2014 Annual Report

Nationale-Nederlanden Bank N.V.

nationale nederlanden

Contents

Management

Composition of the boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Bank N.V. ("NN Bank") as at 31 December 2014 was, and currently is, as follows:

Management Board

Composition on 31 December 2014

E. (Erik) Muetstege (54), CEO and Chairman

J. (Sjaak) de Graaf (59), Vice-Chairman

J.E. (Sandra) van Eijk (44), CFO

M.E. (Monique) Tailor-Hemerijck (55), CRO

Supervisory Board

Composition on 31 December 2014

H.G.M. (Hein) Blocks (69), Chairman

D. (Delfin) Rueda (51)

S.D. (Doug) Caldwell (45)

D.E. (David) Knibbe (44)[1]

C. (Chanh) Huynh Cong (64)[2]

Former member

J.M.M. Boers (62)[3]

1 Appointment as per 1 September 2014 at the General Meeting of 22 August 2014.
2 Appointment on 1 May 2014.
3 Resignation on 1 May 2014.

NN Group and NN Bank at a glance

NN Bank is part of NN Group N.V.

NN Group

NN Group N.V. ("NN Group") is an insurance and investment management company active in more than 18 countries.

NN Group is committed to helping people secure their financial futures by offering retirement services, insurance, investment and banking products.
With more than 12,000 employees, NN aims to deliver high-quality service and products. NN helps people secure their financial futures. NN does this by providing financial services that meet individual customer needs and a customer experience that is straightforward, personal and caring. NN believes in engaging our customers in a partnership of equals; providing them with clarity and guidance with regard to their financial well-being.

Legal position

NN Bank's registered offices are in The Hague. NN Bank is a fully owned subsidiary of NN Insurance Support Nederland B.V. which in its turn is a fully owned subsidiary of NN Insurance Eurasia N.V. (formerly named ING Insurance Eurasia N.V.) NN Insurance Eurasia N.V. is fully owned by NN Group.

NN Group N.V. is a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands. On 28 February 2014, NN Group entered into a legal merger with its wholly-owned subsidiary ING Verzekeringen N.V. ("ING Verzekeringen"), at that time a public limited liability company incorporated under the laws of the Netherlands. On 1 March 2014, the legal merger became effective. As a result of this merger, ING Verzekeringen ceased to exist, NN Group acquired all assets and liabilities of ING Verzekeringen under universal title of succession and was renamed NN Group N.V. At that time NN Group had one shareholder: ING Groep N.V. ("ING Groep"), a public limited liability company incorporated under the laws of the Netherlands. On 2 July 2014, ING Groep offered part of its shares in the share capital of NN Group to the public and these shares were listed on Euronext Amsterdam ("IPO"). After settlement of the offering on 7 July 2014 ("Settlement Date"), ING Groep still holds a majority of the shares in the share capital of NN Group. Under the restructuring plan developed by ING Groep as a condition to receiving approval from the European Commission for the Dutch State aid it received in 2008/2009 and approved by the European Commission, ING Groep is required to divest more than 50% of its shareholding in NN Group before 31 December 2015 and the remaining interest before 31 December 2016. At the end of 2014, ING Groep's shareholding in NN Group was 68.1%. On the date of this annual report ING Groep's shareholding in NN Group is 54.6%. On 10 June 2014, NN Group and ING Groep entered into an agreement containing certain arrangements regarding the continuing relationship between NN Group and ING Groep ("Relationship Agreement"). The full text of the Relationship Agreement is available on the website of NN Group.

Overview

NN Bank overview

NN Bank was founded on 26 April 2011 as a Dutch retail bank. It is part of NN Group, where its broad range of banking products is complementary to the individual life and non-life insurance products for retail customers of Nationale-Nederlanden ("NN") in the Netherlands. 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) and Nationale-Nederlanden Levensverzekering Maatschappij N.V. ("NN Leven").

NN Bank believes in continuously improving the customer experience, by being 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 in emotional moments in customers' lives.

NN Bank is able to realise efficient operations, since it does not have cost-intensive bank branches or payment accounts. It is well capitalised and maintains a low risk profile, based on the nature of its assets, which mainly consist of prime, high quality, residential mortgages, its stable retail funding base as well as the size and composition of its capital. As a result, NN Bank maintains a solid balance sheet to keep customers' money safe.

2014 – A successful year

In 2014, NN Bank took advantage of positive market dynamics in mortgages and continued its growth in savings, thereby increasing its own balance sheet. NN Bank's mortgage portfolio increased to EUR 7.9 billion (increase of 36%). During the year, NN Bank sold mortgages to NN Leven, as well. Customer savings grew through the offering of competitive rates and attractive products combined with a trusted brand name, leading to total customer savings of EUR 7.1 billion (increase of 22%) by the end of 2014. NN Bank also benefited from growing inflows into bank annuities ('banksparen') which offer customers a tax-friendly way to either save or pay for their retirement.

NN Bank continued to expand its product offering in the Netherlands with the introduction of a retail revolving credit product in February and an NN-branded credit card in cooperation with International Card Services (ICS) in October. It also introduced mortgage loans with floating interest rates.

Products of NN Bank

- Mortgages
- Bank annuities
- Internet savings
- Term deposits
- Investments
- Consumer lending
- Credit cards

The addition of new products to the NN Bank portfolio increased traffic on the company's website and offers a strong cross-selling potential. The migration of the online savings portfolio of WestlandUtrecht Bank to the NN internet savings environment contributed to efficient and effective operations.

Furthermore, NN Bank implemented a personalised banking environment and important process improvements, e.g. automation of the mortgage application process based on straight-through processing. The execution of a continuous improvement cycle aims to enhance customer satisfaction through excellent, efficient and effective customer processes.

NN Bank follows a multi-access distribution strategy, in which customers can select the type of servicing that fits them best. Regarding complex products, NN Bank implemented the "Zelf, Samen, Laten" concept. Based on customer needs, preferences and experience, the customer decides which way of servicing is most appropriate: do-it-yourself via Internet (Zelf), together with assistance from a call centre agent (Samen) or get help via an NN advisor or an independent broker (Laten).

Consumers increasingly favour self-directed or execution-only services rather than financial advice-related services, most notably when it concerns non-complex products. NN Bank therefore continues to focus its efforts on enhancing customer experience while minimising customer effort in its direct channels.

Awards

Moneyview 2014 – Vijf Sterren Product Rating Prijs
Aanvullend Pensioen Sparen (supplementary pension savings)

Moneyview 2014 – Vijf Sterren Product Rating Prijs
BankSpaarPlus Hypotheek (bank annuities mortgages)

Blauw Research 2014 – Gouden Spreekbuis
Hypotheekverstrekkers (mortgages)

Customer experience

NN believes that creating a great customer experience means delivering service and support consistently over time across the entire customer journey. Positive customer experiences support our sales, since satisfied customers will generally provide repeat business. The external Customer Centric DNA ranking (TNS Nipo), measuring the customer focus of a company relative to its competition, has been adopted by NN Bank to gauge progress of the customer experience. In 2014, the CCDNA ranking was part of every employee's set of Key Performance Indicators (KPIs).

NN Bank's aim is to enable customers to create and secure their financial future. By offering financial solutions, NN Bank enables customers to reach goals and attain their desired lifestyle. Efficient and excellent customer processes are essential, as is the endeavour to be relevant in every customer contact. Furthermore, NN Bank strives to give the best support in the emotional experience in the moments of truth in customers' lives.

Overview – continued

In 2014, NN Bank launched another unique service proposition underlying its ambitions to improve customer experience. NN Bank introduced the opportunity for customers to spend a 'test' night in the house they were potentially interested in buying ("Nationale Huizennacht").

Furthermore, NN Bank's activities are geared to minimising customer effort. Examples include the usage of video tutorials, tools on the Internet providing insight into underlying needs in the acquiring process of a house and easy access to product or life event information on the website.

Training and coaching of both employees and management of the customer contact departments Call and Operations have led to an improved and more diverse skills set, supporting the goal of improving customer experience. The NN Bank call centre was nominated for the 'Happiest Call Centre award' (source: National CQ-test).

The NN Group corporate values form a key component in NN Bank's approach towards customer centricity. They 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 take our role in society seriously.
- 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.

Supporting and developing employees

For a customer-focused organisation such as NN Bank, engaged and satisfied employees are key to success. This means attracting the right people, empowering them, giving them clear accountability and ensuring that they focus on continuous personal development. Employees are encouraged to invest in themselves and their employment prospects. NN Bank has a management development and talent management programme in which extra opportunities, like coaching and master studies, are offered to high potentials.

Frequent internal measurement shows a high and increasing employee engagement at NN Bank. 92% of the employees indicated they are eager to help build the new bank, and 83% said they are proud to work for NN Bank.

Two different reorganisations were executed in NN Bank. Thanks to the use of preventive mobility measures (e.g. retraining and matches on vacancies elsewhere within NN), the actual redundancy was less than 50% of the total reduction of the FTE due to the reorganisations. Due to growth in other areas, the total number of FTE at NN Bank remained almost at the same level.

Corporate responsibility

NN Group's – and therefore NN Bank's - ambition is to play a leading role in improving industry standards. Its aim is to be a trusted partner in financial matters, providing guidance and financial education, so consumers better understand and are able to secure their financial future. Embedding sustainability into core activities and processes remains a key priority. The businesses strive – in their daily actions and decision making – to strike a balance between financial interest and their impact on society and the environment. This entails – among other things - offering products and services that are suitable, transparent and contribute to the financial well-being of our customers. Efforts to become an even stronger company for stakeholders, for example by continuing to make things easier for customers, are a significant aspect of the business strategy.

NN Bank specifically evolved its social role supporting the following initiatives. First, the new NN credit card partners with the Dutch charity LINDA foundation. For every transaction made with the credit card, NN donates EUR 0.10 to help families in financial distress. In addition, NN Bank sponsors the project "Alles en iedereen verdient een mooie oude dag", putting the spotlight on, and donating funds to, a diverse set of 'old' social initiatives that are still relevant and valuable to their environment.

Conclusions and ambitions

The year 2014 proved to be good for NN Bank, which showed growth in all of its main portfolios. Strong progress was made in further building NN Bank by accelerating efforts to become a one-stop shop for integrated financial solutions for retail customers. The introduction of new products and service propositions, as well as significant customer process improvements, resulted in the augmentation of the customer experience.

Seen from the perspective of its position as employer, NN Bank stimulates and supports employees to develop themselves. Although NN Bank needed to reorganise its organisation leading to some employee redundancy, it took an active stand in helping those employees to find other (job) possibilities. Regarding its position as a socially relevant company, NN Bank is an active charity sponsor, donating funds to initiatives connected to its philosophy of enabling people to live their lives, now and in the future.

NN Bank's overall ambition is for customers to extend and expand their relationship with NN Bank based on their previous positive experiences. To achieve this, NN Bank focuses on being a strong and sustainable company, delivering excellent customer service and transparent products through multi-access distribution, whilst having efficient and effective operations.

Overview – continued

Financial developments

Key figures

Amounts in millions of euros	2014	2013
Interest income	**346.8**	134.3
Interest expenses	**220.1**	90.6
Interest result	**126.7**	43.7
Gains and losses on financial transactions and other income	**49.1**	14.7
Fee and commission income	**25.1**	15.6
Valuation results derivatives	**-5.6**	0.4
Total income	**195.3**	74.4
Addition to loan/loss provision	**10.6**	7.5
Staff expenses	**89.2**	55.9
Other operating expenses	**50.0**	61.3
Total expenses	**149.7**	124.7
Result before tax	**45.5**	-50.3
Taxation	**11.8**	-12.6
Net result	**33.7**	-37.7

Other key figures

Amounts in millions of euros	2014	2013
Loans and advances	**8,074**	5,957
Customer deposits and other funds on deposit	**7,061**	5,811
Net interest margin	**1.6%**	1.2%
Cost/Income ratio[1]	**63%**	90%
Return on assets	**0.4%**	-0.5%
Total assets	**9,069**	6,943
CET1 capital	**402**	370
CET1 ratio – transitional	**15.3%**	16.6%
BIS capital	**442**	370
BIS ratio – transitional	**16.8%**	16.6%
BIS ratio – fully phased-in	**17.0%**	
Leverage ratio – transitional	**3.9%**	5.3%
Leverage ratio – fully phased-in	**4.0%**	
Liquidity Coverage Ratio (LCR)[2]	**165%**	180%
Number of FTE end of year	**582**	587

1 Special items not included.
2 For comparability reasons, the percentage of 2013 has been restated.

Profit and Loss

NN Bank's results developed positively in 2014. NN Bank achieved profitability in 2014, approximately one year after the merger with parts of WestlandUtrecht Bank.

The strong growth of the interest result is driven by both the growing balance sheet and improved margins on savings.

The main driver for the increase in fees and commission income is that 2013 only included service fees for the second half of the year. NN Bank receives the service fees for the operational services provided to NN Leven and ING Bank, for mortgages on their balance sheets.

Gains and losses on financial transactions and other income comprises the up-front fee and premium on the mortgages NN Bank sold to NN Leven. In 2014, EUR 1.2 billion in assets were transferred. The assets were sold at a premium, as a result of decreased interest rates.

The number of FTEs remained stable compared to the second half of 2013, despite the strong growth of the balance sheet. Income grew faster than expenses, causing NN Bank to benefit from economies of scale, which is also reflected in the improved Cost/Income ratio.

In 2014, NN Bank was still in a transitional phase. Rationalising IT systems and platforms and at the same time expanding its commercial product and funding portfolio resulted in one-off costs that were characterised as special items (2014: EUR 26.9 million; 2013: EUR 50.1 million).

Balance sheet

NN Bank's balance sheet increased by EUR 2.1 billion in 2014. The mortgage portfolio grew by EUR 2.1 billion, driven by both strong own production and white label production via NN Bank's subsidiary HQ Hypotheken 50 B.V., as well as by transfers from ING Bank. On 1 July 2014, the agreement with ING Bank was amended and the period over which to buy the mortgage loans was extended until 31 December 2020. In addition to acquiring and originating mortgage loans, NN Bank sold EUR 1.2 billion of mortgage loans to NN Leven.

The main funding source for NN Bank is the customer savings portfolio. In addition, the mortgage portfolio is funded by other (mainly long-term) instruments. Short-term funding instruments in the form of repurchase agreements and a warehouse facility were introduced in the last quarter of 2014, and are mainly used to manage NN Bank's liquidity position.

An important step was taken in 2014 with the issuance and sale of Residential Mortgage Backed Securities for the first time to parties outside NN Group and ING Groep.

Capital & Liquidity

NN Bank maintained a strong capital position with a BIS ratio of 16.8% and a CET1 ratio of 15.3% at year-end. This in comparison to 16.6% for both ratios in 2013. To further optimise the capital structure, NN Bank issued Tier 2 capital in 2014 to NN Group. The CET1 capital ratio reduction in 2014 from 16.6% to 15.3% is explained by the optimisation of the capital structure and the prepositioning of capital for growth at the start of the bank as per 1 July 2013. The leverage ratio reduced from 5.3% to 3.9% in 2014 for the same reasons. The Liquidity Coverage Ratio (LCR) was 165% (2013: 180%), showing a robust liquidity position.

Market and business developments

Economic conditions

As a Dutch bank, NN Bank is influenced by the developments in the Dutch market, including the political and economic climate. Influenced by an improving global and European economy, the Dutch economy improved in 2014. The growth was mainly driven by increasing exports and investments. At the end of 2014, disposable consumer income increased. Although consumer confidence is still negative, it shows a clear upward trend. While consumers are positive about the economic outlook, they are also gloomy about the uncertainty caused by international political tensions.

Overview – continued

And despite the economic recovery, unemployment increased to 6.8% in 2014 (International Labour Organisation definition).

Mortgages

The year 2014 marked a turning point for the housing and mortgage market in the Netherlands. The number of forced home sales still increased, but the trend is levelling off. In comparison to 2013, 40% more houses were sold and mortgage sales grew by more than 30% to EUR 48.6 billion (source: Kadaster). In 2014, the average selling price of a house was about 1% higher, which is the first time since 2008 that it exceeds the annual average price of the previous year. Consumer confidence in the housing market reached its highest point in a decade (source: Vereniging Eigen Huis). This positive trend in the housing market reflects the improving economy, low mortgage rates and the temporary easing of the Dutch taxation rules with respect to gifts, which also encouraged consumers to make additional mortgage repayments.

As a consequence of higher capital requirements, major Dutch banks have begun to reduce their appetite for mortgage portfolios, leading to market share growth for other mortgage providers, including NN Bank. This shift, combined with the favourable market conditions and solid margins resulting from the low interest rates, attracted a number of new entrants in this market for the first time in years.

NN Bank's new mortgage sales increased to nearly EUR 2.4 billion in 2014, which includes sales realised from a white label mortgage product. As a result, the market share of NN Bank in new mortgages, including white label product sales, increased to 5.5% in 2014 (2013: 5.0%). Furthermore, NN Bank purchased EUR 1.3 billion of mortgage loans of ING Bank in 2014 on the respective reset dates.

NN Bank was awarded the "Gouden Spreekbuis 2014" for being the mortgage lender making most progress in customer centricity.

Savings

In 2014, Dutch households deposited more savings with Dutch banks than they withdrew, resulting in a net growth of EUR 4.5 billion. At the end of November, Dutch savings accounts reached a level of approximately EUR 330 billion. The majority – more than 85% – has been put into non-maturity deposits, e.g. (online) savings accounts. Nevertheless, fixed-term deposits also saw a slight inflow of savings, reaching an amount of approximately EUR 50 billion.

Despite the moderate market growth of 1.4% in the savings market in 2014, NN Bank's savings portfolio rose 22% to EUR 7.1 billion in 2014, representing approximately 2.2% of total Dutch households savings. This was due to NN Bank's strong brand name and competitive interest rates. Though relatively limited in comparison to major Dutch banks, NN Bank grew to become one of the largest players among the smaller banks.

NN Bank offers flexible savings accounts (Internet savings), fixed-term deposits and bank annuities for mortgages and pension savings, which are sold through intermediary and direct channels. In 2014, the volume of Internet savings grew 18% to a total of EUR 4.1 billion.

The Dutch market for bank annuities was subject to two major developments in 2014 that caused a decline of approximately 30% in the production of the entire market. Due to changed tax regulations, there was substantially less demand for new bank annuities to save for mortgages and a lack of demand for new bank annuities for redundancy payments. NN Bank excelled in the market for redundancy payments in previous years. Despite these negative effects, NN Bank managed to grow its bank annuities portfolio in 2014 by 49% to EUR 1.8 billion (excluding EUR 0.6 billion bank annuities for mortgages). Improved product features and competitive interest rates contributed to this growth.

Investment services

The value of the assets under management relating to the securities portfolio of clients of NN Bank grew 2.8% to EUR 994 million in 2014.

The retail investment market benefited from the economic recovery and growing confidence of the private investor. Low interest rates further stimulated this market, although the effect was somewhat tempered by consumers preferring to repay part of their mortgage. The assets of Dutch individuals grew by 5% in the first three quarters of 2014 (source: Dutch Central Bank). Especially mutual funds were increasingly popular among Dutch retail investors: the assets of retail investors in mutual funds rose about 11% in the first three quarters of 2014. Future retirement is becoming a primary reason for individuals to invest privately, following the current debate about the sustainability of the Dutch pension system.

At the beginning of 2014, a commission ban on private investment products took effect. As a result, the market for investment advice declined. Individuals increasingly arranged their investments by themselves, or placed their assets to be managed by third parties. In response, providers started offering their management services to smaller investors as well as expanded their range of passive investments.

Consumer lending

As in previous years, the market for consumer lending declined in 2014, following the trend of deleveraging by consumers. Nevertheless, willingness of consumers to finance expensive items has grown (source: VFN) and the number of new loans seems to rise (source: GfK), due to a growing economy and improving consumer confidence and further driven by the curtailment of consumer options for mortgages. Since the launch in February, NN Bank's new retail revolving credit product totalled close to EUR 79 million (including the undrawn commitments) at the end of 2014.

Credit cards

In 2014, the market for credit cards continued to grow. Both the number of transactions and the volume increased.

Distribution

As a consequence of the ban on commission and the introduction of advisory fees, financial advice has become less accessible to consumers, making it even more important to explain the added value of financial advice to consumers. In addition, consumer demand for self-service facilities has risen further. Online and mobile channels are used more and more for orientation purposes, as well as for financial advice and product purchase.

Consumers increasingly expect to be able to switch between the different channels available to them in a flexible manner and to decide how and when to have contact with the provider.

Overview – continued

Outlook

NN Bank anticipates further growth in 2015. It intends to introduce a new retail investment proposition and a personal loan product in 2015, in order to further develop its portfolio.

Regarding mortgages and savings, the core business of NN Bank, growth is expected as a result of the economic recovery which is spurring consumer confidence.

The retail market for investments in the Netherlands has grown fairly strongly. The number of investors is growing due to low interest rates and due to expectations of decreased governmental support in the future, resulting in greater responsibility for individuals to generate wealth by themselves. In addition, the returns on investments have been good in the past few years.

Consumer confidence in the financial sector remains fragile in the aftermath of the economic crisis, driving NN Bank to continue its strategy and efforts to be customer centric at heart and enhance customer experience. NN Bank is preparing to implement the Banker's oath and disciplinary law for NN Bank employees in 2015.

For the year 2015, NN Bank's strategy remains focused on the following drivers:

- NN Bank offers integrated solutions for wealth accumulation, wealth finance and wealth protection.
- NN Bank targets mass & affluent retail customers in the Netherlands, who seek quality and financial security. The Bank's primary focus is on servicing NN's approximately three million existing customers.
- NN Bank wants to enable customers to reach their goals and desired lifestyles with financial solutions, differentiating on the emotional experience.
- NN Bank seeks to deepen the relationship with its customers.
- In order for NN Bank to compete, efficient and excellent customer processes are essential for both the customer and NN Bank (low cost to serve).

This strategy will be implemented in the coming year by focusing on five strategic themes:

- Deepening customer relationships: NN Bank will further expand its knowledge of its customers in order to be better equipped to offer personally relevant sales and service suggestions of NN in all of its distribution channels.
- Getting the basics right: NN Bank aims to continue to improve customer processes on the basis of client signals, as expressed in client surveys, NPS measurements and complaints. By establishing a continuous improvement cycle throughout the organisation NN Bank intends to anchor its improvement capabilities.
- Lean & Mean: NN Bank is focused on further reducing the operational expenses (e.g. redesign mortgage process, increase customer self-service) and on rationalising systems and products.
- Omni-channel distribution: NN Bank understands that customers decide how and when they desire to do business. Its goal is to facilitate customers in the easy switching through all of the channels available and to stimulate interaction with the customer.
- We make the difference: NN Bank embraces the NN statement of Living Our Values, in which we make a promise to our customers about how we work. The way in which we (co)operate and go the extra mile determines how our customer evaluates doing business with us.

NN Bank believes that, by delivering on all these strategic themes, it is in the best position to serve its customers' needs and at the same time to allow its business to grow in a sustainable manner.

