



# KBC Group

## 2Q en 1H 2016 results

# Press presentation

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# 2Q 2016 key takeaways for KBC Group

## ■ STRONG BUSINESS PERFORMANCE IN 2Q16

**Exceptionally good net result of 721m EUR in 2Q16 (and 1.11bn EUR in 1H16), as a result of:**

- Strong commercial bank-insurance franchises in our core markets and core activities
- Q-o-q increase in customer loan and deposit volumes in most of our core countries
- Slightly higher net interest income despite somewhat lower net interest margin q-o-q
- Higher net fee and commission income q-o-q (in line with guidance), despite net asset management outflows
- Higher net gains from financial instruments at fair value, higher realised AFS gains (mainly on Visa) and lower net other income
- Combined ratio of 95% YTD. Excellent sales of both non-life and life insurance products
- Good cost management resulted in a cost/income ratio of 56% YTD adjusted for specific items
- Low impairment charges. Net loan provision release of 1m EUR in 2Q16 in Ireland. We are lowering our impairment guidance for Ireland towards a 0m-40m EUR range for FY16

## ■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- **Common equity ratio (B3 phased-in) of 14.9% based on the Danish Compromise** at end 1H16, 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 1H16**
- **KBC remains adequately capitalised under 2016 EU-wide EBA stress test**
- Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **6.0%** at KBC Group
- **Continued strong liquidity position** (NSFR at 123% and LCR at 132%) at end 1H16
- **Interim dividend:**
  - KBC will pay an interim dividend of 1 EUR per share in November 2016, as an advance payment on the total dividend
  - This is the start of an interim dividend policy whereby KBC aims to pay each year an interim dividend of 1 EUR per share
- **The current pay-out ratio policy (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit is confirmed**

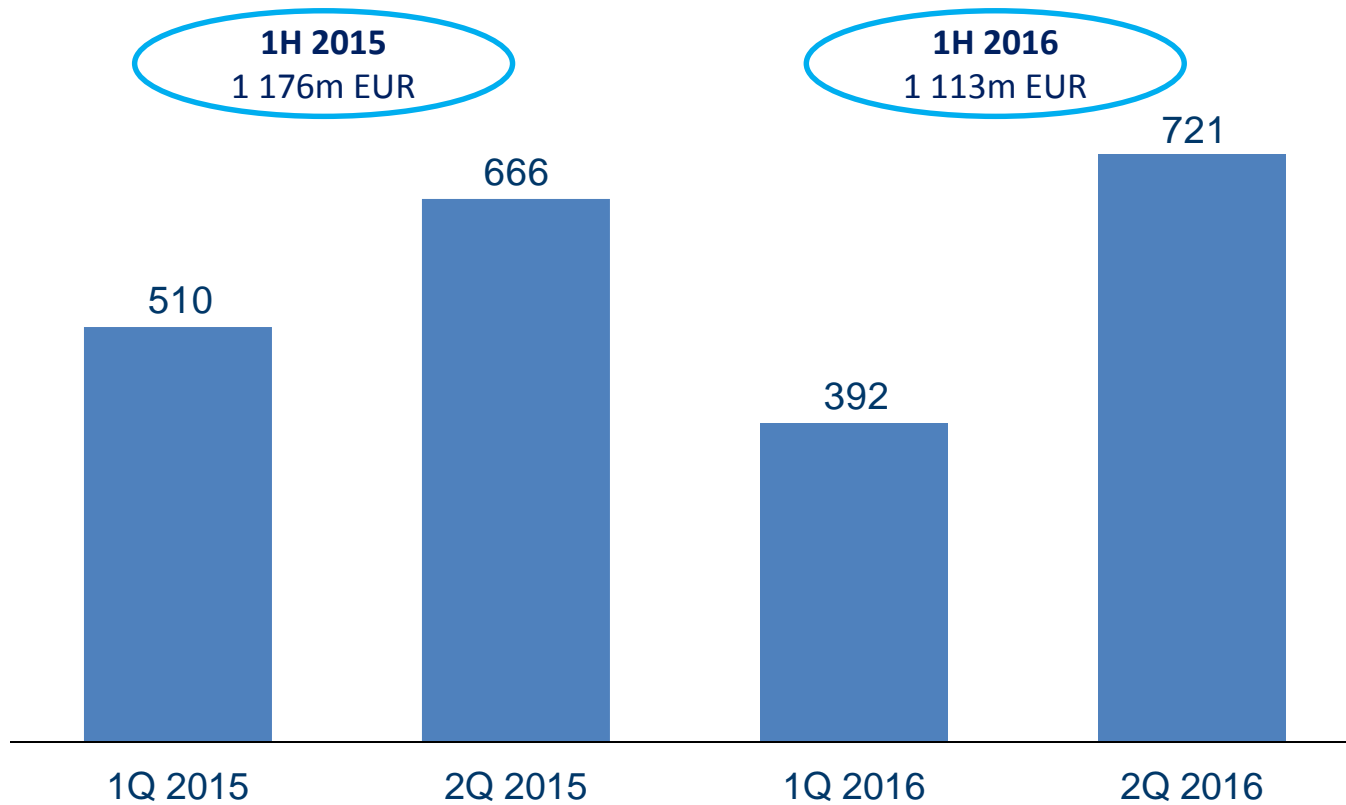


# KBC Group Consolidated results 2Q 2016 performance

# KBC Group:

## *Strong business performance in 2Q 2016*

### Net result

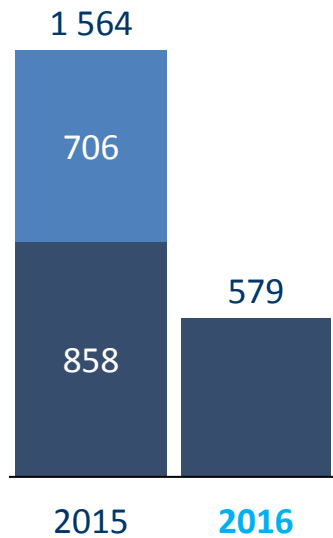


# Net result per business unit:

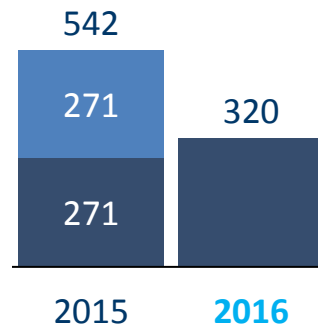
*IM BU\*: turnaround achieved*

1H16 net result breakdown for International Markets:

