

5 Private banking expansion in CEE

J. Peters, Senior General Manager European Private Banking



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Speaker's *curriculum vitae*

- ✓ Education : Commercial engineer - ULB / Solvay Business School (Belgium)
- ✓ Previous positions :
 - 1987 Puilaetco, Luxembourg (formerly DL Associates) - General Manager, then Executive Director
 - 1993 Puilaetco Private Bankers, Brussels - Director, then Managing Partner (1995), responsible for operations and subsidiaries (Luxembourg, Geneva) and later responsible for Private Banking and Chief Investment Officer (2001)
 - 2004 Puilaetco Private Bankers, Brussels - Executive Director and Chairman of the Executive Committee
- ✓ Present position :
 - 2005 KBC, Luxembourg - Senior General Manager, European Private Banking Business Unit, in charge of on-shore private banking and global investor services

TODAY'S MESSAGES

- ✓ The European Private Banking Business Unit has basically been a restructuring play the last few years: refocusing geographically, exiting non-core activities, realising integration synergies, etc.
- ✓ Today, these challenges have been dealt with to a very high degree and, going forward, management is focusing on building momentum for double-digit business growth in on-shore private banking
- ✓ Moreover, KBC is ready to sharpen up its strategic ambitions by transferring the *EPB* business model to the CEE markets



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Setting the scene (reminder)

- ✓ KBC is currently active in private banking via two different but complementary business models:
 - ✓ A network-led model: in the Belgium and CEER Business Units (retail trade-up)
 - ✓ A pure-play model: in the European Private Banking Business Unit (the KBL *European Private Bankers* concept)
- ✓ The KBL *European Private Bankers* (KBL EPB) concept:
 - ✓ A network of wholly-owned local private banks using local pure-play PB brands (as opposed to global PB players or local network-led retail banks)
 - ✓ Active in the Benelux, France, Germany, the UK and in offshore PB
 - ✓ Focusing on private banking customers with > 1m investable assets
- ✓ Key figures, European Private Banking Unit (2007):
 - ✓ Assets managed: 54 bn euros
 - ✓ Underlying net profit contribution: 0.2 bn euros
 - ✓ Underlying return on allocated capital: 33%



KBL *European Private Bankers*: our business philosophy

- ✓ “KBL *EPB* is the only European-wide network of local private banks where wealth management is the sole activity, the private banker a key element to success and the focus totally on the client”
- ✓ Our model is centred on 3 key objectives which are pursued by all KBL *EPB* members:
 - To act as a :
 - Trusted advisor
 - Trusted investor
 - Trusted employer
- ✓ The realisation of these objectives is actively supported by the KBL *EPB* Hub model (shared operations and IT) which allows the *EPB* entities to concentrate on the commercial elements of their business strategy



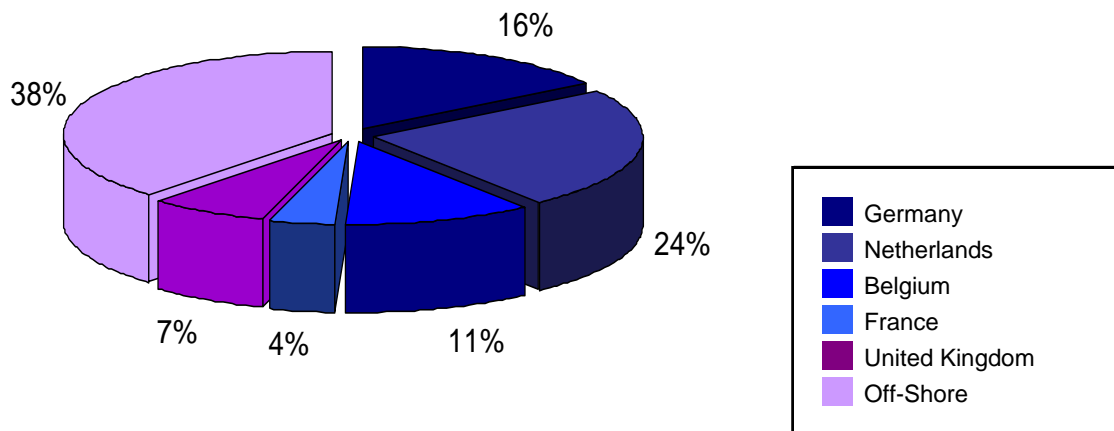
KBL EPB today: a cohesive network incrementally focusing on private banking

