

Remuneration Policy 2014

Effective date:	1 Jan 2014	No:	HR-JAV-11/01
Head of responsible process owner area:	József Végh / Human Resource Directorate	Type:	regulation
Approved by:	Remuneration Committee	Valid until:	31.12.2019.

Process owner: Katalin Bóna, Head of Compensation, Benefits and HR Planning Dep., 19523m.

Laws referenced:

- Act CXII of 1996 on credit institutions and financial enterprises (hereinafter referred to as Hpt.)
- Act CXXXVIII of 2007 on investment enterprises and commodity exchange services and the rules pertaining to their activities

Related internal regulations:

- HR-TER-01 Performance Evaluation Regulation
- HR-JUT-01 Reward Regulation
- HR-JUT-02 Extra Reward Regulation
- HR-BER-01 Base Salary Regulation
- All the effective Policies on the Variable Remuneration regulations

This Directive supersedes: -

Related terms: base salary, variable remuneration

This Regulation shall apply to: all the Bank's organisational units and employees, as well as according to the decision made by Board of Directors on May 26, 2011, to the following subsidiaries:

K&H Csoportszolgáltató Kft.
K&H Alapkezelő Zrt.
K&H Faktor Zrt.

The scope of this Regulation shall include: in harmony with KBC, this regulation relates to the high level principles on remuneration, basic remuneration guidelines for all staff, remuneration guidelines for key identified staff, remuneration governance

Purpose of the regulation: in harmony with KBC, regulate and provide a comprehensive framework for the general remuneration policies of the institutions; specify and regulate decision-making competencies, scopes of responsibilities and affected staff in terms of remuneration processes and policies.

Type of Product: Internal process / HR / Remuneration

Content

1. Introduction
2. General Remuneration Guidelines for all staff
 - Guideline No. 1: Scope
 - Guideline No. 2: Global Remuneration Architecture
 - Guideline No. 3: Absolute level of variable remuneration
 - Guideline No. 4: Ratios between remuneration components
 - Guideline No. 5: Floors, thresholds and caps
 - Guideline No. 6: Determination of the base-‘budget’ for variable compensation
 - Guideline No. 7: Individual performance-based compensation
 - Guideline No. 8: Control & support functions
 - Guideline No. 9: Deferral of variable compensation
3. Specific Remuneration Guidelines for Key Identified Staff
 - Guideline No. 1: Scope
 - Guideline No. 2: Risk-adjusted remuneration
 - Guideline No. 3: Variable compensation (non-cash) instruments
 - Guideline No. 4: Deferral of variable compensation
4. Remuneration Governance
 - Guideline No. 1: Minimum standards
 - Guideline No. 2: Remuneration Governance Bodies and Process
 - Guideline No. 3: Documentation and communication

Glossary

1. INTRODUCTION

The purpose of the policy is to create a framework for the general remuneration principles within K&H Group considering the national legislation. The policy defines the general remuneration guidelines for all staff and specific remuneration guidelines for “Key Identified Staff” (as defined below). The policy also determines the governance environment, the responsibilities, the roles and the decision-making competencies.

