

# KBC Group

## 4Q15 and FY15 results press presentation

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*More detailed analyst presentation available on [www.kbc.com](http://www.kbc.com).*



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# 4Q 2015 key takeaways for KBC Group

## ■ STRONG BUSINESS PERFORMANCE IN 4Q15

Good net result of 862m EUR in 4Q15 (and 2.6bn EUR in FY15), supported by a gain of 765m EUR as a result of the liquidation of KBC Financial Holding, partly offset by 344m EUR goodwill impairments

Excluding these two items, net result amounted to 441m EUR in 4Q15 (and 2.2bn in FY15):

- Good commercial bank-insurance franchises in our core markets and core activities
- Q-o-q increase in customer loan volumes in most of our core countries
- Higher net interest income, despite lower net interest margin q-o-q
- Net asset management inflows, but lower net fee and commission income q-o-q (slightly above the guided range)
- Higher net gains from financial instruments at fair value (excluding impact KBC FH), lower net other income and lower realised AFS gains
- Excellent combined ratio (91% in FY15). Excellent sales of both non-life and life insurance products
- Cost/income ratio (55% in FY15) adjusted for specific items (one of which was the impact of the liquidation of KBC FH)
- Seasonally higher impairment charges (excluding goodwill impairments) q-o-q, but sharply lower y-o-y. Loan loss provisions in Ireland amounted to 16m EUR in 4Q15 and 48m EUR in FY15, fully in line with our guidance. We are maintaining our guidance for Ireland, namely the lower end of the 50m-100m EUR range for FY16

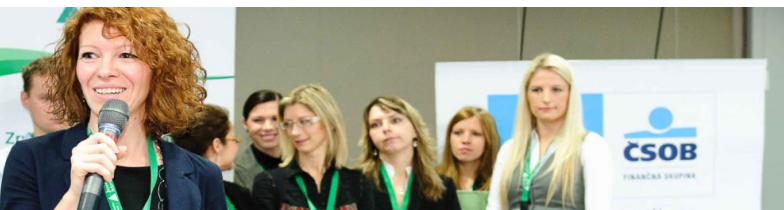
## ■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- **Common equity ratio (B3 phased-in) of 15.2% based on the Danish Compromise** at end 2015, which clearly exceeds the new minimum capital requirements set by the ECB (9.75%) and the NBB (0.5%), i.e. an aggregate 10.25% for 2016. **The B3 fully loaded common equity ratio stood at 14.9% based on the Danish Compromise at end 2015**
- At the end of 2015, KBC repaid the full outstanding tranche of 2bn EUR of remaining state aid plus a penalty of 1bn EUR to the Flemish Regional Government, well ahead of the official deadline of 2020.
- Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to 6.3% at KBC Group
- **Continued strong liquidity position** (NSFR at 121% and LCR at 127%) at end 2015

## ■ DIVIDEND PROPOSAL\*:

- As guided, no dividend will be proposed to the AGM for the 2015 accounting year
- As of the 2016 accounting year, the target for the dividend payout ratio (including the coupon paid on AT1) is at least 50%

\* Any dividend payment will be subject to the usual approval of the regulator



# KBC Group Consolidated results 4Q 2015 performance

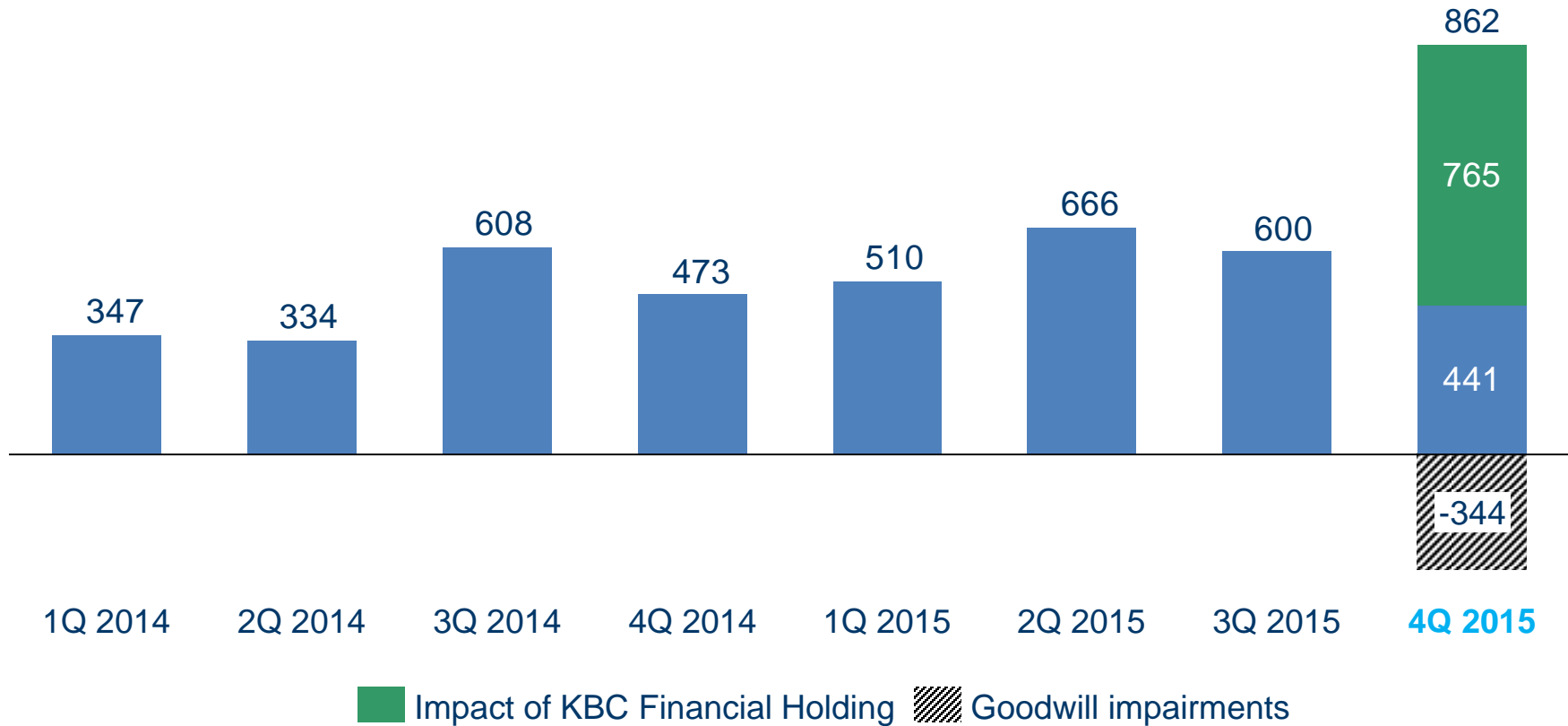
# Some specific remarks for 4Q15

- At the end of 2015, **KBC repaid the full outstanding tranche** of 2bn EUR of remaining state aid plus a penalty of 1bn EUR **to the Flemish Regional Government**, well ahead of the official deadline of 2020
- As mentioned together with the 3Q15 results, **KBC liquidated KBC Financial Holding Inc. (US)**. This resulted in the tax deductibility of losses already booked in previous years (specifically 2008 and 2009), for which a DTA was booked, leading to:
  - an one-off gain in the IFRS P&L of 765m EUR in 4Q15: -156m EUR translation differences booked in net gains from FIFV and +921m EUR in the tax expense line (recognition of tax loss carry forward DTAs and current tax impact on translation differences)
  - initially only a limited positive impact of 0.19% on KBC's fully loaded CET1 ratio under the Danish Compromise
- **Goodwill impairments of 344m EUR** (191m EUR on Istrobanka<sup>1</sup> in Slovakia, 117m EUR CI Bank and 34m EUR DZI, 2m EUR at Hypotecni Banka<sup>2</sup>) were recorded in 4Q15, mainly the result of higher local capital targets and a higher discount rate
- In 4Q15, the final calculation for 2015 led to an extra 15m EUR contribution to the **European Single Resolution Fund** (on top of the 50m EUR booked in 9M15)

# KBC Group:

## *Strong business performance in 4Q 2015*

### Net result



# Net interest income:

*Net interest income (NII) slightly up, margin (NIM) slightly under pressure*

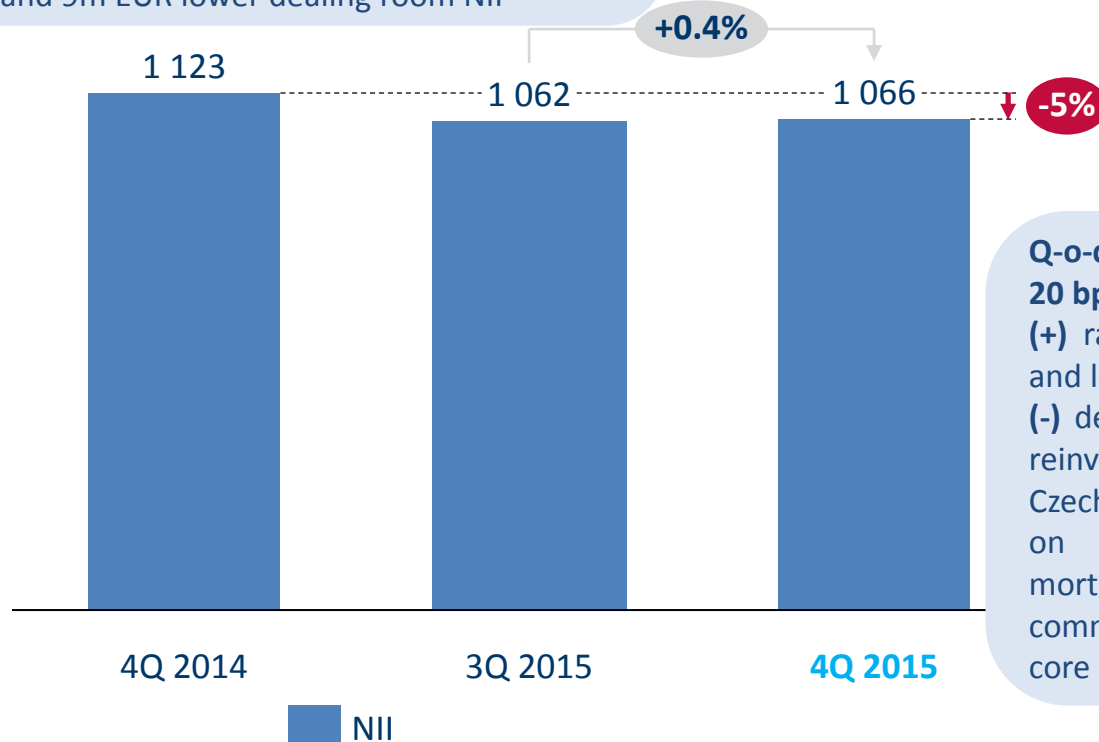
## NII slightly up q-o-q:

