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Resuming the convergence play in Eastern Europe

J. Hollows, CEO Central- and Eastern Europe & Russia

**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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Speaker's *curriculum vitae*

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Business plan for the years ahead

- 1978 Various functions in Barclays Bank in London and Taiwan
- 1996 Head of commercial banking Hong Kong branch, Kredietbank
- 1997 General manager of Shanghai branch, Kredietbank
- 1999 General manager of Southeast-Asia offices, KBC Bank
- 2003 CEO of K&H Bank in Hungary
- 2006 Senior general manager of the Central and Eastern Europe banking division, KBC Group
- 2009 Member of the Executive Committee of KBC Group;
CEO of the Central and Eastern Europe and Russia Business Unit

- CEER BU was evidently affected by the crisis, but weathered the storm much better than anticipated
- Post crisis, the CEE convergence story still holds. Growth in immediate future will be dampened by rising credit costs
- Strategy fundamentals remain unchanged and based on a refined bancassurance model in countries where the group has a strong foothold
- Core geographic reach to be confined to CEE-5 (Czech and Slovak Republics, Hungary, Poland and Bulgaria)
- Future profit projections show CEE growth remains attractive
- Floating of minority share in CSOB, leading to significant unlocking of capital and opportunity for local market connectedness



Passport of the CEER Business Unit

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Business plan for the years ahead

CEER Business unit	
Clients	8.5 m
Staff (fte)	26 400
Network	1 400 bank branches 12 000 insurance agencies
Ranking in CEE	Top-5
Market share (banking/insurance, est.)	CR 22%/7% SR 9%/4% HU 9%/3% PL 4%/10% BUL 3%/15% SER <1%/ RUS <1%/-
AUM	EUR 12 bln
Loans	EUR 34 bln
Deposits	EUR 41 bln
Life reserves	EUR 1.6 bln
Risk-weighted assets	EUR 37 bln (bank+insurance)
Allocated capital	EUR 2.6 bln

Date: June or September '09; excluding NLB (minority share)



+ minority stake in NLB (Slovenia)

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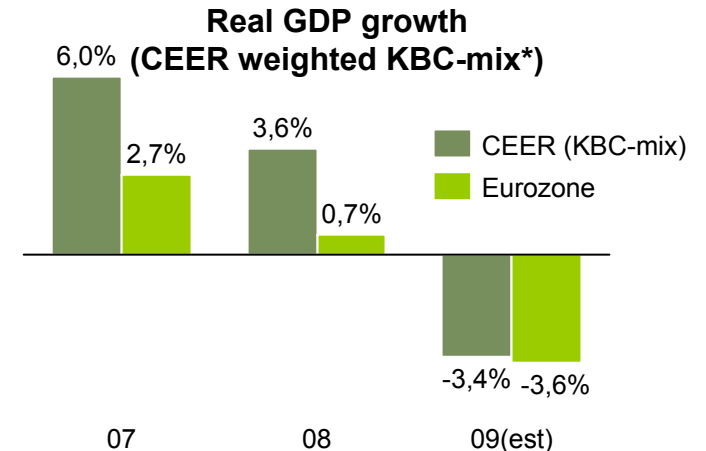


CEER Business unit weathered the storm better than anticipated (1)

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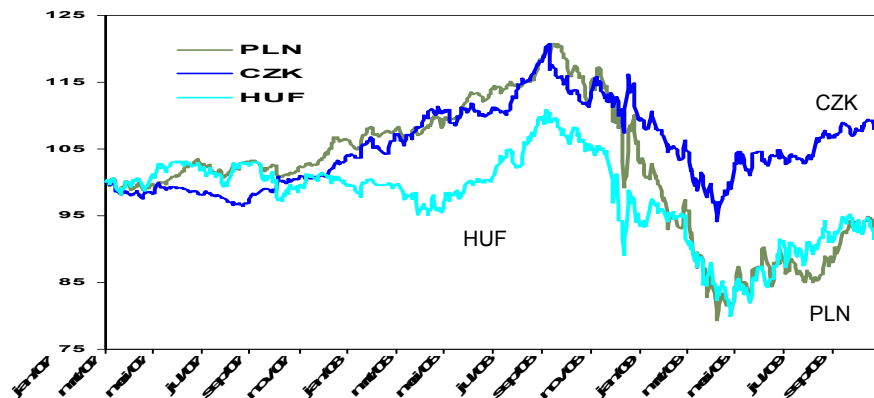
Business plan for the years ahead