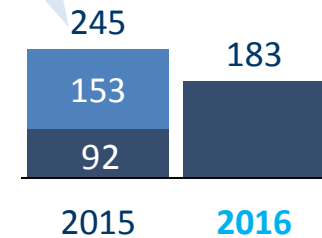
- **65m** EUR for **Hungary**
- **57m** EUR for **Slovakia**
- **53m** EUR for **Ireland**
- **8m** EUR for **Bulgaria**



BE BU



CZ BU



IM BU\*

■ 1H ■ 2H

# Net interest income:

*Resilient Net Interest Income (NII) despite low yield environment and slightly lower Margin (NIM)*

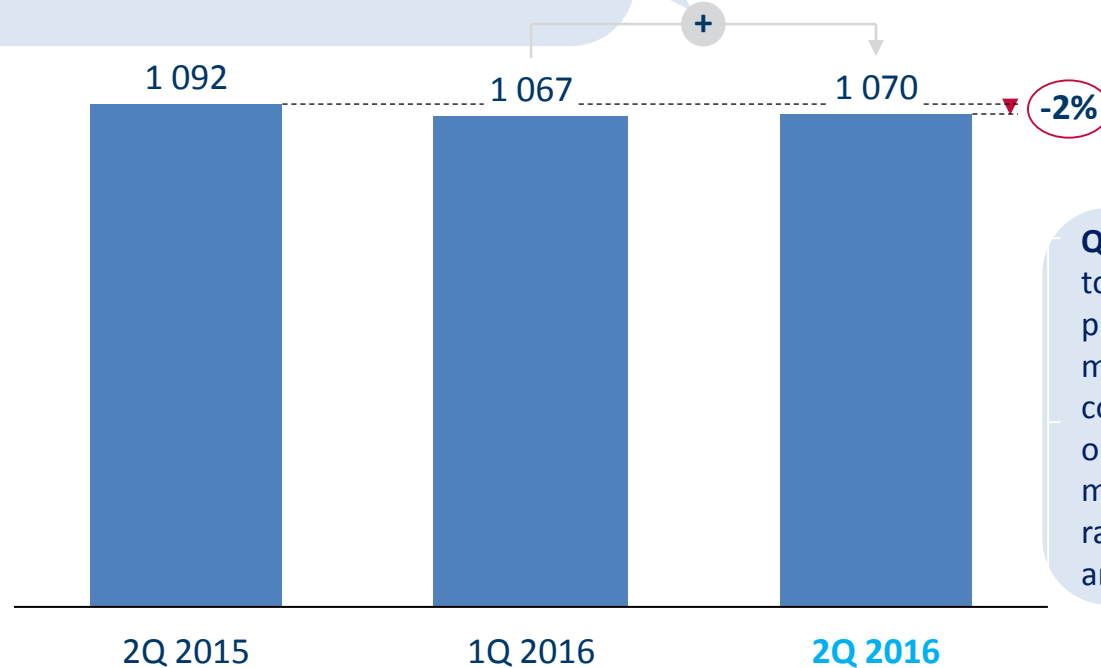
## NII slightly up q-o-q:

(+) lower funding costs, additional rate cuts on savings accounts, higher upfront prepayment fees, continued good volume growth in current accounts and loans and further positive effect of enhanced ALM management

(-) lower reinvestment yields, hedging losses on previously refinanced mortgages, pressure on commercial loan margins in most core countries and a decrease of 9m EUR in NII from the dealing room

## Net Interest Margin

2Q15	1Q16	2Q16
2.06%	1.96%	1.94%



**Q-o-q decrease of NIM** is due to lower reinvestment yields, pressure on commercial loan margins in most core countries and hedging losses on previously refinanced mortgages partly offset by rate cuts on savings accounts and lower funding costs

# Insurance (1/2):

## Strong performance on premium income

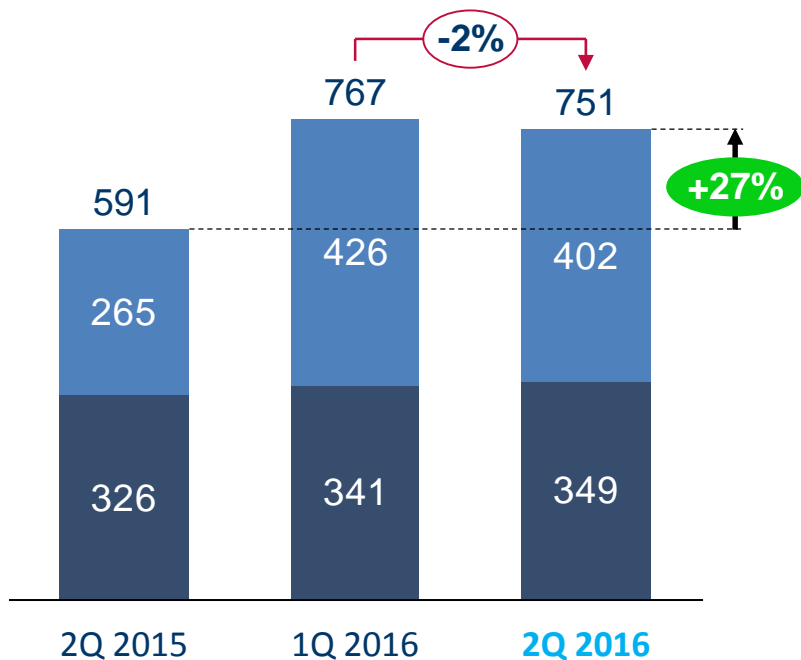
**Non-life premium** income increased by 7% y-o-y

**Life premium** income down by 6% q-o-q (due mainly to lower unit-linked single premiums in the Czech Republic) and up by 51% y-o-y (driven by significantly higher sales of guaranteed interest products in Belgium and higher sales of unit-linked products in the Czech Republic)

**Q-o-q decrease** driven almost entirely by lower sales of unit-linked products (commercial effort in Belgium in 1Q16). Sales of interest guaranteed products stabilised due to commercial efforts.

