

Remuneration report 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

The Remuneration Report covers the remuneration of the Board of Directors and the compensation of the Supervisory Board of de Volksbank N.V. for the year 2016. For more information on the remuneration policy of de Volksbank, we refer you to the Corporate Governance section on our website www.deVolksbank.nl.

This Remuneration Report is split in the following sections:

1. Principles
2. Remuneration policy for the Board of Directors
3. Actual remuneration of the Board of Directors
4. Compensation policy for the Supervisory Board
5. Actual compensation of the Supervisory Board
6. Supervision on remuneration

Principles

In recent years, the remuneration policy was increasingly brought in line with the bank we want to be. Banking with a human touch calls for a remuneration policy that reflects this mission.

The remuneration policy of de Volksbank is based on our Manifesto, our ambition to create shared value¹, 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;
- map out, control and mitigate remuneration risks;
- have no variable remuneration for the Supervisory Board and the Board of Directors;
- have a remuneration policy in place in which the compensation of the Supervisory Board and the remuneration of the Board of Directors is below the median of benchmark groups;
- pay attention to the internal remuneration ratio² (the highest earner will not earn more than ten times the average salary)

The remuneration policy is compliant with the relevant legal requirements as laid down in the Dutch Corporate Governance Code, the Banking Code, 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.

¹ We understand shared value to mean that de Volksbank serves the joint interests of customers, society, employees and shareholder(s).

² The actual remuneration ratios are shown in the 'Actual remuneration of the Board of Directors in 2016'

Remuneration policy for the Board of Directors

Remuneration elements

When appointed to the Board of Directors, the member of the Board of Directors enters into a four-year contract for services with de Volksbank.

The remuneration of the member of the Board of Directors (including the Chairman) consists of the following elements:

- Annual fixed base salary;
- Pension contribution;
- Other fringe benefits, such as insurance, salary supplement as compensation for the loss of pension accrual in excess of € 101,519 and a company car.

These remuneration elements are explained in more detail in the sections below.

Annual fixed base salary

As from 1 April 2016, the fixed salary of the Chairman of the Board of Directors has been set at € 400,950. The fixed salary of other members of the Board of Directors depends on their position on the salary scale. As from 1 April 2016, the salary scale's maximum is € 328,222.

Members of the Board of Directors are not entitled to an increase in the annual fixed base salary (with the exception of collective pay rises) as long as de Volksbank falls within the scope of the *Wbfo*'s prohibition of bonuses.

Benchmarking

Once every two years, de Volksbank conducts a peer group benchmark for the remuneration of the members of the Board of Directors. The last benchmark was conducted in May 2015 in relation to:

1. the financial peer group: consisting of financial institutions operating in, or having their registered office, in the Netherlands. Given the limited size of de Volksbank, the major Dutch financial institutions are not included in the analysis with the exception of some of these banks' business units.
2. the cross-industry peer group: consisting of (a selection of) businesses listed on the AMX and AMCX in May 2015.

Remuneration policy de Volksbank compared to the benchmark

in € thousands	Remuneration policy of de Volksbank	Median of the financial reference group	Median of the cross-industry reference group
CHAIRMAN OF THE BOARD OF DIRECTORS			
Fixed	401	540	455
Variable short term and long term	--	110	340
Total fixed + variable short term and long term	401	650	795
MEMBER OF THE BOARD OF DIRECTORS			
Fixed ¹	328	380	330
Variable short term and long term	--	75	200
Total fixed + variable short term and long term	328	455	530

¹ For de Volksbank, the comparison of the fixed salary is based on the salary scale maximum of € 328,222. The salaries of the members of the Board of Directors have not yet reached the maximum of the salary scale.

The benchmark shows that the remuneration policy (and the actual remuneration) for all members of the Board of Directors is more sober than required by the Banking Code (i.e. below the median for comparable positions within and outside of the financial services sector).

Performance targets

The Supervisory Board sets the performance targets for the Board of Directors. The performance targets are annual targets derived from de Volksbank's long-term strategic objectives, taking into account the desired risk profile.

