

Corporate Governance at KAS BANK: recent developments and outline (as per March 2017)

The revised Dutch corporate governance code produced by the Corporate Governance Code Monitoring Committee came into operation on 1 January 2009. This corporate governance code contains principles and best-practice provisions to be observed by managing boards, supervisory boards and shareholders of listed companies in the Netherlands vis-à-vis each other. This concerns rules with respect to modern, widely supported and generally accepted principles on good corporate governance. In addition, the Banking Code, issued by the Netherlands Bankers' Association, came into operation on 1 January 2010. The Banking Code relates mainly to functioning specifically in a banking context, with an emphasis on risk management, client focus and remuneration policy. This chapter of the annual report covers compliance with the corporate governance code, the Banking Code, and the main elements of KAS BANK's corporate governance structure.

The following section provides a summary of recent developments in the field of corporate governance affecting our company. This is followed by an outline of KAS BANK's corporate governance structure, explaining its system of management by the Managing Board, supervision of management by the Supervisory Board, reporting to capital providers on management, and supervision of management and the powers vested in the capital providers. This chapter is based on the Articles of Association formulated as of 19 May 2011.

Recent developments

Dutch corporate governance code

The Dutch corporate governance code was updated by the Corporate Governance Code Monitoring Committee in December 2008. The updated code came into operation on 1 January 2009.

As of 1 January 2010, the corporate governance code has been designated as the official code of conduct to be adhered to by Dutch listed companies. The main changes compared with the previous code, dating from December 2004, concern the remuneration of managing board members, risk management, the responsibilities of shareholders, and diversity in the composition of supervisory boards.

The corporate governance code was published in the Bulletin of Acts, Orders and Decrees (in Dutch: *Staatscourant*) of 3 December 2009, no. 18499, and can be found online at www.commissiecorporategovernance.nl.

We have published a report on our website on the way in which we apply the corporate governance code, indicating compliance (or explaining why we don't comply) for each best practice provision. KAS BANK applies all of the best practice provisions except one. This concerns best practice III.5.10/14 (KAS BANK has a combined Appointments and Remuneration Committee). The Supervisory Board has appointed an Appointments & Remuneration Committee, which is a combination of the Remuneration Committee and the Selection and Appointment Committee referred to in the code. For a small cap company such as KAS BANK, little value is added by appointing two separate committees. The duties referred to in this best practice provision are performed by the Appointments & Remuneration Committee, consisting of three members. The duties and responsibilities of the Appointments & Remuneration Committee are discussed in the 'Report of the Supervisory Board'. The report (in Dutch: *Toepassing door KAS BANK van de Nederlandse corporate governance code*/KAS BANK's application of the Dutch corporate governance code) can be found at www.kasbank.com/investorrelations/corporategovernance.

Following the publication of the monitoring report in January 2015, supporting parties (VNO-NCW, VEVO, Eumedion, VEB, FNV, CNV and Euronext) submitted proposals to update the Monitoring Committee Corporate Governance Code.

The commission published a consultation document on 11 February 2016 with concrete proposals for revision. After a thorough and lengthy market consultation process, the Monitoring Committee Corporate Governance Code published a revised version of the Corporate Governance Code on 8 December 2016. The main improvements are on the topics of long-term value creation and culture. By assuming that the Dutch government will implement the new code in the course of 2017 companies such as KAS BANK will be required to report about the new Corporate Governance Code in the year 2018 over the financial year 2017.

Banking Code

The Banking Code came into operation on 1 January 2010 and applies to all banks in the Netherlands. A revised version applies as of 2015. The Banking Code concentrates on strengthening corporate governance within the banks, improving risk management, auditing, and limiting remuneration policy. As such, it is a form of self-regulation and can be seen as an assumption of responsibility by the Dutch banks following the financial crisis. The Banking Code can be found on the Netherlands Bankers' Association website (www.nvb.nl). We have published a report on our website on the way in which we apply the Banking Code, indicating our compliance for all principles. The report (*in Dutch: Invulling Code Banken* door KAS BANK/KAS BANK's application of the Banking Code) can be found at www.kasbank.com/investorrelations/corporategovernance. The following paragraphs describe the way in which we apply – and the extent to which we comply – with the Corporate Governance Code and the Banking Code. During 2016 KAS BANK enhanced its application of the Banking Code through the successful completion of the KAS BANK 2 the Next Level programme focusing on improvement of Culture, Governance, Risk and Compliance (GRC) and Processes. Self-evaluations of the Supervisory Board and the Managing Board regarding their own performance were conducted. An ongoing education programme was also organised for the Supervisory Board and Managing Board.

