

creativity

think forward

challenge

development

performance

teamwork

strategy

action

Under full sail...



**Under full sail**  
KBC Investor Day – Prague

**4** Advancing the  
CEE throttle

Jan Vanhevel  
CEO, CEE Business Unit

# Contents

- ✓ **Reminder: KBC's presence in CEE**
- ✓ Overall performance
- ✓ The drivers of future performance
- ✓ Risks and challenges
- ✓ Wrap-up

# Current participations of KBC in CEE

## Czech Republic

- ✓ CSOB Bank (97%)\*
- ✓ CSOB Insurance (97%)

\* Closing expected soon

## Slovakia

- ✓ CSOB Bank (97%)
- ✓ CSOB Insurance (98%)

## Hungary

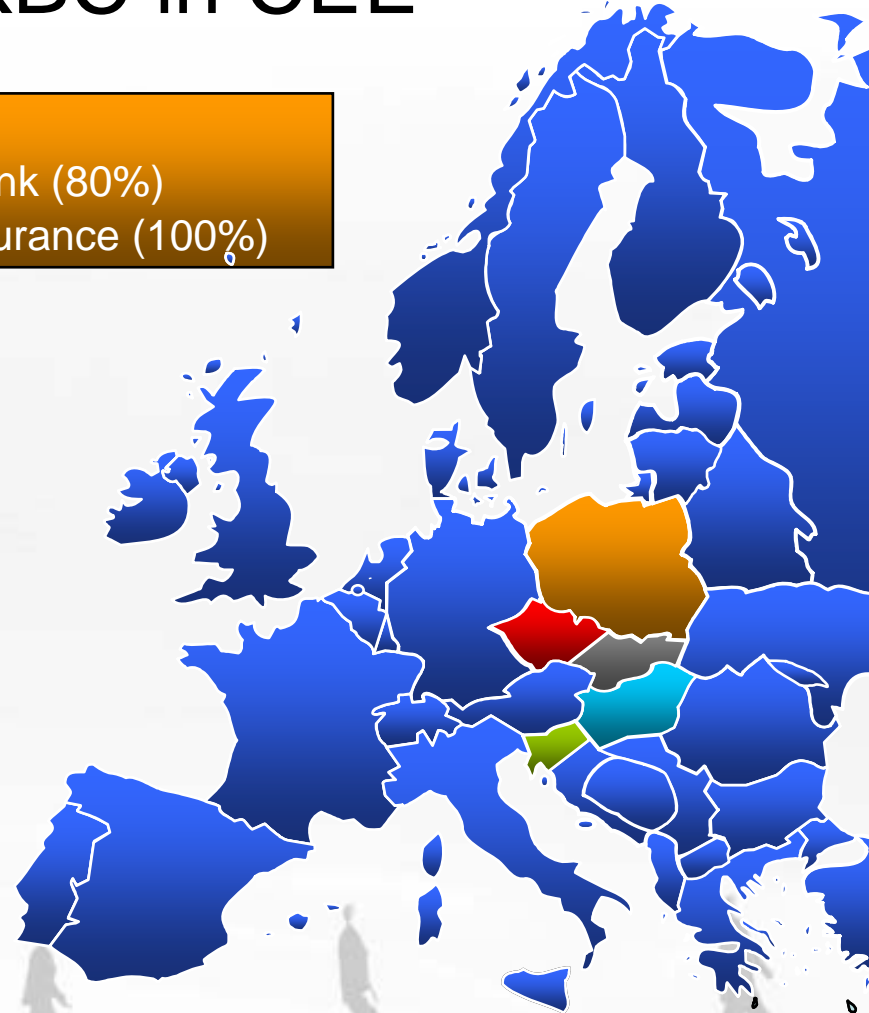
- ✓ K&H Bank (100%)
- ✓ K&H Insurance (100%)

## Slovenia

- ✓ NLB Bank (34%)
- ✓ NLB Life Insurance (67%)
- \* financial participation

## Poland

- ✓ Kredyt Bank (80%)
- ✓ Warta Insurance (100%)



Percentages concern direct + indirect presence

# Contents

- ✓ Reminder: KBC's presence in CEE
- ✓ **Overall performance**
- ✓ The drivers of future performance
- ✓ Risks and challenges
- ✓ Wrap-up

