



Press release

Regulated information *



Schedule for 18 November 2009:

- 12.00 p.m. CET – Publication of press release
- 12.15 p.m. CET – Press conference, KBC Head Office, Brussels
- 2.15 p.m. CET – CFO teleconference for financial analysts - Tel. +44 20 7162 0077

18 November 2009, 12 a.m. CET – regulated information

KBC confirms position as solid bancassurance player in core markets

To repay State liabilities in full and on its own

While the global economy gradually recovers from its worst downturn in decades, KBC has been working on a strategic review to enhance its position in the post-crisis period. The new business plan will enable KBC to continue to act as a solid European regional player that is attractive for its customers, employees, shareholders and the communities in which it operates. The strategy will also generate enough capacity to redeem the capital securities that were issued to the State. The strategic plan, which was the basis for a restructuring plan as requested by the European Commission, was cleared by European regulatory authorities today.

Highlights

- Crisis lesson learnt: more focus on core businesses, risk levels to be reduced
- Core bancassurance model largely untouched by crisis, growth options in Eastern Europe maintained
- Non-dilutive exit from State liabilities, predominantly based on earnings accrual and reduced scope of international activities (and some divestments)
- Group total risk-weighted assets to be reduced by 25%
- Aim to resume dividend payout as of 2011
- Plan cleared by European Commission
- Institutional investor conference (Investor Day) scheduled for tomorrow, 19 November (London)

Core business strategy

Until the credit crisis started, KBC's performance track record had been solid. Its strategy to invest in Central and Eastern European growth markets added great value and its **distinctive retail bancassurance** business model proved to be highly effective. Jan Vanhevel, Group CEO: 'When analysing the effects of the crisis, it is reassuring to note that our core business model remained largely untouched and that the strategic rationale remained valid for our **Central and Eastern European presence**. Unlike many of our peers, our high deposit-to-loan

KBC Group NV
Havenlaan 2 - 1080 Brussels
Viviane Huybrecht
General Manager Group
Communication / spokesperson:
Tel (02) 429 85 45

Press Office:
Tel. (02) 429 65 01
Fax (02) 429 81 60
E-mail: pressofficekbc@kbc.be

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ratio means that our future growth will not be constrained by funding concerns. Moreover, customer and employee surveys show that loyalty levels have remained sound.'

Past market turbulence, however, has shown the need to markedly **reduce the risk profile** of the group and, accordingly, to reduce the scope of activities and geographic markets to which KBC allocates capital. The refocus project will also free up capital sources that will contribute to redeeming the capital securities subscribed by the State.

Jan Vanhevel: 'While reducing business risk, we will focus on a set of core activities where we have a strong value proposition. Our priority will be to build on our existing bancassurance platforms within Belgium and five selected Eastern European markets, where we will continue to target local retail and SME customers, including local mid-caps. We will significantly **reduce exposure to non-domestic corporate lending and capital market activities** and will divest **KBL European Private Bankers**. This will be complemented by some additional capital optimisation measures in core markets.'

As regards asset management activities, the geographic focus will be on KBC's core markets, offering best-in-class products – mainly retail funds – through KBC distribution channels.

Over the next years, **organic growth** will be pursued, **without major acquisitions**. In terms of size, KBC positions itself as a European regional player. KBC believes that a strategy of 'refocus' is a competitive advantage for its core business and that size, international presence or ability to make large acquisitions in themselves do not necessarily lead to better performance.

In order to achieve the refocus objectives set, a number of assets need to be **divested**. KBC has opted for assets that can be monetised today at a fair valuation, while avoiding ending up in a position of forced selling at distressed prices. By doing so, the business plan's execution risk is minimised, which is important given the still uncertain economic environment.

Fully aware of the increasing demands for accountability placed on it by many actors in society, KBC is also committed to continue its ongoing process of improving the way it conducts its business. KBC's business model is geared towards **direct and service-oriented relationships with its customer base**. Employee professionalism and a deep connection with local markets are key contributors to such a strategy. Jan Vanhevel, Group CEO: 'Offering value-adding solutions for customers, while building **strong ties with employees and contributing to the development of our local economies**. That is our commitment. That's how we create sustainable value for both shareholders and for the community at large.'

In order to align remuneration principles with long-term stakeholders' interests, KBC has approved a **new group-wide remuneration policy**, including high level principles, internal guidelines and a governance framework, aligned with most recent international standards. Moreover, KBC Group Executive Committee members have decided to forego their remuneration bonus for the 2009 financial year, just as they did last year.

Reduction of scope of international lending and capital market activities

As previously announced, KBC decided to markedly reduce the scope of its Merchant Banking Business Unit, mainly in relation to the international corporate loan book (outside Belgium and Central and Eastern Europe) and capital market activities.