(+) lower funding costs, additional rate cuts on savings accounts in all core countries (excl. Czech Republic where it happened at the start of 3Q15) and loan growth

(-) in BE BU 2m EUR less upfront prepayment fees on mortgages, hedging losses on previously refinanced mortgages, lower reinvestment yields, pressure on commercial loan margins in most core countries and 9m EUR lower dealing room NII

## Net Interest Margin

4Q14	3Q15	4Q15
2.15%	1.99%	1.95%



## Q-o-q down 4 bps and y-o-y by 20 bps:

(+) rate cuts on saving accounts and lower funding costs

(-) decrease chiefly due to lower reinvestment yields (mainly in the Czech Republic), hedging losses on previously refinanced mortgages and pressure on commercial loan margins in most core countries

# Insurance (1/2):

*Premium income sharply up, especially for life insurance*

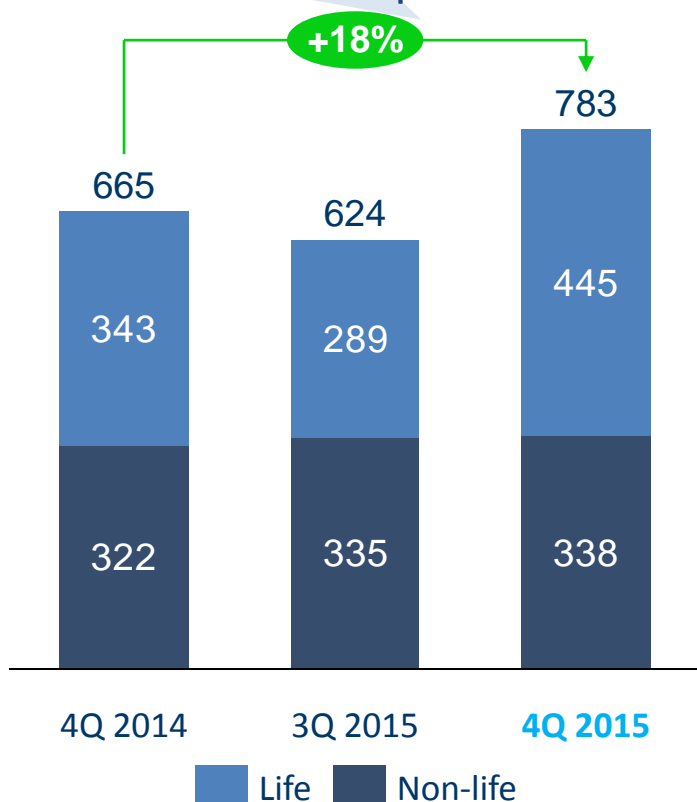
**Non-life premium** income increased by 5% y-o-y

**Life premium** income up by 54% q-o-q and by 30% y-o-y. The q-o-q increase was driven by the seasonal sale of guaranteed interest products in Belgium and higher sales of unit-linked products in the Czech Republic

Increases driven by higher sales of guaranteed interest products in Belgium (tax-incentivised in 4Q15) and higher sales of unit-linked products in the Czech Republic

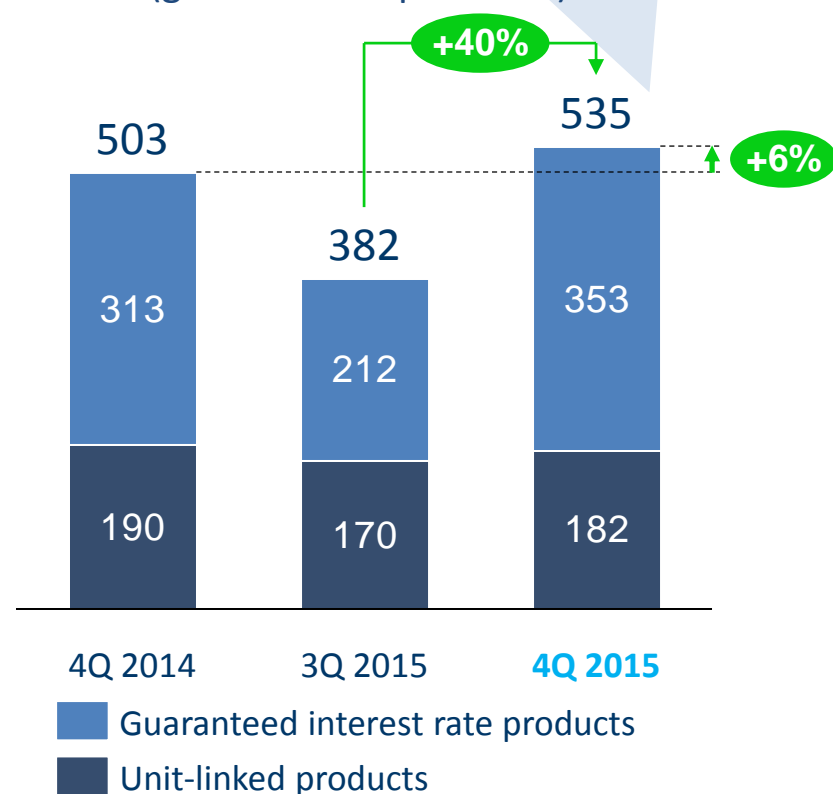
Y-o-y somewhat offset by shift to AM products

## Gross earned premiums



## Life sales

(gross written premium)



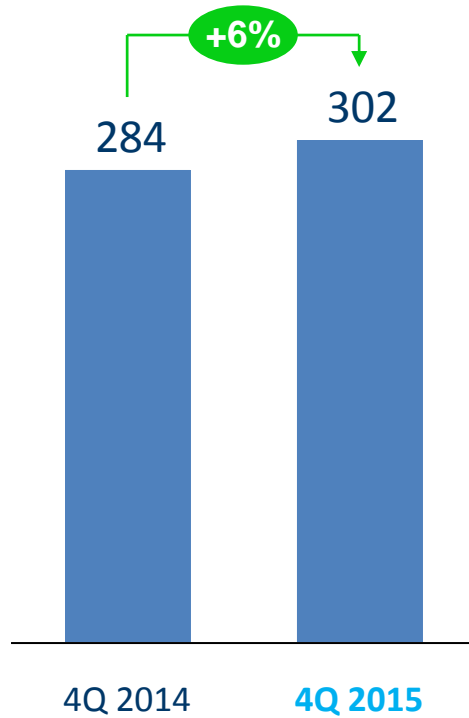


# Insurance (2/2):

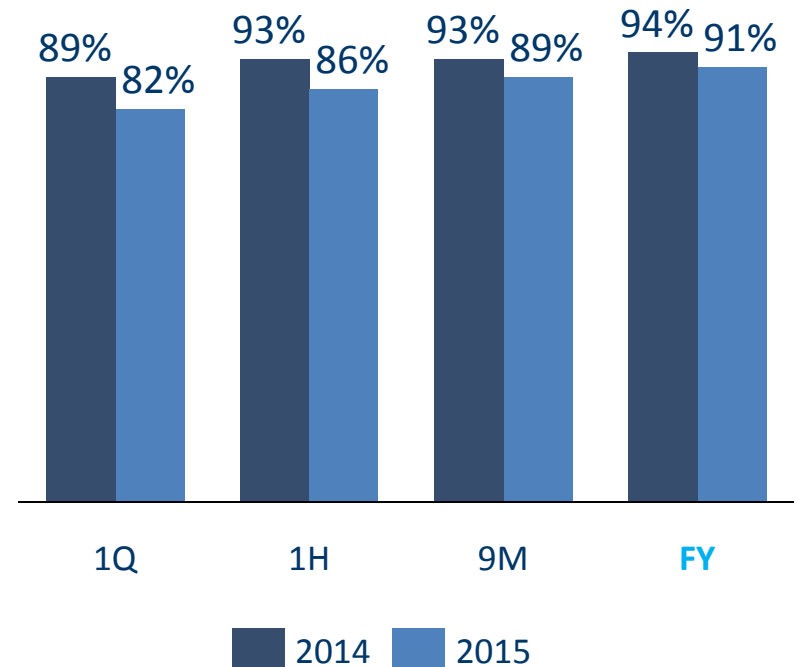
## *Strong non-life sales with good technical quality*

Up by 6% y-o-y as a result of a good commercial performance in all major product lines in our core markets and premium increases

**Non-life sales**  
(gross written premium)



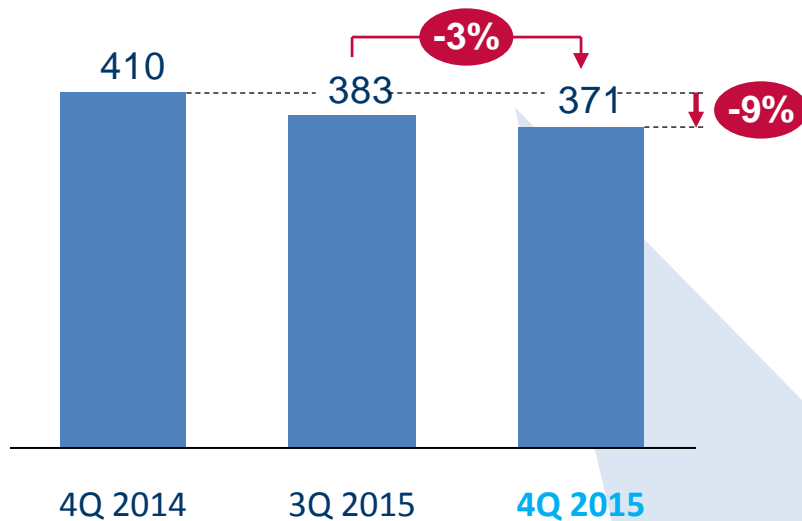
Strong improvement in FY15 compared to FY14 (as FY14 was negatively impacted by hailstorms in Belgium)