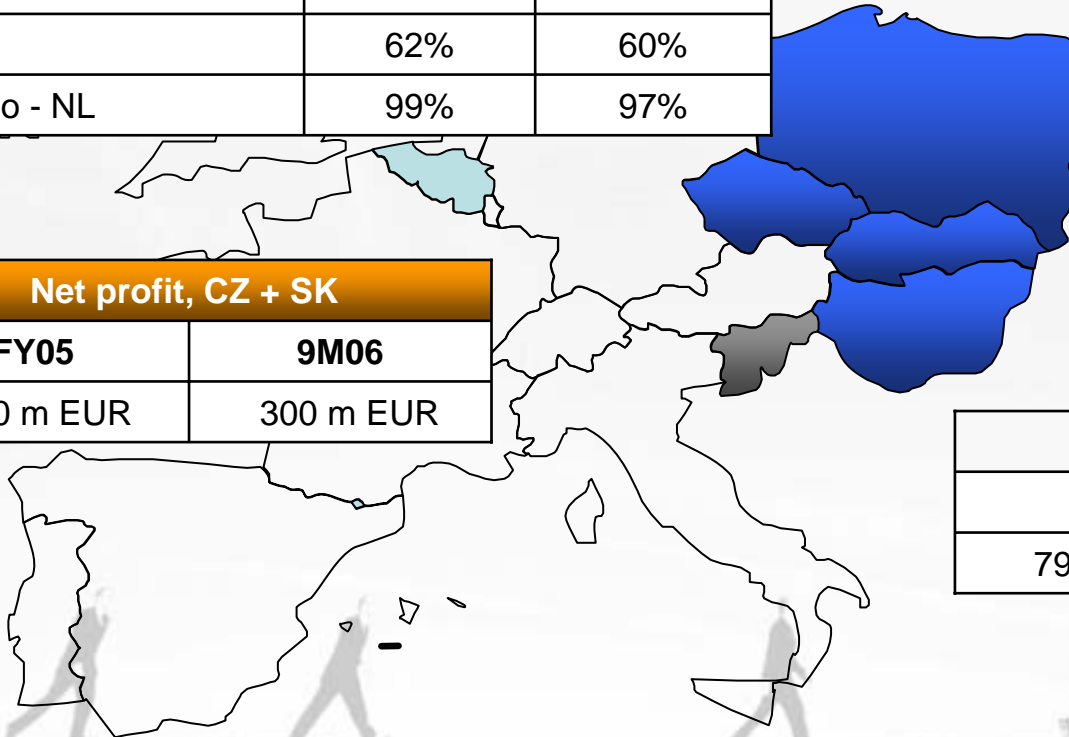
# BU CEE - Key Figures

BU CEE		
	FY05	9M06
Net profit	409 m EUR	384 m EUR
Underlying return on allocated capital	25.5%	30.5%
C/I (banking)	62%	60%
Combined ratio - NL	99%	97%

Net profit, Poland	
FY05	9M06
139 m EUR	119 m EUR

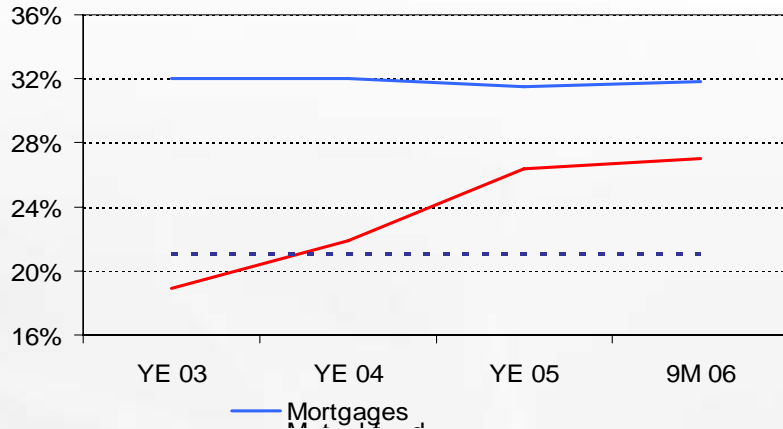
Net profit, CZ + SK	
FY05	9M06
340 m EUR	300 m EUR

