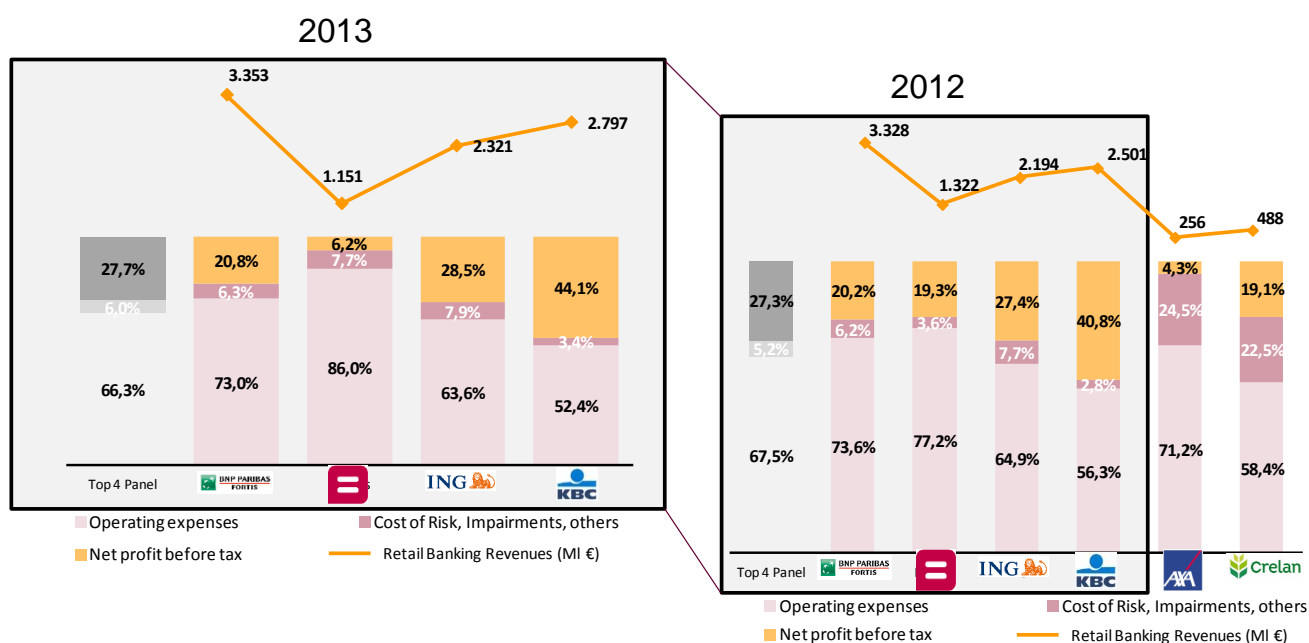


**With a net profit before tax of 28%, Belgian retail banking is doing well, but a large disparity between financial institutions remains.**

**Nevertheless, transformations are still expected to speed up.**

**Strong financial results for the main Belgian banks<sup>1</sup> but a strong disparity**

**D**uring the years 2012 and 2013, the top four retail banks present on the Belgian territory in terms of revenues and net profit before tax remain unsurprisingly BNP Paribas Fortis, KBC, ING and Belfius<sup>2</sup>.



**Decomposition of retail banking revenues in 2013 and 2012**

<sup>1</sup> Figures used in this study come from the bank annual reports. Data for 2013 are at this stage not yet audited. Figures included retail / private banking (& SME / mid-corporate segments)

<sup>2</sup> The objective is to compare figures on a similar scope as possible. KBC have published 2013 results on a larger perimeter, Sia Partners has estimated 2013 KBC results by applying the 2012 figures (perimeter retail banking BE) with a correction factor proportional to the 2012-2013 growth.

*Based on a panel of four major retail banks in Belgium, this study aims to provide a quantitative and qualitative decryption through the analysis of annual reports over 5 years (BNPP Fortis, KBC, ING and Belfius).*

*Aggregated revenues and net profit before tax in our sample increased in 2013 (respectively 3% and 0.4 pts)  
Operational costs are under control.*

*KBC outperformed with a net profit before tax margin jumping to 44% in 2013.*

*Belfius sees a sharp drop in its revenues and net profit before tax.*

**Despite the gloomy results of KBC, aggregated profitability of our panel increases slightly over the 2012-2013 period (27.3% to 27.7%), mainly due to the results of KBC.**

Although aggregated costs rose with 2.4%, revenues increased with 3%. Operational expenses were under control thanks to the different operational efficiency plans in place. The cost of risk remained low (4.3% of BNPP Fortis revenues - 7.7% of Belfius revenues, after doubling in a year). The aggregated growth of revenues was driven by commissions (off-balance sheet savings) while interest income showed a slight decrease due to the low interest rate environment.