Through a mostly European network of corporate branches and corporate banking subsidiaries, KBC has an **international loan portfolio** amounting to 42 billion euros. While one of the aims is to service the financial needs of domestic corporate customers abroad, a large part of the lending activity is oriented towards local foreign corporate customers or to certain specific areas such as global project finance. Jan Vanhevel, Group CEO: 'The new business plan encompasses the refocus on that part of the business for which a natural link exists with our customer base in our core markets. Some parts of the portfolio without such a link will become available for sale, while others will be run off at maturity and will not be renewed.'

As regards the **capital market activities**, it has already been announced that KBC had put its derivatives-based structured products business within KBC Financial Products on run-off status. In addition, a number of other lines of international capital market business with a low level of synergy with the core strategy have been earmarked for divestment. On the other hand, KBC will continue to act as a major player in the securities markets in Belgium and Central and Eastern Europe, with a complete set of capabilities to give domestic corporate customers access to capital markets and capital market products.

The corporate and market activities that are to be discontinued (excl. Ireland) represent some 23 billion euros' worth of risk-weighted assets (position as at 31 December 2008). Over the last five years, these activities contributed on average roughly 150 million euros net annually to group net profit (some 400 million euros as best annual performance, -150 million euros as worst annual performance).

New strategic partner for KBL European Private Bankers

Through a cluster of local brands, KBC also has a pure play private banking business outside Belgium and Central and Eastern Europe. Given its lower than average level of synergy with the bancassurance strategy, it has been decided to look for a new strategic partner for this activity. In the meantime, KBC will ensure that it continues to grow the value of the business and to offer superior customer service.

Jan Vanhevel, Group CEO: 'This business line was originally set up as a private banking activity in Luxembourg, but has diversified over the last 20 years to manage currently some 47 billion euros in customer assets from 9 European locations.' The network operates under the umbrella of KBL European Private Bankers, a Luxembourg-based 99.9% subsidiary of KBC group. Over the past five years, it generated some 175 million euros in net profit annually (corresponding to a net average contribution to group profit, after funding costs, of 125 million euros). At the start of the year, it represented some 6 billion euros' worth of risk-weighted assets.

The KBC-branded private banking activities in Belgium and Central and Eastern Europe remain unchanged.

Business portfolio adjustments in core markets

The core countries are **Belgium, the Czech Republic, Poland, Hungary, Slovakia and Bulgaria**. In these markets (all within the European Union), KBC owns banking, insurance and asset management operations and has a platform for sustainable organic growth.

In order to unlock capital in a way that enhances value, KBC intends to make a **public offering of a minority stake in its Czech subsidiary ČSOB** that will be listed on the Prague Stock Exchange in 2010. Jan Vanhevel: 'ČSOB has a leading market position in what is currently one of the best markets in the region.' Its net asset value amounts to 2.1 billion euros, while it has realised an average annual net profit of 360 million euros over the last five years (corresponding with a group profit contribution of some 300 million euros, net of funding costs). This listing on the local stock market also supports our home market strategy for that market. A similar transaction can be set up in the future for selected other Central and Eastern European subsidiaries, such as K&H in Hungary.

Recently KBC also made inroads in banking in a number of non-EU markets, such as **Russia and Serbia**. With market shares of less than 1%, its presence in these countries is still limited and strategy synergies are 'early phase'. Nevertheless, KBC does not intend to start a divestment process soon. Jan Vanhevel: 'We are lucky to have the capital flexibility not to have to divest today, because the timing for that would not be on our side anyway. The difficult local economic conditions would mean any deal would take place at a distressed price and would destroy considerable value.' The situation will be reviewed in due time when market conditions permit, also taking into account how the risk/return profiles of these activities develop. We would also repeat that KBC's non-strategic 31% stake in NLB in Slovenia remains for sale.

In various core regions, KBC uses complementary distribution channels in addition to its core bancassurance platform. Operating under a different brand name, a differentiated product and service offer is made to customers through independent resellers. In order to be able to strengthen its capital base, KBC intends to divest the activities of **Centea** (retail banking, Belgium), **Fidea** (insurance, Belgium) and **Zagiel** (consumer finance, Poland). This step does not undermine the strength of the primary business model in the respective markets. Centea and Fidea represent a market share of around 1 to 2% for total loans, deposits and insurance in Belgium. Zagiel has a market share of around 3% in the Polish unsecured consumer finance market.

Over the past five years, these last three companies generated a combined average annual net profit of some 130 million euros (contribution of 110 million euros to group profit, after funding costs). Jan Vanhevel: 'We had to make choices in order to ensure the future strength of the group. We believe these companies can be even more valuable for new strategic partners

which can add new competences and create development opportunities for staff members. KBC is also strongly committed to keeping customer service levels high during the transfer period.'

