



## **Draft – Subject to AGM approval**

### **Compensation Policy 2016**

#### **Introduction**

ProQR Therapeutics N.V. (the "**Company**") is required by Dutch corporate law and its articles of association to have a policy (the "**Compensation Policy**") governing the compensation of the management board of the Company (the "**Management Board**"). The compensation of the Management Board will be determined by the supervisory board of the Company (the "**Supervisory Board**") with due observance of this Compensation Policy and the Company's articles of association.

The Supervisory Board has established a compensation committee (the "**Compensation Committee**") from among its members to assist the Supervisory Board inter alia in matters relating to the compensation of the members of the Management Board.

This Compensation Policy was adopted by the Company's general meeting of shareholders on June 21, 2016 with effect from January 1, 2016 and replaces the previous Compensation Policy of the Company.

#### **Principles**

The Management Board is responsible for executing the Company's Strategy (the "**Strategy**"). The Compensation Committee ensures that the performance metrics used in the Company's variable compensation plans hold the members of the Management Board accountable for the successful delivery of the Strategy. Therefore, it is the view of the Compensation Committee that variable compensation component should be directly linked to the Company's strategic objectives, i.e. financial and non-financial performance measures, individual performance objectives and company milestones. Under the Compensation Policy, variable compensation shall be focussed on sustainable performance.

The Compensation Policy is designed based on the following principles:

- Three compensation pillars consisting of:
  - Annual Base salary
  - Short Term Incentive (annual cash bonus)
  - Long Term Incentive (Stock Option Plan)
- Flexibility: the compensation policy should provide flexibility to allow the Supervisory Board, acting on the recommendation of the Compensation Committee, to reward the Management Board in a fair and equitable manner;
- This Compensation Policy should drive the right kind of management behaviour, discourage unjustified risk taking and minimise any gaming opportunity;



- This Compensation Policy should pay for performance, taking into account not only the measurable financial performance of / or milestones achieved by the Company, but also, where appropriate, the efforts made by the Management Board, individually and as a whole, in managing the Company;
- Design of the Compensation Policy shall be based on current legislation applicable in the Netherlands;
- This Compensation Policy shall foster alignment of interests with shareholders; and
- The pension of the members of the Management Board shall be based on the defined contribution system.
- Pay differentials and position within the Company are also taken into account and are considered and evaluated regularly.

## 1 Summary Overview of Compensation Components

The Compensation Policy consists of the following key elements:

Compensation Component & Description	Objective
<p><b>Annual Base Salary</b> Fixed cash compensation based on level of responsibility and performance</p>	<ul style="list-style-type: none"> <li>• Compensate for performance of day-to-day activities</li> </ul>
<p><b>Short Term Incentive (STI)</b> Reward paid in cash for performance in the preceding financial year, measured against financial, nonfinancial/personal targets and company milestones (see below)</p>	<ul style="list-style-type: none"> <li>• Compensate previous year's Company and individual performance</li> <li>• Award opportunities in consideration for substantial contributions to the success of the Company and/or to promote and continued service</li> <li>• Award for specific transactions of the Company</li> </ul>
<p><b>Long Term Incentive (LTI)</b></p>	<ul style="list-style-type: none"> <li>• Retention of management talent</li> <li>• Incentive to perform</li> <li>• Alignment with shareholders' interests</li> </ul>
<p><b>Pension</b> Defined contribution plan</p>	<ul style="list-style-type: none"> <li>• Provide competitive post-retirement benefits</li> </ul>



**Compensation Reference Group**

The Supervisory Board has selected a compensation reference group of companies selected that reflects the competitive environment for talent in which the Company operates. The level of the above compensation components for the Management Board is compared with this balanced group of companies selected based on Biopharma and Life Sciences industry, research focus and size. The compensation levels of the Management Board is compared with compensation data of the following compensation reference group:

<b>Compensation Reference Group</b>			
PTC Therapeutics, Inc.	Dimension Therapeutics, Inc.	aTyr Pharma Inc.	Applied Genetic Technologies Corp.
Vital Therapies, Inc.	Spark Therapeutics, Inc.	Versartis, Inc.	Bellicium Pharmaceuticals, Inc.
Arrowhead Research Corp.	Fibrocell Science, Inc.	Dicerna Pharmaceuticals, Inc.	Mirna Therapeutics, Inc.
Avalanche Biotechnologies, Inc.	Fate Therapeutics, Inc.	Trevena, Inc.	Catabasis Pharmaceuticals, Inc.
Genocea Biosciences, Inc.	Oncothyreon Inc	Calithera Biosciences, Inc.	Nivalis Therapeutics, Inc.

In determining the appropriate levels of compensation for each of the members of the Management Board, the Supervisory Board (and the Compensation Committee) considers the compensation levels applicable in the compensation reference group and the specific roles and responsibilities a member of the Management Board serves.

The compensation reference group will be reviewed by the Supervisory Board on a regular basis and updated if necessary to ensure an appropriate composition. The Supervisory Board will update the compensation reference group based on market circumstances following mergers, acquisitions or other activities significantly affecting their comparability with the Company. Any substantial changes to the composition of the compensation reference group will be subject to the approval of the General Meeting of Shareholders.

In establishing the compensation for the members of the Management Board, the Supervisory Board (or the Compensation Committee) may consult independent professional external or internal compensation consultants in carrying out its duties.

**Annual Base Salary**

Base salaries for the Management Board are determined by the Supervisory Board upon the recommendation of the Compensation Committee after consideration of various factors and comparing with the median of the base salary levels of the above mentioned compensation peer group. The Supervisory Board also considers the historic salary levels of the individual and the nature of the individual’s responsibilities.

