

Remuneration Identified Staff 2016

2016

The original report was drafted in Dutch. This document is an English translation of the original. In the case of any discrepancies between the English and the Dutch text, the latter will prevail.

Introduction

In compliance with Pillar 3 and the Regulation on Sound Remuneration pursuant to the Financial Supervision Act 2014 (*Regeling beheerst beloningsbeleid Wft 2014*) and the Act on Remuneration Policies of Financial Undertakings (*Wet beloningsbeleid financiële ondernemingen, Wbfo*), which came into force on 7 February 2015, de Volksbank N.V. (de Volksbank) reports annually on the remuneration and remuneration policy in respect of staff members whose professional activities may have a material impact on the organisation's risk profile (Identified Staff). De Volksbank issues a combined report retrospectively over the previous calendar year, which is published on the website of de Volksbank under Corporate Governance/Remuneration Identified Staff/Remuneration Identified Staff 2016.

The report consists of three parts. The first part describes the remuneration policy, the second part reports on the remuneration to Identified Staff in 2016 and the third part provides an explanation of the supervision on remuneration.

Identified Staff (72 individuals) are divided into three groups:

1. The Management Body, comprising the Board of Directors (the Board) of de Volksbank (5 individuals);
2. Senior Management, comprising Identified Staff who report to the Management Body (46 individuals);
3. Other Identified Staff, other Identified Staff who do not report to the Management Body (21 individuals).

The main remuneration developments in 2016 are:

- It was decided to abolish the variable remuneration schemes of Senior Management and the Financial Markets department with effect from 1 January 2017. Only staff members who fall within the scope of the collective labour agreement may receive variable remuneration (of up to a maximum of 6.75% and on average 2.25% of the annual salary) based on their performance assessment. This last form of variable remuneration will also be abolished with effect from 1 January 2018.
- The pension contribution made by the employer was raised from 21% to 23% of the wage sum. This 23% contribution will only be applicable in 2016 and 2017, allowing staff to fully achieve their annual pension accrual for the aforementioned years (1.875%).
- We reached an agreement with the unions on a structural increase for staff members within the scope of the collective agreement of 1.25% with effect from 1 April 2016.

Where applicable, the Remuneration and Nomination Committee (ReNomCo) prepared the decision-making and, in 2016, comprised three members of the Supervisory Board, viz. Ms M.R. Milz, Mr L.J. Wijngaarden (Chairman) and Mr J.C.M. van Rutte.

Part 1: Remuneration policy

The Remuneration policy of de Volksbank is based on our Manifesto, our ambition to create shared value, thereby taking the interests of our customers, society, our employees and our shareholder into account, our profile of a social bank and the bank's low risk profile.

This means that we:

- Set goals aimed at creating shared value for all stakeholders, which goals are primarily of a non-financial nature;
- Map out, control and mitigate remuneration risks;
- Have entirely abolished variable remuneration with effect from 1 January 2018
 - the Management Body and the so-called second echelon are not eligible for variable remuneration;
 - Senior Management and some of the Other Identified Staff are eligible for variable remuneration in 2016 only (with the exception of the second echelon);
 - in 2017, staff members within the scope of the collective agreement may for the last time receive variable remuneration (of up to a maximum of 6.75% and on average 2.25% of the annual salary) based on their performance assessment;
- Have a remuneration policy in place in which the level of remuneration is comparable to positions of benchmark groups;
- Pay attention to the maximum internal standard for the remuneration ratio: the highest earner will not earn more than ten times the average salary in the bank (at year-end 2016, the highest salary is 6 times the average salary at the bank, which is within the standard);
- Search for employees who do not work just for the money at de Volksbank, but who do so because they have interesting work, are offered the freedom for personal development and because they want to contribute to our mission: banking with a human touch.

Remuneration policy of Identified Staff

De Volksbank's Identified Staff do not form a homogenous group, but are spread across the organisation and comprise both employees who do and do not fall within the scope of the collective agreement. Regardless of the remuneration, which varies for each target group, there are clear rules for granting and paying remuneration to Identified Staff. These rules meet the specific requirements of the laws and regulations, and are laid down in the remuneration policy. Implementation of the remuneration policy is monitored by the control departments (including an independent review by Audit).