	AUM Dec 2007 <i>in bn euros</i>	Net Result 2007 <i>in m euros</i>
Netherlands	9.8	18
Germany	6.4	12
Belgium *	4.7	9
United Kingdom	2.9	4
France **	1.7	2
ON-SHORE PB	25.5	44
OFF-SHORE PB	15.6	89
TOTAL PB	41.2	133
TOTAL EPB BU	54.5	194

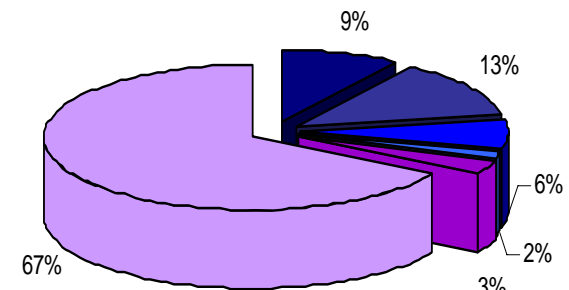
* Excl. the KBC-branded PB in the Belgium BU

** Excl. the acquisition of Richelieu made in 2008 (2.5 bn AUM)

AUM, PB Customers
Dec. 2007



Net Profit, PB activities
2007





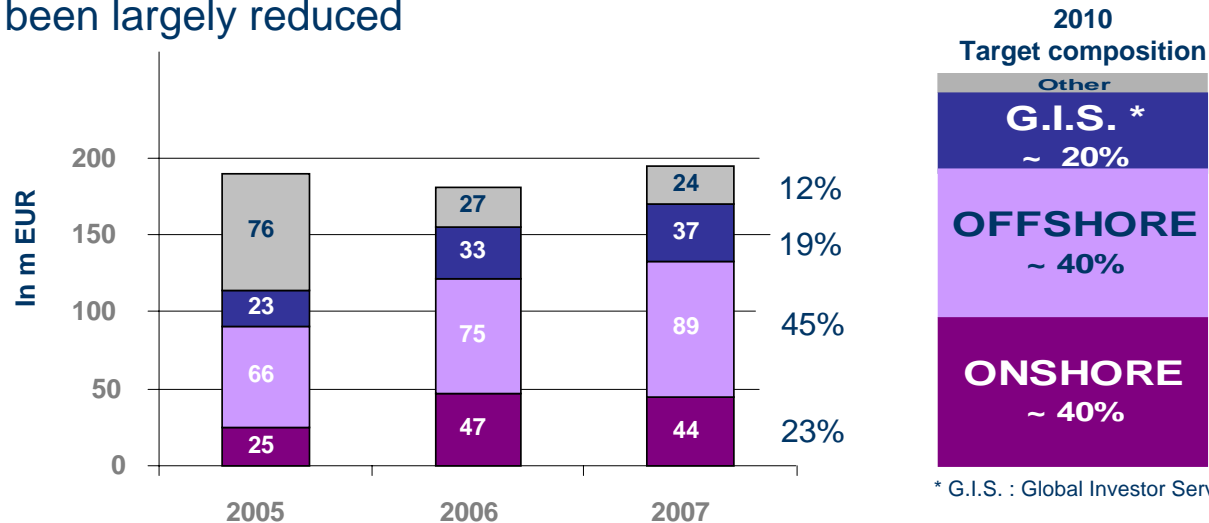
KBL *EPB* : successful implementation of 2005-2007 action plan

