

# 3 The CEE equity markets franchise

G. Van Echaute, CEO KBC Securities



**KBC Investor Day**  
Moscow, 5-6 June 2008



## Speaker's *curriculum vitae*

- ✓ Education: Master in History – University of Leuven (Belgium)  
Master of Business Administration
- ✓ Previous positions:
  - 1986 Several commercial positions at Zurich Insurance and AXA Belgium
  - 1988 CERA Bank, Leuven – Assistant branch manager
  - 1989 Kredietbank, Brussels – Economic Research
  - 1994 Almanij, Antwerp – Strategic Advisory Unit
  - 1995 Omniver, Antwerp – Managing Director (Omniver was an insurance joint venture between Kredietbank and Almanij)
  - 1998 KBC, Brussels – Head of Strategy and Expansion Division
- ✓ Present position:
  - 2002 Senior General Manager, KBC Securities

# TODAY'S MESSAGES

- ✓ CEE is fertile ground for equity brokerage and equity corporate finance operations
- ✓ KBC has become a leading player in stock-broking and corporate finance services for small and mid-caps and local blue chips in these markets
- ✓ The combination of local retail investors/international institutional investors investing in emerging countries and local IPOs and M&A transactions is leading to long-term revenue growth with acceptable volatility

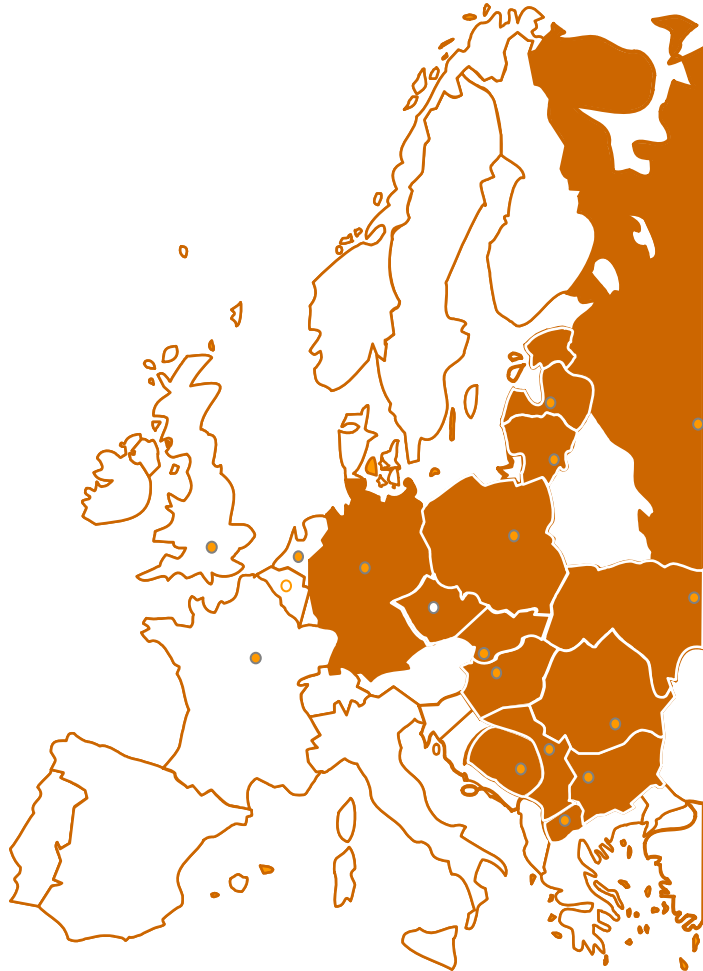


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# KBC Securities' presence in the region



<u>KBC presence</u>		<u>Institutional</u>	<u>Retail</u>	<u>Corporate finance</u>
Core Markets	Belgium	●	●	●
	Czech Republic	●	●	●
	Poland	●	●	●
	Hungary	●	●	●
Acquisition	Romania	●	◐	◐
	Serbia	●	●	●
	Ukraine	◐	◐	●
	Russia	◐	◐	●
	Baltics	○	○	●
Start-ups	Bulgaria	○	○	○
	Slovakia	○	◐	◐
	Montenegro, Macedonia, Bosnia	○	◐	◐

## Triple catch-up effect in CEE...

- ✓ a higher economic growth than in the Eurozone
- ✓ a lower market capitalisation/GDP ratio than in the Eurozone
- ✓ and, certainly in the non-CEE-4 countries, a still very low turnover of shares (shares change hands only every 6-7 years)

... leads to a growth story.

