

# Remuneration

The primary objective of our remuneration policy is to enable KAS BANK to recruit and retain highly qualified and expert employees, thereby enforcing our specialist role. The remuneration policy forms an integral part of KAS BANK's strategy and maintains a sustainable balance between short-term and long-term value creation, taking into account the interest of all the stakeholders.

## Remuneration policy

The remuneration policy is aimed at helping to create positive results for the benefit of the company – in line with its objectives in terms of risk and returns, client satisfaction, operational excellence and innovation. It also helps to develop and maintain the competencies necessary to achieve good results. Finally, the remuneration policy aims to demonstrate commitment to improving the results of the company.

## Managing Board

The Supervisory Board compares the total remuneration of the Managing Board every two years against developments in the market. The remuneration package for the Managing Board consists of the following components:

- Annual base salary;
- Annual variable remuneration (with deferred pay-out, if applicable);
- Contribution to the pension scheme;
- Other entitlements.

Performance is measured during a one year performance period by means of individual and company financial and non-financial performance indicators.

In accordance with the Dutch Banking Code, the remuneration of the Managing Board is below the median of the peer group and provides for a balanced mix between fixed and variable remuneration.

## Senior Management

KAS BANK has applied the Korn Ferry (formerly Hay Group) job evaluation system to the senior management functions. This method takes necessary knowledge and skills, complexity and accountability into account and categorises the jobs into job levels. The maximum salaries of the job levels are benchmarked at the median level of the financial institutions market. The remuneration package for Senior Management consists of the following components:

- Annual base salary;
- Annual variable remuneration (with deferred pay-out, if applicable);
- Contribution to the pension scheme;
- Other entitlements.

Performance is measured during a one year performance period by means of individual and company financial and non-financial performance indicators.

## **Other employees**

KAS BANK also applied the Korn Ferry job evaluation method for other roles in the company. All jobs are evaluated and categorised into job levels. The job levels are linked to salary ranges. The ranges are properly balanced and aligned with the Managing Board. A typical remuneration package for other employees consists of the following components:

- Annual base salary;
- Annual variable remuneration (with deferred pay-out, if applicable);
- Contribution to the pension scheme;
- Other entitlements.

Performance is measured during a one year performance period by means of individual and company financial and non-financial performance indicators.

## **Details on Identified Staff**

We continue to adhere to all relevant remuneration restrictions. The rules apply not only to the Managing Board, but also to those staff whose professional activities could have a material impact on the bank's risk profile. Within KAS BANK the group of Identified Staff consists of:

- Members of the Managing Board;
- Senior Management;
- Other employees – staff responsible for independent control functions;
- Other employees – operational management within the business lines, who directly report to Senior Management.

## **Remuneration policy for the Managing Board**

The current remuneration policy for the Managing Board was adopted by the General Meeting of Shareholders on 23 April 2014. According to the Managing Board remuneration policy, remuneration of the Managing Board consists of base salary, variable remuneration (capped at 20% of base salary), pension arrangements and some other arrangements (a leasing scheme and a mortgage scheme).

The Supervisory Board compares the total remuneration of the Managing Board every two years against developments in the market and based on advice given by the Supervisory Board Appointments Remuneration Committee. Given the changes in the Managing Board in 2015 and 2016 the remuneration was assessed by the Supervisory Board and a remuneration expert, resulting in the adjustment of the base salaries within the current remuneration policy.

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In principle, the remuneration package is assessed by a remuneration expert once every four years. The benchmark is broadly based and consists of the two reference groups listed below, based on similar positions within and outside of the financial sector. They are:

- A financial/specific reference group consisting largely of companies in the financial sector, including the international context and reference group of (parts of) European financial institutions, which are comparable to KAS BANK in terms of services provided and/or size;
- A cross-industry reference group, consisting of companies included in the AScX Index at the time of the determination of the remuneration policy.

The reference groups have been classified into two parts in order to assess conformity with comparable positions within and outside of the financial sector in accordance with the Banking Code.

In accordance with the Dutch Banking Code, the remuneration of the Managing Board is below the median of the peer group and provides for a balanced mix between fixed and variable remuneration.

