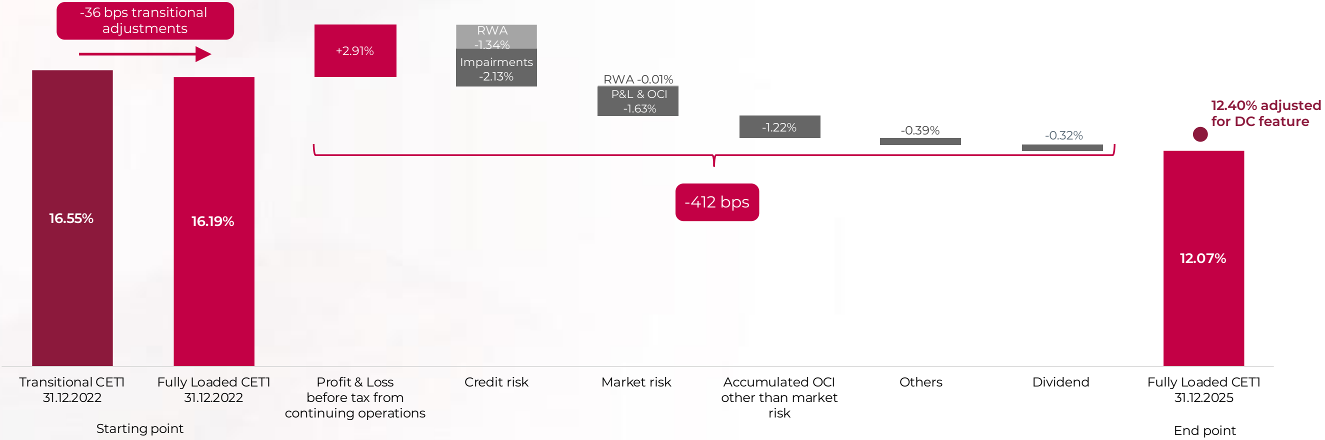


Overall, Belfius believes that this 2023 stress test is the most severe designed for EBA/ECB stress testing exercises since origin.

Starting from a fully loaded CET 1 ratio of 16.19%, Belfius ends up at still solid CET 1 ratio of 12.07% after the simulated severe stress

3. Simulated outcome for Belfius

CET 1 ratio depletion by constituent[1]



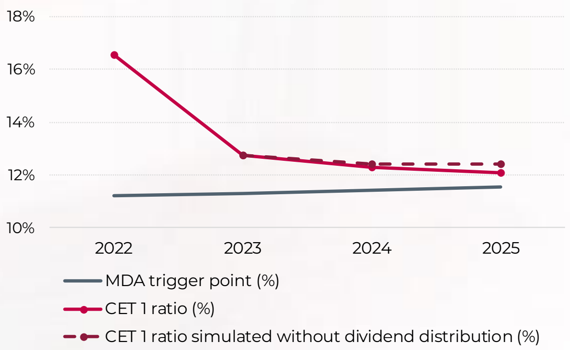
- Belfius' continuously developing commercial franchise and diversification strategy allows for solid profit capacity (+2.91% CET 1 ratio impact, before credit risk losses and market risk impacts), even during severe stress periods.
- Despite a severe economic contraction included in the stress scenario, the credit impacts remain manageable at -3.47% CET 1 ratio impact. Worthwhile to note that the credit risk impact remains in line with the one simulated during 2021 stress test (-3.28% CET 1 ratio impact), despite the more severe stress test.
- Market risk depletion (-1.64% CET 1 ratio impact) strongly negatively impacted by a material contribution (-74 bps) from counterparty credit risk, where adjusted and more severe methodology obliged Belfius to simulate a "jump to default" of a financial institution (in developed markets) with a BBB+ rating.
- Accumulated Other Comprehensive Income depletion (-1.22% CET 1 ratio impact): a part of this impact is to be explained by a technical feature of the Stress Test methodology with respect to the Danish Compromise, where the equity value used to compute the 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, whereas 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. This technical feature worsens the depletion by 0.33% CET 1 ratio according to Belfius' estimates.

Note 1. Belfius' split of CET 1 ratio depletion by constituent, different from EBA waterfalls.

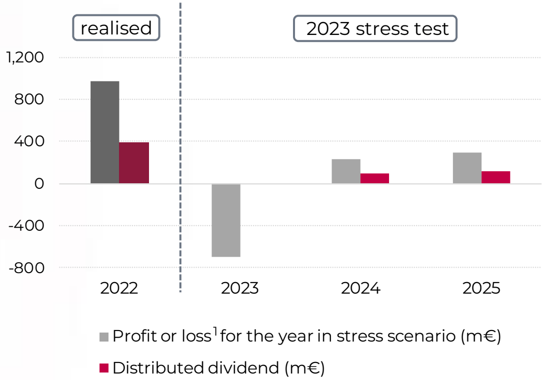
Despite the material shocks to simulate, Belfius maintains a fully loaded CET 1 ratio well above MDA level throughout the period

