Nationale-Nederlanden Bank N.V.
2015 Annual Report

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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 2015 was as follows:

The Management Board
Composition as at 31 December 2015
E. (Erik) Muetstege (1960), CEO and chairman
J. (Sjaak) de Graaf (1955), COO and vice-chairman
J.E. (Sandra) van Eijk (1971), CFO
M.E. (Monique) Tailor-Hemerijck (1960), CRO

The Supervisory Board
Composition as at 31 December 2015
H.G.M. (Hein) Blocks (1945), chairman
D.E. (David) Knibbe (1971)
G.A.N. (Toon) Krooswijk (1973)[1]
D. (Delfin) Rueda (1964)

Resigned in 2015
S.D. (Doug) Caldwell (1969)[2]
C. (Chanh) Huynh Cong (1950)[3]

1 Appointment as per 20 October 2015 at the General Meeting on 20 October 2015.
2 Resignation as per 20 October 2015 by resignation letter.
3 Resignation as per 31 December 2015 by resignation letter.

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 asset management company active in more than 18 countries with a leading position in the Netherlands and a strong presence in a number of European markets and Japan. NN Group includes Nationale-Nederlanden, NN Insurance Europe, NN Investment Partners and NN Life Japan.

Our roots lie in the Netherlands with a rich history that stretches back more than 170 years. With about 11,500 employees, NN Group is committed to helping people secure their financial futures, offering high-quality retirement services, insurance, investment and banking products to retail, self-employed workers, SME, large corporate and institutional customers.

NN Group is a public limited liability company ('naamloze vennootschap') incorporated under the laws of the Netherlands. The shares in the share capital of NN Group are listed on Euronext Amsterdam. As at 31 December 2015, ING Groep N.V. ('ING Group') held 25.8% of the total outstanding shares (net of treasury shares) in the share capital of NN Group. Under the Restructuring Plan, developed by ING Group and approved by the European Commission as a condition for the Dutch state aid it received in 2008/2009, ING Group is required to divest its remaining interest before 31 December 2016.

NN Bank

NN Bank was founded on 26 April 2011 as a Dutch retail bank. It is part of NN Group, and its broad range of banking products is complementary to Nationale-Nederlanden's ('NN's') individual life and non-life insurance products for retail customers in the Netherlands. NN Bank's purpose is to help retail customers create and secure their financial futures: 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 administration and management services to ING Bank N.V. (former WestlandUtrecht Bank), Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven'), Nationale-Nederlanden Schadeverzekering Maatschappij N.V. ('NN Schade') and the NN Dutch Residential Mortgage Fund.

NN Bank is a fully owned subsidiary of NN Insurance Support Nederland B.V. which in turn is a fully owned subsidiary of NN Insurance Eurasia N.V. NN Insurance Eurasia N.V. is fully owned by NN Group.

Report of the Management Board

Overview

NN Bank overview

NN Bank's purpose is to help retail customers to secure their financial futures.

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

NN Bank is able to realise efficient operations, because it has no cost-intensive bank branches and does not offer payment services. Improving efficiency in customer processes is a key objective, beneficial to both the customer experience as well as NN Bank's cost level.

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

2015: strong and profitable growth

NN Bank is a Dutch retail bank offering a broad range of banking products and services. In 2015, NN Bank realised significant and profitable growth of its business (especially the mortgage production up with 85% and total net result up with 99%) while continuing its focus on helping retail customers realise their financial goals.

As a result of the state aid received by ING Group, NN Bank's former parent company, in 2008 and 2009, the European Commission imposed remediating commitments upon ING Group ('EC Commitments'). As part of the EC Commitments agreed upon in 2012, NN Bank was to be established as an independent and viable competitor in the Dutch retail banking market. In 2015, NN Bank continued to work on further fulfilling these EC Commitments. The Trustee's Final Assessment report on NN Bank (the EC appointed an independent Trustee) concluded that NN Bank has complied with both the quantitative and qualitative commitments.

On the funding side, NN Bank has taken significant steps to broaden its investor base and strengthen its funding profile:

- Hypenn RMBS programme: NN Bank successfully placed RMBS notes with a large group of European institutional investors, for the first time with Hypenn III in April 2015, and again with Hypenn IV in October 2015.
- Whole loan sales: in addition to continuing the successful relationship with NN Leven, we started selling mortgage loans to NN Schade, as well as to the joint initiative with NN Investment Partners (NN Dutch Residential Mortgage Fund) in 2015.

Our customers

NN Group wants to help people secure their financial futures with our strategy to deliver an excellent customer experience, based on great services and long-term relationships. We offer our customers fair value for money and an experience that is straightforward, personal and caring. We create transparent, easy-to-understand products, and we empower our customers with the knowledge and tools they need to make sound financial decisions. To improve the customer experience, NN Bank invested in three areas in 2015: provide efficient and flawless service, be personal and relevant in every customer contact and excel in the moments of truth.

