

## Nationale-Nederlanden Bank N.V.

# Application of the Banking Code by Nationale-Nederlanden Bank 2017

Legal & Compliance NN Bank

**Abstract:**

This document contains a description of the way Nationale-Nederlanden Bank complies with the Banking Code

© Nationale-Nederlanden Bank N.V., 2018

This document may not be distributed outside NN Bank in any way without prior written consent of the Legal and Compliance Department NN Bank.

# Contents

|  | <b>pagina</b> |
|--|---------------|
| Introduction   | 3             |
| <b>1. Controlled and ethical conduct of business</b> | <b>3</b>      |
| <b>2. Supervisory Board</b>                          | <b>8</b>      |
| <b>3. Board of Directors</b>                         | <b>10</b>     |
| <b>4. Risk policy</b>                                | <b>11</b>     |
| <b>5. Audit</b>                                      | <b>14</b>     |
| <b>6. Remuneration Policy</b>                        | <b>15</b>     |

## Introduction

The Banking Code was introduced in 2010 as a form of self-regulation by the Netherlands Bankers' Association in order to commit member banks to and to account for treating their customers with care while balancing the interests of their various stakeholders. The code has played a significant role since its introduction. Many of its principles on the Supervisory Board, the Management Board, risk management, audit and remuneration policy have since been incorporated into legislation. In 2015, the 2010 Banking Code was replaced by a new and updated Banking Code which is in effect today.

Nationale-Nederlanden Bank N.V. (hereinafter: 'NN Bank') is a member of the Netherlands Bankers' Association and endorses the Banking Code principles. As part of NN Group N.V. (hereinafter: 'NN Group'), NN Bank has taken the NN Group context into account, when applying the principles of the Banking Code. In this Booklet, Nationale-Nederlanden Bank reports on application of the Banking Code in 2017.

## 1. Controlled and ethical conduct of business

### BANKING CODE

To build and maintain its position as a stable and reliable partner, a bank must formulate its mission, strategy and objectives. These focus on the long term and are expressed in part in the bank's risk policy and the policy for sustainability and corporate social responsibility. A bank chooses its position such 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.

NN Bank complies with the principles as stated above.

NN Bank's purpose is to help retail customers secure their financial future in a sustainable way. We want to help them to manage and protect their assets and income through mortgage loans, (internet) savings, bank annuities, consumer lending and investments services.

In addition, NN Bank also provides mortgage portfolio administration and management services to a number of NN group companies, NNIP's Dutch Residential Mortgage Fund and to third parties.

NN Bank wants to help people secure their financial futures based on great service and long-term relationships. NN Bank offers customers value for money and an experience that is straight forward, personal and caring. NN Bank creates transparent, easy-to-understand products, and empowers its customers with the knowledge and tools they need to make sound financial decisions.

In addition, NN Bank aims to be personal and relevant in every customer contact. NN Bank strives to create an excellent experience in which the customer feels recognised and understood. In 2017, developing digital self-service processes was one of NN Bank's priorities. By incorporating more self-service processes into the digital customer environments (online and app), it is easier for customers to manage their financial transactions themselves. This resulted in increased customer satisfaction and reduced customer service costs.

Furthermore, NN Bank offered Next Best Actions (relevant service and commercial signals) to Savings, Investments and Mortgage customers and many customer journey related processes were (re)designed or improved. This leads to detailed customer insights for NN Bank and helps to improve the customer experience, which fits customer needs.

All the efforts in 2017 have improved NN Bank's customer's experience and led to an increase in our Net Promoter Score (NPS).

To fulfil NN Bank's purpose, NN Bank bases its work on three core values: 'care, clear, commit'. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us and they are brought to life through our day-to-day work. These values, which are published under the title 'NN statement of Living our Values', set the standard for conduct and provide a compass for decision making. Every single NN Bank employee is responsible and accountable for living up to these values. More information is available in the 'Who we are' section of [www.nn-group.com](http://www.nn-group.com).

Our strategy is to truly matter in the lives of our customers. We want to deliver digital, personal and relevant services. We achieve this by being personal and relevant in every customer contact. A convenient and increasingly digital customer process supports this. Clearly refining our strategy for the future will help ensure that we continue to create value for our stakeholders: customers, shareholders, employees, business partners and society at large. NN Group's strategic priorities are:

- disciplined capital allocation
- innovate our business and industry
- agile and cost efficient operating model
- value added products and services.

For further information see the Strategy section in the Annual Report 2017.

At NN Bank, we aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of society at large, and supporting the communities in which we operate.

NN Bank contributes to society by purchasing goods and services from local suppliers, as well as by managing our direct environmental footprint. Our values guide us in fulfilling our role as a good corporate citizen.