In setting the performance targets, the interests of all stakeholders of the Volksbank are taken into account, including customers, society, employees and the shareholder.

The performance targets will be reviewed by the Risk and Compliance control departments and Finance and HR&C staff departments prior to the performance period to which they relate. Their findings will be reported to the Remuneration and Nomination Committee (ReNomCo), after which the performance targets may be adjusted.

At the end of each performance period, the Supervisory Board determines the extent to which members of the Board of Directors has achieved their performance targets.

The 2016 performance targets of the Board of Directors are based on the following themes:

Performance targets Board of Directors

KPI	Performance year 2016
	Weighting
1 Net Compliant Customer Growth	15%
2 Customer experience	15%
3 Employee commitment	15%
4 Integrated Control Framework	15%
5 De Volksbank strategy	15%
6 Manifesto	15%
7 Balance between savings/mortgages	10%
	100%

Pension contribution

Members of the Board of Directors participate in the same pension scheme as all other staff of de Volksbank, as laid down in de Volksbank's Collective Labour Agreement. Thus, the 4,5% member's contribution on the pension basis also applies to members of the Board of Directors. No additional pension is granted.

Pension accrual for pensionable income in excess of €101,519 (2016) has ceased by virtue of legislation. This will be compensated by a gross supplement of 16,35% of the income in excess of € 101,519 to every employee to whom this applies, including the Board of Directors. The arrangement for this supplement will be evaluated at year-end 2017. In the table presenting the remuneration of the Board of Directors, the aforementioned supplement is included in 'Other'.

Other

The fringe benefits are in line with the fringe benefits that apply to all other staff of de Volksbank.

In the event of termination of employment at the initiative of de Volksbank, the member of the Board of Directors or the Chairman of the Board of Directors is entitled to compensation with a maximum of one year's fixed base salary.

In the past, de Volksbank took out two insurance policies for the Board of Directors, a disability insurance and a term life insurance. De Volksbank pays the corresponding premiums. New members of the Board of Directors are not eligible

for this arrangement. In the table presenting the remuneration of the Board of Directors, said premiums are included under 'Other'.

*Actual
remuneration of
the Board of
Directors*

The table below provides an overview of the actual remuneration of each member of the Board of Directors.

Gross remuneration of the Board of Directors

in € thousands	Fixed salary ¹		Pension ²		Other ³		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
M.B.G.M. Oostendorp (Chairman) ⁴	400	154	20	7	85	32	505	193
V.A. Baas	256	252	20	18	60	53	336	323
R.G.J. Langezaal	307	302	20	18	75	72	402	392
A.T.J. van Melick	307	302	20	18	72	72	399	392
J.R. Dijkstra ⁵	123	--	8	--	17	--	148	--
M. Wissels ⁶	170	284	12	18	40	67	222	369
D.J. Okhuijsen	--	278	--	11	--	59	--	348
Total Board of Directors	1,563	1,572	100	90	349	355	2,012	2,017

1 The fixed remuneration consists of the annual fixed base salary, holiday pay and 13th month bonus.

2 The pension is the employer contribution minus the employee's personal pension contribution. The salary supplement as compensation for the loss of the pension accrual above € 101,519 is included under 'Other'.

3 'Other' includes all remaining remuneration, including the disability insurance and term life insurance premiums, the salary supplement as compensation for the loss of the pension accrual in excess of € 101,519, the addition for the private use of a company car (or cash compensation) minus the personal contribution(s) and health insurance and social security contributions.

4 The 2015 remuneration of Mr Oostendorp covers the period 17 August to 31 December. In the period before this in 2015, Mr Oostendorp was not on the Board of Directors.

5 The 2016 remuneration of Mr Dijkstra covers the period 1 August to 31 December. Mr Dijkstra was already employed, but succeeded Mr Wissels as from 1 August as CRO and member of the Board of Directors of de Volksbank.

6 The 2016 remuneration of Mr Wissels covers the period 1 January to 1 August. His temporary contract ran until 1 November. Mr Wissels stepped down as CRO on 1 August.