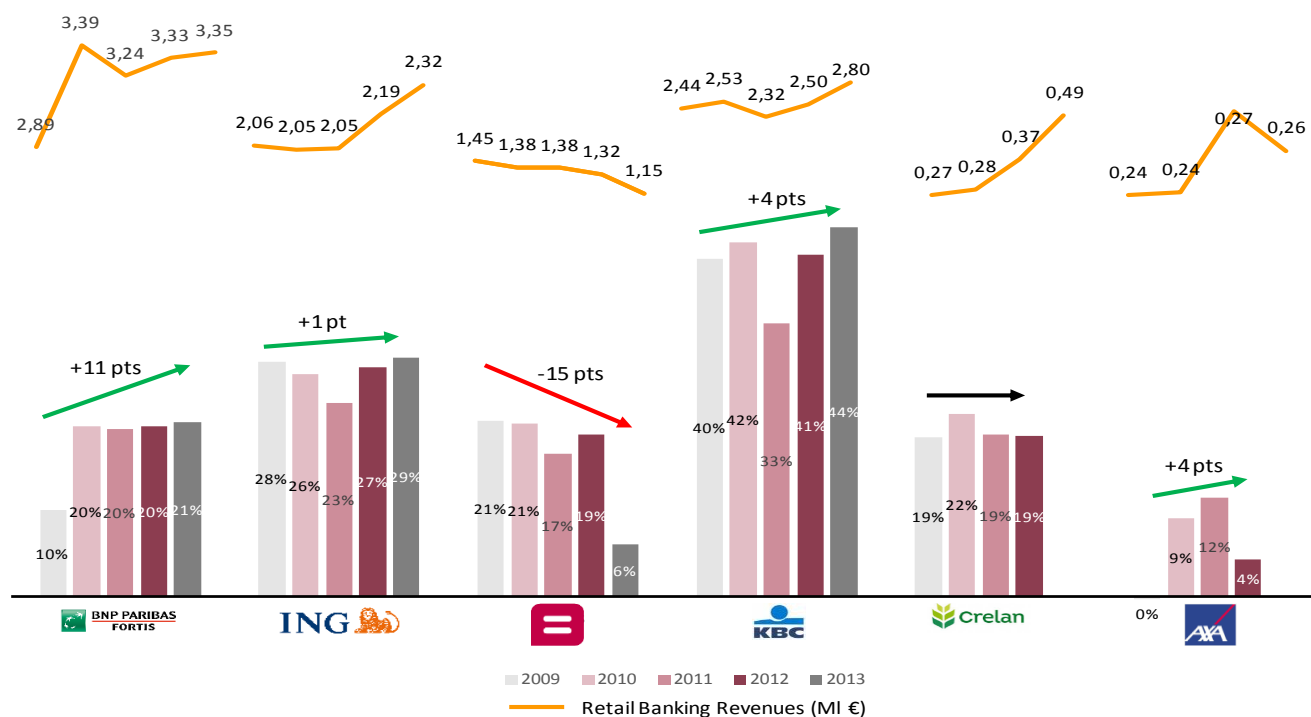
**KBC Bank has the highest net profit before tax margin of our panel, up to 44% in 2013** (an increase compared to 2012 (+3.3 pts)). This result is largely linked to a satisfying growth while maintaining costs at a stable level (which are significantly lower than the 3 main competitors).

**ING reached also a high ratio with 29% in 2013** (an increase compared to 2012, +1.1 pts).

**BNPP Fortis ranked third reaching a profitability ratio of 21% in 2013** up to 2012 (+0.6 pts).

**Belfius fell to 6% in 2013**, while profitability was at 19% in 2012. Revenues decreased with 13%, mainly due to the combination of a vast decline of retail customers and an increased pressure on interest revenues. Fortunately, Belfius can count on its strong growth numbers in insurance activities in 2013.

Going one leap back, **over the 2009-2013 period**, we find that **the net profit before tax margin in our sample does not have the same trajectory.**



**Net profit before tax and revenues of 2009-2013 major Belgian retail banks**

*Despite the crisis and the difficult economic environment, the revenues and the profitability of the major retail banks in Belgium is flourishing again. Only Belfius was unable to stabilize its revenues and sees a sharp decline of its profitability.*

**KBC, ING and BNPP Fortis have managed to maintain and preserve their net profit over the past years.**

Belfius was able to maintain a sound level of profitability until 2012, plunging steeply afterwards in 2013.

