

# KBC Group

## Investor presentation

### Acquisition of Raiffeisenbank Bulgaria

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# Executive Summary

- 1 Transaction summary:** KBC Bank NV has agreed to acquire 100% of Raiffeisenbank Bulgaria (RBBG) from RBI for a total consideration of 1 015m EUR, paid in cash.
- 2 Indisputable strategic rationale:** Strengthening our #3 position in the Bulgarian banking market. The proforma combined entity (RBBG and UBB) would reach 18.2% market share by assets, becoming the #2 player in loans. It will allow KBC to benefit from the underpenetrated Bulgarian financial services market and strong macroeconomic fundamentals and reinforce our position as #1 financial group in Bulgaria.
- 3 Strong financial rationale,** EPS accretive from year 1 onwards, whereby **purchase price** represents a 1.64x multiple of the 2022E Tangible Book Value <sup>(1)</sup> of the target and a 13x P/E <sup>(2)</sup> (based on 2022E earnings)  
  
Leveraging on the combined entity & KBC expertise we see benefits from **synergies** quickly ramping up from ~12m EUR in 2022 to ~29m EUR in 2024 and remaining above ~25m EUR from 2025-2031 (pre-tax numbers)
- 4 Capital Impact** on KBC Group's CET1 (3Q21: 16.4% <sup>(3)</sup>) at around -1pp upon closing
- 5 KBC Group Dividend Policy to remain unchanged** (at least 50% pay-out ratio including interim dividend and AT1 coupon)
- 6 Transaction is subject to relevant regulatory approvals and **expected to close mid-2022****

<sup>(1)</sup> As per consolidated best estimate book value

<sup>(2)</sup> Including RR synergies (Run Rate synergies: recurring for longer terms & perpetual synergies )

<sup>(3)</sup> No IFRS interim profit recognition. Pro forma CET1 including 100% of 9M21 profit recognition 18.1%

# Agenda

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**2** Strategic rationale

**3** Financial impact

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# Transaction highlights

## Transaction Overview

- KBC Bank NV has agreed to acquire 100% of Raiffeisenbank BG (RBBG) for a total consideration of 1015m EUR (the “Transaction”). The transaction perimeter also includes a leasing company (10.5% market share, 234m EUR portfolio), a small asset management firm (9.7% market share with 106m EUR AuM) and a small insurance brokerage for RBBG leasing and corporate clients.
- EPS accretive from year 1 onwards. The Purchase Price represents a 1.64x multiple of the 2022E Tangible Book value and a 13 P/E <sup>(1)</sup> (based on 2022E earnings)
- The acquisition price will be paid in cash
- Transaction is subject to the relevant regulatory approvals and expected to close in mid-2022

## Strategic Rationale

- Materially strengthening our top 3 market position of the banking franchise (the 2<sup>nd</sup> biggest franchise by loans with a 17% market share), in one of KBC Group’s core markets, reinforcing our position as the #1 financial group in Bulgaria.
- Substantial value creation for shareholders through synergies which are expected to reach ~ 12m EUR in 2022 quickly ramping up to ~ 29m EUR in 2024 and remaining above ~25m EUR from 2025-2031 (pre-tax numbers)
- Raiffeisenbank BG is an attractive successful standalone franchise with a proven track record and a holistic product offering including leasing, asset management and insurance ancillaries, boosting best-in-class NPS scores, aligning perfectly to KBC’s strategic priorities.
- Raiffeisenbank BG has a track record of delivering attractive growth and profitability, on a standalone base. Combined with the net synergy assumptions this leads to attractive return on investment for KBC Group.
- The transaction allows KBC Group to deploy excess capital in a value accretive transaction, in a core market.

## Financial Impact

- Estimated capital impact on KBC Group’s CET1 (9M21: 16.4%<sup>(2)</sup>) will amount to -1pp upon closing
- The Transaction will be accretive from year 1 to KBC Group’s EPS
- KBC Bank is financing the Transaction in cash using internal resources
- KBC Group Dividend policy to remain unchanged (at least 50% pay-out ratio including interim dividend and AT1 coupon)

Source: Company data

(1) Including RR synergies (Run Rate synergies: recurring for longer terms & perpetual synergies )

(2) Fully loaded (Danish Compromise). No IFRS interim profit recognition. Pro forma CET1 including 100% of 9M21 profit recognition 18.1%