Efforts focused on providing efficient and flawless service included:

- The significant improvement of online services through the offering of multiple self-service options and tools on the website and in the personal online environment. This includes video tutorials and a clear outline regarding the impact of a new interest period on a customer's mortgage.
- The successful launch of a service app, starting with savings, which will be expanded with other services and products in the near future and will service a broader range of customers.
- Active call-back on incoming email in complex cases to improve 'first-time-right' and enhance the customer experience.

In order to be more personal and relevant in every customer contact, NN Bank invested in:

- Personalised welcome videos for new mortgage customers, which give them a summary of their new product and address the most common FAQs.
- Webinars for customers that provide insight into financial topics and economic developments, as well as our related products and services.
- Use of Next Best Actions ('NBAs') in calls, emails and online channels, which offer customers personalised service suggestions or commercial offers based on their individual profiles. The Net Promoter Score ('NPS') of customers that were offered an NBA outperforms the NPS of customers who did not receive a personalised suggestion. Consequently, NBAs result in higher customer satisfaction scores, as well as higher cross-sell ratios. A substantial number of NBA's were implemented and offered to many customers.

With regard to the ambition to excel in the moments of truth, NN Bank facilitated a series of expert sessions about the impact of divorce on the mortgage. These sessions support our intermediaries and our customers in this complex and emotional matter. Also, we are redesigning the mortgage processes for cases involving divorce, resulting in faster handling times.

To ensure that the voice of the customer will be heard in our organisation, NN Bank strives to actively involve customers in many ways. For almost all customer processes, customer feedback is collected on an on-going basis. Continuous improvement teams analyse customer feedback, define required improvements and implement them.

In addition, NN Bank organises Customer Arenas, in which we talk with customers about their experiences with us, and what we can do to improve. In 2015, we organised a Customer Arena on the topic of arrears management. Usability tests for new products and processes are another way in which NN Bank involves customers.

Our efforts have resulted in the gradual improvement of the customer experience, which is demonstrated by an increase in our Net Promoter Score ('NPS') from -13 (2014) to -4 (2015). More than 50% of NN Bank customers rate our service with an eight or higher. For 2016, NN Bank intends to intensify and accelerate activities to further improve the customer experience.

Awards

Independer.nl – Best score in Home Visit category (8.9)
NN Advice, mortgage advisors

MoneyView 2015 – Five Star Product Rating Prize
BankSpaarPlus Hypotheek (Bank Annuity Mortgage)

MoneyView 2015 – Vijf Sterren Product Rating Prijs
Aanvullend PensioenSparen & Aanvullende PensioenUitkering
(Supplementary Pension Savings & Supplementary Pension Payments)

ITDS 2015
Social Media Award – bronze

Adfiz Prestatie Onderzoek 2015 – Banksparen, 1st place
(Adfiz Performance Research 2015 - Bank Annuity, 1st place)

Innovation

The situation, goals and needs of our customers are constantly changing. NN Bank is increasing its agility by enhancing its ability to innovate. This is needed so that we can dynamically interact with the constantly changing environment. Therefore, NN Bank believes innovation is crucial for further growth.

Products & Services

Regarding its savings portfolio, NN Bank saw further volume growth in a stabilising market with declining interest rates, leading to total customer savings of EUR 8.1 billion (increase of 15%) at the end of 2015. The former WestlandUtrecht savings portfolio was successfully migrated to the NN platform. For our Bank Annuity products, 2015 was another successful year with net growth of our prize-winning portfolio exceeding 20%. Our products Aanvullend Pensioen Sparen (Supplementary Pension Savings) and Aanvullende PensioenUitkering (Supplementary Pension Payments) were awarded a Five Star rating from MoneyView. Also, our Bank Annuity product was the winner in its category of the Adfiz Performance Research. Furthermore, the Dutch Consumentenbond (consumers' association) mentioned our Bank Annuity product as one of the most favourable in the market in their yearly review of financial products.

NN Bank's mortgage production almost doubled to EUR 4.3 billion. In 2015, important customer process improvements were implemented successfully. For existing customers, these included the automation and optimisation of interest rate resets, construction deposit declarations and prepayment costs calculations. For new customers, NN Bank improved its application processes, e.g. by digitising our communication with the notary (registration of the mortgage deed) to be more efficient and reduce errors. NN Bank introduced a fixed term of interest of 30 years for mortgages, following interest rate and market developments. A significant proportion of NN Bank's mortgage production was transferred to NN Leven, NN Schade and the NN Dutch Residential Mortgage Fund.

