KBC Group

“Risk, Return & Growth - Getting the Balance right”

Merrill Lynch Banking & Insurance Conference, October 2006

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- By reading this presentation, each investor is deemed to represent that it possesses sufficient expertise to understand the risks involved.

Introduction: strategy framework

REMINDER

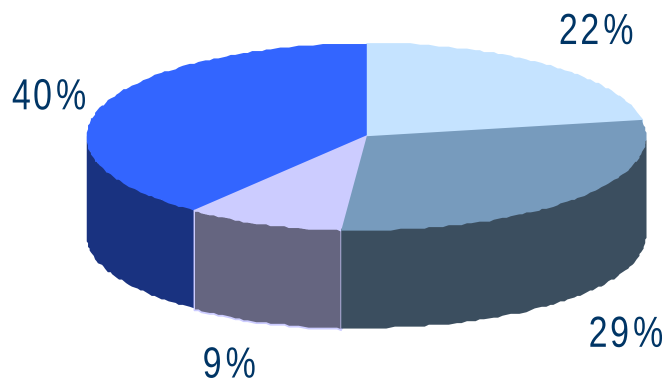
KBC’s strategy framework include:

- Focused business scope:
  - Retail-, bancassurance- and wealth-management-oriented
  - Geographical focus on Belgium, CEE and selected Western European markets (mostly Belgium’s neighbours)
- Standalone basis
- Conservative management style combined with a solid level of financial strength / solvency
- Shareholder orientation, strict capital discipline and steady dividend growth

Introduction (2): business mix

REMINDER

Gross income breakdown (1H 2006) *



Belgium:
- retail bancassurance
- asset management
- private banking
- commercial banking (mostly SME)

CEE-4:
- retail bancassurance
- asset management
- private banking
- commercial banking (mostly SME)

Private banking:
- offshore (mainly Luxemburg)
- "boutique-style" onshore concept in Belgium's neighbours

Selected merchant banking activities:
- commercial banking (SME/corporate), mostly in Belgium and its neighbours (export-oriente
- capital market activities

- KBC is a top-3 player, both in Belgium and in CEE-4 (all EU members)
- ca. 75%-80% of gross income is realised in markets with leading market share (*i.e.* Belgium and most CEE countries)

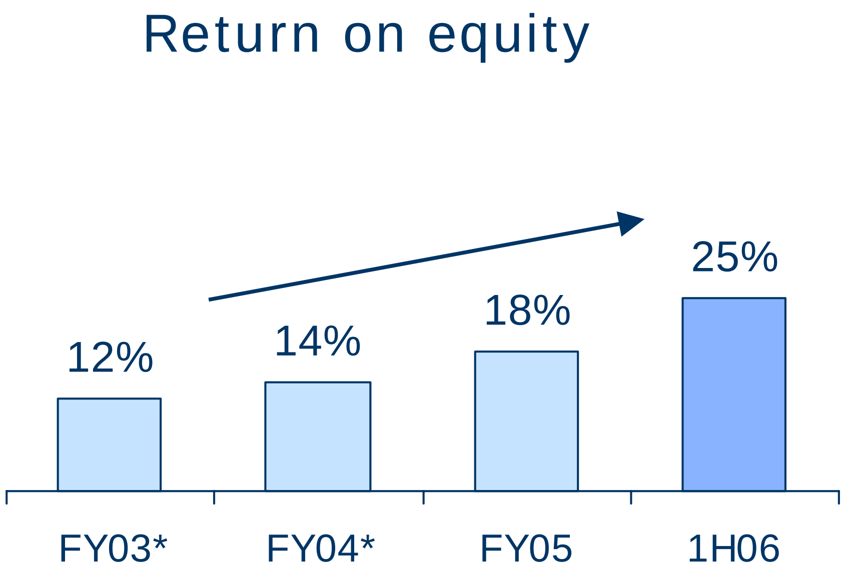
* Gross income – net technical charges, insurance

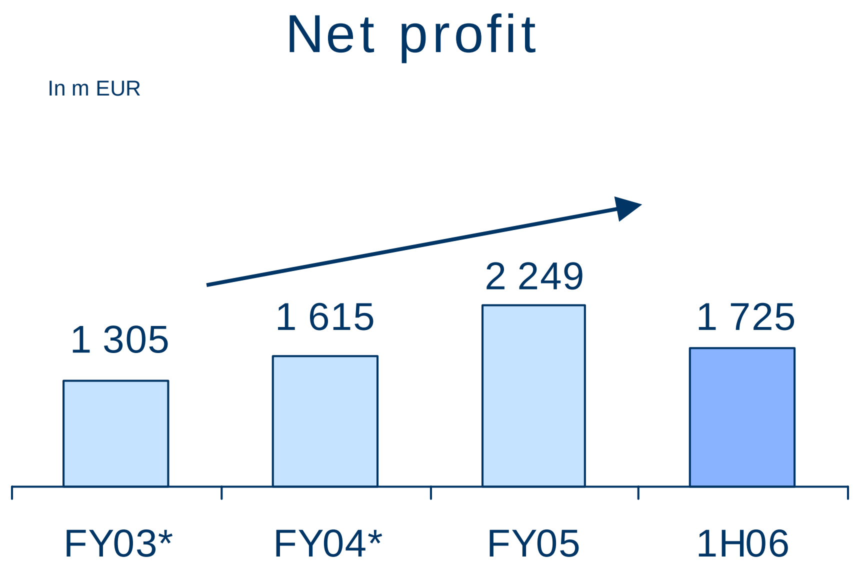
Introduction (3): business developments

Over the past 12 months, we have been carrying out what we promised:

