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Strategy reminder:

# "Welcome to the world of execution excellence"

A. Bergen, Group CEO

Excellence goes beyond numbers

KBC Investor Lunch Meeting - London, 7 December 2007

# Speaker's *curriculum vitae*

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- ✓ Education : Master in Economics – University of Leuven (Belgium)
- ✓ Previous positions :
  - 1974 University of Leuven (Economics Dept.), research assistant
  - 1977 Kredietbank, Brussels - Economic Research
  - 1979 Kredietbank, Brussels - Foreign Exchange and Treasury
  - 1980 Chemical Bank, Brussels - Foreign Exchange Advisory
  - 1982 Generale Bank (subsequently Fortis Bank), Brussels
  - 1993 Generale Bank - Member of the Executive Board
  - 2000 Agfa-Gevaert, Antwerp – Vice-Chairman and Chief Financial & Administration Officer
  - 2003 KBC – Managing Director & Deputy Group CEO
- ✓ Present position :
  - 2006 Chairman of the Executive Committee & Group CEO

# Today's messages

- Regardless of upcoming consolidation moves, KBC believes that a well-executed stand-alone strategy is the most attractive value proposition for its stakeholders
- "Execution excellence" is, however, a key factor in this strategy. Therefore, distribution & operations skills are being enhanced (such as in the areas of customer relationship management, network organisation and technology, to name just a few)
- This strategy will enable us to deliver a min. 12% EPS growth, on average, in the years to come
- We recently even added new growth areas (such as our CEE-R acquisitions and the leveraging of asset management capabilities beyond our home markets)

# Strategy framework

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KBC's strategy is very much based on its ambitions to pursue 'best execution' in focus areas

Best execution:

- ✓ Strong footholds in key markets
- ✓ Distinctive distribution model
- ✓ High standards of operating efficiency
- ✓ Capital and acquisition discipline

Focus areas:

- ✓ Retail and SME
- ✓ Belgium and CEE-R
- ✓ Bancassurance and wealth management
- ✓ Niche strategies in selected other areas

This strategic view has been consistently used over the last 5 – 10 years

# The strategy turned out well

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The consistent approach has significantly transformed the Group

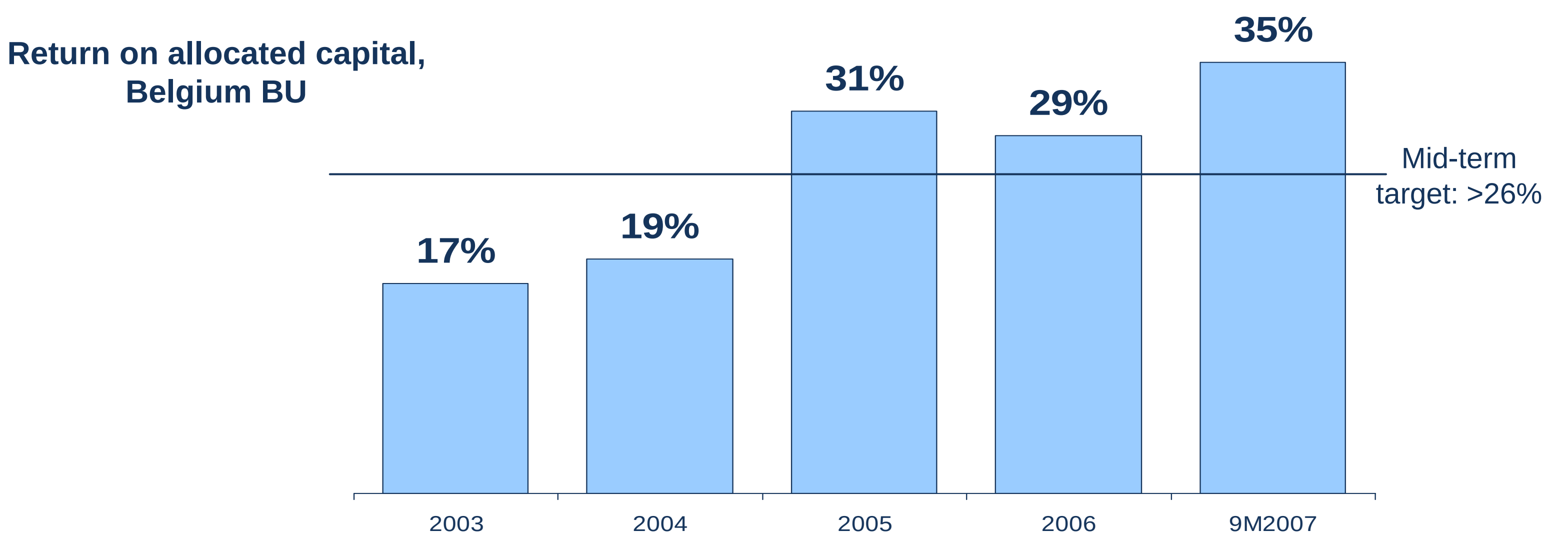
| EUR | 1997 | 5y cagr | 2002 | 5y cagr | 2007e |
|---|---|---|---|---|---|
| Customer loans | 47 bn | 13% | 88 bn | 10% | approx. 140 bn |
| Customer wealth | 119 bn | 13% | 223 bn | 15% | approx. 441 bn |
| Staff | 21 000 | 18% | 43 000 | 4% | approx. 54 000 |
| Net profit | 0.7 bn | 8% | 1.0 bn | 23% | approx. 2.9 bn* |
| CEE contribution | < 1% | | 9% | | approx. 20% |

