



Clarification

Brussels, 3 April 2020 – 8 a.m. CEST

KBC Group clarifies remuneration of CEO and Executive Committee following publication of 2019 annual report

In its annual report, KBC Group NV provides transparent information concerning the salary and other remuneration received by the members of the Board of Directors and Executive Committee for the past financial year.

The Remuneration Committee – with the assistance of specialist members of staff – monitors and regularly checks the remuneration policy to see whether it complies with changes in the law, the Corporate Governance Code, and prevailing market practices and trends. The many statutory and regulatory provisions imposed on financial institutions create a highly restrictive framework that offers little scope for KBC to pursue its own policy in this regard. What's more, that policy needs to be consistent with healthy and effective risk management, and the incentives in the system must not promote risks.

General framework

The policy for remunerating members of senior management (the Board of Directors, Executive Committee, top management and 'risk takers') is published in the KBC Remuneration Policy. It contains a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:

- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group – *not applicable to ČSOB employees in the Czech Republic on account of this being explicitly prohibited by the Czech National Bank*) and a performance-related component;
- 50% of variable remuneration (60% if it exceeds 200 000 euros) for the members of the Executive Committee and for senior general managers may not be paid immediately, but spread over a period of five years;
- half of the total amount of variable remuneration be awarded in the form of equity-related instruments (phantom stocks) so that the longer-term effects of the policy on the value of the KBC group can also be reflected in the variable remuneration component (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 with the performance of the KBC group);
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are in place in certain circumstances, meaning that action can be taken regarding payment of deferred amounts that have still to be acquired or variable remuneration already acquired can exceptionally be clawed back;
- the variable remuneration component may not exceed half of the fixed component;
- variable remuneration be capped at a nominal 750 000 euros;

- the criteria for assessing the performance of the Executive Committee member responsible for the risk function may not refer in any way to the results of the KBC group;
- at least one of the criteria used for assessing the performance of senior management must always relate to risk;
- at least 10% of variable remuneration awarded to top management must also be subject to the achievement of targets that have been agreed beforehand in relation to the group's sustainability policy.

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 are provided in the 'Remuneration report for financial year 2019' section of the KBC Group Annual Report for 2019, which is available at www.kbc.com. The amounts stated in it are gross amounts and subject to standard income tax.

Remuneration paid to the President and the other members of the Executive Committee

A summary table has been included at the end of this press release. For more details, please refer to the 'Remuneration report for financial year 2019' section of the KBC Group Annual Report for 2019.

In accordance with the KBC group's remuneration policy, individual remuneration paid to Executive Committee members comprises:

- a fixed monthly emolument;
- an annual variable emolument comprising:
 - an individual component, the amount of which is related to each individual member's performance and to the example they set in respecting the KBC group's values
 - a performance-related component, the amount of which depends on the performance of the Executive Committee as a whole and on the performance of the institution

A 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. **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 be suspended in that year, too.**

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. The Remuneration Committee assesses each member of the Executive Committee on each of the five aspects of KBC's corporate culture (PEARL: Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness) and the core value of being Respectful. This assessment is reflected in an aggregate score (in the form of a percentage) that ultimately determines the size of the individual variable emolument, as in the way it is decided by the Board of Directors.

On the advice of the Remuneration Committee, the Board sets the performance-related variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the Executive Committee and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders (staff, clients, the Board and society). The performance of the Executive Committee in each of these four areas determines the size of the performance-related component (with each area accounting for 25% of the final outcome).

- As regards implementing strategy – besides achieving any specific targets – the main focus is on what has been achieved in terms of client centricity, sustainability and encouraging responsible conduct, and innovation (preparing for the digital revolution).

- The criteria for assessing whether the financial plans have been achieved comprise a number of financial parameters (return, profit, capital, and cost of credit), but also an assessment of the progress made in further implementing the bank-insurance model and income diversification.
- Strengthening the risk control environment is assessed based on stated liquidity, capital and funding criteria, implementing recommendations made by audit and the regulator, and ensuring that data quality is continually refined.
- Stakeholder satisfaction is assessed on the basis of the results from the client and employee satisfaction surveys and on the progress made in the area of sustainability. As regards the latter aspect, a sustainability dashboard that contains numerous parameters is used for measuring sustainability in a range of areas.

This assessment of all these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum performance-related variable emolument. **The size of the variable emolument, therefore, depends to a very small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.**

- The performance-related variable component for the President of the Executive Committee is set between 0 and 450 000 euros and the individual variable component between 0 and 175 000 euros. Based on the advice of the Remuneration Committee, the Board decided that – for 2019 – Johan Thijs should be awarded a performance-related variable emolument of 432 000 euros and an individual variable emolument of 162 750 euros;
- The limits for these components are 275 000 euros and 108 000 euros, respectively, for the other members of the Executive Committee. Based on the advice of the Remuneration Committee, the Board decided that they should be awarded performance-related variable remuneration for 2019 that equalled 264 000 euros (268 125 euros for the CRO). Individual variable emolument figures are given in the relevant table in the KBC Group Annual Report for 2019 (under 'Remuneration report for financial year 2019').

Half of the variable remuneration (i.e. both the performance-related and individual components) for members of the Executive Committee is paid in cash and the other half is awarded in the form of phantom stocks whose value is linked to the price of the KBC share.

With effect from 1 January 2017, payment of the cash component and allocation of the phantom stocks has been spread over six years, with 40% being paid/allocated in the first year and the remaining 60% spread equally over the next five years (from 2021 to 2025 inclusive). These stocks must be retained for one year after being allocated.

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

As in 2016, 2017 and 2018, the remuneration awarded to non-executive directors in 2019 remained unchanged

The remuneration paid to 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 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.

