

# REMUNERATION

We pursue a remuneration policy that is in line with our strategy and contributes to long-term value creation. This section sets out our remuneration governance and the policies that apply to our employees, identified staff, the Statutory Board and the Supervisory Board.

## Remuneration policy governance

The Statutory Board sets the remuneration policy for employees, based on the advice of the Human Resource Management (HRM), Finance, Reporting & Control, Group Risk Management and Compliance departments. These, together with Group Audit, also have an important part to play in setting up, adjusting, implementing and reviewing our variable remuneration policy. They advise the Statutory and Supervisory Boards and report to them on their conclusions.

The Statutory Board is responsible for implementing our remuneration policy. The Supervisory Board approves our variable remuneration policy, including its general principles, and oversees its implementation. Approval by the Supervisory Board is also required for our variable remuneration pools, any significant individual variable remuneration, and for individual variable remuneration proposed for employees designated as identified staff. The Supervisory Board's Remuneration Committee prepares the Supervisory Board's decision-making on remuneration and advises it in this area.

## Fixed remuneration

Employees' fixed remuneration reflects their relevant working experience and organisational responsibilities.

## Variable remuneration policy for Van Lanschot Kempen employees

Van Lanschot Kempen has variable remuneration policies in place governing all employees of Van Lanschot and Kempen. Every employee can be considered for a variable remuneration award, provided that certain conditions are met (as mentioned under the "Award" section). Our policies comply with all relevant legislation and regulations.

Based on operating results, the Statutory and Executive Boards determine whether variable remuneration will be awarded and what amount is available, taking into account achievement of financial and non-financial performance criteria. The boards submit the proposed amount for the variable remuneration pool for the approval of the Supervisory Board, and any deviations also require Supervisory Board approval.

Once the amount available for variable remuneration at Van Lanschot and Kempen has been determined, the Statutory Board decides how this variable remuneration will be distributed at Van Lanschot, while Kempen's Management Board decides on its distribution at Kempen.

The average variable remuneration of all Van Lanschot Kempen employees who work (largely) in the Netherlands may not exceed 20% of their fixed remuneration, as prescribed by the Dutch Financial Supervision Act (Wft). Variable remuneration of up to 100% of fixed remuneration may be granted on special grounds in individual situations. This only applies to a relatively low number of employees.

## Award

Variable remuneration to individual employees is awarded on the basis of individual performance, market competitiveness and special factors. An employee's personal performance is assessed on quantitative (i.e. financial) and qualitative (non-financial) performance criteria, with some departments applying only qualitative criteria. At least 50% of the allocation of any variable remuneration is based on non-financial criteria, such as showing the desired professional behaviour, improving client satisfaction, developing new products or solutions for clients, and improving internal processes, policies or systems.

Individual performance is measured based on the degree to which employees have achieved targets set at the beginning of the year. Performance criteria include nothing that might encourage irresponsible risk-taking.

Variable remuneration is only awarded if 1) Van Lanschot Kempen's financial position allows; 2) it is justified by the performance of Van Lanschot Kempen, the relevant business unit and the individual employee; 3) Van Lanschot Kempen meets the prevailing buffer requirements under the EU's Capital Requirements Regulation (CRR), the Dutch Financial Supervision Act (Wft) and its implementing legislation; 4) the risks taken have been reassessed and no material risks have occurred that were not expected or factored in; and 5) the employee has received a good performance assessment, has met compliance targets, has not been subject to disciplinary measures, and has not taken any risks that fall outside Van Lanschot Kempen's accepted risk appetite.

## Payment

Variable remuneration can be paid to employees entirely in cash up to a gross maximum of €50,000. If it exceeds this amount, 50% of the portion above the gross figure of €50,000 is paid immediately and unconditionally, and the remaining 50% conditionally and on a deferred basis over a period of three years following the year in which it was awarded. The deferred portion can only become unconditional if Van Lanschot Kempen still meets the prevailing buffer requirements.

The Statutory Board may, with the approval of the Supervisory Board, hold or claw back all or part of the:

- Conditional variable remuneration previously awarded to an employee (or former employee) if payment of the variable remuneration would be considered unfair or unreasonable (hold back);
- Unconditional variable remuneration previously paid to an employee (or former employee). This might occur if, for instance, payment was based on incorrect information about performance or about the conditions on which the variable remuneration depended (claw back).