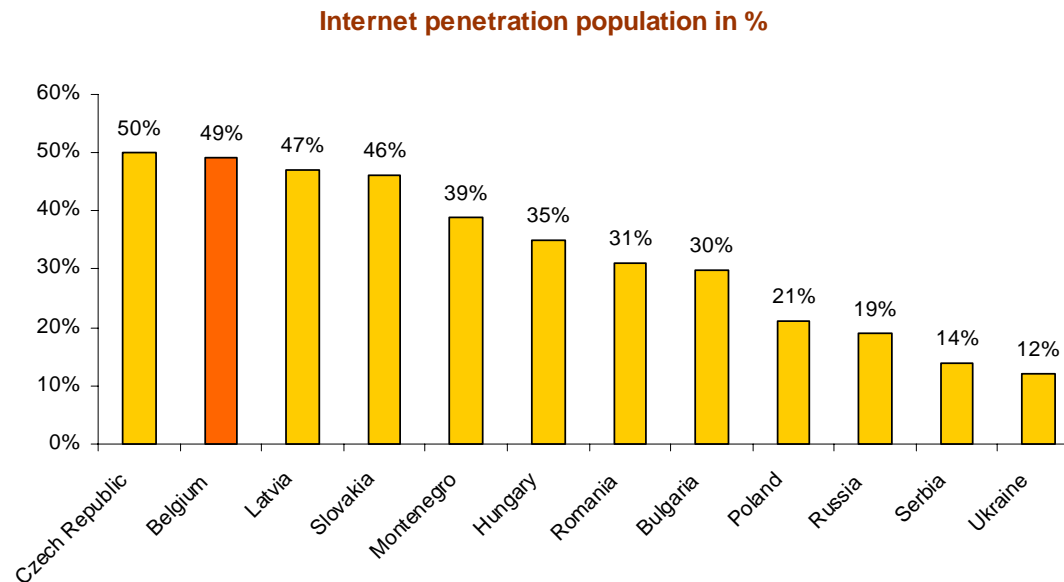
According to McKinsey, the growth rate of stock markets in the CEE was higher than in other world regions and also higher than the growth rates of markets in other financial products

	US	UK	Eurozone	Eastern Europe	Japan	China	India
Equity securities	11	8	12	56	0	13	11
Private debt securities	11	21	11	26	0	18	0
Government debt securities	2*	5	8	17	12	28	14
Bank deposits	7	13	9	14	3	14	12

REGIONAL VARIATION IN FINANCIAL STOCK GROWTH, 1993-2003  
CAGR, percent

## Fertile ground for retail (on-line) brokerage

- ✓ Especially in the more 'developed' CEE-countries (CZ, PL, HU, ...): gradual shift from foreign institutional investors to local institutional and retail & high-net-worth individual investors
- ✓ Distribution often a mix of branches and via on-line
- ✓ On-line equity brokerage backed by already relatively high Internet penetration rates



Source : Internet World State

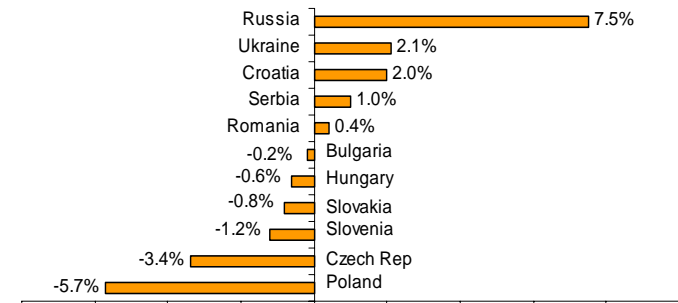
Many **IPOs** realised (Poland, Czech Republic, Hungary) or expected (Poland, Czech Republic, Hungary, Romania, Bulgaria, Ukraine, Serbia, Russia...)