3. Simulated outcome for Belfius

CET 1 ratio and MDA trigger along the horizon



P&L and dividend simulated along the horizon



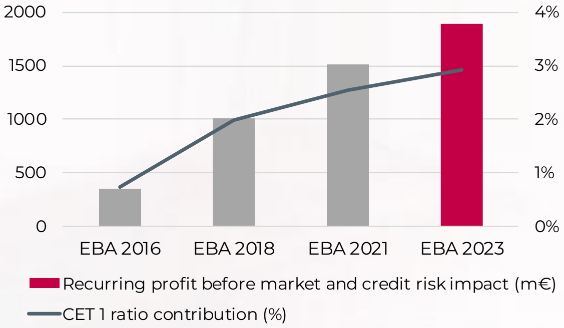
- During the full period, Belfius is able to keep its fully loaded CET 1 ratio above the MDA trigger. This allows for simulation of some dividends, if and when P&L is positive during stress period.
- In total, 210 m€ of dividends are simulated over the stress period. Without such simulated dividends, resulting CET 1 ratio after stress as of 2025 would land at 12.39%.

Note 1. As defined in the EBA template, so net of dividends simulated.

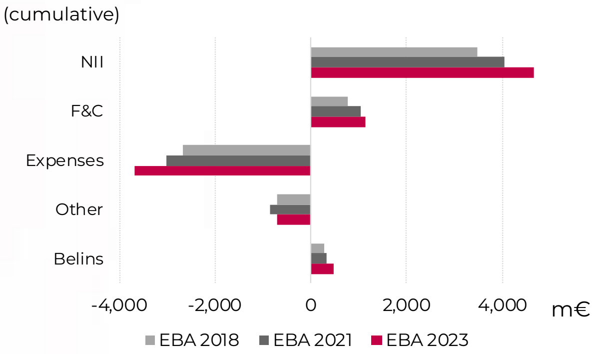
4. Key drivers of Belfius' resilience

Improved resilient profit capacity even under the extreme adverse scenario

Profit capacity during stress test period in historical perspective



Profit drivers after stress[1], in historical perspective



- Belfius' growing profit capacity, even during simulated stress periods, is clearly the result of our pertinent strategic vision that relies amongst others on sound ALM management, robust diversification of revenues and controlled cost environment.

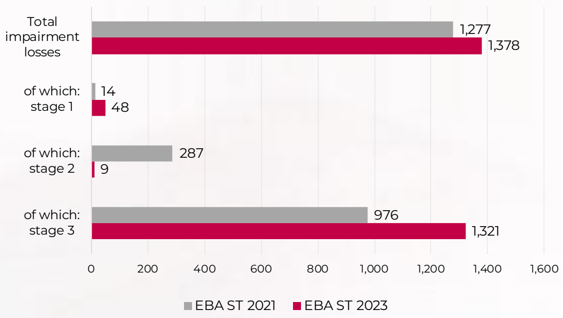
Note 1. Internal view of P&L drivers – slight deviations from EBA waterfall methodology possible.

Belfius’ anticipative risk management, as key cornerstone of our strategy

4. Key drivers of Belfius’ resilience

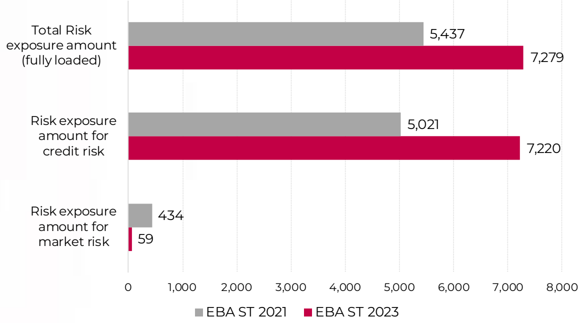
Stressed Credit impairments by stage, in historical perspective

3 years cumulated impairments by stage (in m€)



Stressed Credit & Market RWA, in historical perspective

RWA increase under stress scenario (in m€)



- In light of a very severe scenario impacting both covid sensitive and energy sensitive sectors, credit impairments remain overall in line with 2021 stress test results, mainly thanks to Belfius’ anticipative provisioning approach applied during last crises, mainly 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.

5. Concluding remarks

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% CET 1 ratio (vs 0.24%)

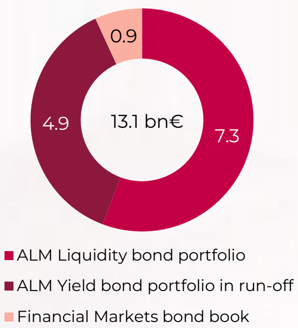
“Once again, we come out of the EU-wide Stress Test with great serenity. Even accounting for the most adverse macroeconomic scenario since start of these tests, our confirmed solidity is clearly the result of our pertinent strategic vision that relies on our strong commercial franchise, sound financial and risk management, robust diversification of revenues and controlled cost environment, building blocks deployed for our clients present in all segments of the Belgian economy, and allowing us, for them, to remain meaningful and inspiring. Together.”

