creativity
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Under full sail…

Under full sail

KBC Investor Day – Prague

3 Financial targets

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Chief Financial & Chief Risk Officer

Prague, 7 December 2006

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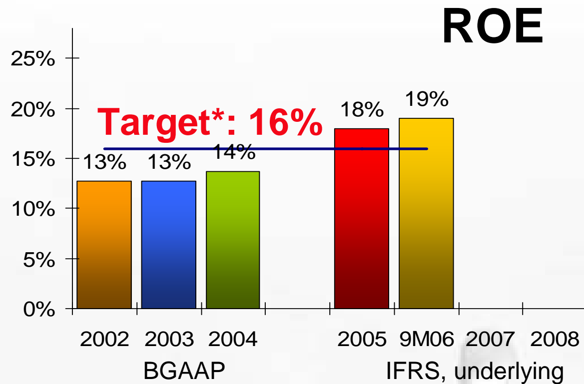
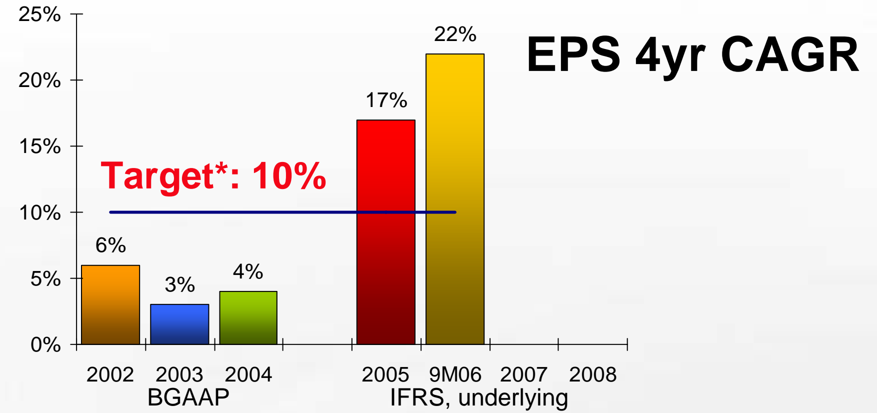
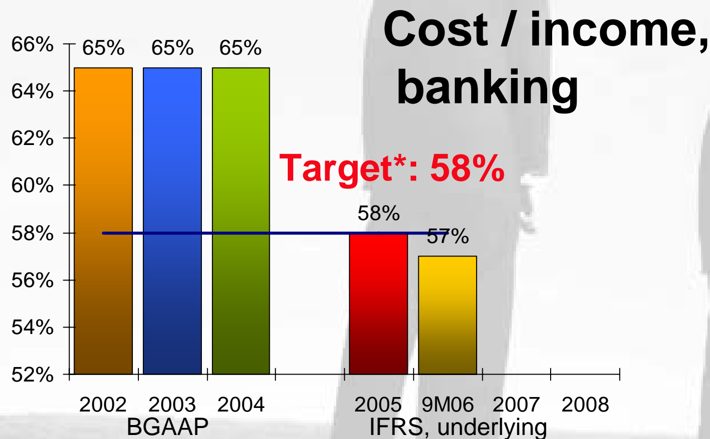
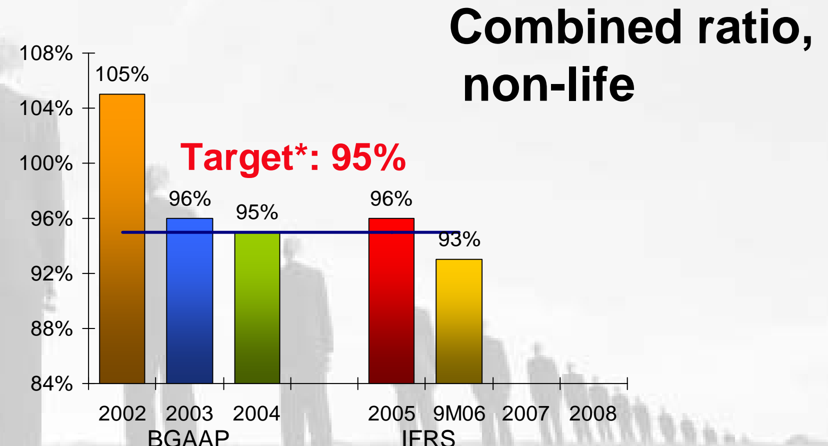
Past key performance indicators