- K&H Group compensation schemes and all individual compensation contracts fully comply with the KBC Remuneration Policy. These principles will cover the whole of K&H Group but will pay particular attention to the “Key Identified Staff”.
- Compensation schemes are based on competences, job weightings, skills and performance, and are aligned with long-term shareholder interests and group-wide profitability, taking into account overall risk and the cost of capital.
- Compensation schemes are compatible with the relevant stakeholders’ interests in general, and with the KBC Corporate Social Responsibility Policy.
- K&H Group remuneration policies contain specific provisions for the remuneration of specific staff categories, i.e. risk-takers whose professional activities have a material impact on the risk profile of the company, K&H Bank ExCo members and those in control functions.
- Severance pay does not include ‘pay for failure’, but takes into account corporate governance codes and the applicable labor laws in force.
- K&H Group remuneration practices fully comply with the KBC and K&H Group Compliance Rules and with local legislation regarding fiscal and social security regulations.
- K&H Group compensation schemes – where acceptable within the framework of the Remuneration Policy – are aligned with local remuneration practices within the different geographical and functional labor markets.
- Variable compensation should be awarded on a discretionary basis.
- Variable compensation does not induce risk-taking in excess of the risk profile of the different entities of the K&H Group.
- Variable compensation – where relevant – is based on risk- and liquidity-adjusted profit, not on gross revenues.
- In case a tax-efficient method of payment is available, variable remuneration can be paid out according to such method (e.g. via tradable options), providing the payout is compliant with the applicable tax regulations.
- A retention and/or incentive arrangement is a form of variable compensation which is permitted only in exceptional circumstances i.e. if the business entity is divested, wound down or undergoing a major reorganization and a case can be made for the retention of key staff on risk and/or value preservation grounds (i.e. following instructions of the monitoring trustee appointed by the European Commission to oversee the preservation of the divested business during the interim period before the actual sale). Any retention and/or incentive arrangement proposal should at least include the following general principles :
 - Governance principles: retention and/or incentive arrangements will be decided by the Supervisory Board of the KBC Group (upon advice of Corporate HR, the KBC Group Executive Committee and the Remuneration Committee of the KBC Group). Final approval on the size of the amounts to be paid and the relevant payment dates shall be taken by the Supervisory Board of the entity under divestment (on the advice of the competent Remuneration Committee).
 - Conditions of entitlement: (i) the employee has not resigned from employment or has not provided notice of resignation, before or on the relevant payment dates, to the entity under divestment, (ii) the employee has all times continued to perform the assigned job responsibilities (including those in relation to the completion of the transaction) in a professional way, including in particular by way of adherence to the KBC Standards of Conduct, (iii) the entity under divestment has not terminated the employment for cause before or on the relevant payment dates, and (iv) there have been no statutory or regulatory changes (including regulatory guidelines) which restrict the entity under divestment from making the payments;

- Payment dates: payouts are spaced out in time whereby (i) a minimum period of 12 months must elapse before pay out of the first installment, and (ii) the pay out of the final installment can only take place after completion of the transaction;
- Individual letters providing for these general principles, and other more specific guidance on risk adjustment will have to be drawn up.

2. General Remuneration Guidelines for all staff

2.1 Guideline No. 1: Scope

The General Remuneration Guidelines forms a global framework into which all compensation schemes for all staff categories and all business entities fits.

According to the principle 'comply or explain', any exception beyond the scope of the remuneration guidelines has to be:

- examined on an individual basis;
- submitted to KBC Group HR for prior advice; and
- ratified by the KBC Group Supervisory Board (based on prior advice from its Remuneration Committee and KBC Group ExCo).

2.2 Guideline No. 2: Global remuneration architecture

The compensation schemes have the following elements:

- base salary;
- variable compensation:
 - result-based variable compensation:
 - KBC group results (reported and/or underlying), mandatory only for board members of bank and insurance companies and risk-takers,
 - underlying financial results of K&H Group (if applicable),
 - individual financial results or achievement of KPIs;
 - individual performance-based compensation (non-financial criteria)

2.3 Guideline No. 3: Absolute level of variable compensation

On an individual basis, an absolute cap is set on the total yearly allocated variable compensation. Until otherwise decided by the KBC Group Supervisory Board (after advice from its remuneration committee and of KBC Group ExCo), this absolute cap is defined as the HUF equivalent of 750 000 EUR on the exchange rate to be defined by KBC Group Remuneration Committee in gross terms.

2.4 Guideline No. 4: Ratios between remuneration components

The minimum and maximum standards are as follows:

- for total compensation, the ratio between base salary and variable compensation may be no more than 1 to 1 for all divisions and categories of staff except for front-office staff in Market Activities (Dealing room), for which the ratio may be no more than 1 to 2,5;
- for total variable compensation (result- + performance-based), a minimum proportion of 10% is based on the individual performance appraisal of non-financial criteria;
- for result-based variable compensation, a minimum proportion of 10% is based upon the KBC group reported results. This parameter is mandatory only for Executive Committee members of bank and insurance companies and risk-takers.

2.5 Guideline No. 5: Floors, thresholds and caps

The standards are as follows:

- a floor on variable compensation is allowed only for the first year of employment for staff joining K&H Group;
- result-based variable compensation can be calculated on the basis of the annual results trend or on KPIs or targets (possibly using thresholds).

