

Delta Lloyd Bank N.V.

Application of the Banking Code by Delta Lloyd Bank in 2017

Abstract:

This document contains a description of the way Delta Lloyd Bank complies with the Banking Code

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Introduction

On 9 September 2009, the Dutch banking association, Nederlandse Vereniging van Banken (NVB), adopted the Banking Code, which came into force on 1 January 2010. The Code applies to all banks with a banking license granted under the Dutch Financial Supervision Act (Wft).

On 1 June 2010, the Banking Code was designated as a code of conduct by way of a governmental decree as defined in Article 2:391, paragraph 5 of the Dutch Civil Code, with retroactive effect from 1 January 2010. Therefore reporting on how a bank applies the principles of the Banking Code is a legal requirement.

The NVB issued a new Banking Code in 2014, which came into force in 2015.

Each year, Delta Lloyd Bank provides a detailed overview of how it applies the Banking Code. This Application of Banking Code also explains the progress the bank is making with applying the principles and offers specific examples of the bank's compliance. If necessary, the bank can provide a substantiated explanation of why a particular principle may not have been applied, either partly or in full ('comply or explain').

The Banking Code can be downloaded from the NVB website (www.nvb.nl).

1 Sound and ethical operational management

1.1

To build and maintain its position as a stable and reliable partner, a bank must formulate its mission, strategy and objectives. This focuses on the long term and is expressed in part in the bank's risk policy and the policy for sustainability and corporate social responsibility. A bank chooses its positioning in a way that its commercial interests and social role are extensions of each other. This is also expressed in the bank's governance structure and guides the implementation of its policy based on its mission, strategy and objectives.

Application

Delta Lloyd Bank values to have a good relationship with its stakeholders. Delta Lloyd Bank set an objective to create sustainable value for its stakeholders, i.e. its customers, employees, shareholders and society at large. Delta Lloyd Bank was organised in such a way that good management and effective supervision were guaranteed by the Executive Board and the Supervisory Board. Integrity, transparency and accountability are the key elements of Delta Lloyd Bank's corporate governance and business activities. As such, Delta Lloyd Bank has provided effective risk management, complied with relevant laws and regulations and has been transparent in its dealings with stakeholders. The bank's strategy was implemented by means of various initiatives, all based on a customer-centric approach. One example is the Product Approval Process, which assessed products to ensure they are in our customers' best interests.

1.2

The Executive Board and Supervisory Board are – with due regard for each other's duties and powers – responsible for setting up a sound governance structure and compliance with the governance principles. Application Good corporate governance is crucial to achieve the strategic goals of Delta Lloyd Bank. Part of this involves establishing a sound governance structure. The Executive Board initiated the structure and the Supervisory Board monitored compliance with the governance principles set out in the Banking Code and the Dutch Corporate Governance Code. To this end, an Audit & Risk Committee has been set up, as part of the bank's Supervisory Board.

1.3

The Executive Board will promote responsible behaviour and a healthy culture both at the top of the bank and throughout the organisation. In this, it will consider the interests of the bank's customers and other stakeholders. The Supervisory Board supervises this.

Application

The Executive Board did promote responsible behaviour and a healthy culture throughout the organisation. In performing its tasks, the Executive Board made a balanced assessment of the relevant interests of the stakeholders of Delta Lloyd Bank, including its customers, employees and the society in which the bank performs its activities. When formulating the bank's strategy, customer centricity in particular was a key focus area. Customer centricity forms an important part of the corporate culture programmes at Delta Lloyd Bank. In the bank's view, customer centricity means acting in its customers' best interests, which is not dissimilar to ensuring customer satisfaction. However, satisfying customers, i.e. giving them what they want, may not always be in their best interests.

1.4

A bank's culture must also express the assumptions in the NVB's Social Charter. These must be embedded in the bank's organisation and the bank will include them in its contact with its stakeholders. It will provide insight into the way in which the bank deals with the assumptions in the Charter.

Application

Reliability, service orientation and transparency are crucial if Delta Lloyd Bank wants to reach its strategic goals. To properly represent its customers' interests and the interests of other stakeholders, employees must act in an ethical and professional manner. Delta Lloyd Bank attached great importance to this when selecting and training staff. As such, customer centricity formed an important part of the corporate culture programmes at Delta Lloyd Bank.

1.5

All employees will comply with the formal regulations and self-regulation that apply to them. The Executive Board and Supervisory Board are – with due regard for each other's duties and powers – responsible for this. The Executive Board is responsible for employees being and remaining familiar with all rules, values and

standards applicable to the bank and will continue to pay attention to this. The Supervisory Board supervises this.

Application

Delta Lloyd Bank applied this principle. The Executive Board ensured that every employee of Delta Lloyd Bank took the bankers' oath or made an affirmation by the end of 2015. By doing so, the employees in question became personally responsible for complying with the rules of conduct. They can be held liable for non-compliance. In addition, individual employment contracts and the terms and conditions of employment of all bank staff also refer to Delta Lloyd's core values as laid down in existing regulations and self-regulation. Employees are expected to check the intranet regularly for information about the latest developments on this matter.

2 Supervisory Board

2.1 Composition and areas of expertise

2.1.1

The Supervisory Board shall be composed in such a way that it can perform its duties effectively, i.e. the board shall be complementary, collegial, independent and diverse.

2.1.2

The Supervisory Board shall have a sufficient number of members to properly perform its duties, including in its committees. The appropriate number of members depends on the nature, size and complexity of the bank.