If payment has taken place on the basis of such incorrect information, or has been made in conflict with the variable remuneration policy and/or applicable legislation and regulations, the Statutory Board will exercise its authority in this respect.

### Long-term share plan

Our 2011 long-term share plan (LTP) allows us to award variable remuneration to certain key employees, including identified staff. The plan is not open to members of the Statutory or Executive Boards. Offering variable remuneration in the form of depository receipts for Class A Van Lanschot Kempen shares ("Van Lanschot Kempen shares"), the LTP is governed by our variable remuneration policy. Under the LTP, 60% of the Van Lanschot Kempen shares are awarded immediately and unconditionally, while 40% are awarded conditionally over a period of three years starting in the year after the year of conditional award (the vesting period).

### Profit-sharing scheme

In 2017, we introduced a profit-sharing scheme for all Van Lanschot Kempen employees working in the Netherlands to further increase their alignment with Van Lanschot Kempen as shareholders. For the 2018 financial year, an equal number of Van Lanschot Kempen shares were granted to all employees in scope in February 2019. The number of shares is linked to Van Lanschot Kempen's profit and is conditional on this exceeding a certain threshold. A lock-up period of two years applies.

### Remuneration in 2018

Variable remuneration totalling €16.2 million was paid to employees (including identified staff) over 2018. One person received total annual remuneration of over €1 million in 2018.

### Remuneration policy for identified staff

Identified staff are employees whose activities have a material impact on the risk profile of the business. Strict additional rules apply to the variable remuneration of this group of employees. The identified staff remuneration policy applies to all identified staff of Van Lanschot Kempen. Members of the Statutory and Executive Boards are not eligible for variable remuneration.

The criteria of the variable remuneration policy for identified staff are the same as for Van Lanschot Kempen's variable remuneration policy. The variable remuneration of identified staff is paid 50% in cash and 50% in Van Lanschot Kempen shares, while the variable remuneration of identified staff of Kempen Capital Management NV (KCM) is paid 50% in cash and 50% in a flexible mix of Van Lanschot Kempen shares and investments in funds managed by KCM. In all cases, 60% of both parts of the variable remuneration is awarded immediately and unconditionally, and 40% conditionally and deferred. This deferred remuneration is then paid out over a period of three years following the year of award. Whether an award becomes unconditional depends on reassessment of the five predetermined criteria mentioned on the previous page. If this reassessment leads to a review of the deferred remuneration, the hold and/or claw-back system applies. A lock-up period of one year applies to Van Lanschot Kempen shares that have become unconditional.

More information about our remuneration policy for identified staff can be found at [vanlanschotkempen.com/remunerationpolicies](http://vanlanschotkempen.com/remunerationpolicies).

### Statutory Board remuneration policy

The remuneration policy for members of Van Lanschot Kempen's Statutory Board is adopted by the general meeting following a proposal by the Supervisory Board. The policy is aimed at ensuring a balanced, sustainable and competitive remuneration package. The current remuneration for the members of the Statutory Board was approved and adopted by the general meeting on 31 May 2018, and applied from 1 January 2018.

When adopting the Statutory Board remuneration package, we consider pay ratios within the company. A comparison of the remuneration package of the CEO and the average labour cost<sup>1</sup> of an employee within Van Lanschot Kempen results in a pay ratio of 10:1 (2017: pay ratio 9:1).

We ended all variable remuneration for the Statutory Board in 2015. As partial compensation, a fixed remuneration component was introduced in the form of Van Lanschot Kempen shares. In 2018, the lock-up period applicable to these shares was increased from three to five years.

In addition to the lock-up period applicable to these shares, Statutory Board members are also bound by the share ownership guidelines. These guidelines stipulate that Van Lanschot Kempen shares held by Statutory Board members must be equivalent to the cash portion of two years' gross salary for as long as they remain in office. Statutory Board members will gradually meet this requirement over the years through the award of fixed remuneration in the form of Van Lanschot Kempen shares. The share ownership guidelines contribute to Van Lanschot Kempen's long-term value creation.