- Optimisation of Group structure:
  - Divestiture of non-core assets (*Gevaert-related assets, insurance in Ireland, private banking in Spain)* for an amount of ca. 1.4 bn
  - Further simplification of the legal structure
  - Implementation of a new group management structure
- New investments:
  - Buyout of third-party stakes in CEE for an amount of ca. 0.8 bn (incl. some small bolt-on acquisitions in Benelux private banking)
  - Support of organic growth in CEE by opening additional branches
  - Study of acquisition possibilities in EU candidate countries, while maintaining strict capital discipline nevertheless
- Share buy-back:
  - Execution of the 1 bn euro 2006 programme (ca. 850m realised as at 30 September)

Introduction (4): financial track record





- Over the last few years, financial performance improved significantly
- FY06 profit is expected to outgrow 3.2 bn euros
- KBC will update its mid-term financial objectives before the end of this year (Investor Day, 7-Dec)

*Pro forma for the "new" KBC group

1st dimension: "Growth"

1H2006	Total loans	Of which mortgages	Customer deposits	AUM	Life reserves
Outstanding (bn)	119	37	179	208	20
Growth, y/y	+12%	+22%	+8%	+19%	+33%
Belgium	+9%	+15%	+3%	+21%	+34%
CEE	+17%	+36%	+16%	+32%	+27%
Merchant banking	+16%	-	+20%	-	-
Private banking	-	-	-	+20%	+34%

Growth trend excl. (reverse) repo and interbank activity and excl. Banco Urquijo from Private Banking

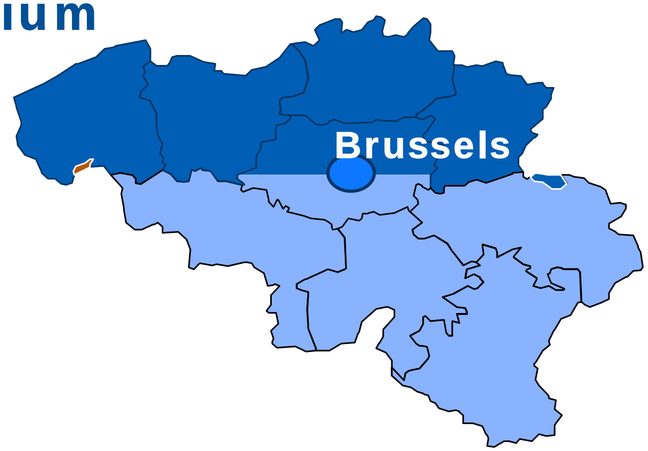
- Over the past few years, volume growth has been buoyant
- Growth in Belgium is surprisingly relatively high, driven by the low indebtedness of the private economy and strong wealth flows
- The CEE region is obviously a double-digit growth franchise on the back of high(-er) economic growth and the under-penetrated consumer base

Growth (2): case study - Belgium

KBC, Belgium, % y/y	Total loans	Mort-gages	Customer deposits	AUM	Life reserves
Growth, 1H06	+9%	+15%	+3%	+21%	+34%
Growth, 2005	+8%	+16%	+4%	+31%	+38%
Growth, 2004	+5%	+9%	+10%	+20%	+28%

- The Belgian market has experienced consistent "high" growth (with an ongoing shift from banking deposits to mutual funds and life insurance)
- Core growth drivers are:
  - Housing price inflation (starting from low average housing price levels) driving mortgage book growth and, consequently, providing the basis for further cross-selling
  - High savings rate, historically relatively low private pension-building and decreasing popularity of offshore investments
- We believe these growth drivers are quite structural in nature and only partly cyclical

Growth (3): case study - Belgium



Number of branches in 2005

	Total	North	South
KBC	946	80%	10%
Sector	4 564	60%	30%
e.g. Fortis	1 109	-	-
Dexia	1 054	-	-
ING	804	-	-

Source: Annual reports

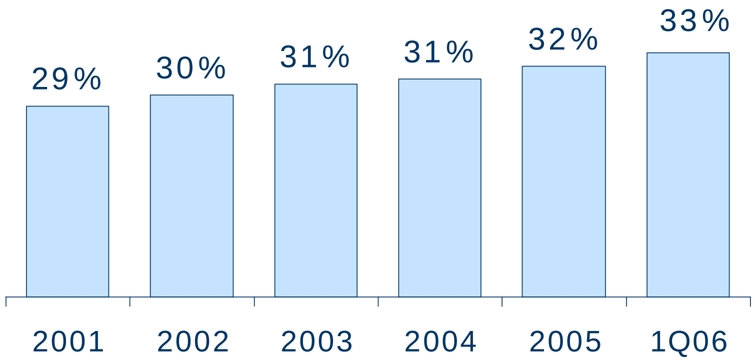
- In contrast to its main competitors, KBC is mainly present in the Northern region of Belgium:
  - 80% of branches in the North versus 10% in the South (10 % in Brussels)
  - 35% market share in the North versus 5% in the South
- This is highly important since the North is much wealthier than the South