We are building a company that truly matters to our stakeholders. We take our role in society and our approach to sustainability very seriously. We will continue to focus on improving people's financial well-being and managing the assets entrusted to us by our customers, as well as our own assets, in a responsible way. Embedding a sustainable role in society remains an important priority in NN's core activities and processes. This entails, amongst other things, offering products and services that are suitable, transparent and contribute to the financial well-being of our customers. At NN Bank, we strive to help people in financial distress, so they can stay in their own homes as long as reasonably possible. In order to do so, we analyse the customer's situation to define where we can help best. This includes coaching and tools intended to generate more income, cut expenses, reduce monthly mortgage costs or a combination of these.

Proposals for the meeting of the Management Board should show customers and other stakeholders interests have been taken into account, confirm that it is consistent with the letter and intent of the NN

Statement of Living our Values and how it contributes to the NN Bank strategic themes.

NN Bank is part of NN Group. NN Group is a significant investor in a large number of countries, industries and companies. NN takes its responsibility as a capital provider seriously. This means NN integrates environmental, social and governance (ESG) factors into its investment process. A responsible approach to investment helps NN to meet commitments to policyholders and other customers.

NN aims to effectively manage its environmental footprint by reducing the use of natural resources, seeking green alternatives and compensating for the remainder of our carbon emissions. Making responsible choices in our procurement contributes to this.

NN considers it vital to the success of the company to foster an open, safe, inclusive and stimulating working environment for all its employees.

Like every other business, NN aims to be profitable, but at the same time NN has a responsibility to be a good corporate citizen. This role gives the company a broader sense of purpose. By aligning its business and community investment objectives NN can support people in finding their way towards a financially strong and secure future.

In NN's view, art and culture make important contributions to our quality of life, which is why NN actively seeks to promote art and culture in a variety of ways. The goal is to make art more accessible for people of all ages and backgrounds.

To underline its ambition NN is a member of various national and international organisations and endorses several initiatives.

For more information regarding NN's role in society, please refer to <https://www.nn-group.com/In-society.htm>

#### **BANKING CODE**

The Management Board and Supervisory Board are – with due regard to their individual tasks and authorities – responsible for setting up a sound governance structure and compliance with the governance principles. The members of these boards will set an example to all of the bank's employees and exhibit this in their day-to-day activities. The Supervisory Board will evaluate the way the members of the Management Board are setting an example each year.

NN Bank partly complies with the principles as stated above.

NN Bank has a two-tiered board system, consisting of a Supervisory Board and a Management Board. The Supervisory Board supervises the policy of the Management Board and the general course of events in the company and assists the Management Board by providing advice. The Management Board is responsible for the daily management of the company.

NN Bank aims to have an appropriate and balanced composition of the Management Board and Supervisory Board of NN Bank ('Boards'). Thereto the Supervisory Board assesses the composition and the functioning of the Boards as well as the functioning of the individual members of the Boards. For the year 2017 it has been decided not to perform such an assessment because of the amendment in composition of the Supervisory Board due to the merger with Delta Lloyd Bank.

The Management Board has delegated a number of activities to specific committees within NN Bank. These committees have an advisory role to the Management Board or have been granted delegated authority. Most of the committees are chaired by a member of the Management Board and have one or more member(s) of the Management Board as a member. The Management Board remains ultimately responsible for policy regarding, and management of, all NN Bank's risks.

#### **BANKING CODE**

The Management Board and Supervisory Board are – with due regard for each other's duties and powers – responsible for developing, communicating and enforcing standards on integrity, morals and leadership in the bank. In addition, they ensure there are proper checks and balances and they safeguard a solid IT infrastructure that is vital for the functioning of the bank. Among other things, thorough checks and balances mean that the compliance function is also safeguarded within the Management Board and Supervisory Board.

NN Bank complies with the principles as stated above.

All employees of NN Bank took the Banking Oath and adhere to the Disciplinary Law. For new employees an ongoing program is in place for them to take the oath when starting at NN Bank. NN Bank embraces the NN Statement of Living Our Values, in which we make a promise to our customers about how we work. The values are based on the company's roots, heritage and common purpose: we care, we commit and we are clear.

All individual employees of NN Bank must observe the NN Group General Code of Conduct and the NN statement of Living our Values. All staff received an awareness training in light of the introduction of the new NN Group General Code of Conduct. The Code provides employees with a comprehensive set of principles and rules that guide employees in their day-to-day operations. To comply with the Code of Conduct is a necessity to ensure that NN acts with a high level of integrity, in accordance with external regulation and in the interest of our clients. The training focuses on raising awareness on the required behaviour of staff in relation to these principles and regulations.

