2 Update of the business plan for CEER

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KBC

KBC Investor Day

Moscow, 5-6 June 2008

Speaker's *curriculum vitae*

- ✓ Education: Doctor of Laws & Graduate in Notarial Sciences, University Leuven (Belgium)
  Financial Management Program, VLEKHO, Brussels (Belgium)
  Advanced Management Program, INSEAD, Fontainebleau (France)
- ✓ Previous positions :

1971	Kredietbank, Brussels – Legal and Litigation Departments
1979	Several functions in regional credit departments and the corporate banking network
1989	Regional Manager, responsible for the corporate segment
1994	Senior General Manager, Processing & Automation Directorate
1996	Managing Director, Member of the Executive Committee
1998	KBC – Managing Director & Member of the Executive Committee

- ✓ Present position :

2006	Member of the Executive Committee & CEO, Central and Eastern Europe & Russia

TODAY'S MESSAGES

- ✓ We have well-established franchises, enabling us to benefit fully from the growth environment in the next few years
- ✓ Volume expansion will be the key driver for earnings growth, while margin and loan-loss trends remain well under control and non-interest income is gradually accelerating
- ✓ Although there is still some homework to do, such as the completion of the sales network expansion, etc., the execution risk is manageable
- ✓ If we execute properly, the Business Unit's net profit will have almost doubled by 2010

Introduction: key metrics of the franchise

	Revenue generation 2007	RW Assets growth 2005-07	Cost/ income 2007	Loan-loss average 2005-07	Combined ratio, non-life 2007	Net profit level 2007	Return on (allocated) equity 2007
Business Unit	**2.3 bn euros**	**32% cagr**	**63%**	**40 bps**	**95%**	**0.6 bn euros**	**24%**

All earnings figures are presented with the exclusion of exceptional results, and after deduction of the funding costs of the acquisitions borne by the parent company but allocated to the Business Unit

Results for 1Q 2008: 0.2 bn net profit - 29% y/y organic RWA growth - C/I 61% - LLR 38 bps - C/R 92%

Well-established positions in the following CEE-4 markets:

	Top line level 2007	RW Assets growth 2005-07	Cost/ income 2007	Loan-loss average 2005-07	Combined ratio, non-life 2007	Net profit level 2007	Return on (allocated) equity
CZ	1.1 bn	30% cagr	51%	30 bps	97%	389 m	34%
PL	0.6 bn	34% cagr	70%	0 bps	96%	145 m	23%
HU	0.5 bn	5% cagr	59%	95 bps	93%	127 m	32%
SK	0.2 bn	30% cagr	65%	95 bps	88%	28 m	14%

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Setting the scene for 2008-2009

ECONOMIC ENVIRONMENT IN CEE-4

- \+ Real GDP growth at around 5%, on average
- \+ No material threat from over-heating, macro-economic vulnerability or currency weakness (Hungary being the exception)
- \+ Potential liquidity and capital strains at some sector peers ?
- – Rising inflation (5% range)

MANAGEMENT'S TOP-5 FINANCIAL OBJECTIVES

1. To leverage local market strength to capture banking market growth to the utmost
2. To realise bancassurance cross-selling potential (insurance, asset management …)
3. To achieve financial benefits from a region-wide/ cross-border approach for sales & operations
4. To invest in the strengthening of sales networks for banking & insurance (2008-2009) and IT systems upgrade (2009-...)
5. To realise selective add-on acquisitions to strengthen local footprint

Distribution excellence

Operational excellence

High Performance culture

IMPACTS OF BUSINESS PLAN

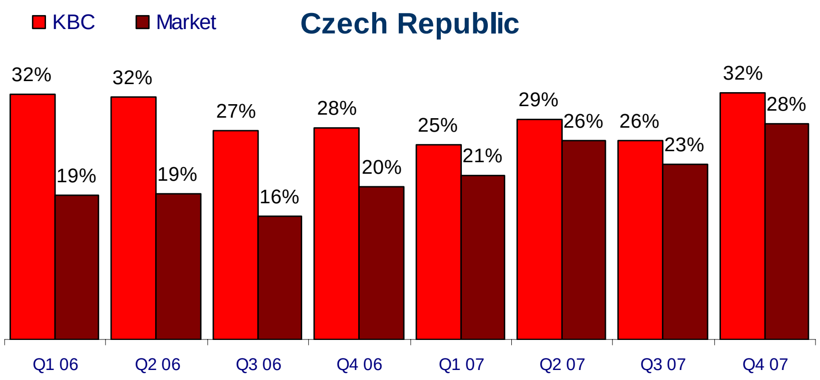
- ✓ Solid loan growth to continue ("2-2.5x nominal GDP growth")
- ✓ Non-interest income to accelerate (albeit from relatively low level)
- ✓ Opportunities to further increase market shares
- ✓ Potential pressure on deposit margins (vs. expansion of loan spreads)
- ✓ Loan losses not to surge dramatically
- ✓ "Double inflation" cost trend to be carefully monitored (inflation, branch openings and IT vs. synergy gains)
- ✓ Business plan to be extended with new acquisitions