- Crisis arrived later in emerging Europe, with large differences per country
- Economic situation in CEER deteriorated, but far from disaster predictions.
 - 2009-drop of GDP of CEER-countries (KBC-mix) comparable to Eurozone.
- CEE-currencies took a hit, but recovered.



* Weight of each CEER country determined on the basis of RWA as at mid 2009. Source: KBC

CEE currencies recovering (EUR per CEE-currency, Jan07=100)



Real GDP growth	2007	2008	2009 (est)
CR	+6.1%	+3.0%	-3.1%
SR	+10.4%	+6.4%	-4.0%
HU	+1.2%	+0.6%	-6.1%
PL	+6.8%	+4.9%	+1.1%
BUL	+6.2%	+6.0%	-5.0%
SER	+7.1%	+5.4%	-4.0%
RUS	+8.1%	+5.6%	-8.0%
Eurozone	+2.7%	+0.7%	-3.6%



CEER Business Unit weathered the storm better than anticipated (2)

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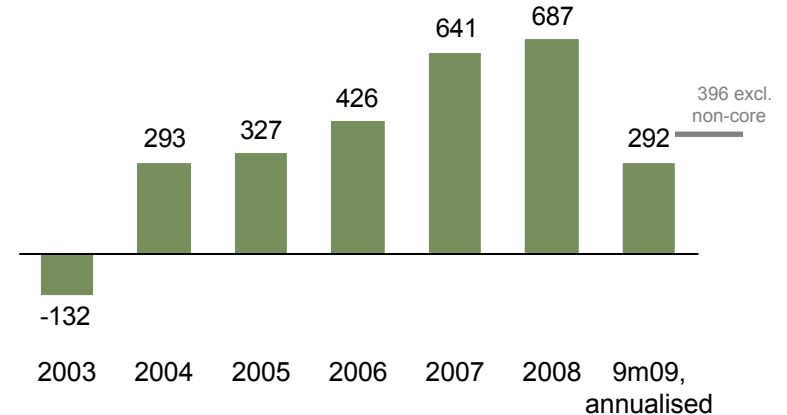
Business plan for the years ahead

- Underlying results CEER BU suffered, mainly in terms of loan losses, but remained positive

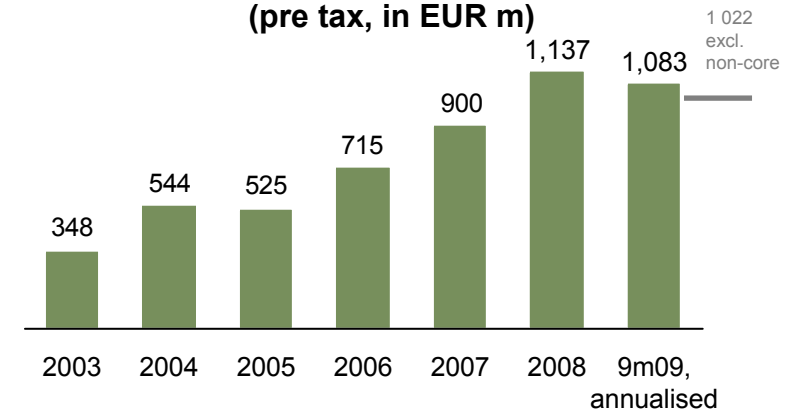
Underlying	Pre-crisis average*	Crisis average*
Total income, annualised (EUR)	2.3 bln	2.7 bln
Net profit, annualised (EUR)	0.5 bln	0.3 bln
Cost/income ratio	65%	58%
Combined ratio (non-life insurance)	97%	104%
Credit cost ratio	0.51%	1.83%