Net profit, Hungary	
FY05	9M06
79 m EUR	60 m EUR

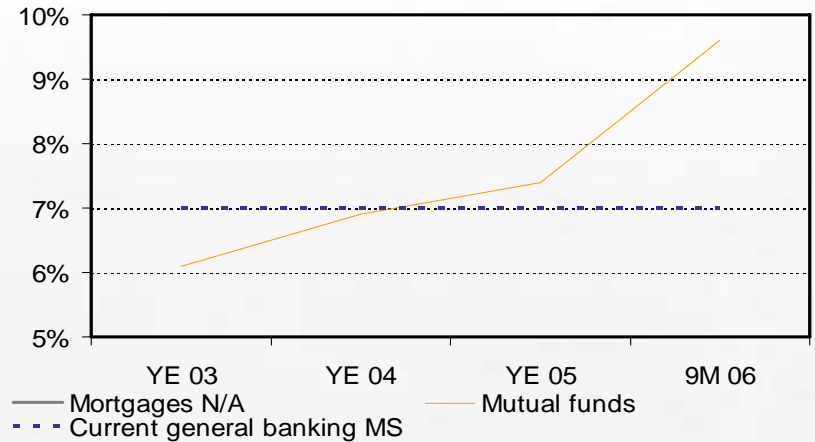


# Trend in CEE market share

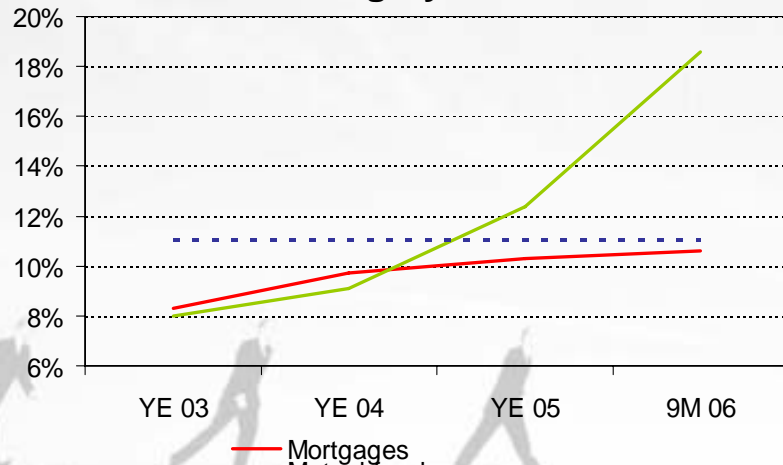
## Czech Republic



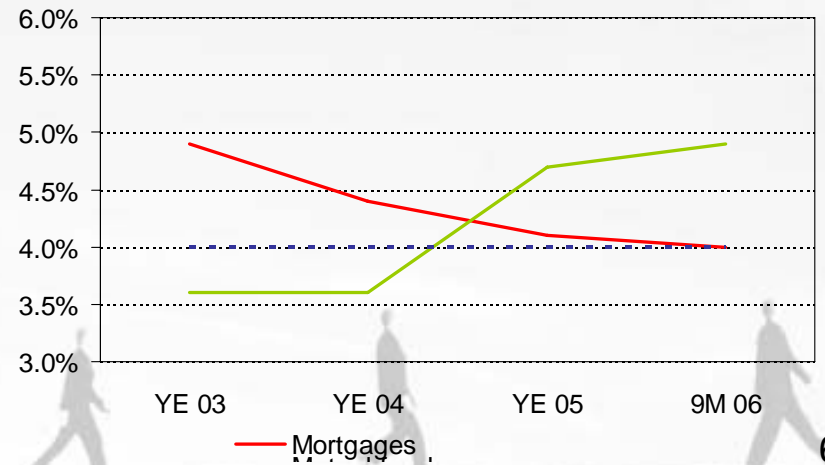
## Slovakia



## Hungary



## Poland



# Sound growth in all strategic product areas

9M2006	Total loans	Commercial mortgages	Customer deposits	Life reserves	AUM
Growth CEE, y/y	+19%	+37%	+13%	+35%	+37%
- CZ/Slovakia	+24%	+42%	+11%	+22%	+22%
- Hungary	+19%	+35%	+13%	+70%	+99%
- Poland	+9%	+39%	+13%	+59%	+38%
Growth, q/q	+7%	+11%	+2%	+12%	+15%
- CZ/Slovakia	+7%	+10%	+0%	+8%	+6%
- Hungary	+1%	+5%	-4%	+9%	+54%
- Poland	+4%	+13%	+12%	+21%	+14%

- ✓ Strong growth in strategic products, as the bancassurance model starts to deliver
- ✓ In Poland, recovery is taking off after a difficult period

Note: trends for individual CEE countries in local currency



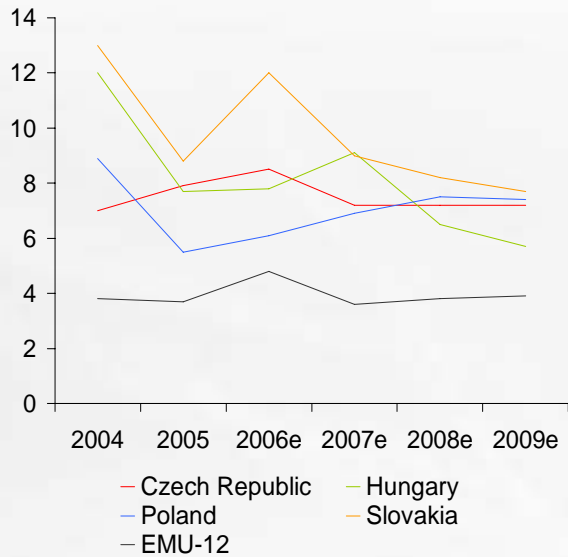
# Contents

- ✓ Reminder: KBC's presence in CEE
- ✓ Overall performance
- ✓ **The drivers of future performance**
- ✓ Risks and challenges
- ✓ Wrap-up

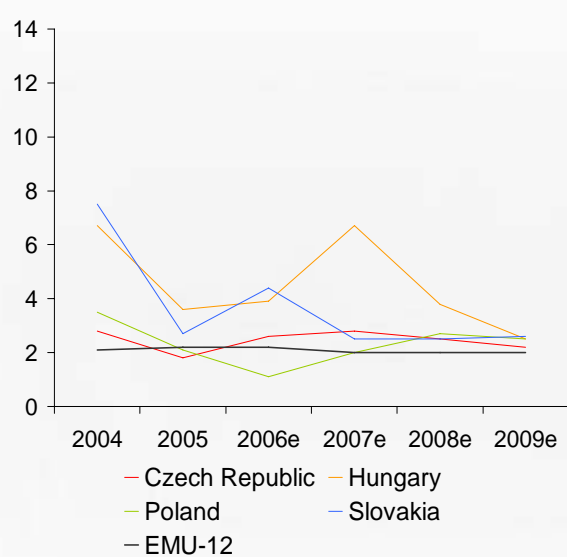


# Macroeconomic situation remains sound

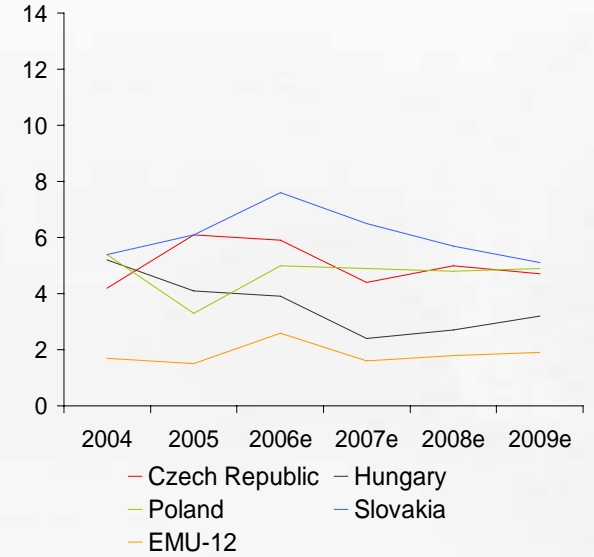
### Nominal GDP Growth (%)