For the 2007e net profit, the sell-side consensus on underlying net profit was used. The other 2007e figures reflect the situation as at 30 Sept. 'Customer wealth' includes customer deposits, funds under management and insurance reserves.

# 12 months into 2007

We believe that we have performed well again in 2007:

✓ Sustained high level of profitability in Belgium (return on capital > 30%)



# 12 months into 2007

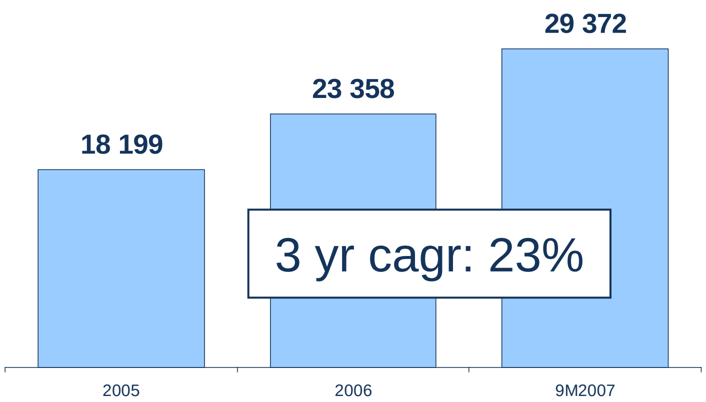
Excellence goes beyond numbers

We believe that we have performed well again in 2007 (2):

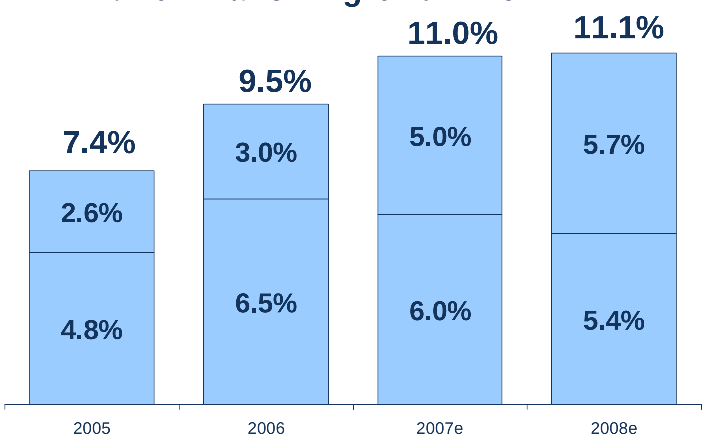
- ✓ Sustained strong organic growth in CEE, benefiting from solid economic environment and reflecting the wealth effect related to EU convergence.
- ✓ Add-on acquisitions in CEE-R (1.7 bn euros invested)

| Main 2007 investments | EUR bn |
|---|---|
| Absolut Banka (Russia) | 0.7 |
| DZI Insurance (Bulgaria) | 0.3 |
| EIB (Bulgaria) | 0.3 |
| A Banka (Serbia) | 0.1 |
| Romstal Leasing (Romania) | 0.1 |
| Other | 0.2 |
| **Total** | **1.7** |