	Population (in m)	GDP/ capita (in EUR)	GDP growth	Unemploy-ment rate	Avg. sales price, houses (in '000 EUR)
North	6.1	27 356	2.2%	6%	122
South	3.4	19 858	1.7%	12%	81

2004 figures

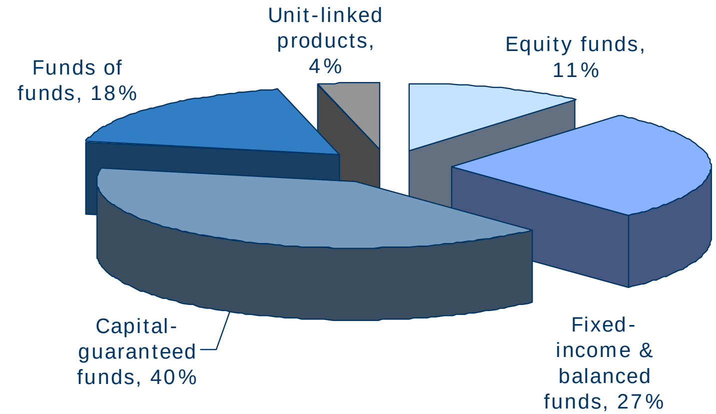
Growth (4): close-up of Belgium

KBC, retail funds, market share, Belgium



Breakdown of KBC's retail funds, Belgium

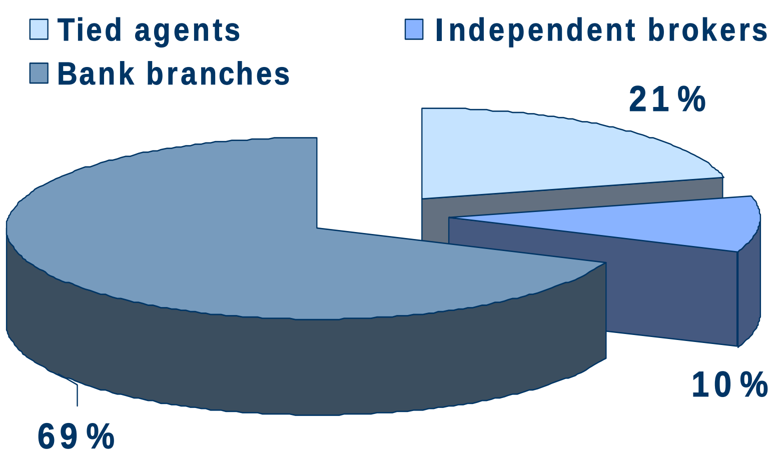
30 June 2006



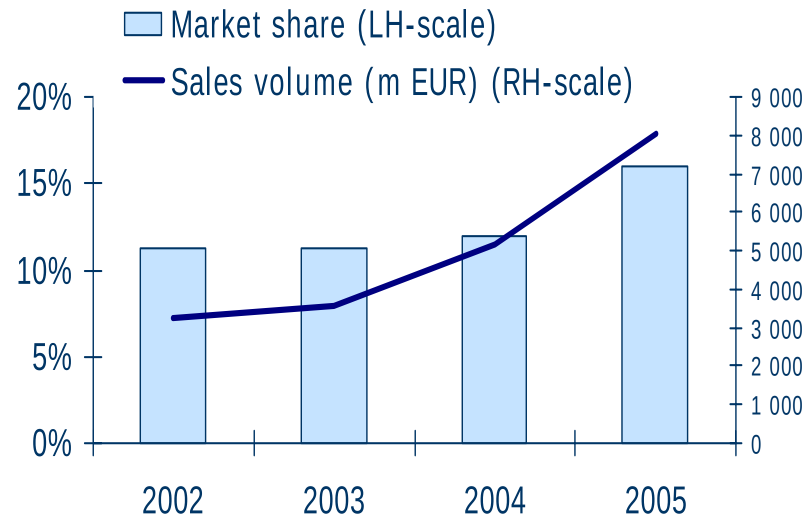
- Since >10 years, KBC has been able to increase its market share in funds
- The market is highly receptive to "structured funds" (e.g. cliquets, boosters, capital-guaranteed funds), for which KBC has strong product-design capabilities:
  - Broad product range: 200 new "products" launched in 2006
  - Short term to market: 20 days on average from idea to launch
  - Highly cost-effective: C/I ratio 15% (excl. distribution cost)
- The business model is being successfully transferred to CEE, with the Brussels-based competence centre acting as a group-wide product factory