2.6 Guideline No. 6: Determination of the base-'budget' for variable compensation

The result-based variable compensation can be determined based on a reward pool. The minimum standards are as follows:

- the reward pool should be a reasonable percentage of the profits of K&H Group or the business entity at a higher organizational level;
- the reward pool should be determined:
 - on the basis of profit, not revenues;
 - the definition of the profit is included in the following policies:
 - Policy on the Variable Remuneration of CT Members
 - Policy on the Variable Remuneration of Hungarian Markets GWPP Staff
 - Reward Policy

2.7 Guideline No. 7: Individual performance-based compensation

A mandatory component in the K&H Group remuneration scheme is individual performance-based compensation, based on a yearly performance appraisal instrument and taking non-financial criteria into account. In general terms, the individual performance appraisal criteria will be based on the K&H Group competency model and on compliance with K&H and KBC standards governing corporate values, such as treating your customer fairly.

2.8 Guideline No. 8: Control & Support functions

The standards are as follows:

- Control functions are defined as staff employed by Audit, Compliance, Risk, Finance and Corporate HR.
- In order to prevent conflicts of interest, variable compensation for control functions is limited and cannot be based on the financial results of the underlying business being controlled.
- Specific weights have to be defined on the proportion of the individual performance-based compensation.
- When result-based variable compensation is being considered for control functions, the level of this compensation is determined based on the results of the K&H Group.
- For control functions, base salary should be set at a competitive level in order to attract experienced and skilled staff in all business environments.
- For support functions (legal, ICT, local HR departments, etc.), the compensation schemes should be based on market benchmarks for these positions as such and not on the compensation levels in the business entities receiving the service.

2.9 Guideline No. 9: Deferral of variable compensation

The minimum standards are as follows:

- at least 40% of the result-based variable compensation paid out to Risk Takers (non-Key Identified Staff), that is Markets Directorate Trading staff, and section heads of Sales should be deferred;
- the deferral period shall depend upon the risk time horizon of the underlying financial activity and should be at least 3 years;
- under the Hungarian law the staff (non-KIS) affected by 3 year deferral are not staff members that should be considered as risk takers (KIS)
- the deferred part of the variable compensation is allocated and not yet payable;
- the compensation scheme shall define the criteria under which ex-post risk adjustment of deferred parts of variable remuneration (malus or claw back) is possible. The possibility to re-claim variable compensation if it is later established that it resulted from fraudulent activities is a mandatory criterion to be included in all schemes;
- deferred amounts cannot vest in an accelerated way at the termination date of the employment contract;
- deferral will be applied as a retention element in Financial Markets, meaning that deferred variable compensation will not vest in case of a voluntary exit of the employee.

The deferral scheme operates as follows (example):

Variable year X = 100 HUF

	<u>x+1</u>	<u>x+2</u>	<u>x+3</u>	<u>x+4</u>
Pay-out in cash	60	13	13	14

3. Specific Remuneration Guidelines for Key Identified Staff

3.1 Guideline No. 1: Scope

The following staff members are considered to be Key Identified Staff, whose remuneration is subject to the supplementary set of rules as defined below:

- members of the Executive Committee of K&H Bank including the CEO of K&H Bank;
- Country Head of Hungarian Markets GWPP;
- to the extent that their total compensation package exceeds the HUF equivalent of 350 000 EUR on the exchange rate to be defined by KBC Group Remuneration Committee in gross terms, the supplementary set of rules is also applicable to any other staff member (“catch all” – provision).

Staff who are allocated variable compensation exceeding the HUF equivalent of 75 000 EUR on the exchange rate to be defined by KBC Group Remuneration Committee in gross terms and/or the maximum one-to-one ratio for fixed to variable remuneration are considered to be subject to the specific requirements regarding Non-cash instruments (Guideline No. 3) and Deferral (Guideline No. 4).