* Targets 2005-08, reconfirmed mid-2005 on the basis of 2004 performance

Need to update financial framework

- ✓ Over the last 2 years, KBC has consistently outperformed its financial targets (set on the basis of the 2004 figures). Although this was partly due to the cyclical upturn, we believe it was also supported by sustainable business drivers

- ✓ Moreover, the previous set of financial targets did not take into account the effects of:
  - the strategy initiatives of the 'NEXT' project
  - the impact of share buy-back programmes on EPS and ROE

- ✓ As our organic capital generation has been strong, whilst our external capital disbursements have been low (thanks to continued capital discipline), future plans regarding capital deployment have become a priority topic for the market

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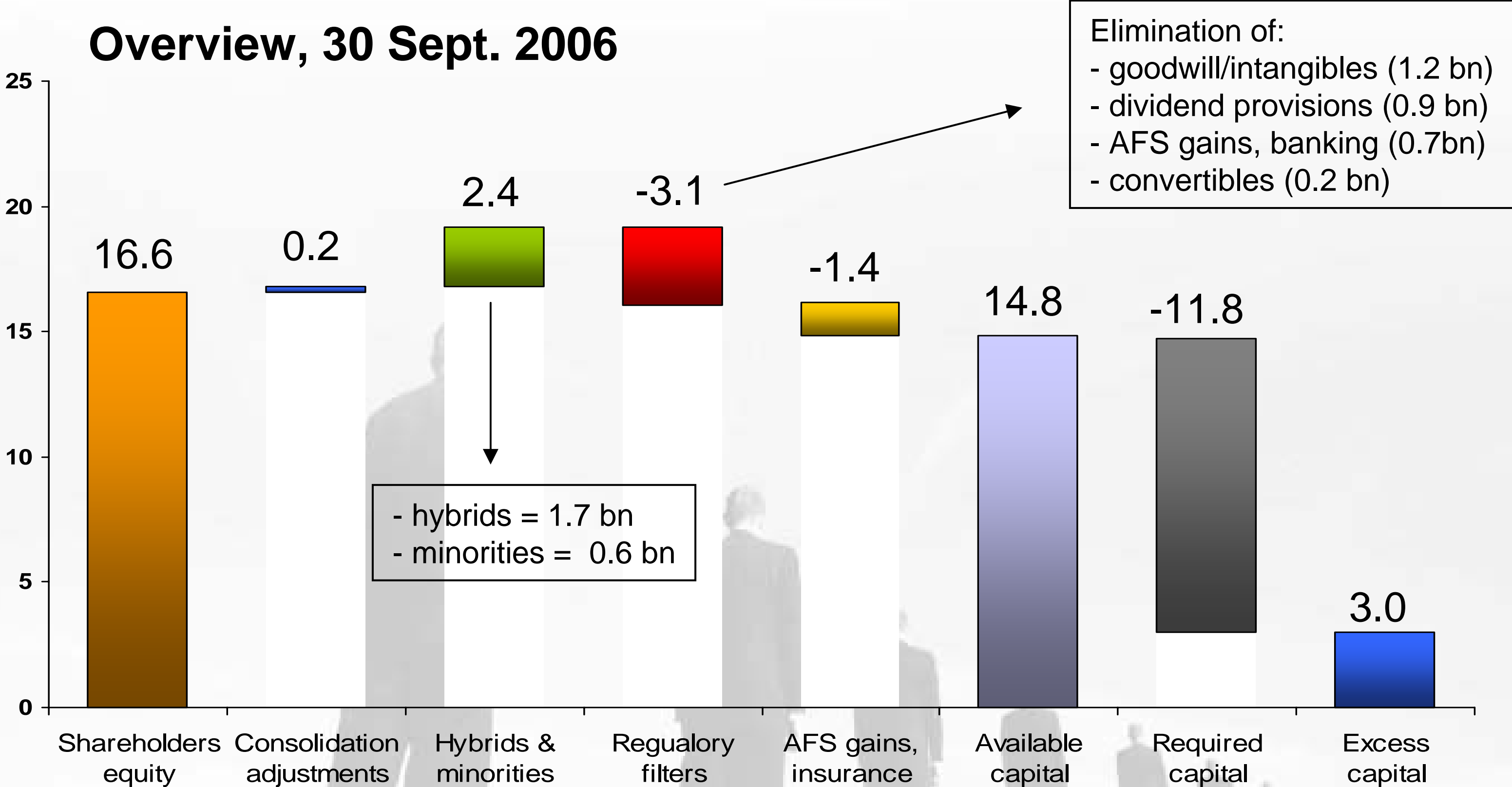
Capital methodology framework