Growth (5): close-up of Belgium

KBC, insurance distribution channels



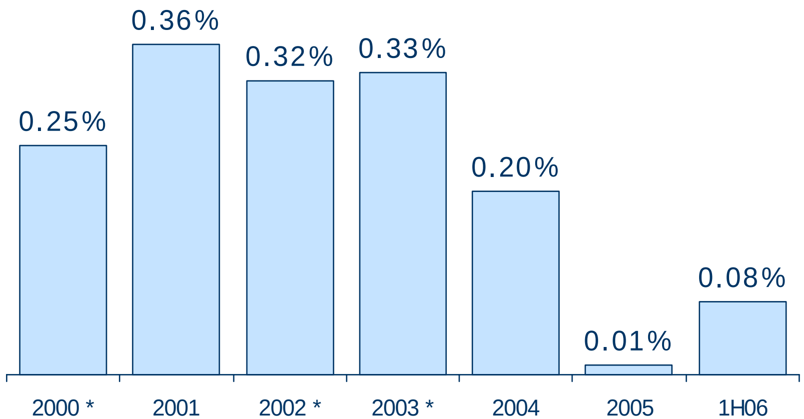
KBC, insurance, sales volume and market share



- Highly integrated bancassurance business model:
  - One single "governance" from top to bottom
  - High level of "customer ownership" via own branches and tied agents
  - Integrated distribution channels:
    - Single branding, single product offering and single pricing
    - Shared customer database
    - Streamlined product profitability (shadow accounting)
- The Belgian business model has been copied for use in CEE, where it is clearly bearing fruit

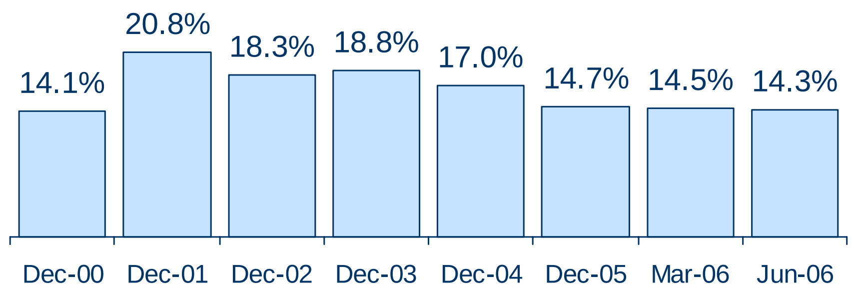
2nd dimension: "Risk"

Normalised cost of risk
(relative to gross outstanding loans)



* Restated (in 2002-03 adjusted for post-acquisition provisions in Poland)

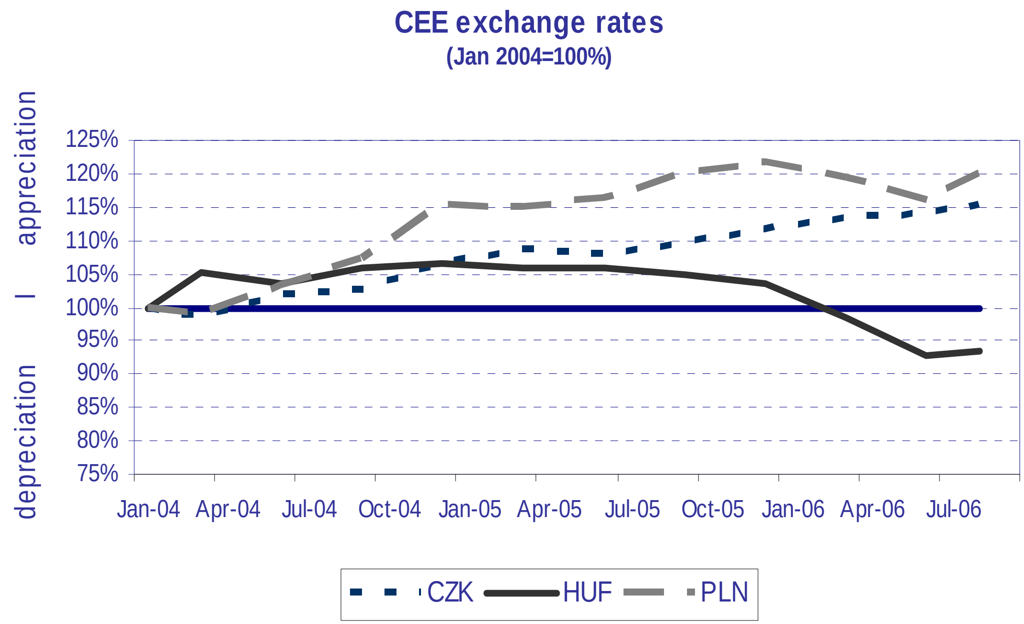
Portfolio quality:
share of high risk loans in portfolio



- With 112 bn risk-weighted exposure, lending is our main source of risk
- Over the past few years, loan-loss charges were remarkably low: the loan-loss ratio was less than 10 bps in both 2005 and 1H2006
- So far, no sign of material deterioration in asset quality has been detected. Recently, average portfolio risk has improved even further
- Clearly, the credit cycle will inevitably turn in the mid-term

Risk (2): focus on FX mortgages in CEE

in millions of EUR	FY 05	6M 06
Czech Rep.	*non-existent*	
Hungary	420	495
Poland	310	380
CEE Total	730	875
% of total mortgages, CEE	20%	22%
% of total mortgages, KBC	2%	2%