Panel revenues **grew by 9% over the 2009-2013 study period**. Apart from Belfius, all banks managed to increase their revenues in recent years.

## Speed up the transformations

**D**espite the more than satisfactory results, especially compared to the financial results presented by French banks, **Belgian banks will continue to make significant changes in the months and years to come.** In the shadow of an unstable regulatory, economic and fiscal framework, customer processes are rapidly evolving to restore and attain the same client confidence levels as before the crisis. Due to the high stakes for banks, this results in necessary changes in revenue models, impacting the entire banking organization.

### Main challenges for retail banks:

1. Resize network and redefinition of the advisor role; in order to respond to consumers behaviour and changed expectations.
2. Strengthening innovation: Strategic prerequisite to differentiate and develop new growth paths.

**Resizing of branch networks** will continue hand in hand with the closures that are already planned. Next to this, the **redefinition of the advisor role** and a **strengthening of innovation plans will certainly gain on importance**, consequences of **the more direct and interactive business models**. Finally, **dematerialization** (innovation-driven) and **IT rationalization** will be even more crucial.

Belgian banks have already started to transform their distribution channels, rebalancing the role of branches and the role of emerging channels in their business model. **Agencies play an advisory role, while current operations are now conducted online.**

**At the same time, banks are investigating intensively on different branch models and on defining adequate branch networks** (self-service, branches specialization etc..).

Over two years, **BNPP Fortis, Belfius, KBC and ING<sup>3</sup> have closed more than 150 agencies. Relying on the banks strategic plans, we can expect a further amplification over the 2014-2015 period.**

The average number of clients / agency will continue to grow in the coming years. For example, under the assumption of a constant increase of the total number of clients, an average BNPP Fortis branch should have up to 4,500 customers in 2015.

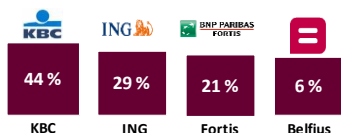
A real challenge for client proximity initiatives and customer satisfaction, but a precondition when looking at the drop of daily branch activities.

Our analysis below, providing a “branch view” of financial results, highlights an important difference between Belfius and the three other major Belgian retail banks.

Indeed, even if an average Belfius branch has more customers than other banks, the revenues of this branch are well below the panel average and continue to shrink sharply in 2013 (opposite performance to what we notice for KBC, ING or BNPP Fortis).

<sup>3</sup> We consider in this study only “own” agencies. We exclude here “delegated agents / independent” agencies

Net profit before tax margin



Net profit before tax / branch (2013)

Evolution of the Net profit before tax margin / branch (2012 à 2013)

	KBC	ING	BNP PARIBAS FORTIS	Belfius	Panel Big 4		KBC	ING	BNP PARIBAS FORTIS	Belfius	Panel Big 4
Retail Banking Branch / Client	827	748	911***	772	3.258		-0,7%	-0,3%	-2,9%***	-3%	-1,8%
	3,2 MI	2,15 MI	3,6 MI***	3,5 MI			0%	2,4%	0%***	-7,9%	
Average Density* / OE*/Br	3.869	2.874	3.952	4.534			0,7%	2,7%	3%	-5%	
	1.771 K€	1.973 K€	2.686 K€	1.282 K€			4,7%	3,9%	2,8%	0,1%	
Perf. / Branch Rev/Br / NP/Br	3.382 K€	3.103 K€	3.681 K€	1.491 K€	2.953 K€		12,6%	6,1%	3,7%	-10,2%	4,8%
	1.491 K€	885 K€	765 K€	92 K€	817 K€		21,7%	10,4%	6,6%	-71,3%	6,3%

\* Operating expenses  
 \*\* Average nb of customer / branch  
 \*\*\* Estimations /hypothesis

Branch axis

Belgian customers have adopted in the past years and months the "multi-channel" practice. Furthermore, they will evolve in the coming years to the "self first" model, where branches will have a much less central role.

**Digitalisation of consumption patterns, particularly through the introduction of Mobile Banking (mobile and tablet) and an increased use of Online Banking will continue to drive innovation in the sector**

- BNPP Fortis will launch in the coming weeks, the "Belgian Mobile Wallet" (SIXDOTS), after launching last year the 100% digital bank, Hello bank!
- KBC launched in 2013 an application dedicated to corporate customers.
- ING focuses on education of its customers through the development of E w@lls present in branches, allowing bank employees to easily educate customers about Home Banking services.

**Advisors should continue to adapt themselves to the new ways of customer banking experiences.** Increase of customers' appointments, well-informed customers with even more specific consulting needs, increased range of product offers in branches (classic retail banking activities, insurance, telephony ...), extended opening times are just some examples of the many ongoing challenges. As already described, all in the context of a downsizing branch network.

