



**KBC Group**  
**Compensation Report 2015**

# Introduction

The Compensation Report provides information on KBC Group level remuneration principles and discloses remuneration figures for financial year 2015 based on European and national legislation.

The report comprises the following sections:

- Remuneration overview
- Risk adjustments
- Corporate governance
- Disclosing information on remuneration

## Remuneration overview

KBC introduced the KBC Remuneration Policy in 2010, which defines general remuneration guidelines for all staff and specific remuneration guidelines for those employees who could have a material impact on the risk profile of the company, also known as “Key Identified Staff”. Due to the continuously changing legislation for financial institutions, the KBC Remuneration Policy has been amended each year.

### **a) Total remuneration principles**

An employee’s total compensation consists of two elements: fixed remuneration and variable remuneration. Fixed remuneration is mainly determined on the basis of the function of the employee, including responsibility and job complexity. The level of variable remuneration can depend on several factors, such as the firm’s overall performance, the performance of the employee’s business division, the performance related to sustainability objectives and the employee’s individual performance. The setting of remuneration takes market practice, competitiveness, risks, the long-term objectives of the company and its stakeholders, and the continuously changing regulations into account.

### **b) Key Identified Staff**

KBC applies specific rules for Key Identified Staff, the definition of which has changed as of 2014 based on the European regulation concerning identified staff<sup>1</sup>. The performance-based remuneration of Key Identified Staff is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking. This is ensured by specific rules, which are applicable to the variable remuneration of Key Identified Staff:

- at least 40% of variable remuneration awarded to Key Identified Staff may not be paid straightaway and its payment is spread over a period of three years;
- half of the total amount of variable remuneration for Key Identified Staff is awarded in the form of non-cash instruments with a one-year retention period;
- no advance payments may be made in relation to the variable component and claw-back/holdback is put in place

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<sup>1</sup> [http://ec.europa.eu/internal\\_market/company/docs/modern/140304-regulatory-technical-standards\\_en.pdf](http://ec.europa.eu/internal_market/company/docs/modern/140304-regulatory-technical-standards_en.pdf)

Key Identified Staff who are allocated variable compensation of less than an upfront agreed amount with National Bank of Belgium are considered exempt Key Identified Staff. In this case, variable remuneration is not subject to three years' deferral and payment in non-cash instruments. The employees whose variable remuneration is subject to deferral and payment in non-cash instruments are called material Key Identified Staff.

Based on local legislation and/or an internal decision for a certain employee group, deferral schemes might be more severe for both material and exempt Key Identified Staff.

### Structure for 2015 variable compensation - Employees of KBC Group

Material Key Identified Staff	Individual variable remuneration awarded for 2014 performance year			
	Upfront part		Deferred part	
Group ExCo members	50% of award		50% of award	
Senior General Managers	50% of award		50% of award	
Other material K.I.S.	60% of award		40% of award	
	Cash (50% of Upfront)	Non-cash Instrument (50% of Upfront)	Cash (50% of Deferred)	Non-cash Instrument (50% of Deferred)
Vesting schedule	fully vested at Grant (April 2016)	fully vested at Grant (April 2016)	3 -year equal vesting tranches (April 2017, 2018, 2019)	3 -year equal vesting tranches (April 2017, 2018, 2019)
Retention period		retention period ends April 2017		retention period ends one year after vesting (April 2018, 2019, 2020)

The Cash is payable following vesting.  
 The Non-cash instrument is payable following the retention period.  
 Based on local legislation more severe deferral scheme might be applied.

#### Exempt Key Identified Staff



100% of cash is paid upfront  
 Based on local legislation and/or an internal decision a more severe deferral scheme might be applied for a certain group of employees

#### All other employees



100% of cash is paid upfront

## Risk adjustments

Variable remuneration is subject to ex-ante and ex-post risk adjustments.

### a) Ex-ante risk adjustment

Ex-ante risk adjustment is achieved through a qualitative and a quantitative risk-adjusted performance measurement framework. The Risk Gateway is part of the quantitative measurement framework and It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board of Directors. If one or more of these parameters are not met, this variable remuneration component will not be awarded, and payment of deferred amounts relating to previous years will also be suspended.



In case of Key Identified Staff, the Risk Gateway 2015 has an impact on the parts highlighted in yellow:

A. the deferred part of previous years' awarded variable due to vest in April 2015						
	Deferred Cash			Deferred Non-cash Instrument		
	April 2014	April 2015	April 2016	April 2014	April 2015	April 2016
Performance Year 2012						
Performance Year 2013						
Performance Year 2014						

B. the variable remuneration to be granted for 2015	
Performance Year 2015	total amount of variable compensation 2015

- ✔ **In case of the Risk Gateway 2015**
  - variable remuneration might be granted for 2015
  - deferred parts might be vested following ex-post risk adjustment
- ✘ **all criteria were met, meaning:**
  - variable remuneration could not be granted for 2015
  - deferred parts could not be vested and would be lost
- ✘ **If one of the criteria would have not been met:**
  - variable remuneration could not be granted for 2015
  - deferred parts could not be vested and would be lost

### b) Ex-post risk adjustment

Variable compensation is also subject to ex-post risk adjustment measures. Ex-post risk adjustment operates either by reducing deferred but unvested amounts (malus) or by reclaiming deferred amounts already vested (claw back).