- We believe that the market may <u>overestimate</u> our exposure to FX mortgages
- We applied sufficient <u>buffers</u> to our risk assessment (e.g., defensive caps on the loan-to-value ratios) and the portfolio is closely <u>monitored</u>
- Although we do not like it, remind that it is <u>market practice</u> to offer FX mortgages: not offering the product would imply significant market share loss
- Currently, the main risk area is Hungary. However, we do <u>not expect rising credit cost</u> below EUR/HUF 300 (currently at ca. 275). The “worst case” loss (HUF depreciation to 375) would be Hungary’s 1-year profit contribution

Risk (3): market risk

Banking book (simplified):

- The entire loan book is hedged (no interest-rate risk). However, the surplus of bank deposits to loans is invested in treasury bonds (ca. 3-yrs duration), which intentionally creates an interest-rate mismatch
- The P&L impact of a simulated parallel market rate shift is *quasi* zero. As at 30-Jun-06, a simulated flattening of the yield curve (+50 bps ECB-rate, +25 bps deposit re-pricing and flat LT-yields) would negatively impact 2006 NII by ca. 35m (pre-tax)

Trading book:

- The trading activities focus on currency and fixed-income products (predominantly client-driven), on the one hand, and some skills-based niche activities in the derivatives markets, on the other
- Average value-at-risk (10d-holding, 99% confidence,) in 1H06 stood at:
  - Money and debt capital markets: ca. 20m
  - Equity and credit derivatives markets: ca. 34m
  - Cash equity markets: ca. 3m

Risk (4): insurance risk (life)

- The cross-selling of insurance products (life/non-life) is one of the key features in enhancing return levels in our home markets
- We have ca. 20 bn life reserves on the balance sheet, the bulk of which are investments-oriented, typically collected as lump-sum amounts in the retail market.
- We believe our underwriting policy has been consistently conservative:
  - 75% of current sales (1H2006) is unit-linked business, generating recurring, “risk-free” commission income
  - In the “guaranteed rate” business, rates are typically guaranteed for an 8-yr period and do not apply for future premium payments (which obviously facilitate ALM matching)
  - Important: we underwrite very little annuity business (typically, lump-sum capital amounts are paid at maturity), which avoids significant exposure to longevity risk
- The embedded value of the insurance business (total) stands at 3.5 bn (31-Dec-05), with the 2005 value of new life business at 98m (new business margin of 17%)

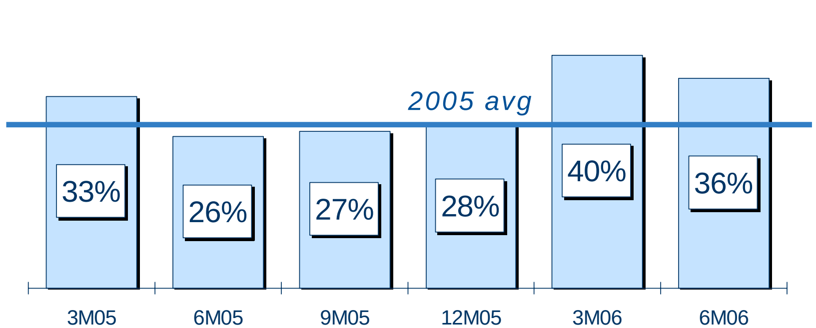
Risk (5): insurance risk (non-life)

- We underwrite ca. 1.7 bn non-life premiums per year (2005 figure) and we believe our underwriting policy has been consistently conservative:
  - Our non-life franchise is predominantly a "private persons'" business (low level of corporate risk), with car- and fire insurance counting for 73% of earned premiums
  - 75% of the business is underwritten via "own" distribution channels (bank branches, tied agents) which allow us to stick to strict underwriting discipline
  - Our combined ratio (91% in 1H2006) has been consistently lower than the sector average and we feel comfortable keeping it at around 95% over-the-cycle
  - Our claims-coverage ratio (claims paid relative to earned premiums) stands at a stable 178% and run-off triangles year after year show evidence that provision levels are adequate, even conservative

3rd dimension: “Return”