Risk management

The Supervisory Board discussed the bank's approach and goals for risk management, as well as the steps required to maintain an effective risk management organisation. As mentioned above, we successfully completed our KAS BANK 2 the Next Level programme which improved internal control structures, strengthened the three lines of defence model and enhanced our risk culture. The bank's risk tolerance was discussed by the Supervisory Board and received the Board's endorsement. In 2017 we aim to continue improving our risk management function. KAS BANK has a product approval process in place, and our internal audit function regularly audits Banking Code compliance.

Remuneration policy

Prompted by the introduction of the Regulations on Sound Remuneration Policy and other considerations, a new remuneration policy for the bank has been implemented according to specific underlying principles. The policy has been carefully constructed and restrained; it is in line with the bank's strategy and risk tolerance. It reflects our long-term interests and the relevant international context and it has public support. The execution of the remuneration policy for the bank was discussed with the Supervisory Board and satisfies the requirements of the Banking Code. The Managing Board's remuneration has been changed and considerably reduced in line with legislation (variable remuneration at a maximum of 20% of base salary). The variable remuneration will be carried out in accordance with the Regulations on Sound Remuneration Policy. During 2016, a larger number of

employees were designated as 'Identified Staff' due to new regulations. The Managing Board is also considered identified staff. Specific requirements concerning variable remuneration apply to these employees. More information about KAS BANK's adherence to the Regulations on Sound Remuneration Policy can be found on our website (www.kasbank.com/investorrelations/corporategovernance).

Ongoing education

In 2016, an intensive ongoing education programme was organised for the Supervisory Board and the Managing Board. This programme focuses on conduct and culture between the two Boards, as well as mergers and acquisitions, strategic review, IT and process improvement. These subjects were discussed in-depth with both internal and external specialists. Senior management regularly gives presentations during, and in connection with, the various meetings of the Supervisory Board and its sub-committees. New members appointed to the Supervisory Board go through an induction programme, with presentations by (senior) management. Members of the Supervisory Board also visit various departments within the bank.

Self-assessment by the Supervisory Board

Every year, the Supervisory Board evaluates its own performance and that of its committees. During 2016, this self-evaluation with the help of an external consultant was conducted. At the end of the year, we again discussed and evaluated our findings. The main conclusions of the self-assessment can be found in the Report of the Supervisory Board. The Supervisory Board also used an internal session to discuss its own performance, competencies and conduct. This session raised items for improvement, including the execution of the employer's role and the composition of the Board committees. The self-evaluation also focused on the Supervisory Board membership profile, upcoming vacancies in the board in 2016 and 2017, and the relationship between the Supervisory Board and Managing Board.

Self-assessment by the Managing Board

In 2016, the Managing Board evaluated its own performance with the assistance of an external expert. The outcome of this evaluation was discussed and shared in detail with both Supervisory Board and Managing Directors; a number of action points were identified. The Managing Board pays a great deal of attention to conduct and culture at KAS BANK. Actions to improve conduct and culture were taken regarding issues such as decision-making, internal communication and internal culture. For example, the interests of all involved stakeholders are now explicitly identified and weighed during important decision-making processes.

Banker's Oath, Moral and Ethical Declaration

Under the new banker's oath regulation, otherwise known as the 'Regulation on oath or solemn affirmation for the financial sector (Financial Supervision Act 2013)', bankers must swear under oath that they will carry out their jobs with integrity, put their clients first, and ensure confidence in the banking sector. All employees and the newly appointed members of the Supervisory Board and the new member of the Managing Board have all sworn the banker's oath this year.

