KBC Group

"Managing financial services in a changing world"

Goldman Sachs Conference, June 2009

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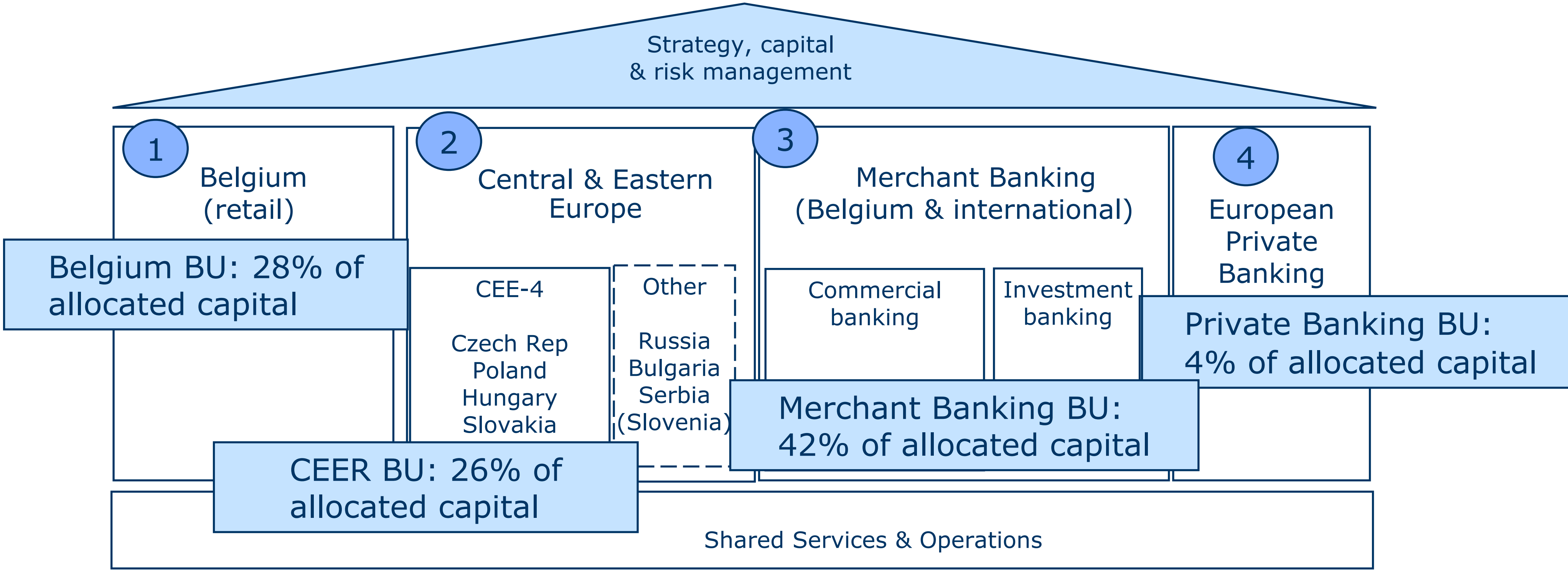
Reminder: business profile