For as long as variable remuneration is granted, the following applies to Identified Staff:

- The variable remuneration is made up of a direct component and a deferred component, which are both based on a one-year performance period;
- Both the direct and deferred components are paid out half in cash and half in phantom shares;
- The direct component is unconditional and amounts to 60% of the total variable remuneration. When the remuneration is granted, the employer shall withhold payroll tax on the total direct component.
 - Upon deduction of the payroll tax, half of the remaining net component is paid out in cash;
 - After deduction of the payroll tax, half of the remaining net component is granted in the form of phantom shares, for which a retention period of one year is applicable. After this period, the value will be paid out in cash. It is not possible to hold the phantom shares for longer time periods;
- The deferred component is conditional and amounts to 40% of the total variable remuneration. The amount granted definitively depends on the developments in the deferral period and the reasonableness test/ex post risk analysis. Payroll tax is not withheld when the remuneration is granted conditionally, but when it is granted unconditionally. Of the component granted conditionally, 50% consists of cash and 50% of phantom shares;

- The deferral period for the component consisting of cash (20%) is three years. After the reasonableness test/ex post risk analysis, this component may be granted unconditionally three years after having been granted conditionally;
- The deferral period for the component consisting of phantom shares (20%) is four years. After the reasonableness test/ex post risk analysis, this component may be granted unconditionally four years after it has been granted conditionally. The value of the phantom shares will then be paid out in cash. In view of the extended deferral period, no retention period shall be applied. It is considered part of the deferral period.

De Volksbank's Identified Staff 2016 (72 individuals) break down into the following groups:

Unit	Position	Number of Identified Staff	Variable remuneration as a % of fixed remuneration
Management Body	Board member	5	0%
Senior Management (with the exception of the second echelon)	Identified Staff reporting to the Management Body	46	20% over 2016 and subsequently abolished
Other Identified Staff: Financial Markets	Front-office employee	1	20% over 2016 and subsequently abolished
Other Identified Staff: SNS Securities	Bond Desk Traders and two Board members	11	This business unit was sold in July 2016 and it was agreed that no variable remuneration over 2016 would be granted
Other Identified Staff	Employees whose professional activities may have a material impact on the organisation's risk profile	9	6.75% in 2016 and 2017 for employees within the scope of the collective agreement and subsequently abolished. 20% in 2016 for high earners 20% and subsequently abolished

Special agreements on employment conditions

Laws and regulations contain specific requirements and restrictions on guaranteed variable remuneration, retention and / or sign-on bonuses, material severance payments and discretionary pension, which must be met by de Volksbank at all times. These requirements focus on taking sufficient account of the organisation's long-term interests, including the observance of longer term risks ('risk alignment'). De Volksbank put this in practice as follows.

De Volksbank generally does not grant any guaranteed variable remuneration such as sign-on bonuses, retention bonuses and / or discretionary pension. Any of the aforementioned forms of guaranteed remuneration, granted in exceptional cases only, require approval of the Supervisory Board (for the Board) or of the Board (for other employees), following a recommendation by HR. The proposal shall be in keeping with the applicable laws and regulations, shall be substantiated, and the decision-making shall be recorded for the purpose of the Supervisory Board's annual review of the remuneration policy.

Any severance payments shall meet the requirements of the Act on Remuneration Policies of Financial Undertakings (*Wbfo*) and is designed such that failure is not rewarded. Severance payments require approval of the Supervisory Board (for the Board), or of the Board (for material severance payments for other employees).

The starting point for members of the Board and employees who do not fall within the scope of the collective agreement is that the employee in question will not be exempt from work during the notice period, but will perform suitable work.

Part 2:

Remuneration of
the Management
Body, Senior
Management and
other identified
staff in 2016

Remuneration Management Body 2016

in €	Fixed remuneration ¹	Variable remuneration		Total
		Direct/ unconditional	Deferred/ conditional	Fixed + variable
Maurice Oostendorp	447,860	--	--	447,860
Alexander Baas	280,817	--	--	280,817
Annemiek van Melick	339,973	--	--	339,973
Rob Langezaal	339,973	--	--	339,973
Jeroen Dijst	135,840 ²	--	--	135,840
Martijn Wissels	187,828 ³	--	--	187,828
Totaal	1,732,291	--	--	1,732,291

- 1 Fixed remuneration is the annual salary including the holiday allowance, year-end bonus (13th month pay), pension supplement for the salary in excess of € 101,519 and any other supplements.
- 2 The remuneration of Mr Dijst in 2016 covers the period from 1 August up to and including 31 December.
- 3 The remuneration of Mr Wissels in 2016 covers the period 1 January up to 1 August.