# RBBG Overview & Transaction Perimeter

## RBBG - An Established Universal Banking Franchise in Bulgaria

### Business Overview & Key Highlights<sup>(1)</sup>

- Raiffeisenbank Bulgaria (founded 1994, HQ: Sofia) is a well-established universal bank in Bulgaria
- Full range of banking, asset management, leasing and insurance services to Corporates & Retail (SME, Micro companies and Private Individuals) clients
- Trusted brand nation-wide, supported by its #1 NPS ranking for customer experience in Retail and Corporate
- Focused on innovation and digitalisation, providing high quality services via online banking and its top rated mobile app RaiMobile
- Ranked #6 by assets, loans and deposits as of December 2020
- 122 branches and 572 ATMs across Bulgaria, supported by c. 2.5k employees serving c. 635k customers, of which:<sup>(1)</sup>

**~566,000**

Private Customers

**~60,000 & 4,400**

Micro & SME Customers

**~4,400**

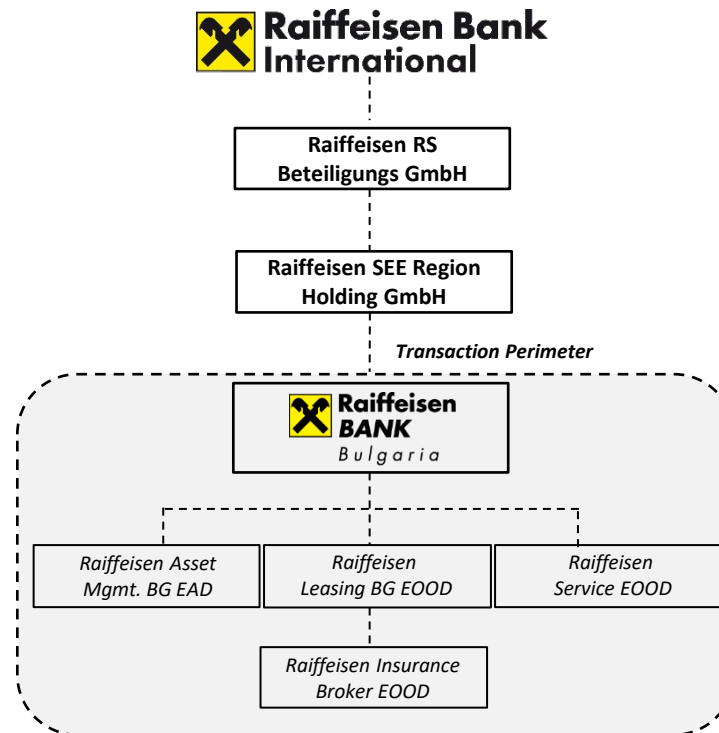
Corporate Customers

- Widely recognized industry platform with continuous industry acclaim and awards:



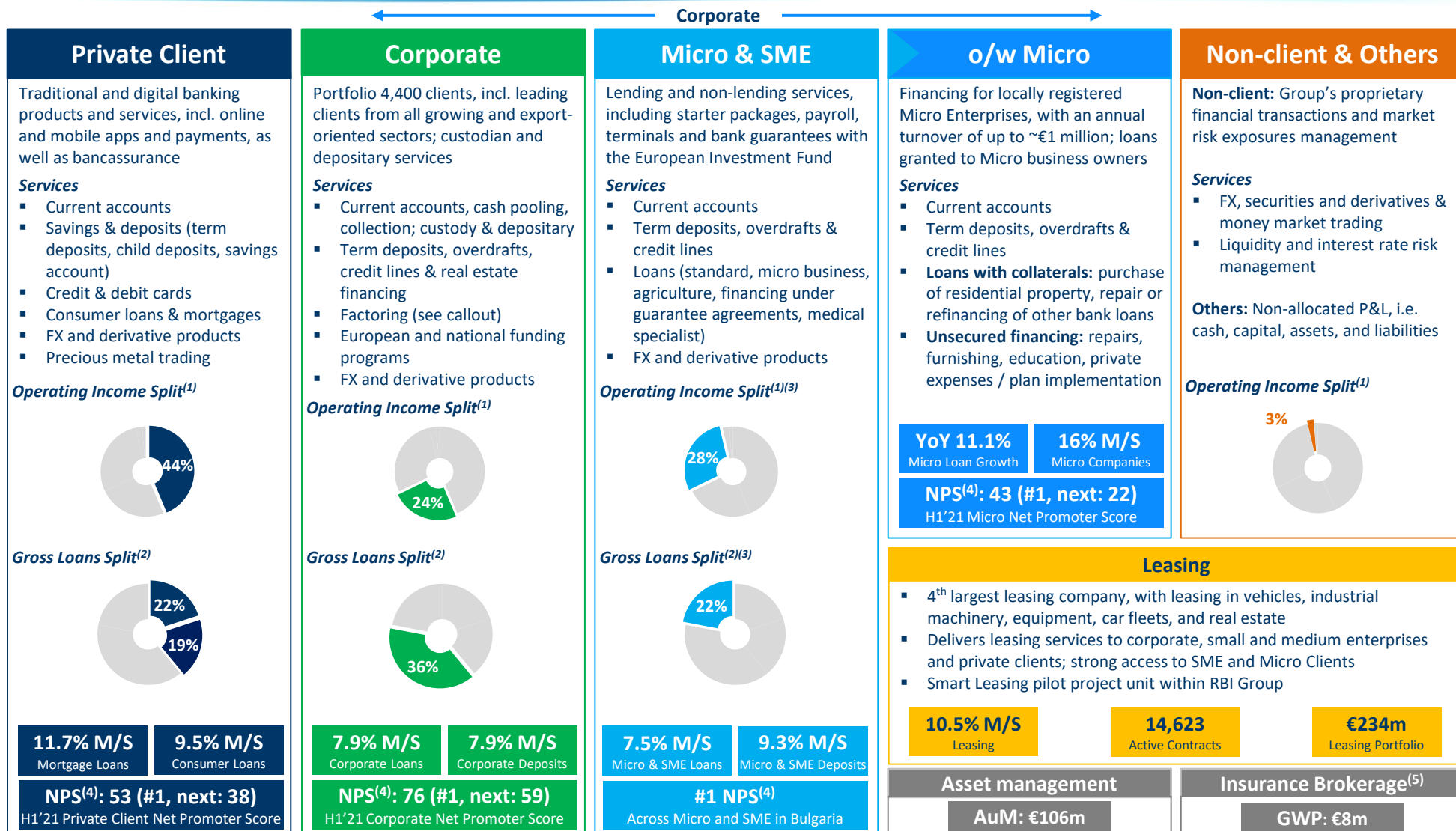
- 2020 Best Employer Award in all industries
- 2020 Best Bank, Private Bank and Asset Manager in Bulgaria (EMEA Finance)
- 2019 Bank of the Year Bulgaria (The Banker)
- Both awards received for the 4<sup>th</sup> year

### Transaction Perimeter & Ownership Structure



# Recap: Overview of RBBG Business Segments

RBBG is Present Across UBB's Entire Client Footprint



Source: Management Presentation, Company website, Filings. **Note: Market shares self-reported.**

(1) Consolidated, as of 30-06-2020. (2) **Standalone**, as of 31-12-2020, based on Seller business plan. (3) Split between Micro<sup>7</sup> and SME not available. (4) Source: KANTAR Customer Satisfaction Survey as of April 2021.

(5) No insurance underwriting, only sale of insurance policies to predominantly Leasing clients / companies.

# RBBG - Key Highlights

Attractive Franchise with High-Quality Assets and Strong Profitability



## Attractive Client Franchise

- Footprint: universal banking franchise active in all core products & ancillaries
- Market position: attractive market shares across all products
- Micro Business: differentiated approach to customer segment
- Customer satisfaction: strong NPS across all segments

Loan M/S: 8.4%  
Deposit M/S: 7.6%  
NPS Score: 76

## Highly Digitalised Distribution Strategy

- Mobile penetration: >30% of existing customer base
- Digital sales: ~20ppts increase over L3Y

Digital Loan Sales: 28%  
Branches: 122

## Attractive Financial Profile

- Strong track record of growth in the Bulgarian market...
- ...While simultaneously delivering attractive shareholder returns...
- ...And remittances to its current parent

12% Loan Growth L3Y  
@ ~15% RoATE<sup>1</sup>

## High-Quality Loan Portfolio

- Attractive, well-balanced, high quality loan portfolio...
- ...With low levels of well-provisioned NPE

NPE Ratio: 2.5%  
NPE Coverage: 122%  
(H1'21 figures)