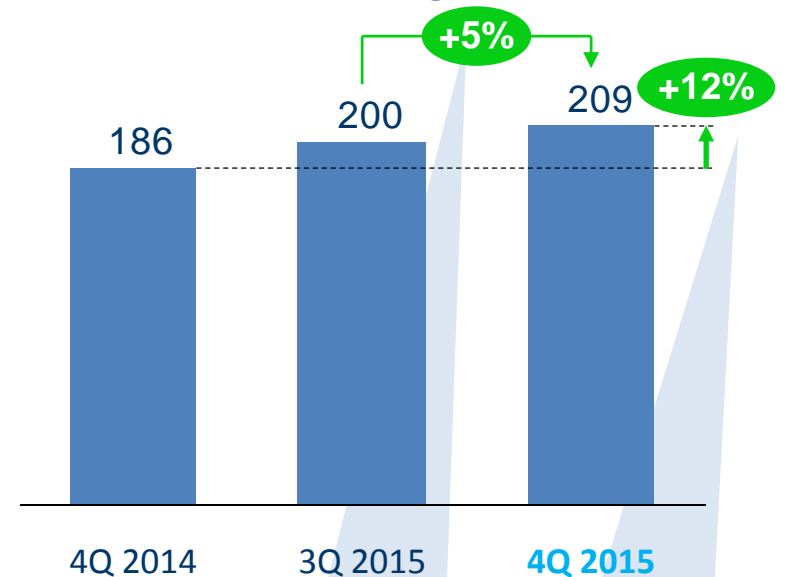
# Net fee and commission income:

*Net inflows, but lower fee and commission income (slightly above the guided range)*

## Net fee and commission income



## Assets under management (AUM)



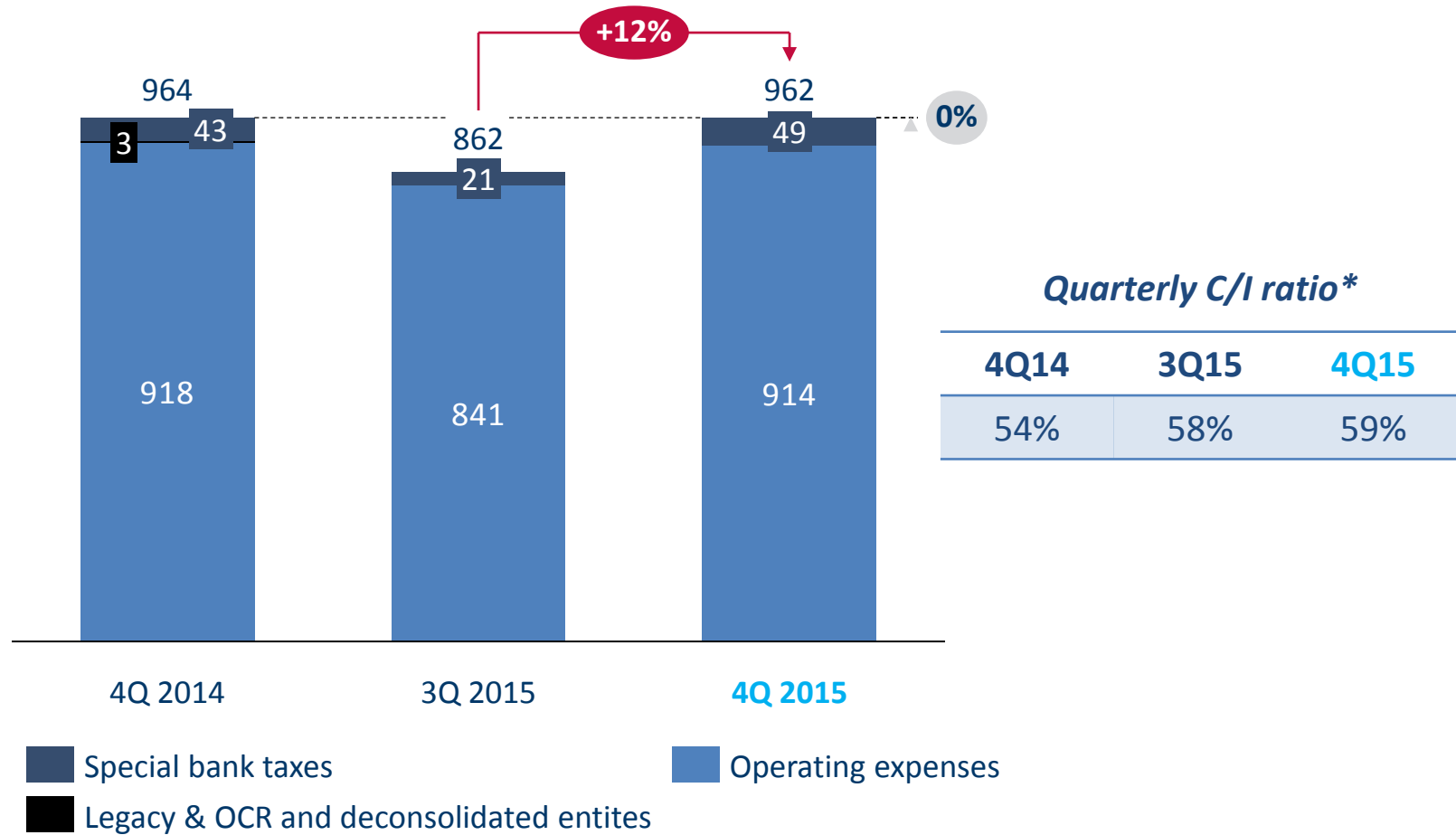
- Q-o-q decrease was the result chiefly of:
  - lower management fees from mutual funds, due mainly to the effect of the very large switch of CPPI products towards cash at the end of August
  - lower entry fees from unit-linked life insurance products (due mainly to less switches)
  - higher commissions paid on insurance salespartly offset by:
  - higher entry fees from mutual funds and higher fees from securities transactions
- Note that net F&C income in FY15 increased roughly by 7% y-o-y and will remain an important top-line contributor
- Given the current market circumstances, the recovery of net F&C is being delayed

Q-o-q: net inflows (+2%) and positive price effect (+2%)

Y-o-y: net inflows (+8%) and positive price effect (+4%)

# Operating expenses:

*Expenses up, but good cost-income ratio*



# Asset impairments:

Overall impairments driven by -344m EUR on goodwill ; loan impairments depicted by an excellent credit cost ratio of 0.23% (historic average '99-'15 of 0.52%)

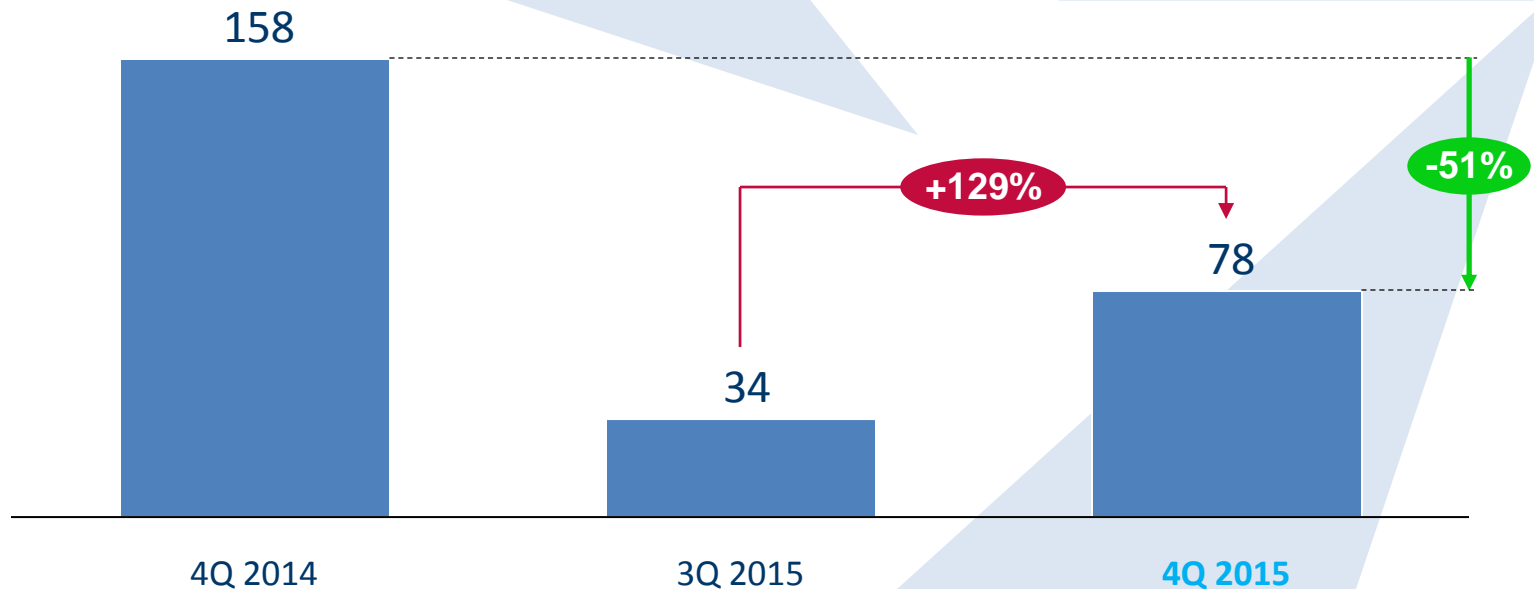
## Impairments on loans and receivables

**Seasonal increase** attributable mainly to:

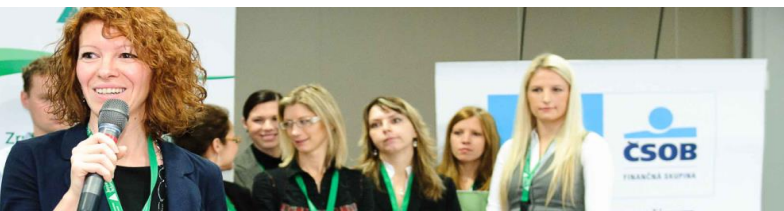
- High impairments in foreign branches, but low impairments in retail, corporates & real estate in the BE BU
- Higher impairments on SMEs in the Czech Republic and Slovakia
- Ireland (16m EUR compared with 9m in 3Q15 and 41m EUR in 4Q14)