* Pre-crisis: weighted avg 2005, 2006, 2007 and 2008.
crisis: 9m2009, annualised

Underlying results CEER BU (after tax, in EUR m)



Underlying results CEER BU excluding loan provisions (pre tax, in EUR m)





CEER Business Unit weathered the storm better than anticipated (3)

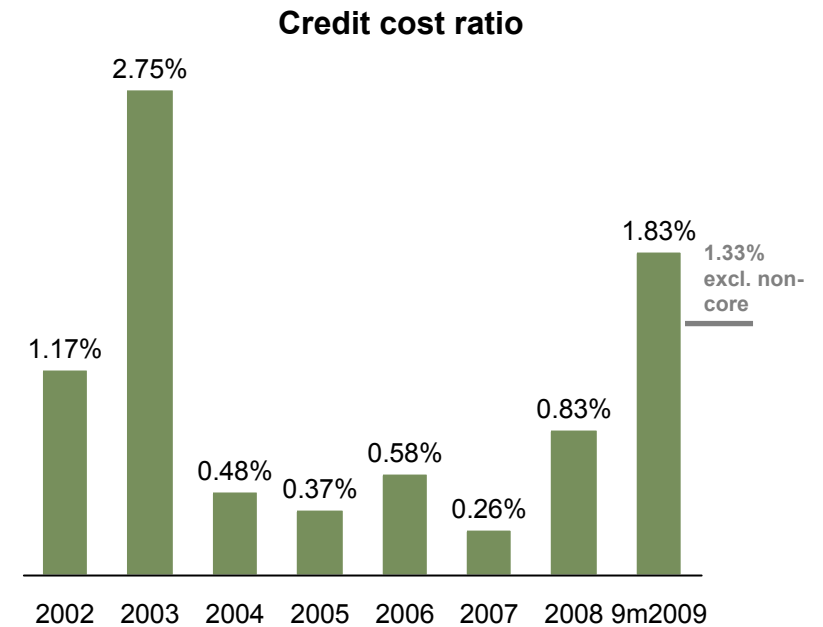
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Business plan for the years ahead

- Credit losses rose, but remain manageable and within expectations:
 - 9m2009 1.83%
 - 10y historical peak 2.75%
 - Guidance for FY2009 2.00-2.30%

- Credit costs differ strongly per country

Credit cost ratio 9m2009			
<1.50%	1.51%-2.00%	2.01%-3.00%	>3.00%
Czech Rep. (1.06%)	Hungary (1.75%)	Bulgaria (2.19%)	Russia (5.48%)
Slovakia (1.38%)	Poland (1.90%)	Serbia (2.34%)	



- Credit cost for FY2010 expected to be lower than for FY2009



CEER Business Unit weathered the storm better than anticipated (4)

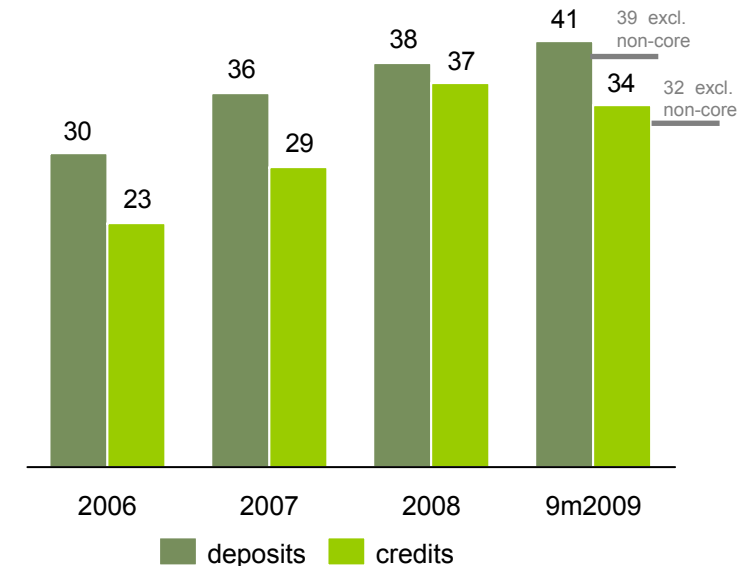
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Business plan for the years ahead

- Client deposits consistently higher than clients loans, on BU level, leading to significant excess liquidity.
- Loan-to-deposit ratio 30SEP: 86%
- Significant liquidity surpluses in every country, except for Poland and Russia.