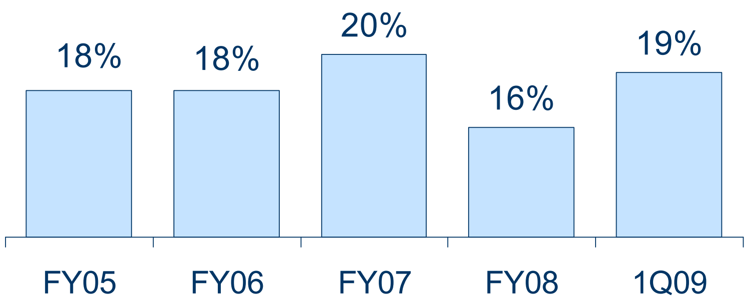


Allocation of capital as of 31-Dec-08

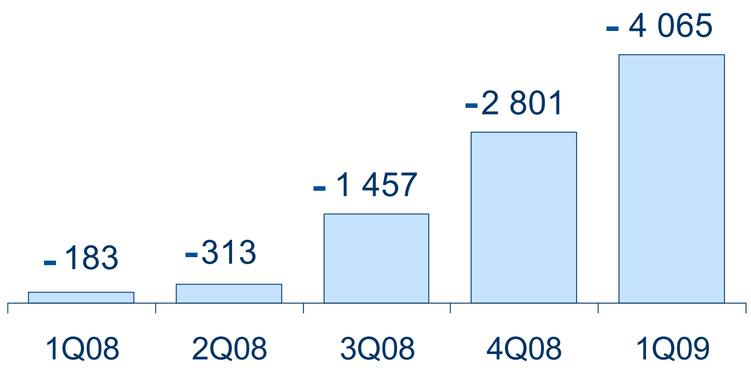
- Top player in Belgium and CEE-4; 75-80% of revenue is generated in markets with leading market share
- Niche strategies in merchant banking activities and private banking outside home markets (mainly European focus)

Reminder: crisis impact on performance

Underlying return on equity
(ex. non operating items and asset markdowns)



Non operating items incl. asset markdowns (in m. EUR)



- So far, underlying performance remained satisfactory, including ‘reasonable’ levels of loan losses
- On the other hand, significant ‘damage’ from asset markdowns due to financial market crisis

The myth of a ‘decoupled’ world

When the financial crisis came to public notice, KBC was <u>well-positioned</u> to withstand its fallout:

- With loan-to-deposit ratio at 89% rather independent of wholesale funding
- Low exposure to US subprime RMBS:
  - 9.5bn CDO book includes 84% exposure to corporate underlying
  - Super senior tranches adequately covered by ‘AAA’ insurance company
  - Synthetic CDO structure allowed ‘continued quality enhancement’ through swapping of reference names
- CEE economies kept up well in 2008
- With ongoing share buy-back and tier-1 ratio close to 9% (end-2007), assumed to be over-capitalised

The myth of a 'decoupled' world (2)

But KBC's position was not 'decoupled' and financial performance suffered nevertheless:

- Margin compression (mainly in Belgium) due to deposit price competition in core markets driven by 'war for liquidity' by major peers
- Markdown of CDO portfolio due to rating downgrades and falling corporate credit market prices driven by fears for 'real economy' meltdown
  - Moreover, synthetic credit structures excluded from 'IAS39 carve out'
- Although CEE economic performance remained strong until end 2008, loan losses started to rise (169bp in 1Q 2009)

Navigating through the storm

Decisive measures were taken to contain risk, safeguard solvency and reduce OPEX:

1. Substantial containment of structured credit risk

bn euros	Nominal	MTM loss booked	Effective cash loss[1]	Protected by
Super senior CDO CDO notes CDO equity	5.5 3.2 0.8	-5.3	-2.0	90% state guarantee Fully written down[*] Fully written down
ABS	6.1	-1.7	-0.2	Accounting reclassification
MBIA hedge	14.4	-3.1	-0.0	90% state guarantee

- Remark 1: state guarantee (achieved May 2009) includes 10% risk sharing part (worst case, assuming no underlying value: -1.5bn loss)
- Remark 2: state guarantee protects against further downside, but leaves writedown reversal potential intact

(*) All equity/notes on FP CDO were written down, not including 0.8bn third party CDOs (1) Based on expected near term losses

