

**KBC BANK**  
**Naamloze vennootschap (company with limited liability)**  
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**Report of the Board of Directors of KBC Bank NV drawn up in accordance with (i) Article 604, second paragraph of the Belgian Companies Code (hereinafter referred to as 'the Companies Code') with a view to renewing the authorisation of the Board of Directors to increase share capital**

**Current situation at KBC Bank NV**

The current Articles 7A and 7B of the Articles of Association of KBC Bank NV (hereinafter referred to as 'the Company') grant the Board of Directors authority to increase the Company's share capital by four billion euros (4 000 000 000 euros) in accordance with the terms and conditions to be set by the Board of Directors, by means of issuing shares, convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise).

The increases of capital decided upon under this authority 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.

If it decides to increase capital through a contribution in cash and if it decides to issue the aforementioned bonds or warrants, the Board of Directors may, in the Company's interest and within the confines of the law, limit or suspend the preferential subscription rights of existing shareholders, possibly to the benefit of one or more specific persons, on the understanding that, upon the issue of warrants, such warrants may not be destined primarily for one or more specific persons other than employees of the Company or of its subsidiaries. In the event of the suspension or limitation of the preferential subscription rights, the Board of Directors may grant a right of precedence to the existing shareholders on allotment of the new shares or of the bonds or warrants.

This authorisation was decided on at the Extraordinary General Meeting of 28 April 2010. It was published in the *Appendices to the Belgian Official Gazette* of 21 May 2010 and is valid until 20 May 2015.

## **Proposal**

The Board of Directors has so far not used the authorisation granted by the Extraordinary General Meeting of 28 April 2010. Nevertheless, the Board of Directors proposes that, on the occasion of the Extraordinary General Meeting to be held on 24 April 2013, the shareholders renew the amount by which the capital of KBC Bank may be increased for an amount of 4 billion euros (4 000 000 000 euros) for a new period of five years, starting from the time of publication of the amendments to the Articles of Association of 24 April 2013. Besides that, the same terms and conditions will continue to apply as apply under the current authorisation, including the authorisation granted to the Board of Directors to determine the dividend entitlement of the shares issued under the authorised capital.

Taking account of the share's current par value of 9.78 euros, such authorisation would allow for the issue of 408 997 955 shares by the Board of Directors.

## **Reasons for granting the authorisation to increase capital**

Although KBC Bank has a closed shareholder circle, it is still useful to give the Board of Directors authorisation to increase capital, as this can avoid, in the event of a capital increase, KBC Bank bondholders who are entitled to attend the general meeting with advisory voting capacity having to be invited with due observance of the prescribed convening period (currently 15 days). The authorisation to increase capital thus offers the opportunity to respond quickly and easily to capital requirements and/or market opportunities.

Furthermore, the terms and conditions of several KBC Bank tier-1 issues include the option, or obligation where applicable, to use an alternative method of coupon payment which involves paying the bondholders their coupon in the form of shares in KBC Group NV. This will occur via a double contribution in kind, i.e. they will first contribute their debt claim to the capital of KBC Bank in exchange for shares in KBC Bank and then contribute their KBC shares in KBC Bank to the capital of KBC Group NV in exchange for shares in the latter. The commitment was entered into to execute such a capital increase in KBC Bank under the authorisation to increase capital, so that the Board of Directors must always have sufficiently broad authorisation if necessary to organise a capital increase within the framework of the aforementioned issues.

In December 2009, a Portfolio Protection Agreement was agreed between the Belgian State, KBC Bank NV, KBC Insurance NV and KBC Group NV. In this agreement, it was agreed that, against payment of a guarantee fee, the State would provide credit protection to KBC Bank and KBC Insurance for a large portion of their portfolio of structured products, in proportion to the credit exposure of each of their respective subsidiaries. This arrangement means that KBC Bank or KBC Insurance (depending on which company sustains a loss at consolidated level) can demand once per quarter a capital contribution from the State in KBC Group for an amount equal to 90% of the losses in the so-called Equity Range. This means the obligation for KBC Group to transfer the money it thus receives to KBC Bank and/or KBC Insurance,

and to do so in principle in the form of a capital increase that can be carried out under the authorisation to increase capital.

It will also be 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.

### **Reasons for the amount of the proposed authorised capital**

The legally permitted maximum amount of the authorised capital is equal to the amount of the share capital.

Currently, the share capital of the company amounts to 8 948 439 652.39 euros so that an authorised capital of 4 000 000 000 euros is legally perfectly possible.

The amount of 4 000 000 000 euros is proposed with a view to the capital increases in the Company to which the aforementioned tier-1 issues and *Portfolio Protection Agreement* could give rise to<sup>1</sup> and as a cautionary measure takes account of the current economic situation which could still require significant capital increases to be carried out quickly and easily.

This amount not only easily meets the terms and conditions of the aforementioned tier-1 issues and *Portfolio Protection Agreement*, but it also provides a wide margin for other necessary and/or useful capital increases.

### **Purpose of the authorised capital and special circumstances in which it can be used**

The Board of Directors intends to use its authorisation to provide KBC Bank with the resources it requires to allow it to grow and to continue meeting the standards for solvency and the requirements for appropriate and/or necessary policy for capital requirements and financial ratios that are imposed on it as a credit institution by European and national legislation and regulations. In addition, the authorised capital may be used for the purpose of the aforementioned tier-1 instruments and *Portfolio Protection Agreement* or mergers with a subsidiary in which the Company holds at least 90% (but not all) of the shares.

The Board of Directors considers the instrument of authorising an increase in capital useful, and even necessary, to be able to respond quickly to certain circumstances such as specific market opportunities or crisis situations.

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<sup>1</sup> The *Equity Range* amounts to 1 456 300 000 euros for all the transactions combined, such that the maximum amount that the *Portfolio Protection Agreement* may give rise to is 1 310 670 000 euros.

The authorisation includes an option for the Board of Directors to limit or suspend the preferential subscription rights of existing shareholders. Given the current shareholder structure of the Company, this possibility makes particular sense in those cases where not all shareholders (in proportion to their shareholding) wish to participate in a particular capital increase.

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.

Done at Brussels on 18 March 2013.

Director

Director