Application

Delta Lloyd Bank applied this principle, as reflected in the charter of the Supervisory Board of Delta Lloyd Bank. The composition of the Supervisory Board is such that it allows the Supervisory Board to fulfil its duties effectively. The Supervisory Board acts as a collegial body. While decisions are formally taken by the majority, the board acts on a consensus basis in principle. Based on the nature, scale and complexity of Delta Lloyd Bank at year-end 2017, the bank's Supervisory Board has three members.

Delta Lloyd Bank considered this number for the process at hand i.e. the merger of Delta Lloyd Bank and Nationale-Nederlanden Bank, bearing in mind the compositions of the Supervisory Board the latter bank as sufficient for the Supervisory Board to carry out its duties. During 2017 the composition of Delta Lloyd Bank's Supervisory Board has known some movements. On 1st January 2017 Mrs Ingrid de Graaf-de Swart left the board, followed on 1st August by Mrs Annemarie Mijer and Mr Clifford Abrahams. Mr Jan-Hendrik Erasmus, CRO of Nationale-Nederlanden Group, was appointed as member of the Supervisory Board on 13th April 2017. In 2017, the Supervisory Board and Audit&Risk Committee (A&RC) consisted of:

- A.A.G. (André) Bergen (1950), Chairman of the A&RC
- C.J. (Kees) Beuving (1951)
- J. H. (Jan-Hendrik) Erasmus (1980)
- Mrs. A.P. (Annemarie) Mijer - Nienhuis (1970)
- C.J. (Clifford) Abrahams (1967)

2.1.3 and 2.1.4

The members of the Supervisory Board shall have a thorough knowledge of the bank's role in society and of the interests of all stakeholders. The Supervisory Board shall carefully consider the interests of all stakeholders, such as the bank's customers, its shareholders and its employees. Each member of the Supervisory Board shall be capable of assessing the main aspects of the bank's overall policy in order to form a balanced and independent opinion about the basic risks involved. Each member of the Supervisory Board shall also have the specific expertise needed to perform their role on the Supervisory Board. To this end, whenever a vacancy arises on the Supervisory Board, an individual profile shall be drawn up for the new member.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Supervisory Board and its appendices. All members had the expertise required to fulfil their role.

2.1.5

As part of the process to fill the vacancy of chairman of the Supervisory Board, an individual profile shall be drawn up that also focuses on the bank's requirements

in terms of expertise and experience in relation to the financial sector and familiarity with the socio-economic and political culture and the social environment of the bank's main markets.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Supervisory Board and its appendices.

2.1.6

Each member of the Supervisory Board – the chairman in particular – shall be sufficiently available and accessible to properly perform their duties on the Supervisory Board and the Supervisory Board committees.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Supervisory Board and its appendices. The members are sufficiently available and accessible to properly perform their duties. The Supervisory Board members have proven to be quickly available for consultation if needed.

2.1.7

Each member of the Supervisory Board shall receive suitable compensation for the amount of time that they spend on Supervisory Board activities. This compensation shall not depend on the bank's results.

Application

Delta Lloyd Bank applied this principle, as reflected in its Rules for the Supervisory Board. The chairman of the A&RC and one other (non-Delta Lloyd) member received remuneration for their duties. This remuneration did not depend on the results of Delta Lloyd Bank.

2.1.8

The chairman of the Supervisory Board shall organise a programme of lifelong learning, with the aim of maintaining the expertise of the Supervisory Board directors at the required standard and improving their expertise where necessary. The programme of lifelong

learning shall cover relevant developments at the bank and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care to customers, integrity, risk management, financial reporting and audits. Every member of the Supervisory Board shall take part in the programme and meet the requirements of lifelong learning.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank’s Rules for the Supervisory Board. It is very important to Delta Lloyd Bank to have expert policymakers who keep their knowledge up to date. In order to maintain the expertise of the Supervisory Board and to improve their expertise where needed, the bank had a programme of lifelong learning for the Supervisory Board and the Executive Board in place. As part of the bank’s annual self-assessment process, Supervisory Board members could request further training or education on specific topics covered by the programme of lifelong learning. Delta Lloyd Bank opted to have Delta Lloyd manage its programme of lifelong learning, using both internal experts and external speakers. Each year, the programme of lifelong learning meetings were determined and tailored to the needs of the Supervisory Board. In general, the subjects discussed relate to topics addressed in the Banking Code, but they were not limited to these topics. The intention was to ensure that the programme of lifelong learning reflects the bank’s daily practice as much as possible and that it responds to the latest developments in the industry.

In addition to this programme of lifelong learning, new members of the Executive Board and the Supervisory Board could also take part in an orientation scheme tailored to their specific position and individual needs. The programme of lifelong learning covered subjects such as change management, risk management, management controls, financial reporting and developments in the field of supervision and change management. Ethics, conduct, culture, governance and risk management were included in this programme as well. As part of the programme of lifelong learning, members of the Supervisory Board were also able to take part in optional third-party courses (or modules) relevant to their areas of responsibility.

Due to the changes in the composition of the Supervisory Board during 2017 the members of the Supervisory Board and the Executive Board did not take part in internal educational programmes of Delta Lloyd, which covered in the past national and international developments in the financial sector and corporate governance in general and in the financial sector in particular, ICAAP and ILAAP, the duty of care to customers, putting customers’ interests first, integrity, risk management, financial reporting and audits.