- ✓ Action points of the 2005-2007 strategic plan implemented:
 - Review of the subsidiary portfolio
 - Exit from markets where scale (Italy) or local operations (Spain) did not fit the KBL EPB model*
 - Shaping up the existing business via optimisation of the onshore entities
 - Successful integration of operations in the Netherlands and Belgium (mergers)*
 - Turnaround in Germany (restructuring and expansion of branch network)*
 - Consolidation in France (acquisition of Richelieu Finance)*
 - Roll-out of the Hub support model across the *EPB* network
 - Full implementation of the operational Hub (centralisation of custody and settlement in Luxembourg) and progressive roll-out of the common IT platform*
- ✓ Resulting in 51 m recurring synergies so far (47 m originally budgeted by 2007); C/I ratio decreased to 65% from 72% in 2005 (on an underlying basis)
- ➔ **In the last two years, our focus was on the integration of existing businesses, such that growth opportunities were less actively pursued**



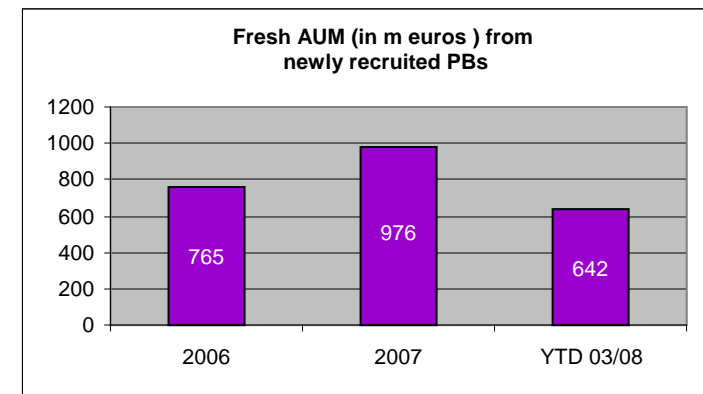
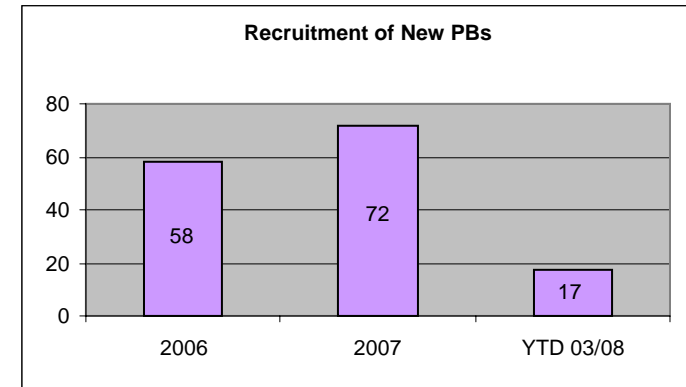
KBL *EPB* : action plan resulted in higher share of core activities

- ✓ The 2005-2007 business plan converted the 'mix' of the KBL *EPB* net result significantly and improved its underlying quality and adequate alignment with strategy
- ✓ Private banking (on-shore and off-shore) contributed 68% to the net result in 2007, against 48% in 2005. The business plan forecasts an increase of up to 80% in 2010
- ✓ 'Global Investor Services' (Funds administration in Luxemburg) contributes 19% to the net result in 2007
- ✓ 'Other' contributors to the net result (such as commercial banking, interprofessional trading, etc.) have been largely reduced