### Credit cost ratio (YTD)

4Q14	3Q15	4Q15
0.42%	0.23%	0.23%



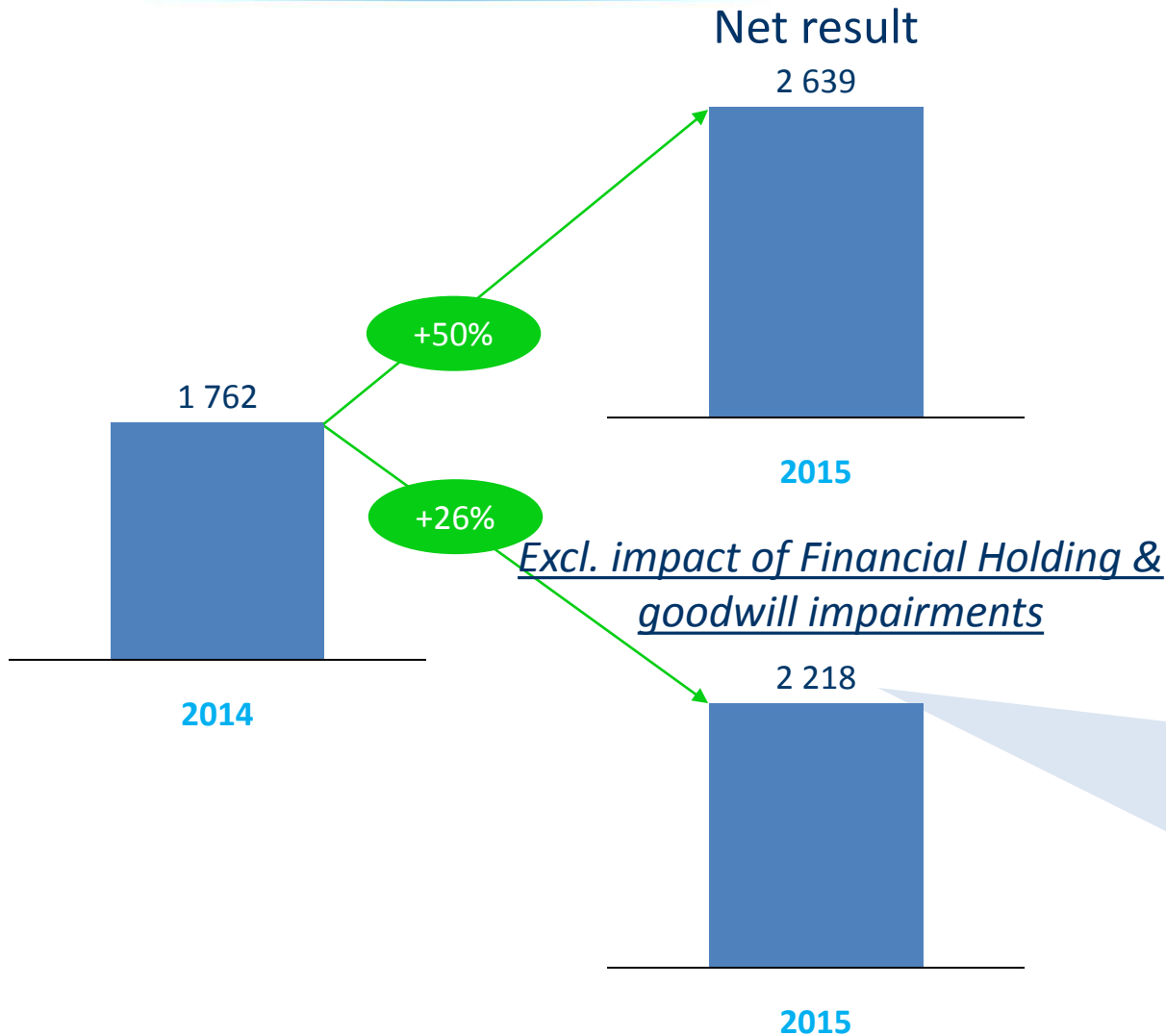
The credit cost ratio only amounted to 0.23% in FY15 due to low gross impairments (especially in 3Q15) and some releases (especially in 1Q15), despite an increase in IBNR impairments (due to parameter changes) by approximately 34m EUR in 2Q15



# KBC Group Consolidated results FY 2015 performance

# KBC Group:

*FY 2015 net result increased by 50% y-o-y*

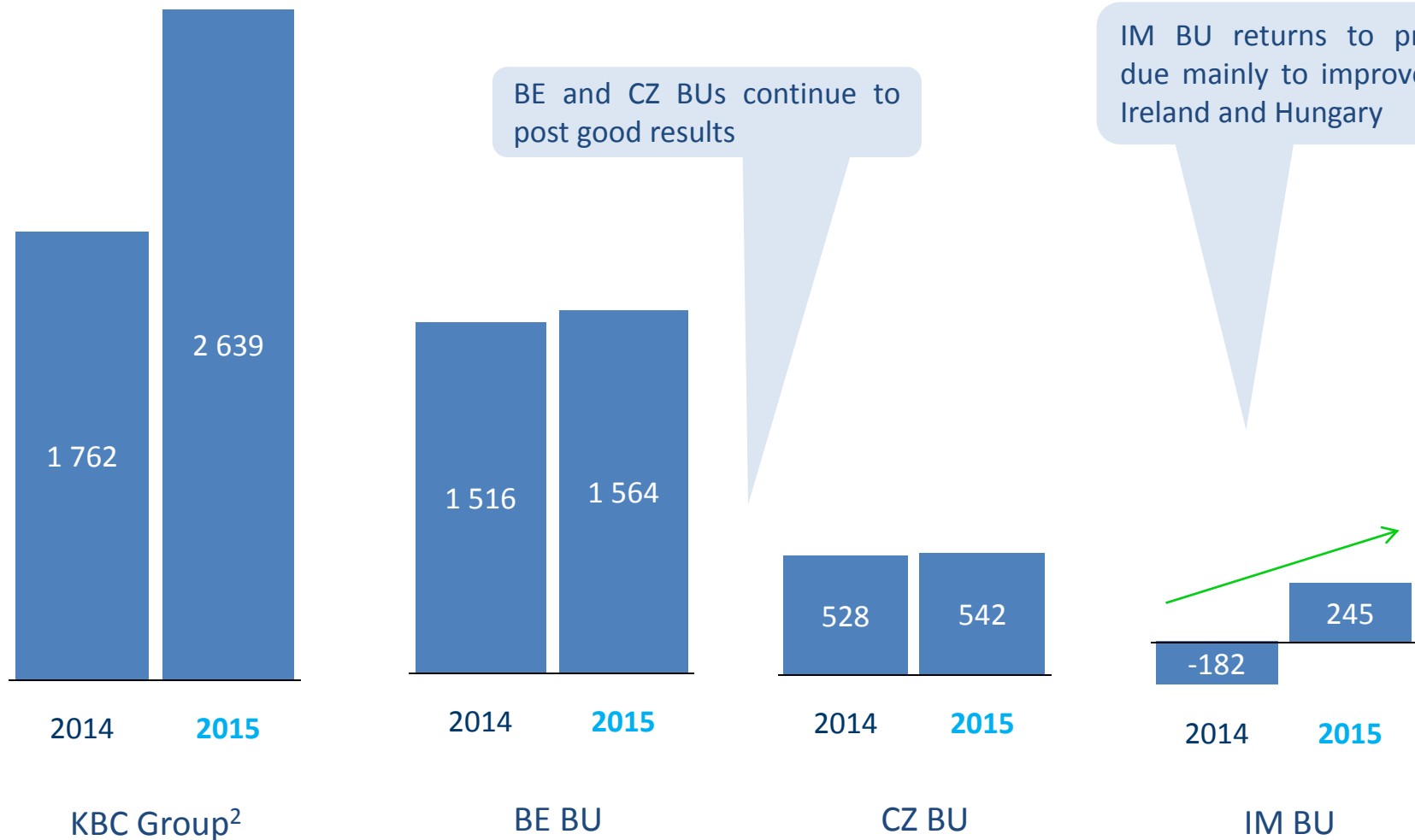


Excluding the impact of liquidating Financial Holding and -344m EUR of goodwill impairments **the net result increased by 26% due to:**

- **higher quality revenue** generation (slightly higher net interest income, 7% higher net fee & commission income)
- **strict cost control** (excl. sharply higher bank taxes)
- **lower impairments**

# Net result per business unit :

*IM BU<sup>1</sup> achieved more than its profitability target*



Amounts in millions of EUR

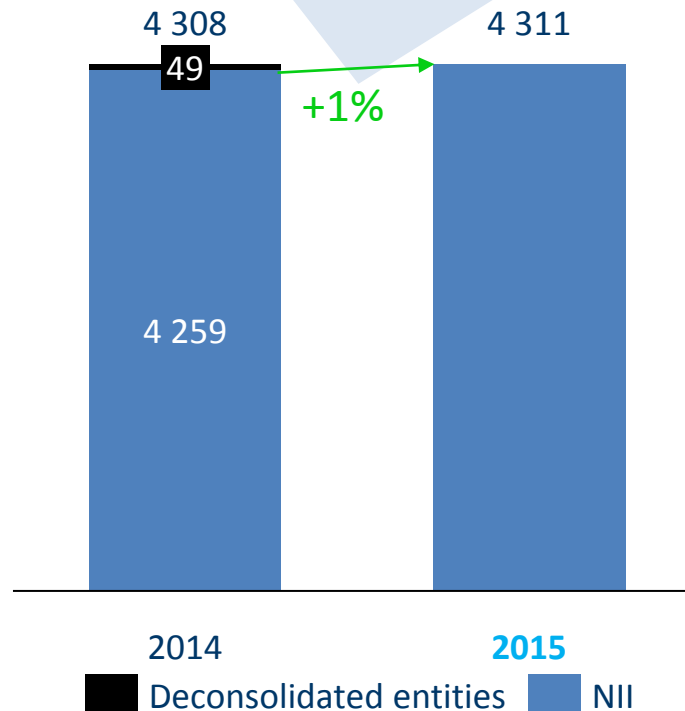
<sup>1</sup> International Markets (IM) BU includes Hungary, Slovakia, Bulgaria and Ireland  
<sup>2</sup> KBC Group also includes Group Centre

# Net interest income:

*Net interest income (NII) slightly up, margin (NIM) slightly under pressure*

**On a comparable basis (excl. deconsolidated entities) y-o-y:**

- **NII rose by 1%**, despite lower reinvestment yields and a shift of savings to mutual funds
- **loan volumes increased by 3%:** +8% in the Czech Republic BU and +3% in the Belgium BU, partly offset by -34% in the Group Centre
- **deposit volumes rose by 5%:** +5% in the Belgium BU, +6% in the Czech Republic BU and +15% in the International Markets BU, partly offset by -17% in the Group Centre (mainly KBC Ifima)



## Net Interest Margin

2014	2015
2.08%	2.02%

Lower reinvestment yields and the hedging losses on previously refinanced mortgages were only partly offset by rate cuts on savings accounts, higher margins on refinanced loans and lower funding costs