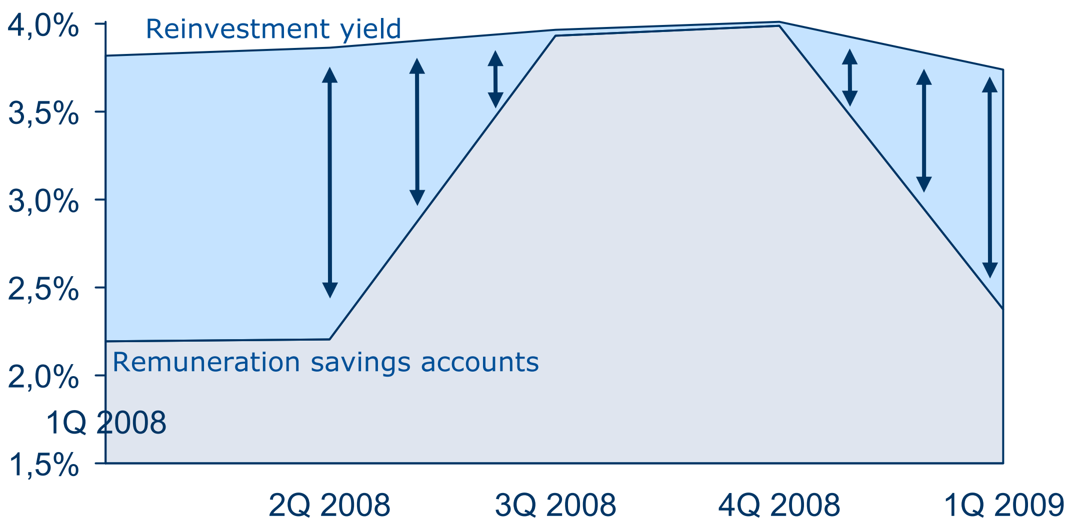
Navigating through the storm (2)

(cont'd):

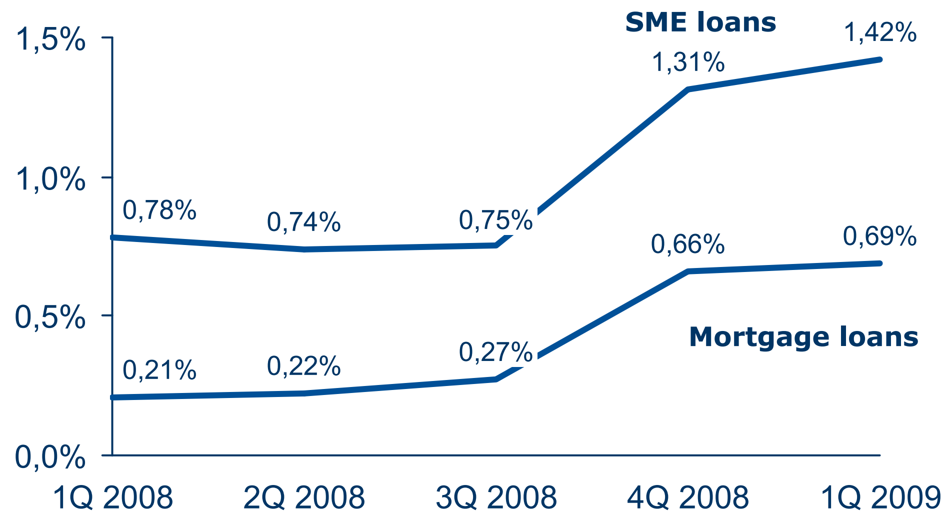
2. Hybrid capital securities issued to State:
   - Pro forma Tier-1 ratio currently at 11%, of which 8.3 % core – in order to absorb impact of 'real economy' downturn
3. Group-wide cost reduction program:
   - 2008 cost level was flat year-on-year (like-for-like), with lower staff costs offsetting additional non-staff expenses (incl. restructuring charges)
   - FTE reduction: >5% headcount earmarked for 2009-2010
   - 2009 cost level expected to be down year-on-year (cost/income ratio back to pre-crisis levels)

Navigating through the storm (3)

Product spreads in Belgium (KBC)



Spread quarterly average yield on re-investment vs. remuneration on savings accounts



Margin on new production mortgage loans (lower line) and on SME loans (upper line)

- KBC took the lead in bringing deposit remuneration down in Belgium: deposit margins recovered significantly, war for deposits ended, sustainable earnings support expected from that side going forward
- Improved pricing climate also allowing adequate pricing of credit risk

Navigating through the storm (4)

Loan losses (KBC)