The KPI-s that serve as basis for the performance evaluation of KIS staff are detailed in the following policies:

- Policy on the Variable Remuneration of CT Members
- Policy on the Variable Remuneration of Hungarian Markets GWPP Staff

3.2 Guideline No. 2: Risk-adjusted remuneration

Variable compensation is subject to ex post risk adjustment measures. Ex post risk adjustment operates either by reducing deferred but not yet vested amounts (malus) either by re-claiming ownership of deferred amounts already vested (claw back).

Malus is applied:

- a. In case of evidence of misbehavior or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks)

- b. In case of a downturn with at least 50% of either the net result excl. non recurring or the (underlying) risk adjusted profit of KBC Group and/or the underlying KBC-entity in the year preceding the year of vesting compared to the year of granting, a malus will be applied on the deferred but not yet vested amounts relating to the year of granting unless the KBC Group Remuneration Committee gives a motivated advice to the Supervisory Board of KBC Group where it proposes not to apply a malus for very specific reasons. The KBC Group Remuneration Committee will also give an advice on the scale (percentage to be applied) of the malus. The final decision will belong to the Supervisory Board of KBC Group.
- c. In case either the net result excl. non recurring or the risk adjusted profit of KBC Group in the year preceding the year of vesting is negative, all deferred but not yet vested amounts which should normally vest in the year following the year with the negative result, will not vest and will be lost.

Claw back is applied in case of:

- established fraud; or
- (use of) misleading information.

Additional to the ex post risk adjustment by malus and clawback, variable compensation will also be subject to ex ante adjustment. Ex ante risk adjustment will be realized through a qualitative and a quantitative risk-adjusted performance measurement framework.

A qualitative risk indicator is included in the performance appraisal procedure, which is used to define the individual variable remuneration allocated to K.I.S.

A quantitative risk-adjusted performance measurement framework is introduced, which is used to define the result based variable remuneration allocated to K.I.S.

This framework consists of (a combination of) risk gateway and adequate risk adjustment measures. The risk gateway includes (economic and regulatory) capital and liquidity parameters, which imply that no result based variable remuneration is paid if one of the parameters is not met. Deferred amounts will only vest if the risk gateway is passed in the year of vesting. If the risk gateway is not passed, the already deferred amounts will be not vest in that year and will be lost. Additionally, risk adjustment measures (e.g. risk-adjusted profit - RAP) are introduced which directly impact the level of result based variable remuneration by adjusting the size of bonus pools and individual awards to risk.

The risk gateway consists of both KBC and K&H Group level KPIs. The risk gateway will be passed only only if all of the below listed KPIs will be realized at least on the level of the given threshold:

KBC Group level KPIs:

	Thresholds (targets and not given)
AFR/ECap ratio	100%
Common equity ratio	9%
NSFR BankCons	90%

K&H Group level KPIs:

	Thresholds (targets and not given)
Capital adequacy ratio	10,3%
Deposit coverage ratio	20%
Balance sheet coverage ratio	10%

The process of ex ante risk adjustment is described below:

On KBC Group level: based on the KPIs approved by KBC Risk, KBC HR will notice KBC Supervisory Board and KBC Remuneration Committee whether the KBC group risk gateway has been passed, and after then they will notify K&H HR as well.

On K&H Group level: based on the KPIs approved by K&H Risk and Controlling, K&H HR will notify K&H Remuneration Committee (where one member of K&H Supervisory Board is a permanent guest) whether the KBC and the K&H Group level risk gateway have been passed.

In case where only the K&H Group level risk gateway has been not passed, the result based variable remuneration cannot be paid only to the K.I.S. and Risk Takers. In case the KBC Group level risk gateway has been not passed, the result based variable remuneration cannot be paid to the K.I.S. and also to employees who are KBC Senior Managers.

3.3 Guideline No. 3: Variable compensation (non-cash) instruments

50 % of the (result-based and individual performance-based) variable remuneration shall consist of share-linked instruments, i.e. phantom stock based upon the KBC Group share.

This principle shall be applied to both the variable compensation component paid upfront and the deferred variable compensation component.

To obtain the necessary risk alignment, both the upfront and deferred part of the variable compensation that is paid in instruments will be subject to a retention period of 1 year. In case of a change of control of KBC Group, the Supervisory Board of KBC Group will decide on a possible accelerated vesting of the phantom stock.