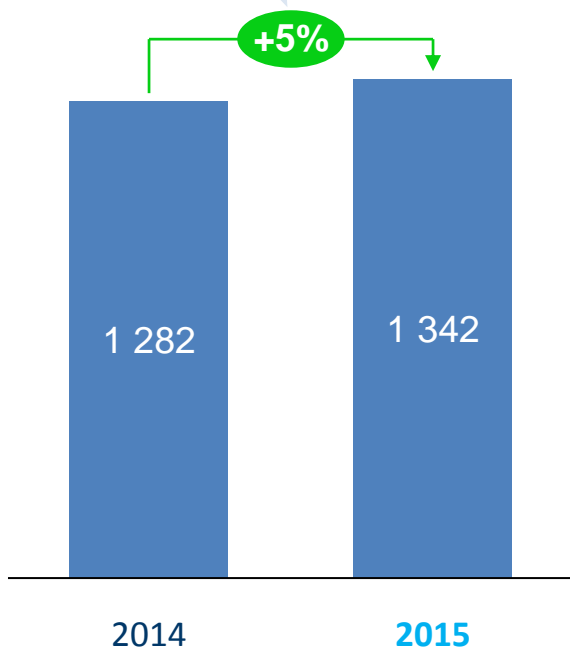


# Insurance (Non-life):

*Higher non-life insurance sales and excellent combined ratio*

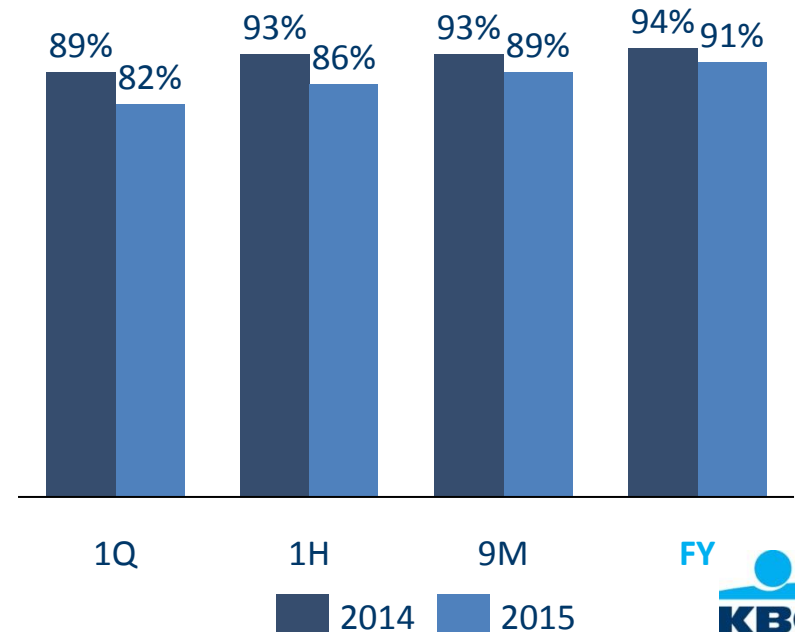
Up by 5% y-o-y on a comparable basis due mainly to a good commercial performance in all major product lines in our core markets

Non-life sales  
*Gross written premium*



Strong improvement in FY15 compared to FY14 (as FY14 was negatively impacted by hailstorms in Belgium)

Combined ratio



# Insurance (Life):

## Lower life insurance sales, but higher VNB

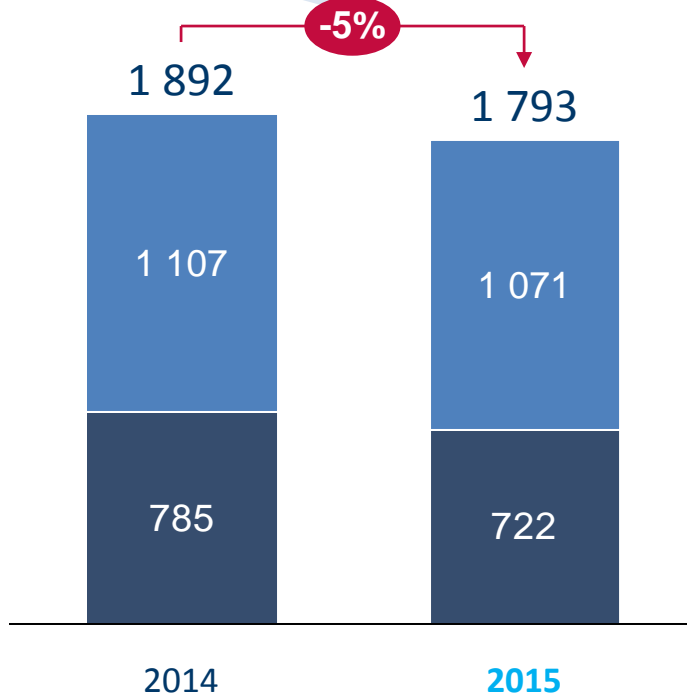
Reduction in sales of unit-linked products was attributable mainly to (i) the small number of newly launched tranches/campaigns, (ii) the insurance tax and (iii) a shift towards AM products (all occurring in the Belgium BU)

Sales of guaranteed interest products decreased as a result of the low guaranteed rate

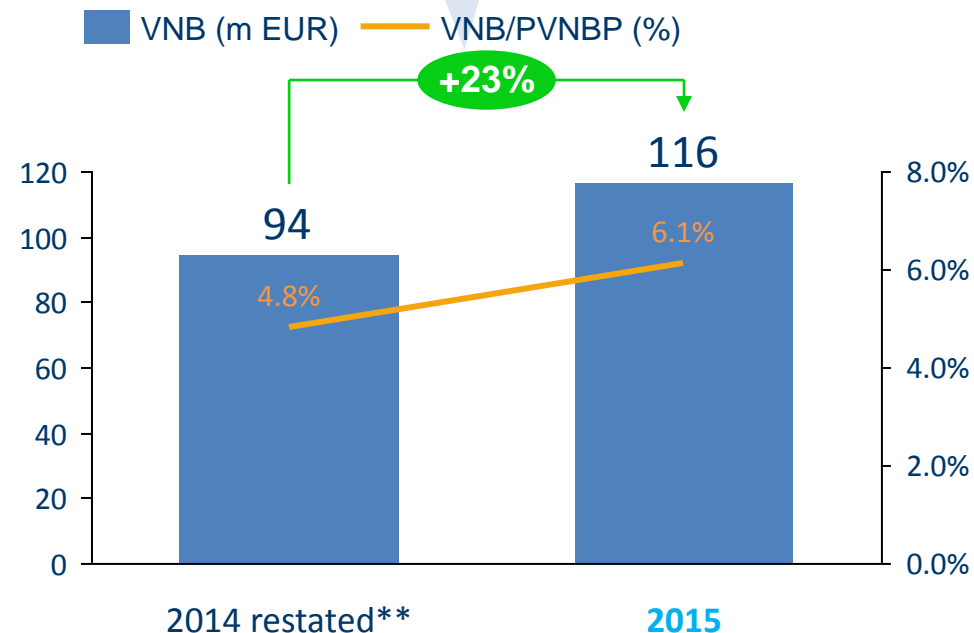
Sales of unit-linked products accounted for just 40% of total life insurance sales

Rose by 23% y-o-y to 116m EUR due to the switch in sales to more profitable products (e.g. mortgage-linked insurance)

### Life sales



### Value of New Business (VNB) (Life)\*



■ Guaranteed interest rate products

■ Unit-linked products

\* Around 46% of total VNB was generated through inclusion of the expected future profits arising from KBC AM and KBC Bank

\*\* Restated due to switch to Solvency 2 capital and the full inclusion of intragroup banking and asset management income from KBC Insurance Belgium and CSOB Poj CZ

• VNB = present value of all future profits attributable to the shareholders from the new life insurance policies written during the year

• VNB/PVNB = VNB at point of sale compared with the Present Value of New Business Premiums. This ratio reflects the margin earned on total premiums

Amounts in millions of EUR

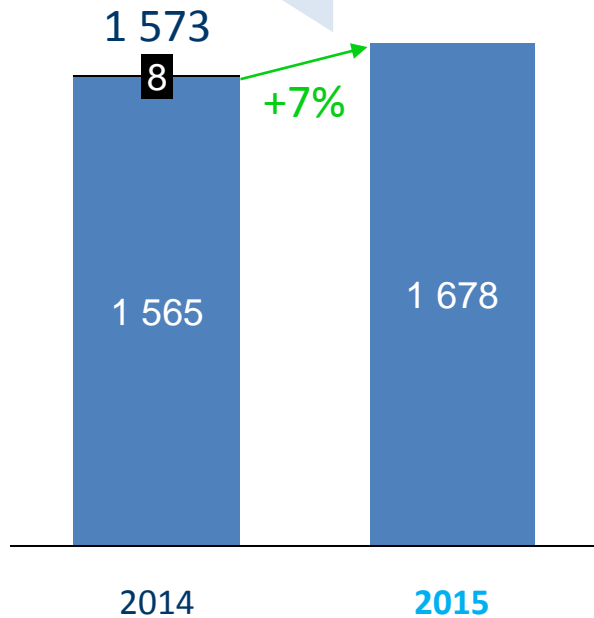
# Net fee and commission income:

*Strong net fee and commission income and AUM*

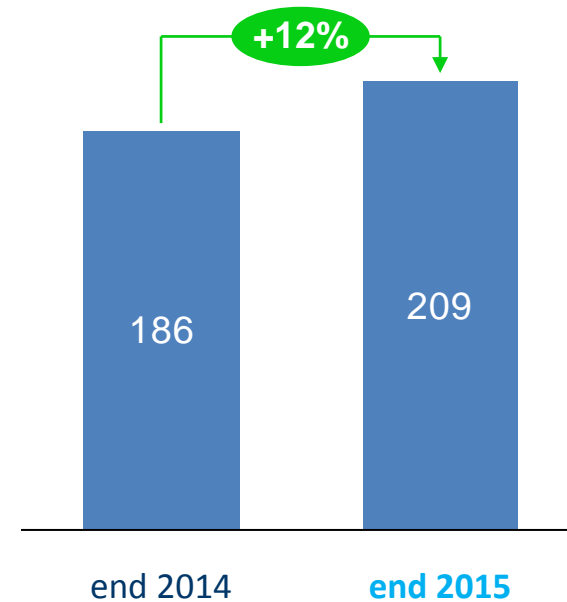
Increased by 7% y-o-y excluding deconsolidated entities, driven mainly by an 11% increase in the Belgium BU owing to (i) higher management fees on mutual funds and (ii) increased fees from credit files and bank guarantees (benefitting from the refinancing of mortgage loans), only partly offset by higher commissions paid on insurance sales and lower entry fees from unit-linked life insurance products