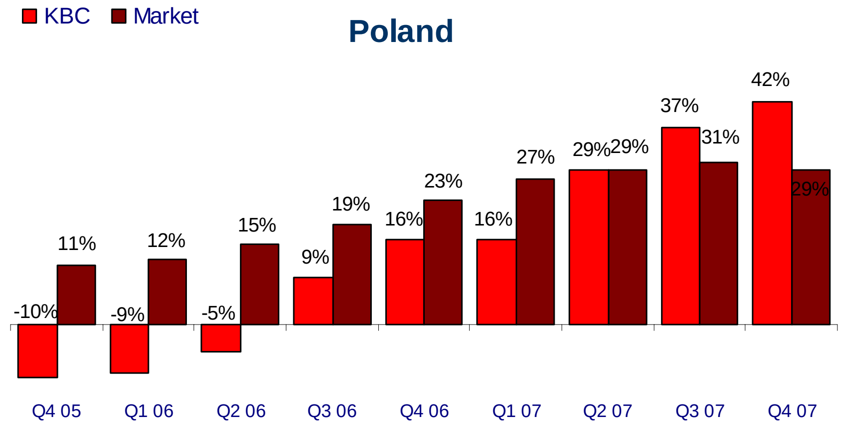
Limited impact from financial market turmoil

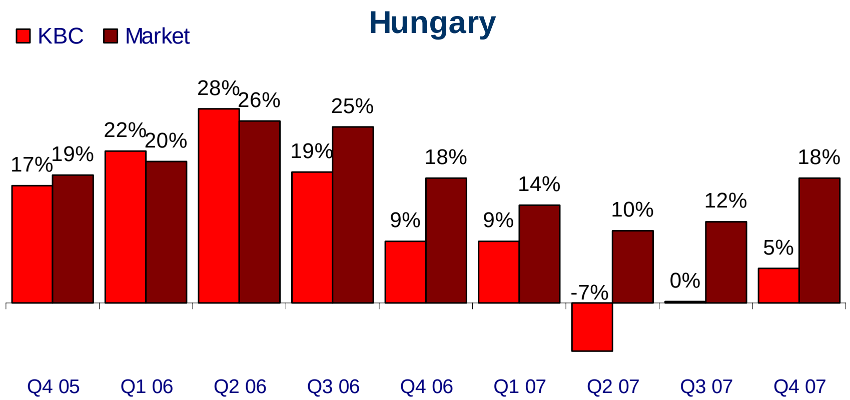
- ✓ Low dependency on capital markets-related income
- ✓ No financing difficulties; loan-to-deposit ratio < 100%:
  - ✓ Czech Republic: 67%
  - ✓ Poland: 104% (funding from excess liquidity elsewhere in the group)
  - ✓ Hungary: 97%
  - ✓ Slovakia: 83%
- ✓ However, some negative earnings impact from marking-to-market of CDO investments (re-investment of part of excess liquidity in the Czech Republic)
  - ✓ Impact: -43m in 3Q 2007 – 1Q 2008 period (after tax)

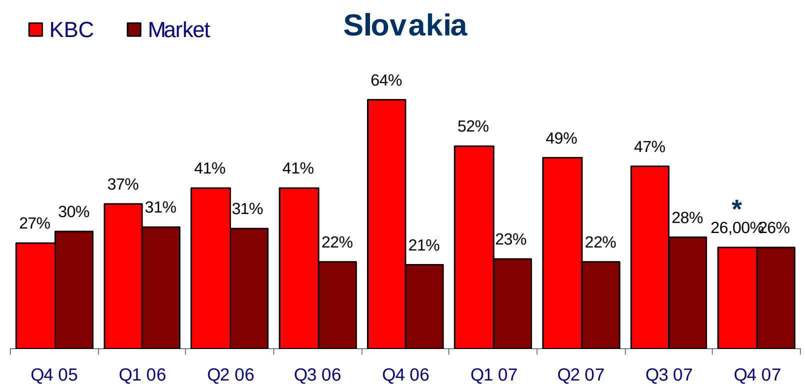
Skills to outgrow (but lower gear where needed)