3.4 Guideline No. 4: Deferral of variable compensation

50% of the variable compensation allocated to K.I.S. is deferred over a period of 3 years. Deferred amounts do not vest in an accelerated way at the termination date of the employment contract

The deferral scheme operates as follows:

Variable year X = 100 HUF

	x+1	x+2	x+3	x+4	x+5
Pay-out in cash	25				
Up-front "pay-out" in phantom stock	----->	25			
Deferred pay-out in cash		8,33	8,33	8,34	
Deferred "pay-out" in phantom stock		----->	8,33		
			----->	8.33	
				----->	8,34

In case of a change of control of KBC Group, the Supervisory Board of KBC Group will decide on a possible accelerated vesting of any outstanding amounts.

3 Remuneration governance

4.1 Guideline No. 1: Minimum standards

The minimum standards are as follows:

- A precise and overall remuneration governance process should be in place to cover all remuneration practices within the KBC Group.
- Compensation schemes for the different staff categories and business entities have to be approved at the appropriate decision level (remuneration governance bodies and delegated decision authority).

- Individual decisions on compensation (including all remuneration components) should be made within the framework of precise delegation tables, which incorporate the 'four-eye principle'.
- HR will involve the relevant internal control functions (Risk, Compliance, etc.) as well as other key supervisory function committees (i.e. Audit, Compliance and Risk Committee) in the periodical review of the remuneration system of the institution.
- Financial data used for determining result-based variable compensation (including the reward pool), should be approved by a Finance & Controlling Unit which works independently of the underlying business entity.
- In accordance with K&H and KBC Compliance Rules, compensation provided through Special Purpose Vehicles is strictly forbidden.
- The role of the HR function:
- The relevant HR function must give preliminary advice to decision-makers on all proposals regarding
 - the compensation schemes (new schemes, changes to the schemes) and/or individual exceptions;
 - the application of the compensation schemes in a business entity or at an individual level.
- The role of the Corporate HR function:
- Preliminary advice to decision-makers on proposed changes in compensation schemes or individual exceptions for Group ExCo members, (Senior) General Managers (Head-office/BE), Executive Committee members of bank and insurance companies abroad, Group control functions and risk taking functions is mandatory.
- In order to prevent possible conflicts of interest, payroll and personnel administration should, in principle, be performed by a function which does not report directly to senior managers who are personally involved.

4.2 Guideline No. 2: Remuneration governance Bodies and Process

The governance of the KBC Remuneration Policy involves the design, implementation, and the ongoing review of remuneration practices. The main bodies involved in these roles are outlined below.

4.2.1 On KBC Group level

Remuneration governance Bodies on the level of the KBC Group are:

- the Supervisory Board of the KBC Group;
- the Remuneration Committee (“Vergoedingscomité”) of the KBC Group;
- the KBC Group Executive Committee.

The **Supervisory Board of the KBC Group** (on the basis of a recommendation from its remuneration committee) shall:

- set and maintain the KBC Remuneration Policy;
- determine the remuneration, including the terms and other commitments to be made on the retirement, resignation or dismissal, of the members of the Supervisory Board and the members of the Executive Committee of KBC Group, with the aim of ensuring fairness and avoiding reward for failure;
- approve compensation systems and individual compensation packages for Key Identified Staff;
- approve retention/incentive bonuses in exceptional circumstances, i.e. if the business entity is divested, wound down or undergoing a major restructuring and a case can be made for the retention of key staff on risk and/or value preservation grounds;
- approve any material exemptions or changes to the principles of the KBC Remuneration Policy;
- approve annually the top-50 list of highest earners within the KBC Group;
- review annually the report from the Corporate HR Manager on the operation of the Remuneration Policy and its effectiveness.

