

creativity

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challenge

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action

Under full sail...



Under full sail
KBC Investor Day – Prague

2 Strategy update



Contents

- ✓ **Introduction**
- ✓ Business strategies
- ✓ Capital deployment principles





Introduction

- ✓ The main objectives of today's presentation are to:
 - reconfirm our corporate strategy
 - provide you with an update on business developments
 - give you renewed comfort regarding our capital deployment discipline
 - present our growth and return ambitions for the 2007-2009 period





Introduction (cont'd)

- ✓ In 2005, we defined our long-term **strategy framework** ('project NEXT').

The main conclusion was that:

- if we act intelligently,
- we will be able to continue delivering superior growth and return levels,
- while maintaining our stand-alone position



Introduction (cont'd)

- ✓ In 2006, we started **implementing** the business ideas defined in 'NEXT'.
We have been delivering what we promised:
 - ✓ Optimisation of the Group structure:
 - divestiture of non-core assets to the tune of 1.4 bn euros (Gevaert-related assets, private banks in Spain & Italy...)
 - further simplification of the legal structure
 - implementation of a new group management structure
 - ✓ New investments:
 - buyout of third-party stakes in CEE (0.7 bn euros)
 - study of acquisition possibilities in CEE, while maintaining strict discipline
 - improving skills to further enhance distribution excellence & lean processing
 - ✓ Share buy-back:
 - execution of 1 bn euros programme (2006)

Divestitures 2006:

- Banco Urquijo : 0.8 bn
- Agfa-Gevaert : 0.5 bn
- Kredyt Bank : 0.1 bn
- Fumagalli (2007)

New investments 2006:

- K&H : 0.5 bn
- CSOB : 0.1 bn
- WARTA : 0.1 bn



Introduction (cont'd)

- ✓ In the 2007-2009 period, we will gradually reap the benefits of our efforts

- ✓ We therefore believe that we can continue to deliver **superior growth and return** levels and decided on new financial targets:
 - mid-term EPS growth target of at least 12% (instead of more than 10%)
 - mid-term ROE of at least 18.5% (instead of more than 16%)
 - share repurchase programme of 3 billion euros (ca. 10% of market cap)

(Further details follow)





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Business strategies - Belgium

REMINDER

- ✓ KBC is a top 2-3 bancassurance player in Belgium
- ✓ **Market growth** in Belgium is relatively high. We observe:
 - strong wealth flows (asset management, life insurance)
 - solid catch-up on indebtedness levels within the retail sector (from low base)
- ✓ KBC is able to outgrow the market, particularly in the areas of bancassurance and asset management, thanks to its **distinctive market position**:
 - concentrated presence in the 'wealthy' Northern region
 - integrated bancassurance business model with high 'customer ownership', using own branches and exclusive agents
 - strong AM product offering capacity, especially in structured retail funds

Business strategies – Belgium (cont'd)

- ✓ Bancassurance & asset management have been amongst the main profit drivers
- ✓ We believe these drivers are **sustainable**:
 - Recently, extra efforts were made in the cross-selling of insurance products:
 - shift in sales approach: from quick-win cross-selling (e.g. mortgage x fire insurance x death cover insurance) to screening and advising of the customers' entire insurance portfolio
 - more trained sales staff: 10% of bank branch FTEs dedicated to insurance
 - better sales support tools and product bundling
 - We see further room for improvement in the profit contribution of funds management (see following presentation)

Business strategies – Belgium (cont'd)

- ✓ Since 2004 - in the wake of the completion of our major restructuring programme - we have refocused on **customer satisfaction**:
 - high service levels: friendliness, error-free service, accessibility,...
 - a customer-focused approach: 'know your customer', pro-active and needs-based, clear communications...

- ✓ Customer satisfaction is on the rise:
 - the proportion of highly satisfied customers (score $\geq 8/10$) has increased for the 3rd year in a row, rising from 62% to 69%
 - the proportion of unsatisfied customers (score $\leq 5/10$) has decreased for the 3rd year in a row, down from 10% to 7%

Business strategies - CEE

REMINDER

- ✓ Strategic presence in 4 countries: Czech Republic (balance sheet total: 23 bn), Slovakia (3 bn), Hungary (7 bn) and Poland (5 bn)
- ✓ The CEE franchise is obviously a ‘double-digit’ **growth franchise**, driven by higher economic growth and increasing financial intermediation
- ✓ Since these countries have all acceded to the EU, their risk profile is more of a ‘developing market’ than an ‘emerging market’



Business strategies – CEE (cont'd)

- ✓ Over the last year, major steps have been set in further **'fine-tuning'** of the franchise:
 - buyout of minority interests to the tune of ca. 0.8 billion euros
 - rebranding programmes
 - implementation of a new management structure
 - sustained cost reductions efforts
 - successful transfer of the AM business model (with the Brussels-based competence sector acting as a Group-wide product factory)
 - further implementation of the 'KBC bancassurance model'
 - further upgrade of integrated risk management methodology