Action can be taken regarding payment of deferred amounts that still have to be vested (malus arrangement), when:

- there is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risk);
- there is a deterioration of at least 50% of either the net result (excl. non-recurring) or the risk-adjusted profit of KBC Group and/or the underlying entity in the year preceding the year of vesting compared to the year of granting;
- there is a negative net result (excl. non-recurring) or the risk-adjusted profit of KBC Group in the year preceding the year of vesting.

Variable remuneration already vested will exceptionally be clawed back when there is:

- evidence of fraud or participation in a special mechanism in order to or with the consequence of promoting fiscal fraud by a third party;
- (use of) misleading information.

## Corporate governance

The remuneration policy is based on prevailing national and European legislation, the Belgian Corporate Governance Code, the Belgian banking law and market data. It is monitored and regularly checked by the Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the aforementioned code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of Directors on the committee’s activities and advises it of any changes to the remuneration policy and its practical implementation. The Board of Directors may also act on its own initiative, or on a proposal from the Executive Committee, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board of Directors will submit any policy changes to the General Meeting for approval.

The Remuneration Committee carries out duties for the parent company, major subsidiary undertakings and the group as a whole. The Remuneration Committee reports to the Board of Directors of KBC Group, submits an annual report on KBC group's remuneration policy and practices, and ensures that each year the policy is put to shareholders for approval by the Board of Directors.

Remuneration committee members:

- Thomas Leysen (Chairman)
- Júlia Király
- Philippe Vlerick

The role of the Remuneration Committee of KBC Group is to:

- propose to the Board of Directors a KBC Remuneration Policy that is aligned with KBC Group's long-term business strategy, its business objectives, risk appetite and values, and that recognises the interests of relevant stakeholders;
- propose to the Board of Directors the remuneration, including the terms and other commitments to be made on the retirement, resignation or dismissal, of the members of the Board of Directors and the members of the Executive Committee of KBC Group, with the aim of ensuring fairness and avoiding reward for failure;
- advise the Board of Directors on compensation systems and individual compensation packages for material Key Identified Staff;
- advise the Board of Directors on retention/incentive bonuses in exceptional circumstances, i.e. if the business entity is divested, wound down or undergoing a major restructuring and a case can be made for the retention of key staff on risk and/or value preservation grounds;
- advise the Board of Directors on any material exemptions or changes to the principles of the KBC Remuneration Policy;
- monitor the application of the authority delegated to the KBC Group Executive Committee and the Divisional Compensation Committee to ensure that policies and principles are being consistently and effectively applied, seeking support and input from Corporate HR and Integrated Risk as appropriate and appropriate sign off from the business units;
- approve the contents of the annual Remuneration Policy Statement for the NBB.

## Disclosing information on remuneration

The present reporting on remuneration details is aligned with the reporting required by the European Banking Authority. Based on the “Guidelines on the remuneration benchmarking exercise” (EBA/GL/2014/08) and the “Guidelines on data collection exercise regarding high earners” (EBA/GL/2014/07) the requested information is collected every year by 30 June of each year.

Information on the remuneration of all staff		
	FTE	Amount (in millions of EUR)
Total remuneration in 2015	36.441	2.245
Information on the remuneration of Key Identified Staff		
	Number of beneficiaries	Amount (in millions of EUR)
Total remuneration for the 2015 financial year broken down by fixed and variable remuneration	441	
Fixed remuneration		71
Variable remuneration		23,6
<b>Breakdown of variable remuneration for the 2015 financial year</b>		
Cash		18,5
Shares		0
Share-linked instruments		4,6
Other		0,5
<b>Breakdown by disbursement form:</b>		
Disbursed*		17,2
Deferred		6,4
<b>Breakdown of deferred variable remuneration concerning 2015 financial year</b>		
Granted		
Disbursed*		
Reduced		
<b>Sign-on and severance payments disbursed in the 2015 financial year</b>		
Sign-on payments	0	0
Severance payments	12	4,1
Highest individual severance payment		0,98
<b>Previously awarded remuneration</b>		
Outstanding deferred variable remuneration related to previous years**		18,8
Amount reduced due to ex-post performance risk adjustment		0,002
<b>No. of beneficiaries whose total remuneration is equal to or exceeds 1 million EUR concerning 2015 financial year, broken down into bands of 500.000 EUR</b>		
Total remuneration: 1.000.000 EUR - 1.499.999 EUR	6	
Total remuneration: 1.500.000 EUR - 1.999.999 EUR	0	
Total remuneration: 2.000.000 EUR - 2.499.999 EUR	0	
Total remuneration: 2.500.000 EUR or above	0	

\* Disbursed variable remuneration is disbursed during 2016

\*\* Value of 31.12.2015