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Designing the New Future for the Group

J. Vanhevel, *Group CEO*

**Welcome to the
New Normal**

Business plan for the years ahead



KBC Investor Day 2009



Important information for investors

This legend was added on 11DEC09

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Speakers' *curriculum vitae*

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Business plan for the years ahead

- 1971 Legal and Litigation Departments, Kredietbank, Brussels
- 1981 Several functions in regional credit departments and the corporate banking network, Kredietbank
- 1990 Regional Manager, Antwerp Corporate banking Office, Kredietbank
- 1994 Senior General Manager, Processing & Automation Directorate, Kredietbank
- 1996 Managing Director, Member of the Executive Committee of Kredietbank
- 1998 Managing Director, Member of the Executive Committee of KBC Group
- 2006 CEO of the Central and Eastern Europe and Russia Business Unit, KBC Group
- 2009 CEO of KBC Group



Today's messages

**Welcome to the
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Business plan for the years ahead

- Reviewed strategy combines continuity, growth potential and reduced risk profile
- KBC remains committed to bancassurance in Belgium and in 5 core markets of Central and Eastern Europe
- Exposure to merchant banking and European private banking will be largely reduced, resulting in 25% RWA reduction
- The IPO of the Czech CSOB brand is an approach to unlock capital in a value enhancing way
- Implementation starts now

Call for a strategy review

- **Turbulent times behind us**
 - Markdowns on the structured credit portfolio had a substantial impact on KBC's capital position
 - 7bn core capital securities subscribed by the Belgian and the Flemish governments and a guarantee from the Belgian State on CDO exposure have brought capital ratios back to solid levels and provide downside solvency protection
- **Challenges in front of us**
 - Move towards an adjusted risk/return profile
 - Deliver sustainable profit and growth
 - Optimise quality of capital structure and reimburse State capital within reasonable timeframe



Strategy review

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Business plan for the years ahead

Our strategy leads to a “new KBC” that, while building on the existing bancassurance model and growth options in CEE, will be a more focussed regional European player with a reduced risk profile

This will allow us to fund sustainable organic growth, reimburse the State capital within a reasonable time and deliver an attractive return

We are convinced that the main value drivers of KBC's distinctive bancassurance model remain intact

