

2 Banking Code

Our Social Charter explains how the banking industry sees its role and position in Dutch society and guides our positioning, the structure of our organisations, the formulation of internal regulations, rules of conduct and other codes and the performance of our work. As such, therefore, the social charter is complementary to the Banking Code.

The Banking Code was introduced in 2010 so that banks would commit to and account for treating their customers with care while balancing the interests of the various stakeholders. The Code has played a significant role since its introduction and many of its principles on the supervisory board, executive board, risk management, audit and remuneration policy have since been incorporated into legislation. The introduction of this Code has contributed to banks having strengthened their governance and risk management and specifically making the interests of their customers more central.

The update of the Banking Code takes into account the recommendations of the Banking Code Monitoring Commission,¹ the report of the Committee on the Structure of Dutch Banks,² the government's views on the Dutch banking industry³ and *A new balance: Towards a service-oriented, stable and competitive banking sector – the Vision of the Dutch Banking Association*.⁴ The principles in the 'old' Code which have now been incorporated in legislation and regulation are not repeated in the new Banking Code. Needless to say banks will continue to obey these national and international rules.

The Banking Code applies to all activities performed in or directed towards the Netherlands by banks established in the Netherlands and licensed by the Nederlandsche Bank pursuant to Section 2:11 of the Financial Supervision Act. In the event of overlap or contradiction with international legislation or the policy of regulators, this prevails over self-regulation such as the Banking Code.

The new Banking Code is designed – along with the Social Charter and the introduction of the bankers' oath, rules of conduct and disciplinary scheme discussed below – to make a major contribution to public trust in banks and their role in the community. Consequently, the principles in the updated Code emphasise the importance of sound and ethical operation by banks and set this out in the principles for the executive board and supervisory board, proper risk management, thorough audit processes and a sound, balanced and sustainable remuneration policy.

Sound and ethical operation

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 positioning 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.

The executive board and supervisory board are –with due regard for each other's duties and powers – responsible for setting up a sound governance structure and compliance with the governance principles. 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 executive board are setting an example each year.

The executive board and supervisory board are – with due regard for each other's duties and powers – responsible for developing, communicating and enforcing standards on

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¹ See www.commissiecodebanken.nl, under publications.

² <http://www.rijksoverheid.nl/regering/documenten-en-publicaties/kamerstukken/2013/06/28/rapport-naar-een-dienstbaar-en-stabiel-bankwezen.html>

³ <http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2013/08/23/kabinetsvisie-nederlandse-bankensector.html>

⁴ See <http://www.nvb.nl/publicaties/1936/visie-nvb.html>

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 executive board and supervisory board.

The executive 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.

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 contact with its stakeholders. It will provide an insight into the way in which the bank deals with the assumptions in the Charter.

All employees will comply with the formal regulations and self-regulation that apply to them. The executive board and supervisory board are—with due regard for each other's duties and powers – responsible for this. The executive board is responsible for employees being and remaining familiar with all rules, values and standards applicable to the bank and will continue to pay attention to this. The supervisory board supervises this.

Supervisory board

The supervisory board will be composed in such a way that it is able to perform its tasks 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.

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 experience 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.

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 in the financial sector, corporate governance in general and in the financial sector in particular, 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 learning will be part of the annual evaluation performed by the supervisory board.

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 executive board will be part of this evaluation.

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.

Executive board

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

One member of the executive board will have the duty of preparing decision-making by the executive board on risk management. This member will be involved in good time in the preparation of decisions that are of material significance for the bank's risk profile, especially where these decisions may result in a departure from the risk appetite approved by the supervisory board. This 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.

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Risk policy

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

A bank's executive board will be responsible for its risk policy and ensure proper risk management. The executive 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.

The supervisory board will supervise the risk policy pursued by the executive 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

3 Accountability and monitoring of the 2014 Banking Code

The Banking Code comes into effect on January 1st 2015 and applies to all banks with a registered office in the Netherlands. Banks which are members of a group and subject to the Banking Code may apply parts of it at the level of the entity heading the group.⁵

The Banking Code does not stand alone but is part of the full set of national and international regulations, case law and self-regulation. When applying its principles, a bank will take this national and international context, the social environment it operates in and other specific characteristics of the individual bank and group, if it is part of one, into account. Furthermore, the Banking Code will also be applied with due regard to balanced consideration of the interests of the various stakeholders. The principles may only be partially applied if differences so justify.

Transparency

Each year, every bank will report on its website on how it applied the Banking Code in the previous year, explaining progress made in applying the principles and offering specific examples of compliance. If necessary the bank will provide a substantiated explanation of why a particular principle may not have been applied, either partly or in full ('comply or explain').

A decisive factor in the proper functioning of the Banking Code is not the extent to which there is compliance with the letter of the Code (box ticking), but the way in which the spirit behind its values and principles is observed in practice.

Monitoring

Compliance with the Banking Code will be monitored annually by an independent monitoring committee appointed by the Dutch Banking Association.

The monitoring committee will report its findings at least once a year to the Dutch Banking Association. These findings will be published.

⁵ In that case, the banks forming part of that group do not have to apply those parts on an individual basis. Banks subject to Section 3:111 of the Financial Supervision Act need not apply the Banking Code individually.

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.

Audit

A bank's executive board will ensure that a 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 executive board and also have a direct reporting line to the chairman of the supervisory board's audit committee.

The internal audit department, external auditor and supervisory board's audit committee will consult periodically.

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 executive board and internal audit department will encourage these tripartite talks, aiming for a clear delineation of each other's duties and responsibilities.

Remuneration policy

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 a 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 total income of a member of a bank's executive 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 executive board will be set in accordance with national and international regulations.

