



# Clarification

Brussels, 31 March 2016

## **KBC Group explains remuneration of CEO and Executive Committee following publication of 2015 annual report**

KBC always pays the members of its Executive Committee based on prevailing legislation, the Corporate Governance Code and market data. A Remuneration Committee monitors the amounts paid and the way they are allocated, and duly 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.

The remuneration of individual Executive Committee members is made up of a fixed monthly emolument and an annual, performance-related variable emolument.

Non-executive directors receive solely 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 Board meetings 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. In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.

For additional details and background information on the remuneration policy for the CEO, the members of the Executive Committee and the Board of Directors of KBC Group NV, please see the 'Remuneration report for financial year 2015' section of the KBC Group 2015 Annual Report, which is available at [www.kbc.com](http://www.kbc.com).

### **Composition of the remuneration package**

The remuneration of individual Executive Committee members is made up of a fixed monthly emolument and an annual, performance-related variable emolument. This variable component depends in part on the performance of the Executive Committee as a whole and on the performance of the institution, and in part on the performance by each individual member of the Executive Committee.

To set this variable remuneration:

1. a quantitative risk-adjustment mechanism (called a 'risk gateway') is used. 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. 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.

2. an evaluation of several pre-agreed criteria is conducted. For 2015, these included:
- 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;
  - implementing the KBC group's CSR policy.

## **Relative importance and characteristics of the different components of remuneration**

The variable component comprises a performance-related variable emolument and an individual variable emolument. In any event, the variable component accounts for less than 30% of the total remuneration package.

The performance-related variable component for the President of the Executive Committee 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 on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year. This assessment generates a percentage between 0% and 100% that is applied to the maximum variable remuneration.

Based on the advice of the Remuneration Committee, the Board decided that the members of the Executive Committee should be awarded performance-related variable remuneration for 2015 that equalled **96.88%**.

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 (though not in the Czech Republic where virtual investment certificates are used), 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. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the Executive Committee is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions described under 'Clawback provisions' in the 'Remuneration report for financial year 2015' section of the KBC Group 2015 Annual Report.

## **Pension plan in line with market practice**

Following a benchmark exercise conducted by an external research agency, the supplementary pension plan for members of KBC's Executive Committee was converted to a defined contribution plan on 1 January 2016. The study found that the defined benefit plan that had been in place until then was no longer in line with the market. The new pension plan applies to all future members of the Executive Committee. Members already on the Executive Committee were offered the choice of continuing with their current plan or joining the new one. The differences between these plans will only become apparent from next year on.

## Provisions concerning severance payments

Given that KBC repaid the remaining instalment of Flemish state aid in December 2015, the special conditions relating to severance payments that had been agreed with the Flemish Regional Government in 2009 no longer apply. Pursuant to the Companies Code and the Banking Act – and based on well-reasoned advice from the Remuneration Committee – the Board decided that severance payments for executive directors and members of the Executive Committee should be adjusted with effect on 1 January 2016. Depending on the number of years worked, such payments can range from 12 to 18 months' remuneration. In this context, remuneration is taken to be the fixed remuneration component for the current year and the variable component for the last full year preceding termination of office.

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