NN Bank expanded its product portfolio of consumer loans with the successful introduction of the personal loan in the intermediary channel. The consumer loan application process was made responsive for the direct channel, upgrading the customer experience on mobile and tablet devices. A loyalty programme was introduced for credit card holders.

For retail investments, 2015 was mostly a year of preparations for a new product introduction, as well as a product migration, both planned to take effect in 2016. A website redesign resulted in new and easier-to-find information on securities for the existing customers of retail investments.

Distribution

NN Bank distributes its products and services to customers in a multichannel way. We partner with an extensive independent broker network. In addition, NN Bank's own financial and mortgage advisors offer direct advice. The NN Bank call centres help (potential) customers with a range of questions and requests.

The online channel is increasingly important for providing effective access in an efficient way, matching customer expectations. The website, nn.nl, is visited by around 750,000 visitors per month. With the personal online environment, mijnnn.nl, customers are able to manage their personal savings account and have access to all relevant information. In 2015, NN Bank launched the NN app to meet customer demand for online and mobile connectivity. The app is initially targeted at savings customers. To date, NN has around 72,000 social media followers, serviced by our award-winning social media team.

Our employees

At NN Bank, people really matter. We genuinely believe we can better serve our customers and achieve our business goals if our people are encouraged to put their different talents, personalities and expertise to work. We know that we can only be the company we want to be if our people are skilled, motivated and energised by their work. Their personal success is our common success. This requires a culture that welcomes and respects all people, and focuses on empowerment and entrepreneurship.

NN Bank embraces the NN Statement of Living Our Values, in which we make a promise to our customers about how we work. The values are based on the company's roots, heritage and common purpose:

- *We care*
- *We are clear*
- *We commit*

NN Bank implemented the Banker's Oath and Disciplinary Law as of April 2015. All existing employees of NN Bank were sworn in. For new employees, an on-going programme is in place wherein they take the oath when starting at NN Bank.

All employees are encouraged to invest in themselves and their employment prospects by taking part in education and training. From mandatory Wft (Financial Supervision Act) training for sales and call personnel to continuing education programmes for the Management Board, development opportunities are numerous. NN Bank invests in attracting young (potential) employees by offering students the opportunity to gain work experience and by the renewed traineeship programme for talent.

The strategic theme 'we make the difference' involves improving our employees' engagement, following the belief that an engaged employee goes the extra mile to make the difference for a customer. In 2015, the engagement score was 74%, up from 70% in 2014.

Our role in society

At NN Group, we are committed to improving people's financial well-being, and to responsibly managing the assets entrusted to us by our customers, as well as our own assets. We aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of the broader society and supporting the communities in which we operate. NN contributes to the broader society through investment in our local communities, purchasing goods and services from local suppliers and managing our direct environmental footprint. Our values guide us in fulfilling our role as a good corporate citizen.

Embedding a sustainable role in society remains an important priority in NN's core activities and processes. This entails, amongst other things, offering products and services that are suitable, transparent and contribute to the financial well-being of our customers.

At NN Bank, we strive to help people in financial distress, so they can stay in their own homes as long as reasonably possible. We redefined our policies from a customer-centric point of view, including grace periods, interest holidays, budget coaching and the use of early warnings to get in touch with our customers in the earliest stage of their difficulty. Free personal and mortgage restructuring advice can be offered to customers in difficulty. In 2015, the first 30 customers used these options.

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

In terms of financial education, several NN Bank employees visited primary schools in the 'Week van het Geld' (Money Week), providing a guest lesson on money and risks. Furthermore, employees participated in a JINC initiative about managing a job application process. Another successful initiative was the Women in Control Café at the Rotterdam-based NN DE Café. The initiative consisted of a number of workshops aimed at stimulating women to chase their dreams and be financially self-sufficient. In addition, we stimulated people's pension awareness through two online campaigns jointly attracting more than three million online views:

- The 'Hoe gaat het nu met' (Keeping up with) campaign followed formerly famous people, discussing about their later career and their different pensions, leading to almost 30,000 interactions/likes.
- The 'Jouw later' (Your later) social media campaign portrayed three extraordinary seniors, e.g. a grandfather going to house parties, resulting in more than 100,000 interactions/likes.

Conclusions and ambitions

The ambition of NN Bank is to further deepen the relationship with its customers by helping them reach their goals and desired lifestyle with our financial products and services. NN Bank wants to differentiate on the customer experience. To compete successfully, efficient and flawless customer processes are essential. In order to achieve this, NN Bank's customer experience strategy is based on three complementary focus areas: provide efficient and flawless customer processes and service, be personal and relevant in every customer contact and excel and surprise in the moments that matter most to customers.