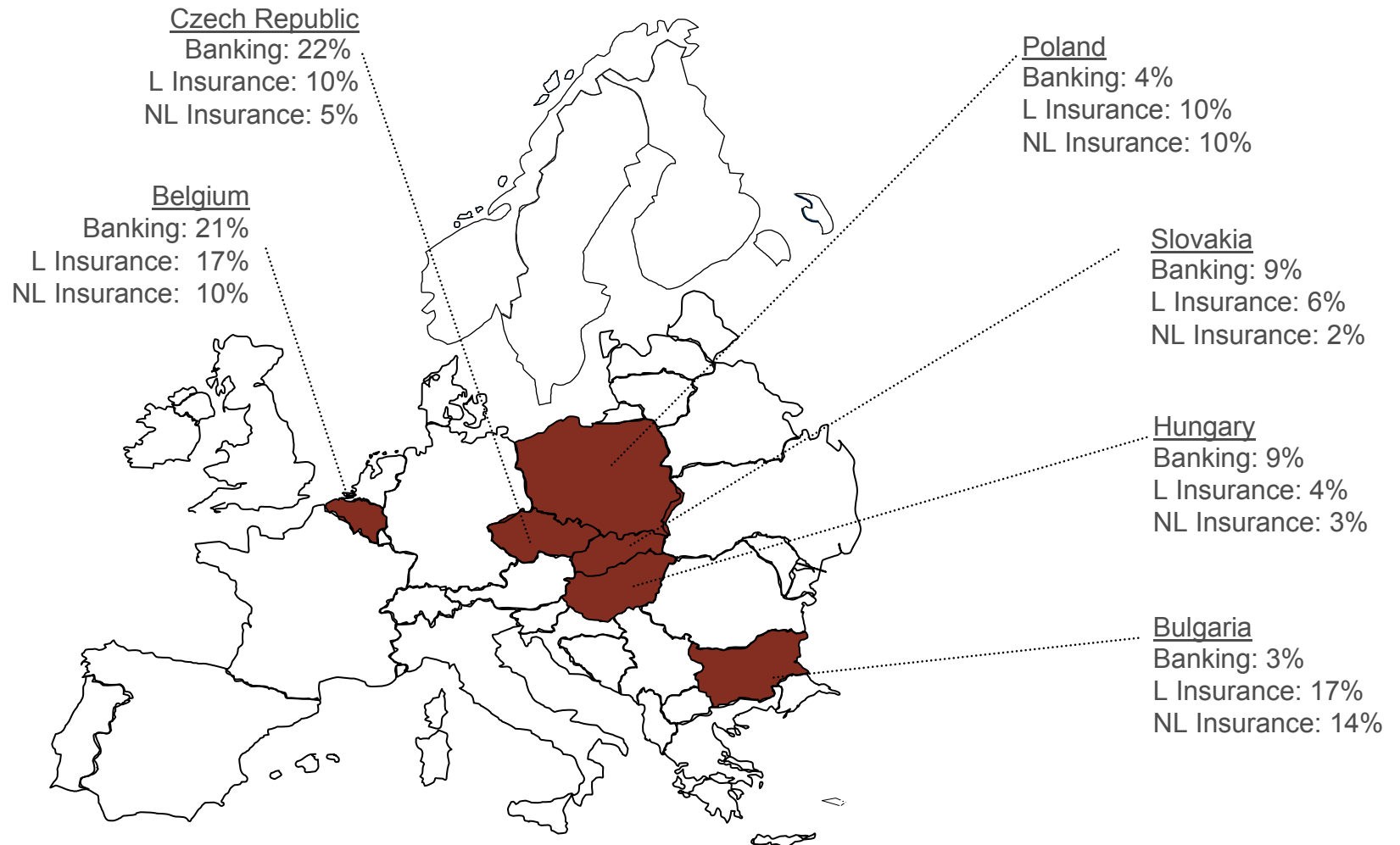
	Pre-crisis	Post-crisis
<ul style="list-style-type: none"> • Cross-selling <ul style="list-style-type: none"> • Own and highly integrated sales channels • Integrated marketing and customer management systems 	✓	✓
<ul style="list-style-type: none"> • Operational efficiency <ul style="list-style-type: none"> • One management structure for banking and insurance • Highly integrated 'product factories' and IT systems 	✓	✓
<ul style="list-style-type: none"> • ALM synergies <ul style="list-style-type: none"> • Balance sheet structure of banking (long term assets and short term liabilities) and insurance activities (short term asserts and long term liabilities) complement each other 	✓	✓
<ul style="list-style-type: none"> • Capital synergies <ul style="list-style-type: none"> • Bancassurance 'double leverage' capacity less effective post-crisis, but KBC made limited use of it in the past 	✓	✗

Future business focus

The New KBC will provide

- **Bancassurance services**
 - Full range of banking, asset management, life insurance and non-life insurance products and services
 - Based on a refined business model that will adapt operations to local markets
- **To private / retail and SME / midcap clients**
- **In Belgium and Central and Eastern Europe**
 - Ambition to be a 'European regional player'
 - Core markets in CEE: Czech Republic, Slovak Republic, Hungary, Poland and Bulgaria
 - Existing bancassurance platforms
 - Adequate growth prospects
 - Alignment with new risk profile (all core markets are within EU)
 - Other CEE countries will be divested (market conditions allowing)

Future geographic focus





Current business portfolio Strategic fit with reviewed strategy

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Some areas of the current business portfolio fit better with the reviewed strategy than other