2.1.9

The assessment of the effectiveness of the programme of lifelong learning referred to in principle 2.1.8 shall be part of the annual evaluation performed by the Supervisory Board.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank’s Rules for the Supervisory Board and its appendices. The Supervisory Board did not evaluate the permanent education programme in 2017.

2.1.10

In addition to the Supervisory Board’s annual self-assessment process, an independent body shall evaluate the functioning of the Supervisory Board every three years. This evaluation shall involve each member of the Supervisory Board and cover the culture within the Supervisory Board and the relationship between the Supervisory Board and the Executive Board.

Application

Delta Lloyd Bank adheres to this principle, as reflected in the bank’s Rules for the Supervisory Board and its appendices. Given the changes within the Supervisory Board during 2017 an independent evaluation has not been carried out in 2017.

2.2.1

As part of its supervisory tasks, the Supervisory Board shall pay special attention to the bank's risk management processes. All discussions about risk management shall be prepared by a risk committee or a similar committee, which committee shall be appointed by the Supervisory Board from its ranks for this purpose.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Supervisory Board and its appendices. The Supervisory Board has set up an Audit & Risk Committee. Risk management is discussed by this committee and by the Supervisory Board as a whole.

2.2.2

Both the risk committee and the audit committee shall be subject to specific requirements as regards competency and experience. For example, a number of members of the risk committee must have sound knowledge of the financial aspects of risk management or the experience needed to make a thorough assessment of risks. A number of members of the audit committee must have sound knowledge of financial reporting and internal control systems and audits or the experience needed to thoroughly supervise these areas.

Application

Delta Lloyd Bank applied this principle. The Executive Board has set up the following Risk Committees: Operational ALCO, Strategic ALCO, Operational Risk Committee and the Credit Committee. The bank's Supervisory Board in its turn has set up an Audit & Risk Committee (A&RC). Members of the Supervisory Board had a standing invitation to take part in all meetings of the bank's risk committees and join in committee meeting at least once a year as an observer. The members of the Supervisory Board were therefore in a much better position to make valuable observations, thereby enhancing the quality of the supervision the Supervisory Board provides. Given the bank's size and its range of products and services in 2017, the intermediate link of separate risk committees was considered to be less effective.

In view of the changes within the Supervisory Board during 2017 however the members of the Supervisory Board did not participate in the meetings of these risk committees.

3 Executive board

3.1 Composition and expertise

3.1.1

The Executive Board shall be composed in such a way that it is able to perform its duties effectively, i.e. the board shall be complementary, collegial and diverse.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board. The Executive Board is composed in such a way that it is able to perform its duties effectively. The Executive Board strives for unanimity in its decisions. The acquisition of Delta Lloyd Groep N.V. by NN Group N.V. and the intended integration of Delta Lloyd Bank and NN Bank had consequences for the composition of the Management Board. On 15th February 2017 Mr Rogier de Barbanson handed over his tasks as CFRO a.i. to his successor Mr Peter Verberne. On 13th April 2017 Mr Erik Muetstege, CEO of NN Bank, was also appointed CEO of Delta Lloyd Bank and on 1 July 2017 Mr Marcel Zuidam was appointed as Chief Transition Officer of Delta Lloyd Bank and NN Bank. Mrs Sandra van Eijk and Mrs Monique Hemerijck, NN Bank's CFO and CRO respectively, were also appointed as Delta Lloyd Bank's CFO and CRO on 18th July 2017. Subsequently Mr Peter Verberne (CFRO) and Mr Steven Jonkman (COO) left Delta Lloyd Bank's Management Board.

3.1.2

Each member of the Executive Board shall have a thorough knowledge of the financial sector in general and the banking sector in particular. They shall have a thorough knowledge of the bank's role in society and of the interests of all the bank's stakeholders. In addition, each member of the Executive Board shall have a thorough knowledge so that they are able to assess and

determine the main aspects of the bank's overall policy and then form a balanced and independent opinion about the risks involved.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board. Delta Lloyd Bank has an experienced Executive Board, with members who have a deep understanding of the financial sector in general and banking in particular. They have a strong opinion on the role of the bank in society and the interests of all the bank's relevant stakeholders, and they share their views both internally and externally.

3.1.3

The chairman of the Executive Board shall organise a programme of lifelong learning, with the aim of keeping the expertise of the members of the Executive Board at the required standard and improving their expertise where necessary. The programme of lifelong learning shall cover relevant developments at the bank and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care to customers, integrity, risk management, financial reporting and audits.

Application

Delta Lloyd Bank adheres to the principle, as reflected in the bank's Rules for the Executive Board.

3.1.4

Every member of the Executive Board shall take part in the programme referred to in 3.1.3 and meet the requirements of lifelong learning. Every member has to satisfy this condition in order to sit on the Executive Board. The Supervisory Board shall ascertain whether the members of the Executive Board continue to fulfil the expertise requirements developed by the Dutch central bank DNB.

Application

Delta Lloyd Bank adheres to the principle, as reflected in the bank's Rules for the Executive Board. Given the changes within the Supervisory Board and Management Board during 2017 the Supervisory Board decided to refrain from its annual evaluation of the Executive Board.

3.1.5

Each year, the bank's annual report shall state how the bank implemented principles 3.1.3 and 3.1.4.

Application

Delta Lloyd Bank reports on the implementation of principles 3.1.3 and 3.1.4 every year in this publication and in its annual report.