Conclusions and ambitions

NN Bank looks forward to a year in which it expects further growth, spurred by both developments in the market as well as in its business operations. It anticipates the introduction of two new products in 2015: a new retail investment proposition and a personal loan. Economic recovery and growing consumer confidence are expected to stimulate consumer spending. Low interest rates continue to have a strong influence on consumers' choices about how to manage their financial lives in the best way. And as a consequence of both changes in consumer preference as well as legislation regarding commission bans, consumers increasingly use self-service options, making smooth and effortless customer processes essential, more than ever before. All these developments signal that 2015 will be a dynamic year, suiting NN Bank's ambition to enable customers to reach their goals and desired lifestyles with financial solutions and to help them make the right decisions about their financial future.

Corporate governance

Corporate governance statement

Banking Code of Conduct

The Nederlandse Vereniging van Banken (Dutch Banking Association) established the Banking Code on 9 September 2009. The Banking Code came into effect on 1 January 2010. It applies to all banks that have been granted a banking licence under the Financial Supervision Act. The Banking Code contains principles for the Dutch banks about important matters such as control, risk management, internal audits and remuneration; it can be downloaded from the website of the Dutch Banking Association (www.nvb.nl).

On 1 June 2010, the Banking Code was adopted with retroactive effect since 1 January 2010, by means of an Order in Council as a code of conduct as defined by Article 2:391 paragraphs 5 of the Dutch Civil Code. This means that banks that observe the code must report on it.

NN Bank places great importance on compliance with the Banking Code and aims to apply all its principles.

The document "Naleving Code Banken Nationale-Nederlanden Bank" (NN Bank's compliance with the Banking Code) is part of this 2014 Annual Report. The document has also been published separately on NN Bank's website.

Financial reporting process

As NN Bank is via NN Group an indirect consolidated subsidiary of ING Groep, the policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by NN Group and ING Groep for its consolidated financial statements.

The internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of NN Bank's assets.
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NN Bank's receipts and expenditures are handled only in accordance with authorisation of its management and directors.
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the assets that could have a material effect on the financial statements of NN Bank.
- Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

External auditor

On 13 May 2013, the General Meeting of ING Groep extended the appointment of Ernst & Young Accountants LLP ("EY") as external auditor of ING Groep and its subsidiaries, including NN Bank, for the financial years 2014 and 2015, to report on the outcome of these audits to the Management Board and the Supervisory Board and to provide an audit opinion on the financial statements. On 14 June 2013, the General Meeting of NN Bank appointed EY as external auditor for the financial years 2014 and 2015. On 6 May 2014, the General Meeting of NN Group confirmed this appointment. NN Group and ING Groep started a project with the objective of changing its external audit firm as of the financial year 2016. Pursuant to the Relationship Agreement, ING Groep may require that the external auditor of ING Groep and NN Group are the same (but with different lead partners) at least for as long as ING Groep applies equity accounting in respect of its interest in NN Group. In 2015, it will be proposed to the Annual General Meeting of the shareholders of NN Group to appoint KPMG Accountants N.V. as the external Auditor of NN Group (and its subsidiaries) as from 1 January 2016.

The external auditor attended the meeting of the Supervisory Board on 24 April 2014 and a meeting between the Chairman of the Supervisory Board and the internal auditor of NN Bank on 25 June 2014.

More information on NN Group's policy on external auditor independence is available on the NN Group website.

Corporate governance

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.

The members of the Management Board are appointed by the shareholders.

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 the strategic mandate of NN Group and ING Groep.
- 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).
- 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 and ING Groep, unless this is 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.

Corporate governance – continued

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.

Board composition

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 of the Boards. In the context of such assessment, NN Bank aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board. In 2014, the composition of the Management Board met the above-mentioned gender balance. However, because of the fact that several relevant selection criteria need to be balanced when composing the Supervisory Board, the composition of the Supervisory Board did not meet the above-mentioned gender balance in 2014. An element that contributes to the balanced composition of the Supervisory Board is related to the fact that the 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 Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large listed companies and experience in the political and social environment.

Risk management organisation

As part of NN Bank's management efforts, dedicated functions have been set up to monitor financial and non-financial risks. These functions support management in managing these risks.

To guarantee that all risks are controlled as well as possible for all relevant stakeholders, NN Bank applies the concept of three defensive lines. The first line of defence comprises the commercial departments in which contacts with the customers take place. The commercial departments know our customers well and are in the best position to act in the interests of both the customer and NN Bank. The second line of defence comprises the risk management organisation, run by the CRO, and the legal and compliance department. The CRO leads a functional and independent risk control organisation that supports the commercial departments in their decision-making, as well as having sufficient authorisations to prevent risk concentrations and other forms of unwanted or excessive risk. The third line of defence comprises the internal (independent) auditing department, which not only monitors the functioning and the effectiveness of the first two lines of defence, but also evaluates them.

NN Bank is exposed to various financial and non-financial risks. For a more detailed description of these risks and the way in which they are managed, reference is made to the risk management section.

Risk appetite framework

The Risk Appetite Framework consists of the overall NN Bank Risk Appetite Statement (RAS), the Risk Appetite Statements for credit risk, market risk and non-financial risk derived from the overall statement and the underlying limits framework per risk category. The overall RAS states the degree of risk that NN Bank is prepared to accept in all risk categories, given its proposed activities in pursuit of its objectives.

The Risk Appetite Framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. The RAS and the underlying limits frameworks are based on the annual internal capital and liquidity adequacy processes, and on the Medium-Term Plan ("MTP") including capital & funding plans in force. The RAS provides constraints for the medium-term planning.

The NN Bank risk committees monitor use of the risk limits per risk category via the monthly reporting with the realised, current values of the limited risk measures that they receive from the various risk management departments. The Risk Appetite Framework is adjusted in the interim, if necessary.

Within the Management Board, the CRO is responsible for drawing up a Risk Appetite Statement proposal in close consultation with the CFO. The risk management organisation assists the CRO, including analyses of the current risk positions and risk tolerances. The proposed risk appetite is approved by the Management Board and Supervisory Board as part of the input for the annual medium-term planning.

ICAAP

In terms of capital, DNB requires an annual internal evaluation to determine whether capitalisation is sufficient given NN Bank's operations now and in the near future, including stress testing. This internal evaluation is performed using an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP report was submitted to DNB in September 2014 and demonstrated, as result of the Supervisory Review & Evaluation Process (SREP) by DNB, that NN Bank has a robust capital position. The ICAAP is performed annually.

ILAAP

DNB also requires banks to have implemented an Internal Liquidity Adequacy Assessment Process (ILAAP), pursuant to the Dutch Financial Supervision Act (Wet op het financieel toezicht, Wft), in which the company thoroughly assesses its own liquidity risk management (including stress testing) and tightens it where necessary. NN Bank submitted its ILAAP to DNB for review in September 2014. The 2014 ILAAP demonstrated that NN Bank has a robust liquidity position. The ILAAP is performed annually.

Remuneration policy

NN Bank is well aware of the public debate about pay in our industry and the responsibility the industry is taking in that light. The remuneration policies of NN Group take into account all applicable regulations and codes, including the Banking Code. The NN Group Remuneration Framework strikes a balance between interests of its customers, employees, shareholders and society at large. It supports the long-term objective of the company.

The general principles underpinning the NN Group Remuneration Framework are as follows:
- Enhance focus on the long term interest of NN Group and the interests of customers.
- Align with company values, business strategy and risk appetite.
- Promote and align with robust and effective risk management.
- Create a balanced compensation mix with a reduced emphasis on variable compensation.
- Have in place claw back and hold back arrangements.
- Attract and retain talented personnel.

Corporate governance – continued

The variable remuneration is linked to clear targets of which a large part is non-financial.

As a subsidiary of NN Group, NN Bank is in scope of the NN Group Remuneration Framework.

Internal Code of Conduct

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.

Legislation and regulations

NN Bank adheres to the legislation and regulations by which it is governed. For NN Bank, this includes the Dutch Civil Code, the Financial Supervision Act, the Capital Requirements Directives (EU), Basel II and III, the Personal Data Protection Act, the Competitive Trading Act, the Telecommunications Act, the Money Laundering and Terrorist Financing (Prevention) Act, the Consumer Lending Act and the regulations based on this legislation.

As a member, NN Bank also upholds the Nederlandse Vereniging van Banken (Dutch Banking Association) Code of Conduct and decisions that are binding for its members, as well as the Codes of Conduct generally applicable to the banking sector, such as the Banking Code, the Code of Conduct for Financial Institutions on the Processing of Personal Data, the Code of Conduct for Consumer Lending, the Code of Conduct for Mortgage Loans and the Principles of Modern Savings Policy, 2010 (Netherlands Authority for the Financial Markets).

Loan Loss Provisioning (LLP) process

The Loan Loss Provisioning (LLP) process or Debt Provisioning in NN Bank is a monthly, carefully executed and well-controlled process. This process encompasses the following key phases:

- Identification: in which an assessment is made whether the asset is IFRS impaired or not. In 2014, NN Bank had no impaired assets on its books that classify for Individually Significant Financial Asset (ISFA) provisioning.
- Determination: whereby the preliminary amount of the loan loss provision is determined. NN Bank credit risk models are used to calculate the level of Expected Loss in the portfolio. The LLP are a reflection of this Expected Loss.
- Approval: in which the figures are reviewed for approval in the NN Bank Impairment and Provisioning Committee (IPC).
- Reporting: in which the figures are booked in NN Bank General ledger, and used for internal and external reporting (i.e. DNB).

The Hague, 20 April 2015

The Management Board

Report of the Supervisory Board

Supervisory Board meetings
In 2014 the Supervisory Board met seven times. Four of these meetings were regular quarterly meetings. On average, 64% of the Supervisory Board members were present at the scheduled meetings. The low attendance was mainly caused by the absence of 'internal NN'-members in the busy period of the IPO of NN Group. When absent, these members always reviewed the agenda including the accompanying documentation and mandated the other members. Besides the regular meetings, the Supervisory Board met three times; in April to discuss the Annual Reports and Accounts 2013, in August to discuss the ICAAP/ILAAP and in November to have the annual assessment of both the Supervisory Board and the Management Board and the respective individual members. Furthermore both external members of the Supervisory Board met the Management Board to further discuss the MTP 2015-2018 and the ICAAP/ILAAP. In January, the chairman of the Supervisory Board met with the Works Council. In June, the chairman of the Supervisory Board met with the internal auditor of NN Bank (CAS) and the external auditor (EY) to discuss the audit approach of EY and the audit plan of CAS.

Apart from closely monitoring the financial results in 2014, the Supervisory Board also monitored the progress of compliancy with the EC-commitments, the development of the mortgage origination and the funding of NN Bank.

Committees
The activities of an audit committee are performed by the Supervisory Board as a whole. In 2014, these activities included discussions about the quarterly results, the reports of CAS and regulatory matters. The MTP, 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, the reports from the external auditor, financial reporting and internal controls over financial reporting.

Risk
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.

Functioning of the Management Board
The functioning of the Management Board was discussed by the Supervisory Board. In November 2014, the performance of the Management Board was reviewed and considered adequate. The Management Board is equipped with sufficient knowledge, including risk and finance knowledge. The Management Board cooperates well with the Supervisory Board.

Composition of the Management Board
During 2014, there were no changes in the composition of the Management Board.

Composition of the Supervisory Board
On May 1 2014 Chanh Huynh Cong was appointed as a new member of the Supervisory Board. At the same date, John Boers resigned from the Supervisory Board. Furthermore, David Knibbe was appointed on August 22, 2014 as a fifth member of the Supervisory Board.

Annual Report, Banking Code and dividend
The Management Board has prepared the Annual Report and Accounts, including the document "Application of the Banking Code by Nationale-Nederlanden Bank" and discussed these with the Supervisory Board. The Annual Reports and Accounts (including the Banking Code document) will be submitted for adoption at the 2015 annual shareholders meeting. NN Bank will not propose to pay a dividend over 2014 at the 2015 Annual Shareholders Meeting.

Appreciation for the Management Board and NN Bank employees
The Supervisory Board would like to express its gratitude to the members of the Management Board for their work in 2014. NN Bank finalised the integration of parts of WestlandUtrecht Bank into its organization and the risk controls of NN Bank were strengthened. Furthermore substantial growth was realised.

The Supervisory Board would also like to thank all employees of NN Bank who continue to serve the interests of customers, shareholders and other stakeholders of NN Bank and have shown continued commitment in the past year.

The Hague, 20 April 2015

The Supervisory Board

Consolidated annual accounts of NN Bank

Amounts in thousands of euros

Consolidated balance sheet of NN Bank

As at 31 December

	notes	2014	2013
Assets			
Cash and balances with central banks	2	321,140	353,755
Amounts due from banks	3	60,882	126,928
Financial assets at fair value through profit and loss	4	48,329	12,397
Available-for-sale investments	5	513,911	426,541
Loans and advances	6	8,073,590	5,957,713
Other assets	7	51,227	65,944
Total assets		**9,069,079**	**6,943,278**
Equity			
Shareholder's equity	8	408,623	369,138
Liabilities			
Subordinated debt	9	40,000	0
Debt securities in issue	10	1,227,467	662,114
Amounts due to banks	11	130,894	6,730
Customer deposits and other funds on deposit	12	7,061,266	5,811,384
Financial liabilities at fair value through profit and loss	13	157,181	15,595
Other liabilities	14	43,648	78,317
Total liabilities		**8,660,456**	**6,574,140**
Total equity and liabilities		**9,069,079**	**6,943,278**

References relate to the notes starting on page 27. These are an integral part of the Consolidated annual accounts.

Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros

Consolidated profit and loss account of NN Bank

For the year ended 31 December

	notes	2014	2014	2013	2013
Interest income		346,807	0	134,303	0
Interest expense		220,103	0	90,636	0
Interest result	15	0	126,704	0	43,667
Gains and losses on financial transactions and other income	16	0	49,077	0	14,704
Gross fee and commission income		34,378	0	18,622	0
Fee and commission expense		9,306	0	3,020	0
Fee and commission income	17	0	25,072	0	15,602
Valuation results on non-trading derivatives	18	0	-5,599	0	424
Total income		**0**	**195,254**	**0**	**74,397**
Addition to loan loss provisions	6	10,565	0	7,493	0
Staff expenses	19	89,167	0	55,943	0
Other operating expenses	20	49,977	0	61,260	0
Total expenses		**0**	**149,709**	**0**	**124,696**
Result before tax		**0**	**45,545**	**0**	**-50,299**
Taxation	25	0	11,798	0	-12,575
Net result		**0**	**33,747**	**0**	**-37,724**
Attributable to:					
Shareholder of the company		0	33,747	0	-37,724

References relate to the notes starting on page 33. These are an integral part of the Consolidated annual accounts.

Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros

Consolidated statement of other comprehensive income of NN Bank

For the year ended 31 December

	2014	2013
Net result	33,747	-37,724
Items that are or may be reclassified subsequently to the profit and loss account:		
Unrealised revaluations Available-for-sale investments and other	6,215	-4,390
Realised gains/losses transferred to the profit and loss account	-477	-2,172
	5,738	**-6,562**
Total other comprehensive income net of tax	**39,485**	**-44,286**
Comprehensive income attributable to:		
Shareholder of the company	39,485	-44,286

Reference is made to Note 25 “Taxation” for the disclosure on the income tax effects on each component of the other comprehensive income, except for the component Net result which is disclosed in the Consolidated profit and loss account.

Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros

Consolidated statement of cash flows of NN Bank

For the year ended 31 December

	notes	2014	2013
Result before tax		45,545	-50,299
Adjusted for:			
– depreciation		0	3,114
– addition to loan loss provisions		10,565	7,493
– other		29	424
– accrued interest		-13,044	24,942
Taxation paid		-3,315	5,767
Changes in:			
– loans and advances		-776,353	-2,164,759
– whole loan sale mortgages to NN Leven		-1,241,691	0
– other assets		18,455	-116,622
– amounts due to banks, not payable on demand		-145,837	6,730
– customer deposits and other funds on deposit		1,251,027	1,906,932
– non-trading derivatives		7,715	-2,246
– other liabilities		-42,612	107,773
Net cash flow from operating activities		**-889,516**	**-270,751**
Investments and advances:			
– acquisition of a subsidiary net of cash		0	-147,708
– Available-for-sale investments		-168,634	-143,972
Disposals and redemptions:			
– Available-for-sale investments		83,205	0
Net cash flow from investing activities	21	**-85,429**	**-291,680**
Proceeds from subordinated debt, borrowed funds and debt securities		887,022	662,114
Repayments of borrowed funds and debt securities		-10,738	0
Share premium		0	381,000
Net cash flow from financing activities		**876,284**	**1,043,114**
Net cash flow		**-98,661**	**480,683**
Cash and cash equivalents at beginning of year		480,683	13,067
Net changes in cash and cash equivalents		-98,661	467,616
Cash and cash equivalents at end of year	23	**382,022**	**480,683**

Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros

Consolidated statement of changes in equity of NN Bank (2013)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January 2013	10,000	28,000	-5,576	32,424
Unrealised revaluations Available-for-sale investments and other	0	0	-4,390	-4,390
Realised gains/losses transferred to profit and loss	0	0	-2,172	-2,172
Total amount recognised directly in equity (other comprehensive income)	**0**	**0**	**-6,562**	**-6,562**
Net result	0	0	-37,724	-37,724
Total comprehensive income	**0**	**0**	**-44,286**	**-44,286**
Capital contribution	0	381,000	0	381,000
Balance as at 31 December 2013	**10,000**	**409,000**	**-49,862**	**369,138**

Consolidated statement of changes in equity of NN Bank (2014)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January 2014	10,000	409,000	-49,862	369,138
Unrealised revaluations Available-for-sale investments	0	0	6,215	6,215
Realised gains/losses transferred to profit and loss	0	0	-477	-477
Total amount recognised directly in equity (other comprehensive income)	**0**	**0**	**5,738**	**5,738**
Net result	0	0	33,747	33,747
Total comprehensive income	**0**	**0**	**39,485**	**39,485**
Capital contribution	0	0	0	0
Balance as at 31 December 2014	**10,000**	**409,000**	**-10,377**	**408,623**

Changes in individual components are presented in Note 8 “Shareholder’s equity (parent)”.

Notes to the Consolidated annual accounts of NN Bank

Amounts in thousands of euros, unless stated otherwise

Nationale-Nederlanden Bank N.V. ("NN Bank") is incorporated and domiciled in The Hague, the Netherlands. The principal activities of NN Bank are described in the section "Overview".

1 Accounting policies

General

NN Bank prepares its Consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and Part 9 of Book 2 of the Dutch Civil Code. In the annual accounts the term "IFRS-EU" is used to refer to these standards, including the decisions NN Bank made with regard to the options available under IFRS-EU. IFRS-EU provides a number of options in accounting policies.

NN Bank's accounting policies under IFRS-EU and its decision on the options available, if applicable, are included below. The principles are IFRS-EU and do not include other significant accounting choices made by NN Bank. The accounting policies that are most significant to NN Bank are included in section "Critical accounting policies".

The preparation of the Consolidated annual accounts necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expense for the year. The actual outcome may differ from these estimates.

The presentation of, and certain terms used in, the consolidated balance sheet, the consolidated profit and loss account, consolidated statement of cash flows, consolidated statement of changes in equity and certain notes has been changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. The impact of these changes is explained in the respective notes when significant.

Changes in accounting policies in 2014

Changes in IFRS-EU

The following new standards were implemented by NN Bank on 1 January 2014:

- IFRS 10 "Consolidated Financial Statements".
- IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and joint ventures".
- IFRS 12 "Disclosure of Interests in Other Entities".
- IFRS 15 "Revenue from Contracts with Customers".
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).
- Amendments to IAS 32 "Presentation - Offsetting Financial Assets and Financial Liabilities".
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting".
- Amendments to IAS 36 "Recoverable amount disclosures for non-financial assets".
- IFRIC 21 "Levies".

The significant changes in IFRS-EU in 2014 are explained below.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 "Consolidated Financial Statements" introduced amendments to the criteria for consolidation. Similar to the requirements that were applicable until the end of 2013, all entities controlled by NN Bank are included in the Consolidated annual accounts. However, IFRS 10 redefines control as being exposed to variable returns and having the ability to affect those returns through power over the investee. The requirements of IFRS 10 are generally similar to the policies and interpretations that NN Bank applied prior to the introduction of IFRS 10. Therefore, the implementation of the standard on 1 January 2014 did not have impact on Shareholders' equity, Net result and/or Other comprehensive income.

IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and joint ventures"

IFRS 11 "Joint Arrangements" and the related amendments to IAS 28 "Investments in Associates and joint ventures" eliminated the proportionate consolidation method for joint ventures. Under the new requirements, all joint ventures have to be reported using the equity method of accounting (similar to the accounting that is already applied for investments in associates). The impact of IFRS 11 and the amendments to IAS 38 are nihil because NN Bank does not have joint arrangements and/or investments in associates.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 "Consolidated Financial Statements". The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on NN Bank, since NN Bank does not qualify as an investment entity under IFRS 10.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

IAS 32 "Presentation - Offsetting Financial Assets and Financial Liabilities"

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and are applied retrospectively. There is no impact on Total equity, Net result and/or Other comprehensive income, as NN Bank already applied those principles.

IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting".

These amendments provide relief from discontinuing hedge accounting, when novation of a derivative, designated as a hedging instrument, meets certain criteria and retrospective application is required. There is no impact on Total equity, Net result and/or Other comprehensive income as NN Bank already applied those principles.

The other changes in IFRS listed above did not change NN Bank's accounting policies.

Upcoming changes after 2014

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was issued by the IASB in July 2014. The new requirements become effective as of 2018. IFRS 9 is not yet endorsed by the EU. IFRS 9 replaces most of the current IAS 39 "Financial Instruments: Recognition and Measurement", and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets under IFRS 9 will depend on both the entity's business model and the instrument's contractual cash flow characteristics. These may result in financial assets being recognised at amortised cost, at fair value through other comprehensive income (equity) or at fair value through profit and loss. In many instances, the classification and measurement under IFRS 9 will be similar to IAS 39, although certain differences will arise. The classification of financial liabilities remains unchanged.

Impairment

The recognition and measurement of impairment under IFRS 9 is intended to be more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity). Initially, a provision is required for expected credit losses resulting from default events that are expected within the next 12 months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial instrument.

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify general hedge accounting.

NN Bank will assess the impact of the new requirements that may become effective as of 2018. The implementation of IFRS 9, if and when endorsed by the EU, may have a significant impact on Shareholders' equity, Net result and/or Other comprehensive income.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 is not yet endorsed by the EU. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue as and when the agreed performance obligations are satisfied. The standard should in principle be applied retrospectively, with certain exceptions. NN Bank is currently assessing the impact of this standard.

Critical accounting policies

NN Bank has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those that involve the most complex or subjective decisions or assessments, and relate to the loan loss provision, the determination of the fair value of financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the Consolidated annual accounts below and on the next page.

Loan loss provisions

Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on the management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

Reference is made to the information on page 23 under “Impairments of loans and advances (loan loss provisions)”.

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is based on unadjusted quoted market prices at the balance sheet date, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available, market prices may be obtained from independent market vendors, brokers or market makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some cases, positions are marked at mid-market prices.

When markets are less liquid, there may be a range of prices for the same security from different price sources; selecting the most appropriate price requires judgement and could result in different estimates of the fair value.

For certain financial assets and liabilities, quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair value for certain financial assets and liabilities. Valuation techniques involve assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Reference is made to Note 26 “Fair value of financial assets and liabilities” for more disclosure on fair value of financial assets and financial liabilities at the balance sheet date and to the “Risk management” section for the related sensitivities.

