



KBC's entry into Russia

**KBC acquires majority stake
in Absolut Bank**

18 April 2007



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Majority stake in Absolut Bank in high growth market Russia

- Investment: minimum 92.5% in Absolut Bank
- Country: Russia
- Price: EUR 761 m (for 100%)
- Valuation: 3.8 P/BV
- Total Assets: EUR 1.8 bn (FY2006)
- Main Rationale:
 - To ensure growth
 - Create synergies:
 - Transfer of know how, lower funding costs, etc
- Capital impact:
 - Excess capital of KBC Group will be used
 - Impact on Tier-1 ratio: ca. -0.5%
 - Share buy-back program will be continued





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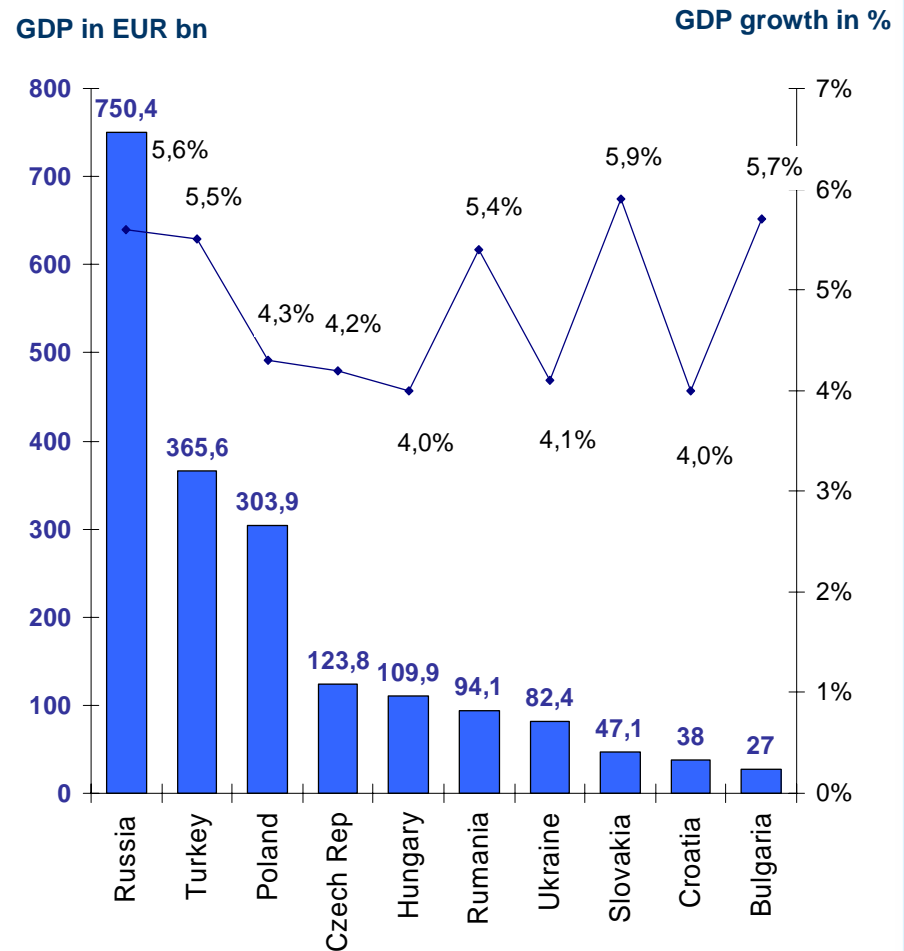
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Russia is a huge market with economic development at a quicker pace than other CEE countries

- The largest European emerging market (population: 142.8m)
- Real GDP growth 2002-2006: 4.7 -7.3% p.a
- Forecasted growth for 2007-2009: 5%+ p.a
- Enormous differences in wealth between regions
- Vast natural resources (oil and gas)
- Strong financial discipline (zero net debt position)
- Investment grade sovereign ratings by major ratings agencies
- Foreign debts declined from 90% of GDP in 1998 to 31% in 2006
- De facto convertible rouble since the 1st of July, 2006