### CPI-inflation (%)



### Real GDP Growth (%)

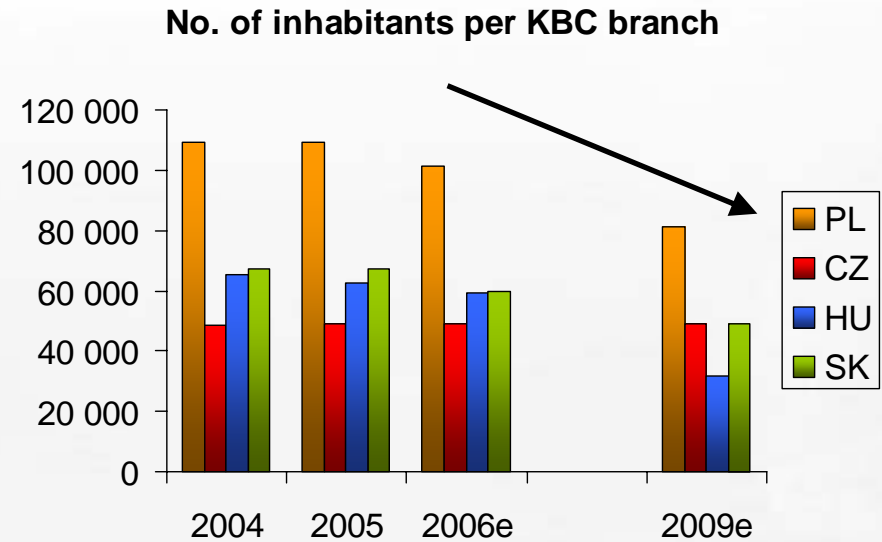
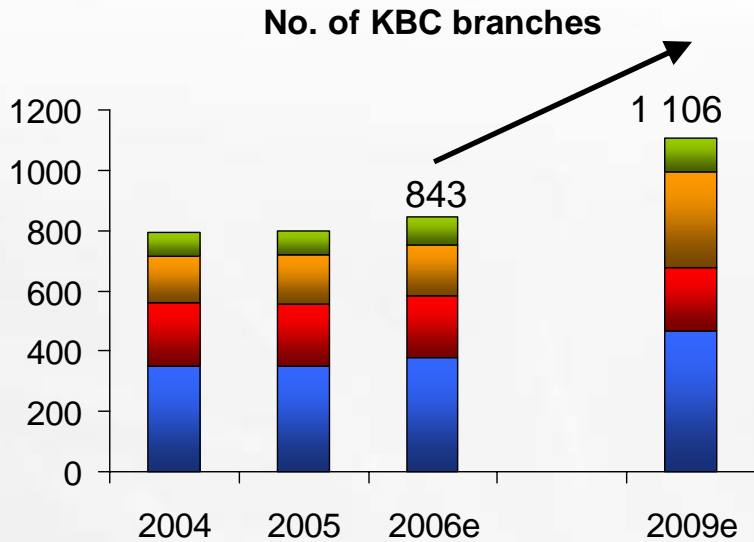


- ✓ CEE's growth outlook remains strong, both in nominal and in real terms
- ✓ Moreover, Hungarian GDP growth continually outperforms that of Western Europe

# Focus on the retail segment

- ✓ When KBC acquired its franchise, it was mainly focused on corporates. Since then, we have succeeded in becoming an important retail player.  
A solid customer base of 9 m retail clients has been built up
  
- ✓ Our ambition is to increase income further by:
  - enhanced cross-selling
  - further broadening of the customer base by expanding the branch network
  
- ✓ Moreover, the use of alternative distribution channels are being intensified to reach various customer segments. Some examples:
  - Czech Republic:
    - the Postal Bank: 3 400 outlets and 23 financial centres now, expected to be tripled within the next three years
    - Hypotecni Banka (sale of mortgages): 30 sales points
    - CMSS: building/savings company, providing savings accounts and housing loans subsequently through 2 400 sales representatives
  - Poland:
    - Zagiel Consumer Finance: 200 sales offices and 35 000 retailers
  - Hungary:
    - enhanced sale of retail insurance via brokers