**Short Term Incentive (STI)**

The members of the Management Board may be eligible for an annual bonus. The annual bonus is determined by the Supervisory Board and may vary per member of the Management Board. The bonus is related to pre-determined quantified financial targets, non-financial/personal targets and company milestones. The targets are set annually for the relevant financial year. The



targets are predetermined, assessable and influence able and are supportive to the long term strategy and development of the Company.

The non-financial targets and milestones of the Company will be determined prior to the start of the relevant financial year of the Company. These targets are derived from the Company's strategic and organizational priorities and also include qualitative targets that are relevant for the responsibilities of the individual member of the Management Board. The targets are set annually by the Supervisory Board. Achievement of the targets will be measured following the end of the relevant financial year.

The Company does not disclose the actual financial, non-financial targets/personal targets and milestones as this is considered commercially and competitive sensitive information.

The CEO will be eligible for an annual maximum bonus that is set at 35% of annual base salary. Other members of the Management Board will be eligible for an annual maximum bonus of up to 25% of annual base salary.

#### **Long Term Incentive (Stock Option Plan)**

The Long Term Incentive for the Management Board consists of a Stock Option Plan (2014 Stock Option Plan). The Stock Option Plan provides for the grant of options to acquire ordinary shares. The Supervisory Board may select members of the Management Board and effect such grants. The number of stock options to be granted will be based on a fair value approach.

The amount of stock options as total long term incentive to be granted will be determined annually by the Supervisory Board depending on the contribution to the Strategy, the long term development of the Company, the individuals performance of the members of the Management Board and to ensure alignment of the Management Board total compensation to the median of the compensation reference group above. In case the annual assessment of the Supervisory Board is that the contribution of the Management Board meets target levels, this will be reflected in the amount of stock options to be granted. The CEO will be eligible to receive stock option grants with a maximum value up to 300% of annual base salary, while the other member of the Management Board will be eligible to receive annual stock option grants with a maximum value up to 200% of base pay.

An important objective of stock options is to provide an incentive to the members of the Management Board to continue their employment relationship with the Company and to focus on the creation of sustainable shareholder value. Therefore, stock options will only deliver value to the (members of the) Management Board if, and to the extent, over this period the value of the underlying stock exceeds the exercise price of the options.

The stock options granted have a 10 year life following the grant date. The stock options granted vest in four annual equal tranches of 25% starting for the first time as from the first anniversary of the date of grant. Vesting of the stock options may be subject to other conditions which are specified in the notice of grant. The Supervisory Board may in the event of a change of control of the Company decide to exchange, cancel and settle in cash and/or accelerate the vesting of the



outstanding stock options or the Supervisory Board may take whatever step considered appropriate with respect to the outstanding stock options. The exercise price of stock options will be equal to the closing price on the NASDAQ Stock Market the business day preceding the date of grant.

### ***Dilution***

In order to limit potential dilution of the Long Term Incentive to be granted by members of the Management Board to other eligible participants under the Stock Option Plan, the Supervisory Board will limit applicable dilution percentage to 15% of the issued ordinary share capital of the Company. This dilution limit of 15% is applicable to the number of outstanding (vested and non-vested) stock options granted to the (members of the) Management Board and other participants under the Stock Option Plan of the Company.

### **Pensions**

Retirement benefits under the defined contribution plan is set in the context of the annual base salary for each member of the Management Board taking into account the relevant country competitive practice, tax and legal environment.

## **2 Scenario analysis**

The Dutch Corporate Governance Code requires that the Supervisory Board “shall analyse possible outcomes of the variable income components and the effect on the Managing Board compensation”. This scenario analysis will be conducted on an annual basis to test whether the level of compensation that could be earned at different levels of performance (threshold, target and maximum), and at different Company share price levels (low, average and high growth) is fair and appropriate in the context of value delivered to shareholders. Based on the analysis, the Compensation Committee, if necessary, will recommend amendments to the compensation policy to the Supervisory Board.

## **3 Periodical revision of the compensation**

The Supervisory Board will review and determine annually prior to the Company's annual general meeting of shareholders the total compensation level for that calendar year. The compensation will be determined by the Supervisory Board following the recommendation of the Compensation Committee within the limits of the applicable compensation policy. An increase or decrease, as the case may be, of the base salary, the Short Term Incentive or the Long Term Incentive, or any other part of the compensation of a member of the Management Board, may be determined by the Supervisory Board at its sole discretion in order for the total compensation to remain within the levels as determined in the applicable compensation policy.



#### **4 Service conditions for statutory directors**

The following policy statements apply to the members of the Management Board (i.e. the statutory directors) only and are included in the existing management services agreements.

##### ***Adjustment and claw-back***

The Supervisory Board has the discretionary authority to upwards or downwards adjust the pay out of any variable compensation component conditionally granted if such component would produce an unfair or unintended result as a consequence of extraordinary circumstances during the period in which the pre-determined performance criteria have been or should have been achieved. In addition, the Company has the right to recover variable compensation components on account of incorrect financial data in accordance with article 2:135(8) Dutch Civil Code.

##### ***Severance arrangements***

In the management services agreements it is stated that the management services agreements contain a termination notice period of two months. The management services agreements shall be terminated in the event of an urgent reason at any time without advance notice. The management services agreements provide for a lump-sum payment in case of termination following a change in control subject to certain conditions. Such payment is equal to 24 months of the individual's monthly gross fixed salary in effect at the time of the change in control.

Other than in case of termination following a change in control, the following applies: if an individual's management services agreements ends, the Supervisory Board acting on the advice of the Compensation Committee will determine the appropriate severance payment provided that the severance payment will not exceed a sum equivalent to one times annual base salary, or if this is manifestly unreasonable in the case of dismissal during the first appointment term, two times the annual base salary.

##### ***Loans***

The Company does not grant any loans or guarantees to any of the members of the Management Board.