SIZE AND GROWTH OF ECONOMY



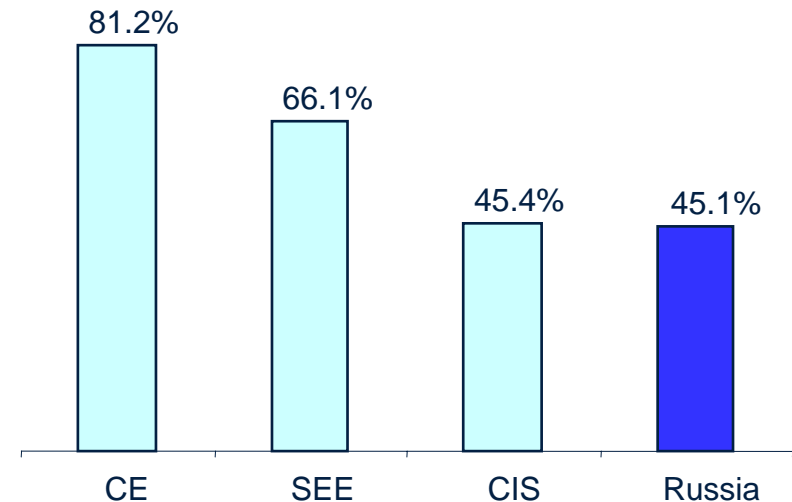
Source: CBR, UniCredit New Europe Banking Research



Banking penetration is low compared to peer countries. Retail lending shows the highest growth rates in the banking market

- The largest and one of the most dynamic banking markets in Emerging Europe
- Growth in retail and corporate lending: 60% and 30% respectively (CAGR between 2004 and 2008e)
- Low level of banking penetration (loans to GDP: 44%, deposits to GDP: 18%)
- Comparatively low level of non performing loans*
- Net profit growth 46% p.a. between 2002 and 2005 on sector level

AGGREGATED BANKING ASSETS / GDP 2005 (%)**



* Sector level NPL ratio at 3.2% as of Jan 2006

** The SEE peer group comprises Romania, Bulgaria, Croatia, Bosnia–Herzegovina, Serbia and Albania. CIS: Russia, Ukraine and Belarus. CE: Poland, Hungary, Czech Republic, Slovakia and Slovenia

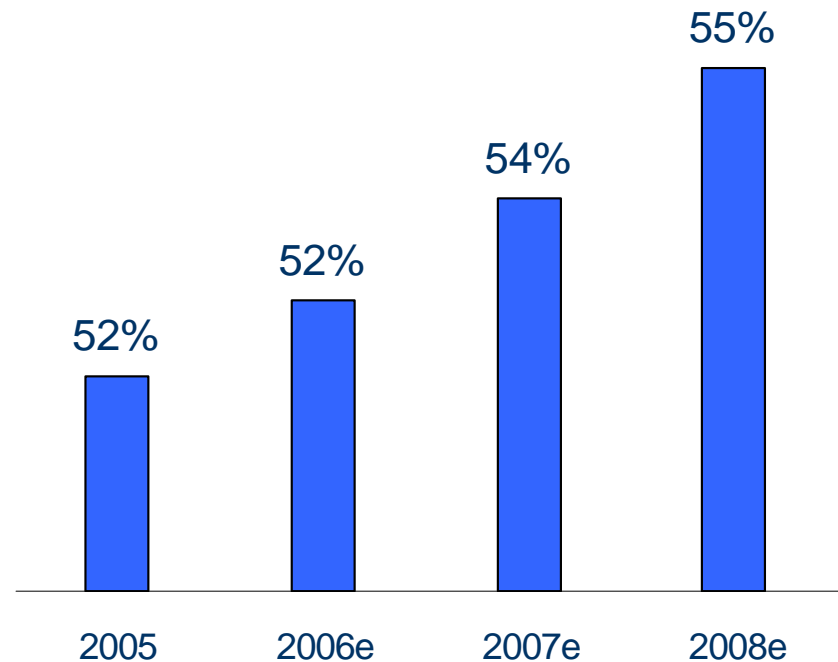
Source: EIV, RZB, CBR



The banking market is still very fragmented, consolidation is on its way

- 1 350 banks including 50 foreign-owned banks
- Government/quasi-government owned banks continue to dominate the banking sector by controlling 50% of the market
- The largest bank with a foreign controlling stake is IMB (UniCredit) with EUR 4.3 bn total assets (No. 9)
- High efficiency, although slowly increasing cost/income ratios. Cost drivers are:
 - Falling interest rates
 - Investment costs
 - Rising real estate prices
 - Turning into retail business

