



Clarification

Brussels, 2 April 2015

KBC Group explains remuneration of CEO and Executive Committee following publication of 2014 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. A Remuneration Committee monitors both the amounts paid and the way amounts are allocated and advises the Board of Directors, which takes the final decisions. 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 development of the group.

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

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. In addition, if one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will also be suspended.

Adjusted fixed remuneration and restriction of variable remuneration following benchmark exercise in 2013

The Remuneration Committee (in preparation for Board of Directors meetings) 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.

In 2013, the Board of Directors followed the advice of the Remuneration Committee to revise the remuneration package and to raise the fixed component in two stages and restrict the variable component. In 2014, the fixed base remuneration was raised for a second time for the President and other members of the Executive Committee.

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.

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, while the performance-related variable 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 include:

- implementing the strategy;
- implementing the financial plans (including profitability, capital and liquidity planning);
- strengthening the risk control environment (including risk limits and audit and compliance recommendations);
- further increasing staff, client and other stakeholder satisfaction.

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

Variable remuneration for financial year 2014

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 2014 equalling **93.75%** (i.e. 93.75% of 300 000 euros for Johan Thijs and 93.75% of 200 000 euros for each of the other members of the Executive Committee).

Taking account of Article 14 of Annex 2 to the Belgian Banking Act, KBC is in a position where it may award variable remuneration to members of the Executive Committee.

The total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the Executive Committee is effectively 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, whose value is linked to the price of the KBC Group NV share. These phantom stocks must be retained for

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.

one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a four-year period.

50% of the variable remuneration for financial year X is paid in year X+1:

- 25% in cash
- and 25% in equity-related instruments that are converted into cash in year X+2

The remaining 50% of the variable remuneration is paid as follows:

- 8.33% in cash in year X+2 and 8.5% in equity-related instruments in year X+2, to be converted into cash in year X+3
- 8.33% in cash in year X+3 and 8.5% in equity-related instruments in year X+3, to be converted into cash in year X+4
- 8.33% in cash in year X+4 and 8% in equity-related instruments in year X+4, to be converted into cash in year X+5

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, serious error or a significant decline in profit) or variable remuneration already acquired can be exceptionally clawed back (e.g., where there is evidence of fraud or (use of) misleading information).

In 2014, the Board decided to award the members of the Executive Committee performance-related variable remuneration of 83%, but not to pay it to them for as long as KBC fitted the banking bill's description of an institution that receives exceptional state aid. Given that KBC no longer fits that specific description the Board, therefore, agreed to pay the variable remuneration for 2013 pursuant to the terms and conditions set out in the remuneration policy.

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

Their remuneration 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 2014' section of the KBC Group 2014 Annual Report, which is available at www.kbc.com.

KBC's 'Report to Society for 2014' is also available at www.kbc.com as of today

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