

**Report of the Board of Directors of KBC Group NV drawn up in accordance with Article 604, second paragraph of the Belgian Companies Code with a view to granting authorisation to the Board of Directors to increase the share capital**

**A. Current situation at KBC Group NV**

The Articles 7A and 7B of the Articles of Association of KBC Group NV ('hereinafter referred to as 'the Company') granted authorisation to the Board of Directors to increase the Company's share capital by means of issuing shares, convertible bonds (whether subordinated or otherwise) or warrants linked or otherwise to bonds (whether subordinated or otherwise) by 700 000 000 euros in accordance with the terms and conditions to be set by the Board of Directors.

If the Board of Directors decided to increase the capital through a contribution in cash or to issue the aforementioned bonds or warrants, the Board could – in the Company's interest and within the confines of the law – suspend or limit the preferential subscription rights of the existing shareholders to the extent of the maximum amount of the authorisation of 700 000 000 euros.

This authorisation was decided on at the Extraordinary General Meeting of 2 May 2013. It was published in the Appendices to the Belgian Official Gazette of 21 May 2013, and was valid until 20 May 2018.

A proposal to renew this authorisation, in identical terms, was submitted to the Extraordinary General Meeting of 3 May 2018. This proposal failed to obtain the required majority of three-quarters of the votes.

The Board of Directors believes that an authorised capital is necessary. Therefore a proposal to grant a new authorisation to increase the share capital and to amend Articles 7A and 7B of the Articles of Association accordingly is submitted to the Extraordinary General Meeting of 4 October 2018. In terms of this proposal, an authorisation of 700 000 000 euros or approx. 50% of the present share capital is requested for. However, the possibility to suspend or restrict the preferential subscription rights of existing shareholders will be limited to a maximum amount of 291 000 000 euros, i.e. a maximum of 20% of KBC Group NV's present share capital.

**B. Proposal by the Board of Directors to the General Meeting**

The Board of Directors requests the Extraordinary General Meeting of 4 October 2018 to grant a new authorisation to increase the share capital, valid for a period of five years starting from publication of the amendment to the Company's Articles of Association of 4 October 2018.

The authorisation is requested to increase the capital, in one or more steps, by means of issuance of shares, of convertible bonds (subordinated or otherwise), or of warrants, linked or otherwise to subordinated or unsubordinated bonds and this

1°) by an amount of two hundred ninety-one million euros (291 000 000 euros). When the Board of Directors decides within the framework of this part of the authorisation on an issue to which in principle the preferential subscription rights of existing shareholders apply, the Board is authorised, up to a maximum amount of two hundred and ninety-one million euros (291 000 000 euros) and in the company's interest, to suspend or restrict

these preferential subscription rights.  
and

2°) by an amount of four hundred and nine million euros (409 000 000 euros). By using this part of the authorisation, the Board of Directors is not authorised to suspend or restrict the preferential subscription rights of existing shareholders.

The Board of Directors requests the General Meeting to approve the authorisation for each of the two parts under 1°) and 2°) separately.

When the proposal will have been approved in respect of both parts, the total maximum amount of authorised capital will be 700 000 000 euros, of which maximum 291 000 000 euros can be used for issues with suspension or restriction of the existing shareholders' preferential subscription rights.

Furthermore, the proposed conditions are the same as those of the authorisation that was granted by the Extraordinary General Meeting of 2 May 2013.

#### **B.1 Justification for granting the authorisation to increase the share capital – Intended purposes and particular circumstances in which use can be made of the authorised capital**

As a financial group KBC is subject to specific regulatory capital and solvency requirements and to standards for an appropriate and/or necessary policy for capital requirements and financial ratios that are imposed on it by European and national regulation for financial groups and the regulated companies that make up those groups.

KBC needs to meet these requirements at all times and needs to be able, especially when these capital targets are at risk of being breached, to respond quickly and swiftly in order to remediate the situation and restore its capital position. Therefore, it is important that KBC Group NV has an authorised capital at its disposal to permanently meet the requirements both at company level as well as to support its subsidiaries in this respect.

The regulatory capital consists of shares (core equity Tier 1-capital) but also of other instruments, like amongst others additional Tier 1- instruments in which a write-down or conversion mechanism (in shares) must be incorporated. The issue of instruments with a conversion mechanism implies a delayed capital increase, so that it is relevant for KBC Group NV to dispose of the necessary authorised capital to respond quickly to appropriate market conditions for the placement of such instruments.

All this means that the authorised capital is of more prominent importance for a financial services group like KBC than is the case for other 'common' companies.

Other than for the necessary conservation of capital, the Board of Directors intends to use its authorisation to provide the Company with the resources it requires to allow the Company and its subsidiaries to expand.