Increase owing to net inflows (+8%) and a positive price effect (+4%)

### Net fee and commission income



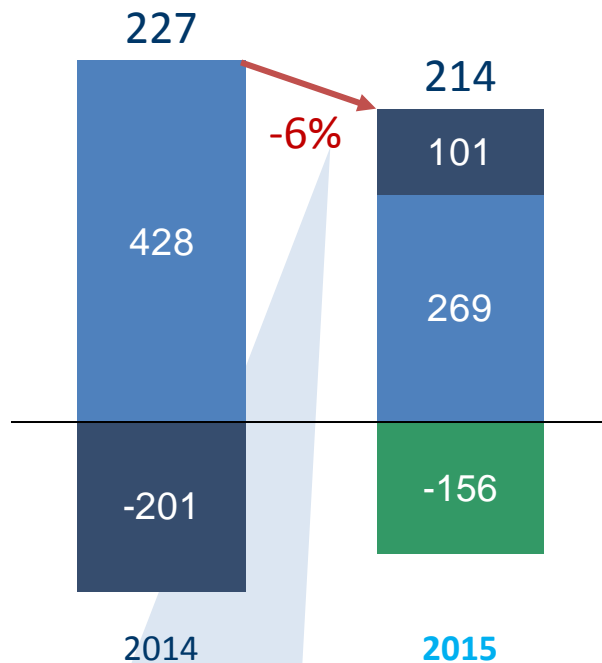
### Assets under management (AUM)



# The other net income drivers:

## *Lower fair value gains mute the performance*

### Net gains on financial instruments at fair value



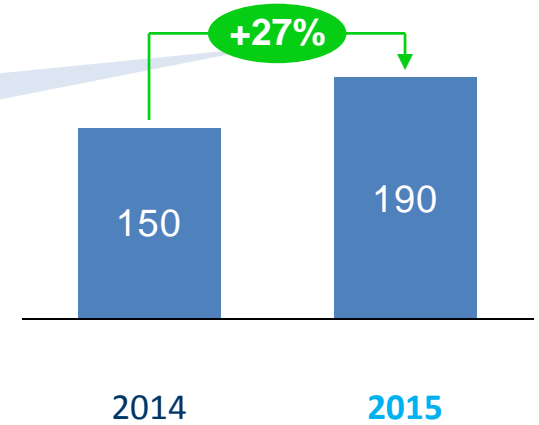
- Liquidation KBC FH
- M2M ALM derivatives

Y-o-y decrease attributable entirely to -156m EUR translation differences as a result of the liquidation of KBC Financial Holding. Note a sharply positive change in ALM derivatives

Amounts in millions of EUR

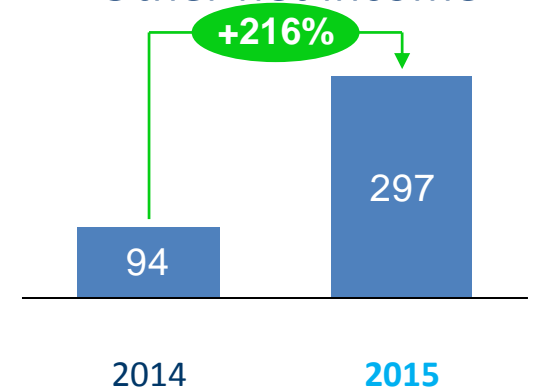
Mainly gains on shares in the Belgium BU

### Gains realised on AFS assets



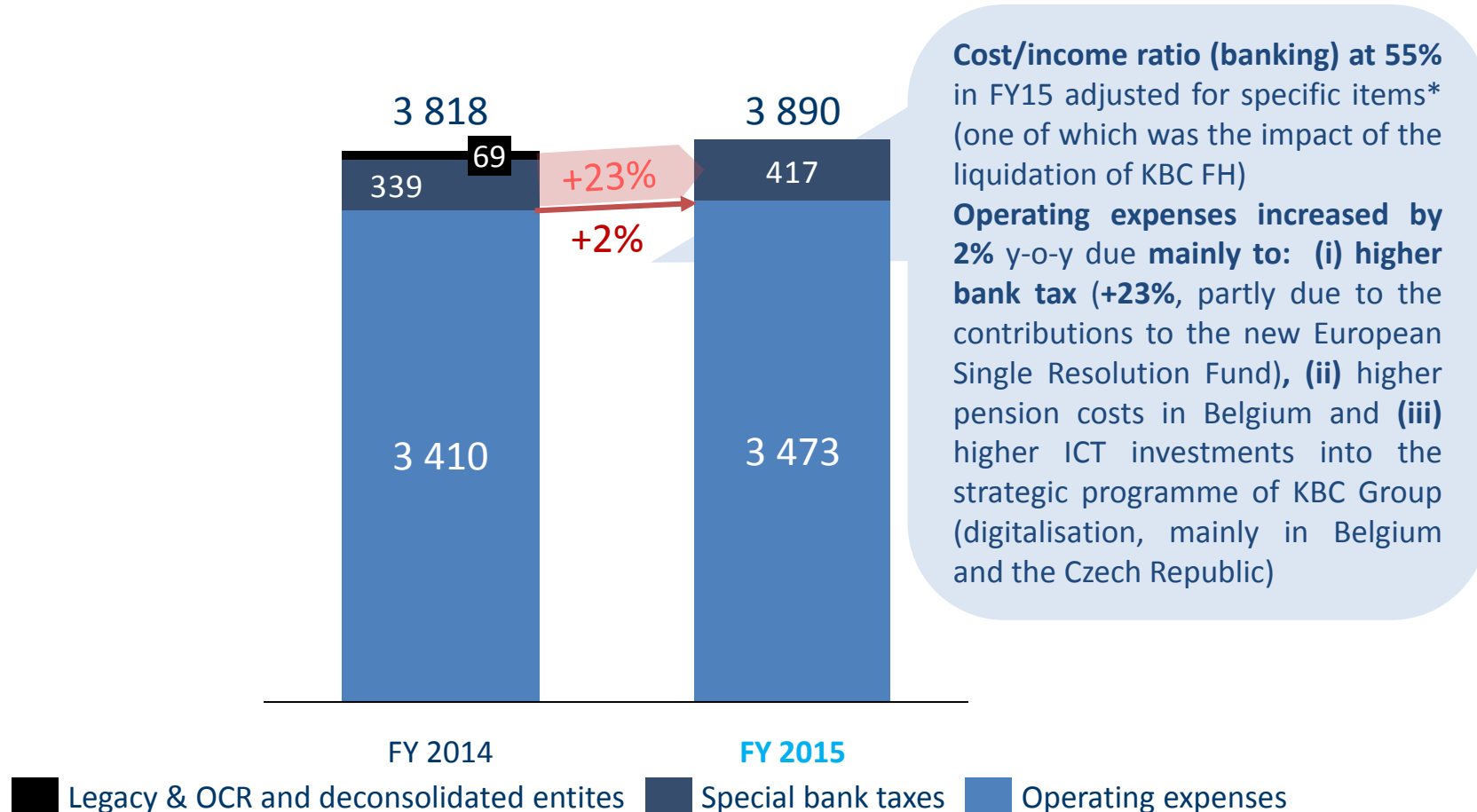
Higher than normal run rate of roughly 200m EUR due to, among other things, the settlement of old legal files, real estate gains, a release from the previously booked Curia provision and from (previously announced) divestments in the Group Centre

### Other net income



# Operating expenses:

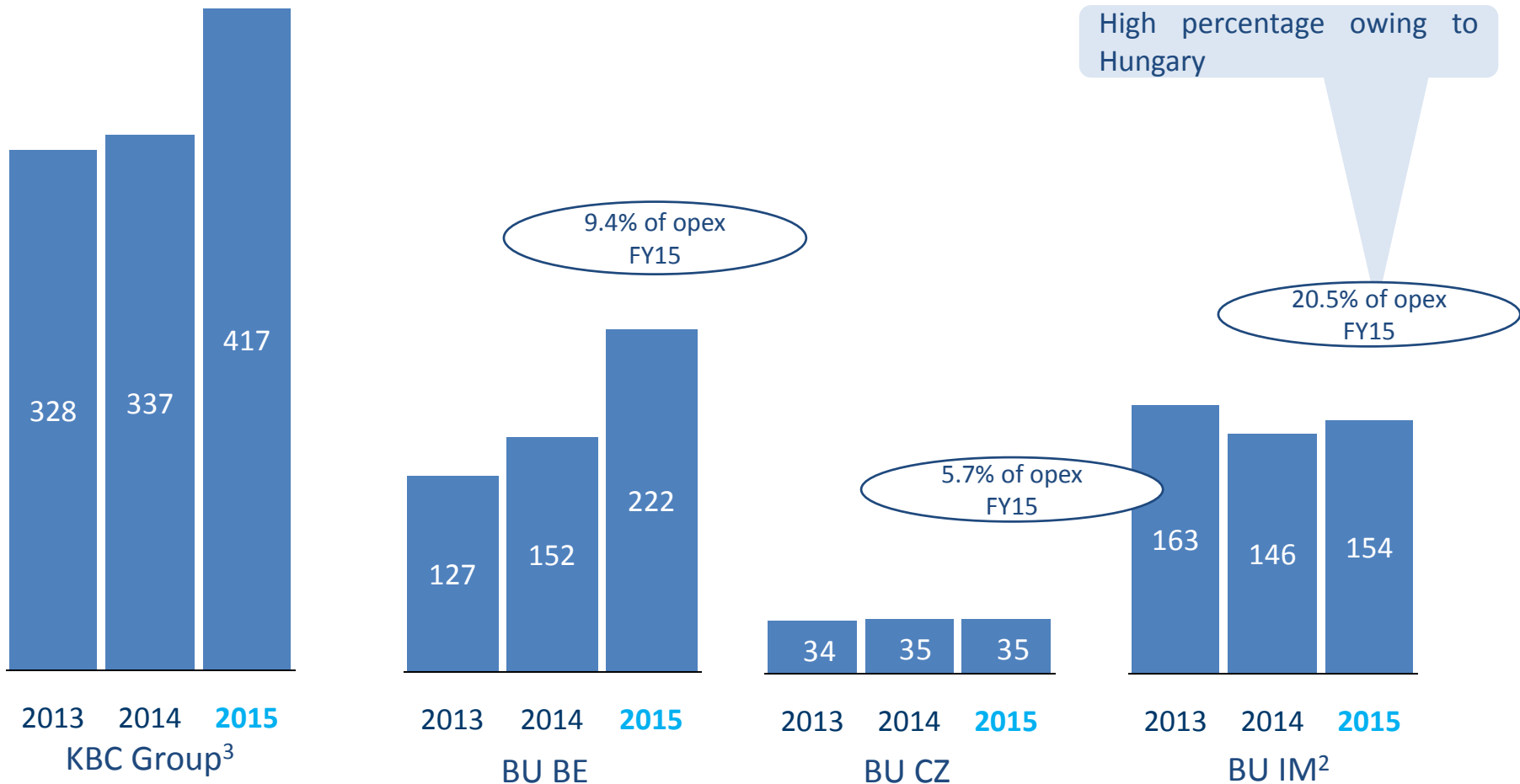
*Expenses up, but good cost-income ratio*



# Special bank taxes<sup>1</sup>:

Represent 10.7% of operational expenses FY15

Amounts in millions of EUR



<sup>1</sup> This refers solely to the bank taxes recognised in opex, and as such it does not take account of income tax expenses, non-recoverable VAT, etc.

