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KBC Group explains remuneration of CEO and Executive Committee following publication of 2013 annual report

General principles of remuneration policy

KBC always pays the members of its Executive Committee based on prevailing legislation, the Corporate Governance Code and market data. An internal (multi-disciplinary) Remuneration Committee monitors both the amounts paid and the way amounts are allocated and advises the Board of Directors, which takes the final decisions. In addition, the basic principle is that members of the Executive Committee are entitled to a fair remuneration that is commensurate with the contribution they have made to the policy and growth of the group.

Composition: fixed component and performance-related and individual variable components

The remuneration of individual Executive Committee members is made up of:

- a fixed monthly emolument;
- an annual, performance-related variable emolument (the amount of which depends on the performance of the Executive Committee as a whole and on the performance of the institution (assessed on the basis of pre-agreed criteria)); and
- an annual, individual variable emolument based on the performance by each member of the Executive Committee (starting in 2014, individual assessments to be conducted on the basis of pre-agreed criteria).

A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. 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.

In addition, the variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the Executive Committee.

During the 2008-2009 financial crisis and again in 2011, the current (or former as the case may be) CEO and the entire KBC Group Executive Committee voluntarily and on their own initiative waived their contractual right to variable remuneration. In 2010 and 2012, the relevant amounts were in line with the group's results.

The current Executive Committee is made up of new members who had not yet been appointed to the Executive Committee at the time of the crisis.

Benchmark exercise in 2013: variable remuneration component relatively lower

The Remuneration Committee monitors the remuneration policy and checks it at regular intervals for compliance with changes in the law, the Corporate Governance Code and current market practices and trends.

Based on a comparison with the other companies quoted on the BEL 20, as well as with a group of 12 similar financial institutions¹ (see details in annex), the Remuneration Committee concluded in the first half of 2013 that the remuneration package for the President and other members of the Executive Committee should be modified.

The Board followed the advice of the Remuneration Committee to revise the remuneration package and to raise the fixed component and reduce the relative size of the variable component. The variable component was split into a performance-related variable emolument and an individual variable emolument.

The performance-related variable component for the President of the Executive Committee (Johan Thijs) is set between 0 and 300 000 euros and the individual variable component between 0 and 100 000 euros. The limits for these components are 200 000 euros and 70 000 euros, respectively, for the other members of the Executive Committee. The final amount is set by the Board of Directors on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year, with the main emphasis being placed on implementation of the restructuring plan agreed with the European Commission. Consequently, the variable component accounts for less than 30% of the total remuneration package and may never be higher than the fixed component (1:1 ratio).

For members of the Executive Committee, the individual component is set on the basis of an assessment of the performance of the member in question (with pre-agreed criteria being used from 2014 on), while the performance-related component is set on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the Executive Committee itself and the company.

For 2014, the criteria are:

- implementing the strategy (including the restructuring plan agreed with the European Commission);
- drawing up proposals for a modified strategy for 2014–2016;
- implementing the financial plans;
- strengthening the risk control environment (including reducing the number of audit and compliance recommendations);
- increasing staff, customer and shareholder satisfaction;
- establishing and implementing the funding plan for 2014.

The assessments generate a percentage between 0% and 100% that is applied to the maximum variable remuneration.

Variable remuneration for financial year 2013: awarded but will not be paid as long as KBC fits the description of an institution receiving exceptional state aid as defined in the banking bill

Based on the advice of the Remuneration Committee, the Board of Directors decided that the members of the Executive Committee should be awarded performance-related variable remuneration for 2013 equalling **83%** (i.e. 83% of 300 000 euros for Johan Thijs and 83% of 200 000 euros for each of the other members of the Executive Committee).

In principle, the total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the Executive Committee is paid over four years, with 50% being paid in the first year and the rest spread equally over the next three years. Furthermore, 50% of the total annual variable remuneration is awarded in the form of equity-related instruments called phantom stocks,

¹ Raiffeisen Bank International, Aegon, Bâloise Group, Danske Bank, Rabobank, UniCredit Group, ING Group, Commerzbank, Svenska Handelsbanken, Erste Group, DnB Group and Bank of Ireland.

whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a four-year period.