3.1.6

Taking into account the risk appetite approved by the Supervisory Board, the Executive Board shall ensure a balanced assessment between the commercial interests of the bank and the risks to be taken.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board. The Executive Board determines the desired risk profile, the corresponding risk appetite and risk policies.

3.1.7a

One member of the Executive Board shall be responsible for preparing the decision-making on risk management. This member shall be involved, in a timely manner, in the preparation of decisions that are of material significance for the bank as regards the risk profile, especially where these decisions may result in a departure from the risk appetite approved by the Supervisory Board. Risk management shall also include a focus on the interests of financial stability and on the impact that systemic risk could have on the risk profile of the bank.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board. Delta Lloyd Bank had a chief financial and risk officer (CFRO), respectively a chief financial and chief risk officer, who bear primary overall responsibility for the financial and risk management function. The CFRO / CFO and CRO are responsible for the management and control of risks to ensure that the bank's risk profile is consistent with its financial resources and risk appetite. The CFRO / CFO and CRO is / are also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the organisation. On the Executive Board, the CFRO / CFO and CRO does / do not combine their role with any other commercial focus areas. The risk framework of Delta Lloyd Bank is based on the concept of 'three lines of defence'. This ensures that risk is managed in line with the risk appetite as defined by the Executive Board and approved by the Supervisory Board. Risk management considers the importance of financial stability and the impact that systemic risk may have on the risk profile of Delta Lloyd Bank. The CFRO / CFO and CRO is / are closely involved in risk matters and decisions that may have a material impact on Delta Lloyd Bank.

3.1.7 b

This board member may combine his or her function with other responsibilities, provided that he or she does not bear any individual commercial responsibility and operates independently from commercial areas.

Application

The CFRO / CFO and CRO does / do not combine his/her role with any other commercial focus areas.

3.1.8

In addition to the Supervisory Board's annual self-assessment process, an independent body shall evaluate the functioning of the Supervisory Board every three years. This evaluation shall involve each member of the Supervisory Board and cover the culture within the Supervisory Board and the relationship between the Supervisory Board and the Executive Board.

Application

Delta Lloyd Bank adheres to this principle, as reflected in the bank's Rules for the Executive Board. Given the changes within the Supervisory and Management Boards during 2016 and 2017 an independent assessment did not take place in 2017.

3.2 Duties and working practices

3.2.1

In all of its actions, the bank's Executive Board shall ensure that it carefully considers the interests of all stakeholders, such as the bank's customers, its shareholders and its employees. These considerations shall take into account the continuity of the bank, the social environment in which the bank operates and the legislation, regulations and codes that apply to the bank.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board. The Executive Board is aware of this principle and acts accordingly. This principle is also included in the bankers' oath.

3.2.2

The Audit & Risk Committee (A&RC) shall be subject to specific requirements as regards competency and experience. For example, a number of the members of the A&RC must have sound knowledge of the financial aspects of risk management or the experience needed to make a thorough assessment of risks. Other members of the A&RC must have sound knowledge of financial reporting and internal control systems and audits or the experience needed to thoroughly supervise these areas.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board.

3.2.3

The members of the Executive Board shall perform their tasks in a meticulous, expert and fair manner, taking into account the applicable laws, codes of conduct and regulations. Each member of the Executive Board

shall sign a declaration of moral and ethical conduct. A model declaration has been included in the explanatory notes to this code and each bank can supplement it as appropriate.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board. This principle is also included in the bankers' oath. All members of the Executive Board and the Supervisory Board have signed the bankers' oath, which mirrors the text of the declaration of moral and ethical conduct referred to in the Banking Code.

3.2.4

The Executive Board shall ensure that the declaration referred to in principle 3.2.3 is translated into principles that form guidelines for the behaviour of all the bank's employees. The content of these principles shall be expressly pointed out to every new bank employee when they join the bank by inserting a reference to these principles in the new employee's contract of employment. Every new employee shall be required to comply with these principles.

Application

The duty of care to customers is embedded in (i) the policies and procedures of Delta Lloyd and, therefore, those of Delta Lloyd Bank; and (ii) in the relevant communication and marketing documentation. Delta Lloyd Bank recognises that customer focus is an ongoing process. The bank is committed to ensuring that duty of care and customer centricity is fully embedded in its corporate culture. This principle is also included in the bankers' oath. Every person working for Delta Lloyd Bank, including management and the members of the Executive Board and the Supervisory Board, have taken the bankers' oath, which mirrors the text of the declaration of moral and ethical conduct referred to in the Banking Code.

Delta Lloyd Bank strives to:

1. Meet customers' needs throughout their lives;
2. Offer fair value to customers;
3. Explain the risks, returns and costs of its products and services;
4. Assess products, services and sales practices regularly; and
5. Work with professional and licensed distributors only.

Customer centricity

Customer centricity was constantly on the agenda of all Supervisory Board meetings. The board was given information on such things as the results of the bank's various customer satisfaction surveys and the feedback on the AFM's overall customer focus improvement plan.

Delta Lloyd Bank aimed to only offer products that are suitable, transparent, easy to understand and useful to customers. Putting customers' interests first is the starting point for everything the bank does. As such, having a personal relationship with customers, was paramount. To be able to fulfil these promises, Delta Lloyd Bank offered products that are easy to understand. Delta Lloyd Bank employees were permanently and actively involved in initiatives to improve existing processes and/or products for the benefit of the bank's customers. Customer centricity and the organisation's culture Delta Lloyd's core values (honest, approachable and we work together) guided the actions of all employees of Delta Lloyd Bank, both mutually and in relation to the customer. These values ensure a level of service that the customer should be able to rely on and represent a culture that appeals to the customer. These core values form part of our performance appraisal system and are therefore embedded in the organisation.