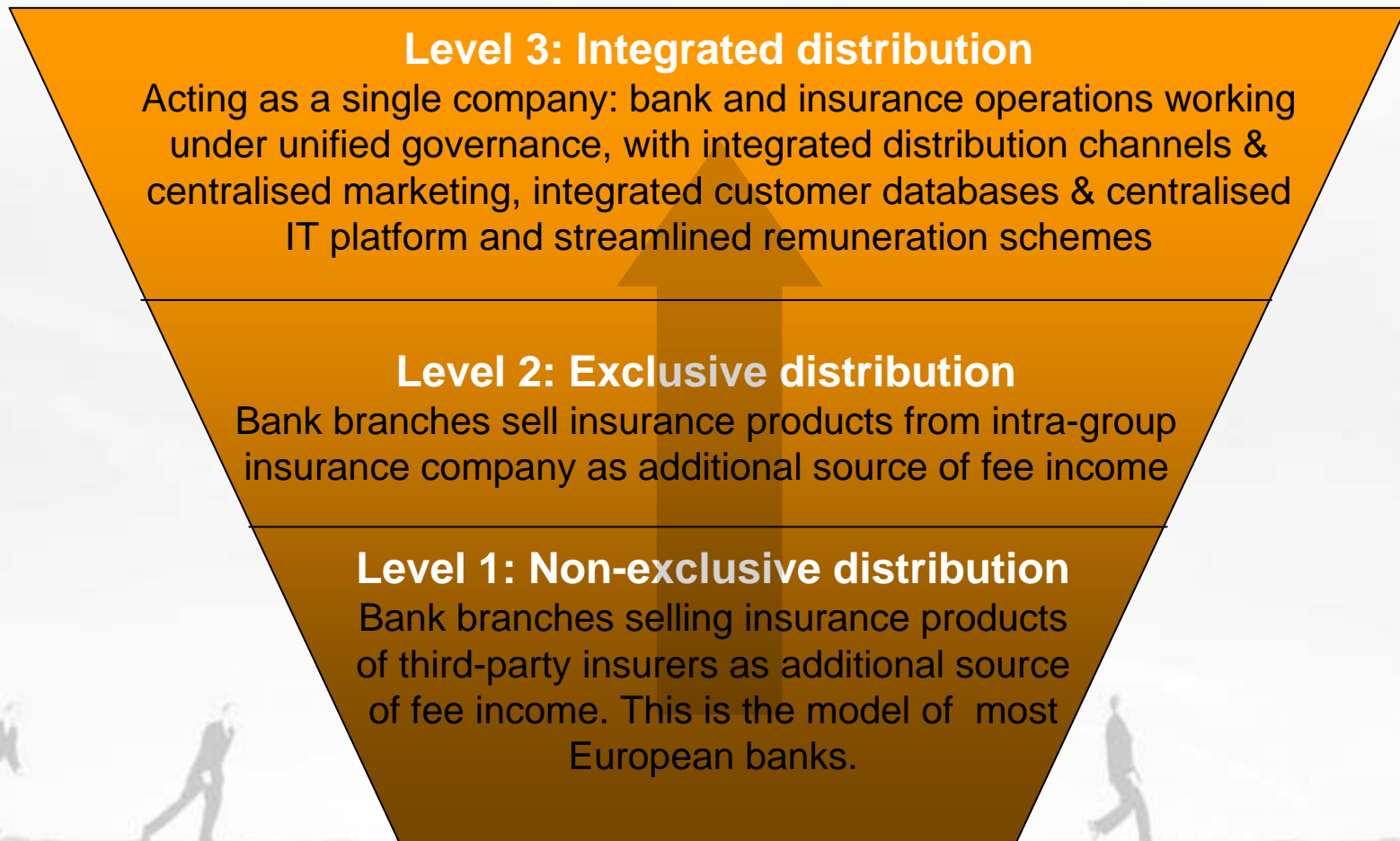
# Expanding the bank branch network



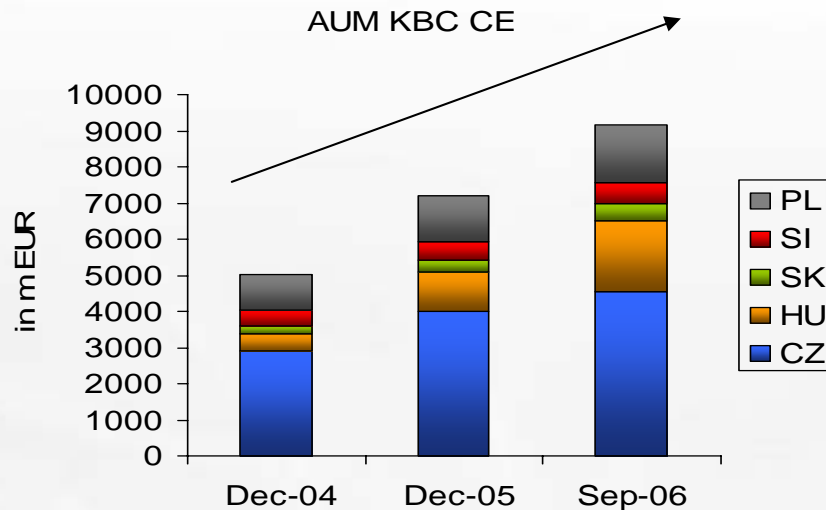
- ✓ Due to scant external growth alternatives in 2005-06, we focused on accelerated organic growth
- ✓ In 2007 – 2009, approx. 260 new branches will be opened to fill in blind spots on the CEE map, mainly in Hungary (ca. 150) and Poland (ca. 90), but also in Slovakia (ca. 20)
- ✓ Expansion of the branch network will enable us to reach more customers and service existing customers better