Loan growth y/y, in local currency









* Change in accounting treatment in 4Q07 related to demerger from Czech activities

KBC in the Czech Republic: a continuing success story

- ✓ Originally corporate-oriented, but successfully transformed into a universal bank with leading retail market position (No. 1 in housing loans with 31% market share)
- ✓ Solid organic growth over the last 3 years with average 15-20% annual NII increase
- ✓ Sound development of fee business and bancassurance income (size of AUM and Life reserves doubled in 3 yrs time)
- ✓ Intensive cost-efficiency improvements brought down cost-income ratio to ca. 50% from 60% in 2005
- ✓ Favourable loan-loss experience over-the-cycle (17 bps on average for 2002-2007)

Total assets: 35 bn
Market share, banking: 21%
Market share, AM: 28%
Market share, insurance: 8%

KBC in Poland: back in business and outperforming

- ✓ Initial struggle to catch up with market growth, following post-acquisition "de-risking project"
- ✓ Page definitely turned since end 2006 with consistent above-market loan growth (esp. mortgages, up 87% in 2007) and NII up 19% in 2007
- ✓ Still a lot more bancassurance and AM potential to be exploited
- ✓ Zero loan-risk charges for 3 consecutive years to date (high back book provision coverage, buoyant economy)
- ✓ Program launched end-2006 to increase the number of branches (+34% to 470) with lack of external growth opportunities
- ✓ Decent financial return (23% in 2007), but highly cyclical. In the long term, enhancement of scale targeted through external growth

Total assets: 8 bn
Market share, banking: 4%
Market share, AM:4%
Market share, insurance: 6%

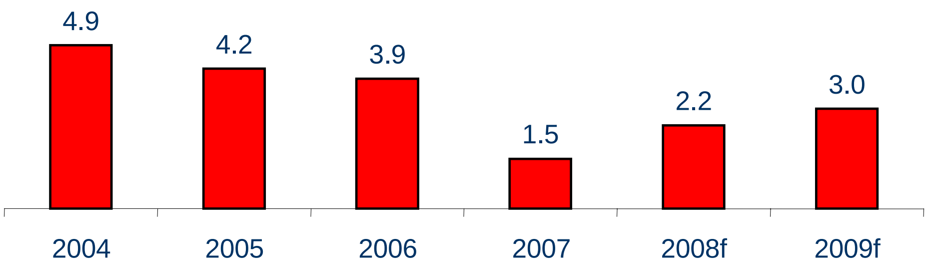
KBC in Hungary: balancing growth vs. risk

- ✓ Period of strong growth until 2005 (e.g., mortgages grew at 60% CAGR in 2002-2005)
- ✓ More cautious approach following worsening macro situation in 2006 (lower lending appetite, tightening of provisioning standards)
- ✓ FX lending as defensive move (2006); stress tests give comfort regarding underwriting criteria
- ✓ Efforts to raise non-lending income level (size of AUM and Life reserves grew 5x in 3 yrs time from low base)
- ✓ Ambitious program to double the number of branches to 315 in 2007-2009 period
- ✓ Although we prefer to remain cautious, economic cycle may have bottomed out

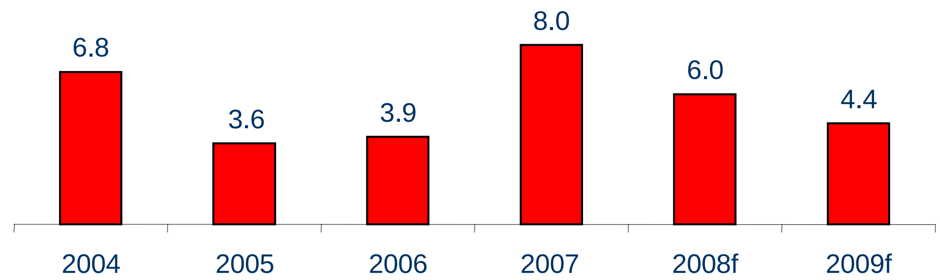
Total assets: 10 bn
Market share, banking: 10%
Market share, AM: 17%
Market share, insurance: 5%

Hungary: update on the economic situation

GDP growth (real growth, in %)