In 2016, NN Bank will further intensify its work on this ambition, aimed at delivering a personal approach towards customers, with a product and service offering specifically relevant to them, in a digital way. This will require a lot of attention and effort. But our good starting position, upon which we can build, gives us confidence for the journey ahead.

Financial Developments

Analysis of results

Amounts in millions of euros	2015	2014
Interest income	428.6	346.8
Interest expense	259.4	220.1
Interest result	**169.2**	**126.7**
Gains and losses on financial transactions and other income	**33.4**	**49.1**
Fee and commission income	**52.1**	**25.1**
Valuation results derivatives	**0.9**	**-5.6**
Total income	**255.6**	**195.3**
Addition to loan loss provisions	17.9	10.6
Staff expenses	85.6	89.2
Other operating expenses	62.5	50.0
Total expenses	**166.0**	**149.7**
Result before tax	**89.6**	**45.5**
Taxation	22.5	11.8
Net result	**67.1**	**33.7**

Key figures

Amounts in millions of euros	2015	2014
Loans	10,627	8,074
Customer deposits and other funds on deposit	8,139	7,061
Net interest margin	1.6%	1.6%
Cost/Income ratio[1]	58%	71%
Return on assets	0.6%	0.4%
Return on equity	14.3%	8.7%
Total assets	12,023	9,069
CET1 capital[2]	528	402
CET1 ratio – transitional[2]	14.6%	15.3%
BIS capital	598	442
BIS ratio – transitional	16.6%	16.8%
BIS ratio – fully phased-in	16.7%	17.0%
Leverage ratio – transitional	4.0%	3.9%
Leverage ratio – fully phased-in	4.1%	4.0%
Liquidity Coverage Ratio ('LCR')	160%	165%
Average number of FTE	586	582

1 For purposes of comparison, the percentage of 2014 has been restated.
2 Amount and percentage differ from those reported by NN Group on NN Bank, because of the inclusion of the net result for the total year of 2015. It is expected that DNB will approve the fourth quarter result of 2015 being added.

Profit and loss

NN Bank's results further increased in 2015. The strong production of mortgages led to both a further growth of the balance sheet, resulting in higher interest income, and to a high sales volume of mortgage loans, generating additional income.

'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, NN Schade and the NN Dutch Residential Mortgage Fund. In 2015, EUR 1.4 billion in assets were transferred (2014: EUR 1.2 billion). The assets were sold at an average premium of 94 bp, as a result of decreased interest rates.

This year, NN Bank started to originate mortgage loans for NN Leven. This resulted in EUR 25 million in fee and commission income.

Addition to loan loss provisions increased by EUR 7.3 million due to the growing, maturing portfolios and a credit risk model enhancement.

Compared with 2014, operating expenses increased, which was mainly caused by higher indirect expenses from NN Group due to the growth of NN Bank. The number of FTEs only slightly increased compared with 2014, despite the strong growth of the balance sheet.

Balance sheet

NN Bank's balance sheet increased by EUR 3.0 billion in 2015 to EUR 12 billion (2014: EUR 2.1 billion). The mortgage portfolio grew by EUR 2.6 billion (2014: 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 the purchase of NN branded mortgage loans from ING Bank on the respective reset dates.

The customer savings portfolio is the main funding source for NN Bank. In addition, other (long-term) capital market instruments fund the mortgage portfolio. Short-term funding instruments, in the form of repurchase agreements and a warehouse facility, are also in place and are used to manage NN Bank's liquidity position.

In 2015, new unsecured funding (EUR 0.2 billion) was attracted and two Residential Mortgage Backed Security ('RMBS') transactions (EUR 1.2 billion) were completed and sold to parties outside NN Group and ING Group.

Capital & Liquidity

NN Bank maintained a solid capital position with a CRDIV (Capital Requirements Directive) transitional BIS ratio of 16.6% (2014: 16.8%) and a CRDIV transitional CET1 ratio of 14.6% at year-end 2015 (2014: 15.3%). The CRDIV fully phased-in BIS ratio came to 16.7% (2014: 17.0%). The phasing-in of recognition of unrealised gains and losses in capital, with a full phasing-in becoming effective in 2018, explains the difference between the transitional and fully phased-in BIS ratio.

On 21 May 2015, NN Group issued 2.2 million ordinary shares at a price of EUR 26.16 per share to ING Groep N.V. The proceeds of EUR 57 million were used by NN Group to increase the common equity Tier 1 capital of NN Bank by the same amount. In addition, ING Bank provided a facility to NN Bank under which NN Bank has the unconditional right to receive Additional Tier 1 (AT1) capital up to an amount of EUR 63 million until 31 December 2018 at prevailing market terms. With these transactions, ING Group fulfilled its commitments to the EC pertaining to the capitalisation of NN Bank. Furthermore, a EUR 30 million subordinated loan was granted by NN Group, which qualifies as Tier 2 capital.