End Sep2009	Loan-to-deposit ratio	Excess liquidity (EUR bln)
Czech Republic	68%	+7.5
Slovakia	97%	+0.1
Hungary	94%	+0.4
Poland <i>excl. Zagiel</i>	119% 106%	-1.0 -0.3
Bulgaria	99%	+0.0
SUBTOTAL CEE-5	82%	+6.9
Serbia	131%	-0.0
Russia	212%	-1.3
TOTAL CEER BU	86%	+5.6

Deposits versus credits (EUR bln)



Deposits from customers and debt certificates, excluding repos; loans and advances to customers, excluding reverse repos.



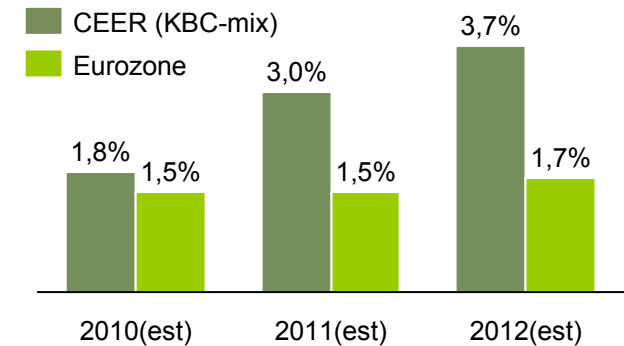
CEER after the crisis: Convergence story still holds (1)

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Business plan for the years ahead

- All CEE-players have been affected by the crisis. Branch expansion plans halted by almost all banks groups operating in the region
- However, longer term prospects for CEE remain good
 - Growth forecasts CEER outperform Eurozone
 - Convergence play still holds (see further)
 - Skilled labour force, competitiveness, continued reforms, increasing political & legal-regulatory stability

Estimated real GDP growth 2010-2012
(CEER weighted KBC-mix*)



* Weight of each CEER country determined on the basis of RWA as at mid 2009. Source: KBC

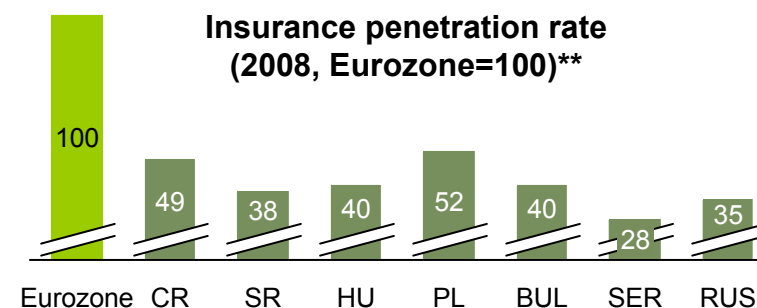
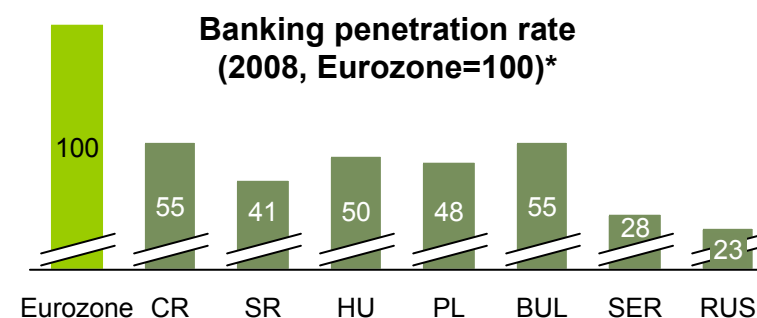
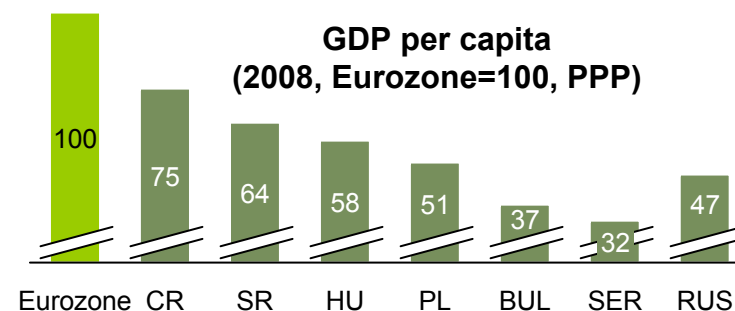
Real GDP growth	2010 (est)	2011 (est)	2012 (est)
CR	+2.6%	+3.0%	+3.5%
SR	+2.0%	+2.5%	+3.6%
HU	-0.6%	+2.8%	+3.9%
PL	+2.2%	+3.0%	+3.5%
BUL	-0.5%	+3.2%	+4.5%
SER	+0.5%	+4.0%	+4.5%
RUS	+2.5%	+4.1%	+4.5%
Eurozone	+1.5%	+1.5%	+1.7%