## Employer of Choice

- Strong talent base with consistently high employee engagement
- 9% CAGR of employee engagement levels since 2014
- Market leading employee satisfaction levels

2021 Best Employer in  
Banking Award

Source: Company data

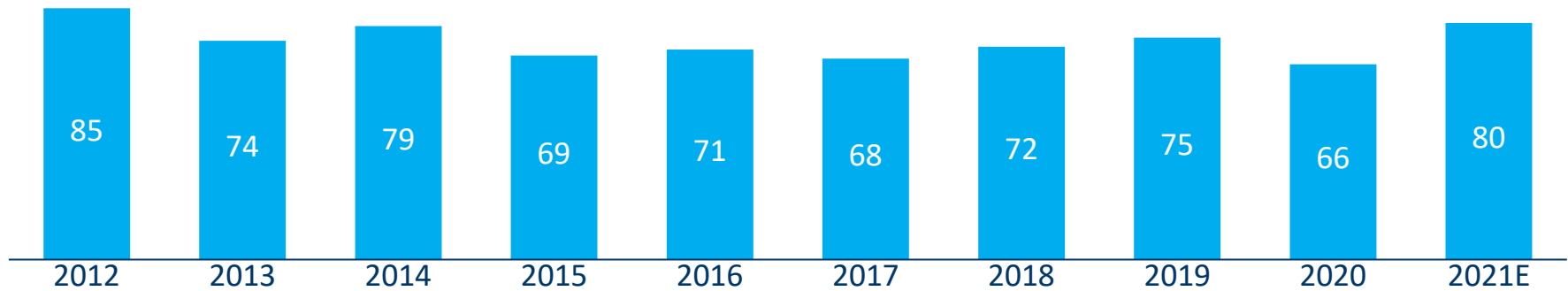
<sup>1</sup> RoATE = Return on Average Tangible Equity



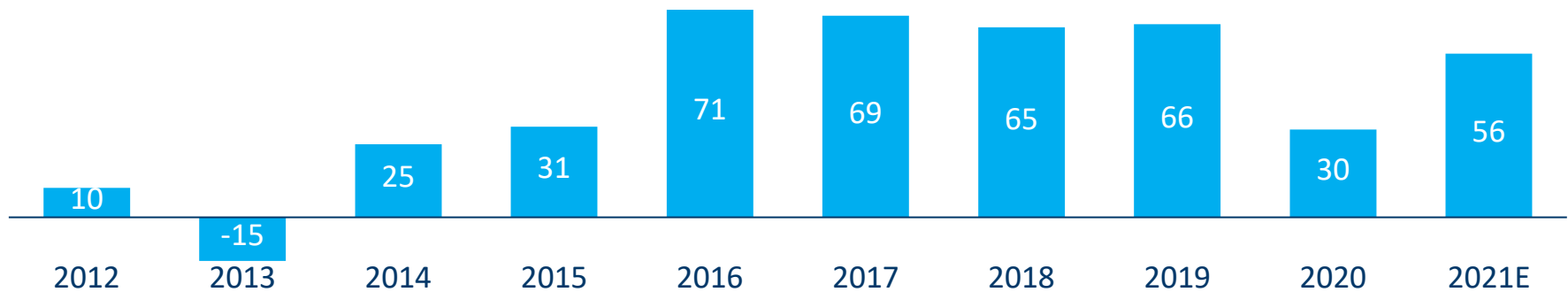
# Overview of RBBG

Track record of strong pre-impairment profitability

RBBG pre-provision earnings (m EUR)



RBBG net profit (m EUR)



Source: Company data

# Purchase price & closing requirements

## Purchase Price Considerations

- KBC Bank NV has agreed to acquire 100% of Raiffeisenbank Bulgaria (RBBG) for a total cash consideration of 1015m EUR (the “Purchase Price”), payable at closing
- EPS accretive from year 1 onwards. The Purchase Price represents a 1.64x multiple of the 2022E Tangible Book value and a 13 P/E <sup>(1)</sup> (based on 2022E earnings)

## Closing Requirements

- Closing of the Transaction is dependent upon the regulatory approvals from the Bulgarian National Bank (BNB) and the Bulgarian Financial Supervision Commission (FSC), the non-objection by the National Bank of Belgium (NBB) and the European Central Bank (ECB) and Bulgarian Competition Protection Commission approval
- The Transaction is expected to close mid-2022

