



Clarification

Brussels, 4 April 2022, 8.00 a.m. CEST

KBC Group clarifies remuneration report following publication of 2021 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 the Board of Directors and the Executive Committee is published in the 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). This ensures that the size of the variable emolument partly depends on the longer-term effects of the policy pursued.
- No advance payments may be made in relation to the variable component and clawback/holdback provisions are in place.
- The variable remuneration may not exceed half of the fixed remuneration components.
- 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.

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 2021' section of the KBC Group Annual Report for 2021, 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 EC

An overview table is attached at the end of this press release. More details can be found in KBC Group's 2021 Annual Report, chapter "Remuneration Report for the financial year 2021".

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

- a fixed monthly emolument;
- a defined pension contribution in a defined contribution plan;
- an annual, result-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 performance-related variable component** is set on the basis of an assessment of the performance of the member in question. The Remuneration Committee broadly assesses each member of the EC against the six aspects of KBC's corporate culture 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 **collective result-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 centred on four broad areas, viz. 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 this 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 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 internal control environment, including compliance, 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 2021 is split into a collective result-related variable emolument and an individual variable emolument.

- The **collective result-related variable component** for the President of the EC is set between 0 and 459 100 euros and the individual variable component between 0 and 178 600 euros. The limits for these components are 281 500 euros and 111 000 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 result-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. For the members of the EC KBC Group (with the exception of John Hollows) the value of these 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-result-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).

The **Chairman of the Board** 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 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 and because it would contribute to sustainable value creation. Moreover, a positive correlation is believed to exist between shareholdings by senior management and future operating profit. The Remuneration Committee understands this line of reasoning, but nevertheless advised the Board not to implement this particular provision of the Code. The Board followed the advice of the committee. This decision is based on the fact that the idea behind this provision and the positive impact of shareholdings by senior management are already deeply embedded in the current structure of the remuneration package currently in place for members of the EC. Not only is payment of 60% of their variable remuneration deferred over a period of five years, half of the variable remuneration is also paid in the form of phantom stocks. In other words, half of the variable remuneration is linked to the development of the value of the KBC share over a period of seven years following the year for which the variable remuneration was awarded. 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.

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.

Top management remuneration in perspective	2017	2018	(year-on-year change)	2019	(year-on-year change)	2020	(year-on-year change)	2021	(year-on-year change)
Remuneration paid to EC members (in EUR)									
Johan Thijs	2 177 688	2 298 415	+6%	2 361 493	+3%	2 245 548	-5%	2 421 147	+7,8%
Peter Andronov	-	-	-	-	-	-	-	1 506 087 (12/12)	-
John Hollows	1 397 301	1 453 772	+4%	1 492 213	+3%	1 424 346	-5%	1 518 260	+6.6%
Erik Luts	-	1 453 646	-	1 494 112	+3%	1 426 805	-5%	1 534 287	+7.5%
David Moucheron	-	-	-	-	-	-	-	1 520 236 (12/12)	-
Luc Popelier	1 401 481	1 456 816	+4%	1 488 162	+2%	1 420 447	-5%	1 527 022	+7.5%
Christine Van Rijsegheem	1 401 729	1 465 071	+5%	1 500 277	+2%	1 424 458	-5%	1 529 211	+7.4%
Average (excluding CEO*)	1 399 766	1 455 630	+4%	1 491 388	+2%	1 422 900	-5%	1 522 517	+7.0%
Average salary of Belgian employees of KBC Group NV (in EUR)									
Average salary	88 579	90 416	+2%	90 780	+0%	92 124	+1%	94 312	+2.4%
Lowest salary	39 564	42 587	+8%	43 259	+2%	46 448	+7%	47 767	+2.8%
Ratio of highest to lowest salary	1/55	1/54		1/55		1/48		1/51	
Performance indicators									
Group's net result (in millions of EUR)	2 575	2 570	-0%	2 489	-3%	1 440	-42%	2 614	+82%
Group's total income (in millions of EUR)	7 700	7 512	-2%	7 629	+2%	7 195	-6%	7 558	+5%
Own greenhouse gas emissions (in tonnes of CO ₂ per FTE)	2.48	2.27	-8%	1.97	-13%	1.54	-22%	1.02	-34%
Volume of SRI funds (in billions of EUR)	7.1	9.0	+26%	12.0	+34%	16.8	+40%	31.7	+89%
Common equity ratio (fully loaded)	16.3%	16.0%	-2%	17.1%	+7%	17.6%	+3%	15.5%	-12%

* This calculation is based on the composition of the EC at that time.

Remuneration from 2022

The result of the vote on the remuneration policy and remuneration report at the General Meeting of 6 May 2021 shows that the vast majority of shareholders endorse the policy and the report.

On the advice of the Remuneration Committee, the Board nevertheless decided to make a few adjustments to the remuneration of the CEO and of the EC members with effect from 1 January 2022.

Mr. Koenraad Debackere, Chairman of the Board of Directors of KBC Group explains why: "In recent years, under the passionate, inspiring and expert leadership of Johan Thijs as CEO, and with the support of the dynamic Executive Committee, our group has undergone an impressive transformation. Together, they have prepared our group excellently for the digital transformation that our sector and by extension the whole of society is facing, as well as the many other challenges that lie ahead. KBC achieved top scores worldwide in innovation, digital applications as well as sustainability. Together with our efforts to improve services, this translates into growing customer satisfaction. This satisfaction is also reflected in our group's financial results. As a result, KBC Group is today one of the best-capitalized, most profitable and most diversified financial institutions in Europe, firmly anchored in our home markets. This leadership position of KBC Group also reflects on the individual position of Johan and the other members of the Executive Committee. Harvard Business Review has placed Johan on its list of the 10 best CEOs in the world three times and Peter Andronov has been elected Banker of the Year in Bulgaria for the 5th time in 2021. The Board of Directors is fully convinced that Johan, through his dedication and commitment, is the right man to lead KBC Group in the coming years through the many challenges that the sector faces. Out of

sincere appreciation and with a view to ensuring continuity - an essential fact for customers, shareholders, employees and other stakeholders of our financial institution - it was therefore decided to adjust Johan's remuneration this year."

The remuneration paid to the members of the EC (the fixed remuneration and the maximum variable remuneration) will be raised by 50 000 euros in total. This is roughly in line with an adjustment to the development of the health index for the year 2021. Given the local context in the Czech Republic, John Hollows did not implement this adjustment.

The Board also decided to introduce as of 2023 an automatic link to the development of the health index figure, which also exists for KBC staff members in Belgium.

In view of his excellent performance and to ensure continuity, the CEO's remuneration will be raised to a more correct position in the benchmark (departing from below the median and trending towards the top 25%) over a period of three years. This will be achieved by raising his remuneration (the fixed component and the maximum variable component) by 350 000 euros in total each year in 2022, 2023 and 2024.

In order to mitigate the impact of the raise on the additional legal retirement benefits, the contribution rate for the CEO will be brought into line with that of the EC members as from 2023. Specifically, this means a reduction in the contribution rate in the first ten years from 40% to 32%. His remuneration will also be linked to the index development from 2023, as is also the case for the EC members.

The remuneration policy for the members of the Board and of the EC was amended in line with these changes. The amended policy will be submitted for approval to the General Meeting of 5 May 2022.

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