



# Clarification

Brussels, 1 April 2021, 8.00 a.m. CEST

## **KBC Group clarifies remuneration report following publication of 2020 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), 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 (for the EC as a collective body) and a performance-related component (for individual achievements).
- 60% of variable remuneration awarded to members of the EC may not be paid straightaway but its payment is to be spread over a period of five years.
- Half of the total amount of variable remuneration is to be awarded in the form of equity-related instruments (phantom stocks or other instrument specified by a local regulator), 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.
- No advance payments may be made in relation to the variable component and clawback/holdback provisions are in place.
- The variable remuneration component may not exceed half of the fixed component.
- Variable remuneration is to be capped at a nominal 750 000 euros.
- The criteria for assessing the performance of the EC member responsible for the risk function may not refer in any way to the results of the KBC group.
- Some of the criteria used for assessing the performance of members of the EC must always relate to risk. The sustainability policy is another element that is taken into account when setting variable remuneration.

**Because of the covid-19 crisis and its impact on the result, the variable remuneration of the members of the DC was, at their initiative, reduced to 75% of what it would normally be. In other words, variable**

**remuneration was calculated as described in the report and in the explanatory notes and the result of this calculation was reduced by 25%.**

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 2020' section of the KBC Group Annual Report for 2020, which is available at [www.kbc.com](http://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 EC**

An overview table is attached at the end of this press release. More details can be found in KBC Group's 2020 Annual Report, chapter "Remuneration Report for the financial year 2020".

The remuneration of individual EC members is made up of the following components:

- a fixed monthly emolument;
- an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution);
- an annual, individual variable emolument based on the performance by each member of the EC and on the example they set in respecting the group's values;
- any emolument for offices performed on behalf of KBC Group NV (exceptional).

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. **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 EC, 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 EC against each of the five aspects of our corporate culture (Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness) and the core value of being Respectful. On the basis of this assessment, the Remuneration Committee proposes a percentage between 0 and 100% to the Board. The Board then decides on this final score, which ultimately determines the size of the individual variable emolument.
- 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 EC and the company. These criteria are: implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders. The performance of the EC 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, encouraging responsible conduct, and innovation (the preparation of 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) and 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 liquidity, capital and funding criteria, implementing recommendations made by audit and the regulator, and the degree to which the quality of data has improved.
  - 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 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 variable component for 2020 is split into a performance-related variable emolument and an individual variable emolument.

- The performance-related variable component for the President of the EC is set between 0 and 455 000 euros and the individual variable component between 0 and 177 000 euros. The limits for these components are 279 000 euros and 110 000 euros, respectively, for the other members of the EC.
- 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 total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the EC is paid over six years, with 40% being paid in the first year and the rest spread equally over the next five years.

Of the total annual variable remuneration, 50% is awarded in the form of equity-related instruments called phantom stocks. The value of the phantom stocks is linked to the price of the KBC Group NV share.

The remuneration paid to **non-executive directors** consists solely of an annual fixed component of 20 000 euros (non-performance-related and non-results-based) plus the fee received for each meeting attended (5 000 euros). 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. Given his duties, the **Deputy Chairman** receives a higher fixed component (an additional 30 000 euros). **Four additional Board meetings were held in 2020 partly on account of the coronavirus crisis and five information sessions for the Board were also organised. The Board decided to waive the attendance fees for all these additional meetings.**

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. 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 EC 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 EC 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. The pension plan includes a death benefit and an invalidity benefit.

## **Remuneration policy**

The European Shareholder Rights Directive (Directive (EU) 2017/828) was implemented in Belgian law by the Act of 28 April 2020. Containing a number of new provisions relating to the content of the remuneration report, this legislation also increases shareholder say in the remuneration process.

On the basis of advice obtained from the Remuneration Committee, the Board decides on proposals to change the remuneration package for its members and, where necessary, submits such proposals for approval at the General Meeting.