		Market position	Fit with bancassurance	Geographic fit	Risk-return profile	Strategic fit
BE	Bancassurance KBC Belgium	●	●	●	●	✓
	Banking and insurance via complementary channels in Belgium	◐	◐	●	◐	✓
CEE	Bancassurance in CEE-5	◐	●	●	●	✓
	Banking in Russia and Serbia	◐	◐	◐	◐	✗
MEB	Investment banking services for home market customers	●	◐	●	◐	✓
	Banking in Ireland	◐	◐	○	●	✗
	Corporate banking for home market business customers	●	●	◐	◐	✓
	International corporate banking for international customers	◐	○	○	◐	✗
	Structured derivatives, other IB	◐	○	○	◐	✗
	Private banking outside home markets	◐	◐	○	●	✗

Strategic actions to get us there

- Activities with low strategic fit will be divested or run down (capital to be re-allocated for catching growth potential of core businesses while also reimbursing State capital)
- In order to limit execution risk, KBC has opted for a ‘no-nonsense’ approach, i.e. sale of activities that notwithstanding difficult market conditions can be monetised at ‘fair valuation’ (avoiding distressed prices):
 - Divestment of complementary distribution channel in Belgium and listing of minority stake of Czech subsidiary CSOB (notwithstanding strategic fit)
 - On the other hand, due to difficult local economic environment, no strategic decision for Irish banking operation



Strategic actions to get us there

		Keep and refine	Divest	Reduce	Keep and review
BE	Bancassurance KBC Belgium	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Banking and insurance via complementary channels in Belgium	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CEE	Bancassurance in CEE-5	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Banking in Russia and Serbia	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MEB	Investment banking services for home market customers	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Banking in Ireland	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Corporate banking for home market customers	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	International corporate banking for international customers	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EPB	Structured derivatives, other IB	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Private banking outside home markets	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

These actions will be complemented by some other financial operations that will help building/freeing up additional capital



Strategic actions to get us there

Divestment of complementary channels

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Complementary channels in Belgium

Broker-based insurance activity



2008

Total assets	2.4bn
RWA	1.5bn
Market share	1-2%
Brokers	ca 5000
Premium written	0.4 bn
Share of KBC profit	2%
(underlying, average since 2005)	

Network of exclusive, self-employed banking agents



2008

Total assets	8.9bn
RWA	3.8bn
Market share	1%
Agents	ca 700
Revenue	0.2 bn
Share of KBC profit	2%
(underlying, average since 2005)	

In Poland, Zagiel (consumer finance through independent resellers) will also be divested