Impairments

Impairments evaluation is a complex process that inherently involves significant judgements and uncertainties that may have a significant impact on NN Bank’s consolidated financial statements. Impairments are especially relevant for Available-for-sale investments.

All Available-for-sale investments (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For Available-for-sale investments, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due.

Upon impairment of Available-for-sale investments the full difference between the (acquisition) cost and fair value is removed from equity and recognised in Net result. Impairments on Available-for-sale investments may be reversed if there is a decrease in the amount of the impairment, which can be objectively related to an observable event, after the impairment.

The identification of impairment is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management’s judgement and other information available prior to the issuance of the financial statements. Significantly different results can occur as circumstances change and additional information becomes known.

Notes to the Consolidated annual accounts of NN Bank – continued

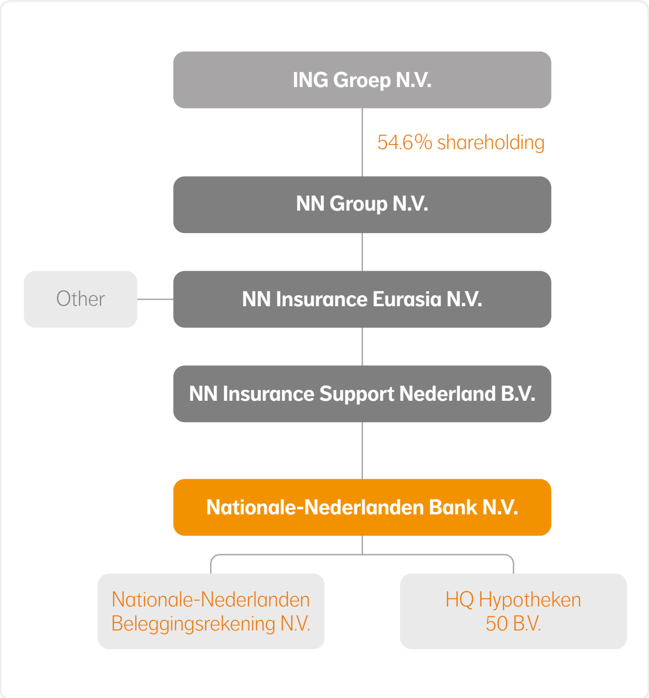
Amounts in thousands of euros, unless stated otherwise

General accounting policies

Consolidation

ING Groep N.V. is the ultimate parent company of NN Bank. The consolidated accounts of ING Groep N.V. comprise the accounts of NN Bank. The residence of ING Groep N.V. is Amsterdam.

The legal structure of NN Bank within ING Groep N.V. can be presented as follows:



The Consolidated annual accounts of NN Bank comprise the accounts of NN Bank and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies, through situations including, but not limited to:

- Ability to appoint or remove the majority of the Board of Directors.
- Power to govern policies under statute or agreement.
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 34 “Principal subsidiaries”.

Apart from the legal structure, control exists if NN Bank is exposed to variable returns and has the ability to affect those returns through power over the investee. Reference is made to Note 35 “Structured entities”, for additional entities to be consolidated, because of the economic relationship between NN Bank and those entities, apart from the legal structure.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether NN Bank controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both NN Bank’s financial interests for own risk and its role as investment manager.

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in the net result.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with NN Bank’s policies. In general, the reporting dates of subsidiaries are the same as the reporting date of NN Bank.

NN Bank and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company’s own funds over the sum of the paid-up capital and reserves required by law.

Copies of the Consolidated annual accounts of NN Bank are available at the Chamber of Commerce in The Hague (trade register no. 52605884).

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the prevailing exchange rate at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Exchange rate differences in the profit and loss account are included in Gains and losses on financial transactions and other income, including exchange rate differences if any, relating to the disposal of Available-for-sale debt securities that are considered to be an inherent part of the capital gains and losses recognised in Gains and losses on financial transactions and other income.

Recognition and derecognition of financial instruments

Financial assets are (de)recognised at trade date, which is the date on which NN Bank commits to purchase or sell the asset, except for loans and receivables that are recognised at settlement date, which is the date on which NN Bank receives or delivers the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when NN Bank has transferred substantially all risks and rewards of ownership. If NN Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Financial liabilities are recognised and derecognised at trade date.

Realised gains and losses on investments are determined as the difference between the sale proceeds and (amortised) cost. For debt securities, the cost is determined by specific identification.

Partial transfers of mortgage loans

NN Bank and related parties are involved in the issuance of savings mortgages. Initially, one party recognises the full savings mortgage loan. The client saves the total amount to redeem the savings mortgage at maturity date at the other party. If the savings amount increases, consequently, the share of ownership of the savings mortgage by the other party increases. NN Bank has arrangements to transfer savings mortgage parts. In certain arrangements NN Bank receives the mortgage parts, in other arrangements NN Bank transfers the mortgage parts.

Fair value of financial assets and liabilities

The fair value of financial instruments is based on unadjusted quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by NN Group is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques, based on market conditions existing at each balance sheet date.

Reference is made to Note 26 “Fair value of assets financial and liabilities” and the “Risk management” section for the basis of determination of the fair value of financial assets and liabilities.

Impairments of loans and advances (loan loss provisions)

NN Bank assesses periodically and at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. NN Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (“Loan loss provision”) and the amount of the loss is recognised in the profit and loss account under “Addition to loan loss provisions”. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the profit and loss account.

In certain circumstances, NN Bank grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns, it is also referred to as 'forbearance'. In general, forbearance represents an impairment trigger under IFRS. In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of loan loss provisioning as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in NN Bank's loan loss provision. Although the loss confirmation periods are inherently uncertain, NN Bank applies estimates to sub-portfolios (e.g. retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit-risk-sensitive information and the frequency with which they are subject to review by NN Bank's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss confirmation periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the profit and loss account.

Impairments of Available-for-sale investments
If there is objective evidence that an impairment loss on Available-for-sale debt investments has occurred, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in Net result - is removed from equity and recognised in the profit and loss account.

If, in a subsequent period, the impairment loss on a loan or a debt instrument classified as Available-for-sale reverses, which can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 32 "Contingent liabilities and commitments" for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. As a large part of the loans on the balance sheet of NN Bank consists of loans secured by mortgages, the actual credit exposure is significantly lower. The manner in which NN Bank manages credit risk and determines credit risk exposures for that purpose, is explained in the "Risk management" section.

Taxation
Income tax on result for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but it is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Fiscal unity
NN Bank and its subsidiaries are part of the fiscal unity for corporate income tax together with NN Group N.V. and the majority of NN Group N.V.'s (insurance) subsidiaries in the Netherlands. Consequently, NN Bank is jointly and severally liable for the total income tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group N.V. "Income tax payable" concerns tax payable to NN Group for the most recent quarter.

Wage tax and social security contributions
Employees of NN Bank are employed by NN Insurance Personeel B.V. The tax receivables and payables concern the receivables and payables of NN Insurance Personeel B.V. "Other taxation and social security contributions" concerns tax payable to NN Insurance Personeel B.V. for the most recent quarter.

Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated annual accounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised where it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN Bank and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of Available-for-sale investments, which are recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Employee benefits

Defined contribution plans

For defined contribution plans, NN Bank, as part of NN Group, pays contributions to the NN CDC Pensioenfonds on a contractual basis. NN Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account of NN Bank when they are due. Prepaid contributions are recognised as an asset to the extent a cash refund or a reduction in the future payments is available.

Reorganisation provisions

Reorganisation provisions include employee termination benefits when NN Bank is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Interest income and expense

Interest income and expense are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, NN Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income and expenses and non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the 'clean fair value' are included in Valuation results on non-trading derivatives.

Statement of cash flows

The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the Net cash flow from operating activities, the Result before tax is adjusted for those items in the profit and loss account, and changes in balance sheet items, which do not result in actual cash flows during the year.

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with central banks, amounts due from other banks and amounts due to banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provisions, which is deducted from the item Loans and advances to customers in the balance sheet, has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

Parent company profit and loss account

The parent company profit and loss account is drawn up in accordance with section 402, Book 2 of the Dutch Civil Code.

Accounting policies for specific items

Financial assets and liabilities at fair value through profit and loss (notes 4 and 13)

A financial asset is classified as at fair value through profit and loss if it is acquired principally for the purpose of selling in the short term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Derivatives and hedge accounting

Derivatives are recognised at fair value. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NN Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

At the inception of the hedge transaction, NN Bank documents the relationship between hedging instruments and hedged items, its risk management objectives, together with the methods selected to assess hedge effectiveness. In addition, NN Bank documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of the hedged items. NN Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

Fair value hedges

Changes in the fair value of derivatives, which are designated and qualify as fair value hedges, are recognised in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest-bearing instruments, amortised through the profit and loss account over the remaining term of the original hedge or recognised directly when the hedged item is derecognised.

Non-trading derivatives that do not qualify for hedge accounting

Derivatives that are used by NN Bank as part of its risk management strategies, that do not qualify for hedge accounting under NN Bank's accounting policies, are presented as Other non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to Valuation results on non-trading derivatives in the profit and loss account.

Available-for-sale investments (note 5)

Available-for-sale financial assets include Available-for-sale debt securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For Available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as Available-for-sale is recognised in Interest income in the profit and loss account.

Unrealised gains and losses arising from changes in the fair value are recognised in Other comprehensive income (equity). When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as Gains and losses on financial transactions and other income. For impairments of Available-for-sale financial assets reference is made to the section "Loans loss provisions and impairments of Available-for-sale debt securities".

Loans and advances (note 6)

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans is recognised in Interest result in the profit and loss account using the effective interest method.

Subordinated debt and debt securities in issue (note 9 and 10)

Subordinated debt and Debt securities in issue are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Financial liabilities include only instruments of which the terms and conditions represent a contractual obligation to pay interest and/or principal. Instruments that are similar in substance, but of which the terms and conditions do not include a contractual obligation to pay interest and principal, are classified in equity.

Customer deposits and other funds on deposit (note 12)

Customer deposits and other funds on deposit are non-derivative financial liabilities that are not quoted in an active market. They are carried at amortised cost using the effective interest method. Interest expense on customer deposits and other funds on deposit is recognised in Interest expense in the profit and loss account using the effective interest method.

Fee and commission income (note 17)

Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet assets

2 Cash and balances with central banks

Cash and balances with central banks

	2014	2013
Amounts held at central banks	321,140	353,755
	321,140	**353,755**

Amounts held at central banks reflect the demand balances.

3 Amounts due from banks

Amounts due from banks

	2014	2013
Loans and advances to banks	0	90,000
Cash advances, overdrafts and other balances	60,882	36,928
	60,882	**126,928**

Loans and advances to banks include mainly short-term deposits.

Cash advances, overdrafts and other balances comprise current accounts and accrued interest with banks. For details on significant concentration, see the "Risk management" section.

4 Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss

	2014	2013
Non-trading derivatives used in fair value hedges	8,725	12,035
Other non-trading derivatives	39,604	362
	48,329	**12,397**

Other non-trading derivatives include interest rate swaps held in the context of asset and liability management that do not qualify for hedge accounting. Reference is made to Note 27 "Derivatives and hedge accounting".

5 Available-for-sale investments

Available-for-sale investments

	2014	2013
Government bonds	493,909	398,028
Financial institution bonds	20,002	28,513
	513,911	**426,541**

Government bonds includes Supranationals, and government bonds from member states of the European Union. All Supranationals are organisations based within the European Union. All have a rating of at least AA (S&P).

Changes in Available-for-sale investments

	2014	2013
Opening balance	426,541	287,098
Reclassification to Accrued interest other	-5,691	0
Changes in the composition of the group	0	15,014
Additions	178,517	450,667
Amortisation	-9,883	-3,171
Changes in unrealised revaluations	7,632	-6,588
Disposals and redemptions	-83,205	-316,479
Closing balance	**513,911**	**426,541**

Reference is made to Note 31 "Transfer of financial assets" for information on sale and repurchase transactions.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

6 Loans and advances

Loans and advances analysed by type

	2014	2013
Loans secured by mortgages, guaranteed by public authorities	1,774,380	1,583,095
Loans secured by mortgages	6,140,022	4,253,713
Consumer lending, mortgage collateralised	63,276	67,300
Consumer lending, other	122,271	72,763
	8,099,949	**5,976,871**
Loan loss provisions	26,359	19,158
	8,073,590	**5,957,713**

Loans and advances do not include subordinated receivables. No individual loan or advance has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of NN Bank. For details on significant concentrations see the "Risk management" section.

Reference is made to Note 26 "Fair value of financial assets and liabilities" for disclosure by fair value hierarchy and the "Risk management" section for NN Bank's credit risk exposure and on significant credit risk concentrations.

Changes in loans and advances

	2014	2013
Opening balance	5,976,871	142,508
Mortgage transfer (Common Control transaction)	0	3,899,670
Mortgage portfolio transfer	1,296,230	1,575,459
Consumer Lending portfolio transfer[1]	0	154,427
Partial transfers of mortgage loans	42,266	-160,223
Origination	2,405,340	833,996
Sale of mortgages to NN Leven	-1,241,691	-345,990
Change in mortgage premium	8,781	7,151
Fair value change hedged items	105,033	-3,472
Redemptions	-492,881	-126,655
Closing balance	**8,099,949**	**5,976,871**

In 2014, the mortgage portfolio transfer from WestlandUtrecht Bank amounted to EUR 1.3 billion. On 1 July 2014, the agreement under which these transfers take place, was amended. The period was extended until 31 December 2020. The total potential loans to be transferred until 2021 is EUR 7.4 billion.

Loan loss provisions analysed by type

	2014	2013
Loans secured by mortgages	15,508	8,257
Consumer lending	10,851	10,901
	26,359	**19,158**

Changes in the loan loss provisions

	2014	2013
Opening balance	19,158	30
Changes in the composition of the group and other changes	0	13,644
Write-offs	-4,331	-1,997
Recoveries	68	-12
Loan loss provisions in partial transfers of mortgage loans	873	0
Addition to the loan loss provisions	10,565	7,493
Other	26	0
Closing balance	**26,359**	**19,158**

The increase in loan loss provisions in 2014 compared to 2013 is caused by the growth in both the mortgage and consumer lending portfolio, together with a slight increase of the total risk costs expressed as basis points (bps) of exposure at default to 13.0 bps (2013: 12.3 bps).

1 Including mortgage collateralised loans.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

7 Other assets

Other assets by type

	2014	2013
Deferred tax assets	1,217	6,596
Accrued interest mortgages	28,420	22,035
Accrued interest non-trading derivatives	4,452	0
Accrued interest other	6,799	0
Current account NN Insurance Eurasia N.V.	385	29,296
Current account ING companies	6,706	807
Intangibles	990	0
Other accrued assets	2,002	0
Other	256	7,210
	51,227	**65,944**

Disclosures in respect of Deferred tax assets are provided in Note 25 “Taxation”.

Equity

8 Equity

Shareholder’s equity

	2014	2013
Share capital	10,000	10,000
Share premium	409,000	409,000
Available-for-sale reserve	5,206	-532
Retained earnings	-15,583	-49,330
Shareholder’s equity	**408,623**	**369,138**

The Available-for-sale reserve cannot be freely distributed. As the Retained earnings has a negative value, part of the Share premium is not freely distributable as well. For more disclosure, see movement table “Changes in shareholder’s equity”.

Share capital

				Ordinary shares
	Number x 1,000		Amount	
	2014	2013	2014	2013
Authorised share capital	5,000	5,000	50,000	50,000
Unissued share capital	4,000	4,000	40,000	40,000
Issued share capital	**1,000**	**1,000**	**10,000**	**10,000**

Ordinary shares
All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the General Meeting of NN Bank. The par value of ordinary shares is EUR 10.00.

Dividend restrictions
NN Bank and its subsidiaries are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company’s equity over the sum of the paid-up capital, and legal and statutory reserves.

In addition to the legal and regulatory restrictions on distributing dividends, there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity. These considerations and limitations include, but are not restricted to regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations. Reference is also made to the “Capital and liquidity management” section.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Changes in shareholder's equity (2014)

	Share capital	Share premium	Available-for-sale reserve	Retained earnings	Total
Opening balance	10,000	409,000	-532	-49,330	369,138
Capital contribution	0	0	0	0	0
Result for the year	0	0	0	33,747	33,747
Unrealised revaluations	0	0	6,215	0	6,215
Realised gains/losses transferred to profit and loss	0	0	-477	0	-477
Other	0	0	0	0	0
Closing balance	**10,000**	**409,000**	**5,206**	**-15,583**	**408,623**

Changes in shareholder's equity (2013)

	Share capital	Share premium	Available-for-sale reserve	Retained earnings	Total
Opening balance	10,000	28,000	6,030	-11,606	32,424
Capital contribution	0	381,000	0	0	381,000
Result for the year	0	0	0	-37,724	-37,724
Unrealised revaluations	0	0	- 4,933	0	-4,933
Realised gains/losses transferred to profit and loss	0	0	-1,921	0	-1,921
Other revaluations	0	0	292	0	292
Closing balance	**10,000**	**409,000**	**-532**	**-49,330**	**369,138**

In 2014, NN Group contributed EUR 0 million (2013: EUR 381 million) of share premium into NN Bank.

Liabilities

9 Subordinated debt

Subordinated debt

Interest rate	Year of issue	Due date	National amount	Balance sheet value 2014	Balance sheet value 2013
3.76%	2014	26 June 2024	15,000	15,000	0
3.60%	2014	26 September 2024	25,000	25,000	0
			40,000	**40,000**	**0**

The above subordinated loans were provided by NN Group to NN Bank to raise Tier 2 capital.

NN Group provided the following subordinated loans to NN Bank:
- On 25 June 2014, a loan with a face value of EUR 15 million, with a maturity of 10 years, a 5 year call date and a fixed interest rate of 3.76% per annum.
- On 26 September 2014, a loan with a face value of EUR 25 million, with a maturity of 10 years, a 5 year call date and a fixed interest rate of 3.60% per annum.

10 Debt securities in issue

Debt securities in issue relates to debentures and other issued debt securities with either fixed interest rates or interest rates based on interest rate levels, such as certificates of deposit and accepted bills, except for subordinated items. Debt securities in issue do not include debt securities presented as Financial liabilities at fair value through profit and loss. NN Bank does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Debt securities in issue – maturities

	2014	2013
Fixed rate debt securities		
More than 2 years but less than 3 years	73,593	0
More than 3 years but less than 4 years	0	0
More than 4 years but less than 5 years	100,000	0
More than 5 years	663,373	662,114
	836,966	**662,114**
Floating rate debt securities		
More than 4 years but less than 5 years	390,501	0
More than 5 years	0	0
	390,501	**0**
	1,227,467	**662,114**

For comparability reasons, the 2013 amounts have been restated from Amounts due to banks.

Debt securities in issue relates to the Residential Mortgage Backed Securities under the Hypenn RMBS I and II securitisation programmes held by third and related parties. The Notes issued, which are held by NN Bank, are not presented in the table above. The Notes issued to third parties amount to EUR 317.1 million as at 31 December 2014 (2013: EUR 0).

The Notes issued to related parties amount to EUR 910.3 million as at 31 December 2014, of which EUR 270 million relates to an unsecured loan (2013: EUR 270 million). The Notes issued to NN Bank amount to EUR 1,333 million as at 31 December 2014 (2013: EUR 1,365 million) and consist of EUR 197 million junior Notes and EUR 1,135 million senior Notes (2013: EUR 1,205 million senior Notes).

The cash inflow of the repayment of the mortgages are first used to redeem the noteholders of the senior Notes. After the redemption of class A noteholders the second repayment of the junior noteholders will take place. NN Bank is holder of all the class B and all the class C Notes of the SPE's. The cash inflow of the interest of the mortgages is used for the outflow of interest of the Notes and follows the same waterfall structure as described above.

11 Amounts due to banks

Amounts due to banks includes non-subordinated debt due to banks, other than amounts in the form of debt securities, including accrued interest with banks.

Amounts due to banks by type

	2014	2013
Interest bearing	130,894	6,730
	130,894	**6,730**

As at 31 December 2014, NN Bank had unused lines of credit available of EUR 150 million (31 December 2013: EUR 0 million).

For 2013, amounts have been restated to Debt securities in issue for comparability reasons.

12 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit

	2014	2013
Savings	4,052,307	3,431,478
Bank annuities	1,841,587	1,237,575
Other	1,167,372	1,142,331
	7,061,266	**5,811,384**

The interest payable on savings accounts is contractually added to the accounts. Other comprises mainly savings amounts directly linked to mortgages.

No funds have been entrusted to NN Bank by customers on terms other than those prevailing in the normal course of business. All customer deposits and other funds on deposit are interest-bearing.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Changes in customer deposits and other funds on deposit

	2014	2013
Opening balance	5,811,384	408,830
Changes in the composition of the group	0	3,656,753
Deposits taken	3,389,738	2,616,457
Withdrawals	-2,139,856	-870,656
Closing balance	**7,061,266**	**5,811,384**

13 Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss

	2014	2013
Non-trading derivatives used in fair value hedges	117,577	15,073
Other non-trading derivatives	39,604	522
	157,181	**15,595**

Other non-trading derivatives include interest rate swaps held in the context of asset and liability management that do not qualify for hedge accounting. Reference is made to Note 27 "Derivatives and hedge accounting" and to Note 35 "Structured entities".

14 Other liabilities

Other liabilities by type

	2014	2013
Income tax payable	4,245	0
Other taxation and social security contributions	7,451	2,391
Accrued interest non-trading derivatives	13,309	0
Accrued interest other	1,167	0
Costs payable	4,983	20,725
Reorganisation provision	10,528	25,940
Other provisions	10	26
Amounts to be settled	1,984	2,590
Other	-29	26,645
	43,648	**78,317**

Change in reorganisation provision

	2014	2013
Opening balance	25,940	0
Additions	2,500	25,940
Releases	-5,222	0
Charges	-12,690	0
Closing balance	**10,528**	**25,940**

In 2012 and 2013, reorganisation provisions were recognised for the insurance operations in the Netherlands, following the initiative to accelerate the transformation programme in preparation for the stand-alone future of NN Group. In response to changing customer preferences and market dynamics, NN Group undertook actions to regain customer trust, diversify distribution channels, implement a new product range and increase efficiency. In 2014, EUR 2.5 million was added to the reorganisation provision, due to additional initiatives announced during 2014.

In 2014 EUR 12.7 million was charged to the provision for the cost of workforce reductions during 2014. The remaining provision at the balance sheet date represents the best estimate of the expected future reorganisation costs, and is expected to be sufficient to cover the remaining costs of the restructuring programme.

The line item Other within Other liabilities relates to amounts payable to third parties in the normal course of business.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Consolidated profit and loss account

On July 2013, a large part of the WestlandUtrecht Bank operations and balance sheet were transferred to NN Bank. Therefore the profit and loss account of 2014 is not fully comparable with 2013.

15 Interest result

Interest result

	2014	2013
Interest income on loans	303,840	120,062
Interest income on Available-for-sale securities	2,262	3,508
Interest income on non-trading derivatives	40,646	10,484
Other interest income	59	249
Total interest income	**346,807**	**134,303**
Interest expense on amounts due to banks	42	0
Interest expense on customer deposits and other funds on deposit	135,440	69,415
Interest expense on debt securities	26,917	5,333
Interest expense on subordinated loans	531	0
Interest expense on non-trading derivatives	56,972	15,654
Other interest expense	201	234
Total interest expense	**220,103**	**90,636**
Interest result	**126,704**	**43,667**

Interest margin

In percentages	2014	2013
Interest margin	1.6%	1.2%

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2014 and 2013 respectively.