The Chairman receives a specific remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board. The members of the Executive Committee who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

Pension arrangements, disability cover and death cover

The members of the Executive Committee have a separate defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) 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 Executive Committee are the ones in which a significant part of the supplementary pension is built up. The pension plan also includes a death benefit and an invalidity benefit.

Remuneration policy for the next two financial years

The new Corporate Governance Code, which came into force on 1 January 2020, contains a number of provisions that are important for the remuneration policy. For members of the Board of Directors, the code stipulates that a portion of their remuneration be paid in the form of shares in their own company. For members of the Executive Committee, it stipulates that the Board sets a minimum threshold of shares to be held by them. The Remuneration Committee has already held an initial discussion on implementing these rules and is now examining whether and how these principles can be brought into line with KBC's specific situation.

At the time this report was being prepared, the European Shareholders' Rights Directive had not yet been transposed into Belgian law. However, that is expected to happen in the near future. This legislation also contains a number of provisions that are important for the remuneration policy and the way it is reported. For instance, one of the things it stipulates is that the remuneration policy for members of the Board of Directors and the Executive Committee should be submitted to the General Meeting for approval (the Corporate Governance Code also has a similar provision). As soon as the exact scope of this new legislation becomes clear, the principles for remunerating members of the Board of Directors and the Executive Committee – whether or not adjusted to take account of the outcome of above examination into the impact of the Corporate Governance Code – will be incorporated into a remuneration policy that can then be put on the agenda of the General Meeting (in May 2021).

However, the remuneration paid to the CEO and the members of the Executive Committee has been index-linked since 1 January 2020. With effect from that year, the fixed component will accordingly amount to 1 266 000 euros for the CEO (and 864 000 euros for the members of the Executive Committee), while the maximum performance-related variable component will be 455 000 euros (279 000 euros) and the maximum individual variable component 177 000 euros (110 000 euros).

Summary table (see the 'Remuneration report for financial year 2019' section of the KBC Group Annual Report for 2019)

| Remuneration paid to the EC of KBC Group NV (2019) | Johan Thijs (CEO) | | Daniel Falque | | John Hollows | | Erik Luts | |
|---|-------------------|------------------|---------------------|------------------|---------------------------|------------------|------------------|----------------|
| | Awarded | Paid | Awarded | Paid | Awarded | Paid | Awarded | Paid |
| Employment status | Self-employed | | Self-employed | | Self-employed | | Self-employed | |
| Base remuneration (fixed) | 1 250 000 | 1 250 000 | 853 000 | 853 000 | 853 000 | 853 000 | 853 000 | 853 000 |
| Individual variable remuneration for the financial year (cash) | 81 375 | 32 550 | 37 800 | 15 120 | 45 900 | 18 360 | 47 520 | 19 008 |
| Individual variable remuneration for the financial year (phantom stocks) | 81 375 | - | 37 800 | - | 45 900 | - | 47 520 | - |
| Performance-related variable remuneration for the financial year (cash) | 216 000 | 86 400 | 132 000 | 52 800 | 132 000 | 52 800 | 132 000 | 52 800 |
| Performance-related variable remuneration for the financial year (phantom stocks) | 216 000 | - | 132 000 | - | 132 000 | - | 132 000 | - |
| Individual variable remuneration for previous financial years | - | 22 800 | - | 12 605 | - | 13 215 | - | 7 777 |
| Performance-related variable remuneration for previous financial years | - | 67 328 | - | 41 450 | - | 41 450 | - | 24 963 |
| Phantom stocks for previous financial years | - | 184 983 | - | 113 672 | - | 181 681 | - | 33 197 |
| Total | 1 844 750 | 1 644 061 | 1 192 600 | 1 088 646 | 1 208 800 | 1 160 505 | 1 212 040 | 990 745 |
| Defined contribution pension plan (contribution) | 522 000 | - | 28 4970 | - | 284 144 | - | 284 970 | - |
| Other benefits | 16 743 | - | 17 378 | - | 10 453 | - | 9 112 | - |
| | Luc Popelier | | Hendrik Scheerlinck | | Christine Van Rijssseghem | | | |
| | Awarded | Paid | Awarded | Paid | Awarded | Paid | | |
| Employment status | Self-employed | | Self-employed | | Self-employed | | | |
| Base remuneration (fixed) | 853 000 | 853 000 | 853 000 | 853 000 | 853 000 | 853 000 | | |
| Individual variable remuneration for the financial year (cash) | 41 580 | 16 632 | 44 280 | 17 712 | 45 900 | 18 360 | | |
| Individual variable remuneration for the financial year (phantom stocks) | 41 580 | - | 44 280 | - | 45 900 | - | | |
| Performance-related variable remuneration for the financial year (cash) | 132 000 | 52 800 | 132 000 | 52 800 | 134 063 | 53 625 | | |
| Performance-related variable remuneration for the financial year (phantom stocks) | 132 000 | - | 132 000 | - | 134 063 | - | | |
| Individual variable remuneration for previous financial years | - | 12 775 | - | 7 363 | - | 13 315 | | |
| Performance-related variable remuneration for previous financial years | - | 41 450 | - | 24 963 | - | 41 862 | | |
| Phantom stocks for previous financial years | - | 115 311 | - | 33 015 | - | 107 664 | | |
| Total | 1 200 160 | 1 091 968 | 1 205 560 | 988 853 | 1 212 925 | 1 087 826 | | |
| Defined contribution pension plan (contribution) | 284 970 | - | 284 970 | - | 284 970 | - | | |
| Other benefits | 15 042 | - | 12 107 | - | 14 392 | - | | |

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