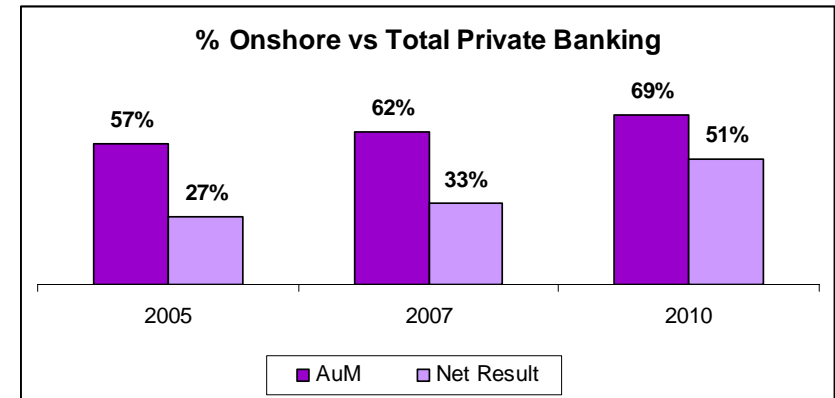


* G.I.S. : Global Investor Services

- ✓ “We have the ambition to be the best employer for private bankers in terms of business approach, company spirit, remuneration and support”
 - ➔ **Attracting and retaining the best private bankers is a key success factor in our model**
- ✓ We are positioned as preferred employer in several countries, resulting in access to top private bankers
 - we recruited 130 new private bankers in 2006-2007 (out of a total of slightly less than 500)
 - who brought in 2.4 bn EUR in new assets over the period 2006 – 03/2008
- ✓ New private bankers take approx. 3 years to attain “full” speed in terms of AUM and revenues
 - ➔ **We are building momentum for the years to come**



- ✓ The Business Unit's 2007 net profit stood at 194 m
- ✓ Strong organic growth, initiated by the recruitment program (assuming normal market conditions) is expected in 2008-2010 to lead to:
 - ✓ improved mix of PB / non-PB activities
 - ✓ improved mix of on-shore / off-shore PB
 - ✓ AUM CAGR of ca. 10% (14% for on-shore AUM)
 - ✓ Net profit CAGR of 10%+ per year



→ To this base scenario, an “Emerging Europe” component will be added (“Go East”)



KBL *EPB* : Go East

- ✓ KBC has been successful in exploiting the retail trade-up model in countries where the market position of KBC is well established
 - e.g., in the Czech Republic: 4 350 PB customers, 2.2 bn AUM, 53 private bankers
 - ✓ However, the CEE markets are changing rapidly and the other universal banks are also starting to focus on private banking. This requires a more focused strategy in order to stay ahead and to retain clients AND private bankers
 - ✓ The focused approach (KBL *EPB* model) should, moreover, help to gain supplementary market share in private banking
- ➔ **With the KBL *EPB* model, we aspire to be the 1st pure play on-shore private bank in CEE**







KBL *EPB* : CEE strategy (1)

- ✓ Leverage the KBL *EPB* experience to approach each individual market, recognising differences in:
 - Client expectations
 - Private banking environment (fiscal, competition, etc.)
 - KBC market position
- ✓ But capitalise on the experience and expertise present within the KBC group:
 - Build on current private banking activities in selected countries
 - Full support from the KBL *EPB* Hub, as well as input on service and product offering
- ✓ Gradually switch the stockbroker/product approach to full-fledged private banking service ('staying ahead of the herd')
- ✓ The CEE business plan is currently under discussion

KBL EPB : CEE strategy (2)

- Current KBC presence in private banking
- Main competitors
- CEE Strategy
- Roll-out planning

Poland 	Czech Republic 	Slovakia 	Hungary 
Limited (“red carpet retail”)	Full-fledged network of 15 branches (53 private bankers managing 2.2 bn)	Sizeable activity out of 4 branches (15 private bankers managing 0.4 bn)	Limited (“red carpet retail”)
Universal retail banks, off-shore private banking, representative offices			
Set-up of greenfield via external recruitment	Integration of existing activity in <i>EPB</i> structure and develop further with <i>EPB</i> knowhow	Integration of existing activity in <i>EPB</i> structure and develop further with <i>EPB</i> knowhow	Set-up of greenfield via external recruitment
Q1 2009	2009	2009	2009



KBL *EPB* : CEE strategy (3)

- ✓ Russia:
 - ✓ Russia is on the roadmap, but priority is given to CEE-4. We do not expect to tackle the Russian market before 2010 (business case under review)
- ✓ SEE countries (Bulgaria, Serbia, Romania)
 - ✓ Timing of market entry will depend on the evolution of local private wealth

Impact on the business plan:

- ➔ Limited investments and start-up costs
- ➔ Once at full speed, private banking in CEE is expected to add min. 10%* to the profit contribution of the European Private Banking Business Unit

* depending on timing and depth of roll-out of the KBL *EPB* model

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