NN Bank maintained a solid liquidity position with an LCR of 160% and a DNB one-month liquidity of EUR 690 million. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2015, NN Bank added an additional Secured Funding Facility and extended the current liquidity lines. In addition, the number of counterparties for repos was increased.

Market and business developments

Economic conditions

According to the Centraal Plan Bureau ('CPB'), the Dutch economy grew in 2015 by 2.0% and will grow in 2016 by 2.4% (Source: CPB, Macro Economische Verkenning ('MEV') 2016, 15-09-2015). This puts growth in both years more than 0.5% higher than in the eurozone. While in 2014, the cautious recovery was driven especially by exports, in 2015 household consumption, residential investments and business investments improved strongly as well. Domestic spending thereby contributed even more to economic growth than exports. For the first time since 2006, consumer confidence is positive, and higher than the long-term average. Unemployment, however, is still considerably higher than before the crisis.

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. Furthermore, the regulation on minimum mortgage underwriting criteria has been tightened in order to reduce the maximum loan-to-value (LTV) ratio in the Dutch mortgage market to 100% in 2018. Also, the maximum tax deductibility will be gradually brought down to a level of 38%.

In 2015, the continuously low interest rates and increasing consumer confidence stimulated further growth of the housing and mortgage market in the Netherlands. The current climate in the mortgage market is attractive for new entrants such as pension funds and foreign investors. At the same time, market share of the large Dutch banks is decreasing, as they are reducing their exposure to the Dutch mortgage market.

The mortgage market was characterised by a significant growth of 27.8% in 2015. NN Bank's new mortgage sales increased to EUR 4.3 billion in 2015, which includes sales of our white label mortgage product and EUR 1.3 billion originated for NN Leven. As a result NN Bank's market share in new mortgages, including white label product sales, increased to 6.4% in 2015 (2014: 5.5%) (Source: Kadaster).

Savings

The recovering economy allows consumers to put money aside. Growth in the savings market is moderate, due to low interest rates. This is applicable to the market for bank annuities as well, aimed at private pension savings. Nevertheless, consumers' interest in investing for their wealth accumulation is growing. A driver for this development is rising consumer concerns about their pension gap (i.e. the difference between current savings and future needs) and increasing consumer awareness to act upon it (source: Schroders beleggingsbarometer).

Despite the moderate market growth of 1.3% in the savings market in 2015 (Source: Dutch Central Bank), NN Bank's savings portfolio rose 15% to EUR 8.1 billion, representing approximately 2.4% of total Dutch households' savings. In 2015, NN Bank's internet savings portfolio totalled EUR 4.2 billion (2014: EUR 4.1 billion), making NN Bank the largest Dutch savings bank without a branch network. NN Bank's bank annuities portfolio increased to EUR 2.7 billion (2014: EUR 1.8 billion), excluding EUR 0.6 billion bank annuities for mortgages. The growth can be attributed to NN Bank's strong brand name and continued competitive interest rates on NN Banks' savings accounts.

Investment services

The retail investment market benefited from the on-going economic recovery and growing confidence of the private investor. Low interest rates further stimulated this market. The assets of Dutch individuals grew by 6.0% in the first two quarters of 2015 (source: Dutch Central Bank). Following the current debate about the sustainability of the Dutch pension system, future pension provision is becoming a primary reason for individuals to invest privately.

In 2015, the value of the assets under management relating to the securities portfolio of NN Bank clients was EUR 940 million (2014: EUR 994 million).

Consumer lending

Economic recovery and improving consumer confidence stimulated consumer willingness to finance more expensive durable goods. As a result, the market for consumer lending increased in 2015 by 14.2% (Source: Dutch Central Bank). We note that stricter (new) mortgage requirements, as well as the possibility for the consumer to finance residual debt after the sale of their house at a price below their existing mortgage, could lead to a further increase in consumer credit financing in conjunction with mortgage financing. NN Bank launched a personal loan product in 2015, in addition to its retail revolving credit product, together accounting for EUR 116 million production, including the undrawn commitments (up from nearly EUR 79 million production in 2014).

Distribution

Technological developments and changing customer needs influence the distribution of financial products. A growing number and greater diversity of self-service possibilities and smart online tools lead to the online and mobile channel gaining further importance, both in the execution-only and the advisory channel. Innovative solutions for online advice were introduced. Driven by convenience and cost savings, consumers increasingly tend to opt for this new channel.