Customer centricity and products

The bank provided its retail customers with financial services in the field of wealth accumulation, such as savings accounts, investment funds and mortgage loans. Delta Lloyd Bank felt responsible for raising and developing people's financial awareness and provides its customers with easy-to-understand solutions as part of a genuine dialogue to help them make informed choices for their financial future.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Executive Board. The bank's Executive Board is jointly responsible for determining, implementing, monitoring and, where necessary, adjusting the bank's general risk profile, risk appetite and risk policy.

4 Risk management

4.1

A bank's risk policy is characterized by a comprehensive approach, is transparent and has both a short- and long-term focus. The risk policy also takes reputational risks and nonfinancial risks into account.

Application

The Executive Board is responsible for systematically checking the management of the risks associated with the business activities of Delta Lloyd Bank and helps to make a balanced assessment of both short-term and long-term interests. The Executive Board - and primarily its Chairman - is responsible for adopting, implementing, monitoring and, where necessary, adjusting the bank's overall risk policy. Other matters considered in this connection are the importance of financial stability and the impact which financial and non-financial risks may have on Delta Lloyd Bank's risk profile and reputation.

4.3

The Supervisory Board shall supervise the risk policy pursued by the Executive Board. As part of their supervisory duties, the Supervisory Board shall discuss the bank's risk profile and assess at a strategic level whether capital allocation and liquidity impact in the general sense are in line with the approved risk appetite. In the performance of this supervisory role, the Supervisory Board shall be advised by the risk committee formed from the ranks of the Supervisory Board for this purpose.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Supervisory Board. To that end, the Audit & Risk Committee (A&RC) has been set up as part of the Supervisory Board. The composition of this committee is determined by the Supervisory Board. The A&RC oversees the developments and control of the risks the bank runs in connection with its business activities. It advises the Supervisory Board on a wide variety of issues, including financial reporting, the internal control system and the management of financial risks. The A&RC also assists the Supervisory Board with the decision-making process and helps the board monitor the development and management of the risks to which the bank is exposed in its activities. The committee does this by carrying out preparatory work in relation to the supervision of the Executive Board, the enforcement and effectiveness of the bank's risk management systems and its risk appetite. The A&RC also oversees compliance with laws and regulations as well as the procedures for the preparation and disclosure of the bank's financial statements. The full Supervisory Board however remains collectively responsible for the overall supervision.

4.2

The Executive Board shall propose the risk appetite to the Supervisory Board for approval at least once a year. Any material changes to the risk appetite in the interim shall also require the Supervisory Board's approval.

The composition of the A&RC was consistent with the size of the bank and the range of products and services offered to the bank's customers. It is, however, a departure from the Banking Code, which proposes, among other things, a separate remuneration committee and audit committee.

Apart from all topics related to the merger of Delta Lloyd Bank and Nationale-Nederlanden Bank on 31st December 2017 other subjects discussed in the A&RC meetings in 2017 included the bank's financial statements, the auditor's report, management letters, the bank's risk appetite statement, IFRS 9, SREP, ICAAP, ILAAP and Basel III. The A&RC also discussed in detail the bank's control strategy, the enforcement and effectiveness of its risk management systems, compliance and risk reports.

The bank's risk profile and corresponding risk appetite has been approved by the Supervisory Board. If necessary, the underlying assumptions of the bank's risk appetite were also adjusted during the course of the year, after having discussed the proposed adjustments with the Supervisory Board. The bank's risk profile was always on the agenda of the Supervisory Board meetings as part of the risk report. The Supervisory Board and the Executive Board regularly discussed the bank's risk profile at their meetings in 2017.

4.4

The Supervisory Board shall periodically assess at a strategic level whether the commercial activities in general are appropriate in the context of the bank's risk appetite. The Executive Board shall provide the Supervisory Board with the relevant information for this assessment in such a way that the Supervisory Board is able to form a sound opinion.

Application

Delta Lloyd Bank applied this principle, as reflected in the bank's Rules for the Supervisory Board. The Supervisory Board regularly discussed and assessed whether the bank's commercial activities are appropriate in the context of the bank's risk appetite.

4.5

The Executive Board shall ensure that the bank's risk management processes are structured in such a way that the Executive Board is aware in good time of any material risks the bank runs so that these risks can be managed properly. The Executive Board shall take any decisions that are of material significance for the bank's risk profile, its capital allocation or the liquidity impact.

Application

Delta Lloyd Bank applied this principle, as is reflected in the bank's Rules for the Executive Board. The principle is embedded in the bank's risk policies and processes. Delta Lloyd Bank has four risk committees that have met periodically and discussed the bank's risks:

- The Operational Risk Committee (ORM) (at least every quarter);
- The Asset Liability Committee (ALCO) Operational (weekly);
- The Asset Liability Committee (ALCO) Strategic (weekly); and
- The Credit Risk Committee (KRECO) (once a fortnight).

The Executive Board has delegated its authority to these committees. Members of the Executive Board also participate in these committees. Issues that have such a material impact on the bank's risk profile that they are beyond the mandate of the risk committees are discussed and decided on by the Executive Board or by individual board members participating in the risk committees.