Business strategies – CEE (cont'd)

For the 2007-2009 period:

- ✓ The current strategy will be **continued** (see following presentation):
 - primary focus on organic growth, including via enhanced cross-selling and opening ca. 260 additional branches in CEE
 - add-on acquisitions within current markets and adjacent geographic areas

- ✓ We are **positive** on the market outlook:
 - benefiting from positive environment in the Czech Republic, our major franchise
 - although macro conditions in Hungary (which represents ca. 2% of Group profit) are not favourable, economic growth in 2007-2009 is expected to remain higher than in many European countries

Business strategies – Merchant Banking

- ✓ The Business Unit consists of:
 - ✓ Commercial banking (financial services to SME/corporate customers):
 - mostly in Belgium and the neighbouring countries
(in the latter: meeting the international service needs of our domestic clients, supplemented by some relationship banking with local mid-cap companies)
 - ✓ Investment banking (incl. capital market activities):
 - mostly as an extension of commercial banking (highly customer-driven):
 - Money and debt capital market activities
 - Corporate finance & cash equity market activities
 - niche strategies in derivatives business within 'KBC Financial Products'

Strategies – Merchant Banking (cont'd)

- ✓ The Business Unit realised 23% of Group profit in 9M06:
 - 17% via commercial banking activities
 - 6% via investment banking activities, of which 3% from 'KBC Financial Products'

- ✓ For the 2007-2009 period, the current business strategy is to be **continued**:
 - in the 'main' business lines: business growth in step with market growth and further efforts to increase non-lending income
 - adopt niche strategies in selective market niches (e.g. life insurance settlement business) without increasing the risk profile of the Group

Business strategies – European Private Banking

REMINDER

- ✓ Since the merger of KBC with Almanij (2005), an additional 'European private banking' franchise was added to the Group (besides the 'KBC-labelled' private banking networks in Belgium and CEE).
- ✓ The Business Unit consists of a network of private banks:
 - local pure-play brands with status/heritage
 - onshore: in Benelux and neighbouring countries (Germany, France, UK)
 - offshore: predominantly in Luxembourg (as well as Switzerland & Monaco)
- ✓ As at 30 Sept., 2006 total AUM stood at 54 bn euros

- Main private banking brands:
- Kredietbank Luxembourgeoise
 - Puilaetco Dewaay (BE)
 - Theodoor Gilissen (NE)
 - Merck Finck & Co (GE)
 - Brown, Shipley & Co (UK)



Business strategies – European Private Banking (cont'd)

In 2005-2006, major steps were introduced:

- ✓ Further '**fine-tuning**' of the activities:
 - refocus of (onshore) geographical scope to the Benelux and its neighbours, where we can reach sufficient scale
 - divestment of non-core assets in Spain and Italy
 - acquisition of some portfolios to supplement organic growth (in Belgium, Netherlands, Germany ...)
 - reduction of 'historical' non-core activities, such as commercial lending and trading. On the other hand, development of Global Custody in Luxembourg

- ✓ Realising **synergies** (recurring pre-tax impact of 34m already achieved, out 75m announced):
 - from centralisation of IT and operations (Luxembourg Hub)
 - with the wealth management activities of the Belgian Business Unit

- ✓ Remark: recurring earnings maintained despite negative impact from downscaling of non-core activities



Business strategies – European Private Banking (cont'd)

For the 2007-2009 period, the current strategy will be **continued**:

- ✓ Primary focus on organic growth, including via continuing to hire experienced private bankers and by increasing 'share of wallet'
- ✓ We remain open to selective acquisitions to strengthen our position in markets in which we already have a presence
- ✓ Further improvement in the profitability of the activities



Business strategies – Operational Excellence

- ✓ In 2006, structural steps were set to enhance ‘**operational excellence**’, i.e.:
 - to enhance ‘lean processing’
 - to unlock unused business opportunities throughout the Group

- ✓ We therefore launched several initiatives to:
 - align business processes
 - accelerate the organisation of cross-border operations
 - strengthen our execution and integration skills (business process organisation methodology, performance-driven culture...)
 - continue the transfer of business models, systems and know-how to CEE

- ✓ By the end of this decade, we expect these initiatives to have a recurring pre-tax impact of > 200m per year (both revenue and cost impact). This represents:
 - +6% of the underlying 2005 pre-tax group profit
 - -2 pp on the 2005 cost/income ratio, banking

Business strategies – Global Operations

Shared operations project 1: **Asset Management**

- ✓ Scope: cross-border
 - home markets (Belgium + CEE)
 - other countries : white labelling (e.g. joint-venture in China)

- ✓ Main synergy objectives:
 - further increase in market share
 - transfer of product design & marketing know-how to CEE
 - highly cost-efficient operations