	Size book	1Q 09 LLR	2008 LLR	Average '99 –'08	Peak '99 –'08	Delta '08 to peak: pre-tax impact on Tier 1
Belgium (retail)	56 bn	0.13%	0.09%	0.16%	0.31%	± 10bps
CEE	41 bn	1.69%	0.73%	0.92%	2.75%	± 60bps
Merchant Bank(1) (incl. reclassified securities)	75 bn	0.59%	0.48%	0.39%	0.90%	± 25bps
Total		0.70%	0.46%			± 100bps

LLR: loan loss ratio, amount of losses incurred on troubled loans as a % of total average outstanding loan portfolio (annualised)

(1) Moderate cost of risk in Irish portfolio: 15 bps in 2008 and 35 bps in 1Q2009

- At 70 bps, loan losses remain 'acceptable'
- If loan losses were to rise across business units from 2008 levels to historical peak levels, the combined tier 1 capital impact would be around 100bps (apart from positive impact of pre-provision results)

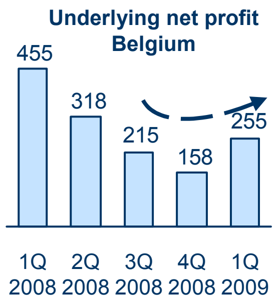
Navigating through the storm (5)

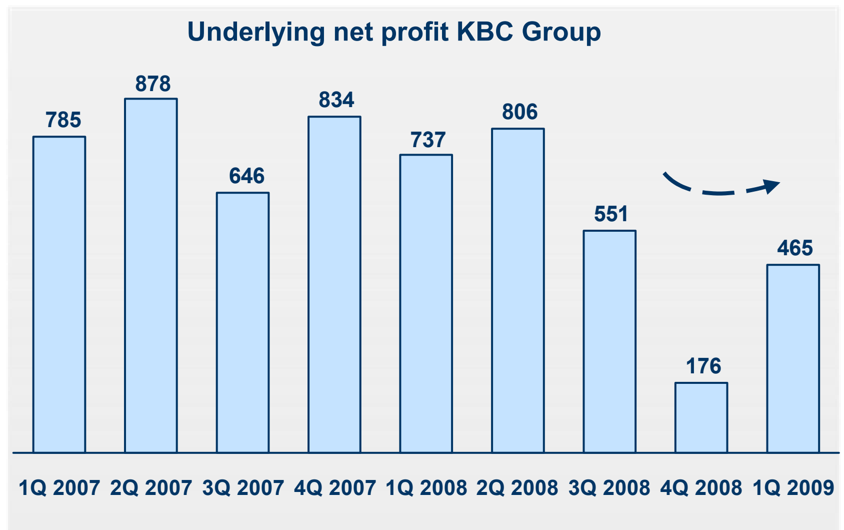
Credit quality in CEE

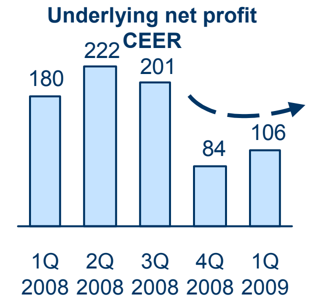
Country	Loan book	Current NPL	NPL peak KBC	NPL peak banking system
Czech Rep	20 bn	2%	3% (2000)	18% (2000)
Poland	7 bn	4%	29% (2003)	24% (2003)
Hungary	7 bn	2%	4% (2000)	23% (1999)
Slovakia	4 bn	2%	4% (2008)	35% (2000)
Russia	3 bn	2%	N/A	40% (1999)
CEE, total	**41 bn**	**2%**	**7%** (2003)	

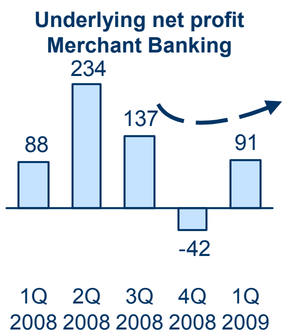
- We expect KBC's 2009-2010 CEE loan losses to be at 200-230 bps (implying NPL to increase to 5% in 2009 and 8% in 2010, on average)
- Higher risk zones in CEE include Hungary and Russia
  - Underwriting criteria further tightened back in 2008: stop growth for corporate loans, unsecured consumer finance, FX mortgage loans, car leasing,…