Outlook

NN Bank anticipates further growth in 2016. It will focus even more on delivering a personal, relevant and digital customer experience. In order to do so, it wants to increase the number of contacts that add value to the customer, be personal and relevant in those contacts and excel in the moments of truth. This allows NN Bank to grow its business in a sustainable manner and is supported by the following elements:

- A customer contact strategy designed to increase the number of valuable, relevant contacts we have with our customers, primarily facilitated by the online channel.
- Use of customer segmentation, in which we acknowledge and respond to differences between customer segments.
- An effective 1-to-1 marketing programme, providing next best actions ('NBAs') relevant to the specific customer.
- Initiatives to exceed customer expectations in moments of truth.

Mortgages

In 2016, NN Bank intends to maintain its market position in a market that is expected to grow, driven by low interest rates and increasing consumer confidence. In line with regulatory requirements, the loan-to-value will gradually decline to a maximum of 100% loan-to-value in 2018, tempering market growth.

Savings
In the savings market, which is expected to grow modestly in 2016, NN Bank intends to maintain a solid position. It will focus on further strengthening its position in the bank annuities savings market, for example by adding the online channel to the distribution mix.

Investment services
In 2016, NN Bank expects to expand the fee business by introducing a new retail investment proposition and by migrating the old investment accounts to the new proposition. The invested assets of private households are expected to further grow over the next few years.

Consumer lending
The consumer credits market is expected to grow. In 2016, NN Bank will make its lending products suitable for the online channel, both direct for consumers (mijnnn.nl) and indirect for intermediaries (adviseur.nn.nl).

Conclusions and ambitions
NN Bank looks forward to a year in which it expects further sustainable growth. At the heart of our strategy is a personal approach towards customers with a product and service offering relevant for them, in a digital way. This means we will continue and intensify our focus on the experience customers have with us. Customer metrics and KPIs are in place to measure the effect of our efforts and adjust course when needed.

A new investment, a new savings and a new mortgage product are intended for launch in 2016, supported by the newly developed innovation funnel. Customers' increased self-direction and digitisation leads to a changing landscape, both in terms of customer need for other product solutions and in the increased use of channels that are fast and easy to handle.
NN Bank will heavily invest in digital and data to be ready to meet changing customer expectations and technological possibilities.

Corporate Governance

Corporate Governance statement

General

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 General Meeting of Shareholders appoints the members of the Management Board. The Management Board currently consists of four members: a CEO, CFO, CRO and COO. There have been no changes to the Management Board in 2015.

The governance and control structure for NN Bank forms the basis for its conservative 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.
- 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, set out in the policy framework of NN Group, unless waived by NN Group.
- The embedding of the policy framework, guidelines and procedures in the Three Lines of Defence control model.

In order to preclude potential legal sanctions, financial losses and reputational damage, NN Bank's policy guidelines are regularly reviewed and adjusted to the changing situation. Each policy area has an owner, who is responsible for establishing and maintaining the specific 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 area concerned.

Board composition

NN Bank aims to have an adequate and balanced composition of the Management Board and Supervisory Board ('Boards'). The Supervisory Board assesses the composition of the Boards annually. 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 2015, the composition of the Management Board met the above-mentioned gender balance. However, as NN Bank needs to balance several relevant selection criteria when composing the Supervisory Board, the composition of the Supervisory Board did not meet the above-mentioned gender balance in 2015. 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 and experience in the political and social environment.

External auditor

On 13 May 2013, the general meeting of shareholders of ING Group extended the appointment of Ernst & Young Accountants LLP ('EY') as external auditor of ING Group 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 Shareholders of NN Bank appointed EY as external auditor for the financial years 2014 and 2015.

On 28 May 2015, the general meeting of shareholders of NN Group appointed KPMG Accountants N.V. as the external auditor of NN Group and its subsidiaries including NN Bank, for the financial years 2016 through 2019. On 4 June 2015, the General Meeting of Shareholders of NN Bank appointed KPMG Accountants N.V. as external auditor for the financial years 2016 through 2019.

The external auditor attended the meetings of the Supervisory Board on 10 and 20 April 2015.

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

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 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).

Banking Code

In 2015, the Dutch Banking Association introduced a revised Banking Code, which came into effect on 1 January 2015. It applies to all banks that have been granted a banking license 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 Dutch Banking Association's website (www.nvb.nl).

NN Bank places great importance on compliance with the Banking Code and aims to apply all of its principles. On its website, NN Bank publishes a report 'Application of the Banking Code by Nationale-Nederlanden Bank' regarding its compliance with this Banking Code.

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Remuneration policy

NN Bank is well aware of the public debate about pay in the financial 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 the interests of its customers, employees, shareholders and society at large, and supports the long-term objective of the company.