The remuneration of Mr Wissels as former director for the period 1 August to 1 November in the role of senior sponsor of the ICF programme, amounted to € 94,938 in total, of which € 72,846 was fixed, € 4,993 related to pension and € 17,099 to other. The total remuneration of the directors and former directors thus amounts to € 2,107,000.

Pay ratio

Every year, de Volksbank establishes the relationship between the salary of the Chairman of the Board of Directors (highest salary) and:

1. the median salary at de Volksbank;
2. the lowest salary at de Volksbank.

The salary consists of the following elements: fixed base salary, variable remuneration (if applicable), pension and social contributions.

On 31 December 2016, the ratio between the remuneration of the Chairman of the Board of Directors of de Volksbank in relation to the median of the salaries at de Volksbank was 1:7.

On 31 December 2016, the ratio of the salary of the Chairman of the Board of Directors of de Volksbank in relation to the lowest salary at the Volksbank was 1:15.

Share ownership

The members of the Board of Directors do not hold shares in de Volksbank, all shares are held by NLF1.

Loans

The table below provides an overview of the loans provided to members of the Board of Directors and that were outstanding on 31 December.

Loans to members of the Board of Directors

in € thousands	Outstanding on 31 December		Average interest rate		Mortgage loan redemption	
	2016	2015	2016 ¹	2015	2016	2015
V.A. Baas	223	232	5.12%	3.65%	9	110
R.G.J. Langezaal	761	766	2.88%	2.54%	5	78
Total	984	998			14	188

¹ Instead of a staff discount on the mortgage rate, a taxable allowance in the amount of the discount was introduced as from 1 January 2016. This change results in an increase in the interest rates included here and an increase in other remuneration.

Remuneration policy of the Supervisory Board

The table below provides an overview of the annual gross compensation, excluding 21% VAT, of the Supervisory Board, the compensation per committee and the expense allowance.

Compensation policy of the Supervisory Board

in € thousands	
Annual fixed compensation Chairman of the Supervisory Board	45
Annual fixed compensation member of the Supervisory Board	30
Member Audit Committee	7
Member Remuneration and Nomination Committee	3
Member Risk Committee	3
Expense allowance Chairman of the Supervisory Board	2
Expense allowance member of the Supervisory Board	2

A benchmark was conducted for the Supervisory Board in relation to the general market in November 2016. The peer group consisted of a combination of comparable financial institutions and institutions in the cross-industry market.

Compensation policy of de Volksbank compared with the benchmark

in € thousands	De Volksbank	Median of the general market
CHAIRMAN OF THE SUPERVISORY BOARD		
Fixed compensation	45	45
Compensation Audit Committee	7	9
Compensation Remuneration and Nomination Committee	3	7
Compensation other committees ¹	3	9
MEMBER OF THE SUPERVISORY BOARD		
Fixed compensation	30	32
Compensation Audit Committee	7	6
Compensation Remuneration and Nomination Committee	3	5
Compensation other committees ¹	3	6

1 At de Volksbank, this is only the Risk Committee.

Actual
compensation of
the Supervisory
Board

The table below provides an overview of the actual compensation for each member of the Supervisory Board.

Gross compensation of the Supervisory Board, excluding 21% VAT

in € thousands	As a member of the Supervisory Board ¹		As a member of a committee ²		Total	
	2016	Q4 2015 ³	2016	Q4 2015 ³	2016	Q4 2015 ³
J.C.M. van Rutte (Chairman)	45	11	16	4	61	15
C.M. Insinger	30	8	5	3	35	11
M.R. Milz	30	8	8	2	38	10
J.A. Nijhuis	30	8	9	3	39	11
L.J. Wijngaarden	30	8	12	3	42	11
Totaal	165	43	50	15	215	58

1 Annual fixed compensation for the membership/chairmanship of the Supervisory Board.

2 Annual compensation for one or more committees, including the expense allowance.

3 The compensation for 2015 is based on the last quarter of 2015. The compensation for the period prior to that has been borne by SRH N.V., shareholder of SNS Bank N.V. at that time.

