



# ***KBC Bedrijfsbezoek Kroffinvest***

*22 mei 2008*





## Programma:

➔ 19.00 **Inleiding**

Lucas Albrecht, Financial Communications Officer

**After the credit crisis....**

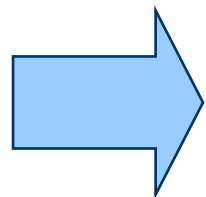
Luc Van Hecke, Analist bij KBC Securities

**Retail & private bankverzekeren in België**

Danny De Raymaeker, CEO van de Divisie België

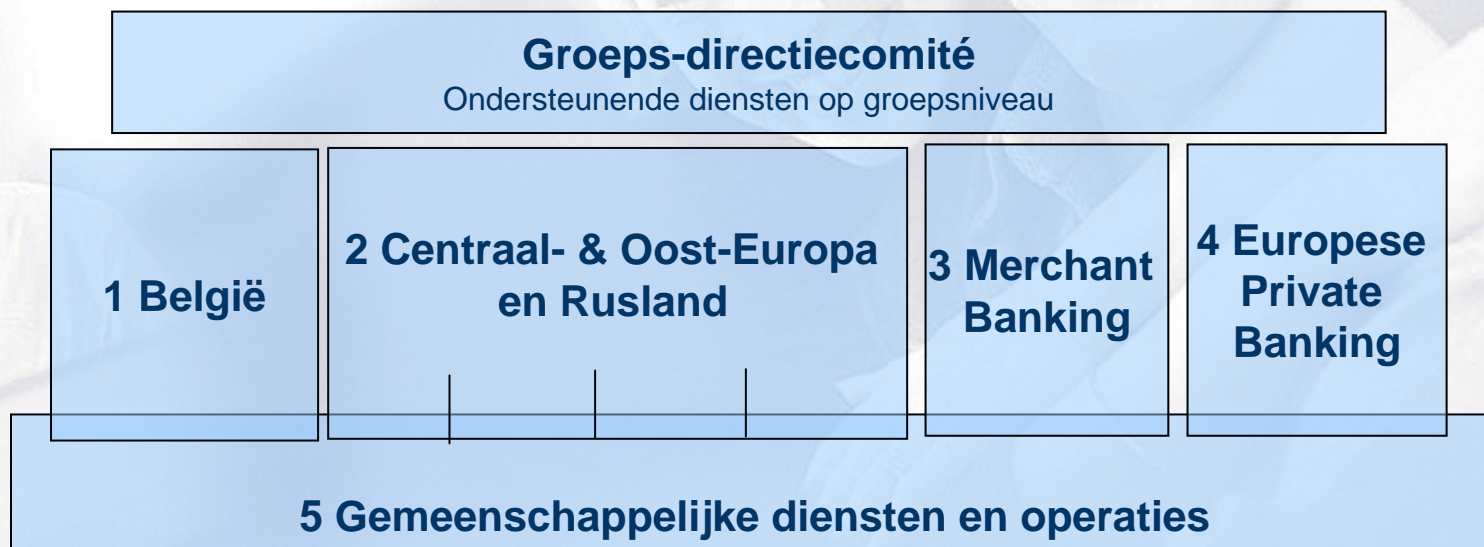
Gelegenheid tot vraagstelling

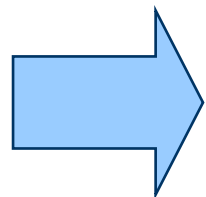
**Receptie** aangeboden door KBC



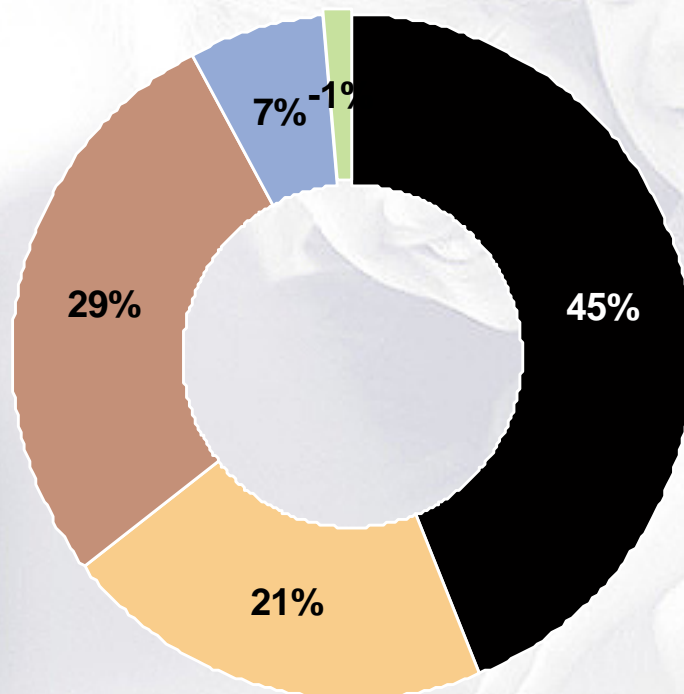
Vandaag focus op België, de belangrijkste markt voor onze groep

De groep omvat echter 5 divisies



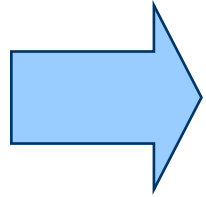


## Verdeling van de onderliggende nettowinst 2007 (2.9 mrd EUR) volgens divisie



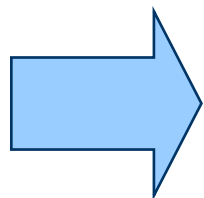
- België
- Merchant Banking
- Rest

- Centraal- en Oost-Europa en Rusland
- Europese Private Banking



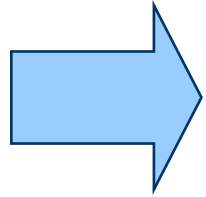
Vanuit haar Belgische startpositie is de groep de laatste jaren een **erg internationale groep** geworden.

- **12 miljoen** cliënten wereldwijd
- **57 000** personeelsleden
- aanwezigheid in **35-tal** landen
- **900** bankkantoren in België ; **1200** bankkantoren in CEER
- **550** verzekeringsagentschappen in België ; **14 500** in CEER
- Ratings KBC Bank:  
**AA-** bij Fitch, **Aa2** bij Moody's, **AA-** bij S&P's



De groei sinds de fusie in 1998 was bijzonder sterk:

	Vóór de fusie (pro forma gegevens eind 1997)	Groei	Huidige positie (gegevens eind 2007)
<b>Nettowinst</b> (onderliggend voor 2007)	<b>0,7 miljard euro</b>	<b>x 4</b>	<b>2,9 miljard euro</b>
<b>Personeel</b>	<b>21 000</b>	<b>x 3</b>	<b>57 000</b>
<b>Beheerd vermogen</b>	<b>40 miljard euro</b> (schatting)	<b>x 6</b>	<b>231 miljard euro</b>
<b>Technische voorzieningen verzekeringen (incl. tak23)</b>	<b>5.8 miljard euro</b>	<b>x 5</b>	<b>26.8 miljard euro</b>



De groep focust vooral op **België** en **Centraal- en Oost-Europa**

In Centraal- en Oost-Europa:

- een van de belangrijkste financiële instellingen
- zeer belangrijke posities op de **Tsjechische, Slovaakse, Hongaarse en Poolse** bank- en verzekeringsmarkten
- recent ook de **eerste stappen** in **Roemenië, Bulgarije, Servië en Rusland.**
- CEER is een **belangrijke groeimotor** voor de groep
- komende jaren: **add-on acquisitions** (bv. Istrobanka) en **sterke uitbreiding netwerken**



# De KBC Groep vandaag

## Positie in Centraal- en Oost-Europa

### Polen

Kredyt Bank  
Warta

### Tsjechië

CSOB  
CSOB Insurance - CR

### Slowakije

CSOB en Istrobanka  
CSOB Insurance - SR

### Hongarije

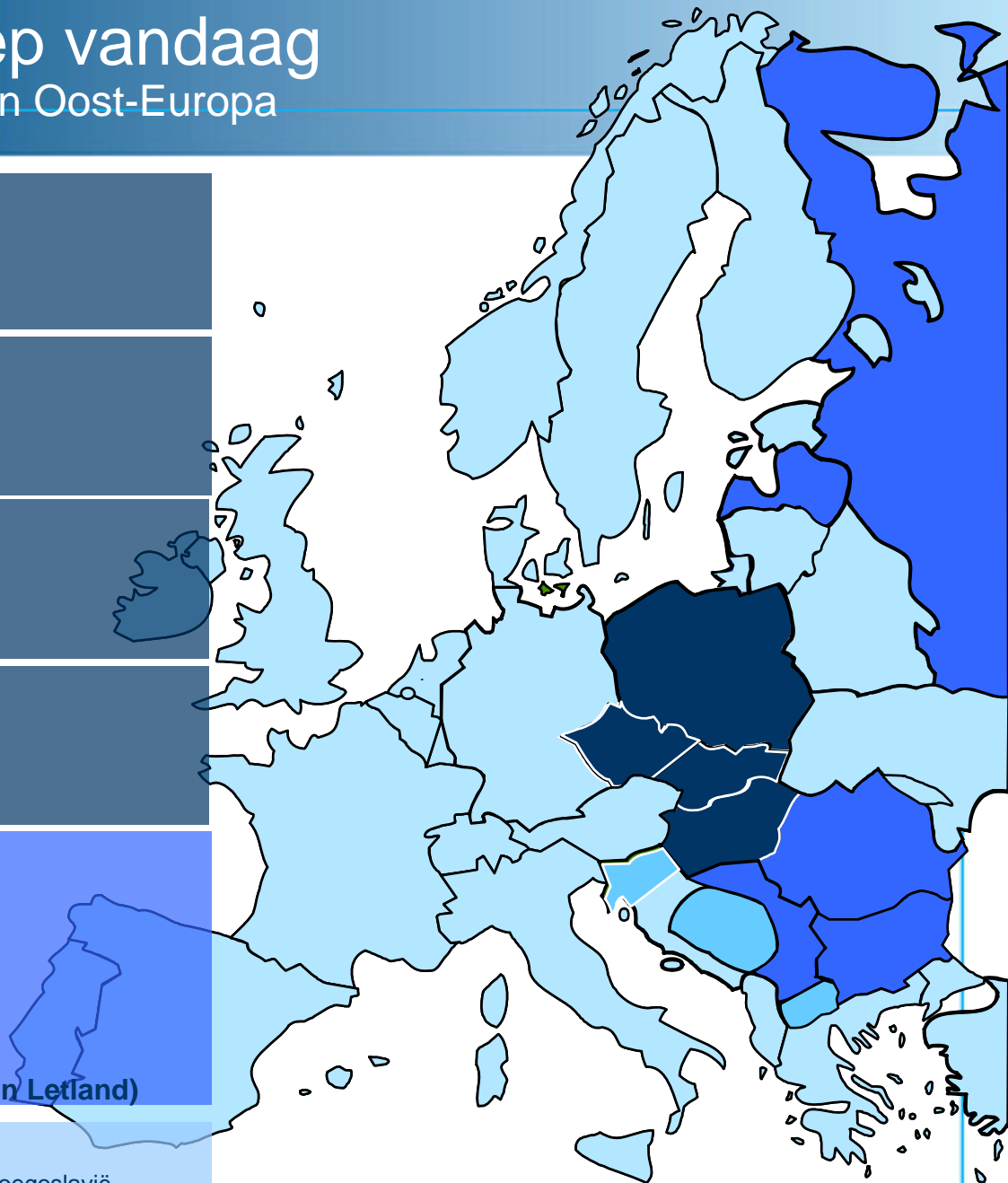
K&H Bank  
K&H Insurance

### Recente acquisities in

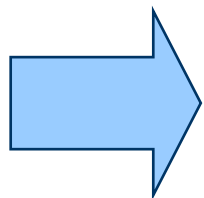
- Servië (KBC Banka)
- Roemenië (Romstal Leasing)
- Bulgarije (EIB, DZI Insurance)
- Rusland (Absolut Bank)
- + Diverse acquisities van KBC Securities (o.a. in Letland)

### Slovenië: NLB, NLB Vita

Via NLB ook indirecte aanwezigheid in andere rep. van ex-Joegoslavië







Niettemin blijft onze groep **uitermate** sterk verbonden met onze **eerste thuishmarkt (België/Vlaanderen)**.

