

Report Remuneration Policy and Practice regarding Identified Staff of FMO

FMO is reporting on an annual basis about the remuneration policy and practice regarding the Identified Staff of FMO. Identified Staff are individuals who could have significant impact on FMO's risk profile. In 2014 the European Banking Authority (EBA) issued new criteria for determining which employees should be designated as Identified Staff. Based on these guidelines, Identified Staff comprise not only members of the Management Board and Supervisory Board and members of the senior management, but also senior managers responsible for the independent risk management function, the compliance function or the internal audit function of a bank.

Apart from the Supervisory Board members a group of 22 employees of FMO (December 31, 2017) all with a management responsibility, are designated as 'Identified Staff' in accordance with the Regulations on Sound Remuneration DFSA 2014 in which the Dutch Central Bank has implemented the CRD IV regulations (articles 92 to 95) with respect to sound remuneration policies for Dutch banks.

Four members of the Identified Staff are (partly) involved in the management of FMO Investment Management B.V. (FIM), a fully owned subsidiary of FMO. Some have joint responsibilities for FMO and FIM, therefore they are fully incorporated in this report.

This report addresses the following:

1. the governance regarding the remuneration policy and practice related to the Identified Staff,
2. the guidelines of the remuneration policy for Identified Staff and
3. the remuneration practice over 2017 regarding the Identified Staff.

1. Governance with respect to Remuneration Policy

The mandate and composition of the Selection Appointment and Remuneration Committee (SARC)

The SARC advises the Supervisory Board on its decision-making in relation to the composition and appointment and re-appointment to, the Supervisory Board and the Management Board of FMO. As part of talent management, the SARC also addresses the subject of staff diversity (age, gender and cultural background) in management positions as well as with respect to the entire staff population.

Furthermore, the SARC helps the Supervisory Board to prepare for its decision-making in relation to the remuneration of the members of the Management Board, and keeps oversight on the consistency, guidelines and policies regarding the staff remuneration in general. The committee also reviews on a regular basis (normally once every three years) remuneration policies pursued in the external market and advises the Supervisory Board on how to apply the guidelines for remuneration policy in the banking sector.

The General Meeting of shareholders (GM) will approve the remuneration policy of the Management Board and the Supervisory Board and its adjustments. The Supervisory Board is responsible for the implementation on this policy and for the approval of the general remuneration guidelines of FMO and the remuneration policy regarding the Identified staff members.

The Supervisory Board will report annually in the Annual Report about the remuneration policies regarding the Management Board and Identified Staff and about the remuneration practice.

More information about the responsibility of the SARC can be found on the website of FMO (www.FMO.nl Governance & Policies/ Supervisory Board/ Standing rules of the SARC).

In 2017, the SARC consisted of the following members:

- Prof. dr. ir. P. (Pier) Vellinga (Chair)¹,
- Prof. dr. J.M.G (Jean) Frijns ²
- drs. D.J. (Dirk Jan) van den Berg ³

Meetings SARC in 2017

The Supervisory Board appoints Management Board members, approves annual corporate targets as well as the annual (cost) budgets, and evaluates the performance of the Management Board as a whole as well as the performance of the individual members. A proactive role was played by the SARC. During the three formal meetings held by the SARC in 2017, amongst others, the following important topics were discussed: succession planning in general and the succession of the CEO, the CRFO and of several Supervisory Board members.

2. Remuneration Policy Identified Staff

General Remuneration principles FMO (identified) staff

The remuneration policy is designed to promote fair and consistent employee compensation, based on performance and an efficient job position classification system. Identified Staff members will not receive any variable compensation in the form of bonuses or profit sharing (discontinued as of 2017). In 2017 the final profit sharing payment related to the performance over 2016, was paid out to the members of the identified staff, with exception of members of the Management Board.

All employees working within FMO, including Identified Staff members, are subject to the scope of the Collective Labour Agreement Banks (CLA Banks) and the compensation and benefits package stated in the Personnel Guide of FMO. The remuneration structure implies a maximum salary for each position in the organization. As of January 2016 FMO discontinued the participation in a profit sharing scheme for members of the Management Board; and as of January 2017 the profit sharing scheme has been discontinued for all staff members of FMO.