In 2017, members of the Supervisory Board participated in turns in the meetings of these risk committees. Given the bank's size and its range of products and services, it was decided that working with separate risk committees is less effective. Members of the Supervisory Board are now in a better position to make valuable observations, thereby enhancing the quality of the supervision the Supervisory Board provides.

In 2017 Directors of Delta Lloyd Group Audit, Group Integrity, Group Actuarial, Risk Management and the external auditor Ernst & Young Accountants LLP attended the A&RC meetings to discuss the bank's risk topics.

4.6

Every bank shall have a product approval process. The Executive Board shall organise the product approval process and shall be responsible for the process working properly. Products that go through the product approval process at the bank shall not be launched on the market or distributed without careful consideration of the risks by the bank's risk manager and a careful assessment of any other relevant factors, including the duty of care to customers. Based on an annual risk analysis, the internal auditor shall check whether the product approval process has been designed properly, is present and is working effectively, and shall then inform the Executive Board and the relevant Supervisory Board committee (risk committee or similar committee) about the results.

Application

Delta Lloyd Bank applied this principle. To facilitate the development of new products, the bank had a product approval and review (PAR) process in place, as described in principle 4.5 of the Banking Code. The Executive Board is responsible for the proper implementation and functioning of the PAR process. This process requires all new products and all communication and advertising materials to be reviewed by such departments as Legal, Compliance, Risk Management and Finance, while the internal audit function checks whether it has been correctly set up and all the relevant departments that should supply information are involved. In 2017, some existing products were reviewed once again. The PAR process always pays explicit attention to customer interests. Key elements in the decision-making process are the quality of the products and the careful and balanced provision of information to customers. Product documentation must be complete, easy to understand and access.

5 Audits

5.1

The Executive Board shall ensure that a systematic audit is conducted of the management of the risks related to the bank's business activities.

Application

Delta Lloyd Bank applied this principle. Delta Lloyd Bank made use of the internal audit function of Delta Lloyd Group i.e. CAS/Group Audit of Nationale-Nederlanden Group (CAS NN Group). CAS NN Group staff report to the General Manager of CAS NN Group, who reports directly to the chairman of the Management Board of NN Group and functionally to the Supervisory Board of NN Group. Respective audits for NN Bank specific are also reported to the Management Board and the Supervisory Board of NN Bank.

The internal audit function has prepared a yearly risk based audit plan for Delta Lloyd Bank which was presented to the Executive Board of Delta Lloyd Bank and subsequently to the Audit and Risk Committee of the Supervisory Board of Delta Lloyd Bank for review and approval. The realisation of the plan, both in process of execution as in findings, was periodically discussed with and reported to these bodies.

Within NN results of respective audits are discussed with the Management Board of NN Group and the Audit Committee of the Supervisory Board of NN Group on an individual basis when so escalated and on aggregated level via quarterly reporting.

The yearly risk based audit plan for Delta Lloyd Bank was incorporated into the yearly risk based audit plan for Delta Lloyd Group. This audit plan was presented to the Executive Board and then to the Audit Committee of the Supervisory Board of Delta Lloyd for review and approval.

Application

The yearly risk based audit plan for NN Bank is discussed with the Management Board and the Supervisory Board of NN Bank prior to its finalisation. CAS NN Group informs the Supervisory Board of NN Bank on its progress regarding the audit plan, key audit findings and changes to the audit plan. Results of respective audits for NN Bank specific are reported to the Management Board and the Supervisory Board of NN Bank.

Within Delta Lloyd the realisation of the audit plan, both in process of execution as in findings, was periodically discussed with and reported to the respective boards. Results of audits were discussed with the Executive Board and the Audit Committee of the Supervisory Board of Delta Lloyd on an individual basis when so escalated and on aggregated level via quarterly reporting.

Executive Board of Delta Lloyd Bank could issue specific requests for audits. These requests were assessed by the Director of Group Audit, who decided whether the request can be honoured. In case the Executive Board of Delta Lloyd Bank disagreed with the decision of the Director of Group Audit, the matter would be discussed between the Executive Board of Delta Lloyd Bank, Director of Group Audit and the "Portefeuillehouder RvB". In second instance the matter would be discussed with the CEO of Delta Lloyd Group. If this still does not lead to an acceptable solution, as far as the Executive Board of Delta Lloyd Bank was concerned, the Executive Board had the right to outsource the specific audit to an external auditor at its choice.

5.2

Each bank shall have its own internal auditor who shall occupy an independent position within the bank. The head of the internal audit team shall present a report to the chairman of the Executive Board and shall report to the chairman of the audit committee.

Application

Delta Lloyd Bank applied this principle. The bank used the internal audit function of Delta Lloyd and later in 2017 of NN Group. Delta Lloyd Group Audit had an independent position within the organisation. Its staff report to the Director Group Audit, who reports directly to the chairman of the Executive Board of Delta Lloyd and functionally to the chairman of the Audit Committee of Delta Lloyd. The respective audits of Delta Lloyd Bank specifically are also reported to the bank's Executive Board and its Supervisory Board.

5.3

The internal auditor shall be tasked with assessing whether the internal control measures have been designed properly, are present and are working effectively. This assessment shall include the quality and effectiveness of the system of governance, risk management and the bank's control procedures. The internal auditor shall report their findings to the Executive Board and the audit committee.

