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KBC Group explains remuneration of CEO and Executive Committee following publication of 2017 Annual Report

In its annual report, KBC Group NV provides transparent information concerning the salary and other remuneration received by the members of the Board of Directors and Executive Committee for the past financial year.

The remuneration policy takes account of prevailing legislation, the Corporate Governance Code and market data. The many statutory and regulatory provisions imposed on financial institutions create a highly restrictive framework that offers little scope for KBC to pursue its own policy in this regard. What's more, that policy needs to be consistent with healthy and effective risk management, and the incentives in the system must not promote risks.

Based on inflation and the solid individual and collective performances, the maximum remuneration awarded to the CEO and the members of the Executive Committee rose by 6.4% and 5.6%, respectively. Only part of this increase has been acquired. A major part of it relates to the variable emolument and, therefore, will depend on future performances.

General framework

The policy for remunerating members of senior management (the Board of Directors, Executive Committee, top management and 'risk takers') is published in the Remuneration Policy. It contains a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:

- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group – not applicable to ČSOB employees in the Czech Republic on account of this being explicitly prohibited by the Czech National Bank) and a performance-related component;
- at least 40% of variable remuneration awarded to top management, also known as *key identified staff*, may not be paid straightaway but its payment is to be spread over a period of three years. For members of the Executive Committee and for senior general managers, this is 50% (or even 60% if the variable remuneration component exceeds 200 000 euros), with its payment being spread over a period of five years;
- half of the total amount of variable remuneration for key identified staff be awarded in the form of equity-related instruments (phantom stocks) so that the long-term effects of the policy on the value of the KBC group can also be reflected in the variable remuneration component;
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place;
- the variable remuneration component may not exceed half of the fixed component;
- variable remuneration be capped at a nominal 750 000 euros;
- the criteria for assessing the performance of the EC member responsible for the risk function may not refer in any way to the results of the KBC group;
- at least one of the criteria used for assessing the performances of top management must always relate to risk;

- at least 10% of variable remuneration awarded to top management must also be subject to the achievement of individual targets that have been agreed beforehand in relation to the group's sustainability policy.

For additional details and background information on the remuneration for the CEO, the members of the Executive Committee and the Board of Directors of KBC Group NV, please see the 'Remuneration report for financial year 2017' section of the KBC Group 2017 Annual Report, which is available at www.kbc.com. The amounts stated in it are gross and subject to standard income tax.

Remuneration paid to the President and the other members of the Executive Committee

The remuneration of individual Executive Committee members is made up of a fixed monthly emolument and an annual variable emolument. In turn, the variable component depends in part on the performance of the Executive Committee as a whole and on the performance of the institution, and in part on the performance of each individual member. Before the variable remuneration component may be awarded, a number of capital and liquidity parameters have to be met (the so-called risk gateway).

For members of the Executive Committee, the individual variable component is set on the basis of an assessment of the performance of the member in question. The Board of Directors awards each member of the Executive Committee a score for each of the five aspects of KBC's corporate culture (*PEARL: Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness*) and the core value of being *Respectful*. The aggregate score for these six aspects ultimately determines the size of the individual variable emolument.

On the advice of the Remuneration Committee, the Board sets the performance-related variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the Executive Committee and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders (staff, clients, the Board and society). The performance of the Executive Committee in each of these four areas determines the size of the performance-related component (with each area accounting for 25% of the final outcome).

- As regards implementing strategy – besides achieving any specific targets – the main focus is on what has been achieved in terms of client centricity, sustainability and encouraging responsible conduct, and innovation (preparing for the digital revolution).
- The criteria for assessing whether the financial plans have been achieved comprise a number of financial parameters (return, profit, capital, and cost of credit), but also an assessment of the progress made in further implementing the bank-insurance model and income diversification.
- Strengthening the risk control environment is assessed based on stated liquidity, capital and funding criteria, implementing recommendations made by audit and the regulator, and the degree to which the quality of data has improved.
- Stakeholder satisfaction is assessed on the basis of the results from the client and employee satisfaction surveys, a general reputation survey and on the progress made in the area of sustainability.

This assessment of all these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum performance-related variable emolument. **The size of the variable emolument, therefore, depends to a very small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.**

Based on inflation and the solid performance of each member and the Executive Committee as a whole, and after studying the findings of the annual study on the remuneration awarded to the top management of BEL 20 companies and an extensive selection of continental European financial institutions, the Board decided – on the advice of the Remuneration Committee – with effect from 1 January 2018 to:

- increase the fixed remuneration component for Johan Thijs from 1 160 000 to 1 220 000 euros per year and the maximum variable remuneration component from 560 000 to 610 000 euros (450 000 euros for the performance-related variable emolument and 160 000 euros for the individual variable emolument). Therefore, his maximum total remuneration has gone up to 1 830 000 euros (+6.4%);
- increase the fixed remuneration component for the other members of the Executive Committee from 815 000 to 835 000 euros per year and the maximum variable remuneration component from 330 000 to 375 000 euros (275 000 euros for the performance-related variable emolument and 100 000 euros for the individual variable emolument). Therefore, their maximum total remuneration has risen to 1 210 000 euros (+5.6%).

As in 2016, the remuneration awarded to non-executive directors in 2017 remained unchanged

The remuneration paid to non-executive directors consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.

In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.

The directors sitting on the Audit Committee or the Risk & Compliance Committee receive an additional fixed emolument for the work they perform in that regard.

Defined contribution pension scheme

The members of the Executive Committee have a separate defined contribution plan that is funded entirely by KBC and takes account of the fact that the career of a member (and especially the President) of the Executive Committee is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the Executive Committee are the ones in which a significant part of the supplementary pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument (40% for the CEO) during those first ten years, 7% for the next five years (3% for the CEO) and 3% starting from the sixteenth year of plan membership.

A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions.

Given the specific structure of this new pension plan, funding of the plan is no longer spread equally over the entire career of the member of the Executive Committee in question. As a result, the size of the payment made into the pension fund is substantially higher in the first ten years, but drops to a fraction of that in the years that follow, especially from the sixteenth year on.

Background information

Relative importance and characteristics of the different variable remuneration components

The variable component is split into a performance-related variable emolument and an individual variable emolument. The performance-related variable component for the President of the EC is set between 0 and 420 000 euros and the individual variable component between 0 and 140 000 euros. The limits for these components are 245 000 euros and 85 000 euros, respectively, for the other members of the EC. As explained above, the final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year.

On the advice of the Remuneration Committee, the Board sets the performance-related variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders (staff, clients, the Board and society). The performance of the EC in each of these four areas determines the size of the performance-related component (with each area accounting for 25% of the final outcome).

This assessment of all these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum performance-related variable emolument. The size of the variable emolument, therefore, depends to a very small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.

Based on the advice of the Remuneration Committee, the Board decided that the members of the Executive Committee should be awarded performance-related variable remuneration for 2017 that equalled 96.46%.

The remuneration package awarded to members of the Executive Committee does not include a long-term bonus.

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