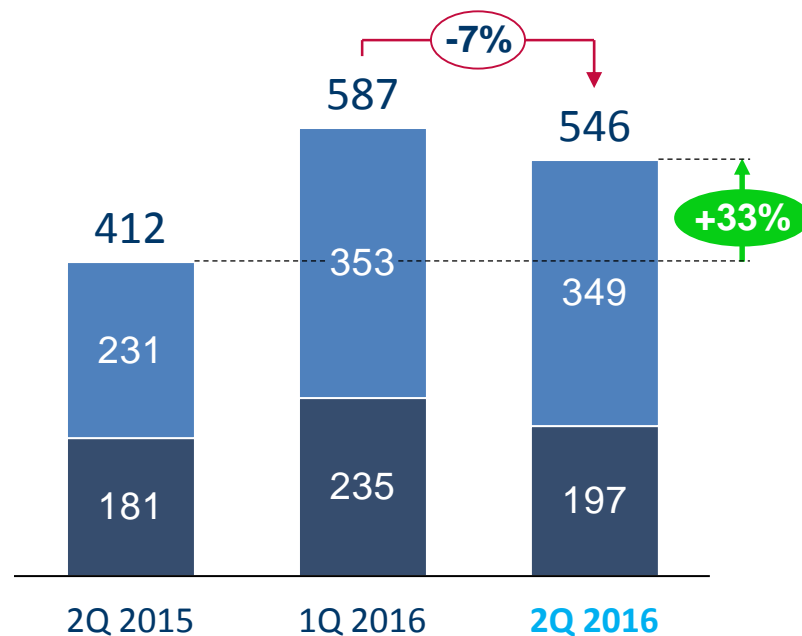
**Y-o-y increase** mainly explained by significantly higher sales of guaranteed interest products in Belgium and higher sales of unit-linked products in the Czech Republic

### Gross earned premiums



■ Life ■ Non-life

### Life sales



■ Guaranteed interest rate products  
■ Unit-linked products



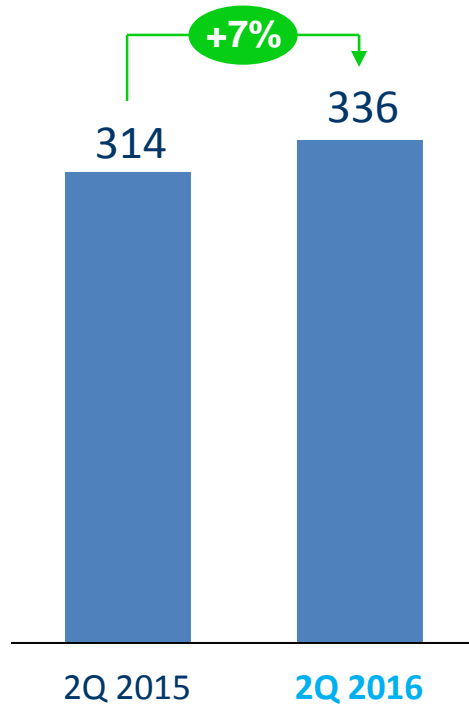


# Insurance (2/2):

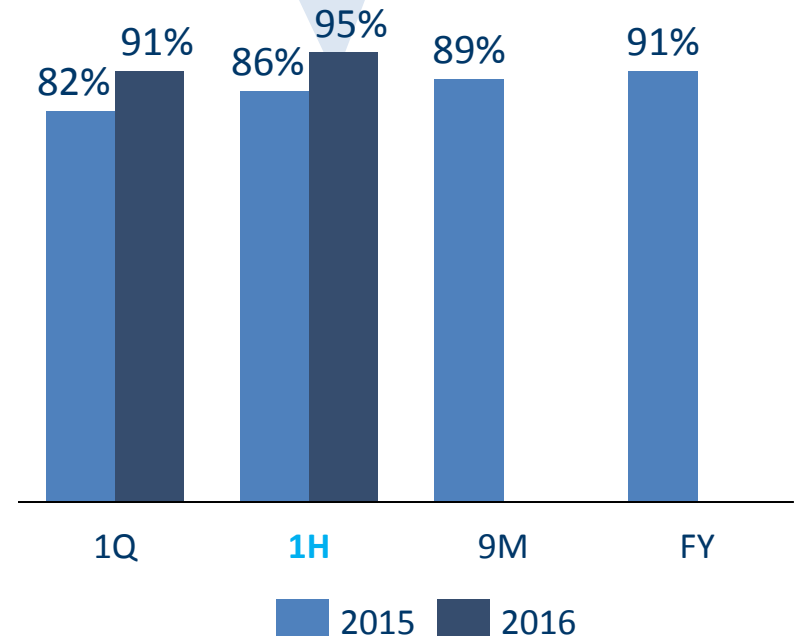
*Strong non-life sales, claims significantly impacted by natural perils*

Up by 7% y-o-y thanks to a good commercial performance in all major product lines in our core markets and tariff increases

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



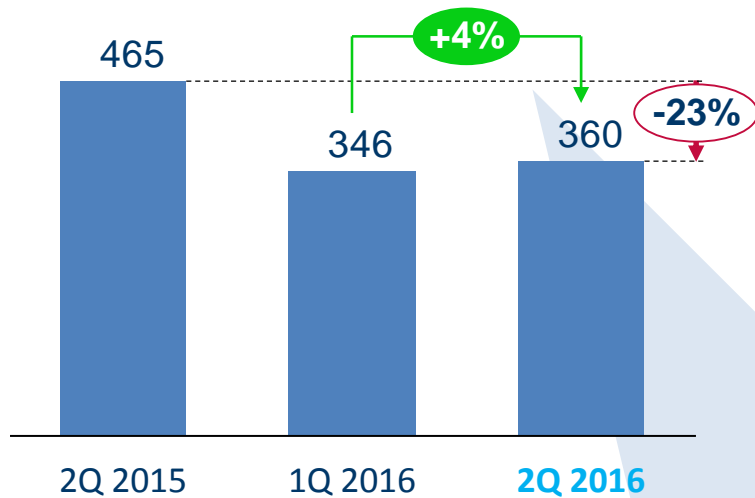
1H16 amounted to 95% due to higher technical charges in **2Q16**, mainly caused by the **impact of storms & floods (24m claims in Belgium and 2m claims in the Czech Republic)**, and the higher claims due to the terrorist attacks in 1Q16