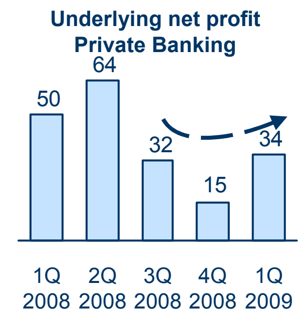
Navigating through the storm (6)











- After the weak 4Q 2008, 1Q 2009 has shown a positive turn in underlying performance across all business units (which continued so far in 2Q 2009)

Preparing for the future

Refocus business portfolio on core activities in core markets:

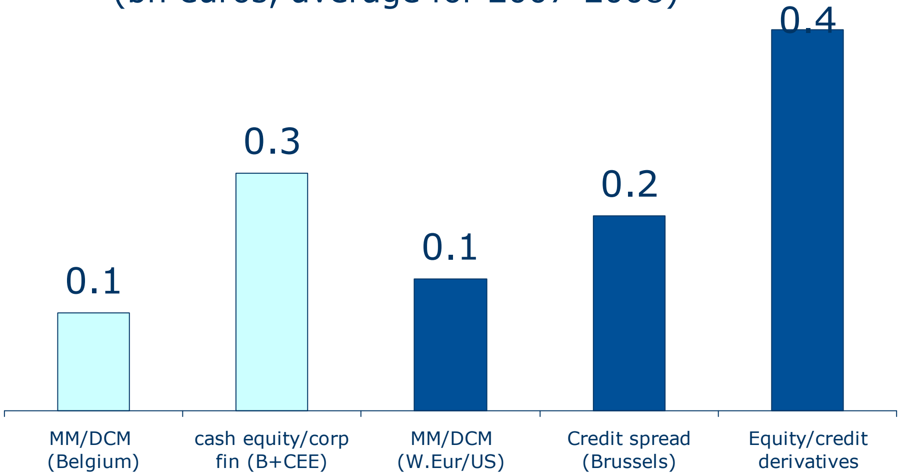
- For sure, the future will be more regulated and less leveraged
- Downsizing of non core activities is vital, so far 25% of RWA (35 bn) earmarked for being unwound/divested
  - Positive impact on tier 1 ratio up to some 250bps (rough estimate)
  - Activities generated some 0.5bn net profit, on average in 2007/2008 (preliminary indication)
  - Ongoing restructuring may be modified according to EU guidance (approval for State initiative pending)

Preparing for the future (2)

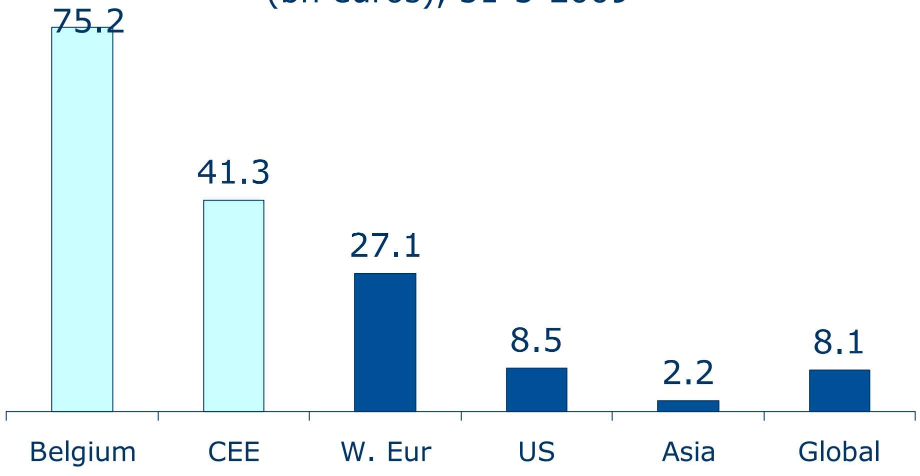
Action Plan (being prepared):

