

# 1 CEER strategy update

A. Bergen, Group CEO



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

# Speaker's curriculum vitae

- ✓ Education : Master in Economics – University of Leuven (Belgium)
- ✓ Previous positions :
  - 1974 University of Leuven (Economics Dept.), research assistant
  - 1977 Kredietbank, Brussels – Economic Research and FX & Treasury
  - 1980 Chemical Bank, Brussels - Foreign Exchange Advisory
  - 1982 Generale Bank, Brussels
  - 1993 Generale Bank (subsequently Fortis) - Member of the Executive Board
  - 2000 Agfa-Gevaert, Antwerp – Vice-Chairman and CFO
  - 2003 KBC – Managing Director & Deputy Group CEO
- ✓ Present position :
  - 2006 Chairman of the Executive Committee & Group CEO

# TODAY'S MESSAGES

- ✓ CEE is expected to remain the Group's growth engine over the next few years: the economic picture for 'our' markets continues to be supportive, while recent initiatives to further strengthen our positions will start to deliver
- ✓ We are also well on our way to ensure solid earnings growth in the region post-2009: we have become active in new high-growth countries further east and additional investments are being made to upgrade technology and extend the business mix further



# Reminder: presence in CEER

## Main markets

### Czech Republic

Total assets: 35 bn  
Bank ranking: Top-3  
Entry: 1999

### Poland

Total assets: 8 bn  
Bank ranking: Top-10  
Entry: 2001

### Hungary

Total assets: 10 bn  
Bank ranking: Top-3  
Entry: 2000

### Slovakia

Total assets: 6 bn  
Bank ranking: Top-5  
Entry: 1999

## New markets

### Russia

Total assets: 4 bn  
Bank ranking: Top-25  
Entry: 2007

### Bulgaria

Total assets: 3 bn  
Bank ranking: Top-10  
Entry: 2007

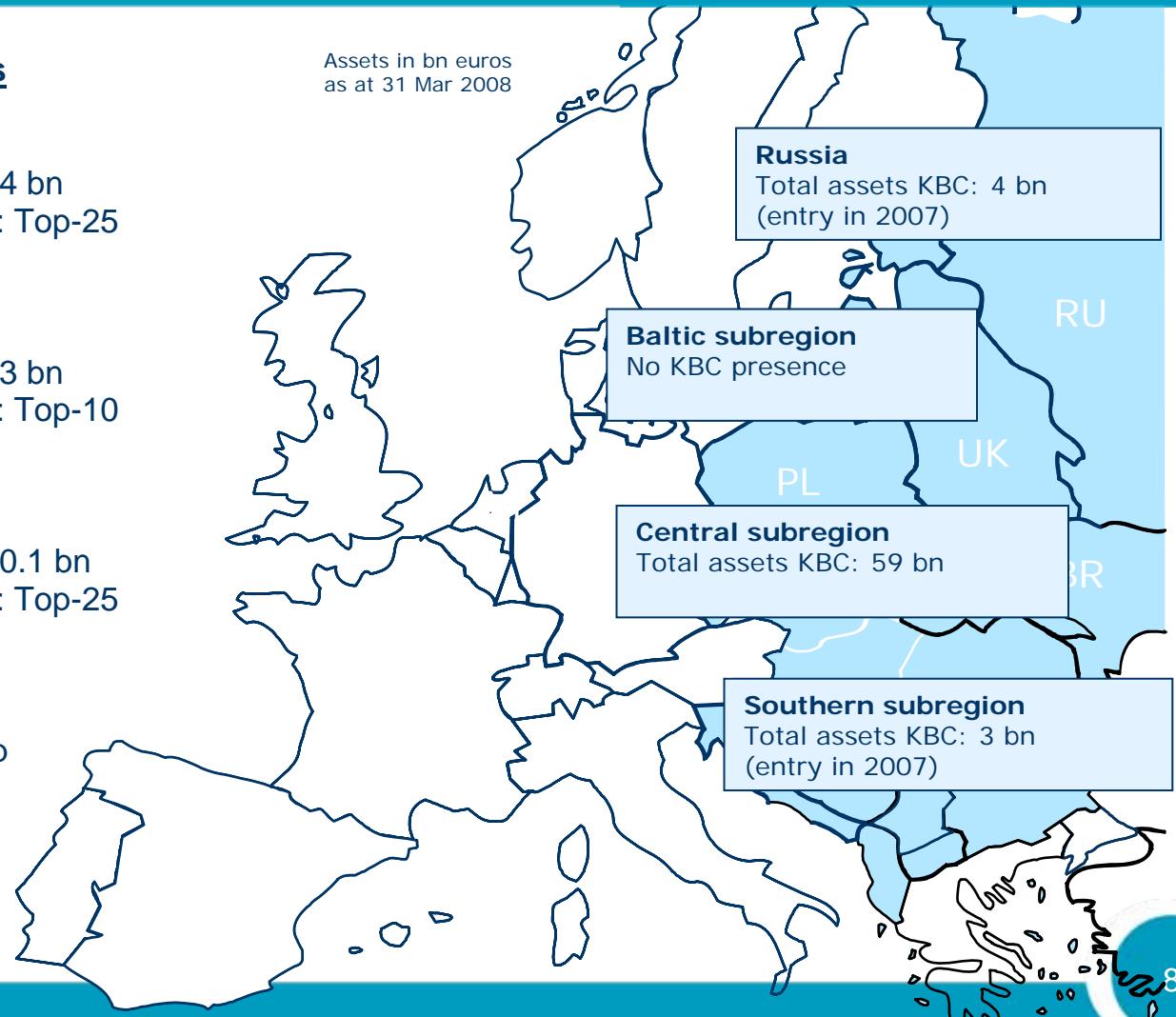
### Serbia

Total assets: 0.1 bn  
Bank ranking: Top-25  