In 2015, it was agreed that the remuneration policy of the Statutory Board would be revisited in 2017 and evaluated in light of developments and circumstances at the time.

In December 2017, Willis Towers Watson conducted a market assessment for the remuneration of the Statutory Board. The peer group for the market assessment was selected in keeping with the Dutch Banking Code, and consisted of:

- Dutch banks;
- Western European specialised standalone wealth management companies;
- Dutch corporates (cross-industry benchmark).

In this market assessment, the compensation from 1 January 2018 positions us in the 29th percentile of the reference group, well below the median.

For information on the composition of the reference group used for the market comparison of Statutory Board remuneration, please refer to [vanlanschotkempen.com/remunerationpolicies](http://vanlanschotkempen.com/remunerationpolicies). This information is an integral part of the Remuneration section.

<sup>1</sup> The average labour cost is calculated by dividing total staff costs by the number of FTEs working for Van Lanschot Kempen.

## Statutory Board remuneration package

The following table shows the remuneration package for members of the Statutory Board, who are not entitled to variable compensation. There are no early retirement schemes for Board members. Their severance remuneration is in line with current statutory and regulatory rules and amounts to one year's gross salary.

The remuneration of the Statutory Board consists of two components: fixed income and benefits.

| Statutory Board remuneration package | Type of payment  | Purpose/rationale  |
|--------------------------------------|--|--|
| Fixed income                         | Cash   | Reflects responsibilities, performance and market trends |
| Fixed income                         | Van Lanschot Kempen shares   | Achievement of long-term strategy                        |
| Benefits                             | Payment towards pension and disability insurance, fixed expenses reimbursement | Market competitiveness                                   |

### Benefits

The members of the Statutory Board are responsible for their own pension provision, towards which they receive a payment. They also receive a payment for taking out disability insurance. For more information, see "Remuneration of the Statutory and Supervisory Boards" on page 208 of the 2018 financial statements.

## Evaluation of the Statutory Board remuneration policy

Important factors in the Supervisory Board's decision to propose increasing the remuneration of the Statutory Board to the annual general meeting included our aims to:

- Attract and retain talent to continue the company's transformation and growth;
- Reward the strong performance of the Statutory Board;
- Align reward with long-term sustainable performance;
- Align the interests of the management with shareholders.

Since the announcement of our wealth management strategy in 2013, Van Lanschot Kempen has transformed from a small universal bank to a specialist wealth manager. This resulted in strong performance over recent years (see "Our strategic transformation" on page 12). In the future, the company will continue to pursue its wealth management strategy, and will utilise the latest technology and expertise in digitalisation and advanced analytics to grow the business and to make the organisation more efficient. This requires a Statutory Board with a proven track record in wealth management, while experience in digitalisation and advanced analytics is also key. As a consequence, the remuneration of the Statutory Board members should be such that Van Lanschot Kempen is able to attract and retain the necessary talent for the Board, which includes Board members from highly specialised wealth management and technology firms. In addition, the remuneration package of the Statutory Board must be structured to fit properly within the Dutch regulatory context.

As a result, a proposal was made at the annual general meeting to increase the fixed salary in shares in Van Lanschot Kempen of the Chairman of the Statutory Board from €231,750 to €387,500, and of the other

## Fixed income

| Remuneration of the Statutory Board | Chairman | Members  |
|-------------------------------------|----------|----------|
| Fixed in cash                       | €772,500 | €437,750 |
| Fixed in Van Lanschot Kempen shares | €387,500 | €312,250 |

members of the Statutory Board from €206,000 to €312,250. Their fixed salary in cash did not increase, and remained €772,500 (Chairman) and €437,750 (other board members). The proposal was to increase the total fixed salary of the Chairman by 15.5%, and of the other members by 16.5%. In comparison with the total remuneration policy that existed until 2015, when higher percentages of variable remuneration were still used, the new amounts of the new total remuneration represented an increase of 3.1% for the Chairman and a decrease of 11.7% for the other members of the Statutory Board.

A market survey showed that the Statutory Board's pension contributions were not in line with market practice. The percentage for pension contribution was changed from 20% (Chairman) and 21% (other members) to 30% of fixed salary, which remains below the median. After the amendment in remuneration, the total remuneration of the Statutory Board falls in the 29th percentile of the peer group and below the median.

