Unofficial translation of the original Dutch version. Should discrepancies exist, the Dutch version will take precedence.

KBC GROUP
***Naamloze vennootschap* (company with limited liability)**
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Report of the Board of Directors of KBC Group 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 and (ii) Article 604 *juncto* 607 of the Companies Code with a view to renewing the authorisation of the Board of Directors to increase share capital following notification from the FSMA concerning a public takeover bid

A. Current situation at KBC Group NV

1. *Regarding Article 604, second paragraph of the Companies Code with a view to renewing the authorisation of the Board of Directors to increase share capital*

The current Articles 7A and 7B of the Articles of Association of KBC Group NV (hereinafter referred to as 'the Company') grant the Board of Directors authority to increase the Company's share capital by nine hundred million euros (900 000 000 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 one or more 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 30 April 2009. It was published in the *Appendices to the Belgian Official Gazette* of 22 May 2009 and is valid until 21 May 2014.

2. Regarding Article 604 juncto *607 of the Companies Code with a view to renewing the authorisation of the Board of Directors to increase share capital following notification from the FSMA concerning a public takeover bid*

Article 7C of the Articles of Association of the Company currently grants the Board of Directors, pursuant to Article 607 of the Companies Code, special powers to increase capital – under the conditions and within the limits laid down in the Companies Code, and within the confines of the current authorisation as set out in Articles 7A and 7B of the Articles of Association – even after the date of receipt of notification from the FSMA that is has been apprised of a public takeover bid for the Company's securities.

This authorisation was granted by the Extraordinary General Meeting of 28 April 2011 and is valid until 27 April 2014.

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

1. *Regarding Article 604, second paragraph of the Companies Code with a view to renewing the authorisation of the Board of Directors to increase share capital*

Although the current authorisation has so far only partially been used and although that authorisation has been granted for a period of five years starting from publication of the amendments to the Articles of Association decided on by the Extraordinary General Meeting of 30 April 2009 (i.e. until 21 May 2014), the Board of Directors believes that it is useful to propose to the Extraordinary General Meeting to be held on 2 May 2013 that this authorisation be renewed for an amount of seven hundred million euros (700 000 000 euros) for a new period of five years, starting from the time of publication of the amendments to the Articles of Association of 2 May 2013. Besides that, the same terms and conditions will continue to apply as apply under the current authorisation.

Taking account of the share's current par value of 3.48 euros, such authorisation would allow for the issue of 201 149 425 shares by the Board of Directors.

The aforementioned amount of 700 000 000 euros is still well below the legally permitted maximum, which, based on the share capital amount on the date of the Extraordinary General Meeting (2 May 2013), is 1 450 401 447.91 euros.

Reasons for granting the authorisation to increase capital *(i) Capital requirements and/or market opportunities*

The authorisation to increase capital offers the opportunity to respond quickly and easily to capital requirements and/or market opportunities.

Due to a change in merger legislation, it will be possible from now on and provided certain conditions are met, for the Board of Directors of the Company to decide, within the limits of its authorisation to increase capital, to merge by acquisition of a company in which it holds at least 90% (but not all) of the shares and other securities that grant it entitlement to vote.

(ii) Commitments relating to the issue of tier-1 instruments

In addition, as regards the GBP 525 000 000 Directly Issued Perpetual Debt Securities (tier-1 instrument) issued by KBC Bank, the Company has undertaken to take all reasonable measures to ensure that it has sufficient authorised capital for the purpose of this issue. Indeed, the terms and conditions of this issue 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 the Company. 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 the Company in exchange for shares in the Company. The Company has undertaken to carry out this capital increase using its authorisation to increase capital.

In 2008, the Company entered into similar commitments with respect to two new tier-1 instruments issued by KBC Bank, i.e. the 1 250 000 000 8% Euro Directly Issued Perpetual Debt Securities (issued in May 2008) and the EUR 700 000 000 8% Euro Directly Issued Perpetual Debt Securities (issued in June 2008), where the issue terms and conditions also allow for an alternative method of coupon payment that is similar to the one described in the previous paragraph.