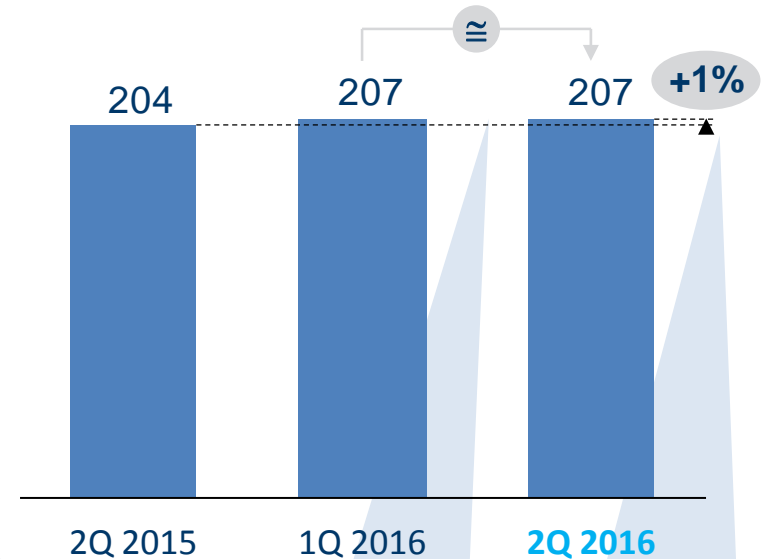
# Net fee and commission income:

*Higher fee and commission income (in line with guidance)*

## Net fee and commission income



## Assets under management (AUM)



- **Q-o-q increase was the result chiefly of:**

- higher management fees from mutual funds & unit-linked life insurance products (thanks to reset date CPPI)
- higher fees from credit files and bank guarantees (due to more mortgage refinancing in BE, CZ and Slovakia)
- higher fees from payment services in the Czech Republic and Hungary
- lower commissions paid on insurance sales

- partly offset by:

- lower entry fees from mutual funds & unit-linked life insurance products
- lower securities-related fees in Belgium

- **Net F&C income will remain an important top-line contributor**

Q-o-q: net outflows (-1%) and a positive price effect (+1%)

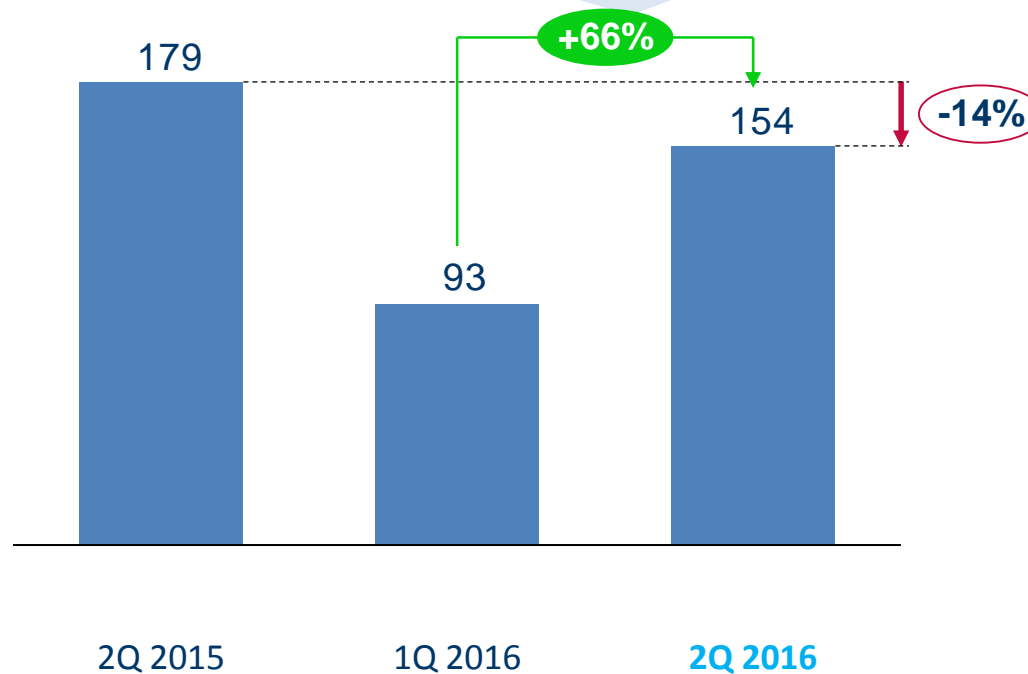
Y-o-y: flat net inflows (+2%) and a negative price effect (-1%)

# Net gains on financial instruments at fair value:

*Higher fair value gains q-o-q*

## Q-o-q increase attributable chiefly to:

- (+) - a positive change in market, credit and fair value adjustments (mainly as a result of model changes)
  - slightly better dealing room income
- (-) a negative change in ALM derivatives (13m EUR in 2Q16 compared with 20m EUR in 1Q16) due to a further decrease q-o-q in IRS rates



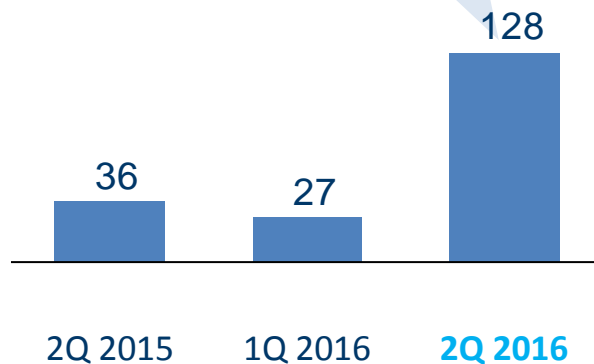
# The other net income drivers:

*Higher gains realised on AFS assets*

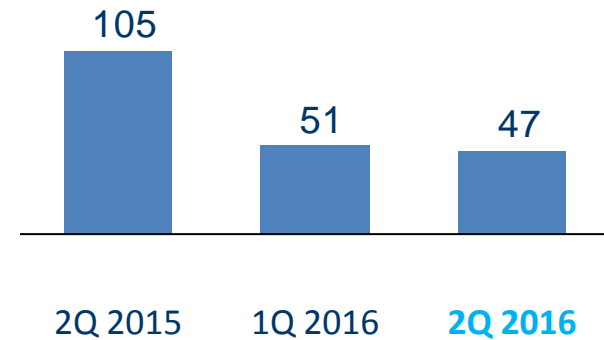
Higher gains realised on AFS assets (q-o-q increase entirely on shares), **mainly on:**

- **Visa Europe Limited** as a result of the public offer of Visa Inc. (99m EUR pre-tax and 84m EUR post-tax)
- 25m AFS gains as a result of the **reduction of the equity portfolio at KBC Insurance**