**RWA, CEE Business Unit (m EUR)**




**% nominal GDP growth in CEE-R**

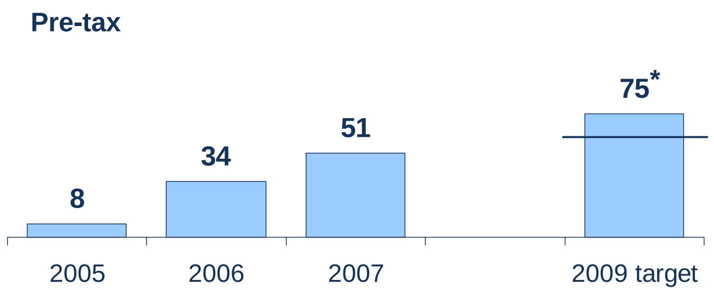



Real % GDP (bottom) and % inflation (top), weighted-average figures based on KBC presences (in CR, SR, Hungary, Poland, Romania, Bulgaria, Serbia, Russia – RWA-based weighting)

We believe that we have performed well again in 2007 (3):

- ✓ Further fine-tuning of operations in European Private Banking (recurring pre-tax synergy of 51m euros achieved)
- ✓ Further alignment and cross-border integration of business processes (recurring pre-tax synergy of 44m euros achieved)

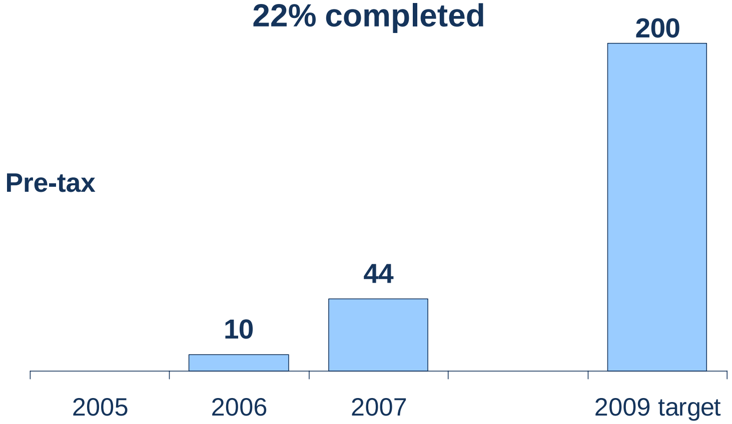
**Private banking synergy program (in m euros)**
**73% completed**




Program launched Mid-2005

* Sum of which 5m related to Banco Urquijo (divested in 2006)

**Shared services synergy program (in m euros)**
**22% completed**



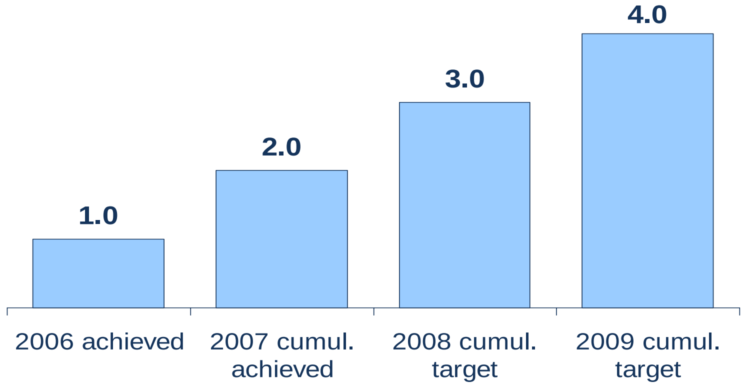

Program launched End-2006

# 12 months into 2007

We believe that we have performed well again in 2007 (4):

- ✓ Further focused approach and adoption of niche strategies in Merchant Banking (e.g., start-up of life insurance settlement business)
- ✓ Additional buyback of 1 bn euros worth of shares completed (2 bn achieved)