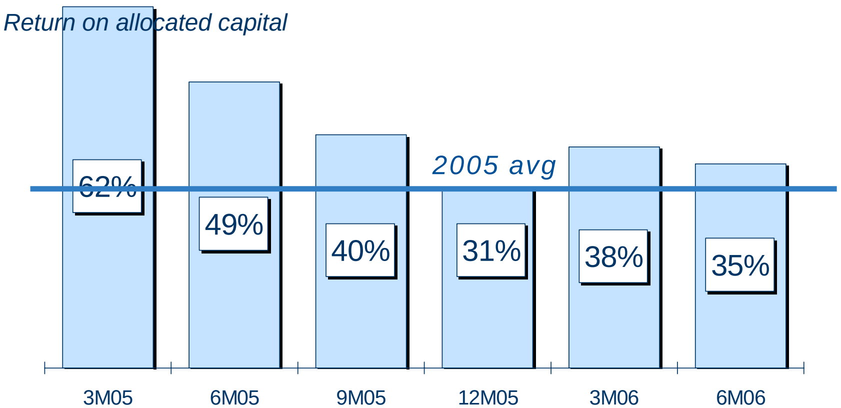
Belgium

Return on allocated capital



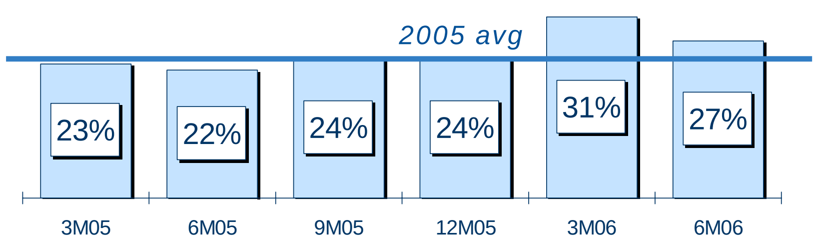
CEE

Return on allocated capital



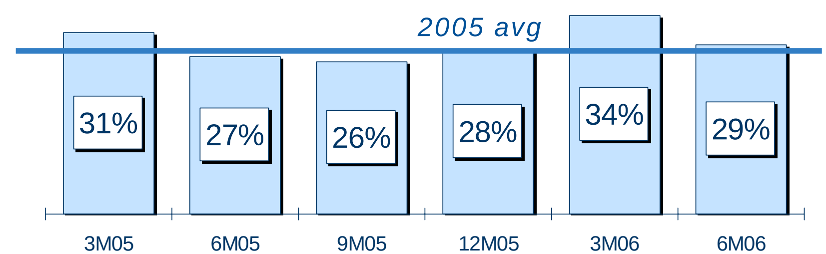
Merchant banking

Return on allocated capital



Private banking

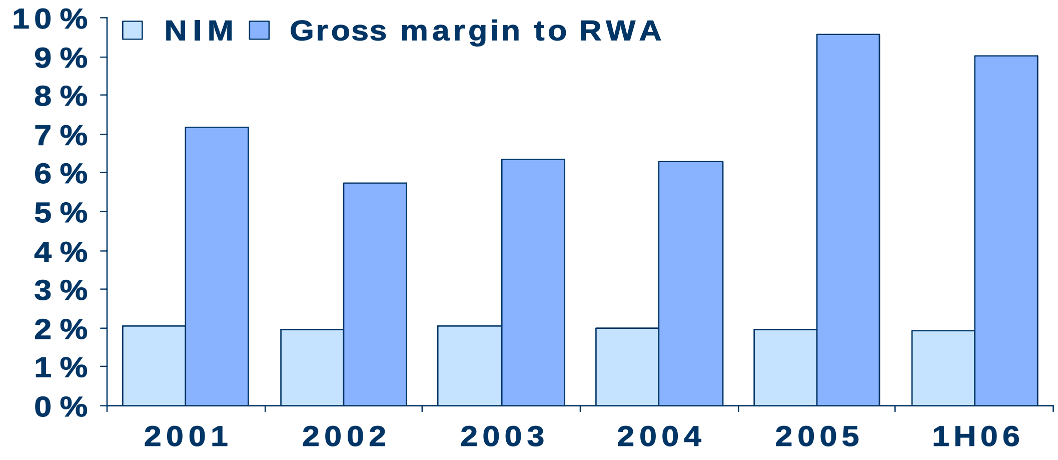
Return on allocated capital



- Total Group 1H06 return on equity stood at 25% (18% in FY05)
- In 1H06, all business units were generating <u>>25% return</u> on allocated capital, home markets even >30%

Return (2): case study - Belgium

KBC, Belgium, NIM and gross revenue margin (vs. RWA)*



- Belgium is considered to be a low-return market because of, among other things, recent competitive pressure in the mortgage field
- However, NII spreads are not a good denominator for profitability:
  - Credit risk is (very) low -> please look at risk-adjusted margins
  - Cross-selling is high (Fee & Commission income) :
    - This explains the high level of competition in ‘customer-binding products’ such as mortgages
    - Far less price competition in Fee & Commission-generating products
    - Gross margin (incl. F&C and insurance results) to RWA stands at ca. 9%!

* The increase in gross margin as of 2005 vis-à-vis previous years is due to the new accounting treatment (IFRS)

The end

"Risk, Return & Growth - Getting the Balance right"

- We believe that we can offer you an attractive "balance":
  - Interesting growth potential in Belgium and CEE, boosted by a "winning" bancassurance business model
  - Modest risk profile (e.g., moderated "emerging market risk")
  - Solid return levels
- We will update our mid-term strategy and quantified growth/return targets before the end of the year (Investor Day, 7-Dec-06)

Additional information

KBC at a glance

COMPANY PROFILE

- Top-20 financial player in Europe with a 30bn-euro market cap
- Active in banking, wealth management and insurance, with a strongly integrated business model
- Focus on retail and SME
- Key geographical markets:
  - Top-3 position in Belgium (3m customers)
  - Top-3 position in CEE (9m customers)

SHAREHOLDER PROPOSITION

- Attractive franchises:
  - Interesting growth potential: CEE and (surprise?) Belgium
  - Winning bancassurance model
  - Modest risk profile
- Capital discipline:
  - Dividend policy oriented towards yearly increasing dividend
  - Conservative acquisition policy
  - 2006 share buy-back (1 bn)
- Increased share visibility, liquidity, transparency