16 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2014	2013
Realised gains/losses of debt securities	668	1,921
Results from financial transactions	48,320	12,783
Other income	89	0
	49,077	**14,704**

Results from financial transactions comprises mainly the sale of mortgage loans to NN Leven.

Other income includes currency results on payments in foreign currencies and some other income and expenses.

17 Fee and commission income

Gross fee and commission income

	2014	2013
Service management fees	24,215	13,602
Brokerage and advisory fees	10,016	4,929
Other	147	91
	34,378	**18,622**

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Fee and commission expense

	2014	2013
Asset management fees	6,928	1,808
Brokerage and advisory fees	2,224	1,184
Other	154	28
	9,306	**3,020**

For a better insight into the nature of the fees and commission result, NN Bank changed the 2014 presentation of the composing sub-items and restated the 2013 amounts for comparability reasons.

NN Bank services a total loan portfolio of EUR 18.6 billion (2013: EUR 19.6 billion) for NN Leven and ING Bank. In addition, NN Bank offers an execution-only product (investment service) to NN Leven.

18 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2014	2013
Gains / losses (fair value change) in fair value hedges relating to:		
– the hedging instrument (non-trading derivatives)	-110,786	4,050
– the hedged items (mortgages) attributable to the hedged risk	105,033	-3,472
Net accounting ineffectiveness recognised in profit and loss	**-5,753**	**578**
Valuation results on non-trading derivatives not related to the macro fair value hedge accounting	154	-154
Net valuation results	**-5,599**	**424**

The net accounting ineffectiveness of EUR -5,753 thousand (2013: EUR 578 thousand) reflects the valuation result related to macro fair value hedging. The accrued interest of EUR -8,856 thousand (2013: EUR -6,136 thousand) is not included in the fair value change of the hedging instrument.

The revaluation result of derivatives transactions not related to macro fair value hedge accounting amounts EUR 154 thousand (2013: EUR -154 thousand).

19 Staff expenses

Staff expenses

	2014	2013
Salaries	44,268	31,072
Pension and other staff-related benefit costs	8,474	3,712
Social security costs	5,269	3,381
External staff	30,018	17,005
Education	688	409
Other staff costs	450	364
	89,167	**55,943**

The merger of parts of WestlandUtrecht Bank in July 2013 resulted in a significant increase in staff, therefore 2014 staff expenses are significantly higher than 2013.

In 2013, the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150,000 for each employee, subject to Dutch income tax. The tax is charged to NN Bank through NN Insurance Personeel B.V. and does not affect the remuneration of involved staff. The tax imposed on NN Bank for relevant employees is included in the amounts in the table above.

Number of employees at full time equivalent basis

	2014	2013
Number of employees at full time equivalent basis at end of year	582	587

For Pension costs, reference is made to Note 24 "Pension and other post-employment benefits". For the remuneration of Management Board and Supervisory Board, reference is made to Note 37 "Key management personnel compensation".

Sharesave Plan

In August 2014, NN Group introduced a "Sharesave" plan, which is open to all employees. Under the plan, from August 2014, eligible

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

employees can save a fixed monthly amount of between EUR 25 and EUR 250 for a period of three years. At the end of the three-year period, employees will receive their savings together with a gross gain, if at the end of the three-year period the NN Group share price exceeds the initial trading price of NN Group shares on the Amsterdam Stock Exchange on 7 July 2014. The gross gain is limited to a 100% increase in the share price and is paid in cash. If an employee leaves the plan or if the share price is equal to or less than the initial trading price, the amount contributed by the employee is repaid.

The expense recognised in staff expenses by NN Bank for the "Sharesave Plan" amounts to EUR 68 thousand.

20 Other operating expenses

Other operating expenses

	2014	2013
Write-off of intangibles	0	3,114
Computer costs	5,084	1,436
Office expenses	5,196	1,328
Travel and accommodation expenses	1,657	317
Advertising and public relations	7,058	6,987
IT outsourcing	20,657	20,897
Bank costs	600	0
Addition/release of provision for reorganisation	-2,722	25,940
Other reorganisation costs	1,095	0
Other	11,352	1,241
	49,977	**61,260**

For addition/release of reorganisation provisions, reference is made to the disclosure on the reorganisation provision in Note 14 "Other liabilities".

The line Other, in Other operating expenses, mainly consists of corporate staff department costs charged from NN Group to NN Bank. Also the one-time government levy charge of EUR 0.9 million as a result of the nationalisation of SNS Reaal is included. In 2014, the recharges from NN Group are the full year charges, whereas 2013 recharges relate to the second half of 2013. In 2013, also a 'brand fee compensation' of WestlandUtrecht Bank of EUR 3.8 million was included. The compensation was terminated after the common control transaction of 1 July 2013.

Consolidated statement of cash flows

21 Net cash flow from investing activities

In 2014, NN Bank did not acquire or dispose of companies. Net cash flow from investing activities is EUR -85.4 million (2013: EUR -291.7 million).

22 Interest and dividend included in net cash flow

Interest received and paid

	2014	2013
Interest received	344,323	111,712
Interest paid	195,232	41,036
	149,091	**70,676**

Interest received, interest paid and dividends received are included in operating activities in the Consolidated statement of cash flows.

23 Cash and cash equivalents

Cash and cash equivalents

	2014	2013
Amounts due from banks	60,882	126,928
Cash and balances with central banks	321,140	353,755
Cash and cash equivalents at end of year	**382,022**	**480,683**

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Other

24 Pension and other post-employment benefits

Defined contribution ("DC") plans

NN Bank is sponsor of the NN CDC Pensioenfonds. The assets of all NN Group's DC plans are held in an independently administered fund. Contributions are determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in other assets/liabilities. The expense recognised in staff expenses by NN Bank for DC plans amounts to EUR 8.5 million.

Before 2014, NN Bank participated in the defined benefit ("DB") plan of ING Groep in the Netherlands (the ING Dutch Pension Fund).

The ING Dutch Pension Fund shared the risks between individual companies within ING Groep and consequently the liability specific to any one company within the Netherlands could not be determined. ING Groep charged individual group entities with a portion of the total DB cost based upon the employees currently in service at that entity. The company included this charge in the profit and loss for the year on the basis of defined contribution ("DC").

In February 2014, ING Groep reached final agreement with the trade unions, the ING Dutch Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI) to transfer all future funding and indexation obligations under ING's current closed defined benefit plan in the Netherlands to the ING Dutch Pension Fund. The agreement made the ING Dutch Pension Fund financially independent from ING Groep.

NN Group has recognised a charge of EUR 541 million, as effect of curtailment or settlement, related to the Dutch DB pension plan settlement. Of this impact, EUR 0 was allocated as a charge to NN Bank.

25 Taxation

NN Bank is part of the fiscal unity for corporation tax purposes of NN Group, together with the majority of its Dutch insurance group companies, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group. With reference to Note 14 "Other liabilities", Income tax payable concerns tax payable to NN Group for the most recent quarter.

Changes in deferred tax (2014)

	Net asset 2014[1]	Change through equity	Change through net result	Changes in the composition of the group	Other	Net asset 2013
Investments	1,797	1,908	0	0	0	-111
Financial assets and liabilities at fair value through profit and loss:						
– non-trading derivatives	-382	0	-382	0	0	0
Provisions	-2,632	0	3,853	0	0	-6,485
	-1,217	**1,908**	**3,471**	**0**	**0**	**-6,596**
Comprising						
– deferred tax liabilities	1,797					0
– deferred tax assets	-3,014					-6,596
	-1,217					**-6,596**

1 + = liabilities, – = assets

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Changes in deferred tax (2013)

	Net asset 2013[1]	Change through equity	Change through net result	Changes in the composition of the group	Other	Net asset 2012
Investments	-111	-2,127	0	0	0	2,016
Financial assets and liabilities at fair value through profit and loss	0	0	0	6	0	-6
Provisions	-6,485	0	-6,485	0	0	0
	-6,596	**-2,127**	**-6,485**	**6**	**0**	**2,010**

Comprising		
– deferred tax liabilities	0	2,010
– deferred tax assets	-6,596	0
	-6,596	**2,010**

1 + = liabilities, – = assets

Profit and loss account

Taxation by type

	2014	2013
Current taxation	8,327	-5,979
Deferred taxation	3,471	-6,596
	11,798	**-12,575**

The 2014 taxation changed by EUR 24.4 million to EUR 11.8 million, from EUR -12.6 million in the previous year. This increase was caused by a significant higher result before tax compared to 2013.

Reconciliation of the statutory income tax rate to NN Bank's effective income tax rate

	2014	2013
Result before tax	45,545	-50,299
Statutory tax rate	25.0%	25.0%
Statutory tax amount	**11,386**	**-12,575**
Expenses not deductible for tax purposes	236	0
Adjustments to prior periods	176	0
Effective tax amount	**11,798**	**-12,575**
Effective tax rate	**25.9%**	**25.0%**

The statutory tax rate in 2014 was 25.0%, as in 2013. The effective tax rate in 2014 was 25.9%, which is marginally higher than the statutory tax rate, due to non-deductible expenses as well as a prior year adjustment.

Other comprehensive income

Taxation on components of other comprehensive income

	2014	2013
Unrealised revaluations	1,908	-130
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	191	-480
Total income tax related to components of other comprehensive income	**2,099**	**-610**

26 Fair value of financial assets and liabilities

The following table presents the estimated fair value of NN Bank's financial assets and liabilities. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair value presented below does not represent, and should not be construed as, representing the underlying value of NN Bank.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2014	2013	2014	2013
Financial assets				
Cash and balances with central banks	321,140	353,755	321,140	353,755
Amounts due from banks	60,882	126,928	60,882	126,928
Financial assets at fair value through profit and loss	48,329	12,397	48,329	12,397
Available-for-sale investments	513,911	426,541	513,911	426,541
Loans and advances	8,645,302	6,142,783	8,073,590	5,979,713
Other assets[1]	50,010	65,944	50,010	65,944
	9,639,574	**7,128,348**	**9,067,862**	**6,943,278**
Financial liabilities				
Subordinated debt	41,632	0	40,000	0
Debt securities in issue[3]	1,386,728	672,746	1,227,467	662,114
Amounts due to banks[3]	131,293	6,730	130,894	6,730
Customer deposits and other funds on deposit	7,227,254	5,806,492	7,061,266	5,811,384
Financial liabilities at fair value through profit and loss	157,181	15,595	157,181	15,595
Other liabilities[2]	21,413	78,317	21,413	78,317
	8,965,501	**6,579,880**	**8,638,221**	**6,574,140**

1 Other assets do not include (deferred) tax assets.
2 Other liabilities do not include (deferred) tax liabilities, other provisions and other taxation and social security contributions.
3 For comparability reasons, the amounts of 2013 have been restated.

The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date ('exit price'). The fair value of financial assets and liabilities is based on quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available, market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments, various techniques have been developed to estimate the approximate fair value of financial assets and liabilities that are not actively traded. The fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of future fair value. Where exposures of a group of financial assets and financial liabilities are managed on a net basis, NN Bank applies the EU 'carve out' that allows NN Bank to measure the fair value of the group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or settle a net short position.

The following methods and assumptions were used by NN Bank to estimate the fair value of the financial instruments:

Financial assets

Cash and balances with central banks

Cash and cash equivalents are recorded at their nominal value which approximates its fair value.

Amounts due from banks

The fair value of receivables from banks is generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics, similar to Loans and advances described on the next page.

Financial assets at fair value through profit and loss and Available-for-sale-investments

Derivatives

Derivatives contracts can either be exchange-traded or over-the-counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments not actively traded, fair value is estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques, because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend upon the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. These models are commonly used in the banking industry. Inputs to valuation models are determined from observable market data, where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of consensus pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Amounts in thousands of euros, unless stated otherwise

Debt securities
Fair value for debt securities is based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment and estimated prepayment rates, where applicable.

Loans and advances
For loans and advances that are re-priced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discounted rate that reflects credit risk, liquidity and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Other assets
The Other assets are stated at their carrying value which is not significantly different from their fair value.

Financial liabilities
Subordinated debt
The fair value of the subordinated debt is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

Debt securities in issue
The fair value of debt securities in issue is generally based on quoted market prices or, if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Amounts due to banks
The fair value of payables to banks is generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits and other funds on deposit
The carrying values of customer deposits and other funds on deposit with no stated maturity approximate their fair value. The fair values of deposits with stated deposits have been estimated based on discounting future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions.

Other liabilities
The other liabilities are stated at their carrying value, which is not significantly different from their fair value.

Financial assets and liabilities at fair value
The fair value of the financial instruments carried at fair value was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities (2014)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit and loss:				
– Non-trading derivatives	0	8,725	39,604	48,329
Investments:				
– Available-for-sale	393,465	120,446	0	513,911
	393,465	**129,171**	**39,604**	**562,240**
Financial liabilities				
Financial liabilities at fair value through profit and loss:				
– Non-trading derivatives	0	117,577	39,604	157,181
	0	**117,577**	**39,604**	**157,181**

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Methods applied in determining the fair value of financial assets and liabilties (2013)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss:				
– Non-trading derivatives	0	12,397	0	12,397
Investments				
– Available-for-sale	426,541	0	0	426,541
	426,541	**12,397**	**0**	**438,938**
Financial liabilities				
Financial liabilities at fair value through profit and loss:				
– Non-trading derivatives	0	15,595	0	15,595
	0	**15,595**	**0**	**15,595**

NN Bank has categorised its financial instruments that are either measured in the balance sheet at fair value or of which the fair value is disclosed into a three-level hierarchy, based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an on-going basis.

The fair value hierarchy consists of three levels, depending upon whether fair value were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include, for example, illiquid debt securities, complex OTC and credit derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), mortgage loans and consumer lending.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs that are based on NN Bank's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Transfers into and transfers out of fair value hierarchy levels are recognised as of the date of the event or change in circumstances that caused the transfer.

Level 1 – (Unadjusted) Quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Bank can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide pricing information on an on-going basis. Transfers out of Level 1 into Level 2 occur when NN Bank establishes that markets are no longer active and therefore (unadjusted) quoted prices no longer provide reliable pricing information.

Level 2 – Valuation technique supported by observable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), in which inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable, but all significant inputs are, the instrument is still classified in this category, provided that the impact of those unobservable inputs on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive.

Level 3 – Valuation technique supported by unobservable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), for which more than an insignificant part of the inputs in terms of the overall valuation are not market-observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes, but for which the market is considered inactive. An instrument is classified in its entirety as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an orderly transaction would be likely to occur can be derived.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Level 3 Financial assets (2014)

	Non-trading derivatives	Total
Level 3 Financial assets - Opening balance	0	0
Amounts recognised in the profit and loss account during the year	39,604	39,604
Level 3 Financial assets - Closing balance	**39,604**	**39,604**

As at 31 December 2013 and during 2013, NN Bank had no Level 3 financial assets.

Level 3 Financial liabilities (2014)

	Non-trading derivatives	Total
Level 3 Financial liabilities - Opening balance	0	0
Amounts recognised in the profit and loss account during the year	39,604	39,604
Level 3 Financial liabilities - Closing balance	**39,604**	**39,604**

As at 31 December 2013 and during 2013, NN Bank had no Level 3 financial liabilities.

Level 3 Amounts recognised in the profit and loss account during the year (2014)

	Held at balance sheet date	Total
Financial assets		
Non-trading derivatives	39,604	39,604
Level 3 amounts recognised in the profit and loss account during the year	**39,604**	**39,604**
Financial liabilities		
Non-trading derivatives	-39,604	-39,604
Level 3 amounts recognised in the profit and loss account during the year	**-39,604**	**-39,604**

Level 3 Financial assets and liabilities at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2014 of EUR 562.2 million include an amount of EUR 39.6 million (7.0%) that is classified as Level 3 (31 December 2013: EUR 0 million, 0%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2014 of EUR 157.2 million include an amount of EUR 39.6 million (25.2%) that is classified as Level 3 (31 December 2013: EUR 0 million, 0%).

NN Bank has entered into a non-trading derivatives transactions with an ING Groep entity. The fair value of these transactions amount to EUR 39.6 million as at 31 December 2014 and are presented gross, as offsetting is not applicable. Reference is made to note 35 "Structured entities".

Financial assets in Level 3 include both assets and liabilities for which the fair value was determined using valuation techniques that incorporate unobservable inputs. Unobservable inputs are inputs which are based on NN Bank's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Fair values that are determined using valuation techniques using unobservable inputs are sensitive to the inputs used. Fair values that are determined using quoted prices are not sensitive to unobservable inputs, as the valuation is based on unadjusted external price quotes. These are classified in Level 3 as a result of the illiquidity in the relevant market, but are not significantly sensitive to NN Bank's own unobservable inputs.
Unrealised gains and losses that relate to Level 3 financial assets and liabilities relating to non-trading derivatives are included in the profit and loss account as Valuation results on non-trading derivatives.

Unrealised gains and losses that relate to Available-for-sale investments are recognised in Other comprehensive income (equity) and included in Reserves in the line Unrealised revaluations Available-for-sale investments.

Financial assets and liabilities at amortised cost

The fair value of the financial instrument carried at amortised cost in the balance sheet (where fair values are disclosed) were determined as follows:

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Methods applied in determining the fair value of financial assets and liabilities (2014)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with central banks	321,140	0	0	321,140
Amounts due from banks	0	60,882	0	60,882
Loans and advances	0	0	8,645,302	8,645,302
	321,140	**60,882**	**8,645,302**	**9,027,324**
Financial liabilities				
Subordinated debt	0	41,632	0	41,632
Debt securities in issue	0	1,386,728	0	1,386,728
Amounts due to banks	0	131,293	0	131,293
Customer deposits and other funds on deposit	5,099,811	2,127,443	0	7,227,254
	5,099,811	**3,687,096**	**0**	**8,786,907**

Methods applied in determining the fair value of financial assets and liabilities (2013)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with central banks	353,755	0	0	353,755
Amounts due from banks	0	126,928	0	126,928
Loans and advances	0	0	6,164,818	6,164,818
	353,755	**126,928**	**6,164,818**	**6,645,501**
Financial liabilities				
Debt securities in issue	0	672,746	0	672,746
Amounts due to banks	0	6,730	0	6,730
Customer deposits and other funds on deposit[1]	4,527,123	1,279,369	0	5,806,492
	4,527,123	**1,958,845**	**0**	**6,485,968**

1 The 2013 amounts have been restated for comparability reasons.

27 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Bank uses interest rate swaps for economic hedging purposes in management of its asset and liability portfolios and has designated almost all interest rate swaps in fair value macro hedge accounting relationships. The objective of hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The impact of NN Bank's hedging activities is to mitigate the market risk that would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. In addition, hedging activities are undertaken to hedge against the interest rate risk in the mortgage offer period in relation to retail mortgages and to lock in the interest margin in relation to interest-bearing assets and related funding.

Fair value hedge accounting

NN Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. NN Bank applies the IFRS-EU 'carve-out', in which the net exposure of retail funding (savings) and lending (mortgages) is hedged. These hedging activities are designated under a portfolio fair value hedge on the mortgages using the IFRS-EU provisions.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. If hedge accounting is applied under IFRS-EU, it is possible that during the hedge, a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

With respect to interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ending 31 December 2014, NN Bank recognised EUR -110.8 million (2013: EUR 4.0 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 105.0 million (2013: EUR 3.4 million) fair value changes recognised on hedged items. This resulted in EUR -5.8 million (2013: EUR 0.6 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2014, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -108.9 million (2013: EUR 2.9 million), presented in the balance sheet as EUR 8.7 million (2013: EUR 12.1 million) positive fair value under assets and EUR -117.6 million (2013: EUR 15.1 million) negative fair value under liabilities.

The following table shows the maturity of interest rate swaps that are designated in macro fair value hedge accounting relationships and other interest rate swaps that are economic hedges as at 31 December 2014.

Non-trading derivatives by type (2014)

Notionals, amounts in millions of euros — **Amounts in thousands of euros**

	< 1 year	Between 1 and 5 years	> 5 years	Total	Positive fair value	Negative fair value
Interest rate swaps	2,022	1,256	2,393	5,671	48,329	157,181
Basis swaps	0	0	0	0	0	0
Total derivatives	**2,022**	**1,256**	**2,393**	**5,671**	**48,329**	**157,181**

Non-trading derivatives by type (2013)

Notionals, amounts in millions of euros — **Amounts in thousands of euros**

	< 1 year	Between 1 and 5 years	> 5 years	Total	Positive fair value	Negative fair value
Interest rate swaps	482	1,008	1,801	3,291	12,035	15,073
Basis swaps	1,558	0	0	1,558	362	522
Total derivatives	**2,040**	**1,008**	**1,801**	**4,849**	**12,397**	**15,595**

28 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity (2014)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[2]	Total
Cash and balances with central banks	321,140	0	0	0	0	0	0	321,140
Amounts due from banks	60,882	0	0	0	0	0	0	60,882
Financial assets at fair value through profit and loss:								
– Non-trading derivatives	0	0	0	0	0	0	48,329	48,329
Available-for-sale investments	21,581	3,204	114,667	265,226	109,233	0	0	513,911
Loans and advances	3,383	9,413	42,059	225,165	7,793,570	0	0	8,073,590
Other assets	1,865	598	4,336	0	2,144	42,284	0	51,227
Total assets	**408,851**	**13,215**	**161,062**	**490,391**	**7,904,947**	**42,284**	**48,329**	**9,069,079**
Risk management derivatives:								
– Inflow	0	1,623	4,362	4,044	13,739	0	0	23,768
– Outflow	-61	-1,427	-3,234	-9,726	-9,435	0	0	-23,883
	408,790	**13,411**	**162,190**	**484,709**	**7,909,251**	**42,284**	**48,329**	**9,068,964**

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Assets by contractual maturity (2013)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[2]	Total
Cash and balances with central banks	353,755	0	0	0	0	0	0	353,755
Amounts due from banks	126,928	0	0	0	0	0	0	126,928
Financial assets at fair value through profit and loss:								
– Non-trading derivatives	0	0	0	0	0	0	12,397	12,397
Available-for-sale investments[3]	5,063	17,029	58,586	307,224	38,639	0	0	426,541
Loans and advances[3]	2,726	4,548	33,676	175,497	5,741,267	0	0	5,957,714
Other assets[3]	27,913	2,785	4,705	9,636	6,187	14,717	0	65,943
Total assets	**516,385**	**24,362**	**96,967**	**492,357**	**5,786,093**	**14,717**	**12,397**	**6,943,278**
Risk management derivatives:								
– Inflow	0	0	15,388	53,044	65,794	0	0	134,226
– Outflow	-170	-936	-3,228	-34,430	-93,217	0	0	-131,981
	516,215	**23,426**	**109,127**	**510,971**	**5,758,670**	**14,717**	**12,397**	**6,945,523**

1 Includes assets on demand.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis.
3 For comparability reasons, the amounts of 2013 have been restated.