- ✓ Status:
 - centralised governance in place
 - integrated business processes up and running
 - synergies already proving to be meaningful (see following presentation)

Business strategies – Global Operations

- ✓ Shared operations project 2: **IT / Technology**
- ✓ Scope: cross-border, home markets (Belgium + CEE)
- ✓ Main synergy objective:
 - flat IT costs in 2007 – 2009 : 650m euros
- ✓ Status:
 - centralised IT governance in place (incl. integrated 2007 budgeting and follow-up procedures)
 - first IT project started (building a cross-border IT platform for non-life insurance administration)
 - integrated functioning to accelerate as of 2007

Business strategies – Global Operations

Shared operations project 3: **Leasing**

- ✓ Scope: cross-border, home markets + Merchant Banking
- ✓ Main synergy objectives:
 - accelerated business growth in CEE via transfer of business models, systems & know-how
 - leverage of the Group's scale in the area of vendor leasing
- ✓ Status:
 - centralised governance: operational as of Q3 2006
 - roll-out of integrated functioning as of 2007

KBC Lease is active in:

- Benelux
- CEE
- France
- Germany
- UK
- Switzerland
- Italy



Business strategies – Global Operations



Shared operations project 4: **Trade finance**

- ✓ Scope: cross-border, home markets (Belgium + CEE)
- ✓ Main synergy objective:
 - accelerated business growth in CEE via transfer of know-how and leverage of the Group's scale
- ✓ Status:
 - centralised governance: operational as of Q4 2006
 - roll-out of integrated functioning as of 2007



Business strategies – Global Operations

Shared operations project 5: **Payments**

- ✓ Scope: cross border, home markets + Merchant banking

- ✓ Main synergy objectives:
 - usage of shared platforms (cross-border payments, card business, international cash management...)
 - minimization of investment costs for SEPA- and EURO-driven system developments

- ✓ Status:
 - centralised governance: operational as of Q3 2006
 - gradual 'convergence' of processes & systems as of 2007

Business strategies – Global Operations

Shared operations project 6: **(Unsecured) Consumer finance**

- ✓ Scope: cross-border, home markets (Belgium + CEE)

- ✓ Main synergy objectives:
 - benefit from market growth
 - use of multi-channel approach
 - use of highly cost-efficient administration platform

- ✓ Status:
 - business case studied and GO decision taken
 - staffing and IT architecture study started
 - the existing platform in Poland ('Zagiel') as starting point
 - synergies to become material as of 2009

Business strategies – Global Operations

Shared operations project 7: **Investment banking** (corporate finance, equity brokerage...)

- ✓ Scope: cross-border, home markets (Belgium + CEE)
- ✓ Main synergy objective:
 - accelerated business growth by leveraging of the Group's scale (e.g., distribution of the 'CEE equity research product')
- ✓ Status:
 - centralised governance: operational as of Q1 2006
 - gradual 'convergence' of processes & systems as of 2007
 - activities managed as a 'profit centre' within the Merchant Banking Business Unit

KBC Securities is active in:

- Belgium
- Poland
- Czech Republic
- Hungary
- France
- UK
- Germany



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Capital deployment framework

In the years to come, we will **continue** to be:

- ✓ A leading financial service provider in Europe
- ✓ With a focused business portfolio:
 - focus on bancassurance and wealth management
 - focus on retail and SME
 - focus on Belgium and CEE
 - niche strategies for other selected activities
- ✓ With a sustained ambition to safeguard high efficiency standards
- ✓ With a solid level of financial strength (solvency: min. 8% Tier 1, banking and 200% margin, insurance) to ensure both our stand-alone position and the resources for external growth if opportunities should arise
- ✓ However, with steady dividend growth and a shareholder-friendly deployment of the newly generated excess capital



Capital deployment framework

- ✓ Our excess capital stands at 3 bn euros and we expect to generate further free cash
- ✓ Given the current high market price for external growth, using an organic growth business model is our preferred scenario. Our **organic growth ambitions** are strong (and will accordingly use up capital)
- ✓ Obviously, we will consider complementing organic growth with **acquisitions** (in line with our track record, the return needs to be clear). To this end, we may explore selected new markets in the years to come
- ✓ Moreover, given the current market valuation of our company, investing in our own shares has become an attractive investment alternative. We are therefore announcing a **share buy-back** of 3 bn euros for the 2007-2009 period



Wrap-up

- ✓ New financial targets (2007 - 2009)
 - ROE : min. 18.5%
 - CAGR EPS : min. 12%

- ✓ Share buy-back: 3bn euros (2007 - 2009)

- ✓ Accelerated organic growth model (+ new branches in CEE)

- ✓ Improved efficiency: new program of more than 200m pre-tax by 2009

- ✓ Continued strong solvency
 - min. Tier-1, banking : 8%
 - min. solvency, insurance : 200%

- ✓ Add-on acquisitions, new markets