NN Bank expects exemplary behaviour from its entire staff, irrespective of their job function. Needless to say, effective business contacts, both within and outside NN, are to be based on honesty, integrity and fairness. NN Group's General Code of Conduct also includes a whistle-blower procedure. This procedure ensures anonymity when reporting irregularities, including violations of laws and regulations.

The three lines of defence model on which NN Bank's risk management structure and governance, as well as the IT structure is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities, and oversight responsibilities. This framework ensures that risk is managed in line with the risk appetite as defined by the Management Board, ratified by the Supervisory Board, and that it is consistent with the risk appetite of NN Group:

- First line of defence: NN Bank Business Management has primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their business
- Second line of defence: The CRO steers a functional independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted of excessive risk. An independent Legal & Compliance departments is in place.
- Third line of defence: Corporate Audit Services (CAS) offers an independent assessment of the standard of internal control with respect to NN Bank's business and support processes, including governance, risk management and internal controls

NN Bank has an independent compliance function. The compliance function supports and advises the Board on how to comply with the relevant compliance-related laws, regulations, internal policy, procedures, customer suitability and other ethical standards, and ensures that this is done. The department reports to the CEO. The Compliance department can issue reports to the Supervisory Board at request or on its own account. Furthermore, the head of Legal & Compliance participates as member of the following mandated committees of NN Bank: Non-Financial Risk Committee, Crisis Steering Committee, Product Approval & Review Committee and the Disclosure Committee and acts as secretary to the Supervisory Board.

Information Technology is vital for the functioning of the bank. Therefore NN Bank in 2017 continued putting enormous effort and attention in ensuring and improving the availability, security and resilience of our IT infrastructure. This applies to perpetuating and improving the policies and standards, processes and way of working (Agile, DevOps, Continuous Delivery), craftsmanship of IT employees (cyber security, automating IT processes) and renewal of the applications and infrastructure (SaaS (Software

as a Service), IaaS (Infrastructure as a Service)). The combination of efforts enabled us to improve the quality and agility of services delivered to our customers.

#### **BANKING CODE**

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

NN Bank complies with the principles as stated above.

The NN Group corporate values form a key component in NN Bank's approach towards customer centricity. NN Bank focuses on delivering a personal, relevant and digital customer experience. In order to do so, customer process redesign, digitalisation and innovation remain key for NN Bank.

In order to promote responsible behaviour and a healthy culture, several initiatives were taken and continued:

- Proposals for the meeting of the Management Board should show that customers and other stakeholders interests have been taken into account, confirm that it is consistent with the letter and intent of the NN Statement of Living our Values and how it contributes to the NN Bank strategic themes
- One-pagers (so called "praatplaten") were developed to explain the strategy and to give quarterly updates in a simplified way. On the basis of these one-pagers, the CEO gave quarterly updates to employees.
- Hello You initiatives were taken regarding the merger with and integration of Delta Lloyd Bank in order to communicate on a regular basis to employees about the plans of the merger in order to minimise the amount of uncertainty and to create engagement. Examples of these initiatives include Hello You vlogs by the CEO, Hello You meeting breaks by the CTO in the four locations, 5 question blogs by MT-members and lunch dialogues for employees by MT Bank.
- In order to create awareness, on regular basis a MT-member and/or senior employee is invited to blog about risk related topics and how to minimize them
- Regularly employees are interviewed on the intranet page about how they have taken care of an individual case and/or improvements of customer services

## **BANKING CODE**

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

NN Bank complies with the principles as stated above.

The principles of the Social Charter have been secured in the NN Bank organisation and NN Bank also engages them in contacts with its stakeholders:

- Offering choices to customers: NN Bank offers various products to its customers: mortgages, savings products, bank annuity savings products, investments services and consumer lending products. The broad range of products and, where applicable, product features, allow our customers to make choices on what suits best for their individual situation. NN Bank distributes its products and services to customers in a multichannel way; through partnership with an extensive independent broker network, NN Bank's own financial and mortgage advisors, our call centres and our online channel.
- Banks are trustworthy, serviceable and transparent: NN Bank offers transparent products and services which are subject to a rigorous Product Approval and Review Process (PARP). All communication towards customers is subject to a separate Communications Approval Process (CAP). In both the PARP and CAP various departments including Compliance and Legal, are represented to make sure that the products and communication are easy to understand, transparent and comply with Wft (Financial Supervision Act) regulations.
- Bank employees show integrity, professional behaviour and expertise: NN Bank implemented the Banking Oath and Disciplinary Law. In addition, new employees are being screened and need to have a certificate of good conduct. NN Bank makes sure that employees maintain and update the needed expertise and knowledge. For example, sales and call personnel follow mandatory training and the Management Board and the Supervisory Board attend permanent education programmes for board members.
- From a social responsibility perspective, banks contribute to a sustainable economy: At NN Group,