29 Liabilities by maturity

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities, the contractual gross cash flow payable is included. Reference is made to the “Liquidity Risk” paragraph in the “Risk management” section for a description on how liquidity risk is managed.

Liabilities by maturity (2014)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable[2]	Adjustment[1]	Total
Subordinated debt	0	0	0	0	40,000	0	0	40,000
Debt securities in issue	0	0	0	559,262	670,000	-1,795	0	1,227,467
Amounts due to banks	5,794	24,969	100,000			131	0	130,894
Customer deposits and other funds on deposit	26,418	30,488	133,873	600,325	668,419	5,601,743		7,061,266
Non-trading derivatives	0	0	0	0	0	0	157,181	157,181
Financial liabilities	**32,212**	**55,457**	**233,873**	**1,159,587**	**1,378,419**	**5,600,079**	**157,181**	**8,616,808**
Other liabilities	0	0	0	0	0	43,648	0	43,648
Coupon interest due on financial liabilities	23,190	5,240	35,349	225,511	213,602	0	0	502,892
Issued financial guarantee	109	0	0	0	0	0	0	109
Unrecognised irrevocable facilities	1,167,634	0	0	0	0	0	0	1,167,634
Derivative liabilities:								
– Outflow	1,121	792	29,103	106,863	102,996	0	0	240,875
– Inflow	-441	-1,691	-7,536	-39,559	-74,789	0	0	-124,016
Total liabilities	**1,223,825**	**59,798**	**290,789**	**1,452,402**	**1,620,228**	**5,643,727**	**157,181**	**10,447,950**

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Liabilities by maturity (2013)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable[2]	Adjustment[1]	Total
Debt securities in issue[3]	0	0	0	0	670,000	-7,886	0	662,114
Amounts due to banks[3]	911	0	0	0	0	5,819	0	6,730
Customer deposits and other funds on deposit[2,3]	3,031	20,094	95,328	348,021	405,505	4,939,405		5,811,384
Non-trading derivatives							15,595	15,595
Financial liabilities	**3,942**	**20,094**	**95,328**	**348,021**	**1,075,505**	**4,937,338**	**15,595**	**6,495,823**
Other liabilities[3]	0	0	0	0	0	78,317	0	78,317
Undiscounted interest on financial liabilities	14,939	4,246	32,957	280,185	286,057	0	0	618,384
Issued financial guarantee	11,001	0	0	0	0	0	0	11,001
Unrecognised irrevocable facilities	493,354	0	0	0	0	0	0	493,354
Derivative liabilities								
– Outflow	0	0	30,312	120,334	97,851	0	0	248,497
– Inflow	-317	-430	-8,082	-102,727	-133,838	0	0	-245,394
Total liabilities	522,919	23,910	150,515	645,813	1,325,575	5,015,655	15,595	7,699,982

1 Contractual cash flows for non-trading derivatives are presented on a gross basis.
2 Includes deposits without contractual maturity. For comparability reasons, the related 2013 amounts have been restated.
3 For comparability reasons, the amounts of 2013 have been restated.

30 Assets not freely disposable

Assets not freely disposable

	2014	2013
Available-for-sale investments	5,691	14,849
Loans and advances	2,440,330	1,723,056
Cash and balances with central banks	25,194	19,940
	2,471,215	**1,757,845**

Investments not freely disposable consist of interest-bearing securities pledged to clearing institutions.

The amount not freely disposable for Loans and advances and Banks reflect the securitised mortgages portfolio to Hypenn RMBS I and II and the money held by Hypenn RMBS I and II, respectively. In addition, mortgages pledged in respect of repurchase transaction and the 'warehouse' loan agreement are included.

31 Transfer of financial assets

NN Bank has entered into a repurchase transaction. Assets that have been transferred, but do not qualify for derecognition, are mortgage loans, incorporated in notes issued by Hypenn RMBS I, amounting to EUR 29 million (2013: EUR 0 million). Assets transferred to consolidated securitisation entities are not included, as these related assets are not transferred from a consolidated perspective. Reference is made to Note 35 "Structured entities".

32 Contingent liabilities and commitments

In the normal course of business NN Bank is party to activities whose risks are not reflected in whole or in part in the Consolidated annual accounts. In response to the needs of its customers, NN Bank offers financial products related to loans. These products include traditional off-balance-sheet, credit-related financial instruments.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Contingent liabilities and commitments

	2014	2013
Contingent liabilities in respect of:		
– Guarantees	109	11,001
– Irrevocable credit facilities	145,435	79,363
– Mortgage offerings	1,022,199	413,991
	1,167,743	**504,355**

In 2013, guarantees were commitments made by WestlandUtrecht Bank before the transaction of 1 July 2013. These guarantees have been withdrawn in 2014.

Irrevocable facilities relate to liabilities arising from irrevocable undertakings and include credit facilities, except mortgage offerings.

As part of the transaction on 1 July 2013, NN Bank entered into an obligation to buy all mortgage loans from Nationale-Nederlanden Hypotheekbedrijf N.V., of which one or more parts of loans are due an interest reset for the period until 31 December 2015. On 1 July 2014, the agreement was amended and the period over which to buy the mortgage loans is extended until 31 December 2020. The total potential resetting loans for this period is EUR 7.4 billion.

33 Legal proceedings

NN Bank is or could be involved in litigation and other binding proceedings involving claims by and against NN Bank that arise in the ordinary course of its business, including in connection with its activities as bank, investor and its position as employer and taxpayer. Such proceedings could entail that large or indeterminate amounts are sought. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, the company's management is not aware of any proceedings that may have or have in the recent past had a significant effect on the financial condition, profitability or reputation of the company.

34 Principal subsidiaries

NN Bank has two fully owned subsidiaries:
- HQ Hypotheken 50 B.V., which was founded on 21 August 2012 with registered offices in Rotterdam. Via this subsidiary, NN Bank offers mortgage loans to consumers via a business partner (Quion Hypotheekbemiddeling B.V.).
- Nationale-Nederlanden Beleggingsrekening N.V. This is a 'dormant' company, not currently developing any business or other activities.

On 28 March 2014, Nationale-Nederlanden Global Custody B.V. merged with Nationale-Nederlanden Bank N.V. As a result of this merger, Nationale-Nederlanden Global Custody B.V. ceased to exist by operation of law and NN Bank acquired all assets, liabilities and obligations of Nationale-Nederlanden Global Custody B.V. under universal title of succession.

35 Structured entities

NN Bank's activities include transactions with structured entities. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. NN Bank uses structured entities for securitisation transactions of residential mortgages. NN Bank has set up special purpose entities (SPEs), Hypenn RMBS II B.V. in 2014 and Hypenn RMBS I B.V. in 2013.

NN Bank uses securitisation transactions to diversify its funding sources and to manage its liquidity profile. In these securitisation transactions, NN Bank sells a portfolio of mortgage receivables, (i.c. mortgage loans) to a structured entity which issues Notes. The Notes are issued both to third parties as well as to NN Bank. With the proceeds of the Notes the SPE can finance the purchase of the mortgage receivables and with the received interest on the mortgage receivables the SPE can pay the interest on the Notes. The Bank services the assigned portfolio of mortgage receivables. All securitised assets are originated in the Netherlands by NN Bank. Noteholders only have recourse to the SPEs and not to NN Bank.

NN Bank uses financial instruments in securitisation transactions. NN Bank makes use of interest rate swap agreements between a swap counterparty which have been structured in such a manner, that NN Bank pays the swap counterparty the interest expenses on the Notes and the swap counterparty pays the Bank the interest received on the mortgage receivables less third party operation expenses and additions to the Loan Loss Provision. The SPE also uses financial instruments, which are exactly the opposite of the financial instruments of NN Bank. The fair value of the non-trading derivatives transactions amount to EUR 39.6 million as at 31 December 2014 and are presented gross as offsetting is not applicable.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

With these true sale securitisations, the ownership of the mortgage loans amounting to EUR 538 million in 2014 and EUR 1,765 million in 2013 was transferred to the structured entities in exchange for Notes. As at balance sheet date, EUR 959 million (2013: EUR 400 million) of these Notes were sold to related and third parties. The remainder of the Notes are held by NN Bank. Besides the Notes NN Bank recognises non trading derivatives transactions of EUR 39.6 million in 2014. NN Bank consolidates these entities in its financial statements on the basis of the economic relationship between NN Bank and the structured entities, as NN Bank has the power to control those entities.

36 Related parties

In the normal course of business, NN Bank enters into transactions with related parties. ING Groep, ING Bank, NN Group and their subsidiaries are considered related parties. Transactions between related parties have taken place on an arm's length basis and include rendering or receiving of services, transfers under finance arrangements and provisions of guarantees or collateral. Reference is also made to Note 6 "Loans and advances".

These transactions vary from financing activities to regular purchases and sales transactions. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions with ING Bank (including ING Bank subsidiaries)

	2014	2013
Assets	342,959	398,356
Liabilities	711,062	677,390
Income received	2,571	4,646
Expenses paid	-698	4,326

The assets comprise the partial transfers of mortgage loans, bank account balances and derivative assets. The liabilities reflect a loan of EUR 270 million (2013: EUR 270 million), issued debt securities, the so-called Hypenn Notes (2013: EUR 400 million), related to the Residential Mortgage-Backed Securities (RMBS) transaction and derivative liabilities.

The income received comprises servicing fees on mortgages and interest on the outstanding amounts due to ING Bank. Reference is also made to Note 32 "Contingent liabilities and commitments".

Transactions with Parent group companies

	2014	2013
Assets	2,529	29,296
Liabilities	40,531	13,444
Income received	-730	223
Expenses paid	17,459	3

The assets with Parent group companies consist mainly of receivables from and the current account with NN Insurance Eurasia N.V. The liabilities reflect the subordinated loan with NN Group. The expenses paid include mainly expenses charged by staff departments of NN Group, especially for IT and facility management services.

In addition, NN Bank entered into a revolving credit facility with NN Group of EUR 250 million (2013: EUR 250 million with ING Bank). The terms of this facility are at arm's length. Both at year-end 2014 and 2013, EUR 0 million was drawn.

Transactions with Other group companies

	2014	2013
Assets	14,956	-375,557
Liabilities	356,016	114,678
Income received	-92,927	27,568
Expenses paid	1,970	11,925

The assets comprise partial transfers of mortgage loans with NN Leven and derivative positions including accrued interest with Nationale-Nederlanden Interfinance B.V. (NNIF). NNIF is a subsidiary of NN Group, with which derivative positions are traded.

The liabilities reflect issued debt securities, the so-called Hypenn Notes, to NN Leven (247 million) and derivative positions, including accrued interest with NNIF.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

The negative income received reflects mainly the valuation and interest result on derivative positions with NNIF (mostly offset in the profit and loss account by the fair value change of the hedged items), interest expenses on funding from NN Leven, the positive financial transaction result on whole loan sales to NN Leven and positive asset management servicing fees.

The expenses paid include charged expenses by NN Leven and Nationale-Nederlanden Schadeverzekering Maatschappij N.V. ("NN Schade").

Reference is also made to Note 6 "Loans and advances".

37 Key management personnel compensation

Transactions with key management personnel (Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code. The relevant sections of the remuneration report, therefore, are part of the annual accounts.

Key management personnel compensation (Management Board)

	2014	**2013**
Fixed compensation:		
Base salary[1]	958	498
Pension costs[2]	225	-1,232
Other benefits[3]	136	94
Variable Compensation[3]:		
Up-front cash	136	108
Up-front shares	114	94
Deferred cash	100	68
Deferred shares	100	68
Total compensation	**1,769**	**-302**

1 The base salary for 2014 concerns a full year, whereas 2013 concerns only about a half year.
2 The pension costs shows a release in 2013 that is caused by the departure of a number of Management Board members. Furthermore, a curtailment has been recognised as the defined benefit pension plan for the Management Board was converted into a defined contribution plan.
3 2013 restated for comparability reasons.

The costs of the NN Bank Management Board are directly charged by NN Insurance Personeel B.V. to NN Bank. These costs are recognised in the profit and loss account as Staff expenses.

The total remuneration, as disclosed in the table above (for 2014: EUR 1.8 million), includes all variable remuneration related to the performance year 2014. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff and Operating expenses in 2014, and therefore included in Total expenses in 2014, relating to the fixed expenses of 2014 and the vesting of variable remuneration of earlier performance years, is EUR 1.7 million.
As a result of a presentation change, the 2013 amounts have been restated for fixed compensation details as well as for variable compensation details, for comparability reasons. The total 2013 key management personnel compensation amounts remained unchanged.

Remuneration policy
NN Bank is well aware of the public debate about pay in our industry and the responsibility the industry is taking in that light. The remuneration policies of NN take into account all applicable regulations and codes, including the Banking Code. The NN Group Remuneration Framework strikes a balance between interests of its customers, employees, shareholder and society at large, and supports the long-term objective of the company.

The general principles underpinning the NN Group Remuneration Framework are as follows:
- Enhance focus on the long term interest of NN Group and the interests of customers.
- Align with company values, business strategy and risk appetite.
- Promote and align with robust and effective risk management.
- Create a balanced compensation mix with a reduced emphasis on variable compensation.
- Claw back and hold back arrangements.
- Attract and retain talented personnel.

The variable remuneration is linked to clear targets of which a large part is non-financial.
As a subsidiary of NN Group, NN Bank is in scope of the NN Group Remuneration Framework.

Notes to the Consolidated annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

In 2013, an organisational restructuring took place within NN, which came into effect as per 1 June 2013. As per that date, the Dutch NN business units have been organised in line with the legal entity structure, with separate Management Boards for Netherlands Life, Netherlands Non-life and NN Bank. For the period before 1 June 2013, the Management Board Insurance Benelux was also overseeing the Dutch business units. The costs of the Management Board Insurance Benelux were allocated to the entities based on the cost allocation model of Insurance Benelux.

The NN Bank Supervisory Board members do not receive any compensation for their activities, except for two Supervisory Board members who are not employees within NN Group. The remuneration of EUR 32 thousand (2013: EUR 25 thousand) is recognised in the profit and loss account in Operating expenses. Some Supervisory Board members hold remunerated (board) positions within NN Group, but not within NN Bank. Costs involved with their remunerated (board) positions within NN Group are allocated through the headquarter cost allocation from NN Group to NN Bank.

From 1 January 2013, new VAT legislation became effective, based on which Dutch members of the Supervisory Board are considered to be self-employed persons whose compensation is subject to VAT in the Netherlands. The remuneration of the Supervisory Board includes VAT for 2014 and 2013. NN Bank does not provide for a pension arrangement, termination arrangements (including termination of retirement benefits) or variable remuneration in cash or in stock, for the Supervisory Board.

In 2013, the Dutch Government had imposed an additional tax charge of 16% on income in excess of EUR 150,000 for each employee, subject to Dutch income tax. The tax is charged to NN Bank and does not affect the remuneration of involved staff. The tax imposed on NN Bank for relevant members of the Management Board is not included in the amounts in the table on the previous page.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2014	2013	2014	2013	2014	2013
Management Board members	0	2,090	0	4.4%	0	0
Supervisory Board members	825	0	4.43%	0	0	0
Total	**825**	**2,090**			**0**	**0**

In 2014, the loans and advances to board members, included in the table above, relate only to those from NN companies because of a change in regulation as from 1 January 2014. In 2013, also loans and advances to key management personnel from ING Groep companies, other than NN companies, have been included. As per 31 December 2014, some Management Board members had loans with those other ING Groep companies.

38 Other events

At present, the Deposit Guarantee Scheme (DGS) in the Netherlands is based on ex-post funding. Banks only pay if the DGS is invoked, i.e. if a bank is declared insolvent. As of 1 July 2015, the DGS will be funded ex-ante. This means that banks (including NN Bank) will be required to pay a quarterly contribution into a fund for the DGS. Based on the ultimo 2014 figures, the contribution by NN Bank will be approximately EUR 2.5 million per quarter.

Subsequent events

On 26 February 2015, NN Group provided an unsecured subordinated loan of EUR 30 million to NN Bank for regulatory purposes. The loan qualifies as Tier 2 capital and has a maturity of 10 years. NN Bank may elect to redeem the loan, in whole or in part, on any date after 5 years from the start date. The coupon is fixed at 2.66% per annum.

On 18 March 2015, NN Bank borrowed EUR 200 million from NN Group. The loan qualifies as a senior unsecured loan and has a maturity of 7 years. The coupon is fixed at 1.406% per annum.

On 9 April 2015, NN Bank raised EUR 650 million of funding via a new structured entity (Hypenn RMBS III), which placed debt securities backed by NN Bank mortgage loans with a wide range of European investors. The A1 notes (EUR 161 million) have a weighted average life of 2 years and a spread over 3 months Euribor of 22 bps. The A2 notes (EUR 489 million) have a weighted average life of 5.2 years and a spread over 3 months Euribor of 28 bps.

Risk management

Amounts in thousands of euros, unless stated otherwise

Risk management

Risk-taking is integral to the business model for banking. To ensure controlled risk-taking throughout the organisation, NN Bank operates through a comprehensive Risk Management Framework. This ensures that risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation, so that NN Bank meets its obligations to customers and creditors, manages its capital efficiently and complies 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 and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

Mission

The mission of our risk management function is to have a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. The following principles support this mission:

- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored.
- NN Bank's risk profile is transparent, managed to remain within risk appetite and is consistent with delegated authorities.
- Delegated authorities are consistent with the overall bank strategy and risk appetite.
- Communication to internal and external stakeholders on risk management and value creation is transparent.

Risk management structure and governance systems

NN Bank's risk management structure and governance systems comprise the governance and policy measures designed to manage all the risks associated with the business of NN Bank as effectively as possible for all relevant parties involved. At all times, we aim to avoid a situation in which the risk position and the ensuing losses seriously threaten the Bank's profitability or solvency. This involves an independent risk management function – in accordance with the relevant regulatory requirements (Wft, CRDIV and Basel II/III regulations) and the policy frameworks set by NN Group – which is responsible for the risk management policy framework and the monitoring thereof.

Risk management structure

NN Bank's Management Board has full management responsibility for all of NN Bank's activities, including setting, implementing, monitoring and, if necessary, adjusting the Bank's policy. Within the Board, the division of duties regarding operational direction of the second line is shared between the CRO (risk management in general), the CEO (legal and compliance risk management) and the CFO (control activities within Finance). NN Group is informed of the resolutions of the NN Bank Management Board within the policy frameworks NN Group has set. The Supervisory Board supervises this process.

NN Bank's Management Board and Supervisory Board have delegated a number of activities to specific committees within the Bank. These committees have an advisory role to NN Bank's Management Board and have been granted delegated authority. In addition, the NN Bank committees inform the relevant NN Group committees of decisions taken.

The specific NN Bank risk committees are as follows:

- Asset & Liability Committee (ALCO): responsible for policy and management of interest-rate risk, liquidity risk, customer behaviour and management in the broadest sense within its mandate. The ALCO is chaired by the CRO.

- Credit Risk Committee (CRC): responsible for policy and management of all credit risks incurred by NN Bank for existing credit portfolios, assigned or acquired credit portfolios and new loans. The CRC is chaired by the CRO.

- Crisis Committee (CC): responsible for management of financial and non-financial, risk-related crises. The CC is chaired by the CEO.

- Impairment & Provisioning Committee (IPC): responsible for establishing the size of the provisions formed by NN Bank in accordance with its credit risk policy. The IPC is chaired by the CFO.

- Model Committee (MoC): responsible for model risk management. Model risk is the risk of incorrect model design, implementation (e.g. programming errors) and usage (e.g. data issues). The Model Committee has approval authority for the models, methodologies and parameters. The MoC is chaired by the CRO.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

- Non-Financial Risk Committee (NFRC): responsible for policy and for the identification, measurement and monitoring of significant non-financial risks and the adequate mitigation thereof by (line) management. The NFRC is chaired by the CEO.

- Product Approval & Review Committee (PRC): responsible for periodic review of existing products and review for approval of new products. The PRC is chaired by the CEO.

- Disclosure Committee (DC): responsible for advising the Group-level Disclosure Committee on bank-relevant disclosures. Ensures that all disclosures are accurate, complete, appropriate and fairly present NN Bank's condition in all material respects. The DC is chaired by the CFO.

Independent risk management function

The CRO reports to the CEO, is part of NN Bank's Management Board and reports functionally to the NN Group CRO. The CRO is supported by four risk departments: Risk Integration & Coordination, Credit Risk Management, Market Risk Management and Operational Risk Management.

The CRO ensures that NN Bank's Management Board and NN Group are well informed and understand NN Bank's risk position at all times. At least every quarter, the CRO reports to the Supervisory Board on NN Bank's risk appetite levels and on NN Bank's risk profile. In addition, the CRO briefs NN Bank's Supervisory Board on developments in internal and external risk-related issues and ensures the board committees understand specific risk concepts.

The CRO is responsible for the implementation and management of an adequate Risk Management Framework and a set of policy guidelines. The aim is to ensure that NN Bank's risk appetite, product offering and operations are within statutory limits set by the prudential supervisor, De Nederlandsche Bank (DNB), and compliant with the frameworks set by the NN Group Policy House, the Protocol and the business principles of NN Group.

The main objectives of risk management within NN Bank are as follows:
- To create and safeguard transparency, awareness and understanding of the risks associated with the products and portfolios, ensuring that the risk positions taken are carefully considered and in line with the formulated risk appetite.
- To retain the confidence of (potential) customers in NN Bank as a reliable financial service provider.
- To generate sustainable profitability and stable shareholder value.

The NN Bank governance and control structure is based on an independent risk management function that is firmly established at the highest level of governance through the CRO in NN Bank's Management Board.

Three Lines of Defence model

NN Bank's risk management structure and governance is based on the so-called 'Three Lines of Defence' model. The risk management structure and governance of NN Group is based on the same model. This framework ensures that risk is managed in line with the risk appetite as defined by the Management Board and 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, legal 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 or excessive risk. These oversight functions include:

  - developing 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/veto power in relation to business activities that are judged to carry unacceptable risks for NN Bank.

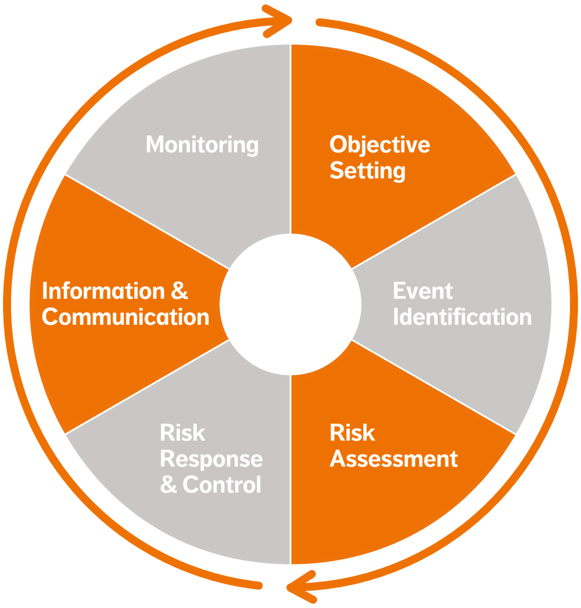
- Third Line of Defence: Corporate Audit Services (CAS) offers an independent assessment of the standard of internal control with respect to NN Bank's business and support processes, including governance, risk management and internal controls.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

Risk management framework

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. The diagram below sets out these steps.



