



KBC Group
Compensation Report 2017

Introduction

The Compensation Report provides information on KBC Group level remuneration principles and discloses remuneration figures for financial year 2017 based on European and national legislation. 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, insurance and asset management companies, the KBC Remuneration Policy has been amended each year.

The report comprises general remuneration principles, specific principles for Key Identified Staff and disclosing information on remuneration.

General remuneration principles

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.

An employee’s total compensation consists of two elements: fixed remuneration and variable remuneration, for which a maximum ratio is set.

Total fixed annual remuneration	Maximum variable remuneration
below 50.000 EUR	100% of fixed
between 50.000 EUR and 100.000 EUR	50.000 EUR
above 100.000 EUR	50% of fixed

Fixed remuneration is mainly determined on the basis of the function of the employee, reflecting professional experience, responsibility and job complexity.

The level of variable remuneration can depend on several factors, such as KBC Group’s overall performance, the performance of the employee’s business division or entity, the performance related to sustainability objectives and the employee’s individual performance. Variable remuneration cannot induce risk-taking in excess of the risk appetite of the different entities of the KBC Group and should where relevant, be based on risk- and liquidity-adjusted profit, not on gross revenues. Variable remuneration is capped at 750.000 EUR.

Key Identified Staff

KBC applies specific rules for Key Identified Staff. 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:

- depending on the category of Key Identified Staff and the level of its variable remuneration, 40% to 60% of their awarded variable remuneration is not paid straightaway but its payment is spread over a period of three to five 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 are made in relation to the variable component and risk adjustment measures are put in place.
- for variable remuneration of senior management, 10% is subject to the achievement of sustainable targets that have been agreed beforehand and at least 10% is based on the results of the KBC group. The remaining variable component is realised through the achievement of individual objectives, including quantitative and qualitative, financial and non-financial elements, with a focus on preserving current value as well as creating future value and without incentivising excessive risk taking or mis-selling of products.
- retention payments are permitted only in exceptional circumstances i.e. if the business unit is divested, wound down or undergoing a major reorganisation and for retention of Key Identified Staff on risk and/or value preservation grounds upon decision of the Board of Directors.

Key Identified Staff who are allocated variable compensation of less than 75.000 EUR are considered 'exempt Key Identified Staff'. In this case, variable remuneration is not subject to 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 national legislation and/or an internal decision for a certain employee group, deferral schemes are sometimes more severe for both material and exempt Key Identified Staff. Not all principles might apply in every KBC Group entity and certain exemptions are granted due to specific local regulations or restrictions laid down by supervisory authorities.

Structure for 2017 variable compensation

Material Key Identified Staff



Individual variable remuneration awarded for performance year 2017

Material Key Identified Staff - Group ExCo members and KBC Senior General Managers

If variable awarded < 200.000 EUR: 50% deferral for 5 years, 50% in non-cash instrument

Year of payout	2018	2019	2020	2021	2022	2023	2024
Cash	25%	5%	5%	5%	5%	5%	
Non-cash instrument	→	25%	5%	5%	5%	5%	5%

If variable awarded ≥ 200.000 EUR: 60% deferral for 5 years, 50% in non-cash instrument

Year of payout	2018	2019	2020	2021	2022	2023	2024
Cash	20%	6%	6%	6%	6%	6%	
Non-cash instrument	→	20%	6%	6%	6%	6%	6%

Material Key Identified Staff – other

If variable awarded < 200.000 EUR: 40% deferral for 3 years, 50% non-cash instrument

Year of payout	2018	2019	2020	2021	2022
Cash	30%	6,67%	6,67%	6,66%	
Non-cash instrument	→	30%	6,67%	6,67%	6,66%

If variable awarded ≥ 200.000 EUR: 60% deferral for 3 years, 50% in non-cash instrument

Year of payout	2018	2019	2020	2021	2022
Cash	20%	10%	10%	10%	
Non-cash instrument	→	20%	10%	10%	10%

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

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

Ex-ante risk adjustment is realised through qualitative and quantitative risk-adjusted performance measurements. A Risk Gateway is installed as a quantitative risk adjustment measure. It comprises a number of internal and legislative 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 for the respective performance year and the deferred amounts relating to previous years will not vest and will be lost for that year.



In case of Key Identified Staff, the Risk Gateway 2017 has an impact on the parts highlighted in grey

A) the deferred part of previous years' awarded variable due to vest in April 2018						
	Deferred Cash			Deferred Non-cash Instrument		
	apr/16	apr/17	apr/18	apr/16	apr/17	apr/18
Performance Year 2014	apr/16	apr/17	apr/18	apr/16	apr/17	apr/18
Performance Year 2015	apr/17	apr/18	apr/19	apr/17	apr/18	apr/19
Performance Year 2016	apr/18	apr/19	apr/20	apr/18	apr/19	apr/20
B) the variable remuneration to be granted for 2017						
Performance Year 2017	total amount of variable compensation 2017					

If the risk gateway is passed, the variable remuneration component is subject to quantitative risk adjustment measures such as a risk-adjusted profit and other indicators such as RAROC, costs and direct income to impact the size of bonus pools and individual awards and a performance appraisal procedure on individual level which includes risk-related objectives, that can be both qualitative and quantitative and that prohibit excessive risk-taking.

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, including those leading to regulatory sanctions, particularly in relation to risk;
- there is a deterioration of at least 50% of either the net result 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 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, subsidiary undertakings and the group as a whole on a consolidated basis. 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 and practices are put to shareholders for approval by the Board of Directors.

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;
- oversee the remuneration of Senior Managers responsible for the Group Control Functions and propose to the Supervisory Board the remuneration systems and individual remuneration packages of these persons;
- advise the Board of Directors on compensation systems and individual compensation and severance 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 Executive Committee and the Divisional Compensation Committee to ensure that policies and principles are being consistently and effectively applied, in specific to Key Identified Staff, seeking support and input from Corporate HR and Risk as appropriate and appropriate sign off from the business units;
- approve the contents of the annual Remuneration Policy Statement for the NBB.

Besides the role of the Remuneration Committee, The Risk and Compliance Committee is a committee of the Supervisory Board of KBC Group and acts as an independent reviewer of the KBC Remuneration Policy and practices and oversees whether the risk tolerance and strategy framework is integrated in the

remuneration policy and incentives provided by the remuneration system take into consideration risk appetite, capital, liquidity and the likelihood and timing of earnings.

The remuneration governance bodies on the level of the Group are responsible to ensure that the requirements of the Remuneration Policy are coherently observed at subsidiary level. Additionally, if required by national regulations, remuneration governance bodies are established at subsidiary level. Decisions regarding remuneration systems and individual remuneration packages for Key Identified Staff are ratified by the respective governance body of the subsidiary.

Disclosing information on remuneration

The present reporting on remuneration details is aligned with the reporting required by the National Bank of Belgium and European Banking Authority. Based on the “Guidelines on the remuneration benchmarking exercise” (EBA/GL/2014/08), the “Guidelines on data collection exercise regarding high earners” (EBA/GL/2014/07) and the NBB Circular 2016_31, the requested information is collected every year by 30 June of each year.

KBC will complete the Compensation Report 2017 with the remuneration figures as soon as the report towards the European Banking Authority is submitted.