

Nationale-Nederlanden Bank N.V.

# Application of the Banking Code by Nationale-Nederlanden Bank 2015

Legal & Compliance NN Bank

# Contents

---

|  |    |
|--|----|
| Introduction                                 | 3  |
| <b>Details</b>                               |    |
| 1 Controlled and ethical conduct of business | 4  |
| 2 Supervisory Board                          | 10 |
| 3 Management Board                           | 13 |
| 4 Risk policy                                | 15 |
| 5 Audit                                      | 18 |
| 6 Remuneration policy                        | 20 |

## Abstract

This document contains a description of the way Nationale-Nederlanden Bank complies with the Banking Code and is the basis for the publication about compliance with the Banking Code on the Nationale-Nederlanden Internet pages.

© Nationale-Nederlanden Bank N.V., 2016

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

## Introduction

---

The Banking Code was introduced in 2010 in order to commit 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 Banking Code. The 2015 Banking Code takes into account the recommendations of the Banking Code Monitoring Committee ('Monitoring Commissie Code Banken'), the report by the Commission on the Structure of Dutch Banks ('Commissie Structuur Nederlandse Banken'), the government's view of the Dutch banking sector and the view of the Netherlands Bankers' Association 'A new balance: Towards a service-oriented, stable and competitive banking sector.' The principles from the 'old' code that were already incorporated into legislation and regulations are not included in the new Banking Code. Obviously, Nationale-Nederlanden Bank N.V. (hereinafter: 'NN Bank') will continue to comply with these regulations.

NN Bank has a banking license and is a member of the Netherlands Bankers' Association. It endorses the Banking Code principles. As part of NN Group N.V. (hereinafter: 'NN Group'), Nationale-Nederlanden 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 2015.

# 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's purpose is to help retail customers create and secure their financial future: helping them manage and protect their assets and income through mortgage loans, (internet) savings, bank annuities, consumer lending, investment products and insurance products (as distributor). In addition, NN Bank also provides mortgage portfolio administration and management services to ING Bank (former WestlandUtrecht Bank), Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven'), Nationale-Nederlanden Schadeverzekering Maatschappij N.V. ('NN Schade') and the NN Dutch Residential Mortgage Fund.

NN Bank believes in continuously improving the customer experience, by being personal and relevant in every customer contact. In order to achieve this, NN Bank intends to provide efficient and excellent service, help customers proactively to serve their lifestyle needs and reach their goals, and give the best support on impactful moments in customers' lives.

NN Bank is able to realise efficient operations, since it does not have cost-intensive bank branches or payment accounts. Improving efficiency in customer processes is a key objective, beneficial to both the customer experience as well as NN Bank's cost level.

In addition, NN Bank maintains a low risk profile, based on the nature of its assets, which mainly consist of prime, high quality, residential mortgages. It is well capitalised due to the size and composition of its capital.

NN Bank aims to truly make a positive difference in the customer experience. In order to do so, NN Bank employs activities on three domains influencing the experience customers have with us:

- Provide efficient and flawless customer processes and service (getting the basics right);
- Be personal and relevant in every customer contact;
- Excel and surprise on the moments of truth – those moments which matter most for customers.

NN Bank implemented the Banking Oath and Disciplinary Law from 1 April 2015. All employees of NN Bank were sworn in. 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 see our customers as the starting point of everything we do. We respect each other and believe that working together leads to better results.
- We are clear. Easy to understand, transparent and accessible. We listen carefully and take action accordingly. We keep our promises.
- We commit. We take responsibility for what we do. We act with integrity and focus on our long-term objectives.

Embedding a sustainable role in society remained an important priority in NN's core activities and processes. This entails, amongst others, 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 most early stage of their distress. Free personal and mortgage restructuring advice can be offered to customers in distress. In 2015 the first 30 customers used these options.

NN credit card continued its partnership with the Dutch charity LINDA foundation; for every transaction made with the NN credit card, NN donates EUR 0.10 to help families in financial distress.

In terms of financial education, several NN Bank employees visited primary schools in the 'Week van het Geld', providing a guest lesson on money and risks. Another successful initiative was the Women in Control Café at the Rotterdam-based NN DE Café, consisting of a number of diverse workshops aimed at stimulating women to chase their dreams and be financially self-sufficient.

Reference is also made to the 2015 Sustainability Supplement of NN Group (which can be downloaded on <https://www.nn-group.com/Media/Reports.htm>). This report outlines the NN strategy, objectives and achievements related to the social, ethical and environmental aspects of our business. The report follows the Global Reporting Initiative's (GRI) G4 guidelines. It is aimed at all stakeholders of NN and, more specifically, customers, employees, shareholders, rating agencies and NGOs.