(1) Including RR synergies (Run Rate synergies: recurring for longer terms & perpetual synergies ) + best estimate book value

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# In-market combination with sound strategic and financial rationale

















*An attractive transaction with immediate effects*

# Bulgarian Banking Landscape Overview

Materially Strengthened Top 3 Position Pro Forma, in Close Reach of #2

## Competitive Dynamics

- Raiffeisenbank BG is currently **Bulgaria's 6<sup>th</sup> largest bank by assets / loans and deposits** with a market share of **~8% by total asset**
- Market highly concentrated with **top 6 players controlling 75% of assets and ~72% of loans and deposits**
- Foreign banking groups with larger platforms widely present - **larger players with double-digit market shares**
- UniCredit and OTP / DSK Bank the **two leading banking franchises with ~18-19% M/S each**
- A UBB / RBBG combination would allow **KBC to close the gap to UCB and OTP, becoming the 3<sup>rd</sup> major banking franchise (~18% M/S) based on total assets (#2 by Loans), and represents a unique opportunity to challenge the top 2.**

	FY 2020 (€bn) <sup>(1)</sup>	Total Assets	M/S%	Gross Loans	M/S%	Total Deposits	M/S%	Book Equity	RoTE	CET1%	L/D <sup>(2)</sup>	C/I <sup>(3)</sup>
1	 UniCredit Bulbank	12.6	19.8%	6.3	16.1%	9.6	17.7%	1.7	6%	28%	66%	39%
2	 dskbank	11.7	18.4%	7.2	18.5%	9.8	18.2%	1.6	6%	22%	68%	46%
PF	 UBB /  Райфайзен БАНК	11.5	18.2%	6.7	17.0%	9.6	17.8%	1.2	7%	19%	67%	51%
3	 UBB	6.5	10.3%	3.4	8.6%	5.5	10.2%	0.7	7%	22%	59%	49%
4	 Eurobank	6.2	9.8%	4.1	10.5%	5.2	9.7%	0.8	10%	21%	76%	40%
5	 Fibank First Investment Bank	5.8	9.1%	3.5	8.9%	4.9	9.0%	0.6	4%	18%	66%	49%
6	 Райфайзен БАНК	5.0	7.9%	3.3	8.4%	4.1	7.6%	0.5	7%	16%	78%	53%
7	 Central Cooperative Bank	3.5	5.6%	1.4	3.7%	3.2	5.9%	n.a.	n.a.	n.a.	45%	73%
8	 Allianz Bank Bulgaria	1.5	2.5%	0.6	1.5%	1.3	2.7%	0.1	7%	19%	53%	50%
9	 ProCredit Bank	1.3	2.2%	0.8	2.0%	1.0	2.1%	0.1	7%	16%	88%	58%
10	 i bank	1.1	1.8%	0.5	1.2%	1.0	1.8%	0.1	1%	20%	45%	54%
11	 MUNICIPAL BANK	1.1	1.7%	0.1	0.4%	1.0	1.8%	0.1	4%	24%	14%	75%
12	 BULGARIAN AMERICAN CREDIT BANK	1.0	1.5%	0.6	1.6%	0.8	1.5%	0.1	7%	17%	72%	51%
<b>Total<sup>(1)</sup></b>		<b>63.4</b>	<b>90.6%</b>	<b>39.2</b>	<b>81.3%</b>	<b>54.1</b>	<b>88.1%</b>					

Sources: SNL, Company disclosure; Definitions as per SNL for each category, applied on a consolidated company basis.

(1) Individual (company) figures ranked by total assets, based on SNL and company disclosure; Total market size per category based on BNB annual disclosure for Bulgarian banking sector. (2) On Gross Loans basis.

(3) Excluding banking tax / regulatory levies.