**Share buyback program (in bn euros)**




Programs launched in 2006

# The outlook is attractive

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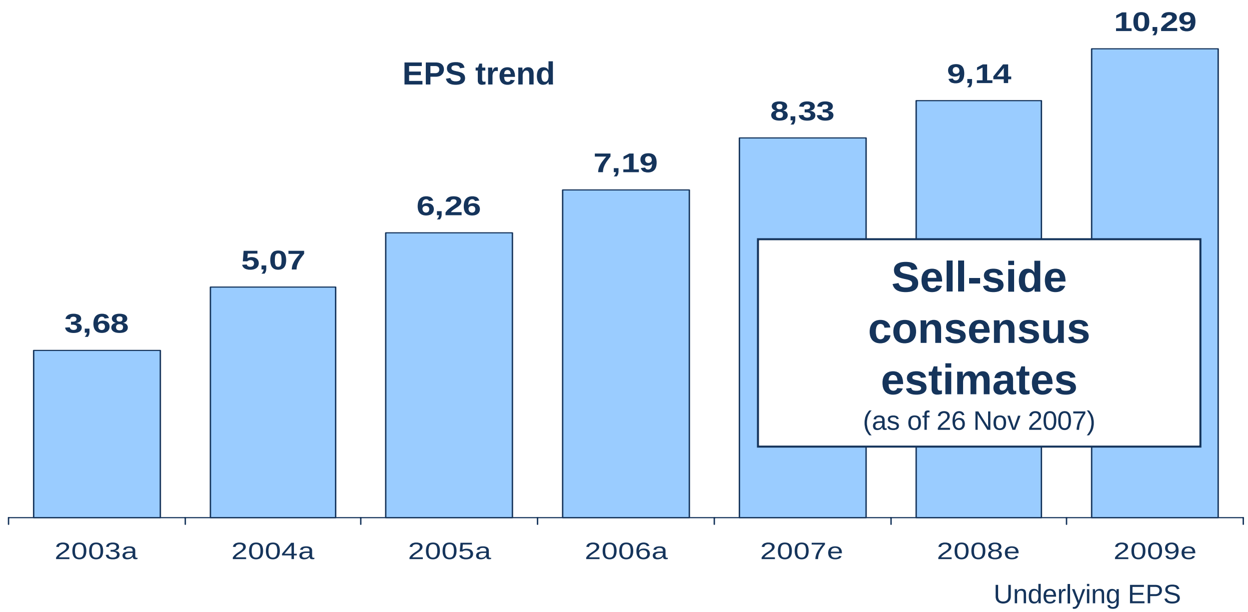
- ✓ Organic EPS growth outlook 2007-09: min. 12% CAGR (reconfirmed)
- ✓ No major threat from temporary market turbulence
- ✓ We recently added new growth areas (full impact not yet incorporated into 2007 profit)



# New growth options in CEE-R

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- Stand-alone profit of 2007 acquisitions: 50m euros*, not yet included in group profit
- Average net profit growth (3-y cagr): 50%

| Combined stand-alone net profit of new acquisitions (m EUR) | | | | | | |
|---|---|---|---|---|---|---|
| **Market** | **Acquisitions made** | **2003** | **2004** | **2005** | **2006** | **3y cagr** |
| Bulgaria | EIB Bank & DZI insurance | 6.0 | 10.3 | 26.1 | 25.4 | 61% |
| Russia | Absolut Bank | 7.8 | 10.0 | 11.7 | 19.8 | 36% |
| Romania | Romstal Leasing | 0.5 | 2.2 | 2.5 | 3.2 | 87% |
| Serbia | A Banka | 0.5 | 0.1 | 1.7 | 2.0 | 58% |
| Total, new markets | | 14.8 | 22.7 | 41.8 | 50.4 | 50% |

* 2006 FY figures, not yet consolidated by KBC Group (amount excl. funding costs of acquisitions and first-time consolidation adjustments)

# New growth options in wealth management



- Leveraging private banking expertise in CEE:
  - gradual start-up of 'boutique-style' private banking (similar to the *Puilaetco* concept used in Belgium)
- Leveraging fund management expertise beyond home markets:
  - Retail funds third-party distribution in other Western markets (sales 3Q 2007: 1.0 bn euros)
  - New inroads into Asian and Pacific markets achieved in 2007:
    - Korea, Japan, Taiwan, China (sales 3Q 2007: 2.1 bn euros)
    - Australia, New Zealand: acquisition of sales platform (start in 2008)
    - India: well established contacts which could materialise in 2008