Marc Raisière, CEO

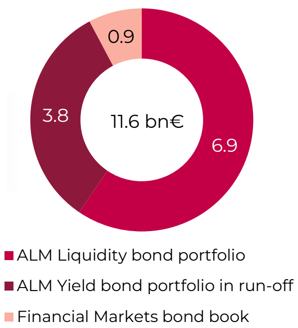
Additional EBA disclosure on bond holdings

An additional template "Additional disclosure on bond holdings held at amortized cost" was released by EBA at the same time as the 2023 EU-wide Stress Test results

Belfius' figures by end 2022
(in carrying amount, bn€)



Belfius' figures by end 2022
(in fair value, bn€)



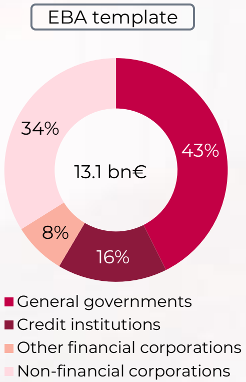
For Belfius, the outstandings in the scope of that template relate to the following categories:

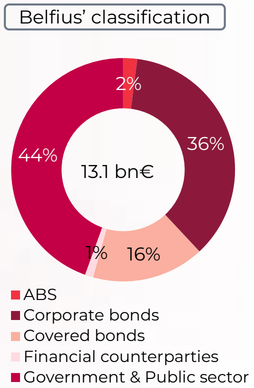
- carrying amount of 13.1 bn€ per end December 2022 (fair value of 11.6 bn€), split into
  - carrying amount of 7.3 bn€ for the ALM Liquidity bond portfolio
  - carrying amount of 4.9 bn€ for the ALM Yield bond portfolio in run-off
  - carrying amount of 0.9 bn€ for Financial Markets bond book, comprised of money market instruments for 0.6 bn€ and DCM warehousing activity for 0.3 bn€

A view by type of issuer and by rating

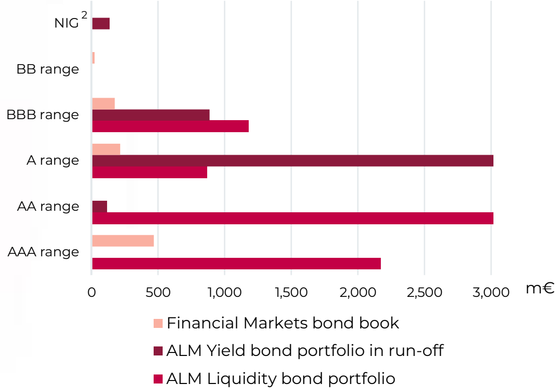
Additional EBA disclosure on bond holdings

Per type of issuer[1]





Per rating[1]



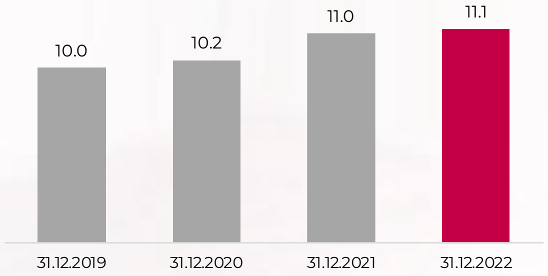
- This bond portfolio is in majority composed of bonds from the ALM portfolios, which are government bonds, alongside covered bonds and corporate bonds, and to a lesser extent bonds issued by financial counterparties and ABS. These exposures continue to enjoy an overall good credit stance, with average ratings for both ALM portfolios at A.
- The Financial Markets bond book is in majority composed of public sector exposures and to a small extent corporate exposures. These exposures also enjoy an overall good credit stance, with average rating for this book of BBB.

Note: 1. Type of issuer and rating distribution based on the carrying amounts per 31 December 2022. 2. NIG = Non Investment Grade.

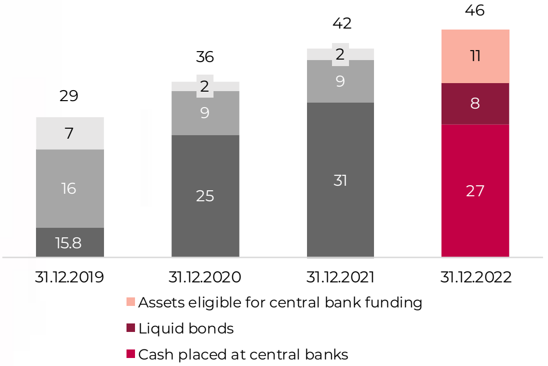
This bond portfolio, with its good overall credit stance, continues to respect Belfius' risk framework

Additional EBA disclosure on bond holdings

Total shareholders' equity (bn€)



Total liquidity buffer (bn€)



- Belfius disposes of a strong capital level (total shareholder's equity as of end 2022 of 11.1 bn€) and a very sound liquidity buffer (Total liquidity buffer as of end 2022 of 46 bn€) that allows it to continue to carry these bonds till maturity, and as such the unrealized losses on these bonds are less relevant in that respect, unless current sound credit quality of the portfolio's would deteriorate materially.