The annual performance management system is based on (individual and team) target setting related to the appropriate objectives that both put the interest of clients first and help ensure the long-term continuity and financial strength of FMO. Setting targets, measuring results and evaluating performance is part of this annual performance management cycle. The individual performance is evaluated in the (potential) salary adjustments towards the maximum salary, applicable for the position of the employee.

External benchmark surveys are regularly used to compare the level of remuneration with the relevant market. FMO aims to set its total remuneration around the median (what is the middle value of the selection) paid in the Dutch financial service industry, which is seen as the relevant market for comparable work. Job levels of all (identified) staff members are in part of these benchmark surveys.

The remuneration policy is in line with FMO's business strategy, our core values and the desired risk profile of FMO and it discourages (identified) staff members from taking non-desirable risks, nor does it reward failure or misconduct. At the same time, it allows FMO to attract and retain qualified staff, while encouraging employees to aim for long-term results that serve the long-term interest of our clients and the mission of FMO.

¹ Until 1 October 2017, thereafter he continued as a member of the SARC as he became Chair of the Supervisory Board

² Until his resignation as SB member as per 1 October 2017

³ Appointed as Chair of the SARC as per 1 October 2017

Remuneration Principles Management Board

FMO's remuneration policies are aligned with the requirements under external legislation and regulations, including the Dutch Banking Code, the RBB/ Wft 2017 regulations, and the guidelines of the Capital Requirements Directives (CRD IV).

In May 2016 the Annual General Meeting of Shareholders established a new remuneration policy for its Management Board members. With respect to the fixed remuneration of the CEO the remuneration policy indicates a maximum salary level. Also the maximum salary levels of the other members of the Management Board are related to this maximum. These maxima will be adjusted in alignment with salary adjustment in the Collective Labour Agreement (CLA Banks).

As from 2018 the maximum salary of the CEO is set at EUR 275,065.

Members of the Management Board are not entitled to any form of variable remuneration.

Other elements of the remuneration consist of a pension scheme (based on a retirement age of 68 years, as of January 2018), an individual allowance for retirement (as effect of changes in the Dutch pension regulations), a mortgage interest allowance, the option to make use of a company car, a fixed expense allowance to cover costs relating to the performance of their duties.

Members of the Management Board will be appointed for a period of 4 years and can be re-appointed. Welcome, retention and exit arrangements (if applicable) are reviewed by the SARC and in alignment with the approved remuneration policy and will not be excessive. Furthermore, FMO complies with all existing laws and regulations concerning the level of severance payments (if applicable).

3. Remuneration Practice Identified Staff in 2016

The total base salary in 2017 of the Management Board of FMO amounts EUR 588,000. The costs for the total pension accrual up to a salary of EUR 103,317 per Management Board member was EUR 82,000, while in total EUR 81,000 was paid out as allowance for retirement. In total EUR 56,000 has been paid to Management Board members regarding other benefits (contribution to company car, fixed expense allowance, compensation of interest on mortgages, all in alignment with the general fringe benefits within FMO).

More details on the individual remuneration of the members of the Management Board over 2017 can be found in the Annual Report of FMO 2017.

2017 EUR)	(x 1,000)	Fixed income	Pension	Allowance for Retirement	Other ²	Total
Supervisory Board (5) ¹		120	-	-	-	120
Management Board (3) ¹		588	82	81	56	807
Other Identified Staff (19) ¹		2,995	524	54	331 ³	3,904
	In total	3,703	606	135	387	4,831

¹ Number of persons as per 31 December 2017 (staff changes during 2017 are included pro rata).

² This relates to fixed reimbursements of expenses, contributions to a company car, compensations of interest on mortgages (applies only to employees who were already in service of FMO on 31 December 2016) and general profit-sharing payments (if applicable, and related to the performance over 2016).

³ EUR 48,000 of the category 'Other Identified Staff' was paid during 2017 under FMO's profit sharing scheme. (As the last payments under this scheme, related to the performance over 2016.)

Members of the Identified Staff are not eligible to receive any variable remuneration (bonuses).

Furthermore, as stated above, as of 2017 the profit sharing scheme has been discontinued for the entire Identified Staff population (as well as for all employees of FMO).

Members of the Supervisory Board and the Management Board have no shares, options or loans related to the company.