Client focus

In 2016, KAS BANK confirmed its focus to client groups, and enhanced this approach. We also developed our client feedback process (Client Service Review). The entire client base was involved in this exercise. The purpose of the reviews is to enhance the standard of service, eliminate risks and irregularities and improve client satisfaction.

Outline of our corporate governance structure

Managing Board

As a two-tier company (in Dutch: *structuur vennootschap*), KAS BANK is subject to the provisions of Title 4, Part 6, of Book 2 of the Netherlands Civil Code. The company is managed by a Managing Board consisting of two or more members. In the performance of its duties, the Managing Board is guided by the interests of the company and the enterprise associated therewith, weighing the interests of all stakeholders in the company. Procedures are defined in the company's Articles of Association and the by-laws of the Managing Board. The Articles of Association and by-laws are posted on the company's website. Managing Board members are appointed and may be dismissed by the Supervisory Board. The Supervisory Board is required to notify the General Meeting of Shareholders of a proposal to appoint a Managing Board member. The Works Council is given an opportunity to state its position on a proposed resolution to appoint or dismiss a member of the company's Managing Board. The General Meeting of Shareholders is consulted by the Supervisory Board on proposals to dismiss a Managing Board member. Certain management decisions are subject to the prior approval of the Supervisory Board or the General Meeting of Shareholders. All newly-appointed Managing Board members must swear the banker's oath immediately after their appointment. The Managing Board has been authorised by the General Meeting of Shareholders to issue shares up to a maximum of 10% of the company's issued share capital. This includes the granting of rights to acquire shares, and an additional 10% of the company's issued share capital if the issue of this additional 10% is connected to a merger or acquisition, subject to the approval of the Supervisory Board. The Managing Board has also been authorised by the General Meeting of Shareholders to repurchase the company's own shares, subject to the approval of the Supervisory Board. The General Meeting of Shareholders is invited each year to renew these authorisations with respect to the number of shares specified therein, each for a period of 18 months. KAS BANK strives to avoid any kind of conflict of interest between the company and Managing Board members. Prior approval from the Supervisory Board is required for transactions involving conflicts of interest with Managing Board members who are of material significance for the company and/or the relevant Managing Board members. If any conflict of interest arises between the company and Managing Board members, we apply best-practice provisions from the Code (II.3.2–II.3.4). No conflicts of interest arose between the company and Managing Board members during the year under review.

Supervisory Board

KAS BANK's Supervisory Board is charged with supervising the policy of the Managing Board, the general course of affairs within the company and the enterprise associated therewith. It also assists the Managing Board in an advisory capacity. In the absence of the Managing Board (or if the Managing Board members are unable to act), the Supervisory Board is charged with the temporary management of the company. In the performance of their duties, Supervisory Board members are guided by the interests of the company and the enterprises associated therewith, weighing the relevant interests of the stakeholders.

Procedures are defined in the company's Articles of Association and the Supervisory Board's by-laws. The Supervisory Board has also formulated a membership profile, which defines the Board's ideal size and composition. The Supervisory Board is composed such that the members are able to operate independently of – and adopt a critical stance with respect to – one another, the Managing Board and any partial interests. An intensive permanent education programme is organised for the Supervisory Board with the goal of maintaining member expertise at the required standard, and improving their expertise and knowledge where necessary. An induction programme is organised for new members, who swear the Banker's Oath immediately after their appointment. Members of the Supervisory Board are appointed by the General Meeting of Shareholders upon nomination by the Supervisory Board.

The Managing Board, the General Meeting of Shareholders and the Works Council may nominate individuals for appointment to the Supervisory Board. The Employees Council may object to an appointment proposed by the Supervisory Board. The Employees Council has an enhanced right of recommendation with respect to Supervisory Board members whose portfolio includes social policy. KAS BANK strives to avoid any kind of conflict of interest between the company and Supervisory Board members. Prior approval from the Supervisory Board is required for transactions involving conflicts of interest with Supervisory Board members who are of material significance for the company and/or the relevant members of the Supervisory Board. If any conflict of interest arises between the company and Supervisory Board members, we apply best-practice provisions from the Code (III.6.1-III.6.4). No conflicts of interest arose between the company and Supervisory Board members during the year under review. A member may be appointed to the Supervisory Board up to three times for a term of four years. Supervisory Board members retire at the age of 72. In certain instances (such as neglect of duties or material changes in circumstances), a Supervisory Board member may be suspended or dismissed by the Enterprise Division of the Court of Amsterdam at the request of the Supervisory Board.