we are committed to improving people's financial well-being, and to responsibly managing the assets entrusted to us by our customers, as well as our own assets. We aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of the broader society and supporting the communities in which we operate. NN contributes to the broader society through investment in our local communities, purchasing goods and services from local suppliers and managing our direct environmental footprint. Our values guide us in fulfilling our role as a good corporate citizen. Embedding a sustainable role in society remains an important priority in NN's core activities and processes. This entails, amongst other things, offering products and services that are suitable, transparent and contribute to the financial well-being of our customers. At NN Bank, we strive to help people in financial distress, so they can stay in their own homes as long as reasonably possible. We redefined our policies from a customer-centric point of view, including grace periods, interest holidays, budget coaching and the use of early warnings to get in touch with our customers in the earliest stage of their difficulty. Free personal and mortgage restructuring advice can be offered to customers in difficulty. In terms of financial education, many NN Bank employees visited primary schools in the 'Week van het Geld' (Money Week), providing a guest lesson on money and risks. Furthermore, employees participated in an initiative of JINC (an organisation which helps young people between 8 and 16 years of age to a good start in the labour market) about managing a job application process.

## **BANKING CODE**

All employees will comply with the formal regulations and self-regulations that apply to them. The Management Board and the Supervisory Board are – with due regard for each other's duties and powers – responsible for this. The Management 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.

NN Bank complies with the principles as stated above.

Good compliance helps us to live up to our purpose, our strategy and our values because it builds trust and protects our brand. It helps us to meet our compliance obligations and to protect NN from loss or reputational damage. It improves the way we do business for our stakeholders. It is vital for sustainable business and it is our license to operate.

NN Bank employees must comply to all relevant laws, regulations and self-regulations that apply to NN Bank as a result of our banking license and the activities we undertake thereunder.

Also there are many NN Group Policies and Standards with which NN Bank employees must not only be familiar, but must also comply to. Part of these Policies and Standards are compliance related, such as competition law, outside positions or financial economic crime, but others relate to a range of other topics, like (non-exhaustive) fraud, IT, financial accounting, information security, cyber security, model risk modelling and model validation, risk reporting, asset and liability management, human resources, brand management, business continuity and outsourcing.

A basic and elementary understanding of the necessity of such laws, rules, values and standards that apply to banks must be present at entry levels for anyone to be hired by the bank. And for more specialised functions within the bank, candidates must show to have the necessary education and experience, which includes basic knowledge of the laws, rules, values and standards that are part of one's profession and job-function. HR recruitment and selection is therefore a strong tool for management to create favourable conditions in order to realise compliance with all applicable laws and company Policies and Standards.

In their day to day management it is the senior management of NN Bank, steered by the Management Board, who take the necessary decisions and set priorities to enable each employee to familiarize himself with the Policies and Standards, to undertake mandatory permanent education, and to work with processes that have due regard to the laws, rules and standards. We apply learning on the job, supervision of junior staff by senior staff, key control testing, four eyes controls, team meetings, e-learning, information and training sessions, and budget to follow external trainings or seminars.

Furthermore second line of defence functions are involved by developing fit-for-purpose local policies and guidance. They are also involved in explaining the laws, rules, values and standards to management and employees. On occasion they provide training or give input to training materials developed by others.

## 2. Supervisory Board

### BANKING CODE

The Supervisory Board will be composed in such a way that it is able to perform its task properly. It will form a risk committee and an audit committee. The members of the Supervisory Board will be prepared and able to make sufficient time available for their duties and exhibit effort and commitment. They will at the same time be critical and independent.

NN Bank partly complies with the principles as stated above.

The members are sufficiently available and accessible to perform their tasks properly. The Supervisory Board members have proven to be quickly available for consultation if needed.

NN Bank aims to have an appropriate and balanced composition of the Supervisory Board. Thereto, every year, the Supervisory Board assesses the composition of the Supervisory Board and its individual members. An element that contributes to the balanced composition of the Supervisory Board is related to the fact that the Supervisory Board is composed of independent or outside members, as well as members having other functions within NN Group.

In 2017, the Supervisory Board was extended by one permanent member. In 2017 it was also decided to amend the composition of the Supervisory Board to reflect the combined bank after the merger with Delta Lloyd Bank as per 1 January 18. After assessments, the regulator has approved the new composition.

NN Bank does not have a separate risk committee nor a separate audit committee. The activities of an audit committee are performed by the Supervisory Board as

a whole. In 2017, these activities included discussions about the quarterly results, the reports of the internal audit committee of NN Bank and regulatory matters. The Long Term Forecast, the funding plan and the capital plan were also topics of debate during the year. The activities of the Supervisory Board as audit committee also include discussions about the Annual Report of NN Bank, reports from Corporate Audit Services NN Group (CAS NN Group), financial reporting and internal controls over financial reporting.