CEER after the crisis: Convergence story still holds (2)

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Business plan for the years ahead

- For the region in general, income per capita and financial products penetration are still significantly below Eurozone and expected to converge further towards Western-European standards in the years to come. On a country level, there may be differences in convergence speed (e.g.: Bulgaria may be currently 'overheated' - but small for KBC)
- Groups that will be able to profit from the continuing convergence story will be those that
 - have strong funding sources (preferably from large domestic networks) to fund loan growth, and
 - have manageable credit costs





Core strategy maintained, core geographic reach confined to CEE-5 (1)

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Business plan for the years ahead

Scorecard	CR	SR	HU	PL	BUL	SER	RUS
Member of EU	✓	✓	✓	✓	✓	-	-
KBC possesses both bank & insurance cy.	✓	✓	✓	✓	✓	-	-
Investment grade country rating (S&P's, 12nov09)	✓	✓	✓	✓	✓	-	✓
Platform for sustainable growth (market share at least close to 10% in banking and/or insurance)	✓	✓	✓	✓	✓	-	-

core
geographic
reach



Core strategy maintained, core geographic reach confined to CEE-5 (2)

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Business plan for the years ahead

- Core strategy will be based on full service banking & insurance in countries
 - that belong to the European Union
 - in which the group has or can develop a sustainable position in terms of size and profitability
- Core countries: Czech Republic, Slovakia, Hungary, Poland, Bulgaria ('CEE-5')
 - Russia (Absolut Bank) and Serbia (KBC Banka) are considered 'non-core' in the new strategy and will be divested
 - However, divestment not planned in the near future
 - sale in current economic circumstances would be value-destroying
 - companies will in the next years be developed so as to safeguard their value
 - Disposal of minority stake in Nova Ljubjanska banka in Slovenia (already announced earlier)

In billions of EUR	book value	goodwill
Absolut Bank	0.4	0.5
KBC Banka	0.0	0.1
NLB	0.4	0.2



Core strategy maintained, core geographic reach confined to CEE-5 (3)

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Business plan for the years ahead

- Bancassurance co-operation remains core, but will be refined
 - Each bank and insurer to deliver sustainable results on a stand-alone basis
 - Actions will be taken to enhance sustainability on a stand-alone basis of entities that perform below standard and/or are sub-scale
 - Activities that do not deliver upon performance targets will be reviewed
 - Activities that do not fit in core bancassurance strategy will be reviewed
 - E.g. for consumer finance, we will focus away from the stand-alone specialist model towards a bancassurance distribution model (-> decision to divest Zagiel in Poland)