# Investment Case & Challenges for KBC

## *Attractive Investment Opportunity with Manageable Risks*



### Key Opportunities

#### ✓ **Attractive Standalone Franchise with Proven Track Record**

- Successful universal banking franchise with holistic product offering incl. leasing, asset management and insurance ancillaries that align to KBC's strategic priorities
- Track record of delivering attractive growth (CAGR: 12%)<sup>(1)</sup> and profitability (RoATE: ~15%)<sup>(1,2)</sup>
- Well capitalised (CET1: 16.5%)<sup>(3)</sup>, clean (NPL: 2.5%)<sup>(4)</sup> and well provisioned (coverage ratio 122%)<sup>(4)</sup>

#### ✓ **Establish UBB as Top 3 Franchise in Consolidating Bulgarian Market**

- Opportunity to establish UBB as Top 3 franchise in the Bulgarian market (PF M/S: ~18%)<sup>(5)</sup>...
- ...Significantly distancing it from the local Tier 2 franchises (Eurobank M/S: 10%; Fibank M/S: 9%)<sup>(5)</sup>...
- ...And putting it at the level of UCG (M/S: 19%)<sup>(5)</sup> and OTP (M/S: 18%)<sup>(5)</sup>

#### ✓ **Attractive Value Creation Opportunity**

- Realisation of significant recurring cost synergies on the branch network and HQ overlap in Bulgaria
- Revenues synergy potential from full implementation of KBC bank-insurance model

#### ✓ **High Return & Dividend Enhancement Potential**

- Attractive return on investment for KBC Group (approx. 10%+ expected) driven by a combination of standalone profitability and net synergy realisation
- Long term, sustainable enhancement of KBC Group dividend capacity

#### ✓ **Opportunity to Deploy KBC Group Excess Capital in a Value Accretive Transaction**

- Deployment of KBC Group financial resources into a franchise-enhancing, synergistic and value accretive investment opportunity in a market the group knows intimately
- Attractive alternative to potential return of excess capital to shareholders

Sources: Company Disclosure, SNL

(1) 2017-H1'21 CAGR on Gross Loans. (2) FY2019 (pre-COVID) RoATE on a standalone basis. (3) As of FY2020. (4) As of H1'21 Standalone basis.

(5) FY2020 market shares calculated based on total assets; Individual (company) figures based on SNL and company disclosure; Total market size based on BNB annual disclosure for Bulgarian banking sector..

# Significant synergy potential driving value creation in banking

- Important efficiency gains, leveraging on the combined UBB and Raiffeisenbank BG entity & KBC expertise
- Key synergy sources include:
  - **Optimisation of branch network**
  - **Streamlining HQ functions**
  - **Optimisation of real estate and procurement costs**
  - **Savings on HR expenses of combined RBBG + UBB**
  - **Trusted brands with excellent NPS scores backed by quality of innovative digital platform**
  - **Migration to a single state-of-the-art IT platform, data centres, call centres, and product factories**
  - **Full range of banking, asset management, leasing and insurance services to Corporates & Retail (SME, Micro companies and Private Individuals) clients and distribution power through combined network building on KBC group capabilities for revenue synergies**
  - **Potential to leverage KBC Group's best practices, utilising product capabilities and enhanced commercial acumen**
    - Bank-insurance model, including capturing of DZI's insurance underwriting
    - Roll-out of KBC/UBB's Digital First Strategy to an enlarged customer base
    - Supported by KBC/UBB's AI & data analytics capabilities
    - Cross-selling opportunities
    - Enhanced product mix
    - Develop underpenetrated asset management business
    - KBC Group's credit and ALM expertise

**Total net pre-tax synergies of ~12m EUR in 2022, quickly ramping up to ~29m EUR in 2024 and remaining above ~25m EUR from 2025-2031**