At each meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed in detail, as well as the risk appetite statements. Annually, the ICAAP and ILAAP (including stress test scenarios) are discussed.

#### **BANKING CODE**

Each member of the Supervisory Board will be aware of the social role of a bank and of the interests of the various stakeholders. There are specific competence and requirements for members of the Supervisory Board's risk and audit committees. Members of the risk committee must have thorough knowledge of the financial aspects of risk management or the necessary experience to permit a thorough assessment of risks. Members of the audit committee must have thorough knowledge of financial reporting, internal control and audit or the necessary experience to permit thorough supervision of these subjects.

NN Bank complies with the principles as stated above.

This principle is reflected in the charter of the Supervisory Board and in the 'Profielschets Raad van Commissarissen Nationale-Nederlanden Bank N.V.' (Profile of the Supervisory Board Nationale-Nederlanden Bank N.V.).

All members have the expertise to fulfil their role and are aware of the social context in which NN Bank operates. In performing their duty, the Supervisory Board balances the interests of NN Bank and its various stakeholders (including NN Bank's customers and employees). The members of the Supervisory Board combined, have sufficient expertise and experience to permit a thorough assessment of risks, as well as in-depth knowledge of financial reporting, internal control and audit.

#### **BANKING CODE**

The chairman of the Supervisory Board will organise a programme of lifelong learning for all members of the Supervisory Board with the aim of maintaining their expertise at the required level and improving it where necessary. The learning programme will in any event cover relevant developments at the bank and the financial sector, corporate governance in general and in the financial sector in particular, to the duty of care towards customers, integrity, IT infrastructure, risk management, financial reporting and audit. Every member of the Supervisory Board will take part in the programme and meet the requirements for lifelong learning. The assessment of the effectiveness of the programme of lifelong training will be part of the annual evaluation performed by the Supervisory Board.

NN Bank partly complies with the principles as stated above.

This principle is reflected in the charter of the Supervisory Board.

The members of the Management Board and the members of the Supervisory Board take part in the same programme for continuing training.

The members of the Supervisory Board follow a programme of continuing training. In 2017 the programme was partly organized by NN Group and partly by NN Bank.

Furthermore, several individual members followed trainings on an individual basis during the year.

For the year 2017 it has been decided not to perform the annual assessment because of the amendment in composition of the Supervisory Board due to the merger with Delta Lloyd Bank.

#### **BANKING CODE**

In addition to the Supervisory Board's annual self-evaluation, the functioning of the Supervisory Board will be evaluated under independent supervision once every three years. The involvement of each member of the Supervisory Board, the culture within the Supervisory Board and the relationship between the Supervisory Board and the Management Board will be part of this evaluation.

NN Bank did not comply with the principles as stated above.

Every year, the Supervisory Board assesses the composition and the functioning of the Supervisory Board and the Management Board as well as the functioning of the individual members of both Boards. However, for the year 2017 it has been decided not to perform the annual assessment because of the amendment in composition of the Supervisory Board due to the merger with Delta Lloyd Bank.

#### **BANKING CODE**

Each member of the Supervisory Board will receive appropriate compensation for the amount of time that he or she spends on Supervisory Board activities. This compensation will not depend on the bank's results.

NN Bank complies with the principles as stated above.

The charter of the Supervisory Board reflects this principle.

In 2017, only two members of the Supervisory Board (including the chair) received a remuneration for their duties. The remuneration is not dependent on the results of NN Bank.

### **3. Board of Directors**

#### **BANKING CODE**

The Management Board will be composed in such a way that it is able to perform its tasks properly. Each member of the Management Board will be aware of the social role of a bank and of the interests of the various stakeholders.

NN Bank complies with the principles as stated above.

This principle is reflected in the charter of the Management Board. The Management Board is composed in such a way that it is able to perform its tasks properly. The Management Board strives for general agreement among its Members in its decision making.

NN Bank has an experienced Management Board, the members of which have a deep understanding of financial sector and banking in particular. They have a strong view on the role of the bank in society and the interests of all the relevant stakeholders of the bank and share their views both internally and externally.

With regard to the merger between NN Bank and Delta Lloyd Bank, the chair of the Management Board of Delta Lloyd Bank was appointed as Chief Transition Officer of NN Bank as per 1 July 2017.

A Management Team supports the Management Board in its task. Furthermore, the Management Board has set up several committees to which certain tasks are delegated. These committees have an advisory role to the Management Board or have been granted delegated authority. Most of the committees are chaired by a member of the Management Board and have one or more member(s) of the Management Board as a member. The Management Board remains ultimately responsible for policy regarding, and management of, all NN Bank's risks.