# Update on capital position

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| Capital position (30-Sep-07)<br>(Basel II regulation) | Available capital | Required capital | Excess capital |
|---|---|---|---|
| Banking & private banking (Tier-1) | 12.1 bn | 10.7 bn | 1.3 bn |
| Insurance (excl. revaluation reserve) | 1.7 bn | 1.9 bn | -0.3 bn |
| Other activities* | 0.6 bn | 0.1 bn | 0.6 bn |
| **Total, Group** | **14.4 bn** | **12.7 bn** | **1.7 bn** |
| EUR | (of which funded by debt at holding-company level: | | 0.3 bn) |

- ✓ During the course of 2007, the excess capital position was greatly reduced on the back of strong organic growth, share buybacks (1 bn) and new acquisitions in CEE-R (1.7 bn, including pending deals)
- ✓ The current level of excess capital amounts to 0.7 bn (Basel I approach) and 1.7 bn euros (Basel II approach). By increasing debt leverage at holding-company level, additional capital can be made available (2 bn euros, of which 1 bn earmarked for the 2008 share buyback)

*Capital for “other activities” primarily includes the statutory capital in shared service companies.

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# Anticipating future challenges

Further sector consolidation is likely:

- ✓ We see many “good” reasons for M&A within the sector (cost synergies due to overlapping franchises, gaining of exposure to high-growth markets, distressed deals, diversification of risk, etc.), but “bad” reasons, as well…
- ✓ We recently re-addressed the 2 key questions:
  - ✓ Is the upsizing of scale due to cross-border consolidation a threat to KBC’s stand-alone competitive position and its growth and profitability prospects?
  - ✓ Could transformational M&A significantly enhance KBC’s ability to compete and deliver better growth or profitability?

# Anticipating future challenges

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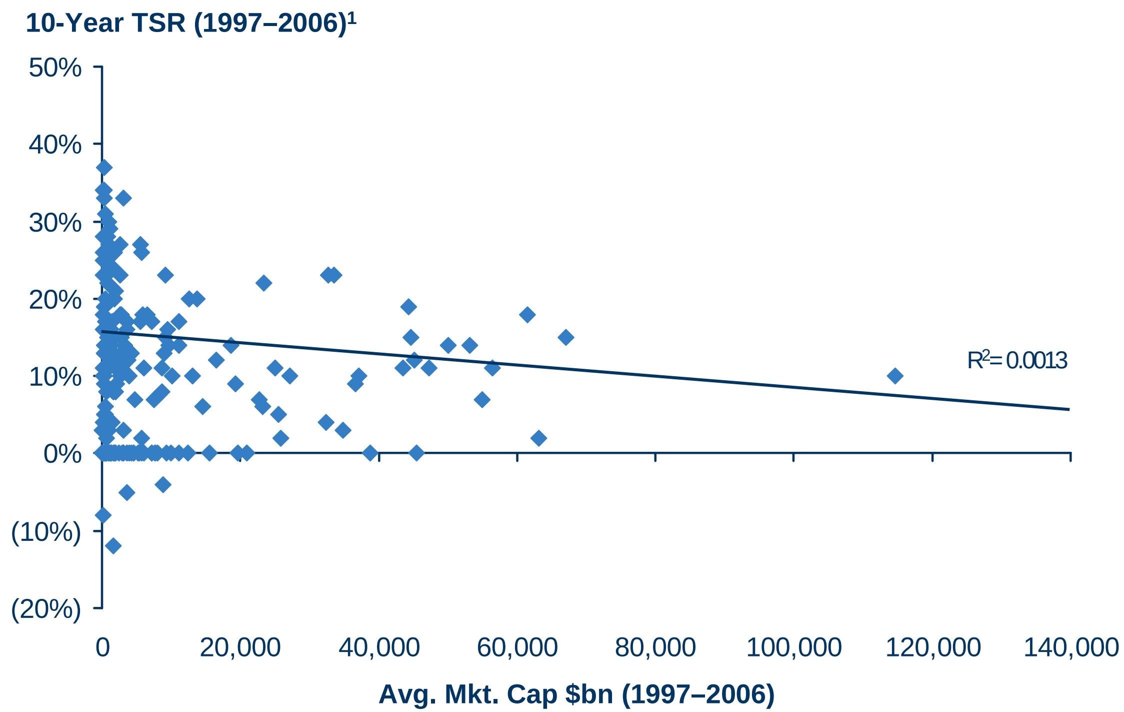
## Relationship between Size and TSR Performance (1997–2006)