The general principles underpinning the NN Group Remuneration Framework are (amongst others) as follows:

- Enhance focus on the long-term interest of NN Group and the interest of customers.
- Align with company values, business strategy and risk appetite.
- Promote and align with robust and effective risk management.
- Comply with and support the spirit of the (inter)national regulations on remuneration policies.
- Aim to avoid improper treatment of customers and employees.
- Create a balanced compensation mix with a reduced emphasis on variable compensation.
- Have claw-back and hold-back arrangements in place.
- Attract and retain talented personnel.

The variable remuneration is linked to clear targets. These targets are, for a large part, non-financial.

As an indirect subsidiary of NN Group, NN Bank falls within the 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 NNs statement of Living our Values. NN Group, and therefore 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.

Risk management organisation

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

The First Line of Defence is formed by NN Bank Business Management and has primary accountability for the performance of the business, operations, compliance and effective control of risks affecting NN Bank's business. The Second Line of Defence consists of oversight functions with a major role for the risk management organisation and the legal and compliance function. The CRO steers a functional independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted of excessive risk. The Third Line of Defence is provided by Corporate Audit Services ('CAS') and offers an independent assessment of the standard of internal control with respect to NN Bank's business and support processes, including governance, risk management and internal controls.

NN Bank 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 Note 39 'Risk management'.

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 Assessment Processes, and on the Medium-Term Plan ('MTP') in force including capital and funding plans. The RAS provides constraints for the medium-term planning.

On at least a monthly basis, NN Bank's risk committees monitor usage of the risk limits per risk category. The Risk Appetite Statement 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 Management Board and Supervisory Board approve the proposed risk appetite as part of the input for the annual medium-term planning.

Internal capital and liquidity adequacy

In terms of capital, De Nederlandsche Bank ('DNB') requires an annual internal evaluation to determine whether the capital and liquidity position and risk management 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 and Liquidity Adequacy Assessment Process ('ICLAAP'). The ICLAAP and Supervisory Review & Evaluation Process ('SREP') show that NN Bank has a robust capital and liquidity position.

Financial Reporting Process

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

The internal control over financial reporting is a process designed under the supervision of the CFO, 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 of timely detection of unauthorised acquisition, use or disposition of the assets that could have a material effect on NN Bank's financial statements.

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.

Loan Loss Provisioning (LLP) process

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

- *Identification:* in which an assessment is made. In 2015, NN Bank had no impaired assets on its books that classify for Individually Significant Financial Asset ('ISFA') provisioning.
- *Determination:* whereby the preliminary amount of loan loss provisions is determined. NN Bank's credit risk exposure models are used to calculate the level of Incurred Loss in the portfolio. Following IAS 39 regulation, this loss is the sum of the Incurred But Not Reported ('IBNR') provisions and the provisions for Individual Not Significant Assets ('INSFA'). Within NN Bank, this is referred to as the portfolio Expected Loss ('EL'), which is determined as the multiplication of the underlying Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD'). The PD, LGD and EAD are determined in statistical models as defined in the Advanced Internal Ratings Based Approach in CRDIV and CRR. In 2015, prudential add-ons were incorporated where this was deemed necessary to calculate EL as accurately as possible.
- *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, 12 April 2016

The Management Board

Report of the Supervisory Board

Supervisory Board meetings

In 2015, the Supervisory Board met five times. The Supervisory Board discussed the Annual Reports and Accounts 2014 and the ICAAP/ILAAP submissions and recovery plan update and the Medium Term Planning ('MTP') 2016-2018. The chairman of the Supervisory Board met with the Works Council and also with the internal auditor of NN Bank (CAS), the external auditor (EY), the head of Operational Risk Management and the head of Legal & Compliance to discuss the audit approach of EY, the audit plan of CAS and the operational plans of the ORM and Legal & Compliance departments.

Apart from closely monitoring the commercial developments in 2015, the Supervisory Board also monitored the progress of compliancy with the EC-commitments, the further strengthening of the internal control framework, client satisfaction measures and metrics and the funding of NN Bank.

Committees

The activities of an audit committee are performed by the Supervisory Board as a whole. In 2015, these activities included discussions about the quarterly results, the reports of 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. During the December meeting, the Supervisory board discussed more in depth the Compliance and Legal risks with the head of Legal & Compliance. The recovery plan, ICAAP and ILAAP (including the stress test scenarios) are discussed annually.

Functioning of the Management Board

In the fourth quarter of 2015, the Supervisory Board initiated its annual review cycle. For 2015 reviews, an independent external party was asked to assist the Supervisory Board in this process. The results of the review, including the functioning of the Management Board in 2015, were subsequently discussed by the Supervisory Board in its January 2016 meeting. The Supervisory Board concluded that the Management Board meets the expectations of the Supervisory Board both in terms of composition and capabilities as well as in terms of delivering results.