Strategic actions to get us there

Divestment of KBL European Private Bankers

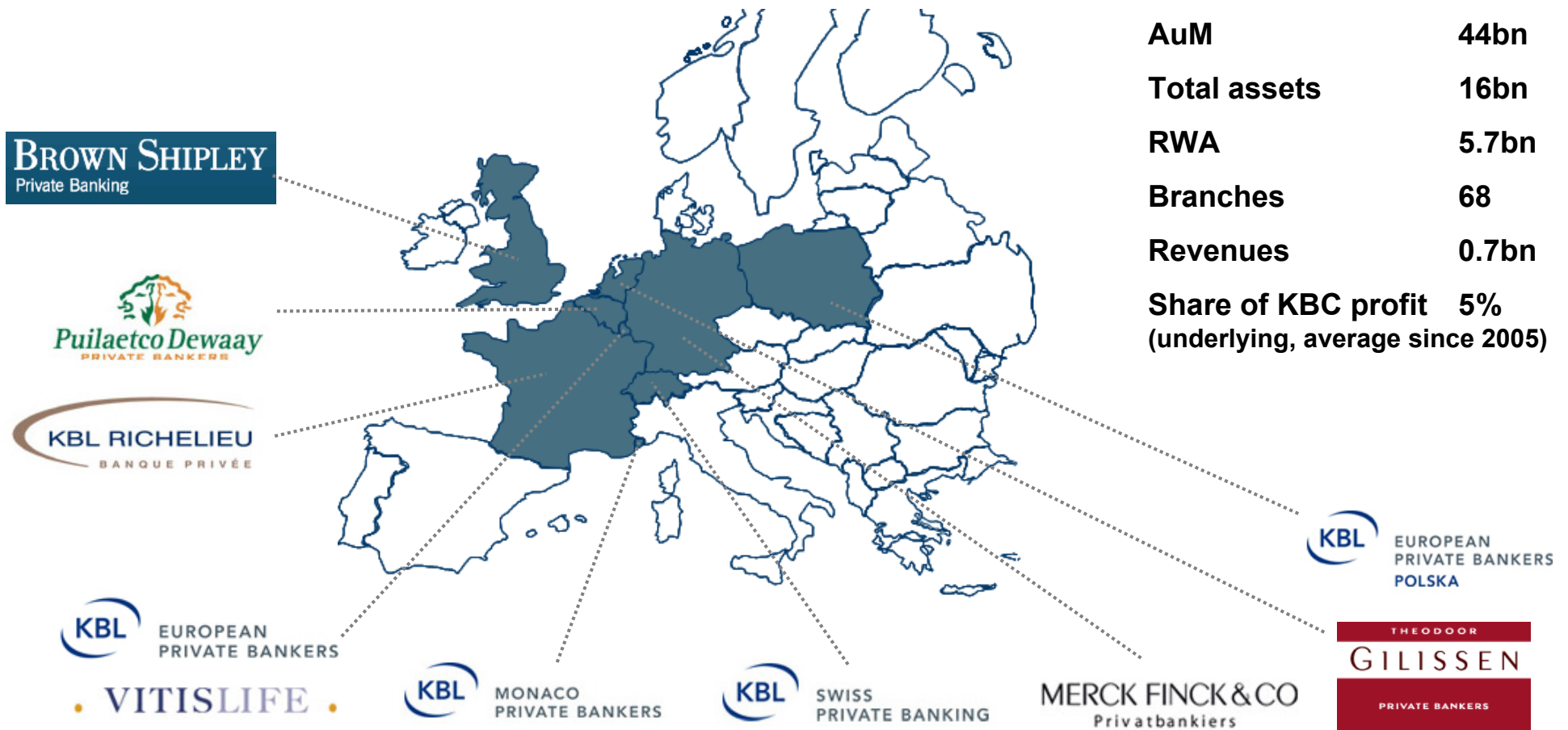
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Pure play private banking with network of local brands

2008

AuM	44bn
Total assets	16bn
RWA	5.7bn
Branches	68
Revenues	0.7bn
Share of KBC profit	5% (underlying, average since 2005)



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*KBC branded private banking in Belgium maintained



Strategic actions to get us there

Divestments in CEE

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Banking network in Serbia



2008

Total assets	0.2bn
RWA	0.1bn
Market share	<1%
Branches	93
Revenue	0.02bn
Part of KBC profit (underlying, average since 2007)	-0.3%

Banking network in Russia



2008

Total assets	4.2bn
RWA	3.5bn
Market share	<1%
Branches	74
Revenue	0.2bn
Part of KBC profit (underlying, average since 2007)	-2%