The Supervisory Board shall carry out the duties for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

The **Remuneration Committee** (*“Vergoedingscomité”*) of the KBC Group shall:

- propose to the Supervisory Board of the KBC Group a KBC Remuneration Policy that is aligned with KBC Group’s long term business strategy, its business objective, its risk appetite and values and recognises the interests of relevant stakeholders;
- propose to the Supervisory Board the remuneration, including the terms and other commitments to be made on the retirement, resignation or dismissal, of the members of the Supervisory Board and the members of the Executive Committee of KBC Group, with the aim of ensuring fairness and avoiding reward for failure;
- advise the Supervisory Board on compensation systems and individual compensation packages for Key Identified Staff;
- advise the Supervisory Board on retention/incentive bonuses in exceptional circumstances, i.e. if the business entity is divested, wound down, or undergoing a major restructuring and a case can be made for the retention of key staff on risk and/or value preservation grounds.
- advise the Supervisory Board on any material exemptions or changes to the principles of the KBC Remuneration Policy;
- monitor the application of the authority delegated to the KBC Group Executive Committee and the Divisional Compensation Committee (cf. infra) to ensure that policies and principles are being consistently and effectively applied, seeking support and input from Group HR and Group Risk as appropriate and appropriate sign off from the business units;
- liaise as required with the Audit, Compliance and Risk Committee and Group Risk function in relation to risk-adjusted performance measures;
- approve the contents of the annual Remuneration Policy Statement for the CBFA.

The Remuneration Committee is authorised by the Board to undertake any activity within its terms of reference and seek whatever additional advice or support within the KBC Group it requires in the discharge of its duties. The Remuneration Committee (*“Vergoedingscomité”*) shall carry out the duties for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

The Remuneration Committee is chaired by an independent non-executive director.

The Remuneration Committee is a Board committee. It shall report to the Supervisory Board of the KBC Group, and submits an annual report of the KBC Group’s remuneration policy and practices, and ensure each year that it is put to shareholders for approval at the Board of Directors.

The **KBC Group Executive Committee** shall:

- act as Compensation Committee and take decisions regarding proposals for compensation systems and individual compensation packages for members of KBC Senior Management;
- advise the Remuneration Committee of the KBC Group on compensation systems and individual compensation packages for Key Identified Staff;
- advise the Remuneration Committee of the KBC Group on any material exemptions or changes to the principles of the KBC Remuneration Policy regarding Key Identified Staff;
- advise (in case of Key Identified Staff) or decide (in case of non-Key Identified Staff) retention/incentive bonuses, within the framework of the KBC Remuneration Policy, in exceptional circumstances, i.e. if the business entity is undergoing a major restructuring and a case can be made for the retention of key staff on risk and/or value preservation grounds.

Decisions regarding compensation systems and individual compensation packages for general managers of Belgian KBC-subsiaries have to be ratified by the Board of the Directors of the subsidiary.

4.2.2 On Divisional level

The remuneration governance body on Divisional level of the KBC Group is the functional Compensation Committee Markets & Corporate Branches and the Compensation Committee International Markets.

The Compensation Committee Markets & Corporate Branches is composed of the Group ExCo member responsible for International Product Factories (chairman), the (Senior) General Managers heading Markets & KBC Securities and Corporate Distribution, the General Manager responsible for Corporate HR and the (Senior) General Manager responsible for HR Belgium. This committee will decide on the remuneration for Markets & KBC Securities and Corporate Distribution.

The Compensation Committee International Markets is composed of the CEO International Markets, Country Managers, CEO of KBC Ireland and General Manager of Corporate HR. This committee will decide on the remuneration for Board Members of CSOB Bank and Insurance SK, K&H Bank and Insurance, KBC Bank Ireland, CIBANK and DZI.

The Compensation Committee Markets & Corporate Branches and Compensation Committee International Markets shall, on a cross-border level:

- act as Compensation Committee and take decisions regarding proposals for compensation systems and individual compensation packages for individuals, unless they are considered K.I.S.;
- advise the KBC Group Executive Committee and the Remuneration Committee of the KBC Group on all compensation systems and individual compensation packages for K.I.S.;
- advise the KBC Group Executive Committee and the Remuneration Committee of the KBC Group on any material exemptions or changes to the principles of the KBC Remuneration Policy.

The Compensation Committee Markets & Corporate Branches and Compensation Committee International Markets shall carry out its duties on Divisional level for the major subsidiary undertakings and the Group as a whole, as appropriate.