- Objective setting. Business planning and priority-setting is undertaken through an annual MTP process, which is aligned with NN Bank's internal capital and liquidity adequacy assessment processes (ICAAP/ILAAP). NN Bank establishes strategic objectives. Those strategic objectives are used to establish and define NN Bank's risk appetite, which consists 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 NN Bank's 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 timely take appropriate decisions. Comprehensive reports on NN Bank's financial and non-financial risk profile 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.

Risk management policies, standards and processes

NN Bank has a framework of risk management policies, procedures and standards in place to create consistency throughout the organisation, and to define minimum requirements that are binding to all departments. Senior management is responsible for ensuring that policies, procedures and standards are implemented and adhered to. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and emerging best practices.

The responsibility for standardisation and harmonisation of risk policies is invested in the four risk departments: Risk Integration & Coordination, Credit Risk Management, Market Risk Management, Operational Risk Management, as well as in the Legal & Compliance department. The responsibility for definitions, models & methodology, measuring & monitoring as well as reporting also rests with these departments.

These policies, standards and processes are regularly updated to align with industry practices and changes in NN Bank's business profile, and to comply with applicable laws and regulations. Key areas of risk management for which NN Bank has established policies, standards and processes are set out on the following pages.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

Risk Appetite Framework

NN Bank uses an integrated risk management approach for its banking activities. NN Bank's Management Board uses the bank Risk Appetite Framework to determine which risks NN Bank wishes to take, to avoid, to retain and/or to remove. The Risk Appetite Framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. In order to verify that NN Bank remains within the Risk Appetite Framework, risk positions are monitored on a monthly basis and reported to NN Bank's Management Board through its risk committees.

Risk appetite process

Within NN Bank, the CRO is responsible for advising on the risk appetite in close consultation with the CFO. The advised risk appetite is reviewed for approval by NN Bank's Management Board at least annually. The risk appetite set by NN Bank's Management Board needs to be consistent with NN Group's risk appetite and must be endorsed by NN Bank's Supervisory Board. The Supervisory Board supervises the execution of the risk policies of the Bank and verifies that this is in accordance with the set risk appetite.

Quantitative risk appetite metrics

For financial risks, NN Bank expresses its risk appetite as the tolerance to allow key metrics to deviate from their target levels. The following key risk metrics have tolerance levels set at bank level and are monitored on a monthly basis. The actual levels as per end of 2014 are included in the table below.

Key risk metrics

	Level end of 2014	Level end of 2013	Metric explanation
BIS & CET1 ratios transitional	BIS: 16.8% CET1: 15.3%	BIS: 16.6% CET1: 16.6%	The BIS and Core Tier 1 (CET1) ratios show the level of available capital relative to the risk-weighted assets.
Leverage ratio	3.9 %	5.3%	The leverage ratio presented is Tier 1 capital divided by the balance sheet assets. As part of Basel III, it is intended as a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements.
Liquidity Coverage Ratio[1]	165%	180%	The Liquidity Coverage Ratio (LCR) aims to ensure that a bank can meet its liquidity needs for at least a month. The LCR is defined as the ratio of liquid assets and the total net cash outflow in the relevant period.
DNB 1-month liquidity measure	EUR 706 million	EUR 1,216 million	In the 1-month DNB liquidity measure, the liquidity position is based on DNB weightings per balance sheet item. These weightings represent how quickly and for which part the outstanding position can be liquidated within a one month period.

1 For comparability reasons, the percentage of 2013 has been restated.

NN Bank maintained a strong capital position with a CRDIV transitional BIS ratio of 16.8% and a CRDIV transitional CET1 ratio of 15.3% at year-end. The CRDIV fully phased-in BIS ratio comes to 17.0%. The difference between the transitional and fully phased-in BIS ratio is explained by the fully phased-in recognition of unrealised gains and losses in capital in 2018. This in comparison to 16.6% for both ratios in 2013. To further optimise the capital composition, NN Bank issued EUR 40 million in Tier 2 capital to NN Group. The CET1 capital ratio reduction in 2014 from 16.6% to 15.3% is explained by the optimisation of the capital composition and the prepositioning of capital for growth at the start of the Bank as per 1 July 2013. The leverage ratio reduced from 5.3% to 3.9% in 2014 for the same reasons. The LCR was 165% (2013: 180%) showing a robust liquidity position.

Qualitative risk appetite statements

NN Bank strives for a prudent risk profile and:
- Is conservative with regard to capitalisation and liquidity.
- Operates within the legal and regulatory frameworks as applicable to banks.
- Adheres to the behavioural codes and guidelines applicable to banks.
- Respects the frameworks as set by the NN Group Policy House.
- Complies with the business principles of NN Group.

Non-financial risk dashboard

Non-financial risks are monitored through the non-financial risk dashboard (NFRD) process. The NFRD is a tool that provides management with information about key operational, compliance and legal risks and incidents. The exposure of NN Bank to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence as well its potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced or accepted as a residual risk.

Product approval and review process

The product approval and review process (PARP) has been developed to enable effective design, underwriting, and pricing of all products as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements as to the product risk profile features to ensure that products are aligned with NN Bank's strategy. The PARP takes into account customer benefits and product

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

ICAAP, ILAAP and stress testing

Stress testing is a key tool of risk management that involves consideration of the impact of adverse movements in one or more risk factors. The Capital Requirement Directive (CRDIV), and, in particular, supervisory review under Pillar II, requires institutions to take a forward-looking view in their risk management, strategic planning and capital planning. The guidelines of NN Bank's stress testing policy are based on the framework and the guidelines as presented by the European Banking Authority (EBA).

For NN Bank, stress testing supports decision-making to ensure that the Bank can survive severe but plausible stress. Stress testing is a key part of NN Bank's internal capital and liquidity adequacy assessment processes (ILAAP & ICAAP). A stress test can cover a single risk type or multiple risk types. It can include the entire balance sheet but it can also be used to analyse the potential impact on certain asset classes or certain activities. Stress testing approaches include the following:

- Sensitivity analysis is the simple stressing of one risk driver to assess the sensitivity of the institution to that risk driver.
- Forward-looking hypothetical scenario analysis is a core part of the suite of stress tests that banks should include in their stress-testing programmes. The scenario design takes into account systematic and institution-specific changes in the present and near future.
- Reverse stress testing consists of identifying a significant negative outcome for the Bank, and then identifying the causes and consequences that could lead to such an outcome.

Recovery planning

NN Bank has determined a set of measures for early detection of, and potential response to, a crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, and allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending upon the type of crisis.

Model governance

Model developments (techniques and concepts used, model design, assumptions and presumptions, etc.) are validated by means of independent model validation. NN Bank monitors the models it has developed, but model validation itself is conducted independently by NN Group Model Validation. Depending on the materiality of the model change, review for approval must take place in either the NN Group Risk & Finance Committee or in the NN Group Model Committee. The materiality thresholds are set by the NN Group model governance policy.

In addition, NN Bank's Management Board may call on CAS to check whether model development, monitoring and maintenance has taken place within the frameworks set for this purpose and/or to check whether the frameworks set are operating correctly.

Risk profile

Main types of risks

NN Bank recognises the following risk types (financial as well as non-financial) that are associated with its business activities.

Financial risks

- Credit risk: the risk of potential loss due to default by NN Bank's debtors.
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, implied volatility, credit spread.
- Liquidity risk: the risk that NN Bank cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. At NN Bank, liquidity risk can materialise only through non-trading positions.
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customer behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such, strategic risk is included in business risk.

Non-financial risks

- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.
- Compliance risk: the risk of impairment of NN Bank's integrity. Compliance risk is the risk of failure (or perceived failure) to comply with NN Group's business principles and the compliance risk-related laws, regulations and standards that are relevant to the specific financial services offered by NN Bank or its ensuing activities, which could damage NN Bank's or NN Group's reputation and lead to legal or regulatory sanctions and financial loss.

Regulatory environment

Basel III

Since the financial crisis, financial institutions have been under more scrutiny from the public, supervisors and regulators. The resulting revised regulations are intended to ensure that a crisis in the financial system can be avoided in the future. To accomplish this, regulations focus primarily on the following issues through the implementation of Basel III:

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

- More stringent alignment of risk-taking with the capital position of financial institutions via enlarged risk weights for counterparty credit risk.
- More narrow definitions of core Tier 1 and Tier 1 capital.
- Limiting a bank's leverage via a ratio that should become part of Pillar I of the Basel framework.
- Liquidity and funding requirements via the so-called Liquidity Coverage Ratio and the Net Stable Funding Ratio. The aim of the first metric is to monitor a bank's capability to survive a short-term liquidity stress, whereas the latter aims to ensure that long-term asset activities are similarly funded.
- Reduction of 'pro-cyclicality' to avoid situations in which banks are required to increase their capital in difficult financial times, when it is most scarce.
- Introduction of additional capital requirements for counterparty credit risk.

For European banks, the Basel III requirements have been implemented – taking into account transitional arrangements – through the Capital Requirement Directive (CRDIV) and the Capital Requirement Regulation (CRR). These requirements came into effect in Europe as of 1 January 2014, with the full requirements being effective as of 1 January 2018. NN Bank is well prepared to operate under the new framework.

NN Bank already complies with 2018 Basel III liquidity and capital requirements, insofar as they are currently known. The policies concerning actual risk management are developed in separate risk management policies and a separate ICAAP/ILAAP document. This policy area falls under Risk Management. Principles involved are described below.

Pillar I: Approach to Quantifying Regulatory Capital (minimum regulatory capital)
Pillar I concerns the rules for calculating the minimum regulatory capital. Minimum regulatory capital is calculated using specific risks ensuing from business activities. The relevant risks for NN Bank that are taken into account under Pillar I are credit risk and operational risk. Market risk in the trading book does not apply to NN Bank, since it does not have a trading book.

NN Bank initially opts for the Standardised Approach (SA) to calculate its minimum capital requirement for credit risk and the Basic Indicator Approach (BIA) for operational risk. Nevertheless, it is NN Bank's aim to obtain advanced internal ratings-based approach (AIRB) status for credit risk in the next few years, which would allow NN Bank to determine and report its credit risk capital requirement based on its internal models.

Pillar II: Capital and SREP Approach
Pillar II concerns the internal risk estimation of all risks of NN Bank, including risks not included under Pillar I (ICAAP) and any add-ons from the Supervisory Review & Evaluation Process (SREP). The significant risks for NN Bank covered under Pillar II are, for example, market risk, operational risk, credit risk and business risk. Liquidity risk is covered through the internal liquidity assessment process (ILAAP). Stress testing is a key part of NN Bank internal capital and liquidity adequacy assessment processes. The ICAAP capital is the basis for the dialogue with the supervisor regarding NN Bank's required solvency ratio: the so-called SREP Capital.

Pillar III: Approach to Market Discipline Requirements
Pillar III concerns the rules for the compulsory disclosure of information that provides information on the institution's solvency and risks. The institution can thus be exposed to market discipline. NN Bank's policy complies with the disclosure requirements of Basel II. The policy, moreover, establishes how and when these disclosures are validated and reviewed. NN Bank strives to provide maximum transparency on the capital position, risks and portfolios using these procedures and policy guidelines. Disclosure is by publication on the Internet or in the annual financial statements.

Risk developments 2014
Housing market
In 2014, the Dutch housing market further stabilised and, towards the end of the year, housing prices started to increase due to a slight rise in consumer confidence. As a Dutch bank, NN Bank is influenced by the developments in the Dutch markets, including the political and economic climate. Influenced by an improving world as well as an improving European economy, the Dutch economy improved in 2014. At the end of 2014, disposable consumer income increased and for the first time in years.

Dutch mortgages
Historically, the Dutch housing market has been characterised by high income tax deductibility of interest on mortgages and tax-driven mortgage products. However, tax rules have changed regarding mortgages. Interest on new mortgages is only tax deductible if there is at least an annuity repayment schedule. Regulation on minimum mortgage underwriting criteria has been tightened in order to reduce the overall loan-to-value (LTV) ratio in the Dutch housing market. The maximum LTV at origination has been reduced and will continue to be decreased by 1%-point per year, to 100% of the market value. Newly originated mortgages will have to be repaid for a minimum of 50% over a maximum period of 30 years, following an annuity or stricter repayment scheme. Last but not least, as per 1 January 2015, the maximum tax deductibility will be further reduced to 51%. Each following year, this will be further brought down by 0.5%-point, to an eventual maximum level of 38%.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

Credit risk

This section provides information about the credit risk profile of the NN Bank portfolio and credit risk management of NN Bank.

Credit risk profile

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties (including bond issuers). Credit risks arise in NN Bank's lending and investment activities. Credit risk exposure is the total amount of outstanding, plus the unused portion of, commitments. It can be measured on various levels, such as customer, legal, economic, one obligor group, product, portfolio, customer type, industry, or country. As the distribution of the exposures is of great importance in correctly managing the credit risk exposure, NN Bank has established a Credit Risk Appetite Framework that is derived from the overall NN Bank risk appetite.

Credit Risk Management uses risk categories to differentiate between the different types of credit risk exposures. All products within NN Bank are aggregated to one of the following risk categories:

- Retail Lending risk: arises when NN Bank grants a loan to a retail counterparty, or issues guarantees on behalf of a retail counterparty. This includes term loans, mortgages, revolving credits, guarantees, etc. The risk is measured as the notional amount of the financial obligation that the retail counterparty has to repay to NN Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.

- Non-retail risk: is the credit default and risk rating migration risk that is associated with NN Bank's investments in bonds, securitisations and other similar publicly traded securities. This can be viewed as the worst-case scenario loss that NN Bank may incur as a result of holding a position in underlying securities whose issuer's credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of NN Bank's investments in the banking books is for liquidity management. Within NN Bank, (pre)settlement risk and money market risk are categorised under non-retail risk:

  - Pre-settlement risk: arises when a counterparty defaults on a transaction before settlement and NN Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of NN Bank replacing a trade in the market. Within NN Bank, this credit risk category is currently only associated with its position in interest rate swaps that are held for managing the interest rate risk in the banking book.
  - Settlement risk: is the risk that a counterparty will fail to deliver on the transaction/contract at settlement, and NN Bank could lose up to 100% of the value expected to be delivered. Settlement risk arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after NN Bank has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that NN Bank delivers but does not receive delivery from NN Bank's counterparty.
  - Money market risk: arises when NN Bank places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, NN Bank may lose the deposit placed. Money market risk is measured as the notional value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.

Credit risk portfolio & credit quality

Apart from an investment portfolio, which is solely held for liquidity purposes, NN Bank's credit exposure is related to traditional retail lending. The credit risk profile within this retail lending book largely stems from residential mortgage lending. In addition to mortgages, the retail lending book consists of a small consumer finance credit book.

Loan-to-value

The mortgage book has a weighted average loan-to-value ratio of 84%, and 24% of the outstanding mortgage amounts are guaranteed through National State Guarantee (Nationale Hypotheek Garantie or NHG). Residential mortgage loans below EUR 265,000 are eligible for coverage by governmental insurance under the NHG in the Netherlands. In 2014, this amount has been lowered from EUR 290,000. In mid-2015, it will be further reduced to EUR 245,000. The NHG guarantees, to a large extent, the repayment of a loan in case of a forced property sale.

Credit approval process

The credit approval process ensures that individual transactions are assessed on a name-by-name basis. Each counterparty is assessed individually. The credit approval process is supported by, amongst others, a credit approval system that ensures consistency with the underwriting policy. A Probability of Default (PD) based risk weighting system is used to ensure that at monthly intervals, each counterparty in the books is given a proper rating. The rating model is used to indicate a counterparty's creditworthiness, and to determine the maximum risk appetite that NN Bank may have for a given counterparty profile.

Past-due loans

As can be seen in the table on the next page, the number of past due loans in NN Bank's mortgage portfolio has grown considerably in 2014 due to growth and further maturing of the portfolio. The credit profile of NN Bank is characterised by the good credit quality of the start portfolio and the credit quality of the subsequent inflow. As the start portfolio contained in principle no arrears, the loss numbers and expected losses were extremely low and not representative for a mature portfolio. After this date, mortgage loans that have reached reset-date, have been transferred from WestlandUtrecht Bank to NN Bank. These resets may contain delinquent loans, and are therefore

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

representative in credit quality for a matured portfolio. Furthermore, NN Bank had a substantial level of autonomous production, which has a low number of delinquencies, but will mature over time. Please note that the exposure presented here below represents the gross credit risk exposure of the portfolio.

Delinquency

		Mortgages		Consumer lending		Total
	2014	2013	2014	2013	2014	2013
0 days	7,765,819	5,865,631	165,801	119,658	7,931,620	5,985,289
1 - 30 days	100,202	64,552	10,450	12,024	110,652	76,577
31 - 60 days	30,003	21,617	2,130	2,449	32,134	24,066
61 - 90 days	14,087	7,611	1,111	1,202	15,198	8,813
> 90 days	51,587	16,932	6,054	4,730	57,641	21,661
Total	**7,961,698**	**5,976,342**	**185,546**	**140,063**	**8,147,245**	**6,116,406**

NN Bank continually measures its portfolio in terms of payment arrears. The retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in delinquency levels. Generally, an obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first five to seven days after an obligation becomes past-due are considered to be operational in nature for retail loans and small businesses portfolios. After this period, letters are sent to the obligor reminding the obligor of its (past-due) payment obligations and a special team on potential credit restructuring to bring these customers back into financial health. If the arrear still exists after 90 days, the obligation is transferred to the Recovery Unit and the focus shifts from restructuring to minimisation of losses.

Impaired and non-performing loans

NN Bank's loans and advances to customers are exposed to credit risk. As can be inferred from the table below, approximately 1.7% of total loans and advances to customers as per end of 2014 are classified as non-performing risk profile (EUR 140.7 million in impaired loans out of EUR 8,147.2 million total loans and advances to customers).

A loan becomes a non-performing loan when one of its loan parts is at least three months past due. This status remains until the delinquency has been fully repaid and the loan is not qualified as forborne. Loans that are 90 (or more) days past due receive a 100% PD classification and are fully provisioned for at the appropriate LGD level.

Balance sheet items exposed to credit risk

		Not impaired		Past due not impaired		Impaired		Total
	2014	2013	2014	2013	2014	2013	2014	2013
Mortgages	7,724,153	5,851,317	113,273	82,253	124,273	42,772	7,961,698	5,976,342
Consumer loans	160,334	114,035	8,794	9,134	16,418	16,895	185,546	140,063
Total	**7,884,487**	**5,965,352**	**122,067**	**91,387**	**140,691**	**59,667**	**8,147,245**	**6,116,406**

Forbearance

In certain circumstances, NN Bank grants borrowers arrangements to maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such arrangements include extended payment terms, a reduction in interest and/or principal repayments, approved external debt management plans and other modifications.

Forbearance may be an effective measure to avoid default, foreclosure or repossession, but there remains a risk of default, foreclosure or repossession. Thus far for NN Bank, forbearance was required only to a very limited extent. The underlying exposure classified as forborne as per year-end 2014 amounted to EUR 17 million. Credit risk management monitors the performance of clients with modified loans at least on a monthly basis. The (re)modified loans are segregated from the other parts of the loan portfolio for collective impairment assessment to reflect the possibility of higher losses in this segment and to recognise the financial loss that already has occurred – e.g. the contractually agreed interest rate reduction for a period of time.

Loan loss provisions

There are three types of provisions that have to be made and accounted for, as follows:

- Individually Significant Financial Asset (ISFA) Provisions: for those loans in which specific, individualised provisions are still required. These are generally loans that exceed the threshold amount. The threshold amount is EUR 1 million. Unless a counterpart from the investment portfolio defaults, NN Bank does not need to book ISFA provisions.

- Individually Not Significant Financial Asset (INSFA) Provisions: are made for acknowledged problem that are below the threshold amount. Due to their small size, the IFRS-EU rules permit a statistical approach to measuring these provisions. Therefore, the calculation is based on the same statistical formula that is used to determine IBNR Provisions.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

- Incurred But Not Recognised (IBNR) Provisions: for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio, but which NN Bank has not yet determined or recognised. These provisions are based on a modified expected loss methodology. The primary modification is that the PD time horizon (12 months) is shortened to a period of nine months.

Risk costs

The total risk costs (EUR 10.6 million) are defined as additions to the loan loss provisions, plus write-offs, minus recoveries. Reflecting the fast growth of the mortgage portfolio during 2014, the additions for the mortgage portfolio to the loan loss provisions amounted to EUR 6.3 million. For both the mortgage and consumer credit portfolios, the stock of provisions as per year-end amounted to EUR 26.4 million. Write-offs in 2014 amounted to EUR 4.3 million. As per 31 December 2014, the total risk costs expressed as basis points (bps) of exposure at default were 13.0 bps.

Market risk

Market risk for NN Bank comprises interest rate risk. NN Bank does not trade in financial instruments. It only has positions in the banking book.

Interest rate risk

Interest rate risk in the banking book is defined as the exposure of a bank's financial condition to adverse movements in interest rates originated from positions in the banking book. Commercial activities result in interest rate risk as, for example, reprising tenors of assets differ from those of liabilities. Changes in interest rates affect earnings and market value. These two perspectives are complementary and both are necessary to comprehensively capture interest rate risk. NN Bank's interest rate risk strategy is aimed at ensuring that the impact of interest rate developments on earnings and/or the economic value of the Bank remain within risk appetite limits.

Customer behaviour risk

Customer behaviour risk is defined as the potential future value loss due to uncertainty in the behaviour of clients towards embedded options in commercial products. Customer behaviour risk is a part of business risk. The customer behaviour in relation to mortgages, loans and savings is modelled by Market Risk Management. Models and parameters are reviewed at least annually and updated when deemed necessary. In the modelling of savings, different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses result in an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled, if applicable.

Convexity risk

Convexity risk is defined as the sensitivity towards interest volatility and second-order changes in the interest rate. Convexity risk is a result of products that contain embedded options, like mortgages and savings.
Market Risk Management is responsible for determining adequate policies and procedures for managing interest rate risk and for monitoring the compliance with these guidelines.

Risk profile

In the following sections, the interest rate risk exposures in the banking book are presented. NN Bank uses risk measures from both an earnings as well as a value perspective. Earnings at Risk (EaR) is used from an earnings perspective. Duration and Net Present Value (NPV)-at-Risk are used from a value perspective.

Value perspective

Value-based interest rate risk measures quantify the uncertainty in the future market value as a result of changes in interest rates.
NN Bank uses the following types of value measures:
- Effective duration.
- NPV-at-Risk.

Each of these measures is based on the NPV, sometimes also referred to as market value. The NPV is defined as the current value of all future cash flows, given the current market circumstances. The NPV is calculated by discounting the expected cash flows using the relevant current interest rates. The interest rates used for discounting are zero rates, which are derived from coupon-bearing EURIBOR, and IRS rates, plus a spread that corresponds to the product characteristics, at least including the liquidity and credit spread.

Duration measures the sensitivity of the market value of an instrument for parallel (small) interest rate shifts. To determine the sensitivity for non-parallel shifts, key rate durations are calculated as well. The duration measure is the key element within the steering of the interest rate risk position from a value perspective.