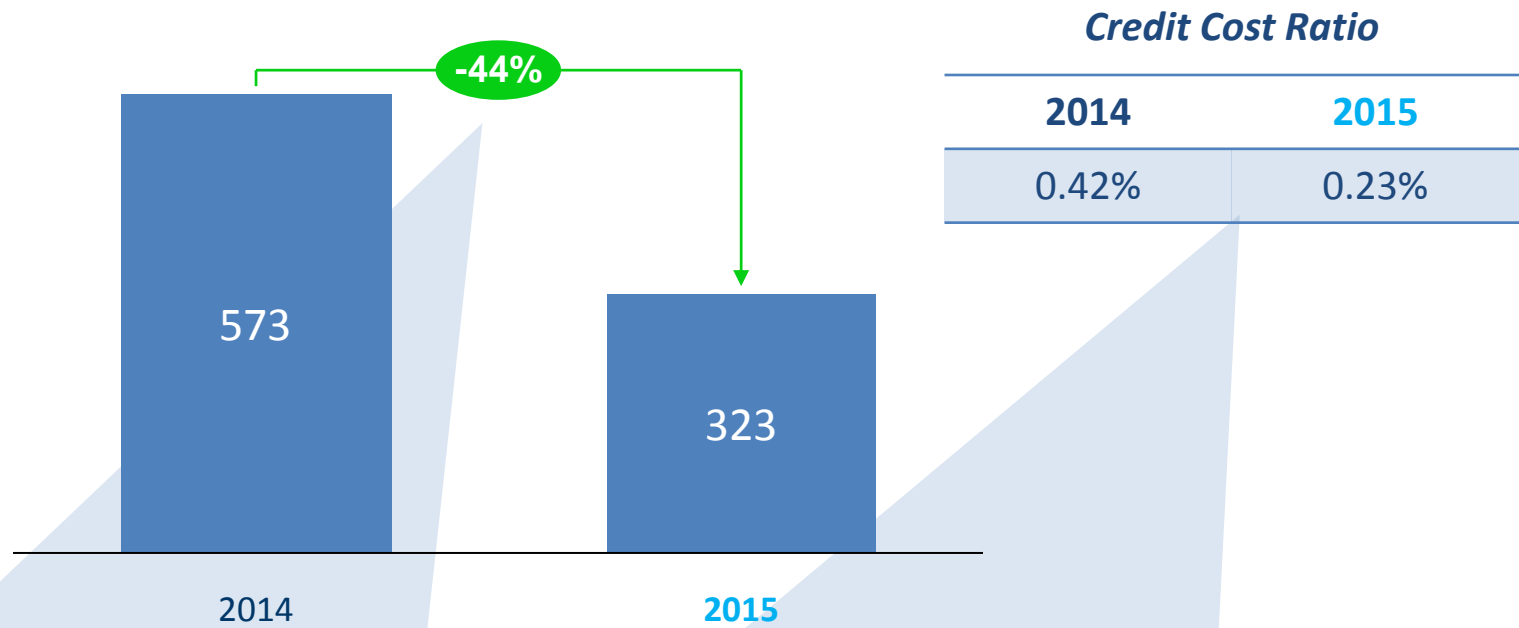
<sup>2</sup> Internation Markets (IM) BU includes Hungary, Slovakia, Bulgaria and Ireland

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# Asset impairments:

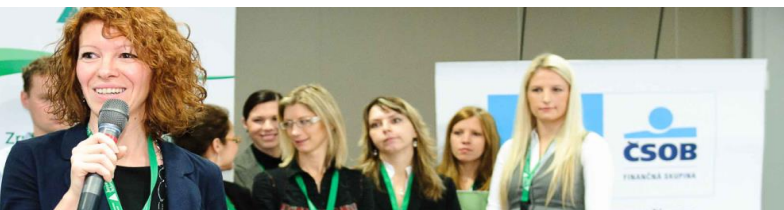
Overall impairments driven by -344m EUR on goodwill ; loan impairments depicted by an excellent credit cost ratio of 0.23% (historic average '99-'15 of 0.52%)

## Impairments on loans and receivables



Loan loss provisions decreased by 44%, owing mainly to Ireland (198m EUR in FY14 compared with 48m EUR in FY15), Group Centre and Hungary

The credit cost ratio sharply improved from 0.42% in FY14 to 0.23% in FY15. The credit cost ratio improved in each business unit, except for the Czech Republic BU (which stabilised y-o-y at a low level of 0.18%)



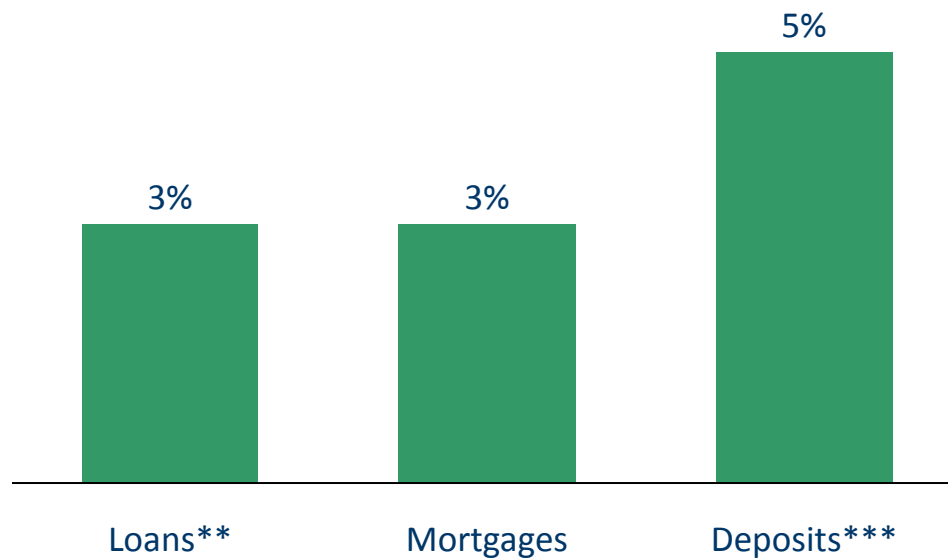
KBC Group  
Balance sheet,  
capital and liquidity



# Balance sheet (1/2):

*Loans and deposits continue to grow in most core countries*

## Y-O-Y ORGANIC\* VOLUME GROWTH FOR KBC GROUP



\* Volume growth making abstraction of Fx effects and divestments/acquisitions

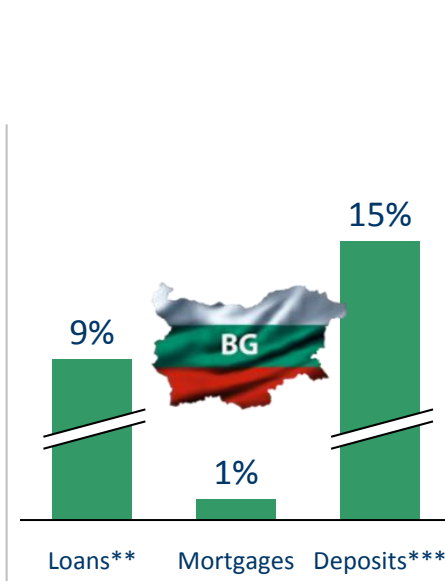
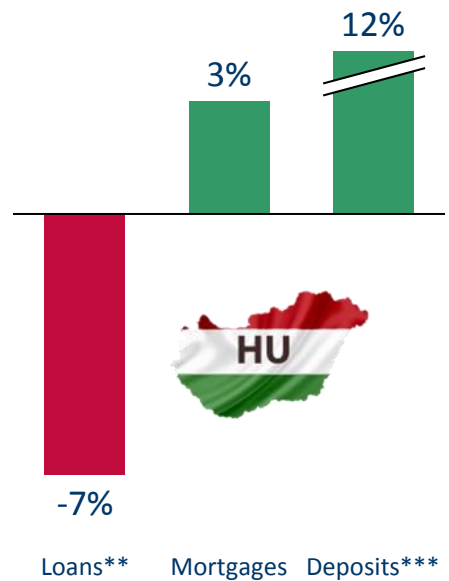
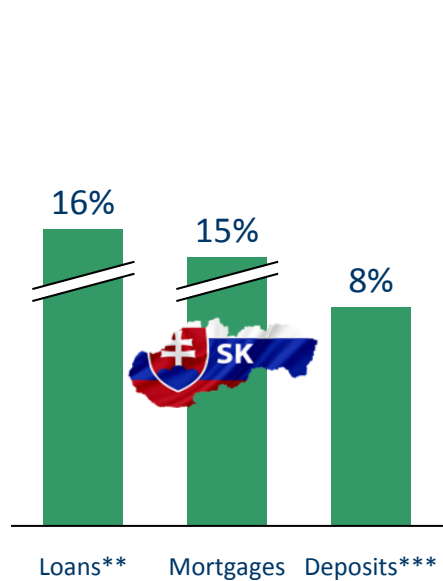
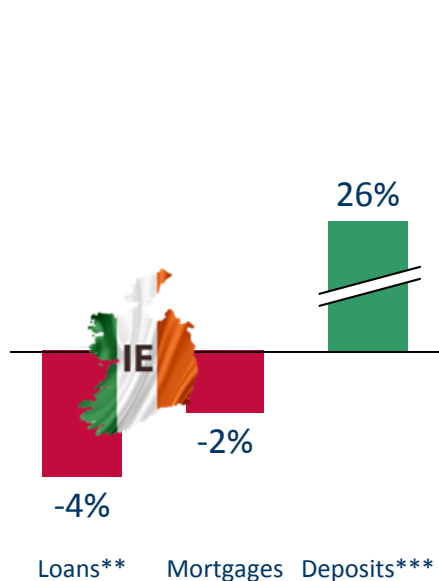
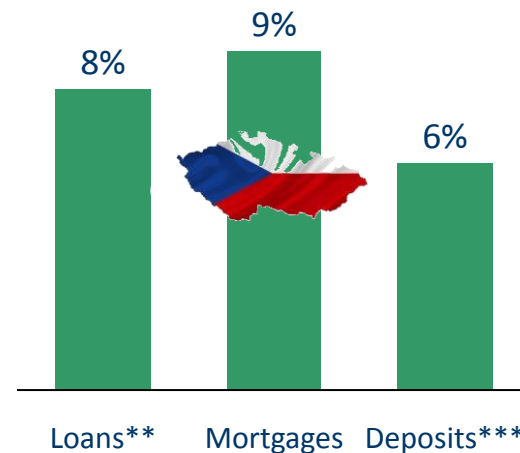
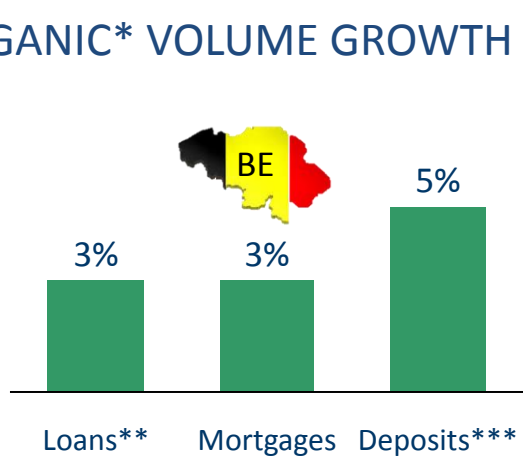
\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos. Please be aware of the significant impact of calling most of the hybrid tier-1 instruments and maturing wholesale debt