In 2015, no loans were provided to members of the Supervisory Board, nor were any loans outstanding to same on 31 December 2016.

Supervision on remuneration

The Supervisory Board and the Board of Directors have an important role to play in supervising remuneration at de Volksbank. The remuneration policy of de Volksbank includes an overview that sets out the distribution of tasks and duties with regard to the remuneration policy and supervision on remuneration for de Volksbank.

Parties involved are the Supervisory Board, the ReNomCo and several staff departments including the Risk, Compliance and Audit control departments.

Moreover, the Risk Committee discusses the remuneration policy of de Volksbank from a risk management perspective once a year.

In 2016, it was decided to abolish all variable remuneration schemes with effect from 1 January 2017. Only employees covered by the Collective Labour Agreement may receive a one-off performance bonus of up to a maximum of 6.75% (2.25% on average) of the annual salary, based on their performance assessment. We are in consultation with the unions and Works Council to abolish this last form of variable remuneration as from 1 January 2018 too. From then on, the Supervisory Board's and the Board of Director's supervision on variable remuneration will be directed at the pay-out of variable remunerations granted in previous years.

Supervisory Board

The Remuneration Report is adopted by the Supervisory Board. The report contains an account of both the remuneration policy and the actual remuneration (the implementation of the policy). Any particularities in the actual remuneration are explained in the Remuneration Report, which covers the Supervisory Board and the Board of Directors.

The Supervisory Board is responsible for the implementation of the adopted remuneration policy for members of the Board of Directors as well as for the evaluation of that policy. The Supervisory Board also approves the remuneration policy for senior management as proposed by the Board of Directors and supervises the implementation thereof by the Board of Directors. The Supervisory Board is also responsible for the approval of the principles of the remuneration policy as proposed by the Board of Directors for the staff of de Volksbank.

The Supervisory Board will at least once a year arrange for a central and independent internal review by the Audit department to review the implementation of de Volksbank's remuneration policy on compliance with legislation, the policy and procedures for the remuneration.

The Supervisory Board sees to it that the Board of Directors ensures that variable remuneration (or the pay-out of previously granted variable remuneration) is in keeping with the adopted remuneration policy of de Volksbank and, more specifically, that the variable remuneration complies with the principles as set out in the Banking Code on remuneration policy. The Supervisory Board also discusses any material retention, signing-on and buy-out fees and sees to it that they are in keeping with the adopted remuneration policy of de Volksbank and they are not excessive. Any such fees are granted on very rare occasions only.

The Supervisory Board directly supervises the remuneration of the Risk, Compliance and Audit department's directors who hold overall responsibility. The Supervisory Board may call upon the expertise of independent remuneration experts.

Board of Directors

The Board of Directors is responsible for the remuneration policy of de Volksbank and for its implementation, with the exception of the remuneration policy of the Board of Directors itself and of senior management. The Board of Directors makes proposals to the Supervisory Board for the remuneration policy of senior management and for the main features of the remuneration policy of employees.

In exceptional situations and on good grounds, the Board of Directors has the discretionary power (in so far as it does not relate to the members of the Board itself) to deviate from the remuneration policy as adopted, to the extent that laws and regulations permit. Any such deviations are subject to prior review by the Supervisory Board and occur only very rarely.

The Board of Directors has a number of specific responsibilities with regard to remuneration, such as the decision making on the application of the reasonableness test for senior management and identified staff (staff members who have a material impact on the risk profile of the organisation), approving benchmarks for senior management and other staff (market competitiveness of the total remuneration) and approving non-material retention, signing-on and buy-out fees (the responsibility for material remuneration lies with the Supervisory Board) for all staff members with the exception of the members of the Board of Directors.

Staff departments

A Remuneration Working Group comprising the staff departments Risk, Compliance, Finance, Legal & Fiscal Affairs and Human Resources & Communication jointly supervise the remuneration policy and compliance thereof.

The Audit department periodically performs independent audits into the drawing up and implementation of the remuneration policy.