The duration and key rate duration are risk measures for small changes in interest rates. To determine the impact of large changes in interest rates, the NPV-at-Risk (NPVaR) measure is used. This risk figure measures the impact of changing interest rates on the market value of the Bank's equity. In the table on the next page, the impact of a 1% interest rate shock on the market value of equity is presented. The NPVaR is mainly impacted by the interest rate sensitivity of the long-term investments of own funds. The NPVaR is expressed as a percentage of total equity. A negative percentage means a negative impact on equity.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

NPVaR (% of total equity)

	2014	2013
Parallel shift - 100 basis points	6.32%	6.89%
Parallel shift + 100 basis points	-3.97%	-5.62%

The main reason for the decrease in NPVaR is that at the end of 2014, the Bank's equity duration decreased slightly, implying less interest rate sensitivity.

Earnings at Risk

Earnings at Risk (EaR) measures the impact of changing interest rates on the interest results over a certain time horizon. The EaR is mainly influenced by the sensitivity of savings to interest rate movements.

An important characteristic of the online savings and bank annuities is that the interest rate can be adjusted on a daily basis. For the calculation of the EaR, assumptions are made about the interest rate sensitivity of the various savings accounts. For bank annuities, the assumption is made that they are less interest rate-sensitive in comparison with the online savings.

The assets impact the EaR marginally, as only a relatively small part has to be (re)invested within the one-year EaR-horizon. In the table below, the EaR-figures for a 1% parallel shock are shown. The EaR is expressed as a percentage of the interest results. A negative percentage means a negative impact on the interest results.

Earnings at risk (% of interest results)

	2014	2013
Parallel shift -100 basis points	7.66%	16.5%
Parallel shift +100 basis points	-10.33%	-18.4%

A further refinement of the parameters used for modelling the various savings accounts led to a decrease in the EaR in comparison to 2013. The main driver of the EaR sensitivity of NN Bank is the tracking speed of variable rate savings. This tracking determines how fast and to what extent a change in market rates is adopted in the savings rates. In case of an upward market rate shock, savings rate tracking is relatively fast, leading to a negative impact on interest income on a 1-year horizon.

Liquidity risk

Liquidity risk is defined as the risk that NN Bank cannot refinance its assets against a reasonable price (funding liquidity risk) or cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner (market liquidity risk).

The management of liquidity risk follows the Funding and Liquidity Risk policy, as approved by ALCO NN Bank. This policy describes roles and responsibilities, and risk metrics. Policies and procedures related to interest rate risk management are also defined. The framework enables NN Bank to manage the funding and liquidity position adequately on a going-concern basis and in the event of contingency situations. Market Risk Management is responsible for determining adequate policies and procedures for managing liquidity risk and for monitoring the compliance with these guidelines.

Risk profile

NN Bank aims for prudent liquidity risk management to ascertain that sufficient liquidity is maintained in order to ensure safe and sound operations in all circumstances.

For the management of liquidity risk, a distinction is made between the short- and longer term. The main objective for the short term is that NN Bank has sufficient liquid assets to meet short-term obligations both on a going-concern basis and in stress circumstances during its defined survival period. For the long term, the funding profile is managed in such a way that long-term compliance to both internal and external targets is ensured. This implies that the maturities of the assets and the corresponding funding should be matched as well as possible. Given the profile of NN Bank, the funding liquidity risk is mainly caused by the long-term mortgage portfolio and the ability to attract long-term funding. For the short term, the main liquidity risk is caused by the potential outflow of customer savings.

Strategic liquidity risk management

NN Bank manages its balance sheet prudently, whereby the Bank aims to fund the longer-term assets with stable and longer-term liabilities. Monitoring and control of the funding is achieved through a dedicated funding and liquidity framework. Each year, the business strategy is translated into a funding plan for a minimum of three years. The funding plan and corresponding liquidity gap are monitored in the ALCO on a monthly basis.

Tactical liquidity risk management

The regulatory and internal limits for funding and liquidity risk are monitored on a daily and/or monthly basis. These limits are also directly linked to stress testing. NN Bank maintains a liquidity position with conservative internal targets and a robust liquidity buffer. On a daily basis, the liquidity position has to be sufficient to meet NN Bank's short-term obligations. The position is managed by maintaining sufficient liquid investments and the capacity to generate additional cash.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

On a monthly basis, NN Bank performs several stress tests with respect to NN Bank's funding and liquidity position. Some of these stress tests are regulatory driven, and others are based on internal stress scenarios.

Also on a monthly basis, NN Bank reports a number of stress scenarios, based on regulatory requirements, including:
- One-month DNB liquidity buffer, according to DNB regulation including a six-month grace period.
- Liquidity Coverage Ratio (LCR), based on Basel III and CRDIV regulation.

Besides these regulatory stress scenarios, a stress test is performed, in which the time to survival is calculated given an internal stress scenario. The stress scenario assumes a certain outflow of savings and unavailability of additional funding sources.

The liquidity position of NN Bank is such that sufficient liquidity is available to survive the regulatory survival period of three months. NN Bank's current survival period is eight months.

Contingency liquidity risk

Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in time of stress. Within NN Bank, for contingency purposes, a specific crisis team – consisting of key Board members and representatives from staff departments (e.g. Finance, Risk and Treasury) is responsible for liquidity management in times of crisis. Throughout the organisation, an adequate and up-to-date contingency funding plan is in place to enable senior management to act effectively and efficiently in times of crisis.

Liquidity position

Liquidity measures

Amounts in millions of euros	Dec 2014	Dec 2013
One-week DNB	1,212	1,245
One-month DNB	706	1,216
LCR[1]	165%	180%

1 For comparability reasons, the percentage of 2013 has been restated.

Business risk

Business Risk is the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customer behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such, strategic risk is included in business risk. Business risk is covered under Pillar II.

Non financial risk management

Taking risks, as non-financial risks, is an essential part of banking business. To ensure controlled and measured non-financial risk-taking throughout the organisation, NN Bank operates through a comprehensive non-financial Risk Management Framework. This ensures that these risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation, so that NN Bank's financial strength is safeguarded. Effective non-financial risk management leads to a more stable business.

Main developments in 2014

Scenario analysis

NN Bank has further enhanced its assessment of key rare but potentially severe non-financial risks relevant for its risk profile. First line senior management has an important lead role in identifying and assessing scenarios and in further enhancing the control environment based on the scenario results. The scenario analysis results are also used as input for the ICAAP. Amongst the areas covered are cybercrime/fraud and compliance risk

Further IT risks mitigation

To mitigate the IT risks, as a result of transitioning to the internal IT service provider ITH (the IT hosting department of NN Group), the high risk applications have been placed in fenced environments realising a further reduction of access to the infrastructure. In addition, NN Bank implemented a log-analysing tool for monitoring any exceptions in the standard processing for detection and tracking of any access and changes towards the migrated applications.

Operational Risk

Risk profile

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Risk mitigation

For operational risk, NN Group has developed a framework that governs the process of identifying, assessing, mitigating, monitoring and reporting operational risks.

Risk management – continued

Amounts in thousands of euros, unless stated otherwise

Operational risk assessments are done not only based on historic data, but also on a forward-looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of operational risks can be preventative in nature (e.g. training and education of employees, preventative controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk-mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

NN Bank conducts regular risk and control monitoring to measure and evaluate the effectiveness of the key risks and key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN Bank risks and controls.

Compliance Risk

Risk profile

Compliance risk is the risk of impairment of NN Bank's integrity. Compliance risk is the risk of failure (or perceived failure) to comply with NN Group's business principles and the compliance risk-related laws, regulations and standards that are relevant to the specific financial services offered by NN Bank or its ensuing activities, which could damage NN Bank's or NN Group's reputation and lead to legal or regulatory sanctions and financial loss.

Risk mitigation

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.

NN Bank is fully committed to complying with all applicable sanction legislation and with all obligations and requirements under those applicable laws, including freezing and reporting obligations with regard to transactions involving a U.S.-, EU- or UN sanction target. Furthermore, NN Group designates specific countries as ultra-high risk, and prohibits client engagements and transactions (including payments or facilitation) involving those countries. Certain exceptions to this policy are allowed, after explicit and case-specific consent, and provided that the applicable sanctions laws and regulations are met. At present, the specified ultra-high risk countries are Myanmar, North Korea, Sudan (North Sudan and South Sudan), Syria, Iran and Cuba. Each of these countries is subject to a variety of EU-, U.S.- and other sanctions regimes. NN Group has had a sanctions policy in place since 2007, and has a mandate to run down any existing commitments. As such, remaining exposure and contacts arise solely in the context of NN Group's on-going efforts to run down the legacy portfolio of commitments.

NN Bank performs product reviews when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations, as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices, might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations and regulatory activity. The compliance function and the business work closely together to optimise both products and services to meet the customers' needs.

Capital and liquidity management

Amounts in thousands of euros, unless stated otherwise

Regulatory requirements

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (DNB) for supervisory purposes. The minimum BIS ratio under Basel III is 8%; the minimum Common Equity Tier 1 ratio is 4.5%.

Basel III

NN Bank publishes risk-weighted assets (RWA), Common Equity Tier 1, BIS capital and accompanying capital ratios based on CRDIV, as applicable. NN Bank already meets the 2018 minimum Basel III capital and liquidity requirements, as they are currently known. For the calculation of RWA, NN Bank applies the Standardised Approach for Credit Risk and the Basic Indicator Approach for Operational Risk. NN Bank does not have a trading book, and therefore does not calculate RWA for Market Risk.

Capital & liquidity management process

In conjunction with the annual MTP process, capital and funding plans are prepared each year. These plans are updated on a monthly basis, and it is assessed to what extent additional management actions are required. At all times, maintaining sufficient financial flexibility should be preserved to meet important solvency and liquidity targets. At the foundation of the capital and funding plans are NN Bank's risk limit statements that determine target setting.

Important inputs to the capital and liquidity planning and management process are provided by stress testing that is being performed on a regular basis as part of the ICAAP and ILAAP processes. These stress tests focus on topical issues and the sensitivity of NN Bank's capital position to certain risks. These analyses provide input that help to steer strategic direction. Recovery planning is a natural extension, and follows NN Bank's Risk Management Framework.

Capital adequacy assessment

During 2014, NN Bank was adequately capitalised, both on a CRDIV transitional and fully phased-in basis.

Transitional capital position

	2014	2013
Common Equity Tier 1 Capital	401,905	369,670
Risk weighted assets	2,625,557	2,225,423
Common Equity Tier 1 ratio - transitional	15.3%	16.6%
BIS ratio – transitional	16.8%	16.6%
BIS ratio – fully phased-in	17.0%	

NN Bank maintained a strong capital position with a CRDIV transitional BIS ratio of 16.8% and a CRDIV transitional CET1 ratio of 15.3% at year-end. The CRDIV fully phased-in BIS ratio comes to 17.0%. The difference between the transitional and fully phased-in BIS ratio is explained by the fully phased-in recognition of unrealised gains and losses in capital in 2018. This in comparison to 16.6% for both ratios in 2013. To further optimise the capital composition, NN Bank issued EUR 40 million in Tier 2 capital to NN Group. The CET1 capital ratio reduction in 2014 from 16.6% to 15.3% is explained by the optimisation of the capital composition and the prepositioning of capital for growth at the start of the Bank as per 1 July 2013.

Authorisation of Consolidated annual accounts of NN Bank

The Consolidated annual accounts of NN Bank for the year ending 31 December 2014 were authorised for issue in accordance with a resolution of the Management Board of NN Bank on 20 April 2015. The Management Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting of Shareholders.

The General Meeting of Shareholders may decide not to adopt the Consolidated annual accounts, but may not amend these.

The Hague, 20 April 2015

The Supervisory Board

H.G.M. Blocks (Chairman)
D. Rueda
S.D. Caldwell
D.E. Knibbe
C. Huynh Cong

The Management Board

E. Muetstege (Chairman)
J. de Graaf
J.E. van Eijk
M.E. Tailor-Hemerijck

Confirmed and adopted by the General Meeting of Shareholders, dated 30 April 2015.

Parent company balance sheet of NN Bank

Amounts in thousands of euros

Parent company balance sheet

As at 31 December before appropriation of result

	notes	2014	2013
Assets			
Cash and balances with central banks	1	321,140	353,755
Amounts due from banks	2	56,417	105,468
Loans and advances	3	8,075,550	5,924,094
Debt securities	4		
– Available-for-sale		513,911	426,541
Investments in group companies	5	1,143	313
Intangible assets	6	990	0
Other assets	7	100,654	60,381
Total assets		**9,069,805**	**6,870,552**
Liabilities			
Customer deposits and other funds on deposit	8	7,061,266	5,787,881
Amounts due to banks	9	130,894	6,730
Loans from group companies	10	910,359	611,036
Other liabilities	11	508,125	69,827
General provisions	12	10,538	25,940
Subordinated debt	13	40,000	0
Total liabilities		**8,661,182**	**6,501,414**
Equity			
Share capital		10,000	10,000
Share premium		409,000	409,000
Revaluation reserve		5,206	-532
Other reserves		-49,330	-11,606
Unappropriated result		33,747	-37,724
Total equity	14	**408,623**	**369,138**
Total liabilities and equity		**9,069,805**	**6,870,552**

References relate to the notes starting on page 68. These are an integral part of the Parent company annual accounts.

Parent company profit and loss account of NN Bank

Amounts in thousands of euros

Parent company profit and loss account

For the year ended 31 December

	2014	2013
Result of group companies after taxation	955	0
Other results after taxation	32,792	-37,724
Net result	**33,747**	**-37,724**

Parent company statement of changes in equity of NN Bank

Amounts in thousands of euros

Parent company statement of changes in equity

	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Revaluation reserve	Other reserves[1]	Total equity
Balance as at 31 December 2012	10,000	28,000	0	0	6,030	-11,606	32,424
Unrealised revaluations after taxation	0	0	0	0	-4,390	0	-4,390
Realised gains/losses transferred to profit and loss	0	0	0	0	-2,172	0	-2,172
Capital contribution	0	381,000	0	0	0	0	381,000
Total amount recognised directly in equity	**0**	**0**	**0**	**0**	**-6,562**	**0**	**-6,562**
Net result	**0**	**0**	**0**	**0**	**0**	**-37,724**	**-37,724**
Dividend	0	0	0	0	0	0	0
Balance as at 31 December 2013	**10,000**	**409,000**	**0**	**0**	**-532**	**-49,330**	**369,138**
Opening balance 1 January 2014	10,000	409,000	0	0	-532	-49,330	369,138
Unrealised revaluations after taxation	0	0	0	0	6,215	0	6,215
Realised gains/losses transferred to profit and loss	0	0	0	0	-477	0	-477
Total amount recognised directly in equity	**0**	**0**	**0**	**0**	**5,738**	**0**	**5,738**
Net result	**0**	**0**	**0**	**0**	**0**	**33,747**	**33,747**
Dividend	0	0	0	0	0	0	0
Capital contribution	0	0	0	0	0	0	0
Balance as at 31 December 2014	**10,000**	**409,000**	**0**	**0**	**5,206**	**-15,583**	**408,623**

1 Other reserves include Retained earnings and Unappropriated result.

Notes to the Parent company annual accounts of NN Bank

Amounts in thousands of euros, unless stated otherwise

Basis of presentation

The parent company accounts of Nationale-Nederlanden Bank N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code and NN Group. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account. Investments in group companies and investments in associates are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2 of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2, of the Dutch Civil Code has been filed with the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to the results of the associates, accounted for in accordance with NN Bank accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in Other reserves, which forms part of Shareholder's equity.

Notes to the Parent company annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Assets

1 Cash and balances with central banks

Reference is made to Note 2 to the consolidated balance sheet.

2 Amounts due from banks

Amounts due from banks

	2014	2013
Loans to banks	0	90,000
Current accounts	56,417	15,468
	56,417	**105,468**

Loans and advances to banks include mainly short-term deposits. Cash advances, overdrafts and other balances comprise current accounts with banks.

3 Loans and advances

Loans and advances - subordinated and non-subordinated

	2014	2013
Non-subordinated receivables from:		
– Group companies	598,360	0
– Third parties	7,477,190	5,924,094
	8,075,550	**5,924,094**

Non-subordinated loans and advances analysed by type

	2014	2013
Loans secured by mortgages, guaranteed by public authorities	1,483,296	1,561,878
Loans secured by mortgages	6,433,031	4,241,311
Consumer lending, mortgage collateralised	63,276	67,300
Consumer lending, other	122,271	72,763
	8,101,874	**5,943,252**
Loan loss provisions	26,324	19,158
	8,075,550	**5,924,094**

Structured Entities

We refer to Note 35 "Structured entities" of the notes to the Consolidated annual accounts. As these securitisation transaction did not transfer substantially all the risk and rewards, NN Bank has recognised mortgage receivables equal to the securitisation transactions and the Notes sold to third parties. For the same reason, the non- trading derivative transaction of EUR 39.6 million is recognised. This transaction took place with an ING Groep entity.

Changes in loans and advances to non-subordinated group companies

	2014	2013
Opening balance	0	0
Reclassification from Customer deposits and other funds on deposit	24,626	0
Reclassification from Loans and advances to third party customers	208,952	0
Origination	404,817	0
Redemptions	-40,035	0
Closing balance	**598,360**	**0**

Notes to the Parent company annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Changes in loans and advances to non-subordinated third party customers

	2014	2013
Opening balance	5,943,252	142,099
Opening balance adjustment	10,045	0
Opening balance as at 1 January 2014	5,953,297	0
Reclassification to Loans and advances from group companies	-208,952	0
Mortgage transfer (Common Control transaction)	0	3,899,670
Mortgage portfolio transfer	1,296,230	1,575,459
Consumer lending portfolio transfer[2]	0	154,427
Partial transfers of mortgage loans	42,266	-160,223
Origination	2,009,415	801,068
Sale of mortgages	-1,241,691	-345,990
Change in mortgage premium	8,781	7,151
Fair value change hedged items	105,033	-3,472
Redemptions	-460,865	-126,937
Closing balance	**7,503,514**	**5,943,252**

2 Including mortgage collateralised loans.

4 Debt securities

Reference is made to Note 5 to the consolidated balance sheet.

Debt securities to public authorities comprise short-term maturities amounting to about EUR 139.5 million (2013: EUR 75.9 million).

5 Investments in group companies

Investments in group companies

	Interest held (%)	Balance sheet value	Interest held (%)	Balance sheet value
		2014		2013
HQ Hypotheken 50 B.V.	100	1,018	100	63
Nationale-Nederlanden Beleggingsrekening N.V.	100	125	100	125
Nationale-Nederlanden Global Custody B.V.	0	0	100	125
		1,143		**313**

Changes in investments in group companies

	2014	2013
Opening balance	313	17
Additions	0	250
Legal merger	-125	0
Results from group companies	955	46
Closing balance	**1,143**	**313**

6 Intangible assets

Changes in intangible assets

	Goodwil		Software		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Opening balance	0	0	0	462	0	0	0	462
Additions	0	0	990	0	0	0	990	0
Changes in the composition of the group	0	0	0	2,652	0	0	0	2,652
Depreciation	0	0	0	-3,114	0	0	0	-3,114
Closing balance	**0**	**0**	**990**	**0**	**0**	**0**	**990**	**0**

Notes to the Parent company annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

7 Other assets

Other assets by type

	2014	2013
Receivables from group companies	9,064	0
Derivatives	48,329	12,397
Deferred tax assets	1,217	6,596
Other accrued assets	41,674	22,035
Other receivables	370	19,353
	100,654	**60,381**

Liabilities

8 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by group companies and third parties

	2014	2013
Third parties	7,061,266	5,787,881
	7,061,266	**5,787,881**

Customer deposits and other funds on deposit comprise savings.

Changes in third party customer deposits

	2014	2013
Ending balance previous year	5,787,881	408,830
Reclassification to Loans to group companies	24,626	0
Changes in the composition of the group	0	3,656,753
Deposits taken	3,389,739	2,616,457
Withdrawals	-2,139,856	-870,657
Other	-1,124	0
Closing balance	**7,061,266**	**5,787,881**

9 Amounts due to banks

Reference is made to Note 11 to the consolidated balance sheet.

10 Loans from group companies

Amounts owed to group companies by remaining term

	2014	2013
More than 1 year and less than 5 years	246,985	0
More than 5 years	663,374	611,036
	910,359	**611,036**

Reference is made to Note 10 to the consolidated balance sheet. The structured entities are the legal counterparties of the noteholders. In the Parent company balance sheet NN Bank is the counterparty of the structured entities for exactly the same amounts as the structured entities have with the noteholders.

Notes to the Parent company annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

11 Other liabilities

Other liabilities

	2014	2013
Issued Notes to third party investors	356,713	0
Income tax payable	4,090	0
Derivatives	117,577	15,073
Accrued interest	14,335	0
Costs payable	4,718	20,725
Other taxation and social security contribution	7,451	2,391
Other amounts payable	3,241	31,638
	508,125	**69,827**

Reference is made to Note 35 "Structured entities" to the Consolidated annual accounts and specifically the back to back derivative which is in place in the Hypenn RMBS II SPE structure. On a consolidated basis, these positions are matched. In the parent company financial statements, NN Bank applies fair value hedge accounting on the funding positions related to the SPE. The commitments by NN Bank to make payments to the SPE, are considered to be the hedged item. The effective part of the hedge on NN Bank is presented in the position Issued Notes to third party investors. This position reflects a liability towards the SPE.

For more information on Issued Notes to third party investors, reference is made to Note 10 to the consolidated balance sheet.

12 General provisions

General provisions

	2014	2013
Reorganisations and relocations	10,528	25,940
Other	10	0
	10,538	**25,940**

13 Subordinated debt

Reference is made to Note 9 to the consolidated balance sheet.

Equity

14 Equity

Capital and reserves

	2014	2013
Share capital	10,000	10,000
Share premium	409,000	409,000
Revaluation reserve	5,206	-532
Retained earnings	-49,330	-11,606
Unappropriated result	33,747	-37,724
	408,623	**369,138**

Positive components of the Revaluation reserve cannot be freely distributed. Retained earnings can be freely distributed except for an amount equal to the negative balance in the Revaluation reserve. Share premium reserves are not freely distributable to the amount of negative Retained earnings.

Share capital

	Ordinary shares (par value EUR 10.00)			
	Number x 1,000	Amount	Number x 1,000	Amount
		2014		2013
Authorised share capital	5,000	50,000	5,000	50,000
Unissued share capital	4,000	40,000	4,000	40,000
Issued share capital	**1,000**	**10,000**	**1,000**	**10,000**

Notes to the Parent company annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Changes in revaluation reserve (2014)

	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate investments reserve	Total
Opening balance	-532	0	0	0	-532
Unrealised revaluations after taxation	6,215	0	0	0	6,215
Realised gains/losses transferred to profit and loss	-477	0	0	0	-477
Closing balance	**5,206**	**0**	**0**	**0**	**5,206**

Changes in revaluation reserve (2013)

	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate investments reserve	Total
Opening balance	6,030	0	0	0	6,030
Unrealised revaluations after taxation	-4,390	0	0	0	-4,390
Realised gains/losses transferred to profit and loss	-2,172	0	0	0	-2,172
Closing balance	**-532**	**0**	**0**	**0**	**-532**

Retained earnings and Unappropriated result

		Retained earnings		Unappropriated result		Total
	2014	2013	2014	2013	2014	2013
Opening balance	-11,606	0	-37,724	-11,606	-49,330	-11,606
Transfer to retained earnings	-37,724	-11,606	37,724	11,606	0	0
Result for the period	0	0	33,747	-37,724	33,747	-37,724
Closing balance	**-49,330**	**-11,606**	**33,747**	**-37,724**	**-15,583**	**-49,330**

The total amount of non-distributable reserves, in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, is EUR 0 million (2013: EUR 0 million).