Financial highlights

KBC wants to position itself as a well-capitalised and risk-aware group. This is reflected in the regulatory **capital target ratio** (group tier-1 ratio) of 10%, of which 8% is core tier 1. On 30 September 2009, the group tier-1 ratio stood at 10.2%, of which 8.8% core tier 1. The core capital base includes the 7 billion euros' worth of capital securities subscribed by the State. KBC intends to offload most of the State securities by 2013.

The main **sources of capital formation** for the years ahead will be operating earnings combined with gains realised on divestment transactions, on the one hand, and freeing up capital by reducing non-core activities and listing the Czech subsidiary ČSOB, on the other. A total of 39 billion euros of **risk-weighted assets** have been earmarked to be run-off or sold over the 2009-2013 period, corresponding with 25% of the group total (combined for banking and insurance, as at 31 December 2008). At 23 billion euros, the largest decrease of risk-weighted assets will be realised in the Merchant Banking Business Unit. The divestment of KBL European Private Bankers will reduce risk-weighted assets by 6 billion euros, while divestments in Belgium (related to subsidiaries Centea and Fidea) and Central and Eastern Europe (activities in Russia and Serbia) will reduce them by a further 10 (or 2 times five) billion euros.

Besides repaying the State securities, the above-mentioned capital inflows will enable KBC to **continue solid organic growth** in its core geographies.

Stretching performance goals will be set for each individual line of business in accordance with the various stages of development. Moreover, adequate cost management principles will be consistently applied throughout the group, resulting in a 'low fifties' cost/income ratio as soon as economic conditions reach a fair level of normalisation (post 2010).

There is enough flexibility in place to absorb the effects of a prolonged recessionary environment causing more sluggish market growth and customer debt servicing problems. Jan Vanhevel: 'From a cautious point of view, the business plan enables us to deal with a loan provision charge in Central and Eastern Europe markedly above our historic through-the-cycle loan loss experience.'

Capital will also be boosted by **additional financial optimisation measures**, such as value gains to be realised on real estate property, the optimisation of risk-weighted assets recognition and modelling and the sale of treasury shares. Jan Vanhevel, Group CEO: 'A large share issue is not our preferred scenario. We prefer to earn our way out of the crisis. If the cautious macro outlook that we used for budgeting purposes were to materialise, we would sell our stock of 18 million treasury shares'.

KBC aims to resume cash **dividend payments** as of 2011 (based on 2010 earnings). Also the payment of **coupons on all hybrid capital instruments** outstanding will be continued. KBC has no immediate intention to call hybrid capital instruments on call dates.

Jan Vanhevel: 'From a shareholder's perspective, it is also good to understand that the change in business mix being pursued not only includes lower risk, but – all other things remaining equal – also includes an improved average return level. Since the share of 'below-average-margin' merchant banking assets is being significantly reduced, a positive mix effect is working its way through to the average return on capital ratio.'

Approval from the European Commission

In order to avoid distortion of competition within the European Union and to ensure that the temporary stimuli received by KBC from both the Belgian Federal and Flemish Regional Governments have been adequately financially remunerated, the European Commission needed to approve these transactions. Final approval from the Commission was granted on 18 November 2009.

Jan Vanhevel: 'Discussions with the European Commission were not always easy since difficult trade-offs had to be made. But we appreciated the open and constructive way these discussions were held. The same holds true for our discussions with lead representatives from both the Belgian Federal and Flemish Regional authorities.'

Investor Day, 19 November

A conference for capital market participants on the renewed strategy is scheduled for tomorrow, 19 November 2009 in the financial centre of London (advance registration is required and can be done today). **All PowerPoint presentations, including financial details, will be published on www.kbc.com at the start of the event** (9.30 a.m. GMT/10.30 a.m. CET). The conference will also be webcast live. In order to avoid (apparent) selective disclosure, no additional quantitative information will be made available between the end of today's analysts' conference call and the start of the conference.

Conclusion from the CEO

Jan Vanhevel: 'We are ready for the future. We have a clear vision for the years ahead supported by a strong business case. We will start executing the plan immediately and will closely follow this up. We will make sure that change processes are professionally managed and internal dialogue remains unambiguous and respectful, in line with our corporate culture.

The decisions on divestment were not taken lightly. We will work carefully to manage the divestment process in a way that will support the success of our business in the interests of our customers, employees and shareholders alike.

In addition, several of the intended measures are conditional on the approval or advice of the relevant works councils and local regulatory authorities.'

Contacts details

- Luc Cool, General Manager, Investor Relations, Tel. + 32 2 429 40 51 – investor.relations@kbc.com
- Viviane Huybrecht, General Manager Group Communication/Company Spokesperson, Tel. + 32 2 429 85 45 – pressofficekbc@kbc.be

Additional information is provided in the powerpoint presentations on www.kbc.com