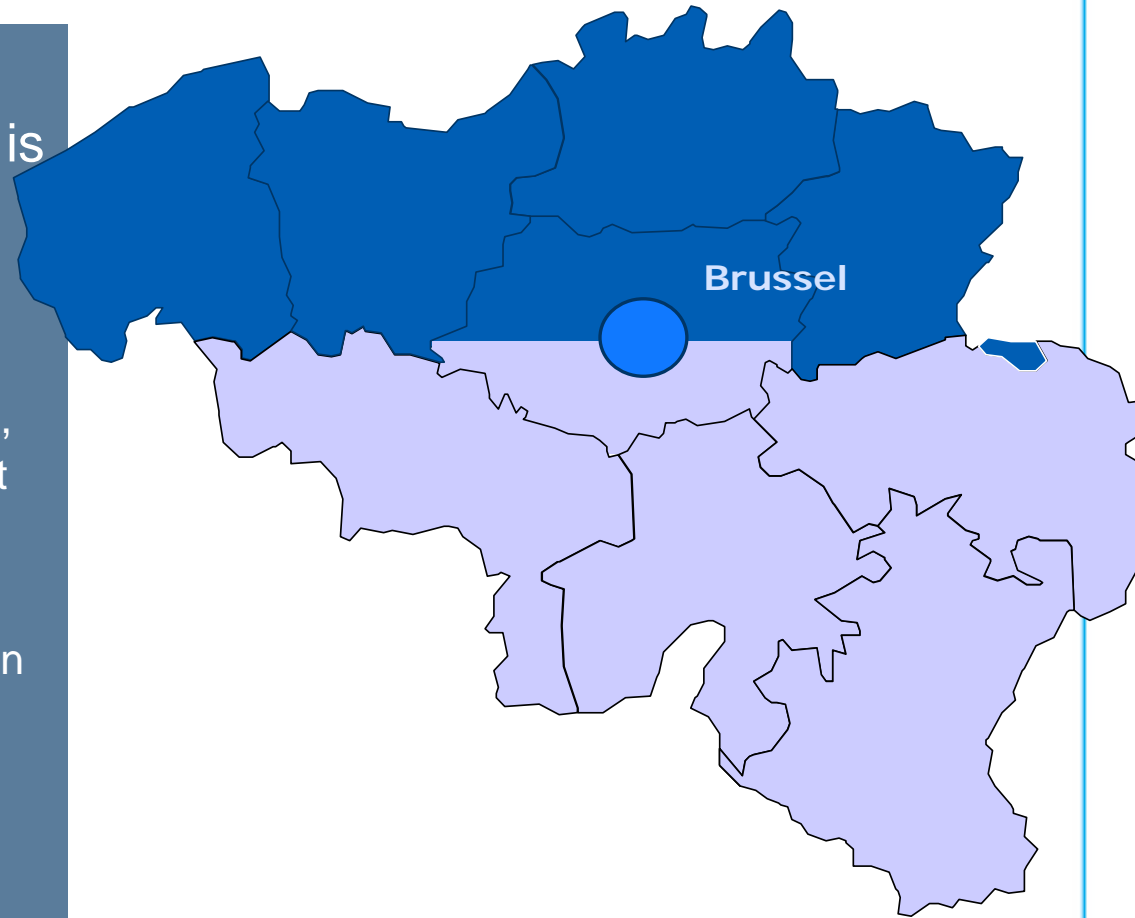
KBC wordt verankerd **door Vlaamse kernaandeelhouders**

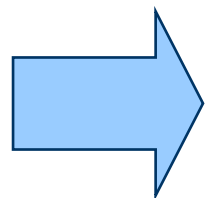
De Belgische activiteiten **tekenen voor het grootste deel van de nettowinst** van de groep.

België blijft uiteraard belangrijk als **'geboorteland'** van onze groep

In tegenstelling tot haar belangrijkste concurrenten is KBC vooral aanwezig in Vlaanderen:

- Ruwweg 80% van de bankkantoren in het Noorden, 10% in Brussel en 10% in het Zuiden
- Marktaandeel in België rond 20%; geschat marktaandeel in Vlaanderen 35%-40%





U vindt **meer informatie** over onze groep:

- In ons **jaarverslag**
- In onze **kwartaalverslagen**
- In ons **duurzaamheidsverslag**
- Op onze website [www.kbc.com](http://www.kbc.com)
- Bij onze **Investor Relations** afdeling





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# Quid after the credit crisis

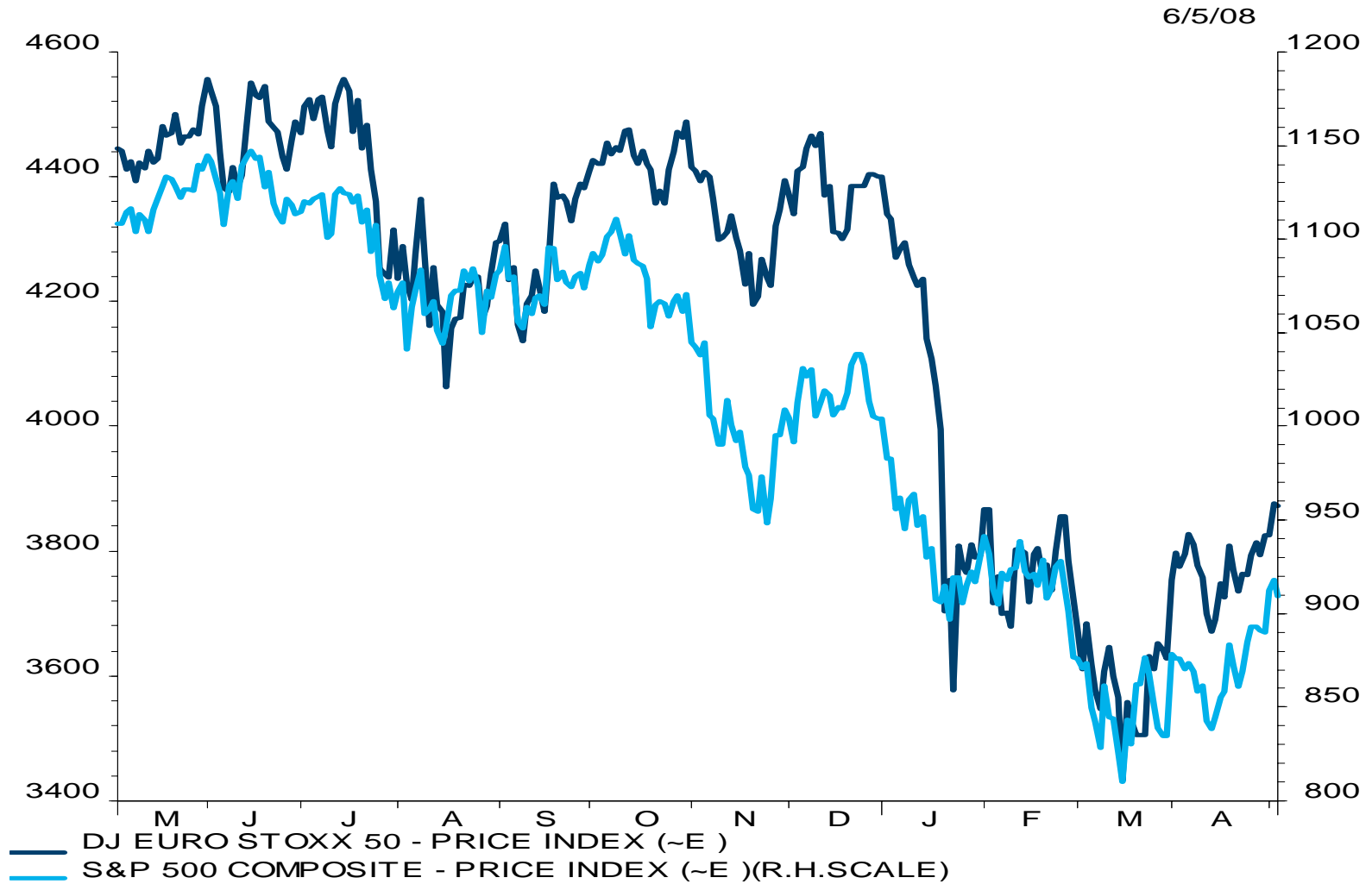
prepared by Luc Van Hecke



Havenlaan 12  
B - 1080 Brussel



# A year of turbulence

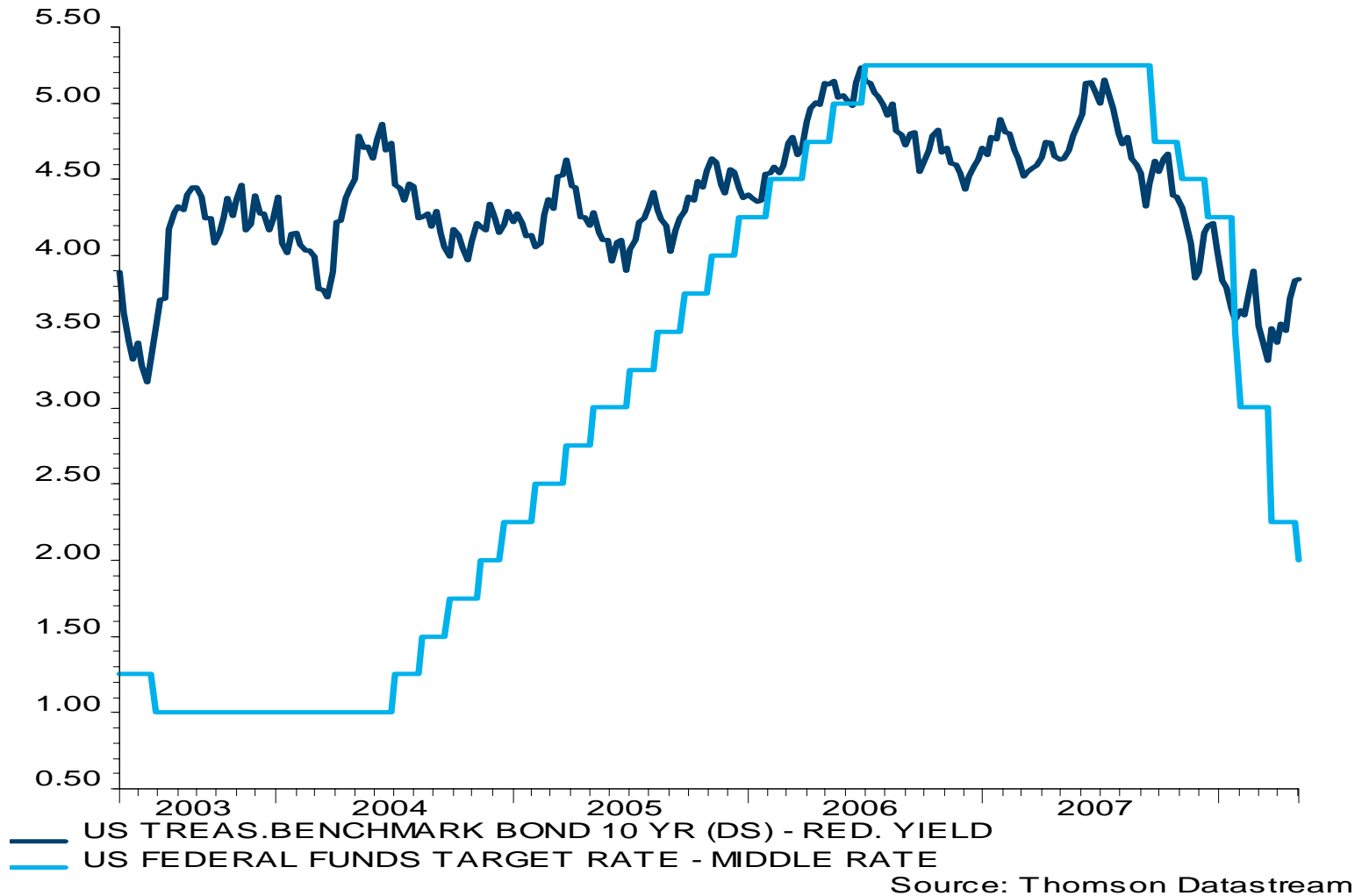


Source: Thomson Datastream



# FED acted swiftly and decisively

6/5/08





# Credit crisis: a dizzying figure dance

- October '07: IMF \$ 100 to 150bn
- October '07 UBS \$ 400bn
- January '08: UBS \$ 600bn
- January '08: S&P \$ 265bn
- March '08: S&P \$ 285bn
- March '08 : Goldman Sachs \$ 1200bn
- April '08: IMF \$ 945bn



- Major effects seem so far limited to financials
- Forced liquidation of leveraged hedge fund positions has largely taken place
- Few traces of credit crunch effects as companies have solid balance sheets
- Restoration of risk and liquidity premiums has nevertheless impact on asset values
- US slowdown and impact on world economy more linked to normal cyclical phenomena than to credit crisis
- Damage so far over \$ 340bn in announced write offs

# Anatomy of a three-pronged crisis

- Crisis starts as a problem in the lower quality segment of US housing finance
- Effect is amplified by heavy balance sheet leverage in the asset securitisation market
- Strong reliance on short-dated funding leads to global liquidity crisis

Resulting in:

- Stronger regulation of risks which triggered the crisis:
  - ✓ Lending standards in mortgages
  - ✓ Leverage in the funding of securitised products
  - ✓ Control over growth of bank-like maturity transformation outside banks
- Market structure will be affected for at least a decade

# US housing sector triggered the crisis

- Subprime mortgage market for a long time small and relatively well disciplined segment of US credit market
- Very low interest rates following 2001 recession result in rapid house price appreciation, reducing loan to value of outstanding loans and leading to erosion of lending standards
- Self reinforcing cycle of surging subprime lending, supported by unusually low credit spreads and securitized mortgage insurance issuance creates background for spiralling crisis
- Securitized mortgage issuance:
  - ✓ \$ 60bn per year in late 90'ies
  - ✓ \$ 200bn per year in '03
  - ✓ over \$ 450bn per year in '05 and '06

- Natural position of a bank is “liquidity short”
- Natural position of insurance companies and pension funds is “liquidity long”
- Typical funding of loans held by banks is 90% deposits, 10% equity, leading to 10 leverage before securitisation
- CDO’s by themselves create risk distribution, not an increase in overall leveraging
- Rise in leverage mainly the result of how CDO-buyers are funded
- Investors constrained to high rated paper buy senior tranches, hedge funds, pension funds and insurers by lower grade and equity tranches
- Falling yield spreads problem overcome by cheap guarantees from monoline insurance companies (creating illusion of AAA-rating)
- Safety illusion of AAA-rating enabled selling to:
  - ✓ Conduits and structured investment vehicles, funded by short term instruments, bought by money market funds
  - ✓ Banks since AAA instruments only require 0.56% equity capital (an AAA tranche paying Libor + 10bps still gives 20% ROE on the minimum regulatory capital required)