In addition, the authorised capital may be used for certain transactions that occur regularly such as (according to the current practice, annual) capital increases for staff, occasional capital increases as a result of optional dividends or mergers with a subsidiary in which the Company holds at least 90% (but not all) of the shares. The Board of Directors may also use the authorised capital to issue warrants (e.g.

as part of a stock option plan) or other securities to some or all staff of the Company and/or of companies of the KBC group and/or to certain other persons in respect of their professional activity.

Furthermore, the Board of Directors considers the instrument of increasing capital useful, and even necessary, to be able to respond quickly to certain circumstances such as specific market opportunities, interesting investment opportunities or alternative disputes settling.

The above specification of the purpose of and circumstances in which the Board of Directors may exercise the authorisation granted to it is not in any way exhaustive, since the authorised capital has the specific aim of responding rapidly to certain opportunities or dealing easily with new challenges or situations that cannot currently be predicted for the coming five-year period. The standard is that the Board of Directors must always act in the interests of the Company.

## **B.2 Justification of the amount proposed for the authorised capital**

The statutory maximum amount of authorised capital is that of the share capital.

On the day of the Extraordinary General Meeting to be held on 4 October 2018, the Company's share capital is 1 456 074 585.67 euros. The aforementioned amount of 700 000 000 euros (which is the maximum amount of the authorisation provided that both parts under 1°) and 2°) are approved) is therefore well beneath the statutory maximum.

Taking into account the current par value of 3.51 euros, this authorisation will allow for the issue of a maximum of 199 430 199 new shares, only 82 905 982 of which could be issued subject to a suspension or limitation of the shareholders' preferential subscription rights.

## **B.3 Justification of the option to limit or suspend the shareholders' preferential subscription rights**

The authorisation includes the possibility for the Board of Directors to limit or suspend the existing shareholders' preferential subscription rights, whether to the benefit of one or more specific persons or otherwise, to the extent of maximum 291 000 000 euros (corresponding to approximately 20% of KBC Group NV's current share capital ).

Given the current shareholder structure of the Company, where an important package of shares is spread among the public, this option is highly useful and even necessary.

In the past years this option was used in order to perform an annual capital increase (of very limited scope) for the benefit of the employees of the Company and of the KBC group's affiliates:

- on 19 December 2013, the issued share capital was increased by 1 381 570.44 euros.
- on 17 December 2014, the issued share capital was increased by 1 448 724.00 euros.
- on 23 December 2015, the issued share capital was increased by 1 066 272.00 euros.
- on 23 December 2016, the issued share capital was increased by 991 883.52 euros.
- on 21 December 2017, the issued share capital was increased by 784 687.80 euros.

Moreover, this option is also crucial in order to permanently comply with the requirements laid down in terms of capital and solvency and the demands in terms of a proper and necessary policy in relation to capital requirements and financial ratios as mentioned under B1 above.



Thus, the ability to perform a capital increase at very short notice (i.e. without going through the formalities and timetable inherent in both calling a general meeting and issuing shares in adherence to the shareholders' preferential subscription rights) means that KBC Group NV can take swift remedial measures in a recovery scenario.

Having the authorisation to increase the share capital with the possibility to suspend or limit the existing shareholders' preferential subscription right is of great importance, even if no use is made of it. Under the regulatory capital requirements KBC Group NV is obliged to prepare a group recovery plan and to submit it to the relevant supervisory authorities (the European Central Bank). The ability to effect a capital increase at very short notice is a substantial feature of a credible and effective recovery plan.

#### **B.4 Justification of the conditions relative to the authorised capital**

The increases of capital decided upon under this authorisation may be carried out, within the confines of the law, by both contributions in cash or in kind and by the incorporation of reserves (which may or may not involve the issue of new shares), including the share premium account unavailable for distribution.

It is also proposed that the current option the Board of Directors has to determine the dividend entitlement of the shares issued under the authorised capital, be maintained. This will, for instance, allow the Board of Directors to deviate from the principle of the pro rata dividend entitlement of the newly issued shares and to decide that such shares are entitled to dividend from the start of the financial year (e.g. the financial year in which they were issued or the subsequent financial year). This is simpler from an administrative and accounting point of view.

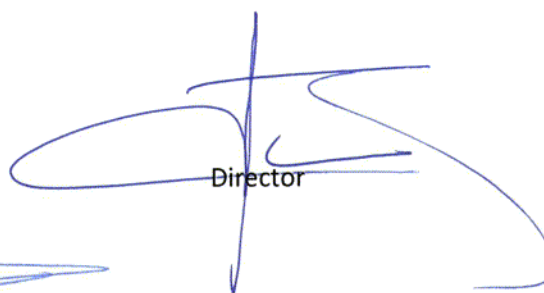
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Director



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Executive Director

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