# Enhancing the bancassurance concept

- ✓ KBC is stepping up from a 'Level-2' to a true 'Level-3' bancassurer



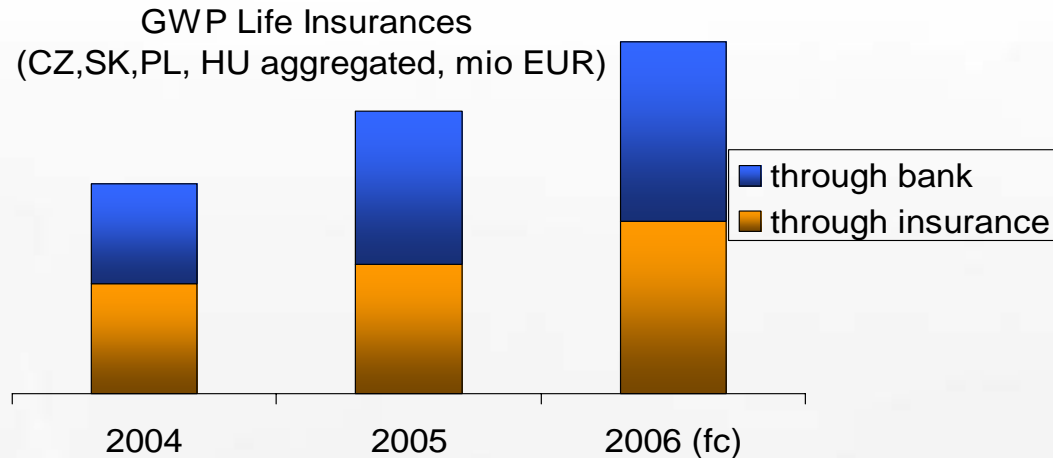
# Enhancing the bancassurance concept



Example: sales pilot in Czech Republic	
Before	After
<b>18</b> investment-related customer contacts per month	<b>52</b> investment-related customer contacts per month
<i>Number of transactions increased by <b>100%</b>, or 73% more than the average branch</i>	

- ✓ KBC Asset Management's fully streamlined organisation has been successfully transferred to CEE and beyond
- ✓ Key success factors are:
  - innovation capacity (more than 200 funds launched in CEE)
  - knowledge management: within the retail bank branches, an advisory function has been created to help guide customers to purchase appropriate Asset Management products
  - entwining of the model within the bancassurance distribution processes

# Enhancing the bancassurance concept



- ✓ The portion of total insurance sales realised through the banking channel is rising year after year. Today, 50% of life insurance sales is generated through the bank branches
- ✓ The cross-selling ratio of banking X insurance – currently still relatively low – will be boosted through tapping into the various customer databases
- ✓ KBC's exclusive insurance agents network – approx. 5 600 agents – in the CEE is currently being upgraded into a more professional (knowledge and skills), dynamic (sales-/growth-oriented), and stable (reliable, loyal and committed) network.



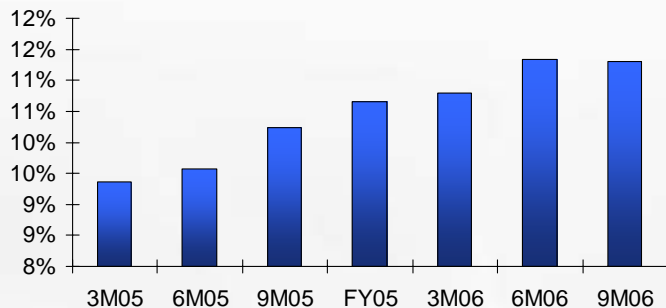
# Intensifying the corporate business

- ✓ The corporate segment will remain an important profit driver:
  - depending on the country, 30 to 50% of net profit is currently realised in the corporate segment
  - depending on the country, 40 to 65% of loan volumes are realised in the corporate segment
  
- ✓ KBC will intensify the corporate business by:
  - focussing on risk-independent fee income
  - tailoring the successful Belgian approach further to fit the local environment
  - continuing to upgrade our skills and tools
  - enhancing the way distribution channels are organised
  - further improving the services of our Group-wide network desks
  - identifying new potential network customers Group-wide