The governance and control structure for NN Bank forms the basis for its restrained and sound management. It is founded on the following principles:

- A governance structure based on a Management Board with four members, with support committees authorised to establish policies, set limits and organise checks and balances within strategic mandate of NN Group.
- An independent risk management function responsible for implementing an adequate framework for risk and control policy, directly anchored in the Management board via the Chief Risk Officer (CRO).

# 1 Controlled and ethical conduct of business – continued

- An adequate policy framework that guides the mechanics involved in placing the organisation on an operational footing and is set out in the policy framework of NN Group, unless waived by NN Group.
- The embedding of the policy framework, guidelines and procedures in the 'Three lines of Defence' control model.

In order to preclude potential legal sanctions, financial losses and reputational damage, the policy guidelines of NN Bank are regularly reviewed and adjusted to the changing situation. Each policy area has an owner who is responsible for establishing and maintaining the specific policy guidelines within the policy area concerned. In the specific policy guidelines, attention is also paid to how they relate to existing NN Group policy in the policy area concerned.

## 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 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, every year, the Supervisory Board assesses the composition and the functioning of the Boards as well as the functioning of the individual members of the Boards. In 2015 this assessment was conducted by Lintstock, a London-based corporate advisory firm that provides objective and independent counsel to leading European companies.

# 1 Controlled and ethical conduct of business – continued

## 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 implemented the Banking Oath and Disciplinary Law from 1 April 2015. All employees of NN Bank were sworn in. 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 see our customers as the starting point of everything we do. We respect each other and believe that working together leads to better results.
- We are clear. Easy to understand, transparent and accessible. We listen carefully and take action accordingly. We keep our promises.
- We commit. We take responsibility for what we do. We act with integrity and focus on our long-term objectives.

All individual employees of NN Group must observe the NN Group General Code of Conduct and the NN statement of Living our Values. NN Group, and thereby NN Bank as well, expects exemplary behaviour from its entire staff, irrespective of their job function. Needless to say, effective business contacts, both within and outside NN Group, 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.

In line with NN Group, the three lines of defence model on which NN Bank's risk management structure and governance 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: Oversight functions with a major role for the risk management organisation, the legal function and the compliance function. 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. These oversight functions include:
  - developing the policies and guidance for their specific risk and control area;
  - encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks;
  - supporting the first line of defence in making proper risk-return trade-offs;
  - escalation power in relation to business activities that are judged to present unacceptable risks to NN Group.
- 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.

NNB 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 compliance department reports to the CEO. The head of Legal & Compliance is also a member of the Management Team of the CRO. 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 the head Legal & Compliance acts as secretary of the Supervisory Board. During the December meeting, the Supervisory Board discussed more in depth the Compliance and Legal risks with the head of Legal & Compliance.

# 1 Controlled and ethical conduct of business – continued

## 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 further implemented the Enabling Life strategy in 2015, which means:

- Money is a means to an end, not an end in itself.
- It is our mission to facilitate our customers' lives.
- We do this by starting with the goals, needs and circumstances of our customers.
- We offer solutions to enable our customers' lifestyles.

The NN Group corporate values form a key component in NN Bank's approach towards customer centricity and the Enabling Life strategy.

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

- NN Group-wide, the 'Living our Values' programme was launched, focused on making the values a fully integrated part of our culture, including the annual NN Values week in October, which offered an opportunity to pay extra attention to the NN Values and a values game. This 'Values challenge' was developed to make learning about our values fun while at the same time sparking some friendly competition. This game allowed our employees to experiment with living our values in different situations, and how to apply them with respect to various stakeholder groups.
- NN Bank employees were required to take the Oath for Financial Institutions, which was fully integrated in the Statement of Living our Values. The accompanying ceremonies included a dialogue between employees about the values, and the signatory moment.
- A so-called 'Enabling Life' video challenge was organized: colleagues were asked to make a video with their mobile phone to explain what our strategy - Enabling Life - means to them and to challenge other colleagues to make their video, like the ice bucket challenge for charity that was going around the internet. The CEO of NN Bank started the challenge by sharing the meaning of Enabling Life for him and nominated four employees to continue with this challenge, and these employees did the same creating a 'snowball'. It was an easy way to encourage colleagues to think about how they can contribute to our strategy. More than 100 colleagues made a video.