Application

Delta Lloyd Bank applied this principle. The bank used the internal audit function of Delta Lloyd and later in 2017 of NN Group. The Group Audit Charter defines the mandate for the internal audit function and states that both the design and operating effectiveness of internal controls should be assessed. This assessment includes the quality and effectiveness of the system of governance, risk management and the bank's control procedures. Delta Lloyd Group Audit reports the findings and the overall level of control to such parties as the Executive Board and the Audit Committee of Delta Lloyd. The findings for and overall level of control at Delta Lloyd Bank are reported to such parties as the bank's Executive Board and its Supervisory Board.

5.4

The internal auditor, the external auditor and the Supervisory Board's risk committee and/or audit committee shall consult periodically on such matters as the risk analysis and the audit plan of both the internal auditor and the external auditor.

Application

Delta Lloyd Bank applied this principle. The bank uses of the internal audit function of Delta Lloyd Group i.e. NN Group. Delta Lloyd Group Audit i.e. CAS NN Group prepares and discusses its risk analysis and audit plan with the Executive Board and the Audit Committee of the Supervisory Board of Delta Lloyd Bank, the external auditor and with DNB's chief regulator as well as other relevant in- and external stakeholders. Delta Lloyd Group Audit i.e. CAS NN Group subsequently periodically exchanges information between these stakeholders in order to update its risk analysis and audit plan. Furthermore, Delta Lloyd Group Audit i.e. CAS NN Group also attends meetings of the Executive Board and the Audit Committee of the Supervisory Board of Delta Lloyd, when external auditor matters are discussed. The annual risk analysis and audit plan for Delta Lloyd Bank was incorporated in the yearly risk analysis and audit plan for Delta Lloyd Group and discussed with the Executive Board, the Audit Committee of the Supervisory Board and the external auditor of Delta Lloyd Group.

Ernst & Young Accountants LLP are Delta Lloyd Bank's external auditor for the year 2017. They attended two A&RC meetings in 2017. The external auditor and the internal audit function maintained regular contact and exchange information. The Director of the Internal Audit Department reports to the chairmen of the Executive Board and the A&RC directly every quarter. The directors of Delta Lloyd Group Audit, Group Integrity, Group Actuarial and Risk Management attended the A&RC meetings in 2017 where accounting matters were discussed, as did the external auditor Ernst & Young Accountants LLP.

5.5

As part of the general audit assignment for the financial statements, the external auditor shall produce a report for the Executive Board and the Supervisory Board which shall contain the external auditor's findings concerning the quality and effectiveness of the system of governance, risk management and the bank's control procedures.

Application

Delta Lloyd Bank applied this principle. The external auditor issued annually a management letter and an audit report to the Executive Board and the Supervisory Board, which included relevant findings relating to governance, risk management and control procedures. Delta Lloyd Group Audit and the external auditor shared information on the risk assessments and the audit plan. Delta Lloyd Group Audit i.e. CAS NN Group also shared its audit reports with the external auditor.

5.6

The internal auditor shall arrange a meeting with DNB and the external auditor at least once a year to discuss each other's risk analysis and findings and each other's audit plan at an early stage. The bank's Executive Board and internal audit department will encourage these tripartite talks, aiming for a clear delineation of each other's duties and responsibilities.

Application

Delta Lloyd Bank applied this principle. In 2017, a tripartite consultation was held between DNB, the bank's Executive Board and the external auditor in the presence of the internal auditors. The focus of this meeting lay on sharing and discussing the bank's risk assessments, the audit plan, the most important audit findings, reports from Delta Lloyd Group Audit and the external auditor's management letters. There has been an in-depth discussion of other selected topics as well.

The bank's Legal, Compliance and Risk Management departments also provided the Executive Board and the Supervisory Board with reports on identified risks and findings.

6 Remuneration policy

6.1 Basis

6.1.1

The bank shall implement a meticulous, restrained and long-term remuneration policy that is in line with its strategy and risk appetite, objectives and values, taking into account the long-term interests of the bank, the relevant international context and wider societal acceptance. The Supervisory Board and the Executive Board shall take this into account when performing their duties in relation to the remuneration policy.

Application

Delta Lloyd Bank applied this principle. The remuneration policies of Delta Lloyd take into account all applicable regulations and codes. Delta Lloyd applied a meticulous, restrained and long-term remuneration policy. Responsibility for the adoption of the remuneration policy to be pursued rests with Delta Lloyd’s Executive Board. Delta Lloyd’s Supervisory Board has approved the remuneration policy and checked that it is in keeping with the risk management policy and fulfils the Governance Principles. This policy has been in line with the strategy and core values of Delta Lloyd. It is also in keeping with the risk appetite and is characterised by the attention given to all the company’s stakeholders: customers, employees, shareholders and society at large. The remuneration policy has been assessed by Group Integrity and Group Audit. The Remuneration Policy Governance Committee has monitored the remuneration policy and reports on this to the Executive Board and the Remuneration Committee of the Supervisory Board.

6.2 Governance

6.2.1

a. The Supervisory Board shall be responsible for the implementation and evaluation of the remuneration policy adopted with regard to the members of the Executive Board.

Application

As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd’s remuneration policies. Delta Lloyd’s Supervisory Board approved these policies, which include the remuneration policy for senior management and the general remuneration principles for all staff. Delta Lloyd’s Supervisory Board reviewed the remuneration policies as well as the enforcement thereof.

The policies included provisions on clawback, hold-back, severance payments and retention payments. Delta Lloyd’s Supervisory Board reviews material retention payments, exit and welcome packages to assess whether they are consistent with the policies and to ensure that they are not excessive.

b. The Supervisory Board also approves the remuneration policy for senior management and oversees its implementation by the Executive Board.