4.2.3 On K&H Group level

The remuneration governance bodies on the level of the KBC Group and the functional Compensation Committee Merchant Banking are in principle responsible to ensure that the requirements of the KBC Remuneration Policy are coherently observed at K&H Group level.

Additionally, remuneration governance bodies have to be established at K&H Group level. The remuneration governance bodies on K&H Group level are:

- the Board of Directors;
- the Supervisory Board;
- the Remuneration Committee.

The Board of Directors (on the basis of a recommendation from its remuneration committee) shall:

- adopt the KBC remuneration policy and practices formulated on the level of KBC Group;
- based on the advice from the Remuneration Committee and the information provided by Group HR (for Key Identified Staff) and/or the local HR function (for other employees), monitor proper implementation of the KBC Group's remuneration policy and practices within the subsidiary;
- determine the remuneration, including the terms and other commitments to be made on the retirement, resignation or dismissal of the non-executive members of the Board of Directors and the members of the Management Board of K&H Group, with the aim of ensuring fairness and avoiding reward for failure;
- ratify decisions taken by the Supervisory Board of the KBC Group regarding compensation systems and individual compensation packages for Key Identified Staff;
- ratify decisions taken by the Supervisory Board of the KBC Group regarding material exemptions or changes to the principles of the K&H Remuneration Policy;
- ratify decisions taken by the KBC Group Executive Committee, regarding compensation systems and individual compensation packages for members of KBC Senior Management.
- ratify decisions taken by the KBC Group Executive Committee, regarding retention/incentive bonuses in exceptional circumstances, i.e. if the business entity is divested, wound down or undergoing a

major restructuring and a case can be made for the retention of key staff on risk and/or value preservation grounds;

- ratify decisions taken by the Compensation Committee Markets & Corporate Branches, regarding compensation systems and individual compensation packages for individuals within Markets & KBC Securities and Corporate Distribution.

The Board of Directors of K&H Group shall carry out its duties on K&H Group level, as appropriate.

The Supervisory Board of K&H:

- One delegated member of the Supervisory Board of K&H will be present on the meetings of K&H Remuneration Committee as a permanent guest.

The Remuneration Committee shall:

- submit for ratification to the Board of Directors of K&H Group the KBC remuneration policy and practices formulated on the level of KBC Group;
- based on the information regularly provided by (for Key Identified Staff) the local HR function (for other employees), advise the Board of Directors on proper implementation of the KBC Group's remuneration policy and practices within the subsidiary;
- propose the remuneration, including the terms and other commitments to be made on the retirement, resignation or dismissal of the non-executive members of the Executive Committee of K&H Group, with the aim of ensuring fairness and avoiding reward for failure;
- submit for ratification to the Board of Directors of K&H Group any decision taken by the Supervisory Board of the KBC Group regarding compensation systems and individual compensation packages for Key identified Staff;
- submit for ratification to the Board of Directors any decision taken by the Supervisory Board of the KBC Group regarding material exemptions or changes to the principles of the KBC Remuneration Policy within the subsidiary;
- submit for ratification to the Board of Directors of the subsidiary any decisions taken by the KBC Group Executive Committee, regarding retention/incentive bonuses in exceptional circumstances, i.e. if the business entity is divested, wound down or undergoing a major restructuring and a case can be made for the retention of key staff on risk and/or value preservation grounds;
- submit for ratification to the Board of Directors decisions taken by the KBC Group Executive Committee, regarding compensation systems and individual compensation packages for KBC Senior Management.

The Remuneration Committee of the subsidiary shall carry out its duties on subsidiary level, as appropriate.

The CEO of the Business Unit responsible for K&H Group shall be a member of the Remuneration Committee. The Remuneration Committee shall be chaired by the President of the Board of Directors. The Remuneration Committee submits their minutes to the KBC Corporate HR Manager.

4.3 Guideline No. 3: Documentation and communication

All remuneration schemes should be properly documented and transparently communicated to the employees concerned and, if requested, disclosed to the relevant stakeholders and regulators, based upon the governance rules and codes in force.

The documentation should also include opinions provided by the Tax and Legal departments regarding compliance with local legislation. If individual compensation is based on discretionary decisions, these decisions must be objective and be clarified to the employees concerned.