- The Enabling Life contest was launched again. All employees of NN Bank could recommend colleagues that showed 'Enabling Life' behaviour. For example; someone that is helping a customer by himself instead of putting through to a colleague. We told them to be inspired by our values Care, Clear, Commit, since these values are very important in realising the Enabling Life strategy. And of course they also could be inspired by the personal Enabling Life videos. At least 50 colleagues were recommended. After that, a special jury nominated 10 colleagues, and then the voting started. A lot of people voted and after two weeks we had three winners. The 10 nominees were picked up by the CEO in old-timer buses and were surprised with a special day out.
- Managers were encouraged to include a personalized KPI on further developing Enabling Life behaviour for each employee.
- The decision sheets for the meeting of the Board of Directors include questions to explain how customers and other stakeholders interests have been taken into account, to confirm that the proposal/memo presented is consistent with the letter and intent of the NN Statement of Living our Values and how the decision or information contributes to the NN Bank strategic themes.
- In order to challenge the Board of Directors, a so-called MTP (Mid-Term Plan) challenging session was organized for the NN Bank talent group. The talents were stimulated to ask critical questions and to challenge the content of the MTP.

# 1 Controlled and ethical conduct of business – continued

## 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.

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

- Offering choices to customers:** NN Bank's purpose is to help retail customers create and secure their financial futures. NN Bank offers various products to its customers: mortgages, savings products, bank annuity savings products, investments services, consumer lending products and credit cards. NN Bank distributes its products and services to customers in a multichannel way. We partner with an extensive independent broker network. In addition, NN Bank's own financial and mortgage advisors offer direct advice. The NN Bank call centres help (potential) customers with a range of questions and requests. The online channel is increasingly important for providing effective access in an efficient way, matching customer expectations. The website, nn.nl, is visited by around 750,000 visitors per month. With the personal online environment, mijnnn.nl, customers are able to manage their personal savings account and have access to all relevant information. In 2015, NN Bank launched the NN app to meet customer demand for online and mobile connectivity. The app is initially targeted at savings customers. To date, NN has around 72,000 social media followers, serviced by our award-winning social media team. NN Bank offers its products throughout the Netherlands.
- Bank employees are trustworthy, serviceable and transparent:** NN Bank offers transparent products and services which are subject to the Product Approval and Review Process (PARP). The communication towards customers is subject to the Communications Approval Process (CAP). In both the PARP and CAP various departments such as Risk Management, Compliance and Legal, Product Management and Communications are represented to make sure that the products and communication are transparent. Communication towards customers is written in B1-language.
- Bank employees show integrity, professional behaviour and expertise:** NN Bank implemented the Banking Oath and Disciplinary Law from April 1st. All employees of NN Bank were sworn in. For new employees an ongoing program is in place for them to take the oath when starting at NN Bank. Additionally, 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 with for example mandatory Wft (Financial Supervision Act) training for sales and call personnel and continuing education programs for the Management Board and the Supervisory Board. Furthermore, several initiatives were taken to promote example behavior such as the 'Living our Values'-programme, the Enabling Life contest and the Enabling Life video challenge (see before).
- 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 2015, the first 30 customers used these options. In terms of financial education, several 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 a JINC initiative about managing a job application process. Another successful initiative was the Women in Control Café at the Rotterdam-based NN DE Café. The initiative consisted of a number of workshops aimed at stimulating women to chase their dreams and be financially self-sufficient. In addition, we stimulated people's pension awareness through two online campaigns jointly attracting more than three million online views.



# 1 Controlled and ethical conduct of business – continued

## 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 implemented the Banking Oath and Disciplinary Law from April 1st. All employees of NN Bank were sworn in. 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 see our customers as the starting point of everything we do. We respect each other and believe that working together leads to better results.
- We are clear. Easy to understand, transparent and accessible. We listen carefully and take action accordingly. We keep our promises.
- We commit. We take responsibility for what we do. We act with integrity and focus on our long-term objectives.

NN Group's compliance function has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The purpose is that the compliance function supports the businesses to effectively manage their compliance risks. Compliance is therefore an essential part of good corporate governance. NN Group continuously enhances its compliance risk management programme to ensure that NN Group and its subsidiaries comply with international standards and laws. NN Group separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct, and financial services conduct. In addition to effective reporting systems, NN Group has a whistle-blower procedure that protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or business principles. NN Group also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, Chinese walls and confidential- and insider information, as well as a code of conduct for its personnel.

All individual employees of NN Group must observe the NN Group General Code of Conduct and the NN statement of Living our Values. NN Group, and thereby NN Bank as well, expects exemplary behaviour from its entire staff, irrespective of their job function. Needless to say, effective business contacts, both within and outside NN Group, 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.

## 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.

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. NN Bank will continue to strive for an adequate and balanced composition of the Supervisory Board in future appointments, by taking into account all relevant selection criteria including but not limited to executive experience, experience in corporate governance of large listed companies and experience in the political and social environment.

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 2015, these activities included discussions about the quarterly results, the reports of the internal audit committee of Nationale-Nederlanden Bank and regulatory matters. The Mid Term Planning, 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.

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 NV).

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.