General Meeting of Shareholders

KAS BANK encourages full shareholder participation in decision-making at the General Meeting. We actively invite as many shareholders and depositary receipt holders as possible to attend, and we minimise voting rights restrictions. Subject to certain conditions, a holder of shares or depositary receipts representing one per cent (1%) of the issued capital can have an item placed on the agenda. This approach is in keeping with a general elimination of the principle that shareholders may have meeting voting rights, while depositary receipt holders may only address the meeting. At least one General Meeting of Shareholders is held each year. Depositary receipt holders attending the General Meeting of Shareholders in person or represented by a proxy are, if requested, granted unrestricted and unconditional voting rights automatically by KAS BANK Registrar's Office ('Registrar's Office'). This means that voting rights will also be granted in time of 'war' (for example, if a hostile bid is imminent, if 25% or more of the issued share capital is held by one party or if the interests of the company are in jeopardy). Depositary receipt holders are free to vote as they see fit. They may also issue binding instructions to the Registrar's Office to vote on their behalf.

The powers of the General Meeting of Shareholders are defined by law and the Articles of Association. Its principal powers are those of:

- Approving decisions that involve a material change in the identity or character of KAS BANK or its operations;
- Adopting the remuneration policy and approving the share and option scheme for the Managing Board;
- Approving the appointment and remuneration of members of the Supervisory Board;
- Taking a vote of no confidence in the Supervisory Board;
- Adopting the financial statements;
- Appropriating the profit remaining after allocation to the reserves for distribution to the shareholders or addition to the reserves;
- Discharging the Managing Board of liability for its management;
- Discharging the Supervisory Board of liability for its supervision;
- Authorising the Managing Board to issue and repurchase shares;
- Resolving to amend the company's Articles of Association, undertake a legal merger or demerger, or wind up the company (on the joint proposal of the Managing Board and Supervisory Board). The company's Articles of Association impose no restriction on the transfer of ordinary shares or depositary receipts for shares issued with the cooperation of the company or the exchange of depositary receipts for ordinary shares in the company.

Remuneration policy

The Managing Board's remuneration policy is adopted by the General Meeting of Shareholders based on a Supervisory Board proposal. Due to the underperformance in the first half of 2016 and the subsequent and painful cost reduction measures initiated by the board, the Managing Board has asked the Supervisory Board to refrain from awarding variable remuneration to the Managing Board in 2016. The Supervisory Board's remuneration report describes how the remuneration policy has been applied in practice during the past financial year. The remuneration report, the principles of the remuneration policy and the calculation of the various components of the salaries of individual Managing Board members are included in the remuneration chapter in this annual report. The remuneration policy and the remuneration report are also posted on our website.

Capital structure

Our company's share capital consists of ordinary shares and cumulative preference shares. All shares are registered and no share certificates are issued. At year-end 2016, there were 15,699,017 KAS BANK ordinary shares in issue (unchanged from year-end 2015). In addition, 25 cumulative preference shares were issued to Stichting Preferente Aandelen KAS BANK. Most of the ordinary shares in the company's issued capital (approximately 99.3% at year-end 2016) are managed and administered by the KAS BANK Registrar's Office, which has issued the same number of registered depository receipts in exchange. The nominal value of KAS BANK shares and depository receipts is one Euro (€1.00). Each share and depository receipt entitles the holder to cast one vote. No special controlling rights are attached to the shares or depository receipts. No voting rights are attached to KAS BANK shares or depository receipts held by the company itself. The ordinary shares have been listed on the Official Market of the stock exchange of Euronext Amsterdam in the form of depository receipts for shares since 1986.