Core strategy maintained, core geographic reach confined to CEE-5 (4)

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Business plan for the years ahead

- Non-core CEER-activities together (Zagiel, Absolut Bank, KBC Banka, NLB) account for
 - Roughly 25 m euros average net profit in last 2.5 years (roughly -15m contribution to group result, after funding costs)
 - 8% of BU's banking risk-weighted assets (bank+insurance)

Contribution to BU CEER of 'non-core' companies

Total income (3y avg*)	EUR 0.23 bln
Expenses (3y avg*)	EUR 0.16 bln
Profit contribution (after funding costs, 3y avg*)	EUR 0.0 bln
RWA (30-09-2009, bank+insurance **)	EUR 3.4 bln
Clients (end '08 **)	300 000
Staff (fte, sep '09***)	5 000

* Average of 2007, 2008 and 6m2009

** Zagiel and NLB not included in calculation

*** NLB not included in calculation



Additional actions: Floating of Czech subsidiary CSOB*

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Business plan for the years ahead

- 30%-40% of KBC's shares in CSOB (CR) will be sold in 2010. This may be complemented by a primary capital raising by CSOB to fund its organic growth (but KBC to remain majority shareholder)
- Listing will enhance brand value by further embedding it in the local community
- CSOB's track record (ca.360 m EUR avg underlying profit in last 5y)

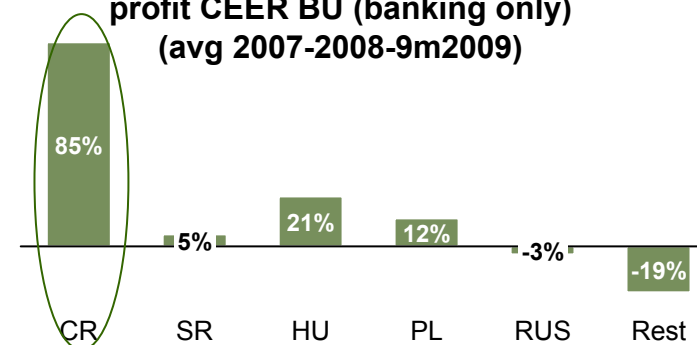
CSOB (CR)* (underlying, EUR m)	FY 05**	FY 06**	FY 07	FY 08	9m'09 (annualised)
Total income	958	1 056	1 021	1 272	1 208
Net profit	264	317	371	494	400
Credit cost ratio	0.40%	0.36%	0.18%	0.57%	1.06%

* Profit contribution of banking activities in Czech Rep., before funding costs.

** Includes Slovak activities (circa 5% of total)

- Option to buy back minority stake(s) later.