## 2 Supervisory Board – continued

### 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.

In 2015 the members of the Supervisory Board followed a sufficient programme of continuing training. The programme consisted of:

1. A Continuing Training Day for NN executive, management and supervisory board members (organized by NN Group). On this day the following topics were covered: Financial Reporting and Audit (Solvency II), Integrity (Sustainability), Integrity (Compliance), Trends and developments in the financial industry (Dutch and European Regulatory trends and impact on the insurance business), Trends and developments in the financial industry (Investment Game).
2. An NN Bank specific training was held on November 30. During this training a regulatory update was given and the state of the Dutch banking sector was discussed.

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

### 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.

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. In 2015 this assessment was conducted by Lintstock, a London-based corporate advisory firm that provides objective and independent counsel to leading European companies.

In close cooperation with NN Bank, a questionnaire was developed by Lintstock, which included amongst others questions regarding the involvement of each member of the Supervisory Board, the culture within the Supervisory Board and the relationship between the Management Board and the Supervisory Board. The questionnaire needed to be filled out by each of the members of the Supervisory Board. The answers led to a report composed by Lintstock. On the Supervisory Board meeting of 19 January 2016, the Supervisory Board discussed this report.

## 2 Supervisory Board – continued

---

### **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.

The charter of the Supervisory Board reflects this principle.

In 2015, the chairman of the supervisory board and one other (non-NN) member received a remuneration for their duties. The remuneration is not dependent on the results of NN Bank.

## 3 Management Board

### 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.

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 unanimity in its decisions.

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.

### 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.

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 organizational basis for the management of risk throughout the organization. The CRO in the Management Board does not combine her role with any other commercial focus areas.

The risk framework of NN Bank is based on the concept of the 'three lines of defence'. This ensures that risk is managed in line with the risk appetite as defined by the Management 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 NN Bank. The CRO is closely involved in risk matters and decisions that may have a material impact on NN Bank.

### 3 Management Board – continued

---

#### **Banking Code**

The chairman of the Management 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, 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.

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

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

In 2015 the members of the Management Board followed a sufficient programme of continuing training. The programme consisted of:

1. A Continuing Training Day for NN executive, management and supervisory board members (organized by NN Group). On this day the following topics were covered: Financial Reporting and Audit (Solvency II), Integrity (Sustainability), Integrity (Compliance), Trends and developments in the financial industry (Dutch and European Regulatory trends and impact on the insurance business), Trends and developments in the financial industry (Investment Game).
2. An NN Bank specific training was held on November 30. During this training a regulatory update was given and the state of the Dutch banking sector was discussed.

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 has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. 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.
- 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.

Financial (credit, market and business risks) and non-financial risks (operational, compliance, legal and related second order reputation risks) are monitored. To ensure that these risks are controlled and pro-actively managed, NN Bank has a framework in place governing the process of identifying, assessing, mitigating, monitoring and reporting.

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 medium term planning (MTP) 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.

## 4 Risk policy – continued

### Banking Code

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

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 or by individual board members participating in the risk committees.

### Banking Code

The Management Board will propose the risk 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.

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.



## 4 Risk policy – continued

---

### 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.

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 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. Part of the discussion is a comparison of the actual risk profile versus the approved risk appetite. 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.

## 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 makes use of the internal audit function of NN Group. CAS NN Group is independently positioned within the organization. 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 finalization. The realization 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 finalization. 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 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 De Nederlandsche Bank. Subsequently, CAS NN Group exchanges periodically information between these stakeholders in order to update its risk analysis and audit plan (at least quarterly).

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

After having discussed with CAS NN Group, 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.

## 5 Audit – continued

---

### **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 others'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.

The remuneration policies of Nationale-Nederlanden 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:

- (i) the remuneration policies and the NN Group Remuneration Framework are aligned with NN Group's business strategy, objectives, values and risk appetite;
- (ii) 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;
- (iii) 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;
- (iv) the remuneration policies and the NN Group Remuneration Framework aim to sustainably attract, motivate and retain staff;
- (v) the NN Group Remuneration Framework and the remuneration policies aim to avoid improper treatment of customers and employees;
- (vi) the NN Group Remuneration Framework and the remuneration policies comply with and support the spirit of the (inter) national regulations on remuneration policies;
- (vii) variable remuneration is adequately linked to NN Group's and business unit's financial performance as well as to team and individual performance;
- (viii) 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;

- (ix) variable remuneration is neither paid through vehicles nor are methods employed which aim to artificially evade laws and regulations;
- (x) employees will not obtain financial or non-financial remuneration that exceed the applicable levels of maximum remuneration within NN Group; and
- (xi) all remuneration policies are properly documented in writing.

The most recent NN Group Remuneration Framework has been approved by the Supervisory Board of NN Group in June 2015. This version has been applicable since 1 January 2015. Both the Executive Board and Supervisory Board 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 2015 of NN Group.

## 6 Remuneration policy – continued

---

### 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 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.