#### **BANKING CODE**

One member of the Management Board will have the duty of preparing decision-making by the Management Board on risk management. This member will be involved in good time in the preparation of decisions that are material significance for the bank's risk profile, especially where these decisions may result in a departure from the risk appetite approved of by the Supervisory Board. The 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. Risk management will also include a focus on the impact that systemic risk could have on the bank's risk profile.

NN Bank complies with the principles as stated above.

This principle is reflected in the charter of the Management Board.

NN Bank has a Chief Risk Officer (CRO). The CRO bears primary overall responsibility for the risk management function. The CRO is responsible for the management and control of risk on a consolidated level to ensure that NN Bank's risk profile is consistent with its financial resources and risk appetite.

The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the organisation. The CRO in the Management Board does not combine her role with any other commercial focus area.

Risk management considers the importance of financial stability and the impact that systemic risk may have on the risk profile of NN Bank, e.g. through among others stress test scenarios that incorporate systemic risk for recovery planning purposes.

#### **BANKING CODE**

The chairman of the Management Board will organise a programme of lifelong learning for all members of the Management Board with the aim of maintaining their expertise at the required level and improving it where necessary. The learning programme will in any event cover relevant developments at the bank and the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards customers, integrity, risk management, financial reporting and audit. Every member of the Management Board will take part in the programme and meet the requirements for lifelong learning.

NN Bank complies with the principles as stated above.

This principle is reflected in the charter of the Management Board.

The members of the Management Board follow a programme of continuing training. In 2017 the programme was partly organized by NN Group and partly by NN Bank.

Furthermore, several individual members followed trainings on an individual basis during the year.

## **4. Risk policy**

#### **BANKING CODE**

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

NN Bank complies with the principles as stated above.

NN Bank has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Financial (credit, market and business risks) and non-financial risks (operational, compliance, legal and related second order reputation risks) are monitored. Through its risk management practices, NN Bank seeks to meet its obligations to customers and

creditors, manage its capital efficiently, and comply with applicable laws and regulations. NN Bank's approach to risk management is based on the following components:

- Risk management structure and governance systems: NN Bank's risk management structure and governance systems follow the 'three lines of defence' model, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN Bank's risk management
- Risk management framework: NN Bank's risk management framework takes into account the relevant elements of risk management, including its integration into NN Bank's strategic planning cycle, the management information generated, and a granular risk assessment
- Risk management policies, standards and processes: NN Bank has a comprehensive set of risk management policies, standards and processes, which are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in NN Bank's business and risk profile. These risk management policies, standards and processes apply throughout NN Bank and are used by NN Bank to establish, define, and evaluate NN Bank's risk tolerance levels and risk control processes. They also ensure that the tolerance levels and policies are communicated throughout the organisational structure.

NN Bank's Risk Management Framework comprises a series of sequential steps, through which NN Bank seeks to identify, measure and manage the risks to which it is exposed.

- Objective setting: Business planning and priority-setting is undertaken through an annual long term forecast (LTF) process, which is aligned with NN Bank's internal capital adequacy assessment process (ICAAP) and liquidity adequacy assessment process (ILAAP). These processes regulate risk appetite and provide input that helps to steer strategic direction. NN Bank establishes strategic objectives. Those strategic objectives are used to establish and define NN Bank's risk appetite, which consist of quantitative and qualitative statements defining those risks NN Bank wishes to acquire, to avoid, to retain and/or to remove.
- Event identification: NN Bank identifies events that may potentially impact its risk position, recognising that uncertainties exist, and that NN Bank cannot know with certainty which events will occur and

when, or what the outcome or impact would be if they did occur. As part of event identification, NN Bank considers both external and internal factors that affect event occurrence. External factors include economic, business, natural environment, political, demographic, social and technological factors. Internal factors reflect NN Bank's choices and concern such matters as infrastructure, personnel, process and technology.

- Risk assessment: NN Bank considers how events identified in the previous step might affect the achievement of its strategic objectives. Key risks are assessed on a regular basis and, where appropriate, this analysis is supported by models. NN Bank conducts regular assessments of its key risks.
- Risk response and control: Once a risk is assessed, NN Bank identifies potential responses to those risks and analyses the mitigating impact of those responses. Taking into account the risk tolerances set out in the Risk Appetite Framework, NN Bank designs its response for each assessed risk. Risk and control activities are performed throughout NN Bank.
- Information and communication: Communication of information is a key part of NN Bank's risk management framework. Risk management officers, departments, and committees within NN Bank are informed regularly of NN Bank's position compared to its strategic objectives and its risk appetite to enable them to monitor developments and to take timely appropriate decisions. Comprehensive reports on NN Bank's financial and non-financial risks are prepared and discussed on a monthly basis.
- Monitoring: The effectiveness of NN Bank's risk management itself is also monitored. Regular monitoring ensures that risk management is maintained within NN Bank and is carried out by all three lines of defence.