- Home market not necessarily the market of listing (LSE, NYSE Euronext, Warsaw)
- 'Return' IPOs (first listing in the West, then return to the home country)
- Western companies double/triple listings in CEE

But also many **M&A** transactions

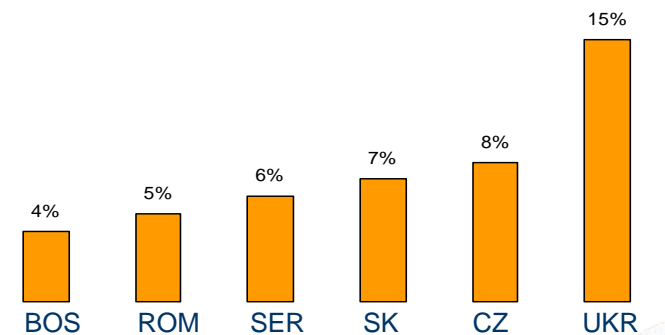
- Increase in M&A value in CEE between 2002-2006 by 75% p.a. (from 17 to 163 bn euros). In 2007, further increase in Russia (+61%)
- 'market share' in M&A countries changing rapidly (CEE-4 = losers, 'new countries' = winners)
- 'foreign local investors' are 82% Russian or CEE-4 companies. 'Receiving' countries are mostly 'new' countries such as Ukraine, Serbia, Romania

## Evolution of M&A market share in CEE (2006 versus 2004)



Source : PWC

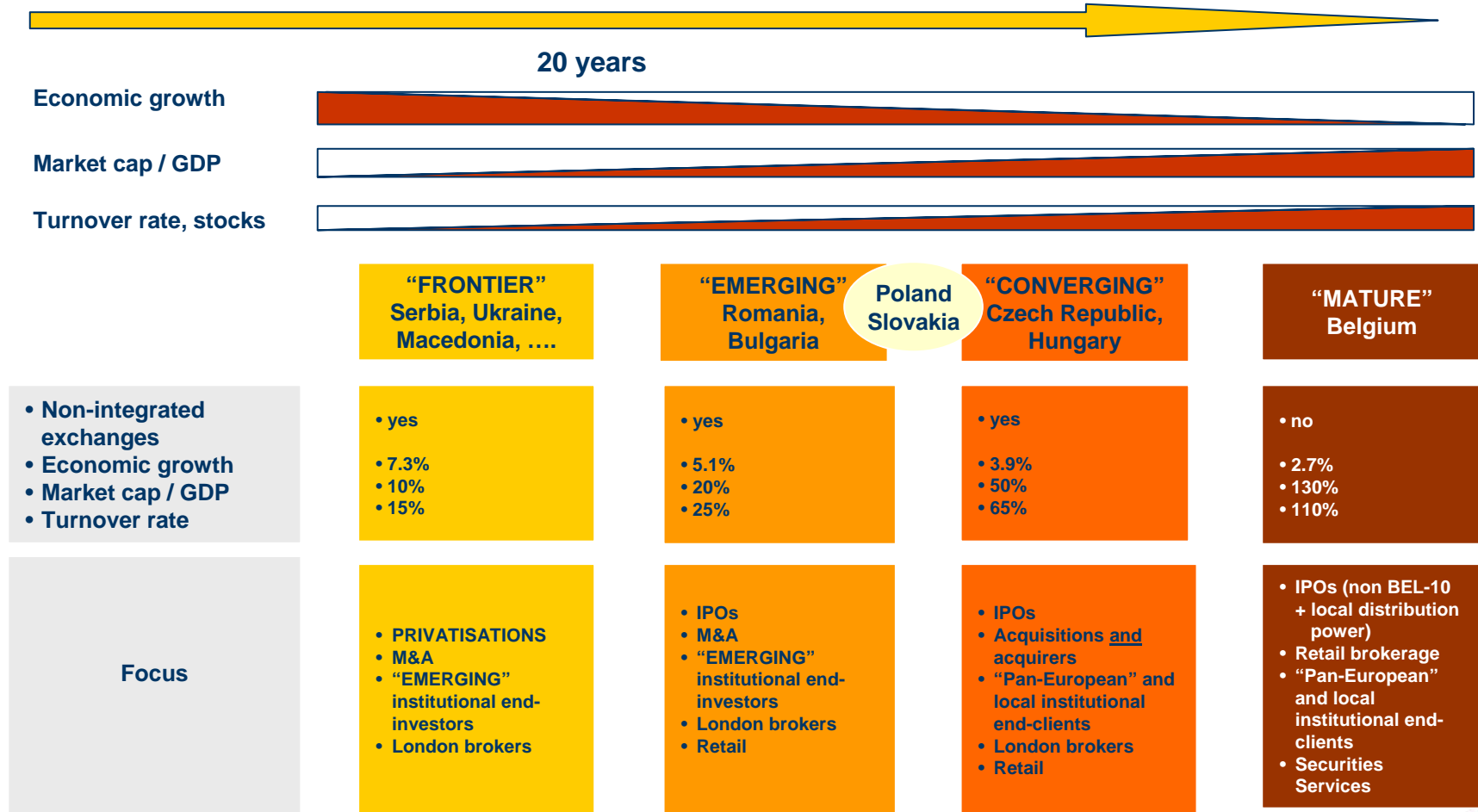
## Main destination of 'local foreign investors'



