

# **KBC BANK NV**

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<p><b>MERGER REPORT OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLE 694 OF THE CODE OF COMPANIES</b></p>
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<p><b>MERGER BY ACQUISITION OF ANTWERP DIAMOND BANK NV BY KBC BANK NV</b></p>
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## **1. GENERAL**

In accordance with article 694 of the Code of companies the Board of Directors prepares a detailed written report on the merger by acquisition of the company with limited liability (*naamloze vennootschap*) ANTWERP DIAMOND BANK (hereinafter referred to as "ANTWERP DIAMOND BANK" or "the acquired company") by the company with limited liability (*naamloze vennootschap*) KBC BANK (hereinafter referred to as "KBC BANK" or "the acquiring company"), as set out in the merger proposal that has been approved by the Board of Directors of KBC BANK on 16 April 2015 and will be submitted to the Board of Directors of ANTWERP DIAMOND BANK on 20 April 2015 ('Merger proposal in accordance with article 693 of the Code of companies with respect to the merger by acquisition whereby Antwerp Diamond Bank NV is acquired by KBC Bank NV'). It is currently scheduled that this merger proposal will be filed by KBC BANK respectively ANTWERP DIAMOND BANK with the clerk's office of the commercial court of Brussels respectively Antwerp, on 21 April 2015.

In case the proposed merger is validly approved by the Board of Directors of KBC BANK and the extraordinary general meeting of ANTWERP DIAMOND BANK, the merger will have the following simultaneous consequences by operation of law: (i) the acquired company will cease to exist; (ii) all assets and liabilities of the acquired company will transfer to the acquiring company; and (iii) the shareholders of the acquired company will become shareholders in the acquiring company.

## **2. OVERVIEW OF THE ASSETS AND LIABILITIES OF THE MERGING COMPANIES**

An overview of the assets and liabilities of KBC BANK per 31 December 2014 is attached hereto as Annex 1. An overview of the assets and liabilities of ANTWERP DIAMOND BANK per 31 December 2014 is attached hereto as Annex 2 (only available in Dutch).

The merger will be based on (i) the annual accounts of KBC BANK per 31 December 2014, as approved by the Board of Directors of KBC BANK during its meeting of 19 March 2015 and audited by Ernst & Young Bedrijfsrevisoren BCVBA on 19 March 2015, and which will be submitted for approval to the annual general meeting of KBC BANK on 29 April 2015; and (ii) the annual accounts of ANTWERP DIAMOND BANK per 31 December 2014, which will be approved by the Board of Directors of ANTWERP DIAMOND BANK during its meeting of 20 April 2015, audited by Ernst & Young Bedrijfsrevisoren BCVBA, and submitted for approval to the annual general meeting of ANTWERP DIAMOND BANK on 20 April 2015.

### **3. DESIRABILITY OF THE MERGER**

The proposed merger is based on the following legal and economic justifications:

1) Social motivation: solution for the staff of ANTWERP DIAMOND BANK in Antwerp

In September 2014, the board of directors of respectively KBC Group NV, KBC BANK and ANTWERP DIAMOND BANK decided to stop the activities of ANTWERP DIAMOND BANK in accordance with the European restructuring plan which was concluded by KBC Group NV on 18 November 2009. In the absence of interested buyers and in case no merger would be carried out, this decision would entail a collective dismissal of the staff of ANTWERP DIAMOND BANK in accordance with applicable regulations. The proposed merger offers a solution for the Antwerp staff of ANTWERP DIAMOND BANK: in accordance with collective labor agreement 32bis the staff will automatically transfer to KBC BANK at the time the merger takes effect, hence any collective dismissal is out of the question.

2) Disappearance of the ANTWERP DIAMOND BANK brand

The run down scenario for ANTWERP DIAMOND BANK within the framework of the European restructuring plan implies that no new business is started, that the existing business is gradually run down and that the ANTWERP DIAMOND BANK brand disappears as soon as possible. The latter can in Belgium be achieved via the proposed merger.