Strategic planning 2006-07

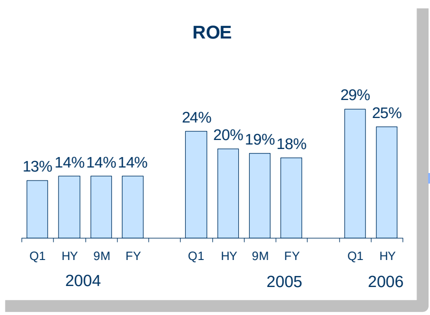
Management objective (long-term)	Examples	Magagement attention	Additional capital
Strengthening CEE franchise: - Buyout of third parties - Acquisitions - Accelerated organic growth	 - e.g., 40% of K&H (Hungary), 7% of CSOB (CR) - e.g., Poland, Romania, Bulgaria, etc. - e.g., SME, HNWI & consumer finance development	●●○	●●○
Strengthening the Belgian franchise	- Strengthening of non-life distribution channels, launch of innovative ‘longevity’ life products, etc.	●○○	●○○
Strengthening the Private Banking franchise	- Setting up of cost-saving central back-office functions - Add-on acquisitions to strengthen current presence	●●○	●○○
Distribution excellence	- Integration of distribution channels per local market - Setting up of a distribution competence centre to leverage distribution experience	●●●	○○○
Lean operations	- Setting up of Product Factories and Shared Services - Co-sourcing with other financial institutions	●●●	○○○

●●● **High** ○○○ **Low**

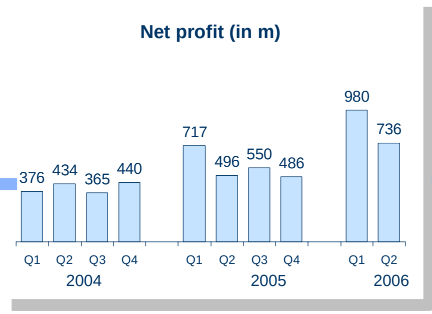
- At the end of 2005, we identified some 25 ‘business initiatives’ - illustrated in the above table – in order to strengthen current franchises (increased market penetration, enhanced product offering, improved distribution channels, better management control, etc.) and to ensure further “distribution excellence” and “lean processing” in the future
- The implementation will enable KBC to safeguard its competitive position and growth prospects in the long term. In 2006, management attention and capital allocation were focused on the buyout of third-party interests in CEE (as these are immediately value-enhancing) and on the implementation of a new organisational structure

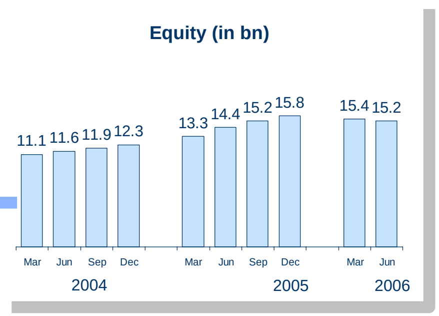
Strategic planning as disclosed in Dec. 2005 – to be updated by 2006 year-end