Variable remuneration for financial year X is paid as follows:

- 25% in cash and 25% in equity-related instruments in X+1
- 8.33% in cash and 8.5% in equity-related instruments in X+2
- 8.33% in cash and 8.5% in equity-related instruments in X+3
- 8.33% in cash and 8% in equity-related instruments in X+4

The final share of variable remuneration for financial year X is, therefore, only paid out five years after the work was actually performed.

In certain circumstances, action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement, e.g., in case of misconduct or serious error) or variable remuneration already acquired can be exceptionally clawed back (e.g., where there is evidence of fraud or (use of) misleading information).

The banking bill contains a number of provisions specifically for institutions that are in receipt of 'exceptional state support'. In light of this situation, the Board of Directors decided not to pay the members of the Executive Committee the full variable remuneration awarded to them for 2013 as long as KBC fits this particular description, at least not in 2014. In addition, payment of the full amount is subject to the possible application of the malus arrangement.

Non-executive directors receive only a fixed emolument plus attendance fees; they do not receive variable remuneration

The remuneration package of 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 meetings of the boards of directors 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.

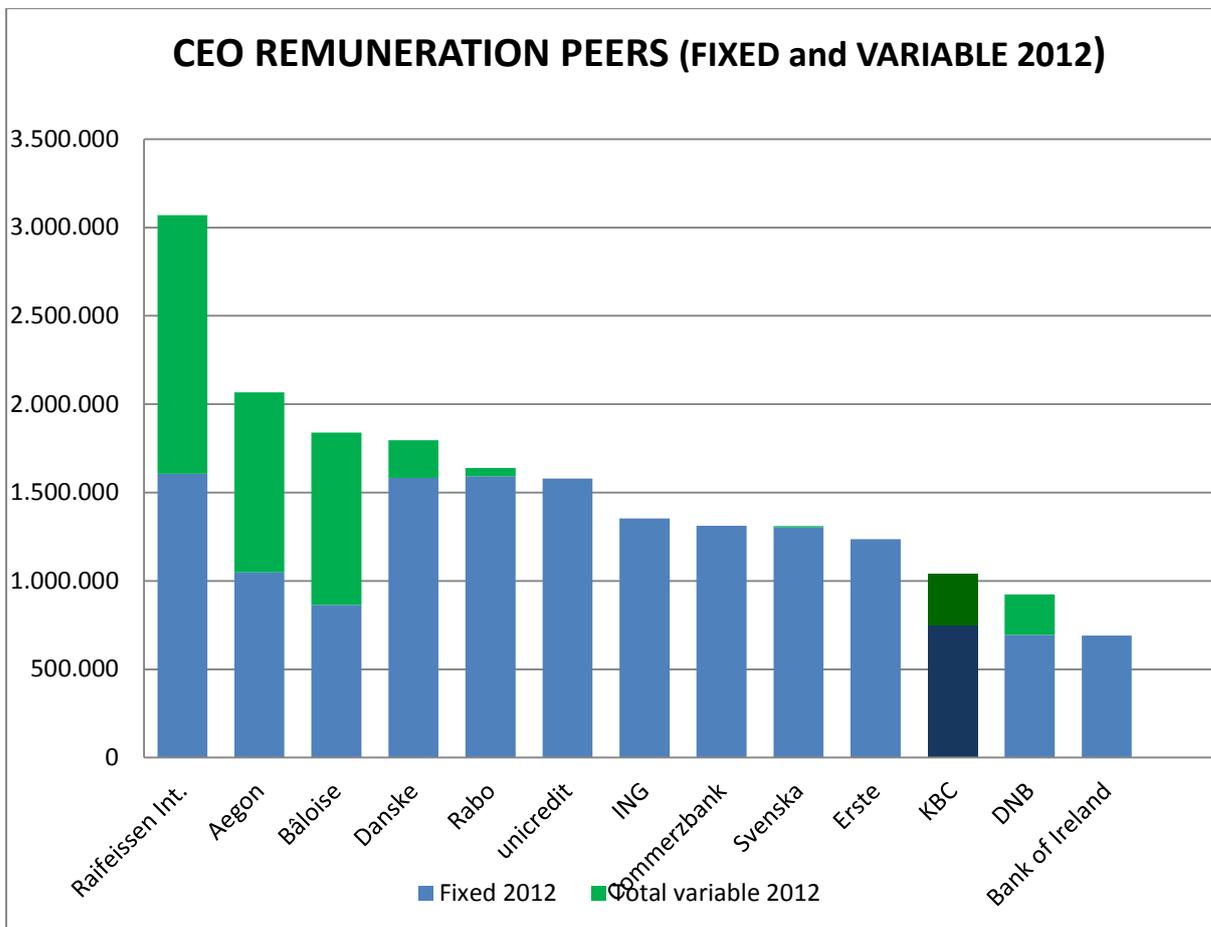
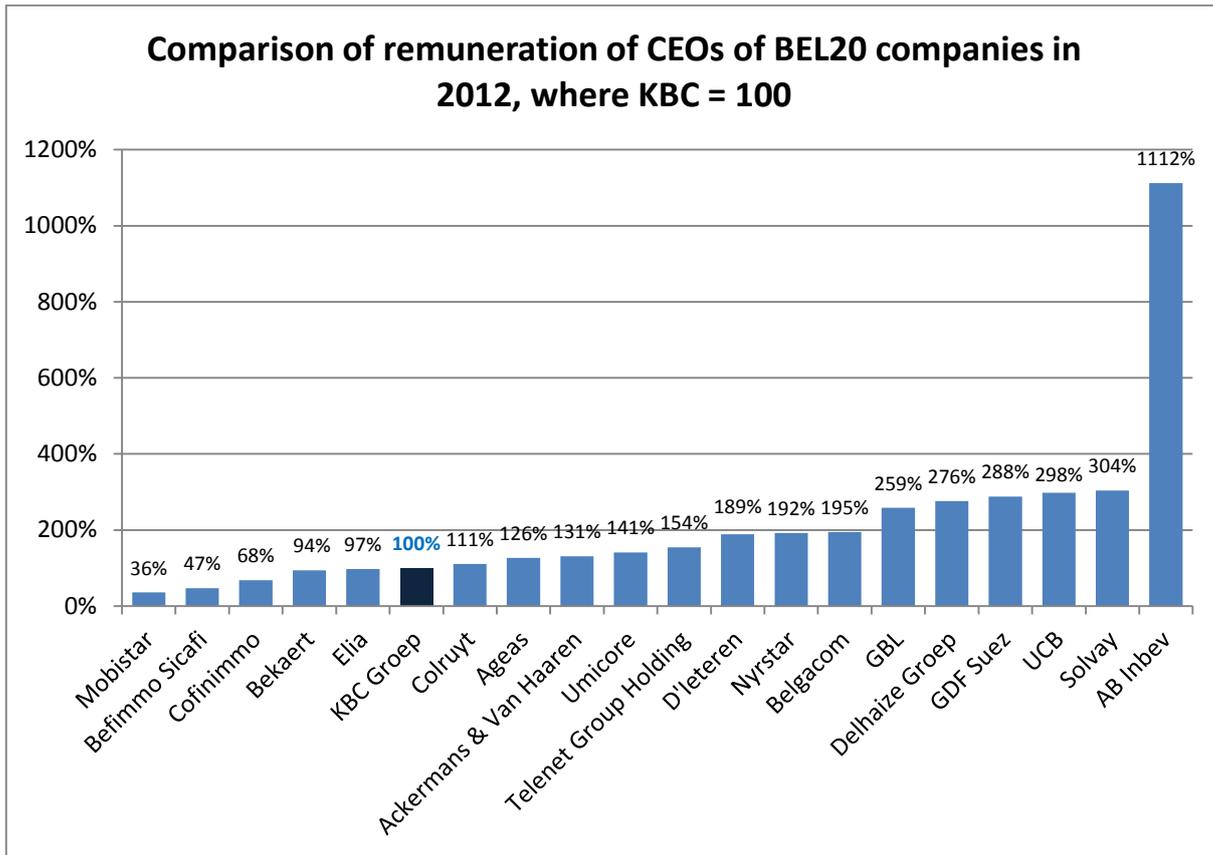
At KBC, non-executive directors never receive variable remuneration or payment in the form of shares or options.

For additional details and background information, please see the 'Remuneration report for financial year 2013' section of the KBC Group 2013 Annual Report, which is available at www.kbc.com.

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