



Clarification

Brussels, 31 March 2017

KBC Group explains remuneration of CEO and Executive Committee following publication of 2016 Annual Report

In its annual report, KBC Group provides transparent information concerning the salary and remuneration that the members of the Board of Directors and Executive Committee received in the past financial year. From 1 January 2017, the Remuneration Policy also reflects the new '*EBA guidelines on sound remuneration policies*' and their specific interpretation by the National Bank of Belgium. The remuneration level of the Executive Committee was brought closer to the prevailing median in similar financial institutions in Europe. At the same time, the payment of the variable remuneration component is spread more broadly over time.

As announced in 2016, the members of the Executive Committee were also given the option of switching to another type of pension plan (*defined contribution*).

General framework

KBC's remuneration policy is set out in the Remuneration Policy and contains a number of group-wide principles relating primarily to the variable remuneration component. The new EBA guidelines as imposed by the National Bank of Belgium from 1 January 2017 have resulted in a number of adjustments to that Remuneration Policy.

The main principles of KBC's adjusted policy stipulate that:

- the variable remuneration component of top management must always comprise a profit-related component, at least 10% of which is based on the results of the KBC group (not applicable in the Czech Republic, where other legislation applies) and a performance-related component.
- the variable remuneration component may not exceed half of the fixed component.
- at least half of the variable remuneration awarded to the Executive Committee and senior general managers is paid over five years instead of the three previously in force.
- half of the variable remuneration must be awarded in the form of equity-related instruments, known as phantom stocks, that are to be retained for a period of one year. Their allocation must be spread over six years, as a result of which KBC's long-term policy is reflected in the variable remuneration.
- at least 10% of variable remuneration awarded to the top management is also subject to a target that has been agreed beforehand in relation to the group's sustainability policy.
- no advance payments may be made in relation to the variable remuneration component and a recovery option applies (a so-called clawback/holdback).
- at least one of the criteria used for assessing top management performance always relates to risk management.
- the criteria for assessing the performance of the Executive Committee member responsible for the risk function do not refer in any way to the results of the KBC Group.

For additional details and background information on the remuneration 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 2016' section of the KBC Group 2016 Annual Report, which is available at www.kbc.com. The amounts stated are gross amounts on which normal income tax is payable.

Remuneration of Executive Committee members more broadly spread over time and brought closer to the median level.

The remuneration of individual Executive Committee members is made up of a fixed monthly emolument and an annual, variable emolument. In turn, the variable component is linked in part to the performance of the Executive Committee as a whole and on the performance of the institution, and a part that is individually associated with the individual performance. Before the variable remuneration component may be awarded, a number of capital and liquidity parameters have to be met (the so-called risk gateway).

The remuneration of the members of the Executive Committee is always based on prevailing legislation, the Corporate Governance Code and market data. A Remuneration Committee submits proposals to the Board of Directors about the amounts paid and the way they are allocated. The Board of Directors 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 standard remuneration package for top management in BEL 20 companies and an extensive group of similar financial institutions in continental Europe was therefore compared. This revealed that the total remuneration package that KBC Group awards to its Executive Committee is slightly lower than the median of that basis for comparison and no longer proportionate to the size and complexity of KBC Group. For the CEO of KBC Group, the difference with the median was even considerably larger.

Based on the advice of the Remuneration Committee, the Board duly decided to raise the fixed remuneration paid to members of the Executive Committee and the CEO by approximately 6% with effect on 1 July 2016. From financial year 2017, their maximum variable remuneration will increase by roughly 20%. For the CEO, that maximum variable remuneration will increase by 40%.

With effect from 1 January 2017, this annual variable remuneration (i.e. both the performance-related and individual components) will be paid over six years, with 40% being paid in the first year and the rest spread equally over the next five years.

Pension plan brought in line with market practice

As announced in 2016, KBC Group launched a new pension plan for members of the Executive Committee on 1 January 2016. The old defined benefit plan was no longer in line with the market and did not distinguish between the CEO and the other members of the Executive Committee.

The new, market-based plan is a defined contribution plan that – as was previously the case – is funded entirely by KBC and takes account of the fact that the career of a member (and especially the Chairman) of the Executive Committee is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up. Given the specific structure of this new pension plan, funding of the plan is no longer spread equally over the entire career of the member of the Executive Committee in question. As a result, the size of the payment made into the pension fund is substantially higher in the early years, but drops to a fraction of that in the years that follow. The amounts of the old plan are therefore in no way comparable with those of the new plan.

The death benefit was also increased under the new plan in line with the benchmark.

Remuneration awarded to non-executive directors in 2016 remains unchanged

As was the case for the members of the Executive Committee, a comparison was also made with the remuneration prevailing in the market for non-executive directors in BEL 20 companies and an extensive group of similar financial institutions in continental Europe. This revealed that the remuneration KBC pays its non-executive directors is in line with the benchmark and will remain unchanged. KBC does not have any plans to change this remuneration over the next two financial years either.

Non-executive directors receive an annual fixed remuneration (non-performance-related and non-results-based), plus fees 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 remuneration, which is set separately by the Remuneration Committee and approved by the Board. With effect from financial year 2016, directors sitting on the Audit Committee or Risk & Compliance Committee will receive a fixed remuneration instead of an attendance fee.

Background information

Relative importance and characteristics of the different components of the variable remuneration

The variable remuneration component comprises a performance-related variable emolument and an individual variable emolument. Up to and including 2016, the performance-related variable component for the Chairman 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.

The performance-related variable remuneration is set on the basis of a number of criteria that were agreed at the beginning of 2016. These criteria relate to corporate strategy (including the sustainability policy), financial planning, risk control environment and satisfaction of all stakeholders. Sustainability is also an important factor in this last aspect. Less than 7% of the total remuneration package is related to achieving financial results. These assessments generate 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 2016 that equalled 98%.

50% of the total annual variable remuneration is awarded in the form of equity-related instruments, also known as phantom stocks (though not in the Czech Republic where different regulations apply), 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 six-year period. Phantom stocks are subject to the *allocation and acquisition conditions* described in the KBC Group Annual Report.

The remuneration package awarded to members of the Executive Committee does not include a long-term cash bonus.

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