Source : PWC



# KBC's approach : convergence scenario results in 4 types of markets



Sources: stock exchanges and IMF





# Market leader in equity brokerage

Triple play : Use of KBC's brand name recognition with big Anglo-Saxon brokers  
 (often not members of the independent stock exchanges)  
 + Approach of Western and local institutional end-clients  
 + Focus on local retail clients (mainly on-line)

... has made KBC market leader in equity brokerage in CEE

KBC Securities' CEE brokerage turnover in 2007: 41.5 bn USD

	Market share 2006	Market share 2007	Difference
1. KBC Securities	14.1%	15.2%	+1.1%
2. Unicredit	13.9%	12.3%	-1.6%
3. Erste	9.3%	9.0%	-0.3%
4. ING	8.3%	8.1%	-0.2%
5. Wood	6.6%	9.6%	+3.0%

	Year before entry	2006	2007	Ytd 2008	Ytd ranking
Czech R. (2000)	5.0%	27.0%	25.8%	27.8%	1
Poland (2004)	1.0%	4.9%	4.9%	6.0%	7
Hungary (2004)	9.9%	13.6%	22.3%	20.7%	1
Romania (2007)	3.0%	3.0%	11.9%	12.9%	1
Serbia (2007)	4.5%	4.5%	5.9%	9.5%	3

Sources : local stock exchanges and Hungarian Ministry of Economy

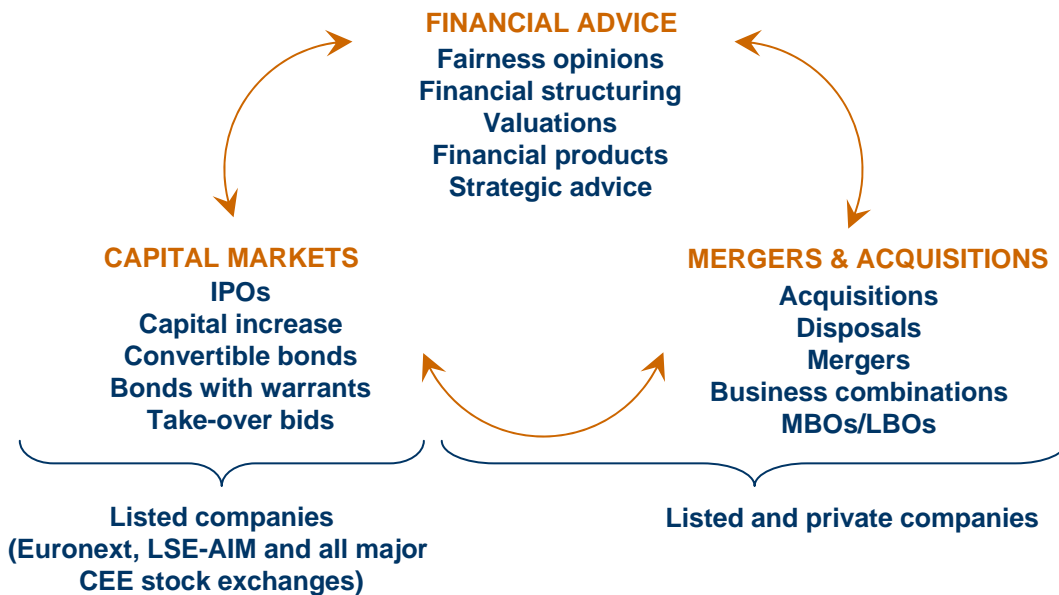


# Strong franchise in Corporate Finance

KBC Securities has a strong reputation in offering high quality corporate finance services to both listed and private companies