- ✓ Capital is defined on the basis of ‘regulatory capital’. This means that:
  - the capital position is considered at the level of (regulated) activities, i.e. banking, insurance and some other subsidiaries of KBC Group
  - to IFRS shareholders’ equity, the allowed hybrid capital sources (15% of Tier 1 in banking) and the minority interests are added
  - IFRS shareholders’ equity is reduced by : goodwill amounts, portfolio revaluation reserves in banking, provisions for dividends … (‘regulatory filters’)
- ✓ The definition of regulatory capital is based on Basel-I (and Solvency-I for insurance)
- ✓ ‘Available excess capital’ is the difference between ‘available capital’ and required capital according to our definitions (unchanged) :
  - banking: 8% Tier-1 (6.8% equity Tier-1)
  - insurance: 200% solvency margin
  - gains on available-for-sale investments of insurance business filtered out

Capital methodology framework



See 3Q 2006 Report, notes 43 & 44

Capital situation as at 30 Sept. ’06

Capital-using activities	Available Capital	Required Capital	Available Excess
Banking & private banking (Tier-1)	12.3 bn	10.0 bn	2.3 bn
Insurance (excl. AFS gains)	2.0 bn	1.7 bn	0.3 bn
Other subsidiaries of KBC Group	0.6 bn	0.1 bn	0.5 bn
Total Group	**14.8 bn**	**11.8 bn**	**3.0 bn**

- ✓ Although, the current shareholders’ equity of the Group stands at 16.6 bn euros (as of 30 Sept.’06), the ‘available capital’ (i.e. applying regulatory filters, amongst other factors) of the Group stands at 14.8 bn*
- ✓ The amount of excess capital stands at 3.0 bn euros

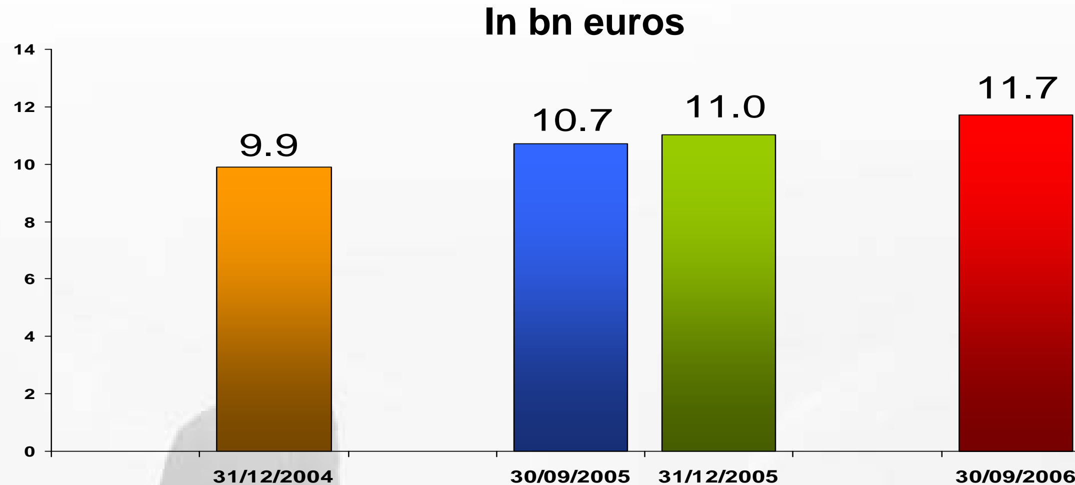
For more details, see 3Q 2006 Report, notes 43 & 44 and following page

Basel-II impact

- ✓ Under Basel-II, we currently estimate that the required capital:
  - in Belgium - will be reduced by ca. ½
  - In CEE - will be increased by ca. ¼
  - in Merchant Banking & European Private Banking - will have a minor impact
  - for the Group as a whole - will be reduced in 2007 to 95% of the current required capital level (= regulatory floor) and to 90% in 2008 and thereafter