The annual general meeting approved the remuneration proposal in 2018 and, although there was limited discussion at the shareholder meeting itself, the Remuneration Committee and the Supervisory Board recognised that there was a substantial number of votes against the proposal. Based on feedback received from investors, and following the Supervisory Board's evaluation of the process prior to the annual general meeting, the Supervisory Board initiated an engagement programme with shareholders and proxy advisers. The aim was to further understand their concerns and issues in relation to the proposal, and to broaden the scope of engagement with shareholders.

A delegation of the Supervisory Board/Remuneration Committee engaged with a large part of Van Lanschot Kempen's shareholder base and other stakeholders, including proxy voting advisers. During these meetings, an explanation was given about the Supervisory Board's view on rewarding long-term sustainable performance; the Dutch context, such as the Dutch law on remuneration of financial undertakings; the Capital Requirements Directives (CRD) IV rules; and the Dutch Corporate Governance and Banking Codes.

The dialogue with our shareholders and the proxy advisers was very constructive. Gaining their views on executive pay in general, and Van Lanschot Kempen's remuneration policy in particular, was very helpful. The main feedback concerned the preference for pay for performance, and the desire to be able to monitor the Statutory Board's performance against agreed KPIs. We explained that the Supervisory Board believes in rewarding long-term sustainable performance, which includes a large proportion of fixed salary in shares and with no (short-term focused) variable remuneration. Due to Dutch law and market practice in combination with CRD IV rules, a relatively small cash payment in the year after the performance can be awarded in case of variable remuneration. For these reasons, the remuneration policy was already amended in 2015, when we introduced the fixed salary in the form of shares instead of any form of variable remuneration. We also elaborated on the remuneration provisions in the Dutch Corporate Governance Code and Banking Code, which focus on long-term value creation for the company. There was broad recognition that the Dutch rules differ from common remuneration practices in other EU countries, including the UK.

Following these explanations, most shareholders confirmed that they now had a better understanding of our decision not to pay variable remuneration. Suggestions discussed with shareholders included the possibility to award variable remuneration within the Dutch legal framework, provision of details about the annual performance evaluation of the members of the Statutory Board, and the composition of the peer group.

We explained that the Dutch Banking Code prescribes that the peer group should be composed of comparable positions both inside and outside the financial industry, including the relevant international context. Some of the current members of the Statutory Board worked for companies that are substantially bigger than Van Lanschot Kempen, and in practice we seek new talent from larger, complex companies rather than smaller companies. Based on information from Willis Towers Watson, we also explained that if some of the large Dutch companies had not been included in the peer group, the outcome would have remained that the remuneration was substantially below the median.

Some questions were asked about the considerations and governance of Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen ("Stichting Administratiekantoor"). We explained how Stichting Administratiekantoor is governed, particularly its independence from Van Lanschot Kempen. For further information about Stichting Administratiekantoor's considerations, see their Board report on page 224.

The Supervisory Board received detailed feedback about each of the engagement meetings. We are aware that it is very important that we carefully explain the relevance of the Dutch regulatory context in the evaluation of the remuneration of the Statutory Board, and the choice not to pay variable remuneration to the members of the Statutory Board. The feedback was very constructive, and the Supervisory Board will take it into account going forward. Van Lanschot Kempen will continue this broader scope of shareholder engagement, and will liaise with shareholders and proxy voting advisers on sensitive matters well before these items are put on the agenda of the general meeting.

## Supervisory Board remuneration policy

The remuneration policy for members of the Supervisory Board was adopted by the general meeting on 31 May 2018 and applied from 1 January 2018. Supervisory Board remuneration is summarised in the table below.

| Remuneration Supervisory Board      | Chairman | Deputy Chairman | Member  |
|-------------------------------------|----------|-----------------|---------|
| Supervisory Board                   | €90,000  | €70,000         | €60,000 |
| Audit and Compliance Committee      | €15,000  |                 | €10,000 |
| Risk Committee                      | €15,000  |                 | €10,000 |
| Remuneration Committee              | €10,000  |                 | €7,000  |
| Selection and Appointment Committee | €10,000  |                 | €6,000  |