Also KBC's non-core 31% stake in NLB Bank of Slovenia remains up for sale



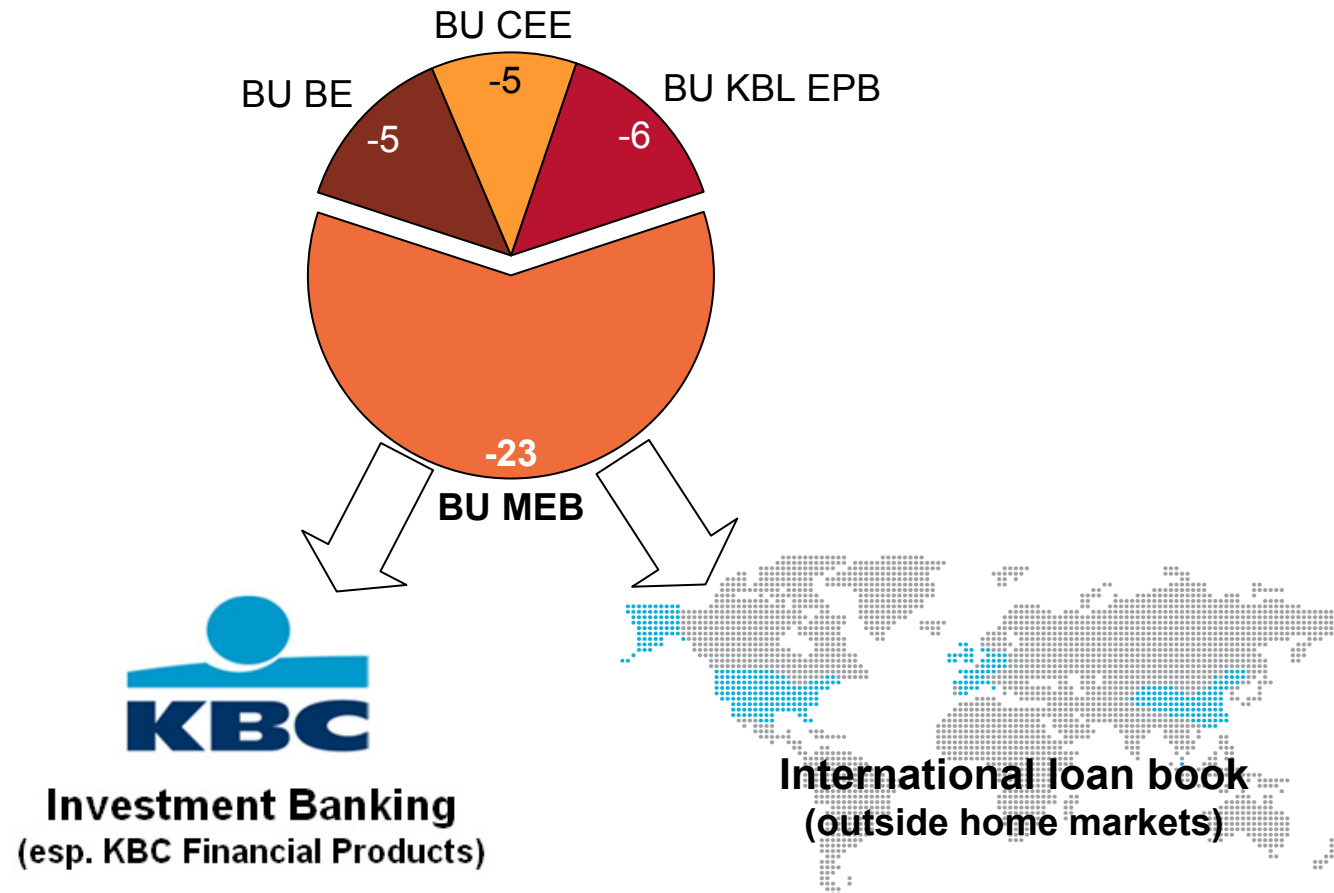
Strategic actions to get us there

RWA reduction

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39bn group wide RWA reduction (-25%), mainly in Merchant Banking



39 bn RWA (25% of group total); all data based on position as of Dec-08, incl. RWA decrease due to divestments



Strategic actions to get us there Partial IPO CSOB*

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- IPO of Czech subsidiary CSOB on Prague Stock Exchange in 2010 (sale of minority stake only, e.g., 40%)
- Strong financial performance track record and leading market position in one of the best markets currently in the region
- Listing will support local market connectedness (home market strategy)
- Option to offer to buy back minority stake later
- A similar transaction can be set up in the future for selected other CEE subsidiaries



Clients	3 million
Staff	8 200
Market share	20%-35%
Branches	326
Ranking in CZ	Top-3
Net profit (5 yrs avg)	360 million
Contribution to group profit (5 yrs avg)	300 million