# Agenda

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**1** Transaction overview

**2** Strategic rationale

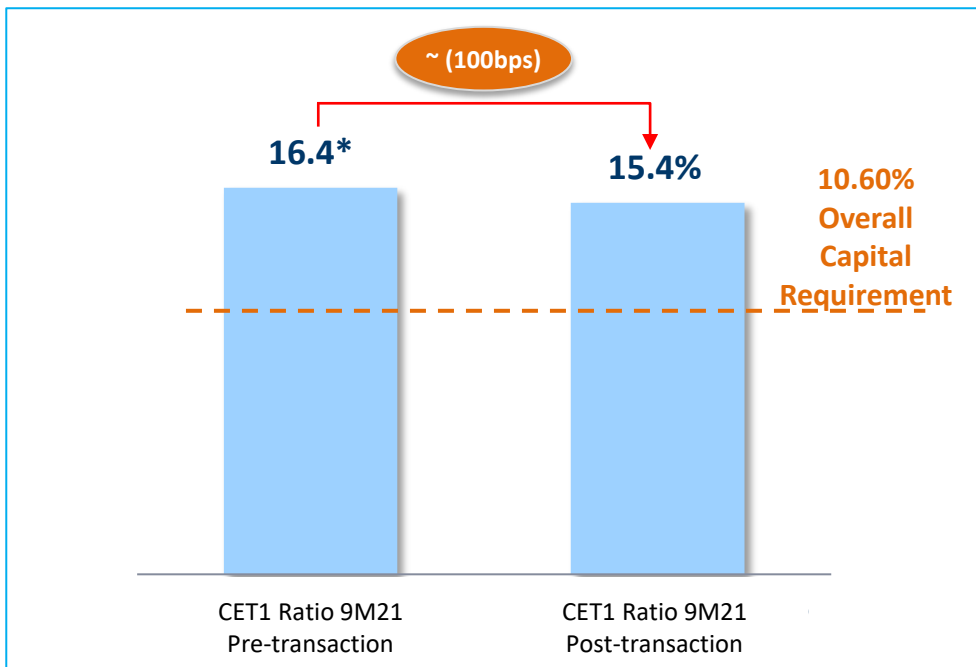
**3** Financial impact

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# Acquisition to have limited impact on KBC Group CET1

## Pro-forma fully-loaded CET1 ratio at KBC Group (Danish compromise)






\* Remember, No IFRS interim profit recognition. Pro forma CET1 including 100% of 9M21 profit recognition 18.1%

## Comments

- Consideration will be fully paid in cash from available funds
- Limited impact of the transaction on KBC Group CET1 capital ratio of around -1pp upon closing
- KBC Group remains very well capitalized, well above the fully-loaded regulatory minimum of 10.60%
- Dividend policy to remain unchanged (at least 50% pay-out ratio including interim dividend and AT1 coupon)

# Overview of combined financials in Bulgaria

	 UBB Part of KBC Group	 Райфайзен БАНК	 UBB + Райфайзен БАНК Part of KBC Group	
<b>Balance sheet (bn EUR)(2020A)</b>	Total assets	6.5	5.0	11.5
	Gross loans	3.4	3.3	6.7
	Deposits	5.5	4.1	9.6
	Shareholder equity	0.8	0.5	1.3
<b>Profit &amp; Loss (m EUR)(2020A)</b>	Net interest income	132	114	246
	Operating income	197	169	365
	Operating expenses	(98)	(94)	(193)
	Loan provisions	(25)	(31)	(56)
	Net income	52 (2021E: 66) <sup>(1)</sup>	30 (2021E:56) <sup>(1)</sup>	82 (2021E:122) <sup>(1)</sup>
<b>Other Metrics (2020A)</b>	CET1 ratio	23.5%	16.5%	20.2%
	Loan / Deposits ratio	62%	80%	69%
	Cost income ratio	50%	55.9%	52.7%
	Cost of risk (gross, implied)	(76bps)	(98bps)	(87bps)
	NPL(UBB)/NPE (RGBG) ratio	3.5%	2.5%	n.m.
	Employees (k)	2'665	2'536	5'201
	Branches (k)	175	122	297
	Clients (k)	942	635	1'577

Source: Company data

<sup>(1)</sup> Additional 2021E net income data, as the 2020 number was impacted by the Covid-19 pandemic

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# Key takeaways

- **Materially strengthening our #3 position in the Bulgarian banking market.** The proforma combined entity would reach 18.2% market share by assets (basically the same as the #2 (OTP) and would become the #2 player in loans (17.0% market share), whilst **reinforcing our position as #1 financial group in Bulgaria.**
- **Further investment in Bulgaria to benefit from positive macro-economic environment:** EU membership and convergence potential, Lev peg to Eur, expected real GDP growth of >4% over the next few years, strengthening legal framework
- **An immediate EPS accretive, highly synergistic transaction: Substantial value creation for shareholders through synergies which are expected to reach ~ 12m EUR in 2022 quickly ramping up to ~ 29m EUR in 2024 and remaining above ~25m EUR from 2025-2031 (pre-tax numbers).**
- **Significant additional growth and profitability potential** by leveraging on KBC Group's ownership and capabilities (e.g. asset management, insurance, leasing expertise, credit risk expertise and ALM)
- **Limited capital impact on KBC Group's CET1** with impact estimated at around -1pp upon closing

The Transaction represents a compelling opportunity for KBC Group to further expand its market position in a well-known core market

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