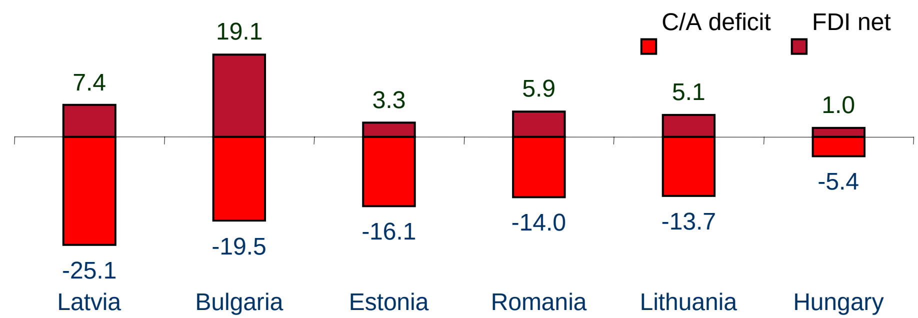


Inflation (in %, average)



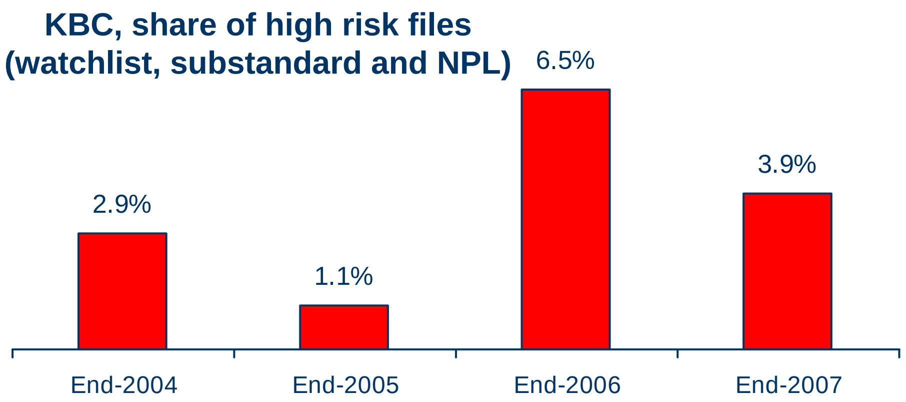
Central gov't deficit (in % of GDP)

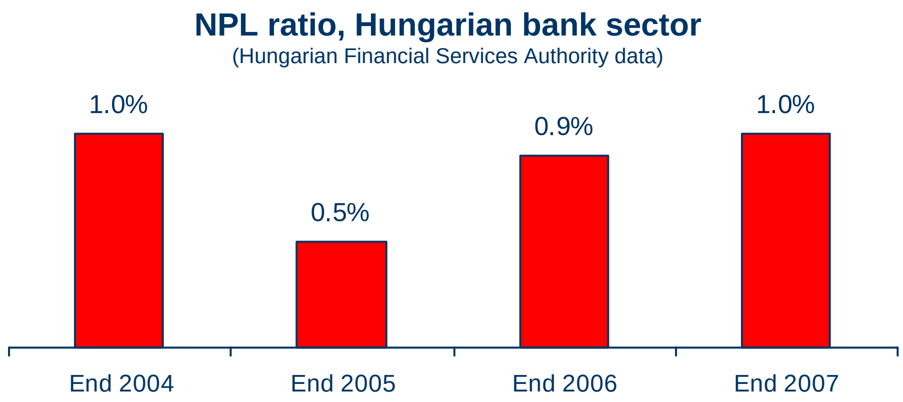
Current account financing 2007 (in % of GDP)

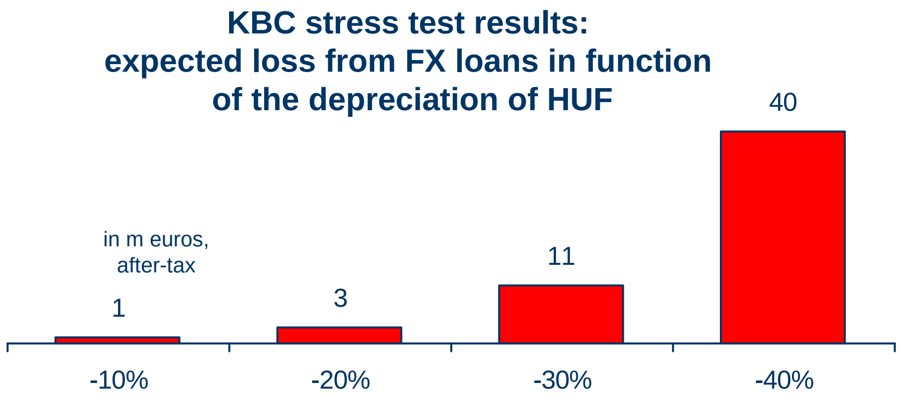


- ✓ 2007 was a difficult year; going forward, the worst may be behind us
- ✓ Situation is definitely better than in the Baltic states or in Southeast Europe