KBC Securities' CEE corporate finance transactions 2005-07: > 20 bn EUR

Some 60 corporate finance professionals organized in a pan-CEE network with strong local teams



	<b>FTE</b>
<b>Brussels</b>	<b>17</b>
<b>Munich</b>	<b>5</b>
<b>CEE</b>	<b>44</b>
<i>Prague</i>	11
<i>Warsaw</i>	11
<i>Baltics/Ukraine/Russia</i>	7
<i>Budapest</i>	6
<i>Bratislava</i>	2
<i>Bucharest</i>	2
<i>Belgrade</i>	4
<i>Sofia</i>	1

Recently, KBC has been advising on CEE M&A deals of another (larger) scale than had previously been the case in Belgium in e.g., the telecom, banking and insurance sectors and privatisation of airports (benefiting from a 'network' effect)

'NEW ENTITIES' acquired in 2007 are still in a build-up stage and often lack 1 or 2 of KBC Securities' core activities (institutional sales, retail brokerage, corporate finance)

Ongoing plans :

- ✓ **UKRAINE:** corporate finance in full force, build-up of an institutional broker (2Q 2008)
- ✓ **ROMANIA:** development of retail on-line brokerage (3Q 2008)
- ✓ **BULGARIA:** semi-greenfield; planned acquisition of a team including institutional sales and corporate finance specialists (3Q 2008)
- ✓ **RUSSIA:** corporate finance in full force, spin-off of Absolut's retail broker from the bank and development of an institutional franchise (4Q 2008)
- ✓ **EX-YUGOSLAVIA:** development of the franchise in ex-Yugoslavian countries
- ✓ **DERIVATIVES:** development of an equity derivatives franchise in CEE



# KBC Securities: main profitability characteristics

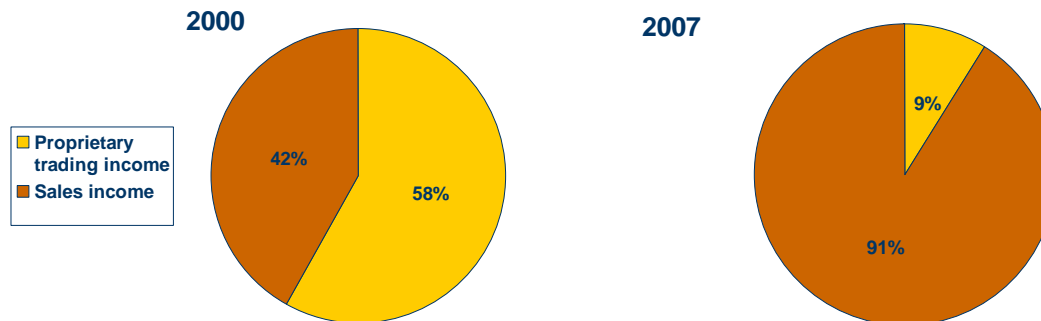
KBC Securities P&L (all markets)	2007	Evolution vs. 2006	CAGR 2002/2007
Gross revenues	149	+43%	+25%
Fixed costs	-60	+45%	-3%
Other (*)	-35	+34%	-4%
Net profit	+54	+47%	- (**)

(\*) Mainly bonuses and corporation taxes  
 (\*\*) Loss situation in 2002

Very limited use of capital - limited overnight proprietary trading positions - leading to a very high return on allocated capital of >150 %

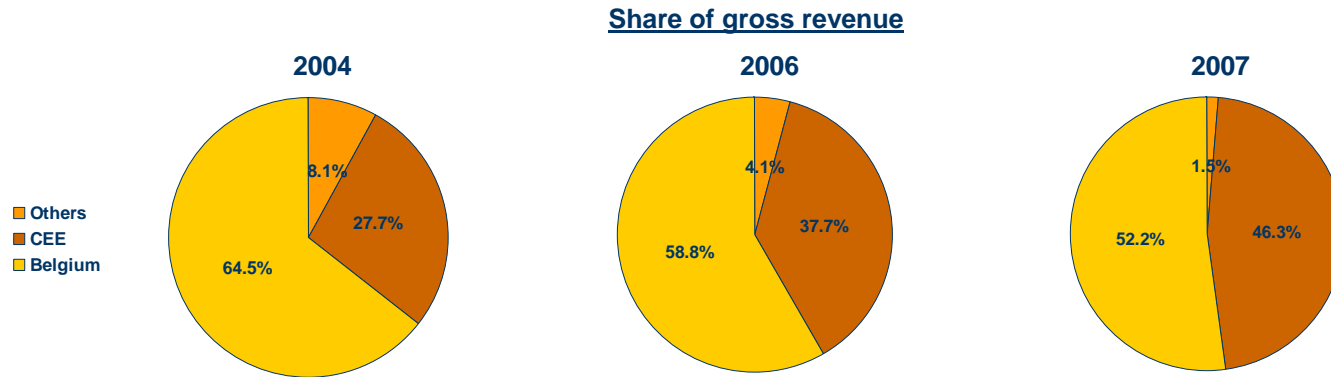
In the past cycle, a clear shift from risky proprietary-trading income to sales-driven income :