Accompanying these changes is and will be a crucial stage for banks. **Internal mobility and training will be even more challenging.**

In addition, cost control requires **extensive operational efficiency plans.** BNPP Fortis has implemented "Simple & Efficient" which aims to save more

than €2 billion per year (at group level) from 2015, through operations simplification (process optimization, IT rationalization, dematerialization, offer simplification ...).

## Finally...

---

**M**

any current and future initiatives encompassed within Belgian bank strategies to maintain, and perhaps increase, profitability in the coming years are known.

In parallel to growing and more demanding customer expectations, the current landscape remains highly unstable. Innovation initiatives, cost optimization plans and changing business models in general will only gain on importance in the near future.

## APPENDIX

---

### Sia Partners presentation

---

Founded in 1999 with currently 500 consultants, Sia Partners is one of the major management and operational strategy consulting companies in Belgium. Sia Partners has 14 offices across the world: Paris, Brussels, Amsterdam, Rome, Milan, Casablanca, Dubai, Abu Dhabi, Riyadh, Lyon, New York, London, Singapore and Hong Kong.

### Contacts in Belgium

---

For any information related to our domain of competences, expertise, studies or missions, feel free to contact:

**Damien SCHMITT**

Senior Financial Services  
Tél : 0032 491152829  
damien.schmitt@sia-partners.com

**Yves GREGOIRE**

Senior Manager Financial Services  
Tél : 0033 6 14 33 10 99  
yves.gregoire@sia-partners.com

**Stephan LINNENBANK**

Associate Partner Financial Services  
Tél : 0031 6 23 598 223  
stephan.linnenbank@sia-partners.com

**Philip SOMERS**

Senior Financial Services  
Tél : 0032 498281905  
philip.somers@sia-partners.com

**Annemie VIAENE**

Managing Director Benelux  
Tél : 0032 473 70 20 48  
annemie.viaene@sia-partners.com

---

**BRUSSELS**

*Sia Partners*  
Avenue Henri Jasparlaan, 128  
1060 Brussels - Belgium  
Tel : +32 2 213 82 85  
Fax : +32 2 403 05 07

**PARIS & LYON**

*Sia Partners*  
18 boulevard Montmartre  
75009 Paris - France  
Tel : +33 1 42 77 76 17  
Fax : +33 1 42 77 76 16

**ROME**

*Sia Partners*  
Via delle Quattro Fontane 116  
00184 Roma  
Tél : +39 06 48 28 506  
Fax : +39 06 48 91 60 08

**MILANO**

*Sia Partners*  
Via Morigi 3/A  
20123 Milano  
Tel : +39 02 86 46 18 88  
Fax : +39 02 85 91 09 64

**CASABLANCA**

*Sia Partners*  
14, avenue Mers Sultan  
20500 Casablanca, Maroc  
Tel : +212 (0) 522 49 24 80  
Fax : +212 (0) 522 47 47 92

**DUBAI, RIYAD & ABU DHABI**

*Sia Partners*  
PO Box 502665  
SHATHA Tower, Office no 3016  
Dubai Media City, Dubai – U.A.E.  
Tel : +971 (0) 4446 2394

**SINGAPORE**

*Sia Partners*  
55 Market Street, Level 10  
Singapore, 048941  
Phone : +65 6521 3186

**HONG KONG**

*Sia Partners*  
701, 77 Wing Lok Street,  
Sheung Wan, Hong Kong  
Phone : +852 6800 5988

**AMSTERDAM**

*Sia Partners*  
Barbara Strozilaan 101  
1083 HN Amsterdam  
Phone : +31 20 240 22 05

**LONDON**

*Sia Partners*  
Princess House,  
4th Floor, 27 Bush Lane,  
London, EC4R 0AA  
Phone: +44 20 7933 9333

**NEW YORK**

*Sia Partners*  
115 Broadway 12th Floor  
New York, NY10006 - USA  
Phone : +1 646 496 0160

---

**Disclaimer**

The study presented is distributed as an information source only. Sia Partners makes no statements, representations or warranties about the accuracy or completeness of, and you should not rely on, any information contained in this study. The analyses contained in the study reflect Sia Partners' opinion at the time of the release and may change. After publication, Sia Partners put efforts in constantly updating its studies and analyses. However, particularly due to legal reasons, Sia Partners might not be able to update its studies and analyses and walk away from any obligation to do so. Sia Partners does not encourage any readers to engage in purchasing or selling securities based on information mentioned in the study.