- Exaggeration in growth of balance sheet leveraging impossible to quantify since it would require analysis of funding basis of all CDO-investors
- Speed of deterioration after credit shock in subprime market proves increased vulnerability of financial system due to short-term funding
- Similarity of credit crisis to a bank run indicative of presence of factors conducive for a run on securitized credit:
  - ✓ Negative credit shock (fall in US home prices)
  - ✓ Illiquid assets (CDO's have no developed secondary market)
  - ✓ Lack of transparency on asset values (possible rating reviews create high anxiety, credit insurance at a given moment seriously in doubt)
  - ✓ Maturity transformation (unregulated growth in liquidity short positions)
  - ✓ Lack of lender of last resort in securitized credit

- Basic banking function; liquidity issue is resolved by existence of central bank (lender of last resort); moral hazard compensated by regulation
- Deregulation and financial innovation has created parallel maturity transformation platform
- JP Morgan estimates maturity transformation outside regulated banking world at \$ 5,900bn (= 40% of total maturity transformation in US financial system)
- “Liquidity short position” of financial system underestimated, advantages of risk distribution from financial innovation over estimated
- Financial crisis has ballooned as different risks accumulated:
  - ✓ Mortgage credit risk
  - ✓ Leverage in securitization
  - ✓ Maturity transformation in funding securitized products
- Lender of last resort has been forced into intervention in new areas
  - ✓ Saving an investment bank from going bottom up (Bear Stearns)
  - ✓ Providing liquidity by accepting new collateral (triple A mortgages)

- Causes of crisis will have to be addressed
- Regulators will tighten rules on risk taking in the financial system
  - ✓ Regulation on lending standards for mortgages to be reinforced
  - ✓ Capital requirements for securitisation may be introduced
  - ✓ Short term funding outside commercial banking system expected to fall by a third as clients want liquidity assurance and central banks impose capital requirements
  - ✓ Global, cross-product nature of financial crisis demonstrates weakness of divided regulatory system
- Basic economics of securitisation remain valid; smaller market with emphasis on risk distribution rather than maturity transformation
- Economics of leveraged, short term funding of ABS and CDO's are dead
- In the end bank balance sheets will be larger, banks will be safer, but probably also somewhat less profitable

- US recession mainly a problem of consumer spending; will not disappear in the short run as labour market conditions remain weak
- Company profitability at a solid level; balance sheet structure strong, but capex expected to fall back
- Impact of housing on consumer spending is more important than stock market fall (recovery tied to bottoming out of housing market)
- Re-balancing world economy requires reconstitution of savings rate in US
- Despite stronger inflationary pressures, interest rates likely to remain low for some time to come
- Slower growth also heralds lower company earnings growth
- Asian urbanisation process keeps world growth potential high



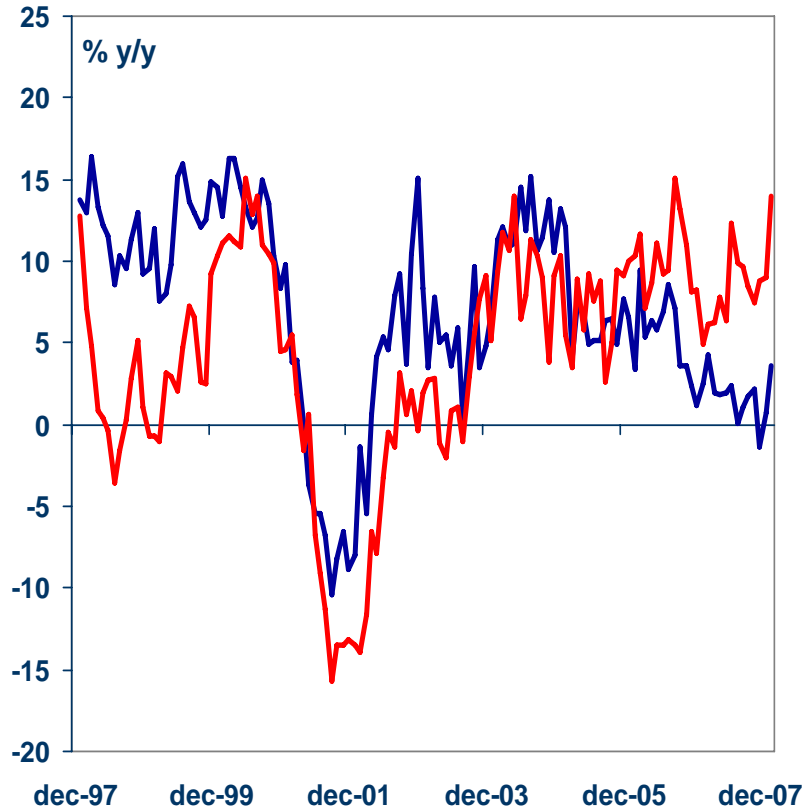


# Interest rates: worldwide savings/investment balance still in surplus

- Demographics keep mature economies in savings mode for some time yet (hedging future obligations at any cost led to extra pressure on long end of the market)
- Fundamental events triggering a change in savings/investment ratio not very likely in the short run:
  - ✓ Change in social security/education/pension system in emerging economies (causing a major change in savings/consumer spending ratio in China)
  - ✓ Convertibility of Chinese currency
  - ✓ Despite recent upturn little evidence of fundamental change in inflation expectations
  - ✓ Slowdown makes strong increase in investments not very likely in the short run
  - ✓ Unusual margin between world economic growth rate (determining return on assets) and financing rate (determining cost) remains despite return of (temporarily high) risk and liquidity premiums

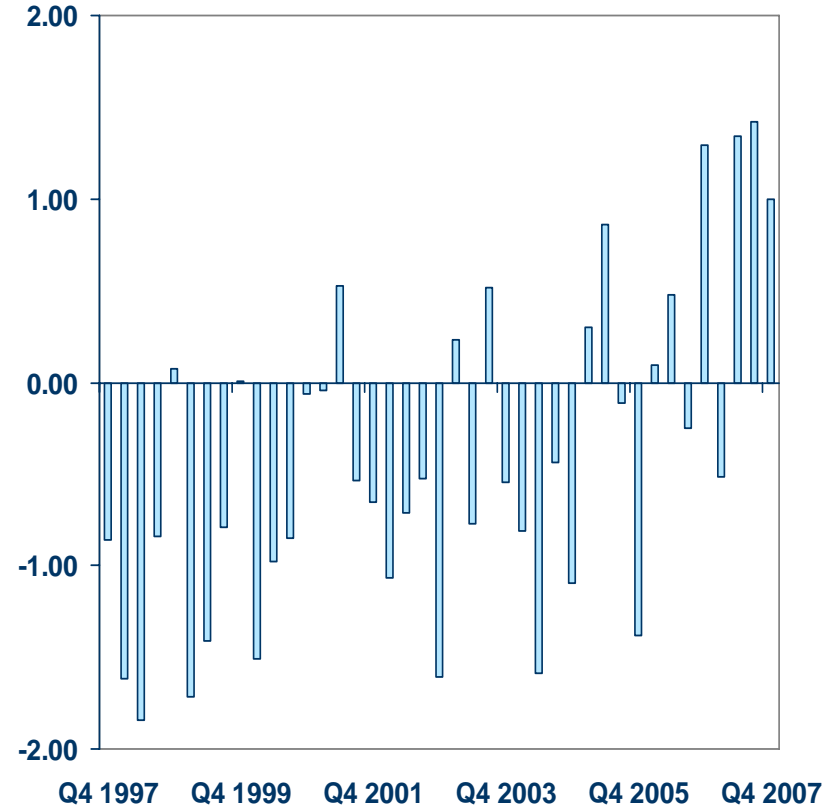
# Why the recession will be mild and short-lived

## Exports booming



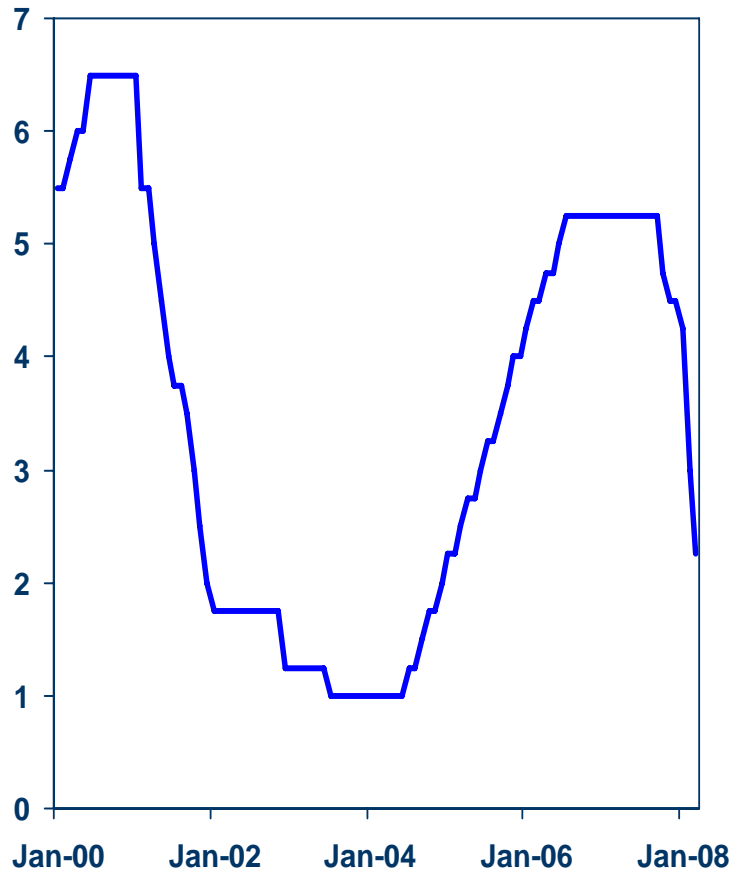
— Imports      — Exports

## Net-exports



■ Growth contribution of net-exports (in %-points)

## Monetary easing (Fed funds target)



## Fiscal stimulus: \$150 bn (1% of GDP)

- Tax rebates to households: \$100 bn (at the latest by the start of the Summer)
- Measures to boost corporate investment: \$50 bn

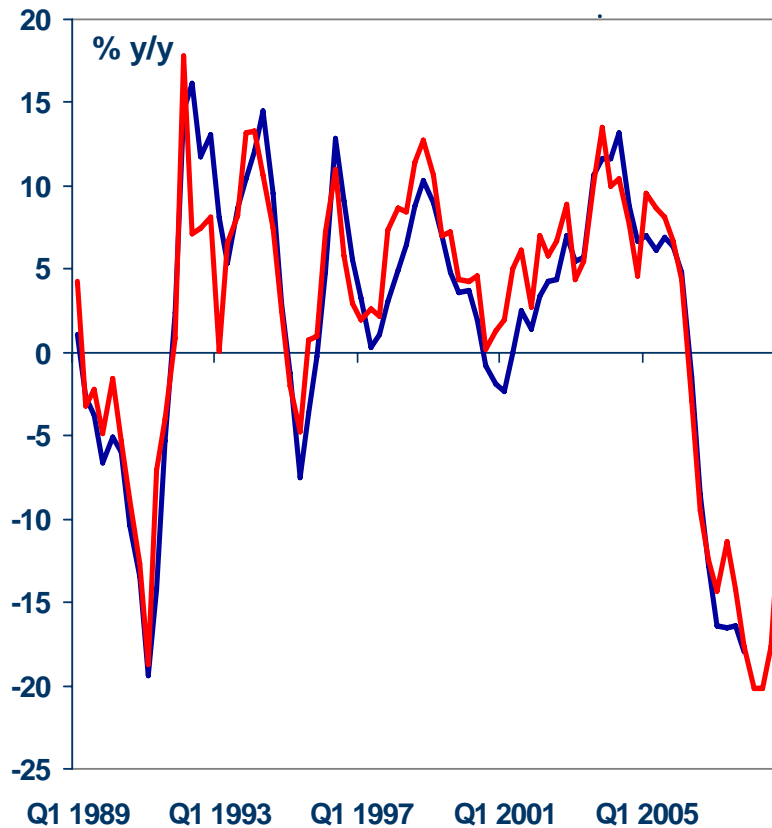
### Effects

- Temporary (with payback later on)
- Best case scenario: 0.6% of GDP, concentrated in Q3