Hungary: loan risk under control







- ✓ KBC tightened its credit risk policy in 2006
- ✓ NPL ratios have been increasing but are still at “modest” levels
- ✓ Given our conservative approach for FX lending, e.g., a 30% HUF depreciation would cost <0.5% of Group net profit

KBC in Slovakia: the organic growth showcase

- ✓ Historically successful as a corporate lender, but recent growth focus on mortgages and asset management
- ✓ Strong organic growth track record: since 2003 the mortgage market share grew from nil to 7% while the mutual funds market share more than doubled to 12%
- ✓ Recent acquisition of *Istrobanka* (2008) boosts overall market share from 8% to above 10% and generates synergy potential
- ✓ Credit losses at acceptable level in light of strong lending growth rate
- ✓ Spin-off from Czech activities in 2006-2007 increased local management accountability and accelerated bancassurance

Total assets: 6 bn
Market share, banking: 10%
Market share, AM: 12%
Market share, insurance: 4%

Earnings outlook for CEE-4

In m euros	2006	2007	%	Assumptions 2008-10	Czech	Slovakia	Hungary	Poland
Customer loans (ex repo), CEE-4	20 154	25 491	26%	20-25% CAGR	Middle	Middle	Low end	High end
Customer deposits (ex repo), CEE-4	27 722	31 598	14%	10-12% CAGR	Middle	Low end	Middle	High end
Top line, CEE-4	2 132	2 340		15-20% CAGR	Middle	Middle	Low end	High end
- Net interest income	1 106	1 302	18%	"	Low end	High end	Low end	High end
- Net Fee & Commissions, banking	426	465	9%	"	Low end	Low end	Middle	High end
- Gross earned premiums, Insurance	944	980	4%	"	Low end	High end	Middle	High end
Cost/Income ratio, banking CEE-4	61%	58%		max 55% by 2010	Low end	High end	Middle	High end
Loan losses, banking CEE-4	0.58%	0.25%		0.40-0.60%, on average	Low end	High end	High end	Middle
Combined ratio, non-life CEE-4	99%	95%		95%, on average	Middle	High end	Middle	Middle
Net profit (underlying) CEE-4	540	689	28%	Ca. 20% CAGR	Low end	High end	Middle	High end
Return on allocated capital CEE-4	25%	29%		30% target	High end	Low end	Middle	Low end

Main downside risks to the business plan

- Main risk area:
  - Unexpected downturn of economic cycle across the region (adverse impact on volume growth and level of credit risk)
- At secondary level:
  - More accelerated “fight for deposits”, e.g., in Poland (strong growth in household loans) or Hungary (slow growth in household savings)
  - More severe than anticipated impact from “run for talent” on wage drift
  - Longer than anticipated “red figures” for newly opened branches in Poland and Hungary
  - Unexpected loss of management focus in Slovakia due to integration of *Istrobanka* or difficulties to achieve euro compliance of business systems

Outlook for newly tapped markets

RUSSIA

- ✓ Acquisition of fast-growing mortgage & SME lender in 2007 (0.7 bn invested)
- ✓ Short-term focus on managing loan growth and expanding geographical reach (new product lines to be added gradually)
- ✓ Earnings contribution expected to be close to 100 million by 2010*

SOUTHEAST EUROPE

- ✓ Acquisition of bank and insurance company in **Bulgaria** and small banking platform in **Serbia in** 2007 (0.7 bn invested)
- ✓ Ultimate ambition to build strong market positions, using distinctive bancassurance/AM business model. Add-on acquisitions may follow
- ✓ Short-term focus on integration and building business models. Moreover, as macro conditions may become cyclically more difficult (esp. in Bulgaria), material profit contribution only post-2010 onwards (10% return on invested targeted by 2012 at the latest)

* A separate presentation on our presence in Russia is available

Business plan deliverables, overview

- ✓ The business plan deliverables in a nutshell:
  - ✓ 20% net profit CAGR until 2010 in CEE-4
  - ✓ Close to 100m net profit in Russia by 2010
  - ✓ ‘Start-up’ costs and moderate profit contribution from Southeast-Europe in a first phase
  - ✓ Apart from an unexpected major deterioration of the macro environment, manageable downside risk to business plan

- ✓ If we deliver on this outlook:

The BU’s profit will have almost doubled from 0.6 bn to 1.1 bn by 2010 (x 1.9)*

* Budget plan to be slightly adjusted after completion of the planned disposal of the minority stake in Slovenia (NLB)

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