- Downsizing of corporate banking presence outside home markets (corporate lending, annex local dealing rooms)
- Further cut in investment banking; derivatives business and structured credit largely put on run-off (headcount: -35% in 2008, another -35%, 500 FTE, in 2009)
- Strategic review of other 'non core' activities

KBC, business overview of underlying IB income
(bn euros, average for 2007-2008)



KBC, geographical overview of credit risk
(bn euros), 31-3-2009



Preparing for the future (3)

Safeguarding strong value of existing core franchise:

- Core retail markets largely untouched (‘sustainable earnings power’ intact)
- Opportunity to more adequately price credit risk and liquidity cost
- However, customer scepticism resulting from weak investment yields
- ‘Putting the customer first’ will be on the forefront in the years ahead (service levels & confidence enhancement)

Preparing for the future (4)

Major downside risk going forward:

- Loan losses within "normal" credit portfolio (including CEE, Russia, Ireland,…), but also on ABS (largely reclassified to loan portfolio at year-end 2008)
- Unwinding/divesting process of discontinued activities (esp. derivatives business at *KBC Financial Products* entity*)*
- Trend throughout the sector of adverse customer sentiment resulting from weak investment yields
- 10% risk sharing part in State Guarantee transaction covering SS CDO portfolio and monoline counterparty risk (worst case: 1.5 bn euros, assuming no underlying value)

Questions ?

Annex: Analysts' opinions

Bank / Broker	Analyst	Contact details analyst	Update	Rating
Amsterdams Effecten Kantoor	Carlo Ponfoort	c.ponfoort@aek.eu	12-Nov-08	+
Citi Investment Research	Kiri Vijayarajah	kiri.vijayarajah@citigroup.com	14-May-09	=
Credit Suisse Securities	Guillaume Tiberghien	guillaume.tiberghien@credit-suisse.com	15-May-09	+
Degroof Banque	Ivan Lathouders	ivan.lathouders@degroof.be	18-May-09	=
Deutsche Bank	Brice Vandamme	brice.vandamme@db.com	13-May-09	-
Exane BNP Paribas	François Boissin	francois.boissin@exanebnpparibas.com	19-May-09	+
Fortis Bank	Kurt De Baenst	kurt.debaenst@fortis.com	20-May-09	-
Fox-Pitt Kelton	Geoffrey Elliott	geoffrey.elliot@fpk.com	19-Mar-09	=
HSBC	Marcel Mballa-Ekobena	marcel.mballa-ekobena@hsbcib.com	06-Mar-09	=
ING	Albert Ploegh	albert.ploegh@ing.com	19-May-09	=
JP Morgan Securities	Paul Formanko	paul.formanko@jpmorgan.com	08-Dec-08	-
Keefe, Bruyette & Woods	Jean-Pierre Lambert	jplambert@kbw.com	03-May-09	+
Kepler	Benoit Petrarque	benoit.petrarque@keplercm.com	15-Mar-09	-
Natixis Securities	Christophe Ricetti	christophe.ricetti@sec.natixis.com	15-May-09	-
Oddo Securities	Scander Bentchikou	sbentchikou@oddo.fr	14-May-09	-
Oppenheim Research	Thomas Stögner	thomas.stoegner@oppenheim.de	24-Apr-09	=
Rabo Securities	Cor Kluis	cor.kluis@rabobank.com	15-May-09	=
Royal Bank of Scotland	Aurelia Faure	afaure@uk.abnamro.com	06-Apr-09	=
S&P	Marco Troiano	marco_troiano@standardandpoors.com	14-May-09	=
Societe Generale	Sabrina Blanc	sabrina.blanc@sgcib.com	12-May-09	=
UBS	Omar Fall	omar.fall@ubs.com	26-Mar-09	=