3) Reduction risks for clients and the KBC group

ANTWERP DIAMOND BANK is a small credit institution which is however active in a (niche) market where other credit institutions have little absorption capacity to take over the lending of ANTWERP DIAMOND BANK. In order to reduce the liquidity risk for the clients, KBC Group NV agreed with the European Commission that the run-down of ANTWERP DIAMOND BANK's business will take place gradually and in an orderly fashion, spread over several years. As the agreed run-down proceeds, less resources will be required. The merger is the most suitable solution to guarantee continuity during the run-down period and to avoid operational risks. In this way, supporting services (Audit, Compliance, Finance, ICT,..) can be integrated within the respective departments of KBC BANK and KBC Group NV, in order to secure continuity and robust risk monitoring.

4) General cost savings

The merger leads to operational cost savings. As a result of the disappearance of ANTWERP DIAMOND BANK it is no longer required to pay the costs related to legal requirements peculiar to the separate legal personality (such as the keeping in place of separate accounting records, the drafting and filing of the annual accounts, audits by the company auditor, publications in the Belgian Official Gazette,...).

### **4. METHOD – TERMS – IMPLICATIONS OF THE MERGER**

#### **4.1. Method**

The proposed merger is a merger by acquisition as defined in article 671 of the Code of companies and will occur in accordance with the procedure provided for in articles 693 and subsequent of the Code of companies, pursuant to which all assets and liabilities of the acquired company are transferred to the acquiring company as a result of a dissolution without liquidation.

#### **4.2. Terms**

The share exchange ratio is based on the annual accounts of the acquiring and the acquired company per 31 December 2014 and is fixed at 1,77 shares of KBC BANK for 1 share of ANTWERP DIAMOND BANK. In accordance with article 703, §2 of the Code of companies there is no exchange of shares of KBC BANK for the 7.686.399 (100% minus one share) shares of ANTWERP DIAMOND BANK held by KBC BANK. Hence, only one share ANTWERP DIAMOND BANK will be exchanged.

Rounded up, this means that two shares KBC BANK will be issued in exchange for one share ANTWERP DIAMOND BANK.

There will be no cash payment.

As of the moment the new shares are issued, such new shares will bear the same rights as the existing shares of the acquiring company.

#### 4.3. Implications

The merger by acquisition will have the following simultaneous legal consequences by operation of law:

- ANTWERP DIAMOND BANK ceases to exist;
- The minority shareholder of ANTWERP DIAMOND BANK becomes shareholder in KBC BANK;
- All assets and liabilities of ANTWERP DIAMOND BANK transfer to KBC BANK.

### 5. ACCOUNTING DATE – PROFIT-SHARING

As stipulated in the merger proposal, all transactions of ANTWERP DIAMOND BANK shall from an accounting perspective be treated as being those of KBC BANK as of 1 January 2015.

The shares issued by KBC BANK at the time of the merger will share in the profit as of 1 July 2015.

### 6. METHODS ACCORDING TO WHICH THE SHARE EXCHANGE RATIO HAS BEEN ESTABLISHED

The valuations were executed on the basis of the figures per 31 December 2014 of both KBC BANK and ANTWERP DIAMOND BANK.

For the determination of the value of KBC BANK and ANTWERP DIAMOND BANK two methods were applied:

1. Valuation based on the net asset value (based on the BGAAP annual accounts of both KBC BANK and ANTWERP DIAMOND BANK per 31 December 2014);
2. Valuation based on fair value.

