



KBC Group

Compensation Report for
2018

Introduction

The Compensation Report provides information on remuneration principles at the level of KBC Group and discloses remuneration figures for financial year 2018 based on European and national legislation. KBC introduced the KBC Remuneration Policy in 2010. It defines general remuneration guidelines for all staff and specific remuneration guidelines for certain employees (referred to as 'Key Identified Staff') who may have a material impact on the risk profile of the company. Due to the fact that legislation applying to financial institutions, insurance companies and asset management companies is continuously changing, the KBC Remuneration Policy is amended each year.

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

General remuneration principles

The setting of remuneration takes account of market practice, competitiveness, risks, the long-term objectives of the company and its stakeholders and continuously changing regulations.

An employee's total remuneration consists of two components, i.e. 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 employee's professional experience, responsibility and job complexity.

The level of variable remuneration can depend on several factors, such as the KBC group's overall performance, the performance of the employee's business unit or entity, the performance related to sustainability objectives and the employee's individual performance. Variable remuneration may not encourage 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 that promotes sound risk management and does not encourage excessive risk-taking. This is ensured by applying specific rules 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 variable remuneration awarded is not paid straightaway but instead is paid 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 in place.
- for variable remuneration of senior management, 10% is subject to the achievement of sustainable targets that have been agreed beforehand and 10% to 20% 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 and 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 entity is divested, wound down or undergoing a major reorganisation) and for the retention of Key Identified Staff on risk- and/or value-preservation grounds, as decided by 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 internal decisions for a certain employee group, deferral schemes are sometimes more severe for both material and exempt Key Identified Staff. Not all principles may 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 2018 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	2019	2020	2021	2022	2023	2024	2025
Cash	25%	5%	5%	5%	5%	5%	
Non-cash instrument	→	25%	5%	5%	5%	5%	5%
If variable awarded ≥ 200.000 EIUR: 60% deferral for 5 years, 50% in non-cash instrument							
Year of payout	2019	2020	2021	2022	2023	2024	2025
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	2019	2020	2021	2022	2023		
Cash	30%	6,67%	6,67%	6,66%			
Non-cash instrument	→	30%	6,67%	6,67%	6,66%		
If variable awarded ≥ 200.000 EIUR: 60% deferral for 3 years, 50% in non-cash instrument							
Year of payout	2019	2020	2021	2022	2023		
Cash	20%	10%	10%	10%			
Non-cash instrument	→	20%	10%	10%	10%		

Cash is payable following vesting
Non-cash instrument is payable following a one-year retention period

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 achieved through qualitative and quantitative risk-adjusted performance measurements. A Risk Gateway has been 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 2018 has an impact on the parts highlighted in grey

A) the deferred part of previous years' awarded variable due to vest in April 2019						
	Deferred Cash			Deferred Non-cash Instrument		
	apr/17	apr/18	apr/19	apr/17	apr/18	apr/19
Performance Year 2015	apr/18	apr/19	apr/20	apr/18	apr/19	apr/20
Performance Year 2016	apr/19	apr/20	apr/21	apr/19	apr/20	apr/21
Performance Year 2017	apr/19	apr/20	apr/21	apr/19	apr/20	apr/21
B) the variable remuneration to be granted for 2018						
Performance Year 2018	total amount of variable compensation 2018					

If the Risk Gateway is passed, the variable remuneration component becomes subject to quantitative risk adjustment measures, such as risk-adjusted profit and other indicators (including RAROC, costs and direct income), to impact the size of the bonus pools and the individual awards, and to a performance appraisal

procedure at individual level, including risk-related objectives, which can be both qualitative and quantitative and are designed to prohibit excessive risk-taking.

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

Action can be taken regarding the 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 Act 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'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 Board of Directors the remuneration systems and individual remuneration packages of those 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 particular to Key Identified Staff, seek support and input from Corporate HR and Risk, as appropriate, and ensure appropriate sign-off from the business entities;
- approve the annual Remuneration Policy Statement for the NBB.

Besides the Remuneration Committee, the Risk & Compliance Committee is another committee of the Board of Directors of KBC Group. It acts as an independent reviewer of the KBC Remuneration Policy and practices, and oversees whether risk tolerance and the strategy framework are integrated into the remuneration policy and whether incentives provided by the remuneration system take account of risk appetite, capital, liquidity and the likelihood and timing of earnings.

The remuneration governance bodies at group level are responsible for ensuring that the requirements of the Remuneration Policy are coherently observed at subsidiary level. If required by national regulations, these governance bodies are also 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

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

KBC will complete the Compensation Report for 2018 by adding the remuneration figures as soon as the report is submitted to the European Banking Authority.