Strategic actions to get us there

Financial optimisation measures

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The capital will be boosted further by additional financial optimisation measures:

- Optimisation of risk-weighted asset recognition and advanced modelling
- Value gains to be realised on sale and lease back of real estate property
- Sale of stock of treasury shares (5% of share count)

Strategic actions to get us there

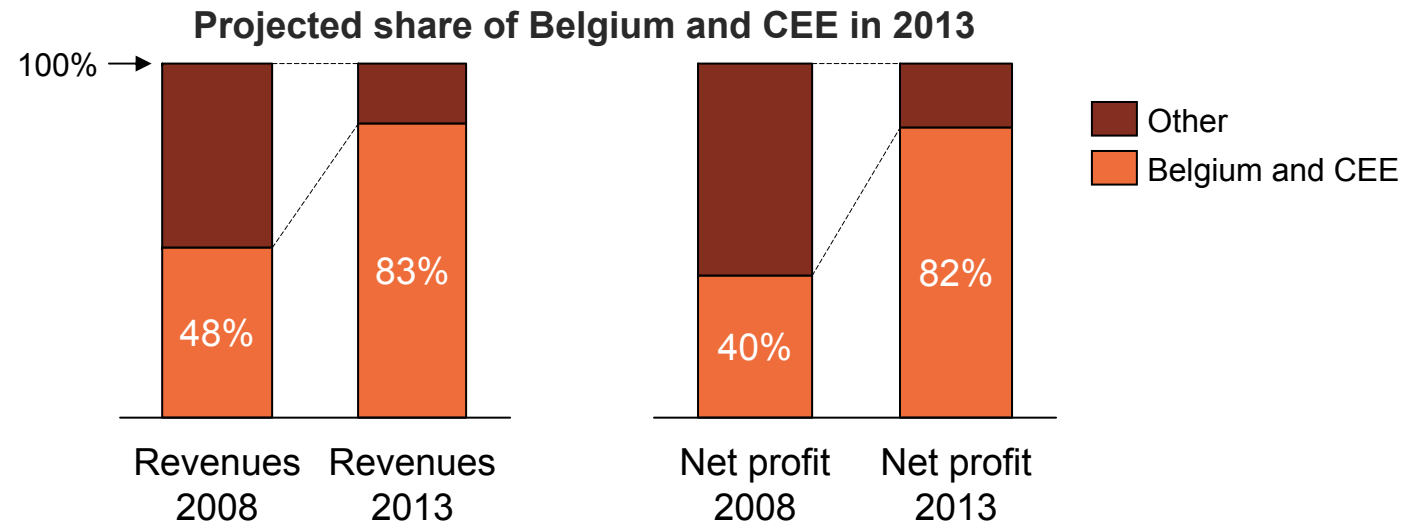
Major flexibility

- Flexibility is in place to absorb the effects of a prolonged recessionary environment causing more sluggish market growth and/or debt servicing problems
- If the above measures would not be sufficient, major additional sources of ‘capital flexibility’ are available:
 - Postpone the redemption of the Government securities beyond the amount of 7bn EUR over several years post 2013
 - Review the position of our Irish activities

Going forward

Attractive risk / return profile

- Going forward, KBC's business model will be increasingly geared towards the two home markets Belgium and Central & Eastern Europe where the value of our franchises remained intact



- Reduction of RWA in Merchant Banking (where decreasing profit contribution over the last years was not reflected in reduced capital allocation) will 'mechanically' lead to higher average Group ROE