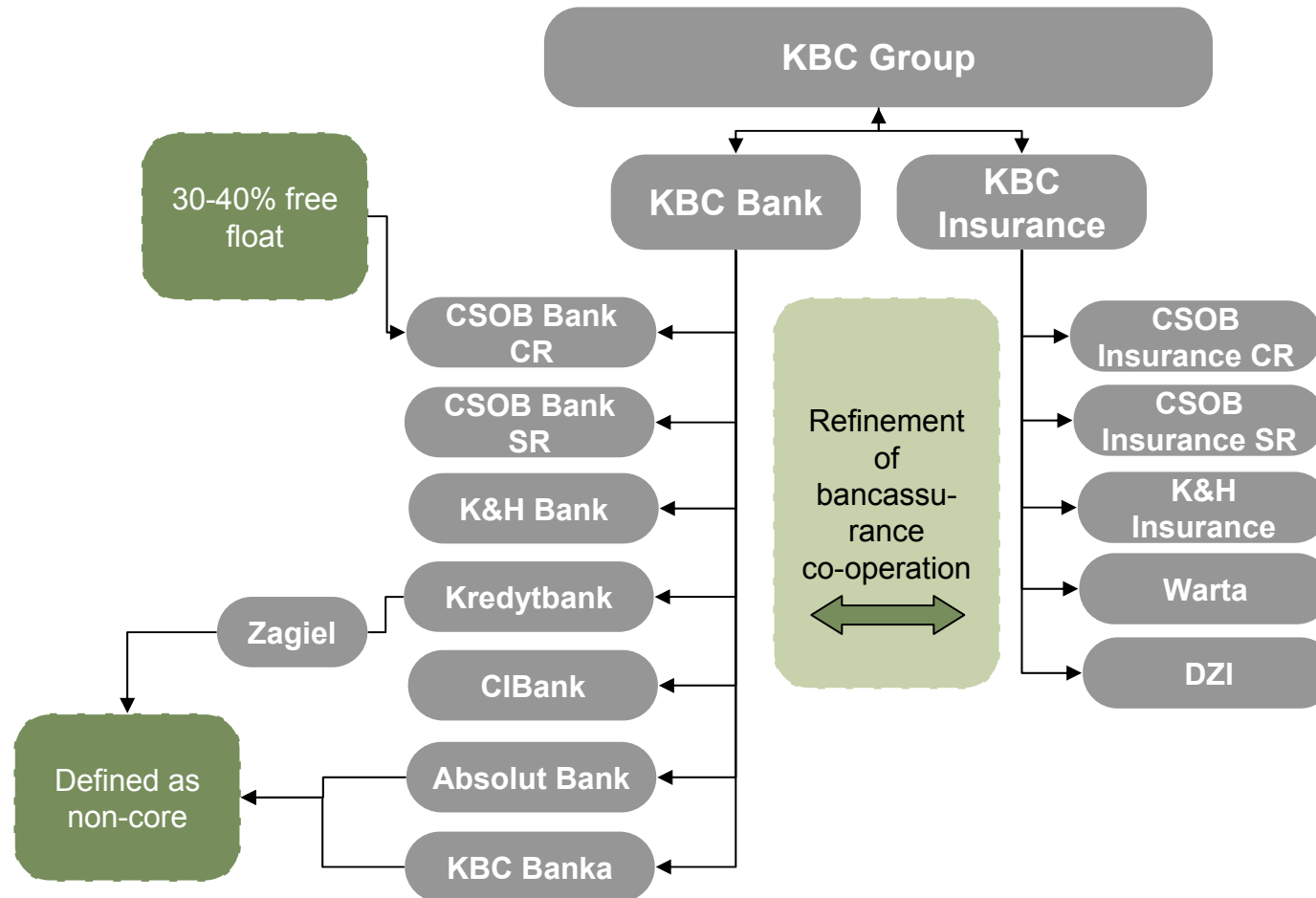
Composition of net underlying
profit CEER BU (banking only)
(avg 2007-2008-9m2009)



CSOB passport	
Clients	3 million
Staff (fte)	8 200
Bank branches	326
Ranking in CR	Top-3
Market share (est.) Credits / Deposits / Inv.funds	20% / 24% / 35%
AUM	EUR 6 bln
Loans (excl. rev. rep.)	EUR 16 bln
Deposits (excl. rep.)	EUR 23 bln



Summary of strategic actions*





Taking into account the planned actions, where do we expect to stand in a few years' time?*

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Business plan for the years ahead

Projections show that if all strategic changes are implemented, the CEER BU will continue to create value, even in an adverse case scenario

CEER BU (in billions of EUR)	9m2009 Actual	From now towards 2013
Risk-weighted assets	37.2	high single - low double digit organic CAGR*
Revenues	2.0	-
Cost/income ratio	58%	high 50s (by 2013)
Combined ratio	104%	high 90s
Credit cost ratio	1.83%	high 10s of bps (avg)
Return on 10% Tier-1 capital**	7%	circa 18-20% (by 2013)* after funding cost of goodwill

* Both organic RWA growth and rating migration depend on macro-economic scenario. Net rating migration impact by 2013 can be slightly positive, or slightly negative. Some negative impact is anticipated from the shift to IRB Advanced and new regulation for RWA-weighting for market risk.

** [Annualised underlying profit] / [10% of average risk-weighted assets (bank+insurance)]

*Please refer to important information on page 83

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