Remuneration Management Body (= Board of Directors), Senior Management and Other Identified Staff

in €	Management Body	Senior Management	Other Identified Staff
Number of employees	5	46	21
Total fixed remuneration for 2016	1,732,291	8,183,140	3,063,613
VARIABLE REMUNERATION:			
Direct unconditional in cash 30%	--	134,003	36,031
Direct unconditional in phantom shares 30%	--	134,003	36,031
Deferred conditional in cash 20%	--	89,335	24,021
Deferred conditional in phantom shares 20%	--	89,335	24,021
Total variable remuneration in 2016	--	446,676	120,104
Total outstanding remuneration granted unconditionally: direct component in phantom shares with a one-year retention period ¹	--	134,003	36,031
Total outstanding remuneration granted conditionally: deferred components in cash and phantom shares	--	429,751	156,696
Total remuneration previously granted conditionally and paid out in 2016	--	25,500	102,867
Total remuneration previously granted conditionally and reduced in 2016 due to a performance adjustment	--	--	--

- 1 Total after granting and pay-out in March 2017. This includes the new grants in 2016. The outstanding component (of previous years) that will also be paid out in March 2017 is disregarded. The amounts of the outstanding components include employees who have left the company and/or who are no longer designated as Identified Staff.

Any Special remuneration

No guaranteed variable remuneration (sign-on bonuses, retention bonuses and / or discretionary pension was granted in 2016.

in €	Management Body	Senior Management	Other Identified Staff
SIGN-ON BONUS GRANTED IN 2016			
Total amount of sign-on bonuses	--	--	--
Number of beneficiaries	--	--	--
SEVERANCE PAYMENTS GRANTED IN 2016			
Total amount of severance payments	--	600,725 ¹	--
Number of beneficiaries	--	2	--
Highest individual payment	--	301,131	--
SEVERANCE PAYMENTS LAID DOWN IN EMPLOYMENT CONTRACTS UPON COMMENCEMENT OF EMPLOYMENT IN 2016			
Total amount of future severance payments	--	--	--
Number of beneficiaries	--	--	--
Number of persons who received a total remuneration (fixed + variable) of € 1 million or more for 2016	--	--	--

1 Established in accordance with the principles of the applicable Social Plan

Part 3: Supervision on remuneration

De Volksbank has set up a 'control framework' to monitor the remuneration and remuneration policy of Identified Staff in relation to the material impact of the Identified Staff on the organisation's risk profile. To this end, the Risk and Compliance control departments collaborate with the staff departments of Finance, Legal Affairs and Human Resources in a Remuneration Working Group.

Up to 1 January 2017, the Remuneration Working Group's activities were checked by the Remuneration Steering Group on which the relevant members of the Board of the working group members sit. This steering group was chaired by the Chairman of the Board of de Volksbank. In connection with the simplification of the remuneration policy by abolishing the variable remuneration, the Remuneration Steering Group was dissolved with effect from 1 January 2017, and proposals made by the Remuneration Working Group will, after discussion within their own disciplines, be submitted directly to the Board of de Volksbank.

As a control department, the Audit department independently checks the adoption and implementation of the remuneration policy. The decision-making on the remuneration and remuneration policy of Identified Staff lies mainly with the Supervisory Board, with the exception of the implementation of the schemes of employees within the scope of the collective agreement, which is the responsibility of the Board. The Supervisory Board also decides on the total amount of variable remuneration. With effect from 1 January 2017, the variable remuneration schemes have been abolished, only staff members within the scope of the collective agreement may for one more year receive a one-off performance bonus of up to a maximum of 6.75% (on average 2.25%) of their annual salary on the basis of their performance assessment. As of 1 January 2018, this last form of variable remuneration has also been abolished.

To ensure the independence of employees engaged in control functions as much as possible, they have no financial performance objectives. Their performance objectives are primarily related to their own duties and responsibilities. Ultimately responsible directors of the control departments have been designated as Identified Staff, as have the other managers in their Management Team. All other staff in control functions have not been designated as Identified Staff.

The ReNomCo, which is responsible for the preparation of the remuneration-related decisions of the Supervisory Board, met eight times in 2016. All documents for the ReNomCo are submitted via the Board.