Going forward Additional commitments

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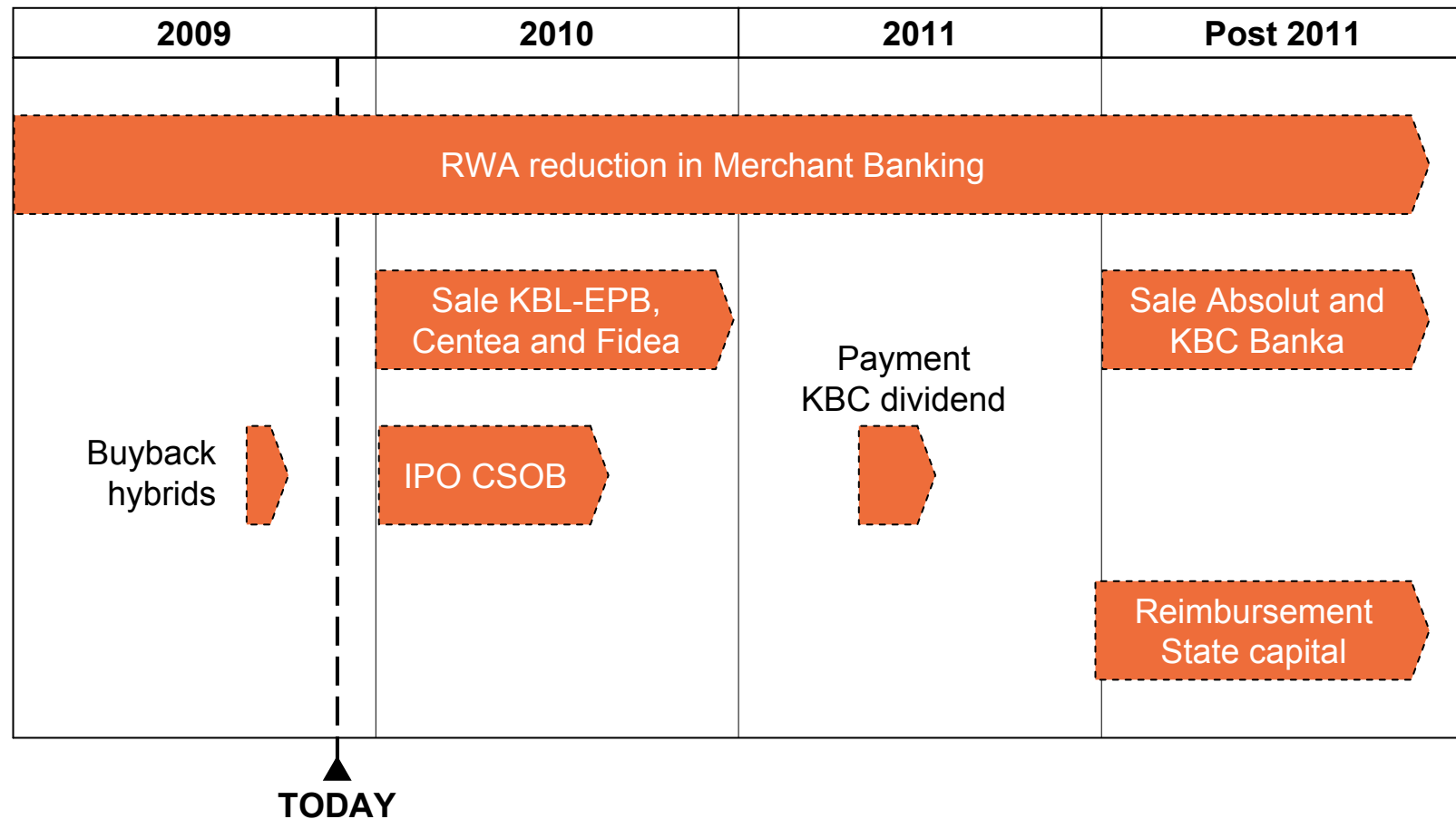
- No acquisitions for the next 3 years
- Intention to resume cash dividend payment in 2011 (based on 2010 earnings)
- Commitment to pay coupon on all hybrid instruments based on mandatory legal nature
- Tier-1 target ratio of 10%, of which ca. 8% core Tier-1
(may be reviewed if market conditions have normalised in a sustainable way)



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Strategy execution starts immediately*





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