Entry: 2007

### Romania

Niche start-up  
Entry: 2007

Assets in bn euros  
as at 31 Mar 2008



'Entry' year means year of majority-holding acquisition

# Track record in CEER

- ✓ In the last 10 years, KBC invested 7.4 bn euros in acquisitions (o/w 2.1 bn in “new” markets in 2007 and early 2008)
- ✓ Initially, KBC benefited from a strong first-mover acquisition price advantage, and, more recently, pricing discipline was also maintained (P/B for 2005-08: 3.2x vs. market avg. of 3.8x)
- ✓ The Business Unit recorded a profit growth of 32% p.a., on average, over the last 3-6 yrs
- ✓ The return on investment for CEE-4 stands at 15% (2007) and is growing
- ✓ The region's profit growth represents ½ of that of the group (2007)

	EUR	2001	3Y cagr	2004	3Y cagr	2007
Customer loans	12 bn	6%	14 bn	28%	30 bn	
Customer wealth	21 bn	10%	28 bn	19%	46 bn	
Staff	20 000	8%	26 000	8%	32 000	
Underlying profit	119 m	32%	269 m	32%	618 m	

'Customer wealth' includes customer deposits, funds under management and insurance reserves and reflects the focus of the bancassurance model

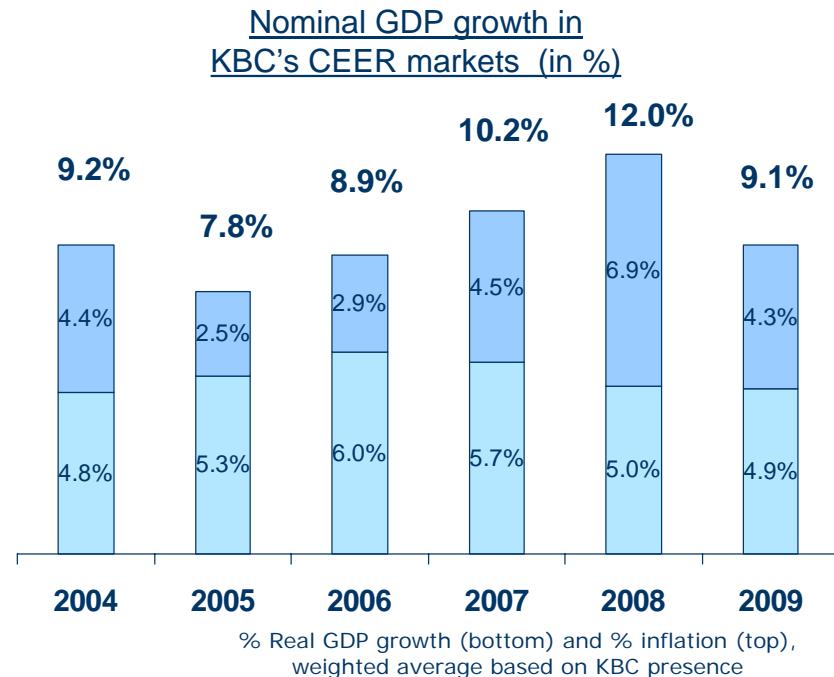
# CEER: key strategy for the next few years

## SUMMARY

- ✓ We are convinced that we have the capacity to deliver substantial growth and return by developing existing franchises. Therefore:
  - ✓ Focus on building on current markets and on “execution excellence”
  - ✓ Including selected plug-in acquisitions in current markets (however, no pressure to enter into any large acquisition)
- ✓ CEER is expected to be the Group's main earnings growth engine over the next few years:
  - ✓ Supportive economic environment
  - ✓ Return yielded by initiatives taken in 2006-07 to further enforce positions, such as new branch openings, new product lines, cross-border shared operations approach, etc.