Relationship of proprietary-trading income versus sales income



2007 : 1-day VAR < €0.5 m

Share of CEE in KBC Securities' earnings has been steadily increasing...



... fed by rapid growth of individual business lines in CEE

CEE gross revenue	Gross revenues 2007 (in m EUR)	Growth vs 2006	CAGR 2002/2007
Institutional sales	33	+ 56%	+ 76%
Corporate finance	9	+ 54%	+ 51%
Retail brokerage	17	+ 114%	+ 62%
Proprietary trading	4	- 8%	+ 46%
Other income	4	+ 35%	+ 12%
Total income	67	+ 62%	+ 51%

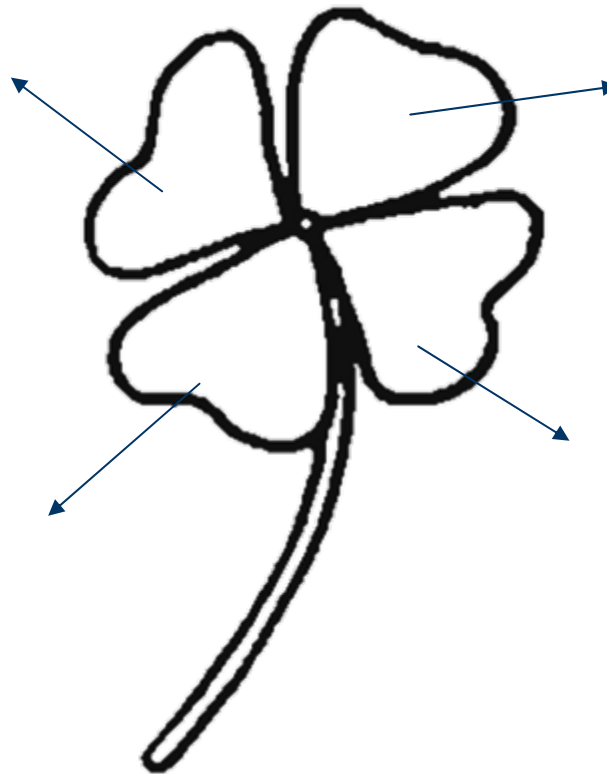
While volatility cannot be avoided in this business line, a number of volatility-reducing elements have been introduced

### **CORPORATE FINANCE:**

Temporary switch from ECM to M&A (permanent business line in CEE)

### **SECURITIES SERVICES:**

Business line only partially dependent on price movements on the stock market



### **PROP TRADING:**

Mainly intraday trading only (positive prop trading results in 25 of the last 26 months)

**COST STRUCTURE:**  
Sizeable fraction of variable costs



## Long-term outlook in CEE stays healthy

- ✓ **INSTITUTIONAL BROKERAGE:** while hit at the moment by adverse market conditions and unfavourable client trends ('crisis of hedge funds'), positive longer-term outlook, especially in the 'frontier' and 'emerging' countries (Ukraine, Serbia, Bulgaria and Romania)
- ✓ **RETAIL BROKERAGE:** driven by increasing local wealth mainly in the more 'developed' CEE countries (Czech Republic, Hungary and Poland)
- ✓ **CORPORATE FINANCE:** combination of new companies (in better markets) willing to come to the market and larger M&A-deals than what KBC Securities was used to in Belgium (also in 2008)

Net profit contribution from CEE: ca. 25 m (2007)

Growth outlook for the next 3 - 5 years: 30% CAGR (under normal market conditions)

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