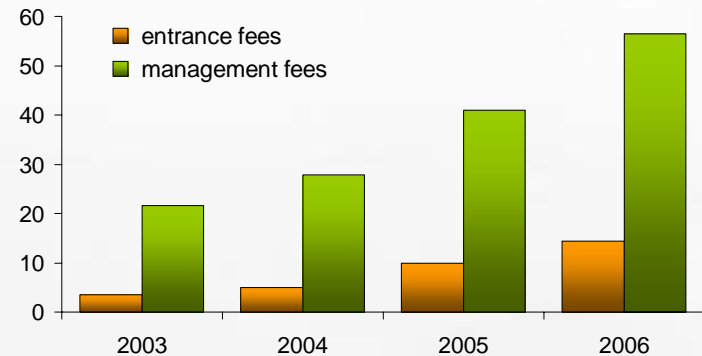


# Increasing fee income

CEE Fee and commission income /  
CEE Gross income



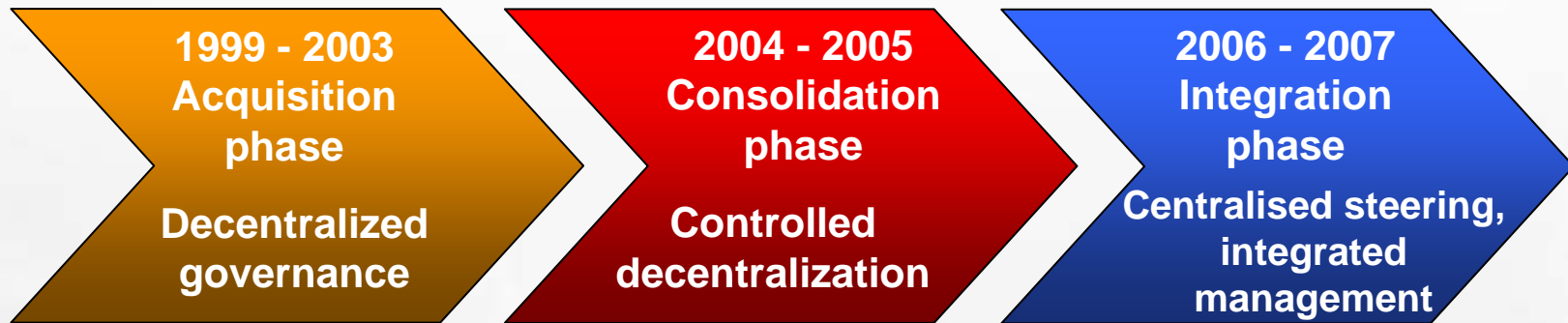
AM fees in CE (in m EUR)

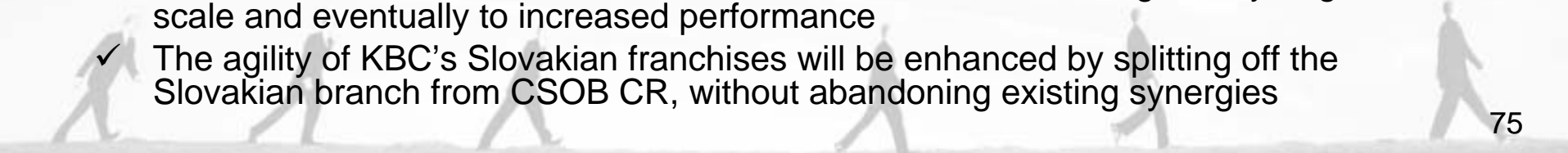


- ✓ Fee income is risk-independent and – together with increasing volumes – can make up for narrowing interest margins
- ✓ However, fee income can be eroded if customers choose to use cheaper e-channels or once the euro is introduced
- ✓ Extra fee income will be generated by
  - trade finance
  - payments
  - asset Management
  - interest-bearing products

# A stronger hands-on approach

- ✓ KBC's governance has evolved in line with the phases of our expansion:



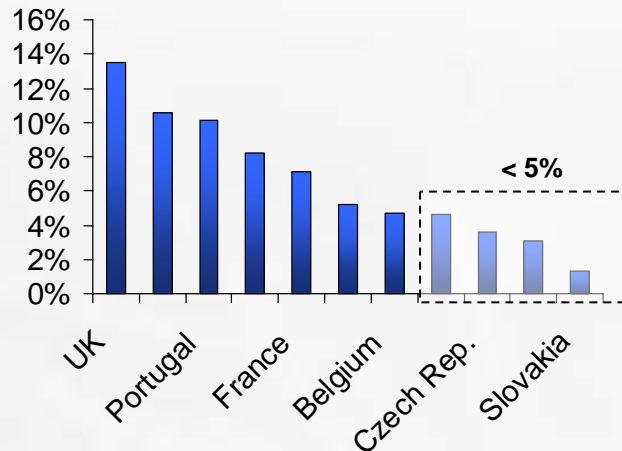
- ✓ KBC's new structure implies:
    - strengthened central management of CEE business
    - one country management, in charge of steering all banking, insurance and asset management businesses within a single country
    - greater focus on synergies and best-practice sharing via cross-border shared services and Group-wide product factories
  - ✓ This will lead to more effective execution, increased cross-selling and synergies of scale and eventually to increased performance
  - ✓ The agility of KBC's Slovakian franchises will be enhanced by splitting off the Slovakian branch from CSOB CR, without abandoning existing synergies
- 

# Leveraging KBC's new structure: Building up a consumer finance business line

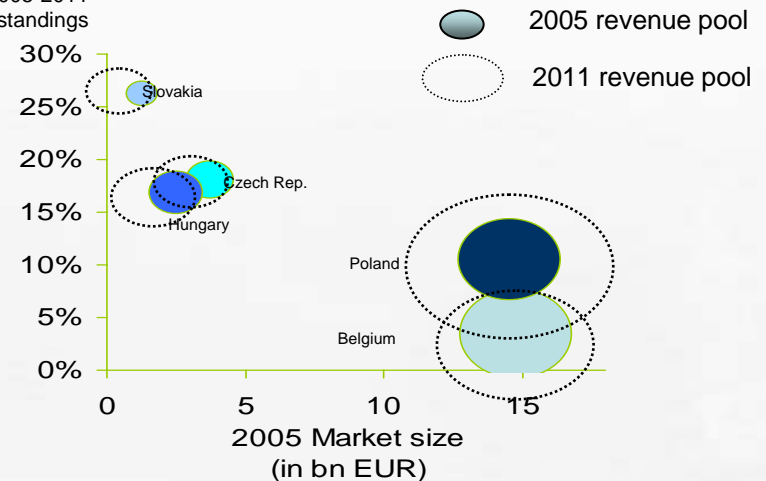
The CF market in CEE is under-penetrated...