Gains realised on AFS assets

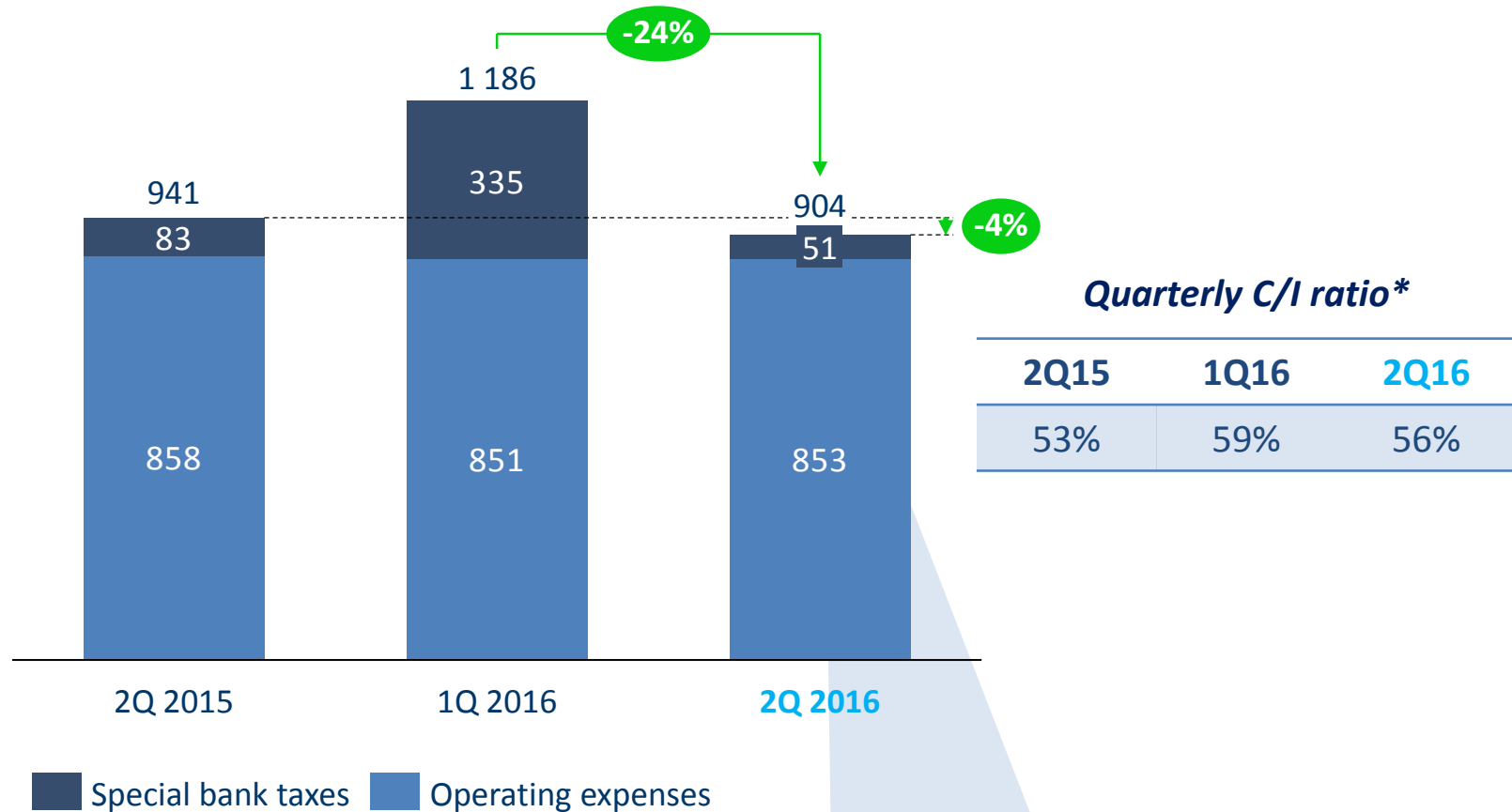


Other net income



# Operating expenses:

*Expenses down, due entirely to lower bank taxes*



Opex excluding bank tax stabilised q-o-q as higher marketing expenses were offset by lower staff expenses

\* adjusted for specific items: MtM ALM derivatives, equally spread special bank taxes, etc.