(iii) *Portfolio Protection Agreement*

In December 2009, a Portfolio Protection Agreement was agreed between the Belgian State, the Company, KBC Bank NV and KBC Insurance 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 the Company for an amount equal to 90% of the losses in the so-called Equity Range, which at present totals 1 456 300 000 euros for all transactions.

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.

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.

When the authorisation to increase capital was last renewed, the share capital amounted to 1 244 334 873.07 euros and the Board of Directors was granted authorisation to increase capital to the tune of 900 000 000 euros.

On the date of the Extraordinary General Meeting (2 May 2013), the share capital will total 1 450 401 447.91 euros. Taking into account the current par value of 3.48 euros, the amount of 700 000 000 euros will allow for the issue of up to 201 149 425 shares. This amount is being proposed account taken of:

- the above-mentioned commitments entered into in respect of the tier-1 instruments issued by KBC Bank which – on the assumption that the shares would be issued at 28.75 euros each – could lead to the issue of 5 537 198 shares;
- the above-mentioned Equity Range of the Portfolio Protection Agreement which – also on the assumption that the shares would be issued at 28.75 euros each – could lead to the issue of 45 588 521 shares;
- the fact that it is in the interests of the Company to be able to carry out significant capital increases quickly and easily.

This amount not only easily meets the terms and conditions of the aforementioned issues, 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 for purposes including providing the Company with the resources it requires to allow it and its subsidiaries to expand. The aim is also to ensure that the Company and the group, as well as the Company's direct and indirect subsidiaries, each individually meet the standards for solvency and the requirements for appropriate and/or necessary policy for capital requirements and financial ratios that are imposed on or will be imposed on it or planned for it by European and national legislation and regulation for financial groups and the regulated companies that make up those groups.

In addition, the authorised capital may be used for the purpose of the aforementioned tier-1 instruments, the Equity Range in the Portfolio Protection Agreement and certain transactions that may recur regularly, such as capital increases for staff, 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.

Where necessary, the authorised capital may also be used as an alternative method of settling disputes.

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 acquisition opportunities or crisis situations.

The authorisation includes an option for the Board of Directors to limit or suspend the preferential subscription rights of existing shareholders, whether to the benefit of one or more specific persons or otherwise. Given the current shareholder structure of the Company, where a package of shares is in public circulation, this option is highly useful and even necessary.

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.

2. Regarding Article 604 juncto *607 of the Companies Code with a view to renewing the authorisation of the Board of Directors to increase share capital following notification from the FSMA concerning a public takeover bid*

In accordance with Article 7C of the Articles of Association of the Company, the Board of Directors is authorised for a period of three years counting from 28 April 2011 (i.e. until 27 April 2014) to increase the capital of the Company following notification from the FSMA concerning a public takeover bid for the Company's securities.

Since the current authorisation lapses on 27 April 2014, and to avoid having to convene an interim Extraordinary General Meeting prior to the Annual General Meeting to be held in May 2014 to propose renewing this authorisation, it is now being proposed to the Extraordinary General Meeting of 2 May 2013 that the authorisation granted to the Board of Directors be renewed for a period of three years starting on 2 May 2013.

Given that the number of shares that may be issued upon exercise of this authorisation may not exceed 10% of the total number of existing shares (currently a maximum of 41 696 735 shares) the amount of 700 000 000 euros (which, based on the current par value amounts to 201 149 425 shares) is amply sufficient.

Purpose

This authorisation to increase capital following notification from the FSMA concerning a public takeover bid is intended to enable the Board of Directors to respond to a hostile takeover bid or to the risk that a blocking minority might emerge that could jeopardise KBC's anchoring, stability, continuity or development. This purpose needs to be interpreted in the broadest sense.

Done in Brussels on 18 March 2013.

Director

Director