Notes to the Parent company annual accounts of NN Bank – continued

Amounts in thousands of euros, unless stated otherwise

Additional information

15 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities by maturity (2014)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment	Total
Assets								
Cash and cash equivalents	321,140	0	0	0	0	0	0	321,140
Amounts due from banks	56,417	0	0	0	0	0	0	56,417
Loans and advances	3,383	9,413	42,059	224,849	7,470,493	325,353	0	8,075,550
Liabilities								
Amounts due to banks	5,793	24,969	100,000	0	0	131	0	130,894
Customer deposits and other funds on deposit	26,418	30,488	133,893	600,325	668,419	5,601,743	0	7,061,266

Analysis of certain assets and liabilities by maturity (2013)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment	Total
Assets								
Cash and cash equivalents	353,755	0	0	0	0	0		353,755
Amounts due from banks	105,468	0	0	0	0	0		105,468
Loans and advances	2,709	4,521	33,474	174,445	5,684,319	24,626		5,924,094
Liabilities								
Amounts due to banks	6,730	0	0	0	0	0		6,730
Customer deposits and other funds on deposit	3,031	20,094	95,328	348,021	404,505	4,916,902		5,787,881

For reasons of comparability the maturities of Loan and advances, Amounts due to banks and Customer deposits and other funds on deposits as at 31 December 2013, have been restated.

16 Assets not freely disposable

Reference is made to Note 30 to the consolidated balance sheet.

17 Contingent liabilities

Contingent liabilities and commitments

	2014	2013
Contingent liabilities in respect of		
– Guarantees	109	11,001
– Irrevocable credit facilities	145,435	79,363
– Mortgage offerings	847,715	413,991
	993,259	**504,355**

18 Other

Fiscal unity

Nationale-Nederlanden Bank N.V. and its subsidiaries, are part of the fiscal unity for corporate income tax together with NN Group N.V. and the majority of NN Group N.V.'s (insurance) subsidiaries in the Netherlands. Consequently, NN Bank is jointly and severally liable for the total income tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group N.V. With reference to Note 11 "Other liabilities", Income tax payable concerns tax payable by Nationale-Nederlanden Bank N.V. to NN Group, for the most recent quarter.

Authorisation of the Parent company annual accounts

The Hague, 20 April 2015

The Supervisory Board

H.G.M. Blocks (Chairman)
D. Rueda
S.D. Caldwell
D.E. Knibbe
C. Huynh Cong

The Management Board

E. Muetstege (Chairman)
J. de Graaf
J.E. van Eijk
M.E. Tailor-Hemerijck

Confirmed and adopted by the General Meeting of Shareholders, dated 30 April 2015.

Independent auditor’s report

To: the Shareholders and Supervisory Board of Nationale-Nederlanden Bank N.V.

Report on the audit of the financial statements 2014

Our opinion

We have audited the financial statements 2014 of Nationale-Nederlanden Bank N.V. (the company), based in The Hague. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2014 and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2014, and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2014
- The following statements for 2014: consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2014
- The company profit and loss account for 2014
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the “Our responsibilities for the audit of the financial statements” section of our report.

We are independent of Nationale-Nederlanden Bank N.V. (“NN Bank”) in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 3 million. The materiality is based on 1.5% of equity). We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 0.3 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairments on loans and advances

With reference to page 23 of the notes to the Consolidated annual accounts:
The appropriateness of provisions for impairments on loans and advances is a key area of judgment for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows and quality of collateral and expected net selling prices.

Independent auditor's report – continued

The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Associated risk management disclosure is complex and dependent on high quality data. NNB carries mortgage and consumer lending portfolios with different inherent risks.

We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of relevant underlying data and systems. Loan loss provisions are calculated on a collective basis for which we assessed the underlying calculations and assumptions. Finally, we tested the design and operating effectiveness of the controls over the related credit risk disclosures included in the financial statements.

Related party transactions

With reference to page 47 of the notes to the Consolidated annual accounts:
NN Bank enters into substantial related party transactions relating the acquisition of mortgages from ING Bank N.V. and disposal to Nationale-Nederlanden Levensverzekering Maatschappij N.V. These transactions are carried out at market value. The market value measurement and associated transaction result can be a subjective area and involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of market value. Furthermore the calculation is dependent on high quality data.

We assessed and tested the design and operating effectiveness of the controls over the valuation techniques, yield curves applied and calculation models. We assessed the models used for the valuation of market value with the assistance of our specialists. This included comparison of input data with independent pricing sources and reperformance of certain valuations on a sample basis. Finally, we assessed and tested the design and operating effectiveness of the controls over the related disclosures included in the financial statements.

Reliability and continuity of electronic data processing

With reference to page 60 of the Risk Management section:
NN Bank is dependent on the IT-infrastructure for the continuity of their business processes. In the last few years, investments were made in the improvement of IT- systems and processes. As part of our audit procedures we tested IT- security, change and application controls embedded in NNB's key processes. In addition we assessed and tested the impact of changes during the year either from internal restructuring initiatives or from external factors such as the implementation of SEPA.

We assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. Our work consisted of assessing the developments in the IT infrastructure and analysing the impact on the IT-organisation. Additionally, we tested the design and operating effectiveness of relevant internal controls related to IT- systems and processes.

Responsibilities of Management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report – continued

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Report on other legal and regulatory requirements

Report on the Management Board report and the Other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the management board report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the supervisory board as auditor of Nationale-Nederlanden Bank N.V. on October 2012, as of the audit for year 2012 and have operated as statutory auditor ever since that date.

The Hague, 20 April 2015

Ernst & Young Accountants LLP

A.B. Roeders RA

Proposed appropriation of result

Amounts in thousands of euros, unless stated otherwise

The result is appropriated pursuant to Article 22 of the Articles of Association of Nationale-Nederlanden Bank N.V., the relevant stipulations of which state that the result shall firstly be appropriated to the company's equity at the end of the relevant financial year and that the remainder shall be at the disposal of the General Meeting.

For 2014, it is proposed that the result, insofar at the disposal of the General Meeting, will be appropriated as follows. The result will be appropriated to Other Reserves (Retained earnings).

Proposed appropriation of result

	2014
Net result	33,747
Interim dividend paid	0
Addition to reserves pursuant to Article 24 of the Articles of Association	0
Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	**33,747**

Subsequent events

On 26 February 2015, NN Group provided an unsecured subordinated loan of EUR 30 million to NN Bank for regulatory purposes. The loan qualifies as Tier 2 capital and has a maturity of 10 years. NN Bank may elect to redeem the loan, in whole or in part, on any date after five years from the start date. The coupon is fixed at 2.66% per annum.

On 18 March 2015, NN Bank borrowed EUR 200 million from NN Group. The loan qualifies as a senior unsecured loan and has a maturity of 7 years. The coupon is fixed at 1.406% per annum.

On 9 April 2015, NN Bank raised EUR 650 million of funding via a new structured entity (Hypenn RMBS III), which placed debt securities backed by NN Bank mortgage loans with a wide range of European investors. The A1 notes (EUR 161 million) have a weighted average life of 2 years and a spread over 3 months Euribor of 22 bps. The A2 notes (EUR 489 million) have a weighted average life of 5.2 years and a spread over 3 months Euribor of 28 bps.

Disclaimer

Certain of the statements in this 2014 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Bank's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of the EC Restructuring Plan, (5) changes in the availability of, and costs associated with, sources of liquidity, as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Bank's ability to achieve projected operational synergies and (19) the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Bank and/or related to NN Bank (such as the most recent annual reports of NN Group N.V. or ING Groep N.V.).

NN Bank's 2014 Annual Accounts - as part of the Annual Report/ Financial Report - are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU").

Any forward-looking statements made by or on behalf of NN Bank speak only as of the date they are made, and, NN Bank assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

Pillar III

Amounts in thousands of euros, unless stated otherwise

Introduction

This section relates to Pillar III, market discipline, and as such provides additional risk management and capital information. The additional information provided has not been audited by NN Bank's auditors.

The Pillar III disclosures are prepared in accordance with the Capital Requirements Directive (CRDIV). The CRDIV is legally enforced by Dutch law under the Financial Supervision Act (Wft).

In addition, a key reference for NN Bank regarding Pillar III disclosure is formed by the recommendations of the Enhanced Disclosure Task Force (EDTF). The EDTF was formed in 2012, in order to enhance the risk disclosures of banks and other financial institutions. The EDTF is an industry work group with wide geographical representation, including senior executives from leading financial institutions. On 29 October 2012, the EDTF, together with the Financial Stability Board (FSB) published a report with 32 recommendations on how to enhance risk disclosures. NN Bank embraces the EDTF principles and recommendations, and has implemented the vast majority of the 32 recommendations.

The next table provides an overview of where information on each EDTF recommendation can be found in the Annual Report.

Overview of EDTF recommendations on financial disclosure

Type	No	Brief description	Section reference
General	1	Consolidate all risk-related information in either Risk Management paragraph or Pillar III. If not possible, provide an index to aid navigation.	This table
	2	Define the bank's risk terminology and risk measures and present key parameter values used.	Risk Management
	3	Describe and discuss top and emerging risks for the bank.	Risk Management
	4	Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio.	Risk Management
Risk governance, risk management and business model	5	Summarise prominently the bank's risk management organisation, processes and key functions.	Risk Management
	6	Describe bank's risk culture, related procedures and strategies.	Risk Management
	7	Describe key risks arising from bank's business model and activities, the bank's risk appetite and how it manages these risks.	Risk Management
	8	Describe the use of stress testing within the bank's risk governance and capital frameworks.	Risk Management
Capital adequacy and RWA	9	Provide minimum Pillar I capital requirements, including surcharges and buffers, or the minimum internal ratio.	Capital Management
	10	Summarise composition of capital based on Basel Committee templates.	PIII
	11	Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in Common Equity Tier 1, Tier 1 and Tier 2 capital.	PIII
	12	Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning.	Capital Management
	13	Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.	PIII
	14	Present a table showing the capital requirements for each method used for calculating RWAs for credit risk per Basel asset class, as well as for major portfolios within those classes.	PIII
	15	Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes.	PIII
	16	Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type.	PIII
	17	Provide a narrative putting Basel Pillar III back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.	Future disclosure as appropriate
Liquidity	18	Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs.	PIII
Funding	19	Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories.	Future disclosure as appropriate
	20	Tabulate consolidated total assets, liabilities and off-balance sheet commitments by (contractual) maturity at the balance sheet date.	Annual Report starting page 43
	21	Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.	PIII

Pillar III – continued

Amounts in thousands of euros, unless stated otherwise

Overview of EDTF recommendations on financial disclosure – continued

Type	No	Brief description	Section reference
Market risk	22	Link balance sheet items and income statement with positions included in the traded and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities.	Risk Management
	23	Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk factors.	Risk Management
	24	Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations through time and descriptions of the reasons for back-testing exceptions.	Future disclosure as appropriate
	25	Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results.	Future disclosure as appropriate
Credit risk	26	Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant credit risk concentrations.	PIII
	27	Describe the policies for identifying impaired or non-performing loans, including how the bank defines impaired or non-performing, restructured and returned-to-performing loans, as well as explanations of loan forbearance policies.	Risk Management
	28	Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses.	Risk Management
	29	Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions.	PIII
	30	Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful.	PIII
Other risk	31	Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed.	PIII
	32	Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred.	Future disclosure as appropriate

Capital adequacy and rwa

EDTF recommendation 10 - Summarise composition of capital based on Basel Committee templates.

From 31 March 2014 to 31 December 2017, in order to meet the requirements for disclosure of the additional items on own funds as provided for in Article 492(3) of Regulation (EU) No 575/2013, institutions shall complete and publish the transitional own funds disclosure template provided in Annex VI of the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013. This regulation lays down the implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

Pillar III – continued

Amounts in thousands of euros, unless stated otherwise

Transitional own funds disclosure template

	2014
Capital instruments and the related share premium accounts of which:	
– Instrument type 1	419,000
– Retained earnings	-16,115
– Accumulated other comprehensive income (and other reserves to include unrealised gains and losses under the applicable accounting standards)	5,738
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**408,623**
Intangible assets (net of related tax liability) (negative amount)	-990
Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR of which:	-5,748
– Comprehensive income	-5,748
Common Equity Tier 1 (CET1) capital	**401,885**
Tier 1 (T1) capital	401,885
Capital instruments and the related share premium accounts	40,000
Tier 2 (T2) capital	40,000
Total capital (TC = T1 + T2)	**441,885**
Risk-weighted assets	2,625,557
Total risk-weighted assets	**2,625,557**
Common Equity Tier 1 (as a percentage of risk exposure amount)	15.3%
Tier 1 (as a percentage of risk exposure amount)	15.3%
Total capital (as a percentage of risk exposure amount)	16.8%

Regarding amount to be deducted from, or added to, Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR, please note the following: DNB has decided that unrealised gains and losses will be fully included in CET1 capital in 2018. Unrealised gains must be fully deducted in the first year of the phasing-in (2014), but will be phased-in in the next years with 40%-60% and 80% in CET1 capital. The phasing-in for the unrealised losses will be 20%-40%-60%-80% for the years 2014-2017.

EDTF recommendation 11 - Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in Common Equity Tier 1, Tier 1 and Tier 2 capital.

NN Bank's RWA is composed of RWA for credit risk and operational risk. NN Bank does not have a trading book, and therefore no RWA for market risk is required under Pillar I. The RWA for operational risk is based on the Basic Indicator Approach, and therefore shows no movement over the course of 2014. RWA for operational risk in 2013 was EUR 39 million and EUR 46 million for 2014. This means that the main developments in RWA are related to credit risk RWA. The movement in credit risk RWA is provided on the next page under EDTF recommendations 13, 14 and 16. The movements in capital composition are presented in the table on the next page. The key movement represents the issuance of Tier 2 capital in 2014 to further optimise the capital composition.

Pillar III – continued

Amounts in thousands of euros, unless stated otherwise

Capital composition movement in 2014

Amounts in millions of euros	2014	2013	Movement
Tier 1 Capital	402	371	31
– Common Equity Tier 1 Capital	402	371	31
– Additional Tier 1 Capital	0	0	0
Tier 2 Capital	40	0	40
BIS Capital	**442**	**371**	**71**

EDTF recommendations 13, 14 and 16 are combined in the table below.

- EDTF recommendation 13 - Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.
- EDTF recommendation 14 - Present a table showing the capital requirements for each method used for calculating RWAs for credit risk per Basel asset class as well as for major portfolios within those classes.
- EDTF recommendation 16 - Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type.

Credit risk SA RWA movement in 2014

	Mortgages	Consumer loans	Other items	Total
Portfolio beginning of year	1,843,688	120,895	260,893	2,225,423
Inflow in portfolio, own production	620,561	54,693		675,254
Inflow in portfolio, transfers	460,274			460,274
Existing portfolio	-36,842	-5,794	-82,935	-125,570
CRDIV adjustment	-129,252			-129,252
Outflow out portfolio, (p)repayments and write-offs	-133,525	-11,401		-144,926
Outflow out portfolio, transfers	-381,370			-381,370
Portfolio end of year	**2,243,533**	**158,394**	**177,905**	**2,579,832**

As per 1 January 2014, RWA is calculated on the basis of CRDIV, which requires a different calculation of the covered parts of mortgages. This has caused a decrease in RWA for the existing mortgage portfolio in January 2014. Other assets consist mainly of Interest Rate Swaps and bank accounts. This table is exclusive of RWA held for operational risk.
Please note that the RWA presented here represents the gross credit risk RWA of the portfolio.

EDTF recommendations 15 - Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes.

	Mortgages		Consumer loans		Mortgages + CL	
Risk Measures	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Exposure	7,961,698	5,976,342	185,546	140,063	8,147,245	6,116,406
% Non-performing loans	1.5%	1.0%	8.5%	11.4%	1.7%	1.3%
Probability of default IBNR (Regulatory)	1.3%	1.3%	3.9%	5.5%	1.4%	1.4%
Loss given default (IAS)	5.1%	4.2%	47.7%	45.3%	6.1%	5.2%
Risk costs	9,199	6,033	1,365	785	10,565	6,818
SA risk weight	31.7%	33.8%	76.2%	76.5%	32.7%	34.8%

The table shows a significant increase in risk costs from 2013 to 2014. Apart from the increase in exposure over this period, this is explained by the fact that, as per 1 July 2013, a significant mortgage portfolio was taken over. Effectively, this means that the 2013 risk costs are based upon a time window of six months. The percentage on NPL has increased as well, reflecting both the excellent credit quality of the start portfolio and the market average quality of the resets. After the 'inheritance' of the mortgages models from ING, these models have been monitored and calibrated to match the current economic climate and the characteristics of the NN Bank portfolio. This has caused the 0.9%-point increase in the LGD to a current level of 5.1%. The lower Risk Weight under the Standardised Approach for mortgages is primarily thanks to the implementation of CRDIV. Please note that the exposure presented here represents the gross credit risk exposure of the portfolio.

Pillar III – continued

Amounts in thousands of euros, unless stated otherwise

Credit risk

EDTF recommendation 26 - Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant credit risk concentrations.

	Mortgages	
Loan to income	**2014**	**2013**
< 3.5	36%	36%
3.5 - 4.5	32%	31%
4.5 - 5.5	19%	18%
> 5.5	13%	15%
Total	**100%**	**100%**

	Mortgages	
Net loan to indexed value	**2014**	**2013**
< 80%	32%	28%
80% - 90%	11%	9%
90% - 105%	18%	16%
> 105%	15%	24%
NHG <= 105%	21%	13%
NHG > 105%	3%	10%
Total	**100%**	**100%**

	Mortgages	
Region	**2014**	**2013**
Noord-Holland, Zuid-Holland, Zeeland	46%	48%
Gelderland, Noord-Brabant, Overijssel, Utrecht, Limburg	41%	41%
Drenthe, Flevoland, Friesland, Groningen	13%	11%

EDTF recommendation 29 - Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions.

The RWA for derivatives amounts to EUR 43.7 million, exclusive of a EUR 2.8 million capital charge for Credit Valuation Adjustments. Of the aforementioned amount, EUR 41.7 million is related to Interest Rate Swap positions, EUR 1 million to a back-to-back swap position with ING Bank. EUR 1 million relates to a small Repo position. NN Bank does not trade derivatives for profit generation purposes; only for hedging or liquidity reasons.

EDTF recommendation 30 - Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information, where meaningful.

Collateral on mortgages

	2014	**2013**
Exposure	7,961,698	5,976,342
NHG cover value	1,715,309	1,388,277
Primary cover original market value	9,736,510	7,437,790
Primary cover indexed market value	10,135,246	7,616,084
Savings cover value	517,521	473,814
Life/Investment cover value	138,937	102,622

The table above shows the credit risk mitigants related to NN Bank's mortgage books. Please note that the NHG cover value is lower than the exposure that is flagged as NHG. The reason is that the NHG cover value decreases in time following an annuity scheme. For example: for Interest Only loans, the exposure is stable while the NHG cover value decreases.

Pillar III – continued

Amounts in thousands of euros, unless stated otherwise

Liquidity risk and funding

Liquidity Buffer

EDTF recommendation 18 - Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs.

Liquidity risk is defined as the risk that NN Bank cannot refinance its assets against a reasonable price (funding liquidity risk) or cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner (market liquidity risk).

NN Bank aims for a prudent liquidity risk management, to ascertain that sufficient liquidity is maintained in order to ensure safe and sound operations in all circumstances. NN Bank maintains a liquidity position with conservative internal targets and a robust liquidity buffer. On a daily basis, the liquidity position has to be sufficient to meet NN Bank's short-term obligations. The position is managed by maintaining sufficient liquid investments and the capacity to generate additional cash.

Sources that have a predictable value and which can be transferred to cash within a short period of time are part of the internal liquidity buffer. The internal liquidity buffer consists of:
- Unencumbered eligible assets: all eligible assets for ECB standing facilities (excl. emergency facilities):
  - Investment portfolio.
  - Retained RMBS notes.
- Warehouse facilities (unused portion).
- Committed credit lines (unused portion).
- Cash/balance bank account.

Funding strategy

EDTF recommendation 21 - Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.

NN Bank is a retail mortgage bank funded largely by customer deposits. Therefore, it is particularly exposed to developments related to trust of customers, the housing market, consumer saving/spending, wholesale funding, funding requirements of other banks and government/regulatory measures related to these areas.

The largest part of NN Bank's funding consists of retail funding. NN Bank has, in addition to savings deposits, two major funding sources available: whole loan sales and long-term secured/unsecured funding.

In the table below the composition of the funding mix per ultimo 2014 is shown.

Funding mix

	2014
Retail funding (consists of savings/deposits and bank annuities)	78%
Wholesale Funding (long-term)	15%
Equity	5%
Other Liabilities	2%
Total	**100%**

Pillar III – continued

Amounts in thousands of euros, unless stated otherwise

Non-financial risk

EDTF recommendation 31 - Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed.

As described in the Risk Management section, for operational risk and compliance risk, NN Group has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks and compliance risks in a forward-looking manner.

Below is an overview of non-financial risk categories applicable for NN Bank. The categories are aligned with the Basel II operational risk categories. To ensure alignment with Basel II operational risk categories, the non-financial risk categories for NN Bank are more granular than those for NN Group.

- Compliance Risk: Compliance risk is the risk of impairment of NN's integrity. Compliance risk is the risk of failure (or perceived failure) to comply with NN Group's business principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by NN Bank or its ensuing activities, which could damage NN's reputation and lead to legal or regulatory sanctions and financial loss.

- Continuity Risk: Continuity risk is the risk of events (e.g. natural disasters, power outages, terrorism) leading to a situation that threatens business continuity.

- Control Risk: Control risk is the risk of loss due to non-compliance with controls set through governance procedures and/or project management methods caused by improper or insufficient monitoring (testing) of entities or activities.

- Employment Practice Risk: Employment practice risk is the risk of loss due to acts inconsistent with employment, health laws, safety, or agreements, from payment of personal injury claims, or from diversity/discrimination events.

- External Fraud Risk: External fraud risk is the risk due to deliberate abuse of procedures, systems, assets, products and/or services of NN by external parties who intend to deceitfully or unlawfully benefit themselves or others.

- Information (Technology) Risk: Information (technology) risk is the risk of loss due to inadequate information security resulting in a loss of information confidentiality and/or integrity and/or availability.

- Internal Fraud Risk: Internal fraud risk is the risk due to deliberate abuse of procedures, systems, assets, products and/or services of NN by those who intend to deceitfully or unlawfully benefit themselves or others.

- Personal and Physical Security Risk: Personal & physical security risk is the risk of criminal and environmental threats that might endanger the security or safety of NN personnel at work, people in NN locations, NN assets, or assets entrusted to NN, or might have an impact on the NN organisation's confidentiality, integrity or availability.

- Processing Risk: Processing risk is the risk of loss due to unintentional human error during (transaction) processing. Processing risk deals with the risk of losses due to failed transaction processing or process management.

- Unauthorised Activity Risk: Unauthorised activity risk is the risk of loss caused by unauthorised employee activities, approvals or overstepping of authority (based on intentional human behaviour, not intended to deceitfully or unlawfully benefit themselves or others).

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