### Effects on GDP (percentage points)

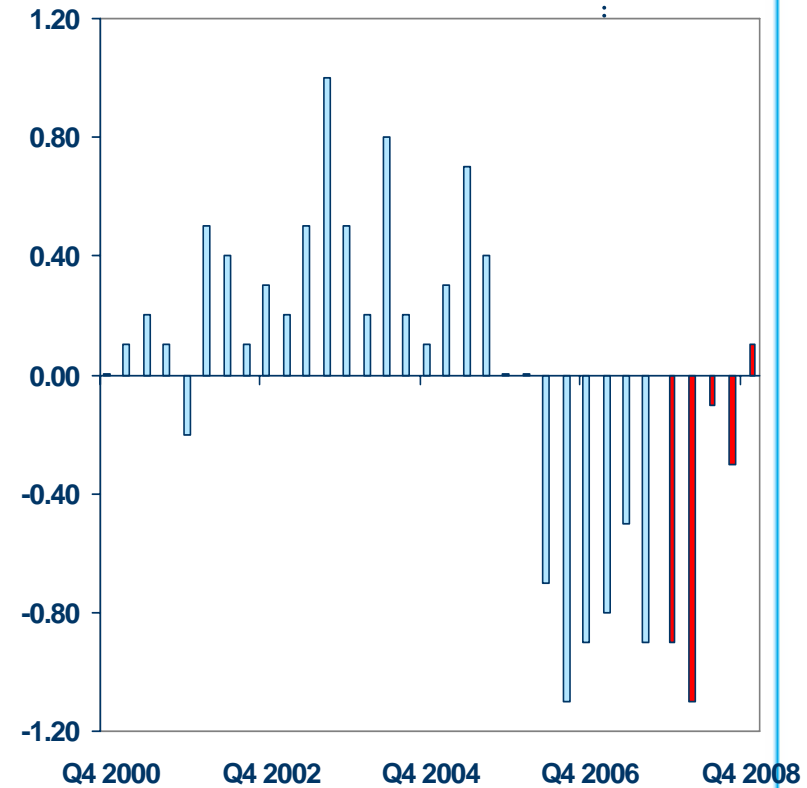
	Monetary easing (300bps)	Budgetary stimulus
<b>2008</b>	1.8	0.6
<b>2009</b>	5.1	-

**Residential construction will continue to decline...**



— Actual      — Model

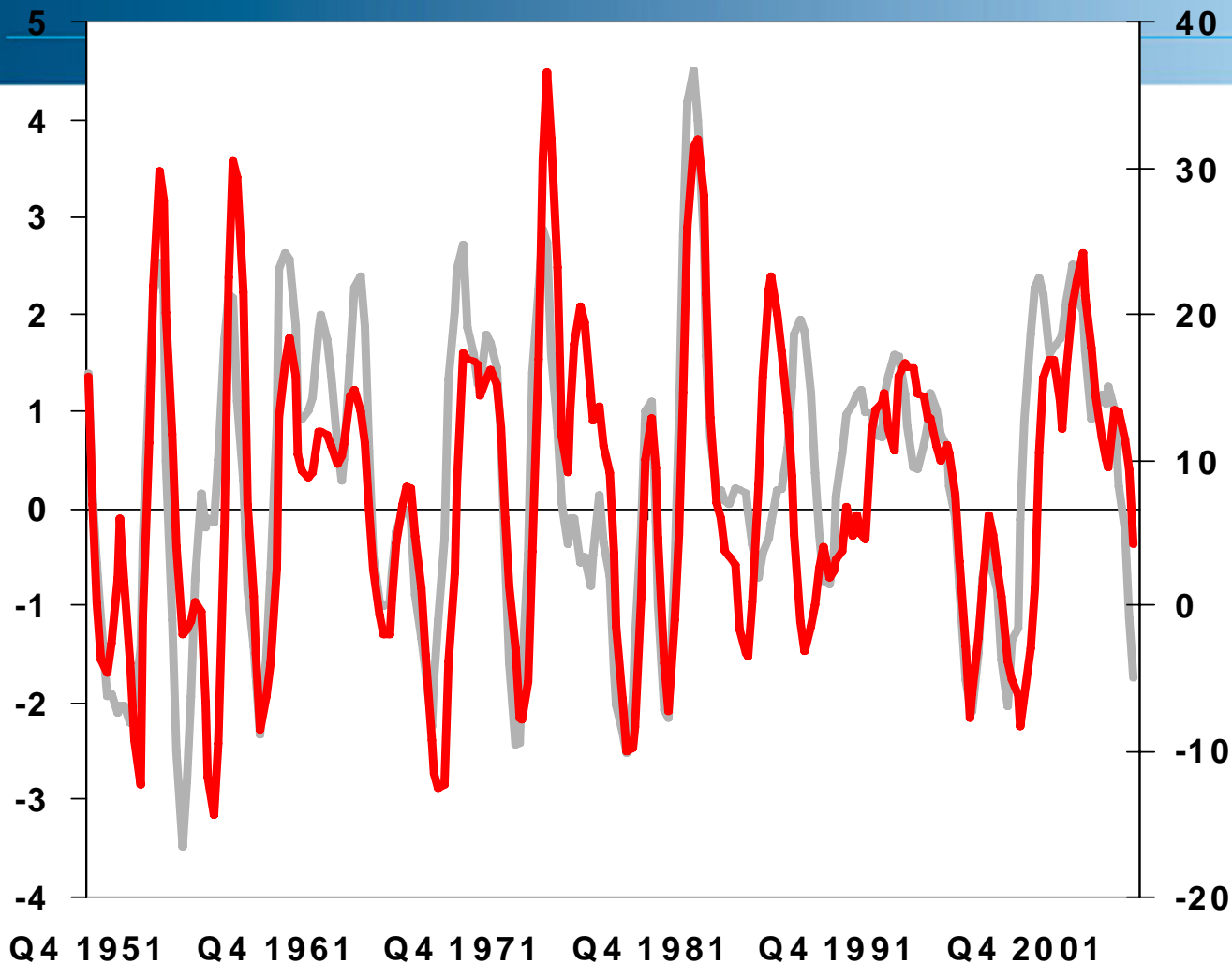
**... but not at the same pace**



■ Growth contribution of residential investment (in % points)



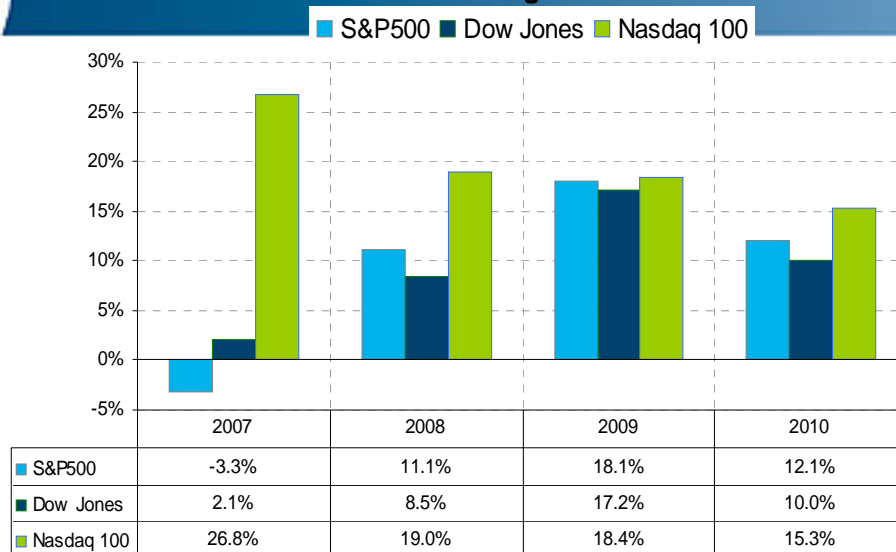
# Earnings recession



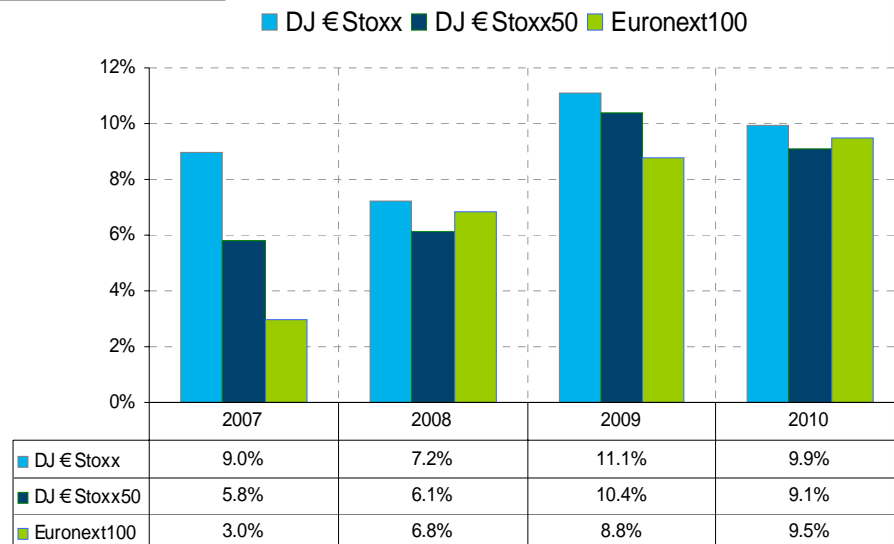
— Margin proxy (GDP deflator - ULC, LHS)  
— Total profits (RHS)