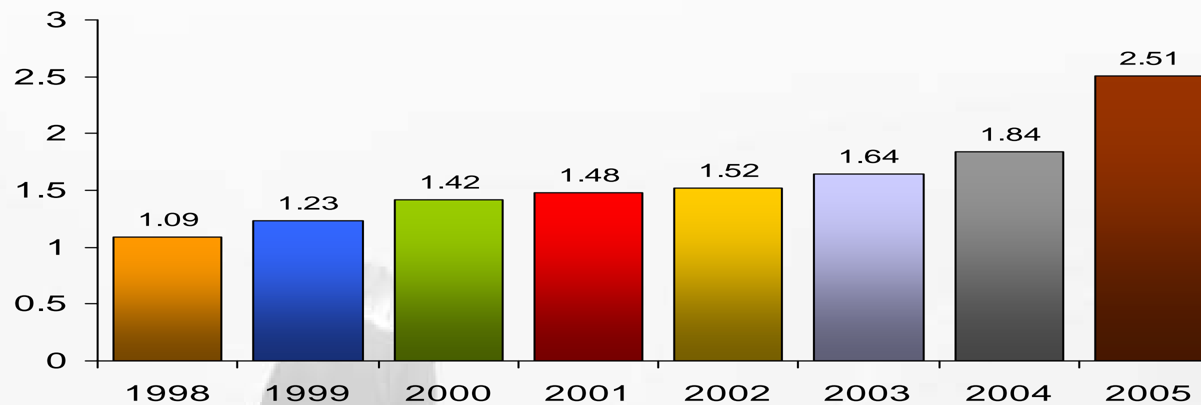
- ✓ We have not yet included 'Basel II-capital benefits' in our financial targets framework:
  - Basel-II-based capital requirements are dependent on the stage of the economic cycle. If the cycle turns down, capital requirements will rise
  - it is still unclear how quickly the credit rating agencies will accept the 'internal models"-based results as lead indicators
  - the Belgian regulator has not yet officially confirmed the starting date of Basel-II-based capital reporting

Organic capital needs Basel I - solvency



- ✓ Over the last 24 months, the additional capital needed for organic growth was about 1 bn euros per year
- ✓ KBC has sustained ambitions for solid organic growth. The required capital will evolve accordingly and require more than 1 bn euros a year on current expectations
- ✓ Note that any acquisitions made in 2007 – 2009 will require extra capital

Dividend policy



- ✓ We increased our dividend per share every year for > 20 yrs. In 2005, a total dividend of 0.9 bn euros was paid out.
- ✓ We intend to maintain this dividend policy:
  - payout of a stable, increasing cash dividend year-on-year
  - for the 2006 financial year, we will propose to exclude the capital gain on *Urquijo* from the dividend payout (considered as part of the 'share buy-back' programme)

Share buy-back

- ✓ Since it is highly unlikely to fully redeploy the excess capital for the time being, and given the market valuation of our company, we will repurchase own shares in the amount of 3 bn euros
- ✓ This share repurchase program will again be open-market based. We intend to mandate our broker to buy back a fixed number of shares* every day without price limits (for the 2006 programme, this corresponded to ca. 10% of the daily turnover)
- ✓ For liquidity reasons, we can buy back around 1 billion euros per year (based on the current share price and on 10% of current daily volume). Hence, the full implementation of the 3 bn programme will take about 3 years
- ✓ It should be clear, however, that if conditions or opportunities change during the 3-year period, the programme may be adjusted or even interrupted

* Additional terms and conditions of the Securities Regulator apply

Share buy-back (cont'd)

- ✓ The dividend payments on treasury shares will be suspended. Consequently, the buy-back will have a positive impact on both EPS and DPS
- ✓ The shares bought back will be cancelled when their equivalent value reaches 10% of the statutory subscribed capital (in contrast to the 2006 share buy-back)
- ✓ The shares will only be used/sold when a clear value-creating opportunity arises. But, obviously the market will be able to judge whether or not the opportunity is value-creating

Share buy-back (cont'd)

✓ We prefer an open-market programme to an accelerated share repurchase or Tender Offer:

- to avoid causing stock price volatility
- to avoid paying a (speculative) premium
- to avoid any potential 'insider trading' perceptions

Share buy-back (cont'd)

✓ We prefer a repurchase of shares to a super dividend, because :

- taxes are withheld on dividends in Belgium
- there are no taxes on capital gains on shares in Belgium

and further on, in our view:

- a good balance is achieved between the share repurchase amount (1 bn euros per year) and the expected yearly dividend payout
- a consistent dividend policy pays off in perception terms
- the current share price does not fully reflect the fair value of the company
- the repurchase has a positive effect on the EPS/DPS
- a share repurchase offers more strategic flexibility within the context of preserving KBC's overall shareholders' structure