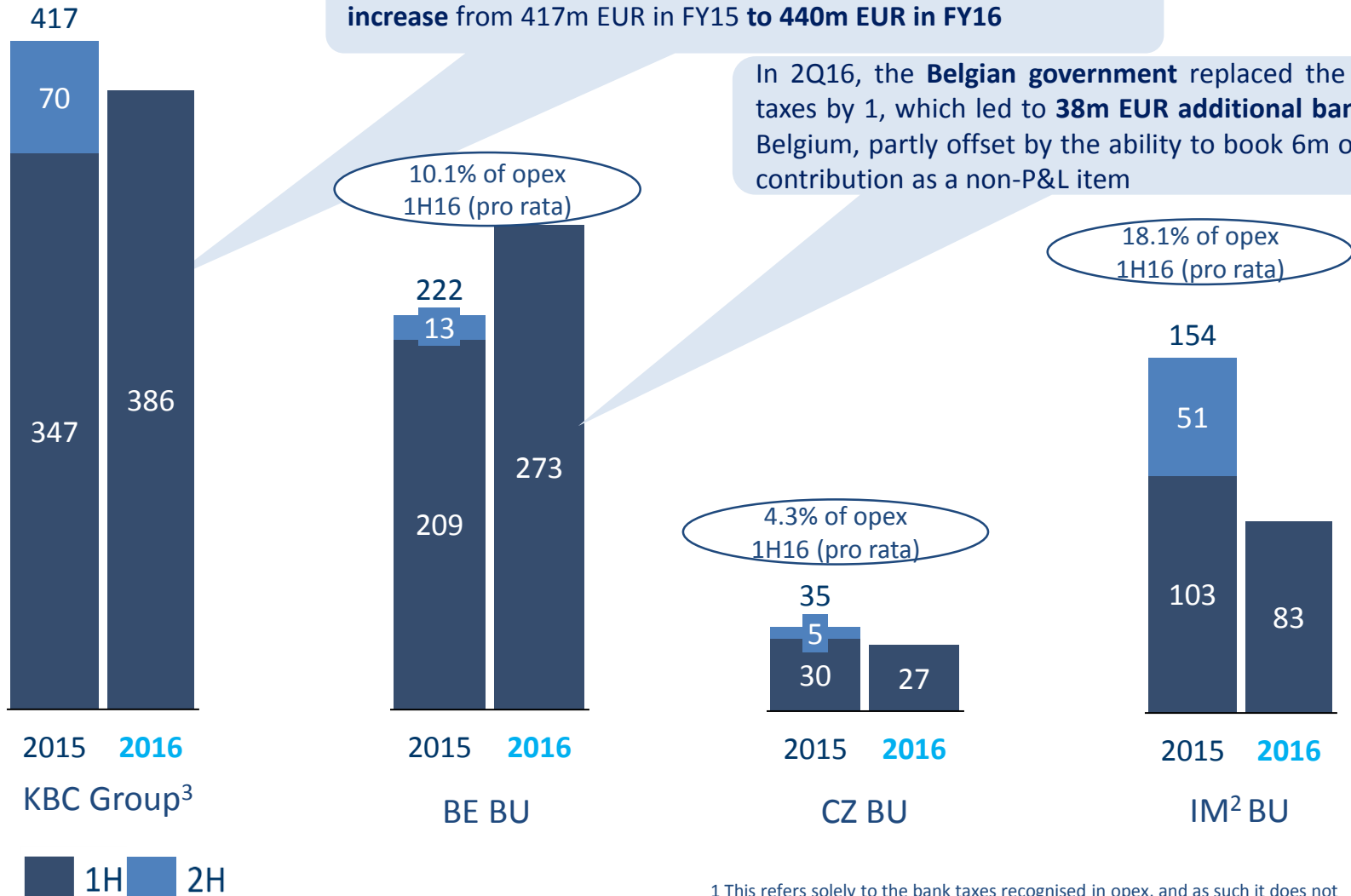


# Special bank taxes<sup>1</sup>:

Represent 10.5% of operational expenses of 1H 2016 (pro rata)

Total bank taxes (including ESRF contribution) are **expected to increase** from 417m EUR in FY15 to **440m EUR in FY16**

In 2Q16, the **Belgian government** replaced the 4 existing taxes by 1, which led to **38m EUR additional bank taxes** in Belgium, partly offset by the ability to book 6m of the ESRF contribution as a non-P&L item



Amounts in millions of EUR

1 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.

2 International Markets (IM) BU includes Hungary, Slovakia, Bulgaria and Ireland

3 KBC Group also includes Group Centre

# Asset impairments:

*Low asset impairments and excellent credit cost ratio (historic average '99-'15 of 0.52%)*

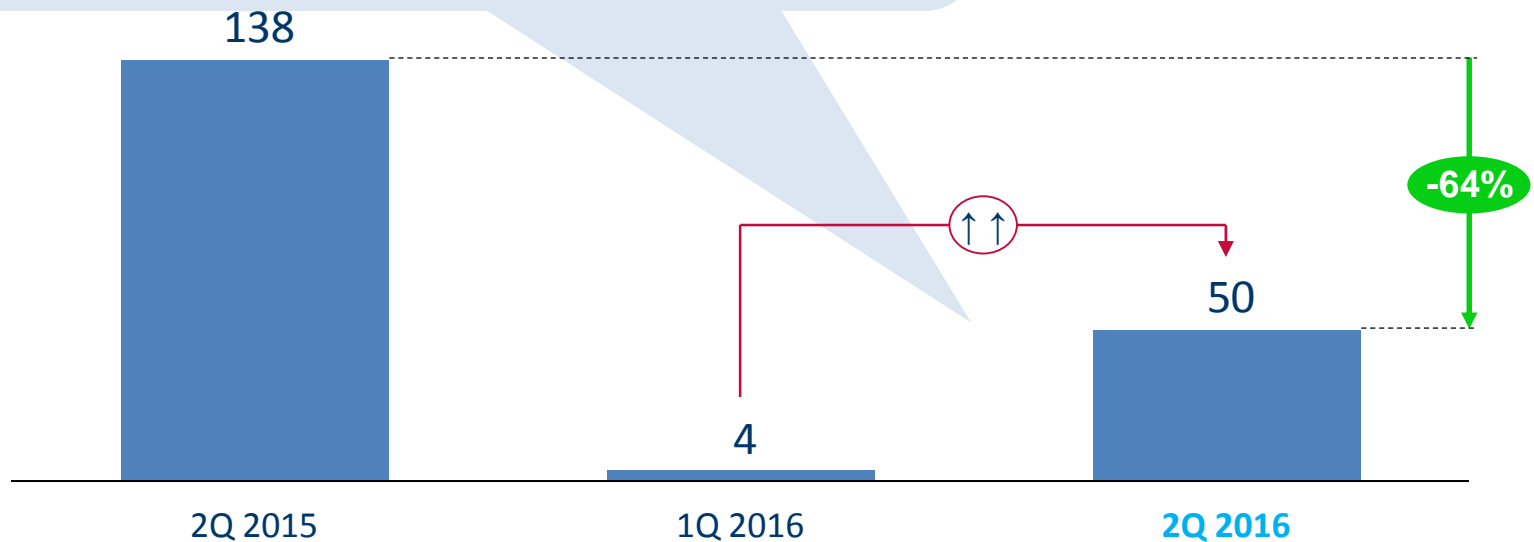
## Impairments on loans and receivables

The q-o-q increase in loan loss provisions was attributable mainly to low gross impairments in all segments in Belgium and the Czech Republic offset by (i) a parameter adjustment made to the IBNR models (+25m EUR) and (ii) lower reversals

Loan impairments **guidance for Ireland** revised towards a **0m-40mEUR range for FY16**

### Credit cost ratio (YTD)

2Q15	1Q16	2Q16
0.30%	0.01%	0.07%





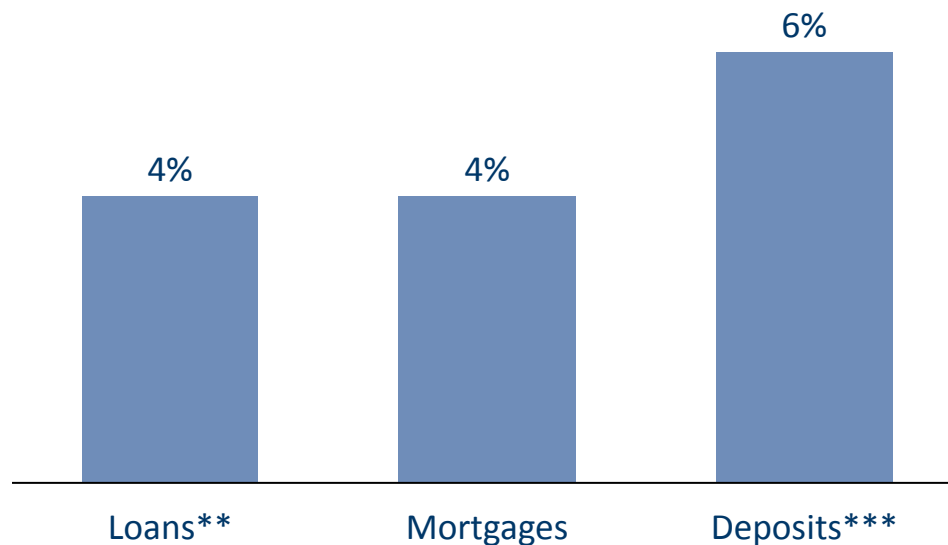
# KBC Group Balance sheet, capital and liquidity