# Earnings forecasts

## EPS growth

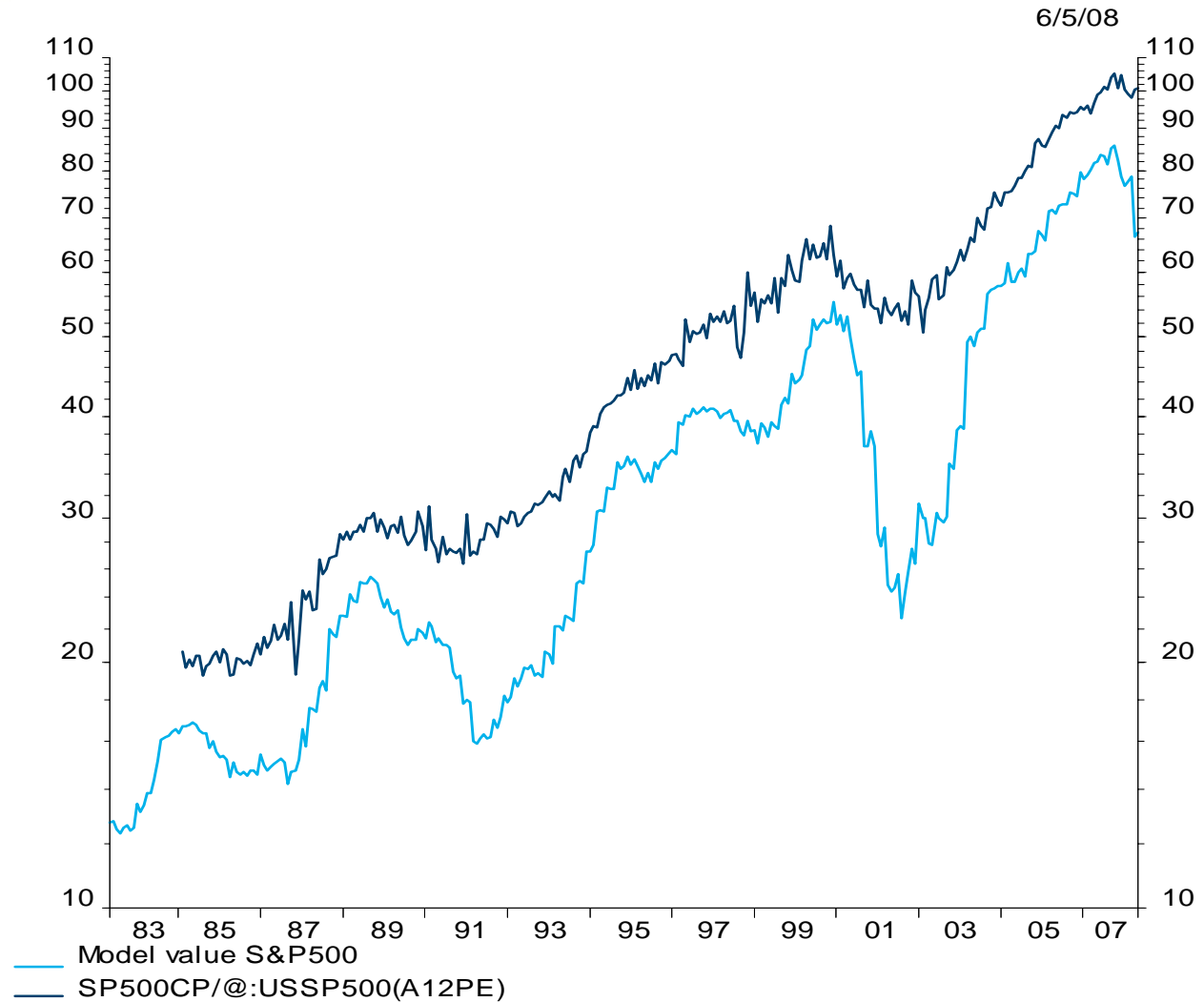


## EPS growth





# Beware of forward earnings forecasts



Source: Thomson Datastream



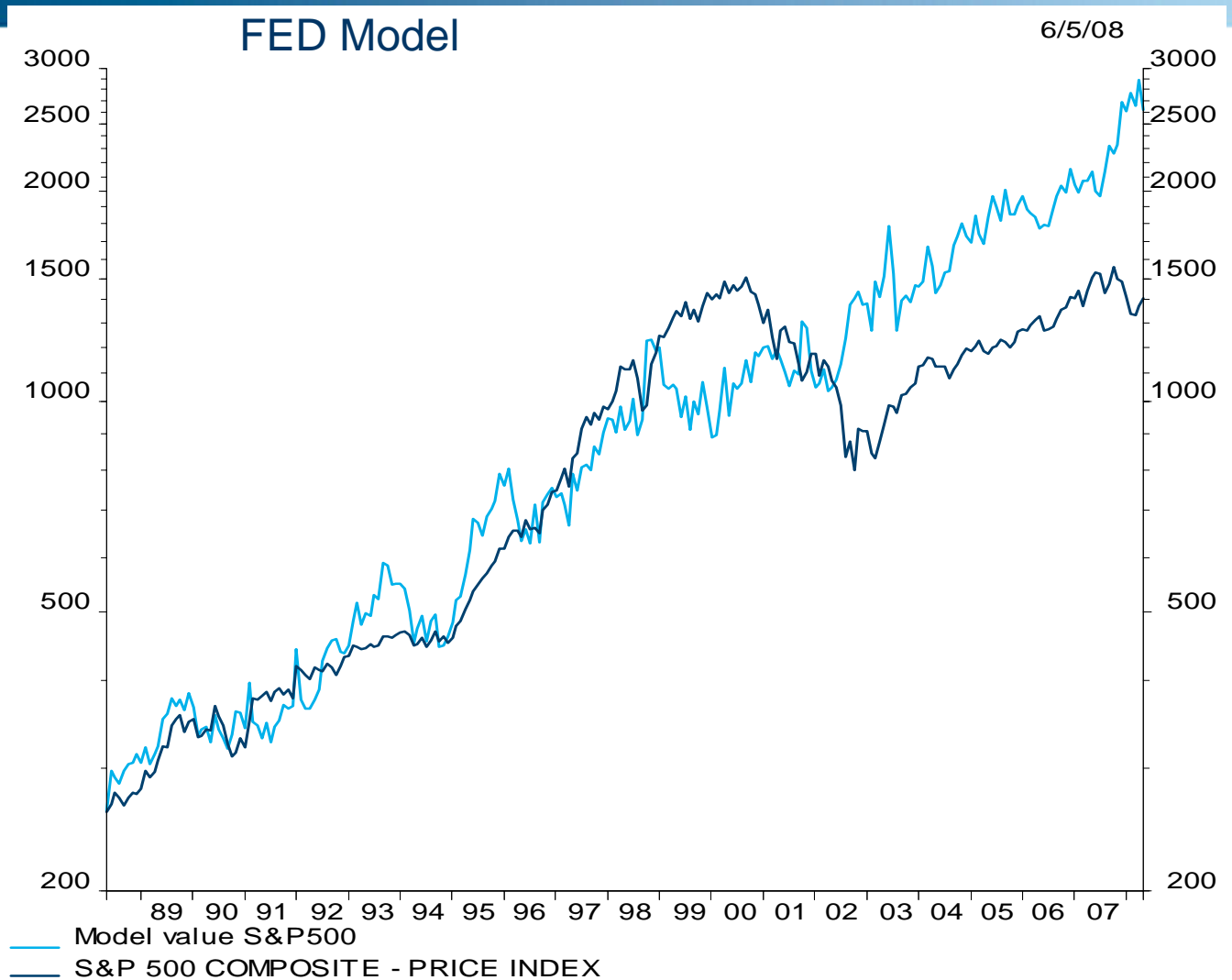
# Model valuations keep equity investments “incontournable”

- Implied risk premium is high from an historical point of view (earnings yield + growth = risk free rate + implied risk premium)
- Model valuations demonstrate large gap between expected returns for different assets
- Model valuations not an absolute guarantee for market price stability
- Fundamental environment to be out of the market
  - ✓ Accelerating price/inflation spiral (e.g. seventies)
  - ✓ Euphoric over valuation (e.g. late nineties)
  - ✓ Fundamental breakdown in world order (war, revolutions)
  - ✓ Major cyclical turning points (end eighties, start new millennium)





# Large cushion to absorb mild earnings shock

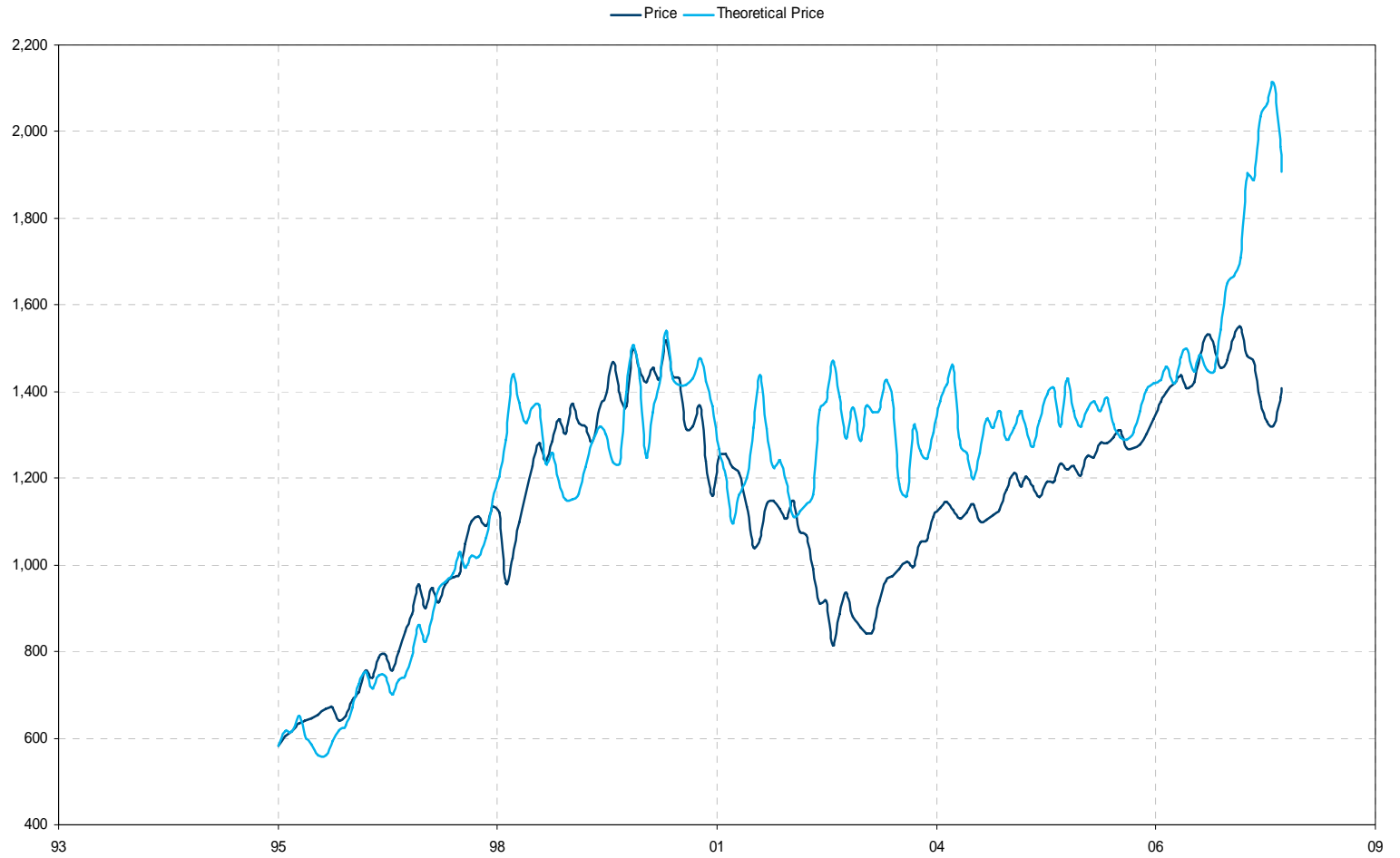


Source: Thomson Datastream



# Dividend Discount Model - US

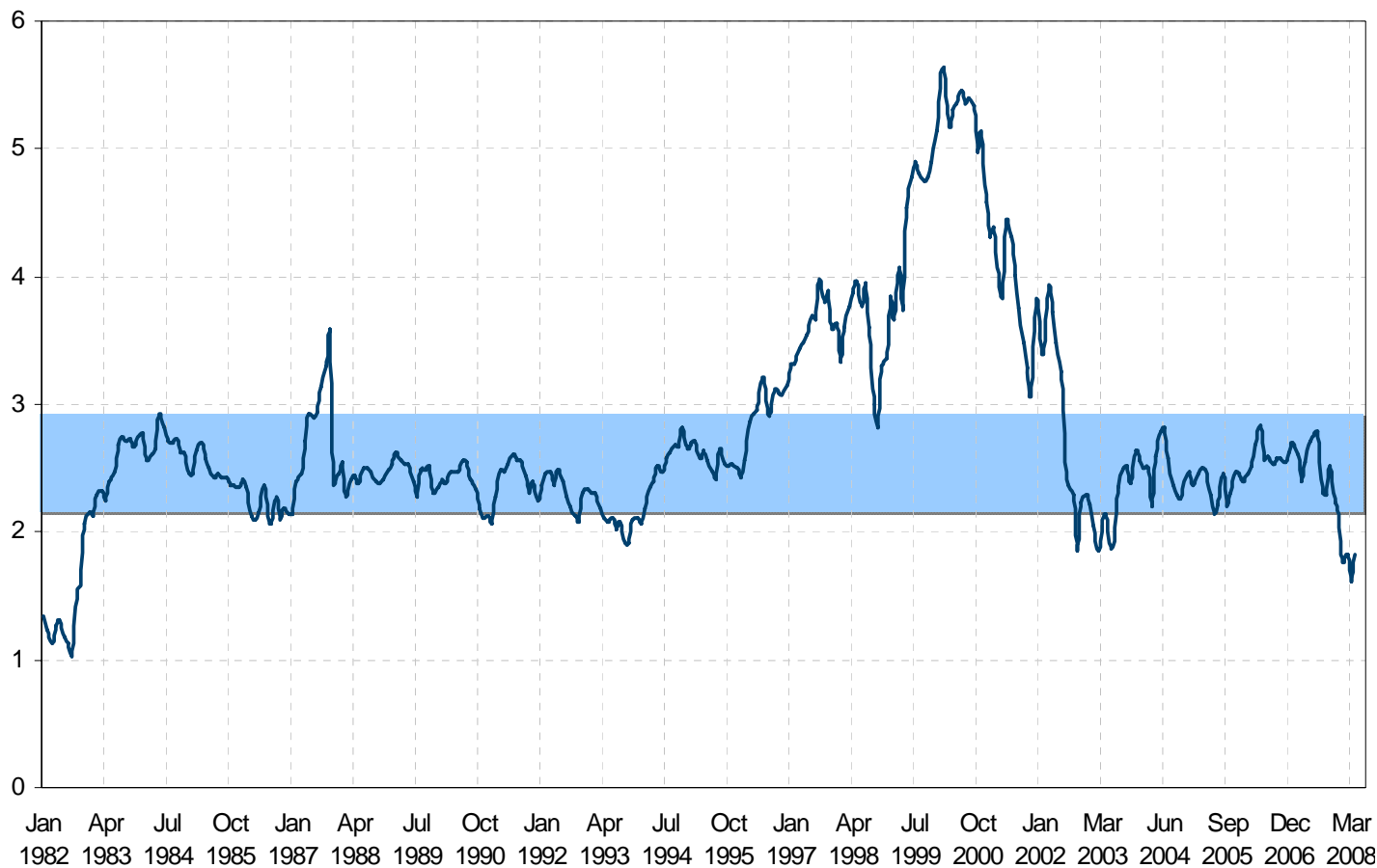
Theoretical Price for S&P 500 (US) (USD) as of 05/05/08



Source JCFQuant



# Dividend Yield Model





# Investment strategy

- Stock markets rebound in the middle of a recession, long before macro indicators show reversal of fortunes
- Relative return prospects for equity and equity related risk (corporate credit) substantially better than other asset classes
- Financial sector requires reappraisal as opportunities and pre-programmed earnings rebound is countered by adjustment of some business models
- Real demand, dollar weakness and speculation keeps raw materials and energy prices up; risk of bubble formation in alternative energy companies
- Economic slowdown source of disappointments as well as opportunities in growth sensitive segment; long term potential still present, dollar rebound key
- Relative sector valuations show expected under valuation for financials; no clear distinction between growth and dividend yield stocks
- Small and midcaps: relative underperformance has stopped; liquidity premiums still required in current market environment



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# KBC België in de KBC Groep