### **Variable remuneration – increased focus on non-financial performance**

In 2014, we simplified the system of variable remuneration by merging the short and long-term variable remuneration and formulating a restricted number of performance criteria. The performance criteria are aligned to long-term value creation for all stakeholders by containing strategic development, risk appetite, financial goals and operational development. The performance criteria are linked to three targets. The weighting of the all elements is equal:

- Achieving the budget: this target is determined every year on the basis of two quantitative criteria; return on equity and an efficiency ratio. Both of these criteria are given equal weight.
- Strategic progress: this target is determined every year on the basis of a number of quantitative and qualitative criteria. These are related to the sustainable development of the market position and progress in the area of risk management, administrative organisation, client satisfaction, etc.
- Operational progress: this target is determined every year on the basis of a number of quantitative and qualitative criteria. These are related to the operational development and progress in the area of employee satisfaction, ISAE 3402, reports of regulators, etc.

Depending on the degree of achievement of the performance criteria, the Supervisory Board sets the variable remuneration accordingly:

- Achieving less than 66.7% of the performance criteria: no variable remuneration;
- Achieving the performance criteria in full (100%): variable remuneration is 16% of the base salary;
- Surpassing the performance criteria (133.3%): variable remuneration is a maximum of 20% of the base salary.

The total variable remuneration will be fully paid in shares. The Managing Board may sell shares granted in order to comply with tax obligations with respect to these shares. If the variable remuneration does not exceed € 10.000 the shares will be fully paid at once. If the variable remuneration exceeds € 10.000 the shares will be vested. The first vesting will be 60% of the granted shares. Thereafter, a three year pro rata deferral period applies. A retention period of two years after the vesting period applies.

### **Pension scheme**

The pension scheme for the Managing Board is based on a defined contribution system. The scheme is in line with the market based on the scale of defined contribution tax offset. The contribution is determined on the basis of net contributions, taking into account cost and contribution mark-up. Costs and contribution mark-ups are paid by the company. The scale of the defined contribution tax offset remains applicable to the Managing Board.

The members of the Executive Board receive compensation as a result of new legislation, pursuant to which pension premiums on salaries in excess of € 100,000 are no longer exempt or deductible from (wage) tax.

## **Tenure**

Members of the Managing Board have a commission contract. The commission contract for members of the Managing Board provides for an appointment for a period of four years and allows reappointment by the General Meeting of Shareholders. In the case of an involuntary exit, members of the Managing Board are eligible for a severance payment limited to one year of base salary.

A change-of-control clause was agreed with the Managing Board, under which a member of the Managing Board may claim one year's gross salary if dismissed as the consequence of a change of control.

## **Malus and clawback**

The Supervisory Board has discretionary power to lower (malus) any variable compensation to a suitable amount if, in its opinion, payment of the compensation would be unacceptable under the principle of reasonableness and fairness. The Supervisory Board has the authority to impose clawback on variable remuneration allocated to a member of the Managing Board if it has occurred without legal basis. This can include variable remuneration based on inaccurate data, achieving underlying objectives or other circumstances on which the variable remuneration depends.

## **2016 Remuneration Managing Board**

The Managing Board remuneration is in accordance with the remuneration policy. Note 44 of the Financial Statements 2016 shows the figures related to the remuneration of the Managing Board.

## **Base salary**

The base annual salary for the chairman, Sikko van Katwijk, is € 350,000 and € 325,000 for the other Managing Board members. Mark Stoffels is appointed with a base salary of € 275,000 and will reach the base salary in two equal steps.

To achieve a representative view in relation to current market levels, the base salary for Managing Board members was related to and measured against a selection of two market reference groups. These groups were carefully selected and analysed by an external specialist on board remuneration according to three criteria: revenue, number of employees and market cap. This resulted in a representative reference group of 15 companies. The base salary remains within the remuneration policy as approved by the General Meeting of Shareholders and the total remuneration is below the median level for the reference group.