#### **BANKING CODE**

A bank's Management Board will be responsible for its risk policy and ensure proper risk management.

NN Bank complies with the principles as stated above.

This principle is reflected in the charter of the Management Board.

The Management Board determined the risk profile, risk appetite and risk policy. The risk profile

and corresponding appetite was approved by the Supervisory Board. At each regular meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed in detail, as well as the Risk Appetite Statements. During the December meeting, the Supervisory Board discussed more in depth the Compliance and Legal risks with the head of Legal & Compliance. The recovery plan, ICAAP and ILAAP (including the stress test scenarios) are discussed annually.

Furthermore, the principle is embedded in the risk policies and the processes within NN Bank. NN Bank has various risk committees in place that periodically meet and where risks are addressed:

- The Non-Financial Risk Committee
- The Asset Liability Committee
- The Credit Risk Committee

The Management Board has delegated its authority to the various committees, in which members of the Management Board also participate.

Issues, that have such a material impact on the risk profile that they are beyond the mandate of the risk committees, are discussed and decided upon in the Management Board.

**BANKING CODE**

The Management Board will 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 will also require the Supervisory Board's approval.

NN Bank complies with the principles as stated above.

This principle is reflected in the charter of the Management Board.

The Management Board determined the risk profile, risk appetite and risk policy. The risk profile and corresponding appetite was approved by the Supervisory Board. At each regular meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed in detail, as well as the Risk Appetite Statements. The recovery plan, ICAAP and ILAAP (including the stress test scenarios) are discussed annually.

**BANKING CODE**

The Supervisory Board will supervise the risk policy pursued by the Management Board. As part of its supervision, the Supervisory Board will discuss the bank's risk profile and assess at a strategic level whether capital allocation and liquidity requirements are generally in line with the approved risk appetite and whether operations in general are in line with the bank's risk appetite. In the performance of this supervisory role, the Supervisory Board will be advised by its risk committee.

NN Bank partly complies with the principles as stated above.

This principle is reflected in the charter of the Supervisory Board.

The Management Board determined the risk profile, risk appetite and risk policy. The risk profile and corresponding appetite were approved by the Supervisory Board.

NN Bank does not have a separate risk committee. The activities of a risk committee are performed by the Supervisory Board as a whole. At each regular meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed in detail, as well as the Risk Appetite Statements. Part of the discussion is a comparison of the actual risk profile versus the approved risk appetite. Also in each meeting updates of the Capital , Funding and Liquidity Plans are discussed. The recovery plan, ICAAP and ILAAP (including the stress test scenarios) are discussed annually.

## 5. Audit

### BANKING CODE

A bank's Management Board will ensure systematic audit is conducted of the management of the risks related to the bank's operations. To this end, a bank will have its own internal audit department with an independent position within the bank. The head of the internal audit department will report to the chairman of the Management Board and also have a direct reporting line to the chairman of the Supervisory Board's audit committee.

NN Bank complies with the principles as stated above.

NN Bank makes use of the internal audit function of NN Group. CAS NN Group is independently positioned within the organisation. 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.

CAS NN Group prepares a yearly risk based audit plan which is discussed with the Management Board of NN Group and the Audit Committee of the Supervisory Board of NN Group prior to its finalisation. The realisation of the plan, both in process of execution as in findings, is periodically discussed with and reported to these bodies. 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 NN Bank specific is also 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 also reported to the Management Board and the Supervisory Board of NN Bank.

### BANKING CODE

The internal audit department, external auditor and Supervisory Board's audit committee will consult periodically.

NN Bank complies with the principles as stated above.

NN Bank makes use of the internal audit function of NN Group. CAS NN Group prepares and discusses its risk analysis and audit plan with the Management Board of NN Bank, the Supervisory Board of NN Bank, the external auditor and with the regulator DNB. Subsequently, CAS NN Group exchanges periodically information between these stakeholders in order to update its risk analysis and audit plan (at least quarterly). NN Bank does not have a separate audit committee. The activities of an audit committee are performed by the Supervisory Board as a whole.

Furthermore, CAS NN Group is present in meetings of the Management Board and the Supervisory Board, when external auditor subjects are discussed.

The external auditor issues annually a management letter and auditor's report to the Management Board and the Supervisory Board of NN Bank, which may include relevant findings relating to governance, risk management and control. The management letter is discussed between CAS NN Group and the external auditors at the NN Group and business unit level prior to its finalisation.