# Balance sheet (2/2):

*Loans and deposits continue to grow in most core countries*

## Y-O-Y ORGANIC\* VOLUME GROWTH FOR MAIN ENTITIES



\* Volume growth making abstraction of Fx effects and divestments/acquisitions

\*\* Loans to customers including reverse repos (and not including bonds)

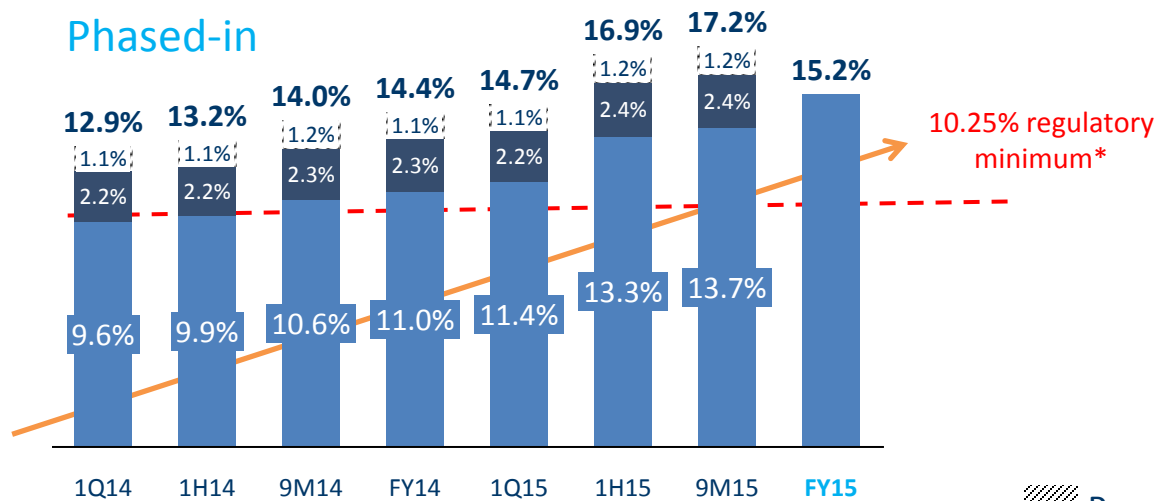
\*\*\* Customer deposits, including debt certificates and including repos



# Capital and liquidity ratios (1/2):

## Capital ratio resides comfortably above regulatory minimum

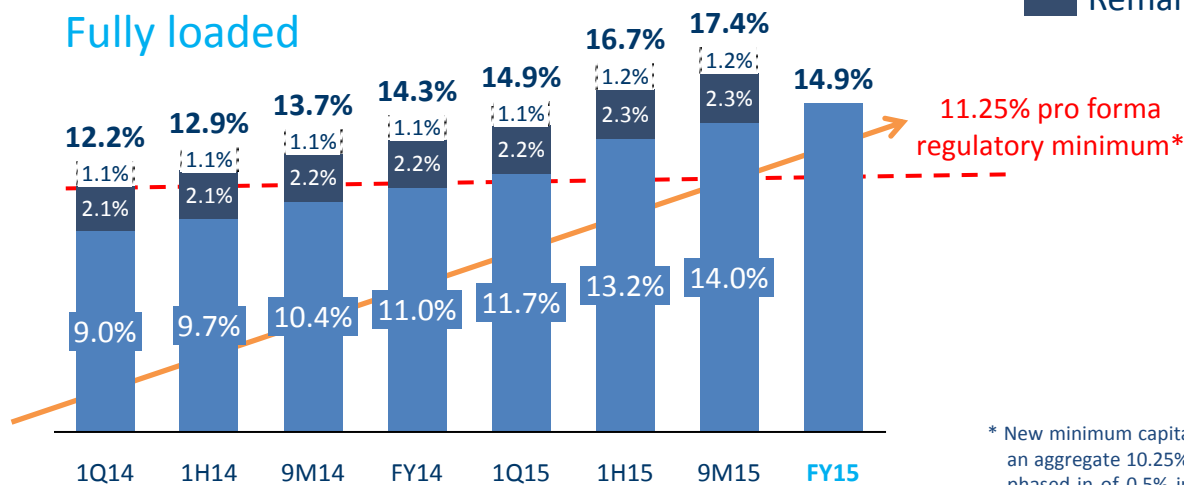
KBC Group Basel 3 CET1 ratio (*Danish compromise*)

### Phased-in



 Penalty on remaining State aid  
 Remaining State aid

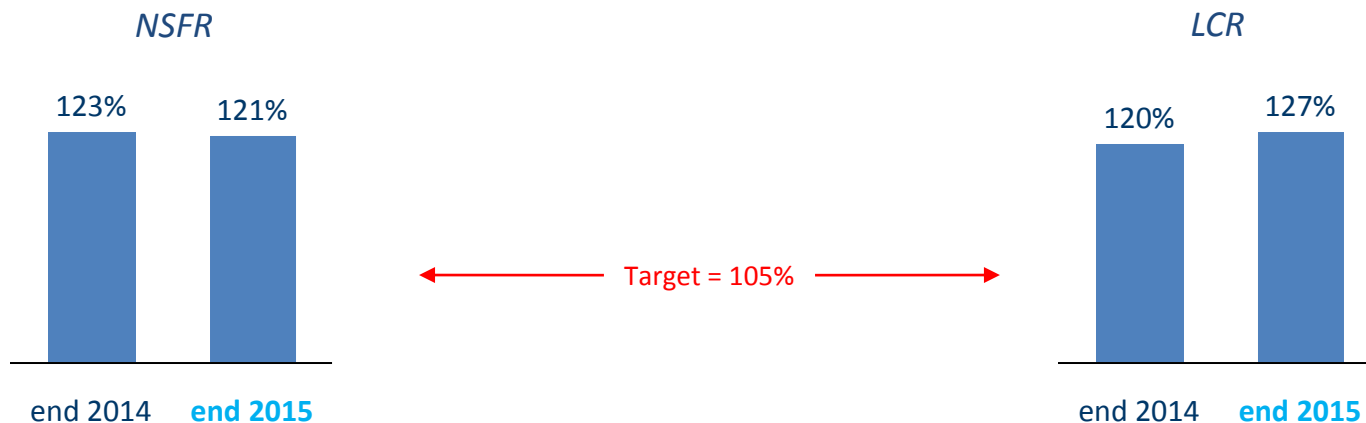
### Fully loaded



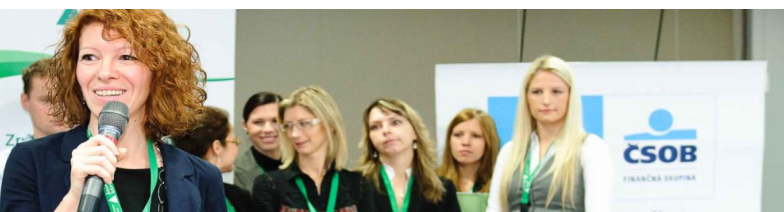
\* New minimum capital requirements set by the ECB (9.75%) and the NBB (0.5%), i.e. an aggregate 10.25% for 2016. As announced by the NBB the systemic buffer (CET1 phased-in of 0.5% in 2016 under the Danish Compromise) will gradually increase over a 3-year period, reaching 1.5% in 2018

# Capital and liquidity ratios (2/2): *Liquidity continues to be strong*

## KBC Group's liquidity ratios\*



\* Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are calculated based on KBC's interpretation of the current Basel Committee guidance, which may change in the future. The LCR can be relatively volatile in future due to its calculation method, as month-to-month changes in the difference between inflows and outflows can cause important swings in the ratio even if liquid assets remain stable



# KBC Group 4Q15 and FY15 wrap up

# Wrap up

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- ✓ Strong commercial bank-insurance results in our core countries
- ✓ Successful underlying earnings track record
- ✓ Solid capital and robust liquidity position

# Looking forward to 2016

## Looking forward, management envisages:

- ✓ Continued stable and solid returns for the Belgium & Czech Republic BUs
- ✓ With 245m EUR profit in FY15, the International Markets BU more than achieved its profitability target, which was to become at least profitable as of FY15
- ✓ As per guidance already issued, profitability in Ireland expected to continue in FY 2016....
- ✓ ...moreover, we are maintaining our guidance on impairments for Ireland, namely the lower end of the 50m-100m EUR range for FY16
- ✓ A phased-in B3 common equity ratio of minimum 10.25% for 2016
- ✓ LCR and NSFR of at least 105%
- ✓ Dividend payout ratio (including the coupon paid on AT1)  $\geq$  50% as of FY2016\*

\* Subject to the approval of the General Meeting of Shareholders