*Source: Datastream*

1. Includes only European companies; 2. Centre for European Studies, Cross-Border Consolidation in the Financial Services Industry in Europe Conference document, 26/06/06 3. KBC Project NEXT summary

"Big is not necessarily beautiful"

# Anticipating future challenges

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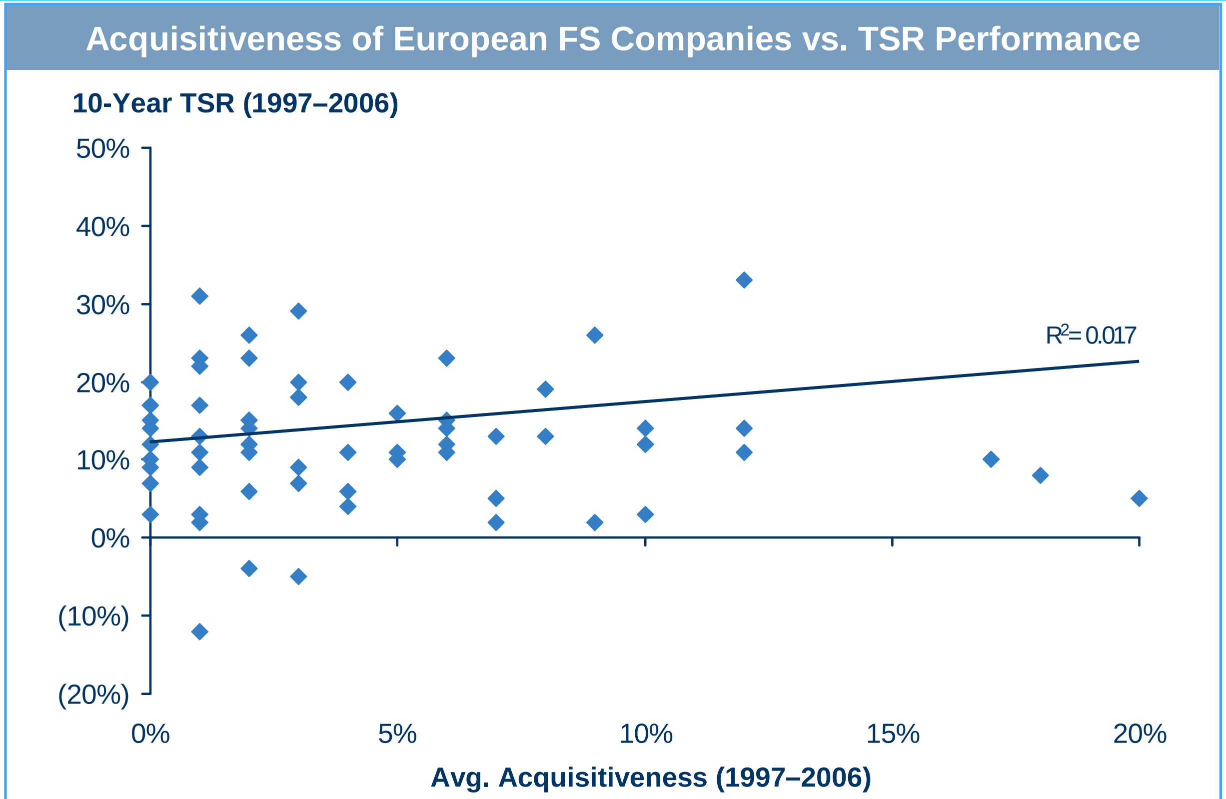


*Source: Datastream*

1. Avg. Acquisitiveness is measured as mean of (total acquisitions/ Market cap at start of year) for each year in 10 yr period
2. Includes only European companies

"Spending money may be a lucrative game, but… not always"