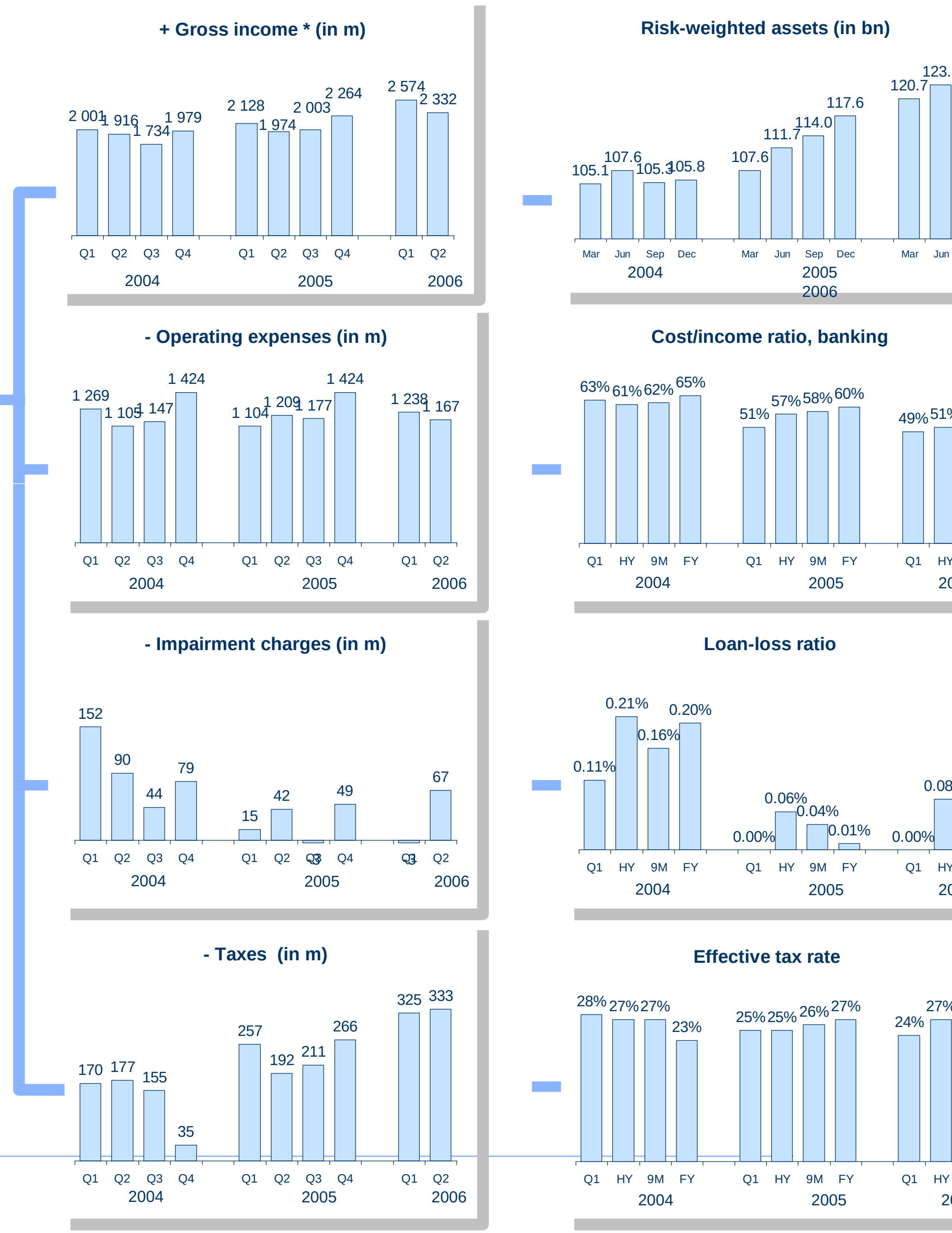
Financial performance - quick scan



Return on adjusted equity







* Gross income minus technical charges, insurance

Current valuation

Key figures:
- Share price: 84.1 euros
- Book value: 42.9 euros
- Daily traded volume 8M06 : 54m euro

Analyst estimates:[1]
- 2006 EPS consensus: 9.25 euros (+48%)[2]
- 2007 EPS consensus: 7.87 euros
- 2007 P/E: 10.7

Recommendations:
- Positive: 67%
- Neutral: 33%
- Negative: 0%

Valuation relative to peer group

	weighted P/E 2007	unweighted P/E 2007
CEE banks [3]	14.6	14.7
CEE-exposed banks [4]	12.3	11.5
Euro-zone banks[5]	10.6	11.0
KBC [1]	**10.7**	**10.7**
BEL banks [6]	9.8	9.8

Weighted and unweighted averages of IBES data :
[3] OTP, Komercni, Pekao, BPH PBK, BRE
[4] Erste, Unicredit, Soc. Gen., Intesa BCI, BA-CA, RZB Int.
[5] Top-20 DJ Euro Stoxx Banks
[6] Fortis, Dexia

Situation as at 18 September 2006

[1] Smart consenus collected by KBC (21 estimates)
[2] 2006 estimates contain one-off items

KBC

Analysts' opinions

Situation as at 18 Sept 06

Broker	Name analyst	Tel	Rating	Target price
ABN·AMRO	Ron Heydenrijk	+44 20 7678 0442	Buy	110
Bank Degroof	Ivan Lathouders	+32 2 287 91 76	Buy	95
Cheuvreux	Jaap Meijer	+31 20 573 06 66	Outperform	102
citigroup	Kiri Vijayarajah	+44-20-7986-4258	Buy	98
Credit Suisse First Boston	Ivan Vatchkov	+44 20 7888 0873	Outperform	101
delta lloyd	Carlo Ponfoort	+32 3 204 77 11	Accumulate	99
Deutsche Bank	Gaelle Jarrousse	+44 20 7547 6226	Hold	88
EXANE	Patrick Leclerc	+44 20 7039 9407	Outperform	102
Fortis	Kurt Debaenst	+32 2 565 60 42	Hold	93
ING Bank	Alain Tchibozo	+33 1 56 39 32 84	Buy	106
IXIS	Christophe Ricetti	+33 1 58 55 05 22	Buy	95
JPMorgan	Paul Formanko	+44 20 7325 6028	Overweight	92
KBW	Jean-Pierre Lambert	+44 20 7663 5292	Market perform	96
Kepler Equities	Albert Ploegh	+31 20 563 2382	Buy	100
Merrill Lynch	Manus Costello	+44 20 7996 1953	Neutral	88
ODDO Securities	Scander Bentchikou	+33 1 44 51 83 08	Add	95
PETERCAM	Ton Gietman	+31 20 573 54 63	Hold	90
	Bart van der Feen de Lille	+31 20 460 48 65	Hold	95
Société Générale Groupe	Eric Vanpoucke	+33 142 13 82 43	Neutral	93
UBS Investment Bank	Simon Chiavarini	+44 20 7568 2131	Buy	110
WestLB	Ralf Breuer	+49 211 826 4987	Buy	103

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