### 7. RESULTS OF THE VALUATION

On the basis of the aforementioned methods, following values were obtained for both merging companies:

#### 7.1. Valuation based on net asset value

In thousands of euros	<b>KBC BANK</b>	<b>ANTWERP DIAMOND BANK</b>
<b>ACCOUNTING NET ASSETS</b>		
- Capital	8 948 439,7	34 350,3
- Share premium account	895 449,6	0

- Reserves	160 411,5	114 092,2
- Profits brought forward	8 313,5	0
<b>Total</b>	<b>10 012 614,3</b>	<b>148 442,5</b>

## 7.2. Valuation based on fair value

### Fair value of ANTWERP DIAMOND BANK:

The fair value of ANTWERP DIAMOND BANK is deducted from the sale agreement between KBC BANK and Jiangsu Yinren Group which was concluded on 22 September 2013: 23.340.000 euro.

### Fair value of KBC BANK:

The fair value of KBC BANK is deducted from the relative value of KBC BANK in the market value of KBC Group NV as listed company (please see the below table, in Dutch).

#### **1. Gegevens**

- Bijdrage KBC Bank tot het <b>adjusted</b> resultaat van KBC Groep	31/12/2012	31/12/2013	31/12/2014
bijdrage resultaat KBC Bank	1.101	784	1.376
adjusted resultaat KBC Groep	1.496	960	1.629
	74%	82%	84%
gemiddeld			80%

#### **2. Waarde KBC Groep**

- beursprijs	57,81 EUR	slotkoers 24/03/2015	
- aantal aandelen KBC Groep situatie maart 2015			417.780.658
Te beschouwen beurkapitalisatie			24.151.899.839
Waarde KBC Bank:	80% van	24.151.899.839 =	19.299.937.954

## **8. THE RELATIVE IMPORTANCE ATTRIBUTED TO THE APPLIED VALUATION METHODS**

Given the substantial differences between the results of both valuation methods, it is opted to retain the valuation method based on net asset value. This valuation method offers in absolute and relative terms the highest valuation for ANTWERP DIAMOND BANK.

Hence, no other valuation method is retained.

No difficulties were encountered in the course of the valuation exercise.

## **9. PROPOSED EXCHANGE RATIO**

As compensation for the transfer of all assets and liabilities from ANTWERP DIAMOND BANK to KBC BANK, shares in KBC BANK are issued to the minority shareholder of ANTWERP DIAMOND BANK.

The exchange ratio between the new shares KBC BANK to be issued and the share ANTWERP DIAMOND BANK is thus fixed at:

2 new shares KBC BANK in exchange for 1 share ANTWERP DIAMOND BANK

Calculated according to the following formula:

Value ANTWERP DIAMOND BANK	Amount of shares KBC BANK	Amount of new shares
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-----	X	-----	=	KBC BANK
Value KBC BANK		Amount of shares ANTWERP DIAMOND BANK before the merger		to be issued

Or elaborated:

148 442,5*		915 228 482		
-----	X	-----	=	1,77
10 012 614,3*		7 686 400		

\* Expressed in thousands of euros.

Rounded up this results in a 2 to 1 exchange ratio.

## 10. ALLOTMENT OF THE NEW SHARES

Consequently, the acquiring company will issue two new shares.

The allotment of the new shares to be issued as a result of the merger will occur via entry of the shares allocated to the minority shareholder of ANTWERP DIAMOND BANK in the shareholders' register of KBC BANK.

## 11. AMENDMENTS OF THE ARTICLES OF ASSOCIATION

Following the merger decision the articles of association of KBC BANK will be amended, amongst others because of the increase of the statutory capital with 19,56 euro and the issue of two shares, at par value of 9,78 euro and book value of 10,94 euro per share, as a result of the merger.

We propose to approve and to realize the merger by acquisition of the company with limited liability ANTWERP DIAMOND BANK by the company with limited liability KBC BANK in accordance with the aforementioned terms and conditions.

Done on 16 April 2015.

On behalf of the Board of Directors

Name:  
Director

Name:  
Director

Annexes

- 1. Draft annual accounts KBC BANK per 31 December 2014*
- 2. Draft annual account ANTWERP DIAMOND BANK per 31 December 2014 (in Dutch)*