# Anticipating future challenges

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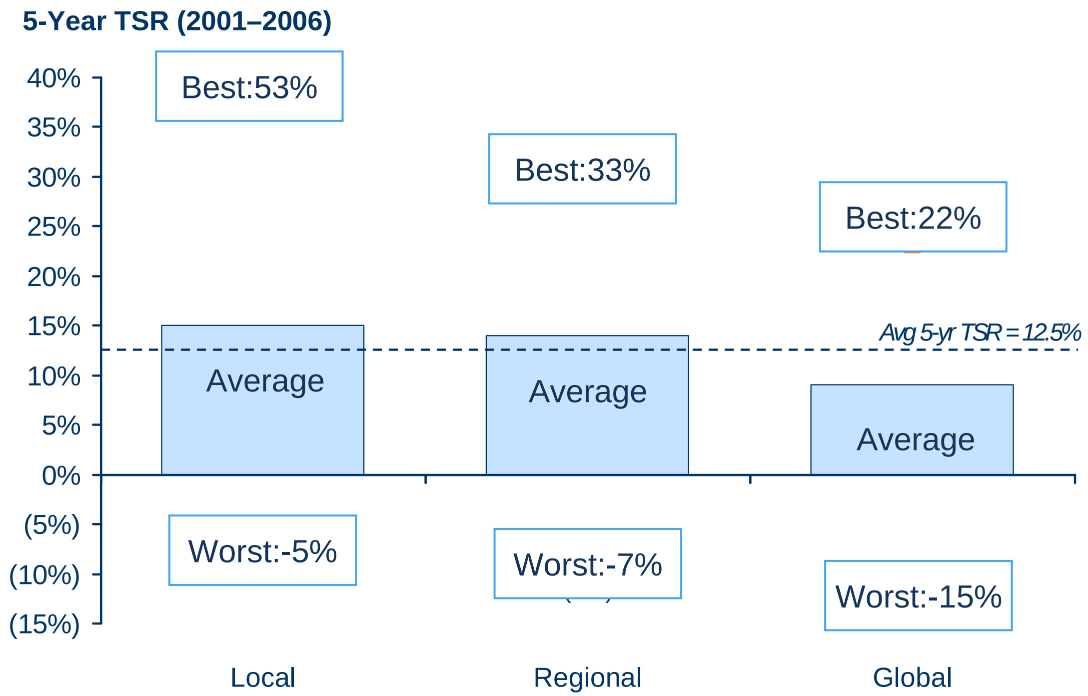
**Financial Services TSR Performance by Geographic Footprint**




*Source: Datastream*

1. Based on top 100 (by market capitalisation) financial services companies world-wide

"International companies do not necessarily perform better"

# Anticipating future challenges

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Today, we reconfirm our view that:

- ✓ Neither large size, nor acquisitiveness, nor international presence, nor asset diversification alone lead to better returns
  - ✓ In fact, we see empirical evidence that, at least on average, the opposite is true
  - ✓ M&A execution risk remains relevant
- ✓ Our scenario review did not reveal any evident business case which shows that teaming up would create more value than when pursuing a standalone strategy

# Anticipating future challenges



Today, we reconfirm our view that (2):

- In retail financial services, it is vital:
  - to hold significant market share in key individual markets
  - to maintain excellence in the implementation of distribution and operating models
- In order to safeguard its competitive position and growth prospects in the long term, KBC will further enhance its ambitions to:
  - Strengthen local market positions (mainly in CEE-R)
  - Focus on ‘distribution’ (integrated bancassurance)
  - Move towards ‘lean processing’

# Distribution excellence (example)



We are “going the extra mile for customers” (Belgium):

- ✓ Significant efforts made for increased service levels and an upgraded customer relationship management approach
- ✓ Main objective: to further boost customer satisfaction in the coming years (and thereby maintaining high levels of cross-selling and business profitability)

-> more details in presentation by D. De Raymaeker
Senior General Manager, Belgium Business Unit

# Distribution excellence (example)



We are “making the difference in distribution organisation” (CEE-4):

- ✓ ambitious branch-opening project
- ✓ distinctive networks similar to those in Belgium, including co-operation of bank and insurance channels and decentralised investment advisory skills
- ✓ enhanced performance-orientation (pilot project in CR completed)
- ✓ Main objective: to be better positioned to catch growth opportunities, including cross-selling and sales of value-added products

-> more details in presentation by J. Vanhevel
CEO CEE Business Unit

# Operational excellence (example)

We are “going for gold with technology”:

- ✓ Projects were started to ‘migrate’ IT in CEE-4 to a shared cross-border IT platform
- ✓ Main objectives: high IT efficiency and effective support of further business expansion

-> more details in presentation by C. Defrancq
COO & CEO Shared Services & Operations

# Today's messages

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