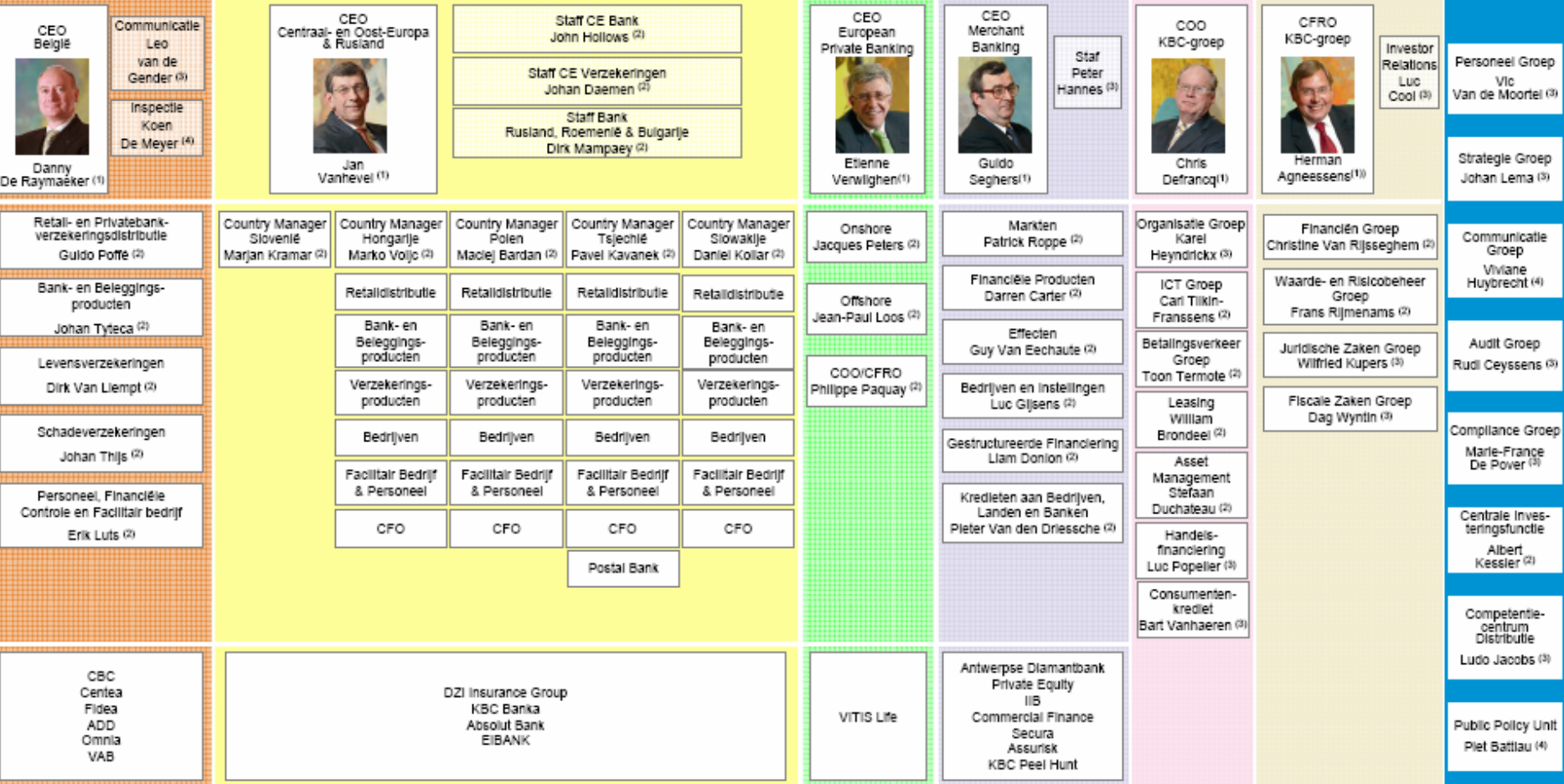
## KBC GROEP



CEO André Bergen

Secretariaat RvB en Directiecomité  
Tom Debacker <sup>(3)</sup>

Secretaris KBC-Groep  
Philippe Verly <sup>(3)</sup>





# KBC in België: Multikanaal & Multimerk



KBC-  
Telecenter



KBC-Online  
[www.kbc.be](http://www.kbc.be)



774 KBC Bank-  
kantoren



22 off-premises



740 agentschappen



Brokers



563 verzekerings-  
agentschappen



106 CBC bank-  
kantoren



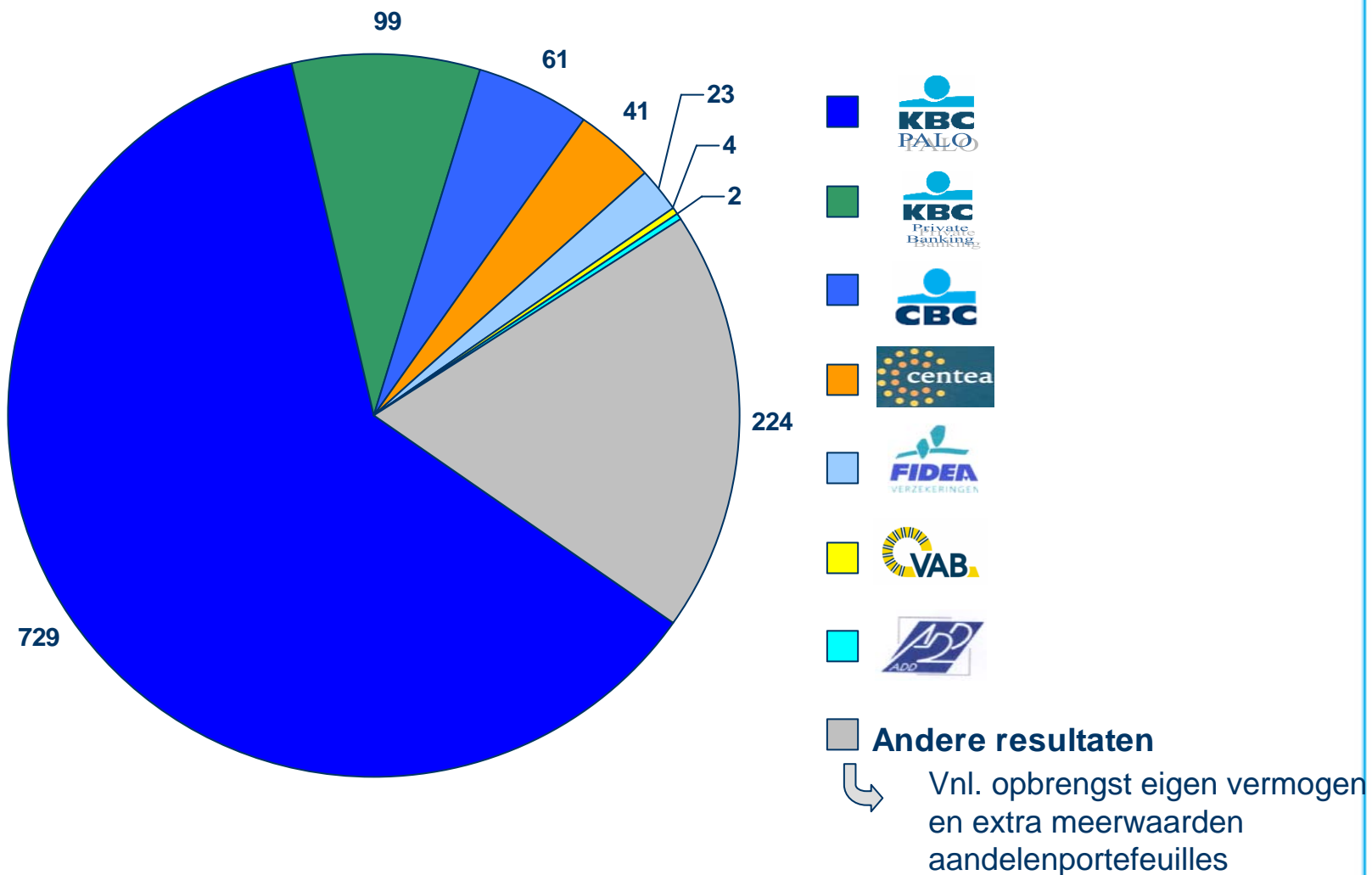
KBC@Isabel  
(multi-bank)



KBC-Online *for Business*



## Samenstelling recurring underlying resultaat divisie België 2007



## Bankkantoren

- Loontrekkenden
- Verkoop en beheer bank- en beleggingsproducten
- Verkoop standaard verzekeringsproducten
- Doorverwijs niet standaard verzekeringsproducten naar gekleefde agent

## MICROMARKT

(aantal: 834)

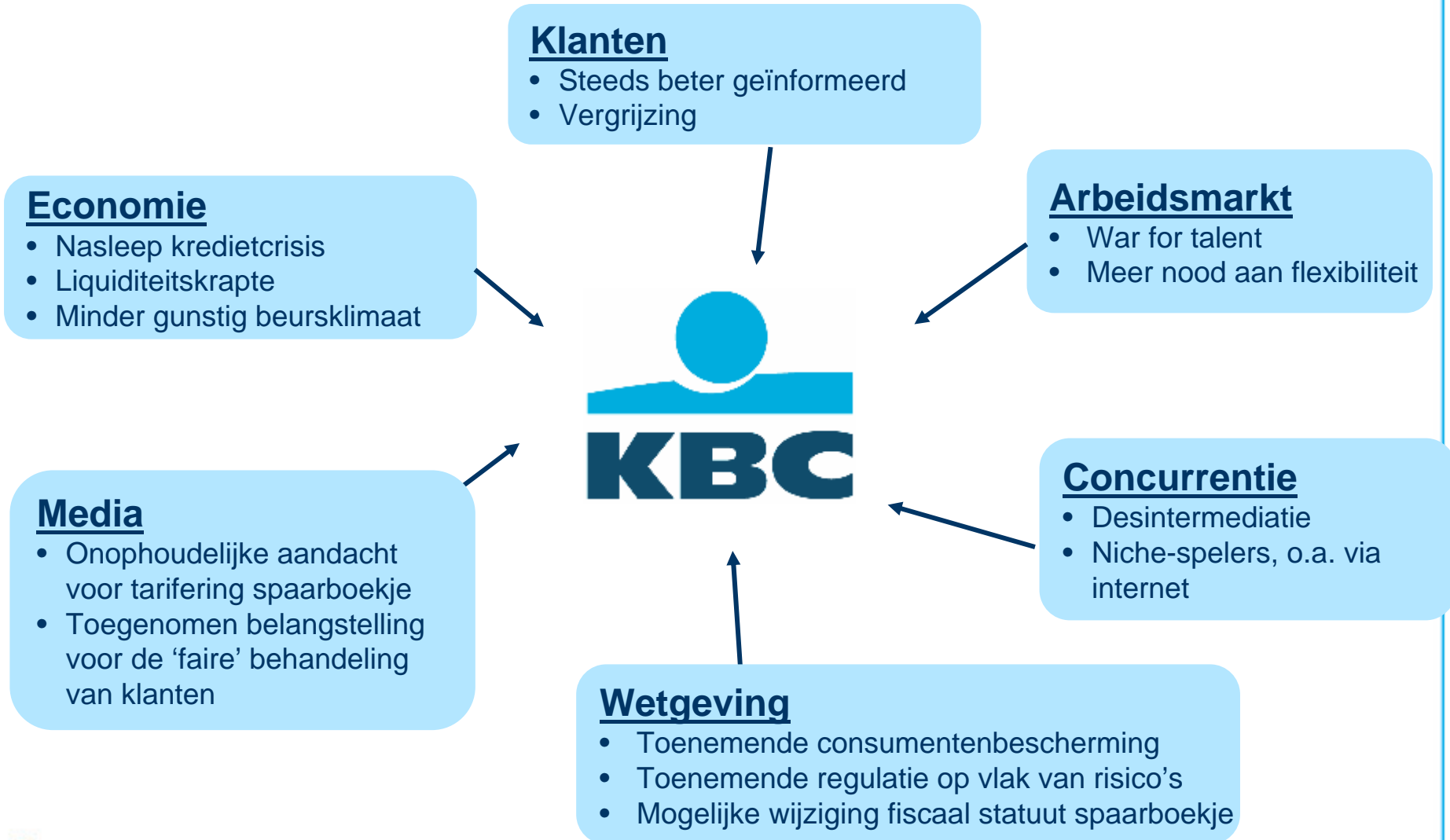
## Verzekeringsagenten

- Zelfstandig, maar exclusief voor KBC
- Verkoop van zowel standaard als niet-standaard verzekeringen
- Schadebeheer voor bankklanten (tenzij via call center)

Het geografisch gebied waar agent en bankkantoor **samenwerken**

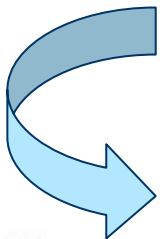
## Bankverzekeringsscharter

Afspraken rond openstelling gegevens, overdacht LO-cliënteel naar agenten, vergoedingen rond doorverwijs, schadebeheer,.....



# Gevolgen van deze evoluties

- Scherpe prijsconcurrentie, o.a. op het vlak van
  - investeringskredieten
  - deposito's
  - instapcommissies fondsen
  - autoverzekeringen
  - verzekeringen voor ondernemingen
- Ongunstig beursklimaat zorgt voor minder plaatsingen in fondsen.
- Minder gunstige productmix (meer KT aan lage marges)
- Moeilijker om marktaandelen te behouden of te verruimen
- Dalende loyaliteit klanten
- Moeilijker te beheersen kostendruk



Uitdaging nr. 1 =  
***RENDABEL GROEIEN IN DEZE MARKT***

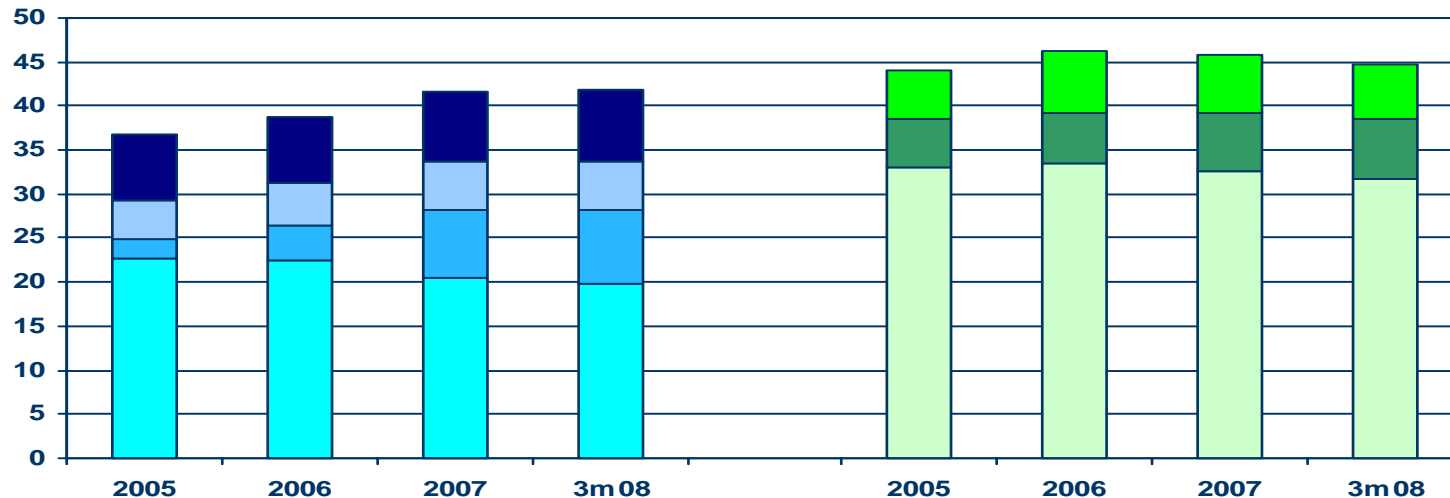
# Concrete gevolgen voor onze werkmiddelen

## On balance

- Stijging KT deposito's en 'overige' deposito's (achtergestelde certificaten, KBC-obligaties,...)
  - Daling spaardeposito's
- ⇒ **Totale liquiditeit daalt niet, maar productmix is minder rendabel.**

## Off balance

- Beursklimaat heeft negatief effect op volumes fondsen en TAK 23 (dalende inventariswaarde en minder plaatsingen).
- Volume tak 21 stijgt.