### BANKING CODE

The internal audit department will take the initiative in arranging talks with DNB (the Dutch central bank) and the external auditor at least once a year to discuss each other's risk analyses, findings and audit plans at an early stage. The bank's Management Board and the internal audit department will encourage these tripartite talks, aiming for a clear delineation of each other's duties and responsibilities.

NN Bank complies with the principles as stated above.

The internal audit department will take the initiative in arranging meetings with DNB and the external auditor at least once a year to discuss each other's risk analyses, findings and audit plans at an early stage. The bank's Management Board and the internal audit department will encourage these tripartite meetings, aiming for a clear delineation of each other's duties and responsibilities.

There is at a minimum one meeting per year on NN Bank level between DNB, the external auditor and CAS NN Group arranged by CAS NN Group. These meetings focus on sharing and discussing risk assessments, the audit plan, CAS NN Group reports, external auditor's management letter and in-depth discussion on selected topics.

## 6. Remuneration Policy

### BANKING CODE

The bank will implement a detailed, restrained and long-term remuneration policy that is unambiguous and transparent and in line with national and international regulations. The remuneration policy will have primarily long-term focus and be in line with the bank's risk policy. It will incorporate an internal and external balance of interests, taking into account the expectations of the various stakeholders and social acceptance. It will also take the relevant international context into account.

NN Bank complies with the principles as stated above.

The remuneration policies of NN, which are also applicable to NN Bank, take into account all applicable regulations and codes. The NN Group Remuneration Framework strikes a balance between the interests of its customers, employees, shareholder and society at large, and supports the long-term objectives of the company.

The general principles underpinning the NN Group Remuneration Framework are as follows:

1. The remuneration policies and the NN Group Remuneration Framework are aligned with NN Group's business strategy, objectives, values and risk appetite
2. The remuneration policies and the NN Group Remuneration Framework support a focus on (a) the long term interests of NN Group and its shareholders and (b) the interests of NN Group's customers and other stakeholders in order to ensure a strong risk alignment by all NN Group staff
3. The remuneration policies and the NN Group Remuneration Framework will promote robust and effective risk management and support a strong focus on risk-control and protection of a sound capital base
4. The remuneration policies and the NN Group Remuneration Framework aim to sustainably attract, motivate and retain staff
5. The NN Group Remuneration Framework and the remuneration policies aim to avoid improper treatment of customers and employees
6. The NN Group Remuneration Framework and the remuneration policies comply with and support the spirit of the (inter)national regulations on remuneration policies
7. Variable remuneration is adequately linked to NN Group's and business unit's financial performance as well as to team and individual performance
8. Variable remuneration shall only be awarded or paid (including payment of variable remuneration that was deferred) if (i) this reconciles with the financial situation of NN Group and (ii) this is justified on the basis of the performance of NN Group, the relevant business unit, team and the individual performance of the staff member
9. Variable remuneration is neither paid through vehicles nor are methods employed which aim to artificially evade laws and regulations
10. Employees will not obtain financial or non-financial remuneration that exceed the applicable levels of maximum remuneration within NN Group
11. All remuneration policies are properly documented in writing

The NN Group Remuneration Framework has been approved by the Supervisory Board of NN Group in June 2015. In January 2017, the Supervisory Board approved a revised version of the NN Group Remuneration Framework. The NN Group Remuneration Framework has been applicable since 1 January 2015. Both the Executive Board and Supervisory Board of NN Group are committed to ensure that the execution of the remuneration policies within NN Group continues to be in line with the principles set out above. This principle is reflected in the Charter of the Executive Board of NN Group and in the Charter of the Supervisory Board of NN Group. For more information, refer to the Annual Report 2017 of NN Group.

#### **BANKING CODE**

The total income of a member of a bank's Management Board will at the time it is set be below the median for comparable positions inside and outside the financial industry, taking into account the relevant international context. The variable remuneration of a member of the Management Board will be set in accordance with national and international regulations.

NN Bank complies with the principles as stated above.

NN annually reviews the remuneration of NN Bank's Management Board; the remuneration is reviewed, among others, against benchmark data of financial and non-financial companies based in the Netherlands and/or Europe as provided by different benchmark providers. NN strives to set the remuneration at or below the market median. However, on an individual level compensation can be above the market median due to previous roles and seniority. Taking into account last year's and this year's benchmark data, generally remuneration of the Management Board lies around or slightly above median level (taking into account base salary and total compensation including variable remuneration). Variable remuneration for the Management Board is set in accordance with the NN Group Remuneration Framework and is aligned with national and international legislation/guidelines on (the payment of variable) remuneration.