# 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

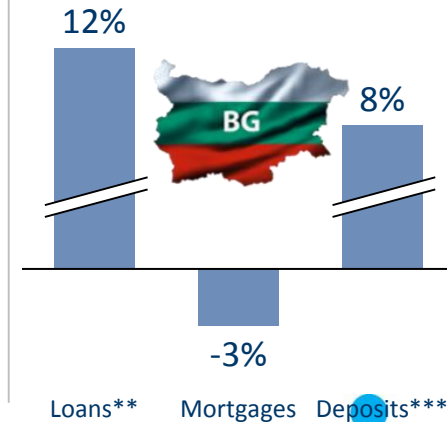
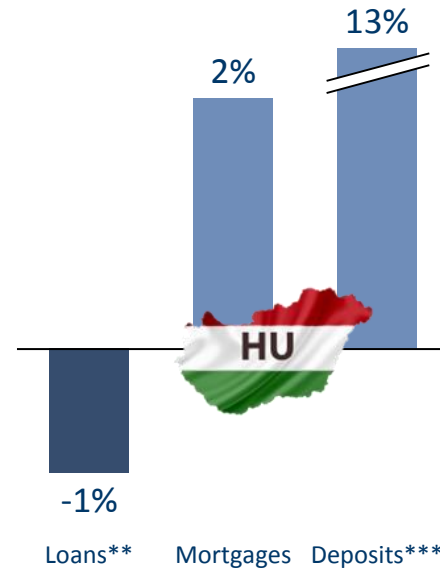
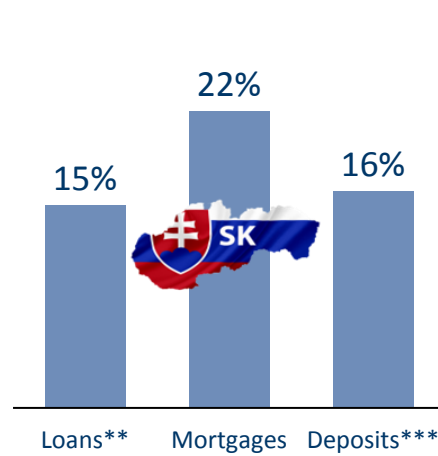
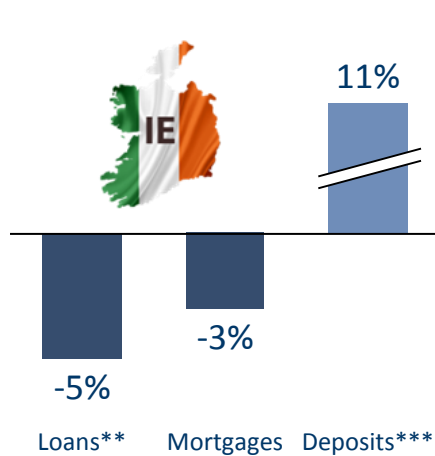
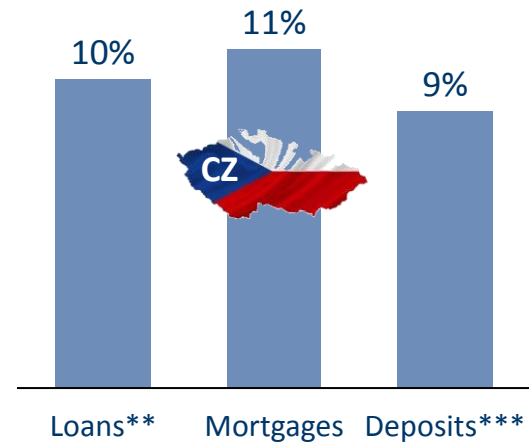
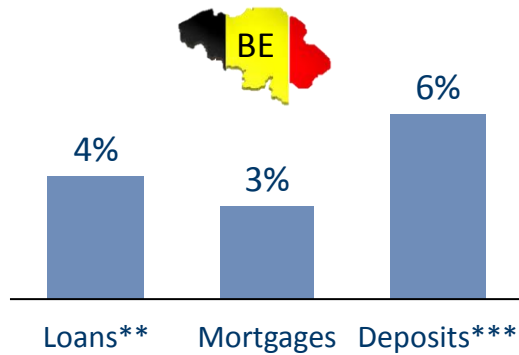
\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* 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