Financial reporting

The company's financial statements are audited by the external auditor appointed by the General Meeting of Shareholders. The financial statements are drawn up by the Managing Board and are presented, after the above-mentioned audit and a positive proposal from the Supervisory Board, to the General Meeting of Shareholders for adoption and to the Employees' Council for discussion. The Managing Board submits a written report on the course of affairs of the company and its management together with a presentation of the financial statements to the General Meeting of Shareholders. The meeting of the Supervisory Board in which the financial statements are discussed is attended by the external auditor. At the Annual General Meeting of Shareholders, the Managing Board renders account to the capital providers for its management in the past financial year and the Supervisory Board renders account for its supervision. The resolution at the General Meeting to approve the financial statements is followed by a resolution that, with respect to the financial statements and related matters dealt with by the General Meeting, the Managing Board should be discharged of liability for its management and the Supervisory Board should be discharged of liability for its supervision in the past financial year.

Amendment of the Articles of Association

Resolutions amending the company's Articles of Association must be jointly proposed by the Supervisory Board and the Managing Board. They must then be passed by a General Meeting of Shareholders during which at least two thirds of the issued share capital is represented. If the required share capital is not represented at the meeting, a new meeting must be organised, taking place not less than three and not more than five weeks after the first meeting. At this new meeting, a resolution can be passed regardless of the represented share capital. The notice of the meeting will state

'Amendment of the Articles' as the business of the meeting and a copy of the proposed amendment will be laid open for inspection at the company's office and copies made available free of charge.

Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK's Registrar's Office)

Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office) administers and manages almost all ordinary shares in KAS BANK's issued capital. With the cooperation of the company, it issues in exchange depository receipts with limited exchangeability. The Registrar's Office itself exercises voting rights only with respect to shares for which no proxies have been granted to the depository receipt holders, and shares for which no voting instructions have been received. This arrangement is conducive to the continuity of decision-making within the General Meeting of Shareholders. It preserves the balance of the meeting by preventing a chance majority of those entitled to exercise voting rights influencing the decision-making process during the Meeting of Shareholders. The Registrar's Office Executive Committee consists of three independent members: Mr. J.J. Nootgedagt (chairman), Mr. H. Scheffers and Mr. J.C.M. van Rutte. Executive Committee members are appointed by the Executive Committee itself, in consultation with the Managing Board and Supervisory Board.

Stichting Preferente Aandelen KAS BANK (KAS BANK Registrar's Office for preference shares)

The purpose of Stichting Preferente Aandelen KAS BANK is to protect the interests of the company, the enterprise associated therewith, and all stakeholders. This includes safeguarding against influences which might impair the independence, continuity and/or identity of the company and the enterprise. A right has been granted to the Registrar's Office for preference shares to subscribe for cumulative preference shares in the capital of the company up to a nominal amount corresponding to 50% of the nominal value of the capital in the form of ordinary shares in issue at the time of subscription for those shares. This right (call option) will be exercised by the Registrar's Office for preference shares at the discretion of its Executive Committee, on such grounds as the existence of (threatened) hostile intent or danger to the independence, continuity or identity of the company. The Registrar's Office for preference shares cannot be compelled to subscribe for preference shares (no put option). The Registrar's Office for preference shares Executive Committee consists of three independent members: Mr. H.G. van Everdingen (chairman), Mr. R.P Voogd and Mr. D. Sickinghe. The Executive Committee members are appointed by the Executive Committee itself, in consultation with the Managing Board and Supervisory Board. A list of past and present posts held by the Registrar's Office for preference shares Executive Committee members that may be relevant to the performance of their duties is available for inspection by shareholders and depository receipt holders at the company's offices.

Corporate governance statement

The corporate governance statement pursuant to Section 2a of the Decree on additional requirements for annual reports (in Dutch: *Vaststellingsbesluit nadere voorschriften inhoud jaarverslag*) of 1 April 2009 is posted on the company's website:

<https://www.kasbank.com/Investorrelations/CorporateGovernance.aspx>. The corporate governance statement is deemed to have been inserted and repeated in this annual report.