## **Variable remuneration**

Remuneration has three objectives relating to the annual budget and the achievement of strategic and operational targets. For 'at target' performance, the variable remuneration for Managing Board members is 16% of the base salary under the approved remuneration policy. The maximum short-term variable remuneration is 20% of the base salary, which applies if 133% of the 'at target' performance is achieved. The variable remuneration is zero if less than 66.7% of the set targets have been achieved. In 2016 for the quantitative criteria (annual budget), the Managing Board achieved 49% of the targets. The qualitative criteria for 2016 focused principally on strategic targets (of which the Managing Board achieved 75%) and operational targets (39% was achieved by the Managing Board), and quantitative targets (of which 33% was achieved by the Managing Board). Quantitative targets counted for one-third and qualitative targets for two-thirds. As a result of this, more than 50% of the variable remuneration is based on non-financial performance criteria.

Due to the underperformance in the first half of 2016 and the subsequent and painful cost reduction measures initiated, the Managing Board have asked the Supervisory Board to refrain from awarding variable remuneration to the Managing Board in 2016.

In 2016 there was no clawback applied to vested variable remuneration from any of the Managing Board members. The Supervisory Board decided that there was no reason to apply a collective or individual malus with respect to the variable remuneration 2016 or to the vesting of previous tranches of deferred variable compensation.

### **Remuneration policy for Identified Staff (excluding Managing Board)**

The salary for Identified Staff is based on the collective labour agreement or is agreed in advance on an individual basis, compared to similar positions in other organisations and within KAS BANK. Benchmark surveys are periodically conducted by remuneration experts in which KAS BANK functions are compared with similar positions in other banks. All salary proposals for senior managers are prepared by Human Resources (both during recruitment and the annual pay round) and are approved by the Managing Board.

### **Variable remuneration for identified staff**

Identified Staff is aligned with the targets of the Managing Board and based on achieving individual and company targets. More than 50% of the variable remuneration is based on non-financial performance criteria and cannot exceed 20% of the annual base salary. The remuneration is paid half in shares and half in cash, in cases where the individual variable remuneration for identified staff exceeds an amount of a monthly base salary or € 10,000. If the variable remuneration does not exceed both criteria the amount will be fully paid in cash at once. The first vesting will be 60% of the granted shares and the granted cash. Thereafter, a three year pro rata deferral period applies. After the vesting period, a retention period of one year applies. The identified staff may sell shares vested in order to comply with tax obligations with respect to these shares. Variable remuneration may be reclaimed if it has been paid on the basis of incorrect information regarding the achievements or the circumstances on which the remuneration depends.

In light of applicable legislation, variable remuneration related to control functions (Risk Management, Compliance, and Finance) is based on the achievement of the objectives linked to their functions, independent of the results of the business units they oversee. The remuneration of the control functions is such that they are not exposed to stimuli that may lead to conflicts of interest with their independent advisory role.

### **Clawback and malus**

The Managing Board has discretionary power to lower any variable compensation to a suitable amount if, in its opinion, payment of the compensation would be unacceptable under the principle of reasonableness and fairness. This can include variable remuneration based on inaccurate data, achieving underlying objectives or other circumstances on which the variable remuneration depends.

The malus assessment is conducted by Human Resources, Risk Management and Compliance and any outcome is subject to approval of the Managing Board. During this malus assessment, it is determined whether any new information is available which should lower the variable remuneration:

- Evidence of misconduct or serious error by the staff member (e.g. breach of code of conduct or other internal rules, especially concerning risks);

- KAS BANK subsequently suffers a significant downturn in its financial performance (specific indicators are to be used);
- KAS BANK and/or the business unit in which the staff member works suffers a significant failure of risk management.

### **2016 remuneration for Identified Staff (excl. Managing Board) and other employees**

In 2016, there were 34 KAS BANK employees classified as Identified Staff (excluding the Managing Board). These employees received in total a base salary of €3.5 million and a variable remuneration of €125,921 in 2016, of which nil will be paid in shares. The total variable remuneration for all employees (excluding the Managing Board) related to the year 2016 amounts to €0.91 million or more. In 2016, no employees received a remuneration of €1 million or more.

The Managing Board decided that on the basis of the reassessment as performed by Human Resources, Risk Management and Compliance there was no reason to apply a collective or individual malus with respect to the variable remuneration 2016 or to the vesting of previous tranches of deferred variable compensation.