Application See 6.2.1.a

c. The Supervisory Board also approves the principles of the remuneration policy for other bank employees.

Application See 6.2.1.a

d. The bank’s remuneration policy shall also comprise a policy on awarding retention, exit and welcome packages.

Application See 6.2.1.a

6.2.2

a. The Supervisory Board shall discuss the highest variable incomes at the bank every year.

Application

Every year, the Supervisory Board of Delta Lloyd Bank discussed whether variable incomes are consistent with Delta Lloyd’s remuneration policies, paying special attention to the highest variable incomes.

b. The Supervisory Board shall ensure that the Executive Board assesses whether variable incomes are consistent with the remuneration policy adopted by the bank, and in particular whether they comply with the principles set out in this section.

Application See 6.2.2.a

c. The Supervisory Board shall also discuss material retention, exit and welcome packages, assess whether they are consistent with the remuneration policy adopted by the bank and ensure that these packages are not excessive.

Application See 6.2.2.a

6.3.1

The total income of a member of the Executive Board shall be in reasonable proportion to the remuneration policy adopted by the bank. When their total income is decided, it shall be slightly below the average level of comparable positions in the relevant markets both inside and outside the financial sector. The relevant international context shall play a major factor.

Application
As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd’s remuneration policies. These policies reflect this principle. The remuneration of the bank’s Executive Board was in line with these remuneration policies.

6.3.2

In the event of dismissal, remuneration may not exceed one year’s salary, i.e. the ‘fixed’ remuneration component. If the maximum of one year’s salary would be manifestly unreasonable for an Executive Board member who is dismissed during their first term in office, then that board member shall be eligible for severance pay not exceeding twice their annual salary.

Application
As a subsidiary of Delta Lloyd, Delta Lloyd Bank applied this principle. The remuneration policy that applies to the bank’s Executive Board did fully comply with the criteria laid down in this principle.

6.3.3

When variable remuneration is awarded to the Executive Board, the long-term component shall be taken into account as well as the profitability and/or continuity of the bank, and a material part of the variable remuneration shall be conditional and shall not be paid until at least three years have passed.

Application
Delta Lloyd Bank applied this principle. As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd’s remuneration policies. The performance targets set for the members of the bank’s Executive Board did reflect the focus on the long-term interest and continuity of the company. The variable compensation for members of the bank’s Executive Board depended on said members meeting their performance targets.

6.3.4

Shares granted to Executive Board members without financial consideration shall be retained for a period of at least five years or at least until the end of the employment, if this period is shorter. If options are granted, they shall, in any event, not be exercised in the first three years after the date on which they were awarded.

Application
Delta Lloyd Bank applied this principle. As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd’s remuneration policies, which also apply to all senior management.

6.4 Variable remuneration

6.4.1

The allocation of variable remuneration shall be related to the bank's long-term objectives.

Application

Delta Lloyd Bank applied this principle. As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd's remuneration policies. Variable remuneration was determined by performance objectives, which include long-term objectives. In addition, a significant part of the variable compensation for the bank's Executive Board is long-term in nature.

6.4.2

Every bank shall set a maximum ratio of variable remuneration to fixed salary that is appropriate for the bank in question. The variable remuneration per annum of members of the Executive Board shall not exceed 100% of the member's fixed income.

Application

Delta Lloyd Bank applied this principle. The variable remuneration per annum of members of the bank's Executive Board did not exceed 100% of the fixed income. For the rest of the organisation, a maximum ratio for fixed and variable remuneration applies, while for the vast majority of the bank's employees, a collective labour agreement applies.

6.4.3

Variable remuneration shall be based on the performances of the individual, their part of the business and the performance of the bank as a whole according to pre-determined and assessable performance criteria. In addition to financial performance criteria, non-financial performance criteria shall also be considered in the assessment of the individual. Performance criteria shall be defined in terms that are as objective as possible in the bank's remuneration policy.

Application

Delta Lloyd Bank applied this principle. As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd's remuneration policies applicable to all staff. Delta Lloyd Bank's Supervisory Board was not involved in this process.

6.4.4

When performances are assessed based on the pre-determined performance criteria, financial performances shall be adjusted to allow for estimated risks and capital costs.

Application

Delta Lloyd Bank applied this principle. As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd's remuneration policies. Employees' individual performances were assessed based on pre-determined performance criteria. The assessment of the performance objectives of the members of the Executive Board could lead to a downward adjustment of their remuneration. Delta Lloyd Bank's Supervisory Board was not involved in this process.

6.4.5

In exceptional circumstances – for example, if the application of the pre-determined performance criteria would result in an unwanted variable remuneration for a member of the Executive Board – the Supervisory Board shall have the discretionary power to adjust the variable remuneration if, in its opinion, this remuneration would have unfair or unintended effects.

Application

Delta Lloyd Bank applied this principle. As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd's remuneration policies. Delta Lloyd Bank's Supervisory Board was not involved in this process.

6.4.6

The Supervisory Board shall be authorised to reclaim variable remuneration allocated to a member of the Executive Board based on inaccurate data, regardless of whether the inaccurate data is financial in nature or not.

Application

Delta Lloyd Bank applied this principle. As a subsidiary of Delta Lloyd, Delta Lloyd Bank was subject to Delta Lloyd's remuneration policies. Delta Lloyd Bank's Supervisory Board was not involved in this process.