# Continued solid economic growth anticipated

- ✓ As the cycle turns, (our) economies will continue to outgrow mature markets
- ✓ Economic growth in 2008 is expected to be similar to that in 2007, in the 10% range (albeit with higher inflation)
- ✓ On average, banking assets tend to outgrow 2 - 2.5x nominal GDP growth. KBC's customer loan book in the region grew organically:
  - ✓ FY 2006 +26% y/y
  - ✓ FY 2007 +23% y/y
  - ✓ 1Q 2008 +26% y/y

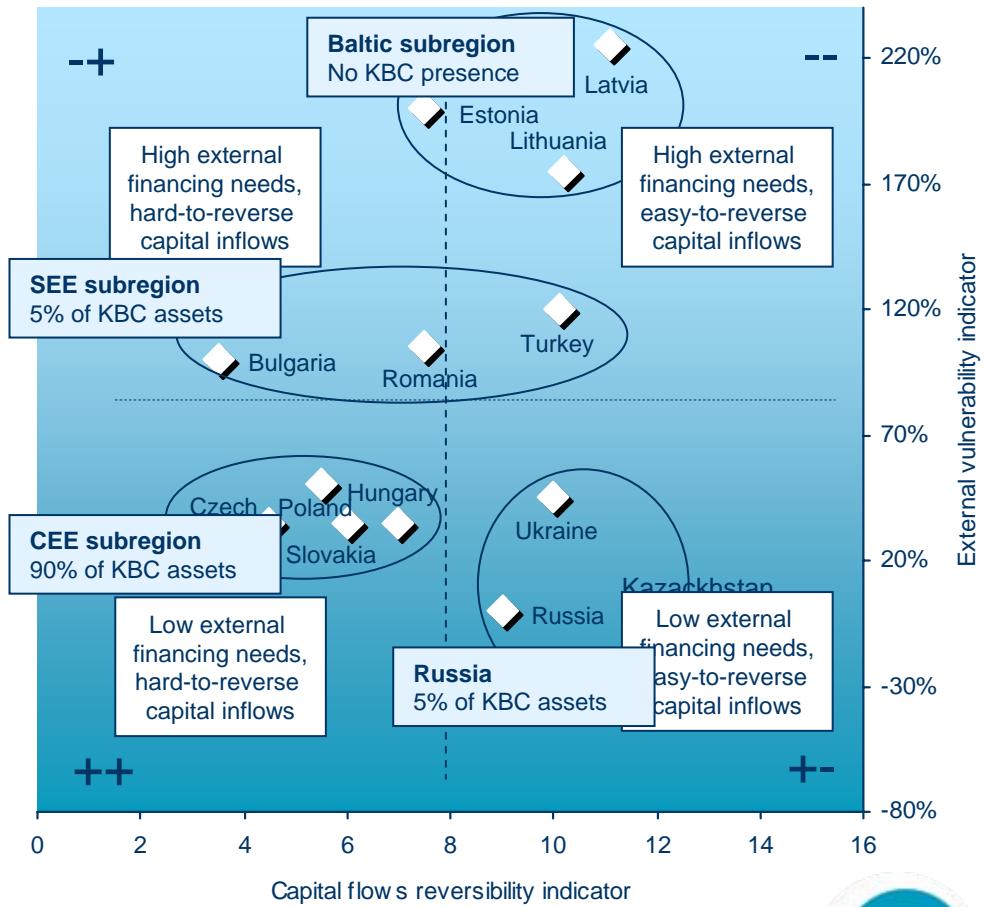


Source: KBC, May 2008

# Limited sensitivity to external shocks

- ✓ Our CEE footprint is mainly concentrated in the central subregion (90% of our CEER assets) which has a more limited 'macro' risk
- ✓ The impact from the banking liquidity crisis has been limited
- ✓ We share the concerns about the Baltic & SEE areas (due to high levels of private debt, real estate prices, FX lending, C/A deficits, etc.); our exposure here is limited (highly related to insurance in Bulgaria)
- ✓ We prefer to remain cautious, but we may have seen 'the bottom of the cycle' in Hungary (the region's economic outlier since mid-2006)

Countries' sensitivity to external shocks



Source: Financial Times, Citi (April 2008)

# Yield of strengthened business model in CEE-4

Over the last few years, we took multiple initiatives to further enforce positions in our 4 main markets