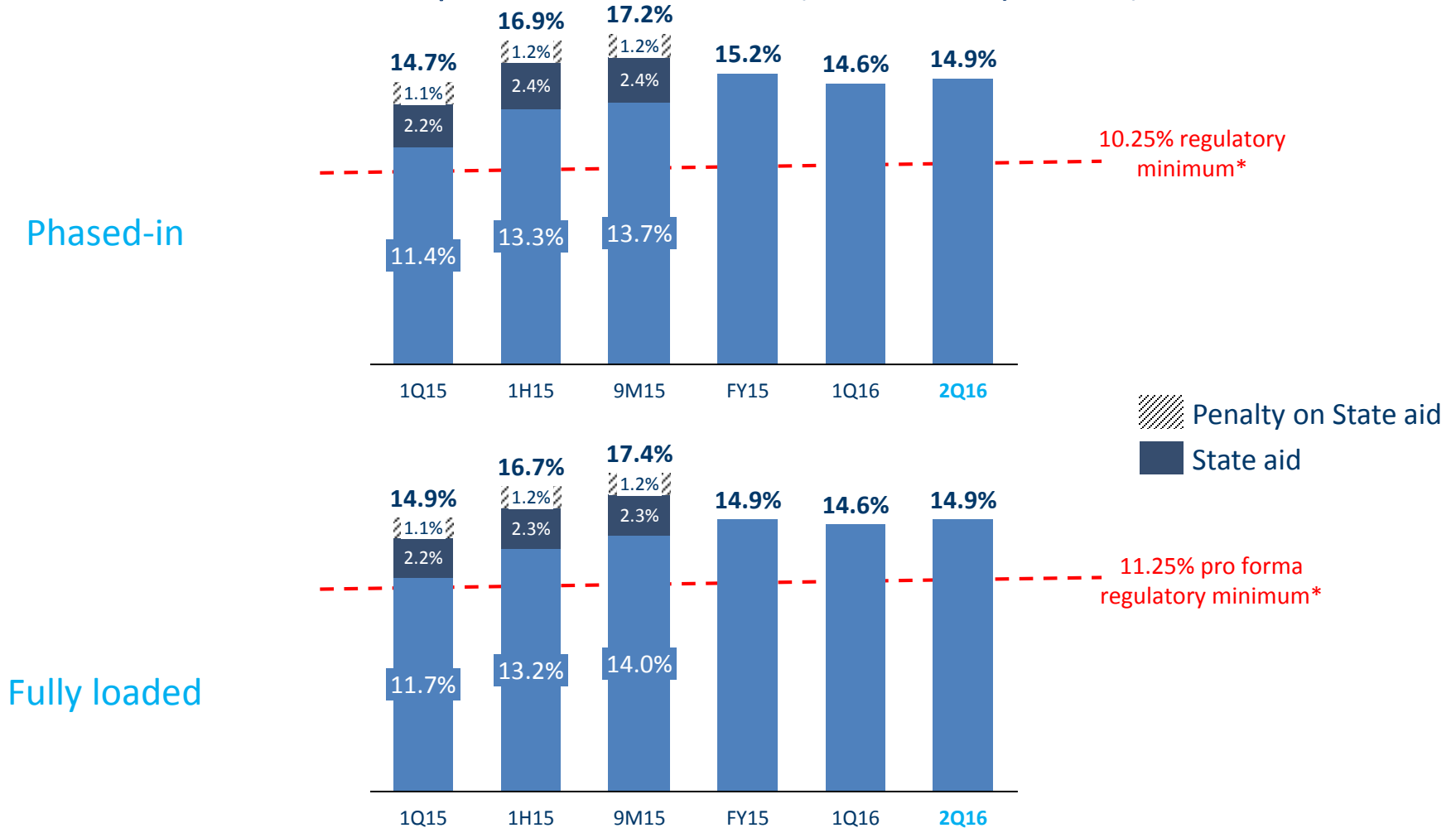
\*\* Loans to customers including reverse repos (and not including bonds)

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

# Capital and liquidity ratios (1/2):

## Capital ratio resides comfortably above regulatory minimum

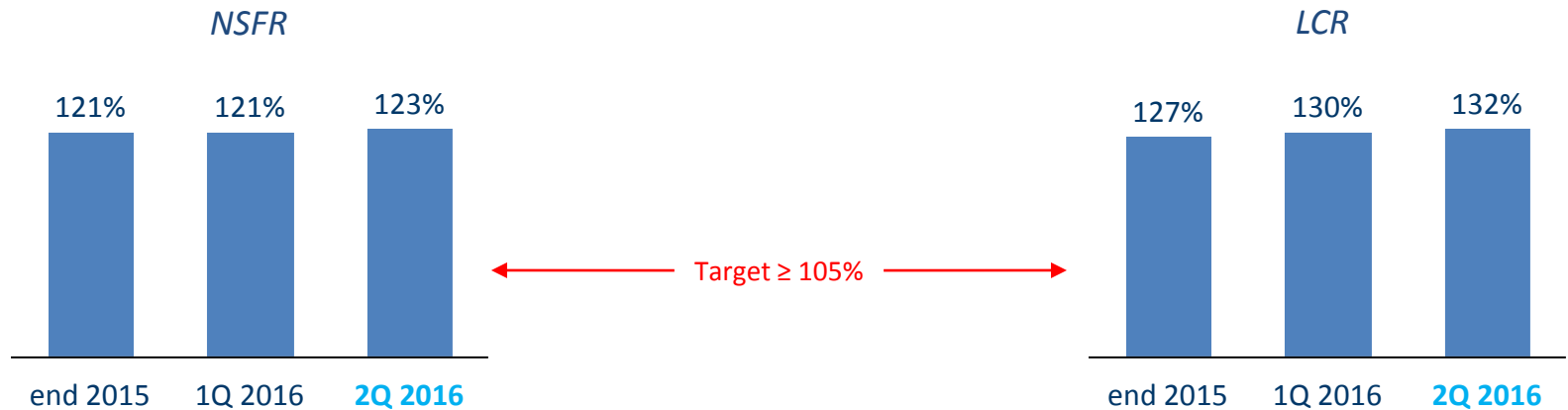
KBC Group Basel 3 CET1 ratio (*Danish Compromise*)



\* 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 2Q & 1H 2016 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

- ✓ KBC Group is the bank-insurer that puts its clients centre stage, even in demanding economic circumstances
- ✓ We expect the remainder of 2016 to be a year of sustained economic growth in both the euro area and the US, despite the continuing low level of interest rates, the volatility on the financial markets and higher than average economic & political uncertainty
- ✓ Management guides for:
  - continued stable and solid returns for the Belgium & Czech Republic Business Units
  - loan impairments for Ireland towards a 0m-40mEUR range for FY16
  - a phased-in B3 common equity ratio of minimum 10.25% for 2016
  - LCR and NSFR of at least 105%

# KBC Group introduces an interim dividend policy

## ✓ KBC refines its dividend policy:

- Starting as of this year, KBC aims to pay each year an interim dividend of 1 EUR per share in November of the accounting year, as an advance on the total dividend. This will ensure a more evenly distributed cash flow to shareholders throughout the year
- The current pay-out ratio policy (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit is confirmed

## ✓ At its meeting held on 10 August 2016, the KBC Board of Directors approved an interim dividend\* of 1 EUR per share, an advance payment on the total 2016 dividend. This dividend will be paid on 18 November 2016

\* Ex-coupon date: 16 November 2016; Payment date: 18 November 2016



*'Our goal is to ensure that our clients, shareholders and other stakeholders benefit from our activities, something which all our employees are committed to working towards. The Best Bank Awards for Belgium and Hungary which we received in July are not only an encouraging signal for us, they also fill us with pride. We are genuinely grateful for the trust our clients place in us and this yet again illustrates the success of our bank-insurance model.'*

*Johan Thijs, CEO KBC Group*