COST/INCOME RATIO ON SECTOR LEVEL



Source: CBR, UniCredit, Goldman Sachs



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Absolut bank is a solid platform for KBC to enter the Russian market

- Absolut Bank was established in 1993 by 5 Russian individuals
- IFC (Worldbank) acquired a minority stake (7.5%) in 2006
- Absolut Bank has gradually developed from corporate orientation into a universal bank (retail banking, asset management, market activities)
- Market position of Absolut Bank:
 - 7th largest non-state-owned mortgage lender
 - 5th by growth rate of private deposits
 - Leading position in trade finance facilities for mid-sized companies
- Key financials:
 - Total assets: EUR 1.8 bn (FY 2006)
 - Net profit: EUR 20m (FY 2006)
 - ROE 16.6% (FY 2006)
 - Cost/income ratio 47% (FY 2006)



Absolut Bank has branches in big cities and major wealthy regions



- Experienced, good staff with a clear commercial strategy
- Presence in 9 major regions like Moscow, St. Petersburg, Ufa, Omsk, etc
- Further expanding the loan portfolio, especially on retail side
- Aim is significant market share in some important regions or product segments
- Optimizing the funding mix by actively collecting deposit transactions and leverage KBC's credit rating for wholesale funding



Strong financial track record

- Gross Income growth 45% CAGR over the past 5 years
- Loan to deposit ratio increased to 215% (from 120% in 2001), NIM declined consequently
- Cost / Income ratio at 47%, gradually increasing due to the branch and ICT expansion programme
- Moderate loan loss charges (NPL was 0.8% in 2006)
- Net profit growth rate 50% CAGR over the past 5 years
- Shareholders' equity is EUR 200m, Tier 1 ratio 9.7% (expected June, 2007)



Strong financial potential

- Strong revenue growth seems to be sustainable
- Cost / Income ratio will be increased somewhat due to the branch expansion, but it will be below the Group target level (55%)
- Return on Investment expected to reach 10% in 3-5 years, i.e. net profit expected to be at least EUR 76 m by 2011 at the latest
- Over a 5 years period, we expect an additional EUR 220 m capital need to be injected to fund organic growth
- In the first year, we expect the transaction to be more or less earnings neutral (taking into account the funding cost). However, earnings accretion starts rapidly.



Strict governance standards

- Absolut Bank will be integrated as a separate division into the business unit of “Central & Eastern Europe”:
 - Risks will be monitored centrally
 - Dedicated financial controlling unit in the head office in Brussels
 - KBC risk standards and methodology to be implemented
 - Separated financial statements will be disclosed on Russia
- The local management has strong merits and we would like to “keep them aboard”.
- We will add some KBC expats in senior management positions
- Absolut Bank has shown a good track record in implementing an overall update risk governance (amongst others, with the technical assistance of IFC). This will further be strengthened by implementing KBC’s risk methodologies.



Appendix: Financials

IFRS, in EUR m	2000	2001	2002	2003	2004	2005	2006
Net interest income	6	7	10	15	22	30	54
Dividend income	0	0	0	0	0	0	0
Net gains from FI at FV	2	4	4	1	0	6	15
Net F&C income	0	1	5	5	3	6	8
Other income	1	1	1	1	1	1	2
Gross income	9	12	20	21	26	42	79
Operating expenses	-4	-4	-6	-7	-10	-18	-38
Impairment	0	0	0	0	0	0	0
Tax	-1	-1	-1	-2	-4	-4	-7
Net profit	1	3	5	8	10	12	20
Shareholders equity	14	26	43	46	61	85	152
Total assets	64	101	155	245	401	793	1.898
Loans to customers	25	39	73	154	236	502	1.224
Customer deposits	21	32	46	87	113	199	570



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