The Corporate Governance Code stipulates that members of the Board should receive a portion of their remuneration in the form of company shares as a way of encouraging them to act as long-term shareholders. The Remuneration Committee conducted an in-depth debate on the application of this rule at KBC. While agreeing with the thinking behind it, the committee did not consider it expedient to follow this rule given KBC's specific shareholder structure, where – with the exception of the independent directors – all non-executive directors at KBC are representatives of the core shareholders. These core shareholders, by their very nature, are long-term shareholders who together hold more than 40% of KBC's shares. Adding a limited number of shares by means of their remuneration would, therefore, not have any impact whatsoever. The Remuneration Committee duly concluded that it was not necessary to implement this rule to achieve the intended objective. The Board followed the committee's advice in this regard.

The Corporate Governance Code also stipulates that the Board should determine the minimum number of shares that members of the EC may hold in a personal capacity. The reasoning behind this position is to bring the interests of executive management into line with the those of shareholders. The structure of the remuneration package currently in place for members of the EC ensures that their interests correspond with the long-term interests of the shareholders. Not only is payment of 60% of their variable remuneration deferred over a period of five years, half of it is also linked to the value of the KBC share. Continuing good results and a positive share price performance are therefore as important to members of the EC as they are to the shareholders. The additional requirement of having members of the EC hold a package of KBC shares would make an overly large portion of their assets dependent on the KBC share price. Accordingly, the Remuneration Committee advised the Board not to implement this particular provision of the Code. The Board followed the advice of the committee.

## Top management remuneration in perspective

- To put developments in the remuneration of top management in perspective, we have provided an overview covering the past five years of the total remuneration earned by the current members of the EC, the average salary of KBC Group NV employees in Belgium (in FTE), the lowest salary of a KBC Group NV employee in Belgium (in FTE) and certain indicators of KBC's performance.
- The remuneration awarded to non-executive directors has not been included in the overview due to the fact that it has remained unchanged during the past five years.

	2016	2017	2018	2019	2020
Remuneration paid to EC members (in EUR)		(year-on-year change)	(year-on-year change)	(year-on-year change)	(year-on-year change)
Johan Thijs	1 979 881	2 177 688 +10%	2 298 415 +6%	2 361 493 +3%	2 245 548 -5%
Daniel Falque	1 315 200	1 398 553 +6%	1 452 951 +4%	1 482 938 +2%	1 420 155 -4%
John Hollows	1 313 836	1 397 301 +6%	1 453 772 +4%	1 492 213 +3%	1 424 346 -5%
Erik Luts	-	- -	1 453 646 -	1 494 112 +3%	1 426 805 -5%
Luc Popelier	1 320 293	1 401 481 +6%	1 456 816 +4%	1 488 162 +2%	1 420 447 -5%
Hendrik Scheerlinck	-	- -	1 451 527 -	1 490 627 +3%	1 421 190 -5%
Christine Van Rijsseghem	1 313 086	1 401 729 +7%	1 465 071 +5%	1 500 277 +2%	1 424 458 -5%
Average (excluding CEO)	1 315 604	1 399 766 +6%	1 455 630 +4%	1 491 388 +2%	1 422 900 -5%
Average employee salary (in EUR)					
Average for KBC Group NV employees	86 486	88 579 +2%	90 416 +2%	90 780 +0%	92 124 +1%
Lowest salary in KBC Group NV	37 953	39 564 +4%	42 587 +8%	43 259 +2%	46 448 +7%
Ratio of highest to lowest salary in KBC Group NV	1/52	1/55	1/54	1/55	1/48
Performance indicators					
Group's net result (in millions of EUR)	2 427	2 575 +6%	2 570 -0%	2 489 -3%	1 440 -42%
Group's total income (in millions of EUR)	7 211	7 700 +7%	7 512 -2%	7 629 +2%	7 195 -6%
Reduction in own greenhouse gas emissions (in tonnes of CO2e per FTE)	2.89	2.48 14%	2.27 8%	1.97 13%	1.54 22%
Volume of SRI funds (in billions of EUR)	2.80	7.10 +154%	8.97 +26%	12.02 +34%	16.78 +40%
Common equity ratio (fully loaded)	15.8%	16.3% +3%	16.0% -2%	17.1% +7%	17.6% +3%

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