This remuneration policy shall be published on the Bank's website. In order to comply with the governmental resolution on the transparency of the credit institutions 234/2007. (IX. 4.) 3/A. §, the necessary information will be published in the yearly Risk report of the Bank on its website.

Glossary

Term	Definition
Base salary	Monthly fixed pay.
Reward pool	The total amount of result-based variable compensation calculated within a business entity and from which individual variable compensation is paid.
Business Entity	Division run by a general manager or a legally independent KBC company.
Cap	Absolute or relative maximum limit on a specific component of the compensation scheme (e.g., absolute cap on total yearly income).
Claw back	Claw back is applied in case of: <ul style="list-style-type: none"> - established fraud; or - (use of) misleading information.
Compensation component (= remuneration component)	A specific component of the compensation scheme (e.g., base salary – see above)
Compensation scheme (= remuneration scheme)	Specific schemes to determine salaries, variable compensation, benefits, etc. per company, business line or managerial level.
Control functions	Internal Audit, Risk, Finance, Compliance and HR functions, etc.
Deferred (compensation)	Portion of total compensation which has been allocated but not yet vested.
Floor	A minimum level of variable compensation regardless of positive or negative results.
Individual performance-based compensation	Variable pay based on non-financial criteria using the performance appraisal system which is in place in the specific entity.
Key Identified staff	The following staff members are considered to be Key Identified Staff, whose remuneration is subject to the supplementary set of rules as defined below: <ul style="list-style-type: none"> • members of the Executive Committee of K&H Bank including the CEO of K&H Bank; • Country Head of Hungary Markets GWPP; • to the extent that their total compensation package exceeds the HUF equivalent of 350 000 EUR on the exchange rate to be defined by KBC Group Remuneration Committee in gross terms, the supplementary set of rules is also applicable to any other staff member ("catch all" – provision).
Malus	a. in case of evidence of misbehavior or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks); b. when, caused by decisions taken in the year for which the variable compensation was granted: <ul style="list-style-type: none"> • K&H or KBC Group and/or the underlying K&H-entity suffers a significant downturn in its financial performance; or • K&H or KBC Group and/or the underlying K&H-entity in which the staff member works suffers a significant failure of risk management; or • in case of significant changes in the institution's economic or regulatory capital base.

Non-financial compensation criteria in	For individual performance measurement, while financial criteria may be one dimension in determining performance, other non-financial factors should also be considered such as skills acquired, personal development, compliance with the institution's systems and controls, commitment to the business strategies and its major policies and contribution to the performance of the team. Where it is appropriate, poor performance in the non-financial variables should override good performance in terms of profit generation, i.e. unethical or non-compliant behavior cannot be compensated for by good financial performance. <i>(extract from 'High-level principles for Remuneration Policies, CEBS')</i>
Phantom stock plan	A phantom stock plan is a, equity-like plan which grants the employees units, with a value equally to the full value of the underlying stock, of which the benefit is delivered in cash instead of stock.
RAP	Risk Adjusted Profit
Remuneration governance	Procedure which has to be followed in order to decide on compensation policies, schemes and individual variations.
Remuneration guideline	A minimum or maximum rule within which all compensation schemes have to comply.
Result-based variable compensation	Variable pay based upon the (reported or underlying) results of the group, the business unit, individual performance or combination of thereof.
Risk-takers	Employees whose professional activities have a material impact on the risk profile of the company. Within the KBC group: all front-office staff active within Market Activities (dealing rooms, KBC Securities, KBC Financial Products and Credit Investments).
KBC Senior manager	Manager in the top 400 of the KBC group.
SPV	Special Purpose Vehicle: in this context, a specific legal entity established to pay out variable compensation.
Support functions	ICT, Legal, Tax, HR departments, etc.
Threshold	Minimum level to be achieved with regard to a parameter/KPI, before variable compensation can be granted.
Total yearly compensation	Sum of total (not yet vested) financial compensation granted on a yearly basis (fixed pay + miscellaneous variable compensation). = Total yearly income.
Variable compensation	Total amount of miscellaneous variable pay depending on specific conditions and results to be achieved.
Vested (compensation)	Irrevocably determined amount of variable compensation, approved for payment.