# Van een productiviteits- naar een groeistrategie

2001

2002

2003

2004

2005

2006

2007

2008

## Van een productiviteitsstrategie ...

- afbouw aantal kantoren (-700)
- afbouw VTE (-1300)
- integratie produkt- en ondersteunende diensten

## ... naar een groeistrategie

- verdere beheersing van de kosten
- maar focus op de groei van de opbrengsten:
  - nieuwe klanten aantrekken
  - marktaandeel verbeteren/ verdedigen
  - intern potentieel op vlak van bankverzekeren uitbaten

## Sterke aandacht voor risicobeheer

- weloverwogen acceptatie van krediet- en verzekeringsrisico's
- professioneel beheer van operationele risico's



# Realisaties en resultaten

## 1. Financiële resultaten - Divisie België

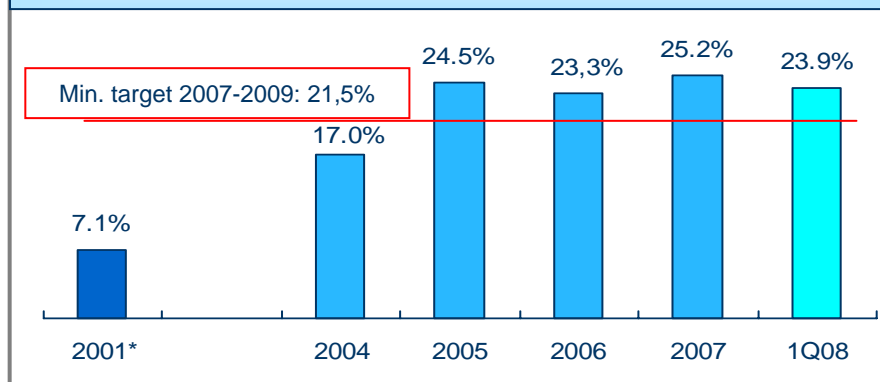
	2006	2007	1Q07	1Q08
Resultaat recurrent underlying	1.103,7	1.320,7	326,9	387,2 (4)
Winst na belastingen (reported)	1.202,1	1.402,1	352,6	357,1
ROAC (1)	28,8%	32,4%	34,1%	35,3%
Cost income ratio (1)	58,2%	58,6% (2)	49,8%	58,6%
Winstgroei (1)	0,7%	19,7%	1,0%	18,5% (4)
Loan Loss ratio	0,07%	0,13%	-0,02%	0,03%
Combined ratio	94,6%	98,4% (3)	101,7% (3)	88,1%
Gealloceerd kapitaal	3.854	4.194	4.050	4.385

- (1) o.b.v. recurrent underlying
- (2) excl. minwaarden op OLO's 57,1% in 2007
- (3) Combined ratio inclusief Kyrill; combined ratio excl. Kyrill is 95,1% in 2007
- (4) Cijfer sterk beïnvloed door omvang meerwaarden op aandelen

# Realisaties en resultaten

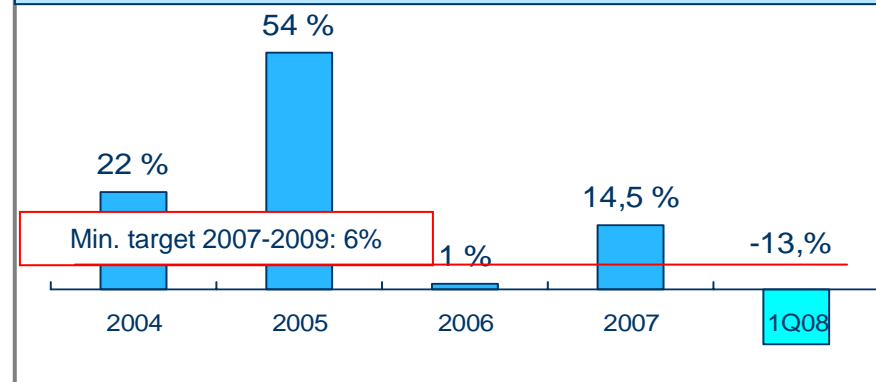
## 1. Financiële resultaten - PALO

### Profit Center Return

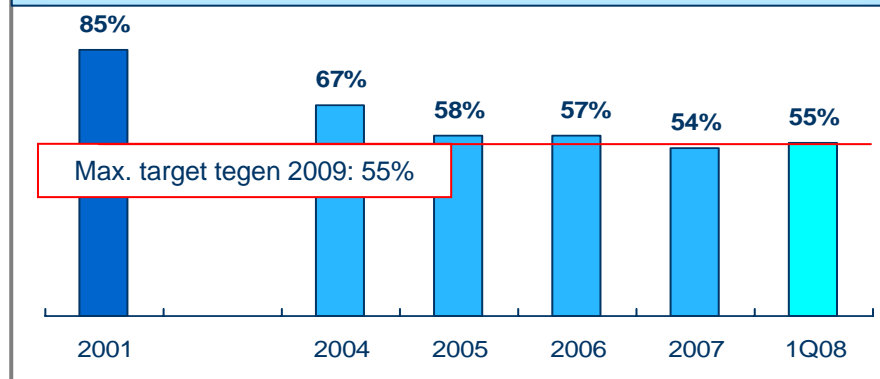


\* raming o.b.v. eigen berekening

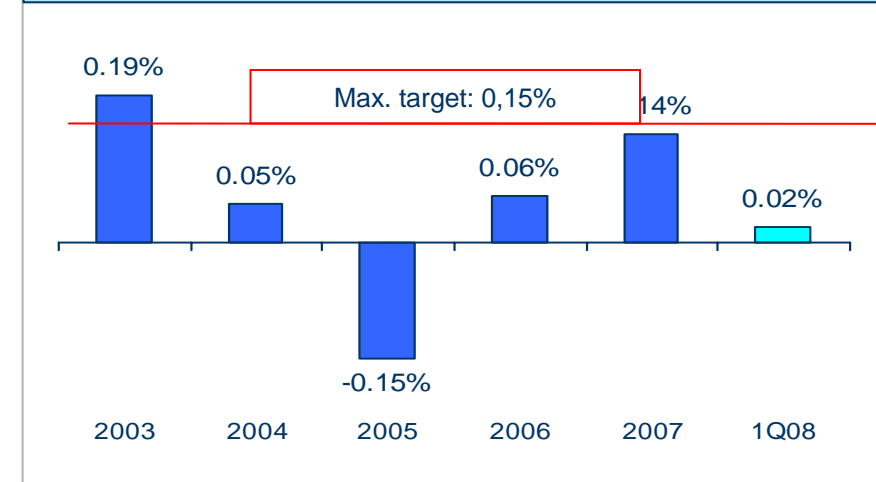
### Winstgroei



### Kostendruk



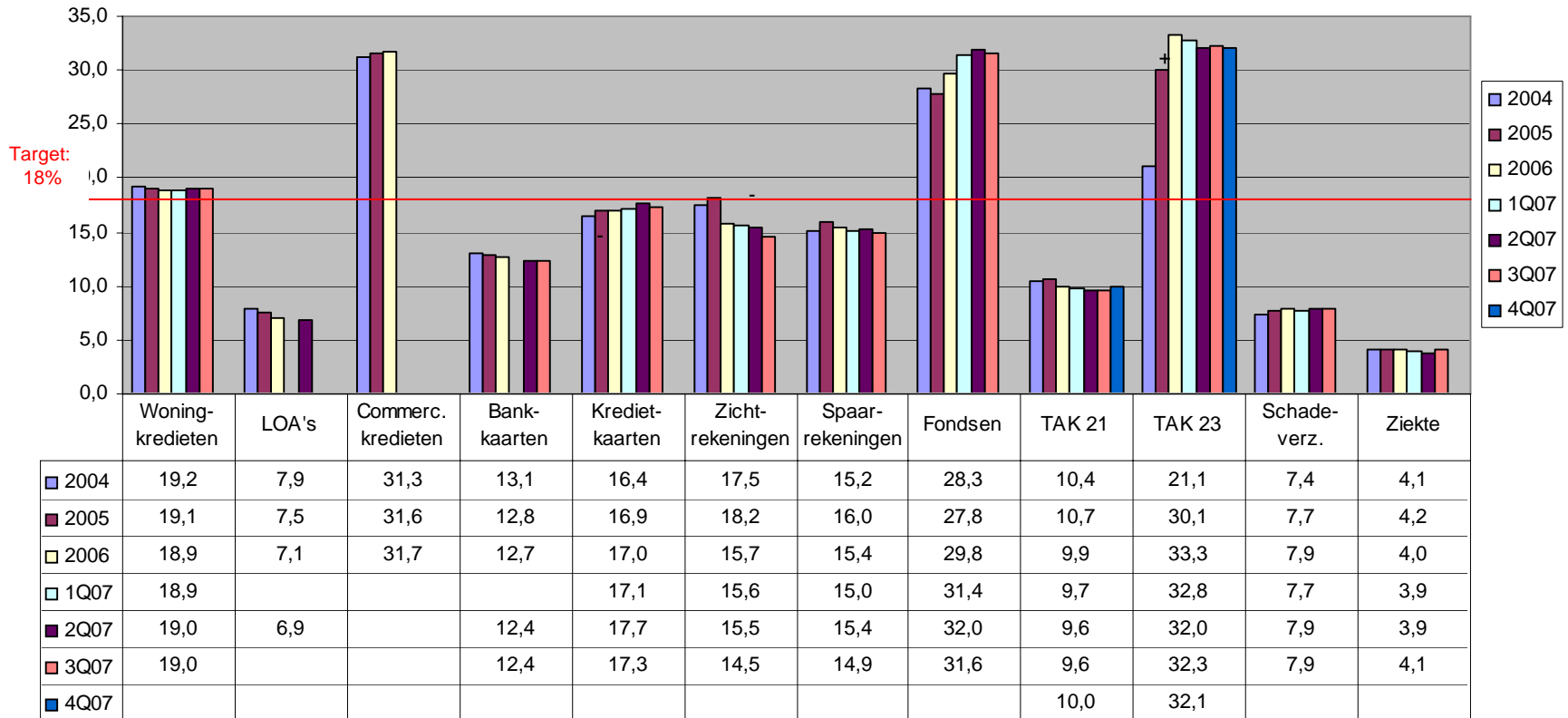
### LLR





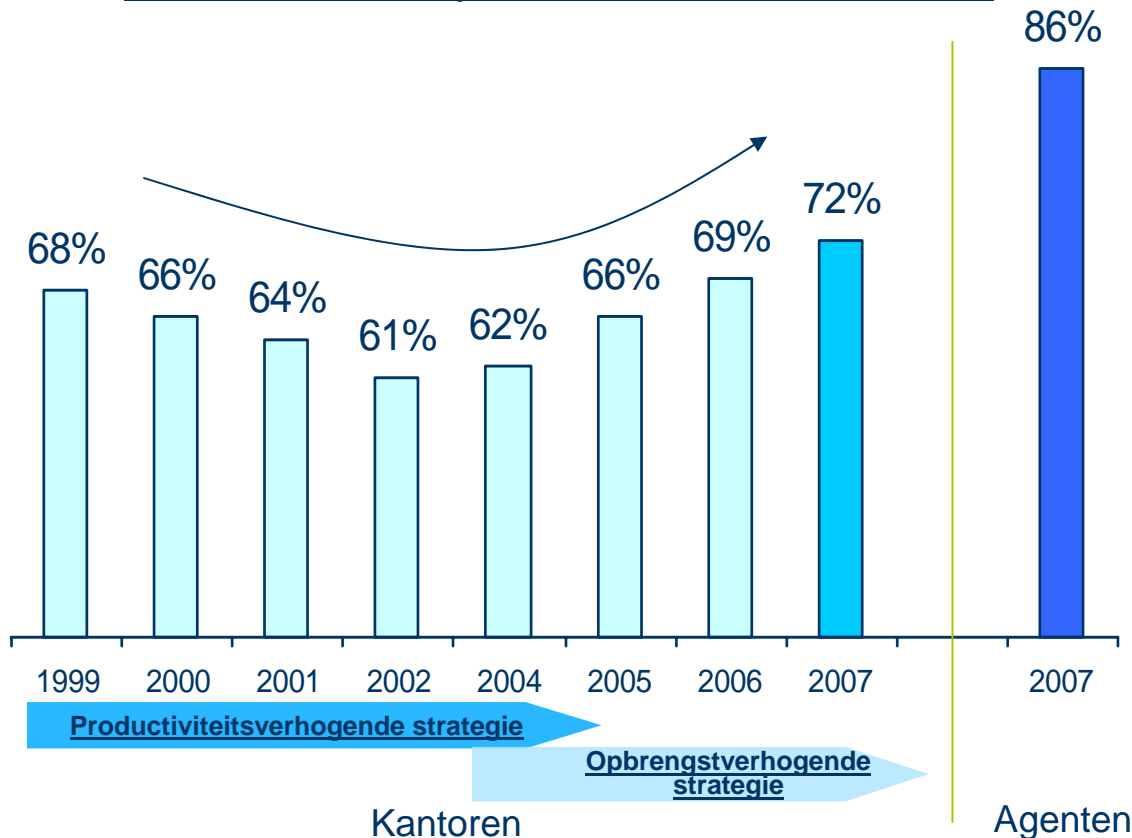
# Realisaties en resultaten

## 2. Marktaandelen \*



\* Marktaandeel KBC, excl. CBC, Centea, Fidea.