... with a revenue pool expected to be substantial...

Outstandings/GDP  
2005



CAGR 2005-2011  
Consumer Credit Outstandings



- ✓ Consumer finance is growing strongly, especially in CEE, where the consumer lending market is still under-penetrated
- ✓ A separate Consumer Finance division has been set up, building on the experience available at Zagiel (Poland) and capitalising on Kredyt Bank and CSOB/PSB's strong customer bases and distribution channels
- ✓ Initial focus markets will be Belgium, Poland and the Czech Republic. A gradual expansion to other regions will depend on business opportunities
- ✓ We will use our organisational skills and experience – especially those built up in the AM product factory – as leverage

A decorative header image at the top of the slide shows six silhouettes of people in business suits walking from left to right across a green field under a clear blue sky.

# Leveraging KBC's new structure

## Shared services: ICT

- ✓ The new governance structure provides the framework for moving towards shared systems, platforms, knowledge and experience
- ✓ The 'integration phase' has introduced the new governance approach and organisational structure. Quick-win projects are already being carried out
- ✓ The next step will entail standardisation of the technology and service centres: e.g., servers, workstations, development frameworks, architecture, etc.
- ✓ This is a quality improvement project related to service provision. All cost-savings will be reinvested in the infrastructure to improve the quality of the services rendered

### Example 1

Building a state-of-the-art non-life platform. It will integrate best practices, support future growth ambitions and allow for more efficiency and convenience in use

### Example 2

The SME loan issuance process at our CEE entities is being redesigned and standardised in order to create a quick and cost-efficient process. The aim is to reduce through-put time dramatically and decrease complexity. This will enable us to share IT platforms and software applications to a much greater extent, as well as reducing the unit cost

# Contents

- ✓ Reminder: KBC's presence in CEE
- ✓ Overall performance
- ✓ The drivers of future performance
- ✓ **Risks and challenges**
- ✓ Wrap-up

# Risks and challenges

Limited risk of a regional financial crisis

- ✓ CEE shares similarities with SE-Asian economies just before the 1997 crisis: strong inflow of foreign capital, strong credit and investment growth and substantial external deficits
- ✓ However, in CEE, strong FDI, floating exchange rate regimes and a well-functioning banking sector explain why the vulnerability of the local financial sector is low and why external financing will probably remain sustainable
- ✓ Moreover, EU membership is a driving force for sound financial and regulatory policies and a stable business environment.
- ✓ A negative outlier in CEE-4 is Hungary (enormous public sector deficit, foreign exchange indebtedness by households, etc.):
  - Hungarian fiscal policy will be key in avoiding financial distress
  - but the effect on the rest of CEE-4 should remain limited

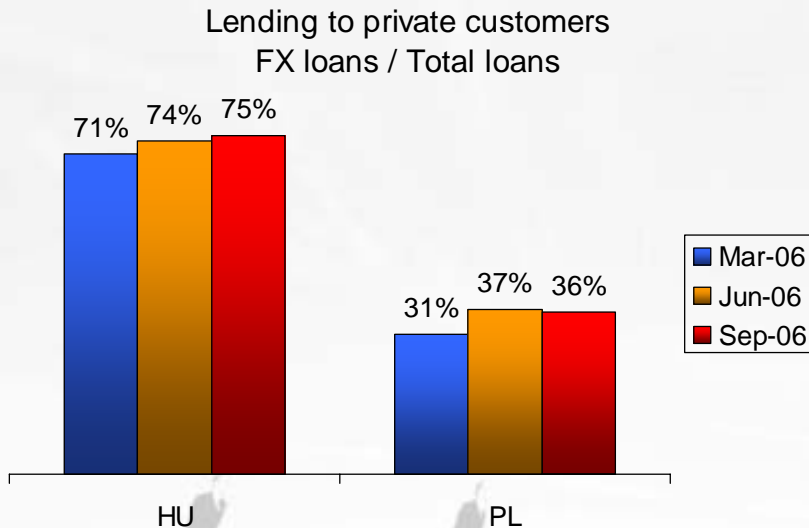
✓ **We believe a region-wide financial crisis is unlikely to happen at the CEE core**



# Risks and challenges

## Foreign currency loans in Poland & Hungary

- ✓ We expect the demand for foreign currency loans to stay at high levels, especially in Hungary
- ✓ But we believe the defensive measures taken to mitigate the risks are sufficient, in combination with the close monitoring of the portfolio both at country and on Group level



### Risk measures taken: the 'home protection plan'

- Raising risk awareness amongst customers
- Conversion free of charge
- Prolongation free of charge
- Insurance products (life & loan)
- Free-of-charge prepayment
- Payment protection insurance
- Introduction of fixed installment loan product (Nov. 2006)
- Loan to Value Management



# Contents

- ✓ Reminder: KBC's presence in CEE
- ✓ Overall performance
- ✓ The drivers of future performance
- ✓ Risks and challenges
- ✓ **Wrap-up**

# Wrap-up

- ✓ We feel comfortable about delivering a sustained 30% return on allocated capital
- ✓ We believe that we have the organization and tools in place
- ✓ Main performance drivers will be:
  - continued solid macroeconomic growth
  - expansion of branch networks
  - the bancassurance model attaining cruising speed
  - optimising the corporate customer approach
  - enhancing fee business
  - stronger hands-on management approach
  - building on cross-border synergies