Designation of Identified Staff

Identified Staff is designated on the basis of one or more of the 18 criteria set by Risk, such as the staff member's position in the organisation (e.g. member of the Board), the individual or collective responsibility for a certain risk as a member of a committee, and the level of remuneration. These criteria are derived from the technical regulatory standard of the European Banking Authority (EBA) following from the CRD IV capital requirements directive.

Staff changes, i.e. starters, leavers and internal transfers are monitored by HR and processed throughout the year. In addition, the Remuneration Working Group annually reviews if the designation of Identified Staff is still appropriate and will submit this for approval to the Supervisory Board.

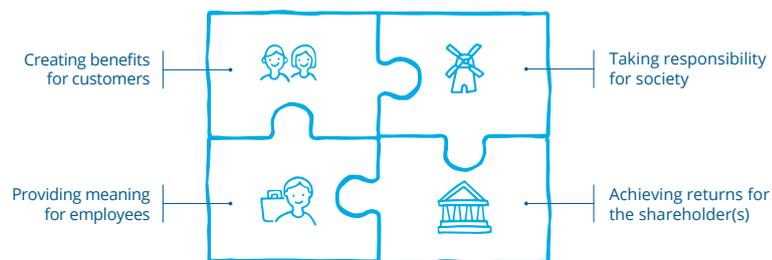
In 2016, 72 individuals were designated as Identified Staff (for part of the year or the full year), which includes external employees who occupy an Identified Staff position.

Relationship between remuneration and performance

Every employee has annual performance objectives, regardless of whether or not a variable remuneration scheme is applicable. For as long as a variable remuneration scheme is applicable, the achievement of those performance objectives is a precondition to be granted variable remuneration, and the performance objectives are divided into financial and non-financial objectives.

Performance objectives should be clear and measurable. In determining the performance objectives, we will take all stakeholders of de Volksbank into account:

Our ambitions



Every performance objective has a weighting factor expressed as a percentage of the 100% total. There are clear guidelines to serve customer interests and mitigate risks. Employees engaged in control functions have different objectives to ensure their independence.

The performance objectives of the Board for 2016 are based on the following themes:

Themes	Weighting
1. Net compliant customer growth	15%
2. Customer experience	15%
3. Employee engagement and commitment	15%
4. Integrated Control Framework	15%
5. Strategy of de Volksbank	15%
6. Manifesto	15%
7. Balance between savings and mortgages	10%
Total	100%

In addition to the necessity to achieve the performance objectives set, de Volksbank has established frameworks to grant variable remuneration for the organisation as a whole, the so-called 'Guiding principles'. If we fail to comply with the Guiding principles, the Supervisory Board may decide not to grant, or to reduce, variable remuneration. Remuneration should in all cases fulfil the mission and achieve the (long-term) strategy of de Volksbank.

Ex ante and ex post risk analysis

At the start of the performance year, the control departments conduct an ex ante risk analysis in order to ensure that the performance objectives have been established and that they meet the criteria that have been set.

The ex ante risk analysis consist of the following five steps:

1. Assessing the method of determining Identified Staff and checking if the Identified Staff list is appropriate;
2. Evaluating general requirements for Identified Staff;
3. Evaluating the performance objectives as determined for the Management Body, Senior Management and Other Identified Staff, in addition to the matters referred to in 2.;
4. Evaluating the performance objectives as established for the control functions, in addition to the matters referred to in 2.;
5. Checking if the Guiding Principles with regard to the variable remuneration are still up to date.

The control departments carry out an ex post risk analysis at the end of the performance period.

The ex post risk analysis focuses on determining the variable remuneration for the preceding year and the deferred (conditional components of the) variable remuneration from previous years. The analysis (randomly) examines if the proposed variable remuneration has been properly determined and if there is cause to adjust the variable remuneration to be granted downwards or to reclaim the variable remuneration already granted. This includes the assessment of any consequences ensuing from the Identified Staff's actions that manifest themselves in the deferral period and shed new light on the actions in previous performance periods. Based on this, advice is given as to whether to grant the variable remuneration or to adjust the remuneration downwards.

If variable remuneration is paid out on the basis of incorrect information about the achievement of the objectives underlying the variable remuneration or about circumstances upon which the variable remuneration was made conditional, the variable remuneration may be reclaimed in full or in part, even after it has been granted unconditionally and paid out (claw back). The claim can also be filed on de Volksbank's behalf by the Supervisory Board.