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Financial targets for 2007 - 2009

✓ We upgrade our set of mid-term financial targets:

- Cost/income ratio, banking: 55% by 2009 (from 58%)
- Combined ratio, non-life: 95 % (from 95%)
- Average return on allocated capital:
  - Belgium: 26% (from 20%)
  - CEE: 30% (from 30%)
  - Merchant Banking: 19% (from 16%)
  - European Private Banking: 34% (from 30%)
- Min. average adjusted ROE: 18.5 % (from 16%)
- Min. CAGR EPS: 12% (from 10%)

Financial targets: methodological framework

- ✓ The targets are based on an ‘underlying basis’, i.e. excluding exceptionals and marking-to-market via P&L of non-qualifying hedges under IFRS
- ✓ 2006 will be the base year (the underlying 2006 net profit = starting point)
- ✓ The target-setting exercise is based on organic development and does not include any acquisitions
- ✓ The financial targets are meant to serve as average objectives during the 3-year cycle 2007 – 2009 (except for C/I and CR targets)
- ✓ The EPS is calculated on the basis of the IFRS definition. Hence, among other factors, treasury shares are deducted from the number of shares outstanding
- ✓ For the calculation of return on equity, an adjusted equity basis is used, i.e. excluding the revaluation reserves related to investment portfolios

Financial targets: Outlook - Belgium

- ✓ In the 2007-2009 period, we expect GDP growth to be around 4%, on average, in nominal terms (2% real)
- ✓ We believe we can continue to increase market share within our ‘strategic areas’, such as asset management and bancassurance (in line with our consistent track record)
- ✓ Cost trend: we believe the cost/income ratio, banking will be below 55% in 2009
- ✓ Loan-loss charges are expected to go up in the mid-term. This has been factored in into our model
- ✓ The combined ratio of non-life insurance is expected to remain at 95% (on average)
- ✓ On balance, we target an average return on allocated capital of 26%.

Financial targets: Outlook - CEE

In the 2007-’09 period, a blended nominal GDP growth of 7.4%, on average, expected:

	Weight	Nom. GDP%	Real GDP%
Czech Republic	46%	7.2	4.1
Poland	22%	7.3	5.2
Hungary	21%	7.1	2.1
Slovakia	11%	8.3	5.6
Average	**100%**	**7.4**	**4.1**

- ✓ Based on recent experience, we believe we can somewhat increase market share in banking in the region
- ✓ Further cost efficiency improvements aim to bring down the cost/income ratio, banking to around the overall group target (55%) by 2009
- ✓ Loan-loss charges are expected to go up from current levels (0.38%). This has been factored in into our objectives
- ✓ The combined ratio for the non-life insurance, can be further improved. We aim for a level of an average of 96%.
- ✓ On balance, we believe net profit will grow on average, at least 15% per year (average return on allocated capital to be ca. 30%).

Financial targets: Outlook – Merchant Banking

- ✓ We believe we have the capability to continue to grow our revenue successfully on our home markets and to further pursue value-adding niche strategies in others
- ✓ We expect the cost/income ratio to remain at around 50%
- ✓ As is the case for the entire banking sector, we currently benefit from a very low loan impairment level (zero for FY05 and 9M06). Over the cycle, this level is expected to be higher. This has been taken into account in our model
- ✓ On balance, we believe the average return on allocated capital to be 19%, despite the limited reach / scope of our merchant banking activities compared to our peers :
  - Commercial banking : ca. 18%
  - Investment banking : ca. 27%

Financial targets: Outlook - European Private Banking

- ✓ Assuming normal market conditions, we see continued growth for AUM
- ✓ A gross margin to AUM of 100 bps is targeted
- ✓ Further cost efficiency improvements aim to bring the cost/income ratio down to (below) 60% by 2009
- ✓ On balance, we believe the average return on allocated capital to be around 34%

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Conclusions

- ✓ The current strategy update reconfirms our belief to continue delivering high return levels and solid earnings growth (with normal market conditions)
- ✓ Over the next 3 years, we are committed to deliver:
  - a min. return on adjusted equity of 18.5%, on average
  - A min. (organic) EPS growth of an average 12% per annum
- ✓ Our capitalisation level will remain solid in order to:
  - be able to maintain our stand-alone position
  - have access to external growth, if and when suitable opportunities arise
- ✓ In any case, the 3 bn share buy-back programme proves, once again, the commitment to a shareholder-friendly deployment of our capital !