## REMINDER

Action plan	Start date	Objective	Impact
Change in management structure	Mid-06	Realise bancassurance and asset management cross-selling potential	Continued double-digit growth in AUM and Life insurance (in 2007: 27% and 17% y/y, respectively)
Shared operations program	Mid-06	Realise cross-border synergies in sales & operations	Synergies to increase to 200m per year, before tax, by 2010 (mainly in CEE)
New product lines	Mid-06	Use competences to realise additional income beyond retail bancassurance (investment banking*, leasing and consumer finance)	Combined profit contribution for the 3 areas of ca. 100m targeted in 2008 (see illustration on next slide)
Branch openings	End-06	Expand the No. of bank branches in main CEE-4 markets by 45% by 2009	370 new outlets opened (to start to breakeven as of 2009)
Add-on acquisition in Slovakia	Early 2008	Achieve critical mass faster	10% market share achieved

\* A separate presentation on the investment banking topic is provided

# Additional product lines built up

## ILLUSTRATION

	<b>LEASE IN CEE</b> (Headcount 1 300)	<b>CONSUMER FINANCE IN CEE</b> (Headcount 1 600)
Business range	<ul style="list-style-type: none"> <li>✓ Diversified (cars, equipment, real estate...)</li> <li>✓ Distribution: bank and non-bank (vendor/direct)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Diversified (POS loans, cash loans, credit cards)</li> <li>✓ Distribution: bank and non-bank (POS/direct)</li> </ul>
Market reach	<ul style="list-style-type: none"> <li>✓ Czech Republic (15% market share)</li> <li>✓ Slovakia (17% market share)</li> <li>✓ Hungary (8% market share)</li> <li>✓ Poland (1% market share)</li> <li>✓ Romania (4% market share)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Poland (existing platform with 10% market share in POS loans with 27 000 retailers / 3% overall market share), overall 10% M/S targeted by 2011</li> <li>✓ Czech Rep. (start 2007) – 10% M/S target by 2011 leveraged via bank channel sales</li> <li>✓ Romania (start 2008) – 3% M/S target by 2011 via non-bank channels</li> </ul>
Business volume	<ul style="list-style-type: none"> <li>✓ Total outstanding: 2.7 bn</li> <li>✓ New sales 2007: 1.5 bn</li> </ul>	<ul style="list-style-type: none"> <li>✓ Total outstanding: 0.8 bn (1.1 m contracts)</li> <li>✓ New sales 2007 POS and cash loans: 0.7 bn New credit cards sold: 71 000</li> </ul>
Profit contribution	55m (2007), 10-15% growth p.a. anticipated	16m (2007), 50%+ growth p.a. anticipated for 2008-2011

# Ensuring long-term earnings growth

We are also well on our way to ensure solid earnings growth in the region post-2009:

## 1. Inroads into SEE and Russia (follow-up acquisitions may follow)

Market	Popu- lation	PPP GDP/cap vs. EU 27	KBC's objective for the coming years	Entry
Bulgaria	7m	37%	Ambition to build full-fledged bancassurance activity	2007
Serbia	7m	28%	Ambition to build full-fledged bancassurance activity	2007
Romania	22m	39%	Niche strategy: consumer finance, leasing, securities business	2006
Russia *	143m	51%	In a first phase, focus on mortgages and SME loans (asset management, insurance... may be added later)	2007

Sources: Eurostat, Other - information valid as at 1 Jan 2007

For comparison purposes: the GDP per capita for CEE-4 stood at 60% of the EU27 level

\* A separate presentation is provided on our presence in Russia

## Ensuring long-term earnings growth (cont'd)

### 2. Additional investments to upgrade technology across markets:

NEW

- ✓ Harmonisation of group-wide IT applications and related business process re-engineering
- ✓ Investment amount of approx. 600m (70% CAPEX assumed)
- ✓ Anticipated return on investment through cost and revenue synergies of approx. 300%
- ✓ Additional P&L impact: minus 50-70m post-tax per year in 2009-2011; in the long run, positive impact of > 200m per year
- ✓ P&L impact initially posted for a larger part in 'Group Centre'



## Ensuring long-term earnings growth (cont'd)

### 3. Further expanding product lines in CEE, such as:

NEW

- ✓ Selected private equity activities:
  - ✓ Focus on local small-cap deals in CEE-4, Russia and Romania (currently 14 local headcount with a Brussels-based support centre in place)
  - ✓ Currently, 7 deals initiated in the amount of 80m euros (equity and mezzanine)
- ✓ More active involvement in local commercial real estate (managed by central competence centre)
- ✓ Private banking (boutique concept as used within the European Private Banking Business Unit)\*

\* A separate presentation on the topic is provided

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