### Resultaten enquête cliënttevredenheid



- Jaarlijks onderzoek, uitgevoerd door extern marketing research bureau (Significant).
- Klanten zijn 'tevreden' als ze KBC een score van 8 of meer op 10 geven.
- Voor agenten werd dit jaar voor het eerst een meting uitgevoerd.

**Cliënt-  
tevredenheid  
groeit voor het  
vierde jaar op rij !**

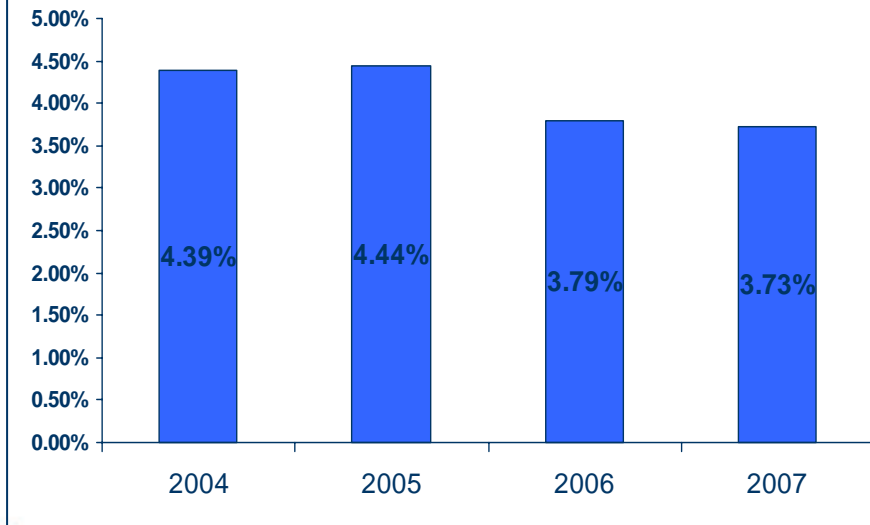
# Realisatie en resultaten

## 5. Sterke loyaliteit en retentie

### Minder uitstroom dan andere banken

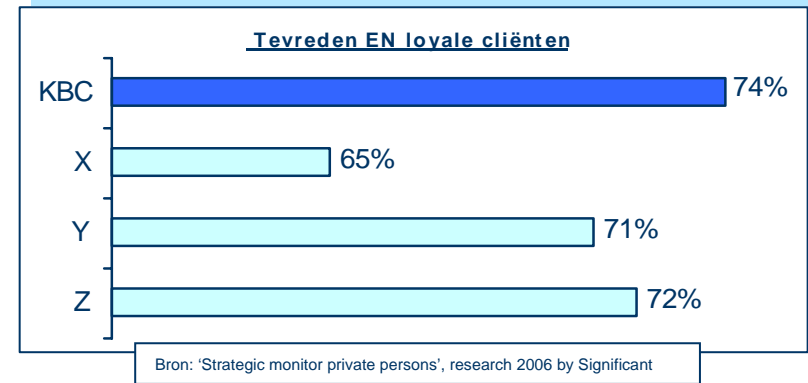
- ✓ In Europese retail banken is de gemiddelde natuurlijke uitstroom (bv. door overlijden en bankroet) 1,8%. De 'te vermijden' uitstroom is **4,6%** (bron studie EFMA/Finalta nov. 2007).
- ✓ KBC's 'te vermijden' uitstroom is lager dan dit gemiddelde.

**Te vermijden uitstroom KBC Bank**

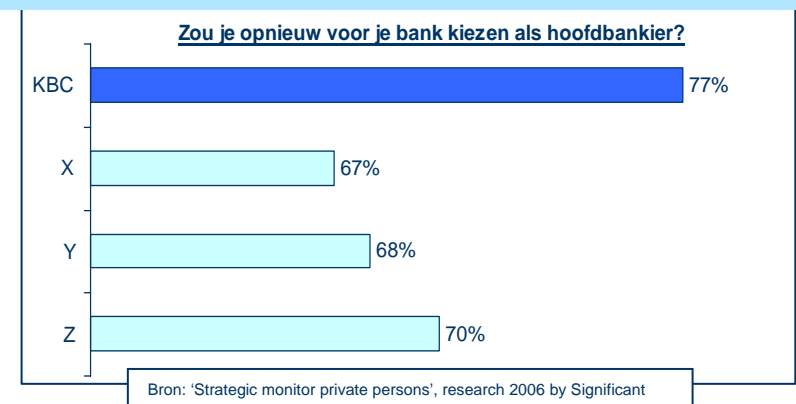


Bron: KBC Data

### ...terwijl klanten méér tevreden en loyaal zijn dan bij andere grootbanken



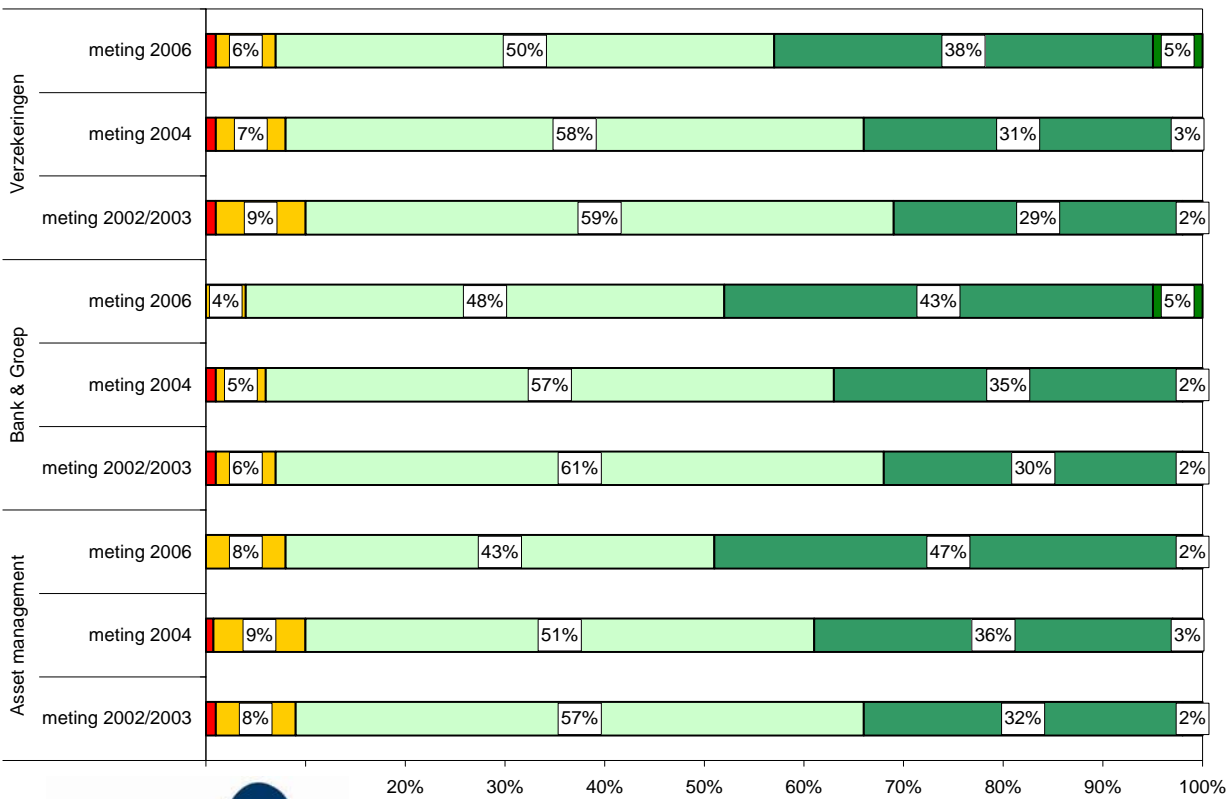
### ... en meer klanten KBC opnieuw zouden kiezen als hoofdbankier



# Realisatie en resultaten

## 5. Hoge tevredenheid medewerkers

Algemene tevredenheid over KBC als werkgever



- helemaal niet tevreden
- niet echt tevreden
- tevreden
- zeer tevreden
- uitermate tevreden

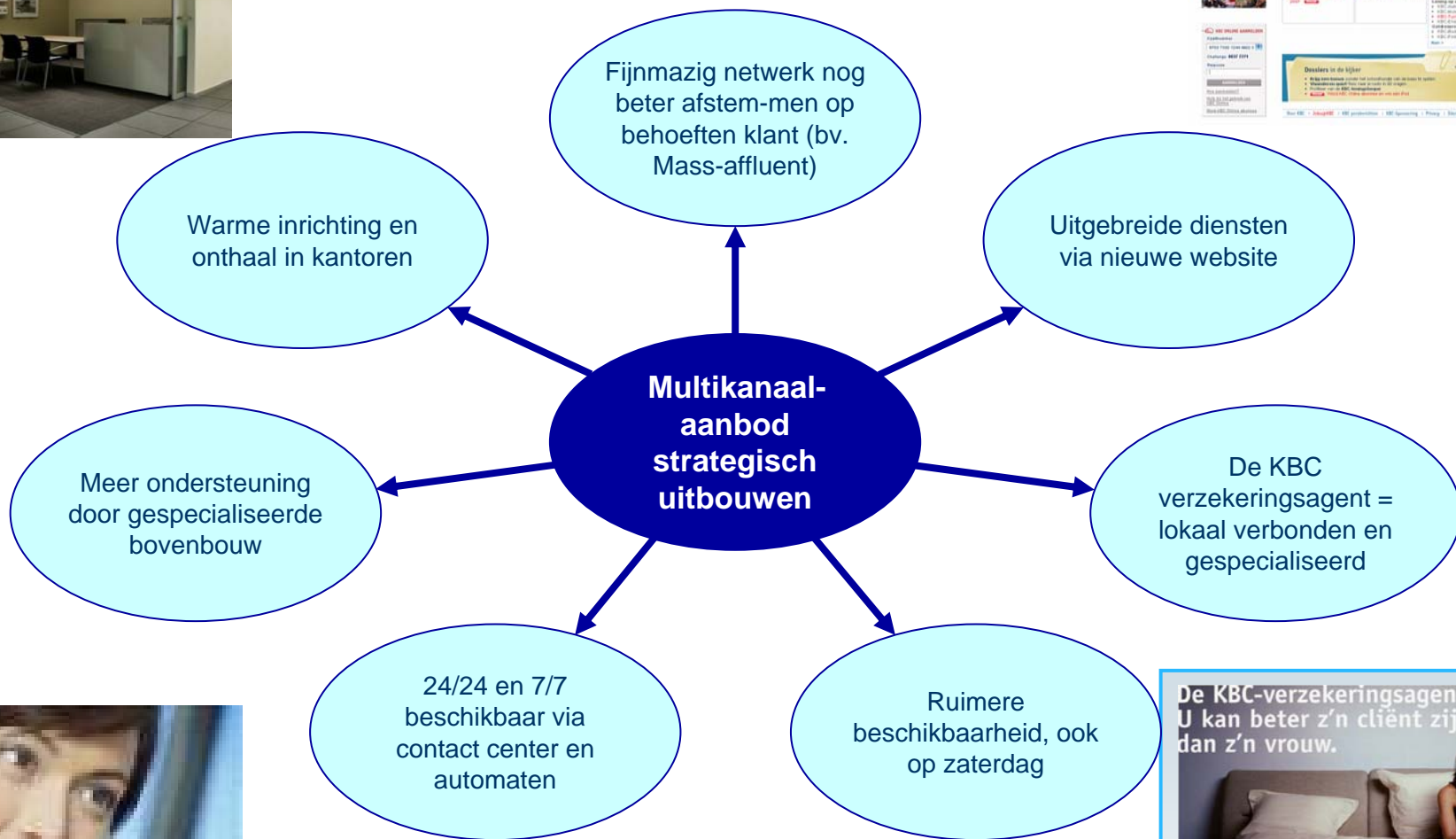




# Recente initiatieven

## Minder campagnes, meer relatiebeheer







## Programma:

### 19.00 **Inleiding**

Lucas Albrecht, Financial Communications Officer

### **After the credit crisis....**

Luc Van Hecke, Analist bij KBC Securities

### **Retail & private bankverzekeren in België**

Danny De Raymaeker, CEO van de Divisie België

Gelegenheid tot vraagstelling  
**Receptie** aangeboden door KBC