Composition of the Management Board

During 2015, there were no changes in the composition of the Management Board.

Composition of the Supervisory Board

On 20 October 2015, Toon Krooswijk was appointed as Member of the Supervisory Board. On the same date, Doug Caldwell resigned from the Supervisory Board. Furthermore, as per 31 December 2015, Chanh Huynh Cong resigned from the Supervisory Board.

Annual report, Banking Code and dividend

The Management Board has prepared the Annual Report and Accounts and discussed these with the Supervisory Board. The Annual Report and Accounts will be submitted for adoption at the 2016 General Meeting. NN Bank will not propose to pay a dividend over 2015 at the 2016 General 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 2015. NN Bank realised strong and profitable growth and at the same time carefully managed a prudent risk profile.

The Supervisory Board would also like to thank all employees of NN Bank who continued to work hard on building a successful bank. The rapidly changing environment asks for agility and at the same time a clear focus on delivering on promises to customers, shareholders and other stakeholders of NN Bank.

The Hague, 12 April 2016

The Supervisory Board

Consolidated annual accounts of NN Bank

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December before appropriation of result

	notes	2015	2014
Assets			
Cash and balances at central banks	2	474,079	321,140
Amounts due from banks	3	59,124	60,882
Financial assets at fair value through profit or loss:	4		
– non-trading derivatives		220,219	48,329
Available-for-sale investments	5	550,291	513,911
Loans	6	10,627,245	8,073,590
Other assets	7	91,620	51,227
Total assets		**12,022,578**	**9,069,079**
Equity			
Share capital		10,000	10,000
Share premium		466,000	409,000
Revaluation reserve		5,487	5,206
Retained earnings		-15,847	-49,330
Unappropriated result		67,094	33,747
Total equity	8	**532,734**	**408,623**
Liabilities			
Subordinated debt	9	70,000	40,000
Debt securities issued	10	2,361,092	1,227,467
Other borrowed funds	11	220,000	
Amounts due to banks	12	331,228	130,894
Customer deposits and other funds on deposit	13	8,138,799	7,061,266
Financial liabilities at fair value through profit or loss:	14		
– non-trading derivatives		316,572	157,181
Other liabilities	15	52,153	43,648
Total liabilities		**11,489,844**	**8,660,456**
Total equity and liabilities		**12,022,578**	**9,069,079**

References relate to the Notes starting on page 28. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account

For the year ended 31 December

	notes	2015		2014	
Interest income		428,568		346,807	
Interest expense		259,397		220,103	
Interest result	16		169,171		126,704
Gains and losses on financial transactions and other income	17		33,364		49,077
– gross fee and commission income		62,811		34,378	
– fee and commission expenses		10,677		9,306	
Net fee and commission income	18		52,134		25,072
Valuation results on non-trading derivatives	19		922		-5,599
Total income			**255,591**		**195,254**
Addition to loan loss provisions	6		17,871		10,565
Staff expenses	20		85,631		89,167
Other operating expenses	21		62,513		49,977
Total expenses			**166,015**		**149,709**
Result before tax			**89,576**		**45,545**
Taxation	25		22,482		11,798
Net result			**67,094**		**33,747**

References relate to the Notes on page 34. These form an integral part of the Consolidated annual accounts.

Consolidated statement of comprehensive income

For the year ended 31 December

		2015		2014
Net result		**67,094**		**33,747**
Unrealised revaluations Available-for-sale investments	24		6,215	
Realised gains or losses transferred to the profit and loss account	-220		-477	
Items that may be reclassified subsequently to the profit and loss account		**-196**		**5,738**
Total comprehensive income		**66,898**		**39,485**
Comprehensive income attributable to:				
Shareholders of the parent		66,898		39,485
Total comprehensive income		**66,898**		**39,485**

Reference is made to Note 25 ‘Taxation’ for the disclosure on the income tax effects on each component of Other comprehensive income.

Consolidated statement of cash flows

For the year ended 31 December

	notes	2015	2014[1]
Result before tax		89,576	45,545
Adjusted for: – addition to loan loss provision		17,871	10,565
– fair value change on hedged mortgages[1]		13,726	-105,033
– accrued interest		5,177	-13,044
– other		-48	28
Taxation paid		-19,008	-3,315
Changes in: – amounts due from/to banks		200,335	-145,837
– non-trading derivatives[1]		-12,499	112,749
– loans[1]		-3,938,748	-3,259,735
– mortgage loan sale to NN Leven[1]		887,785	1,241,691
– mortgage loan sale to NN Schade		301,210	
– mortgage loan sale to NN Dutch Residential Mortgage Fund		164,501	
– other assets		-37,403	18,455
– customer deposits and other funds on deposit		1,077,533	1,251,027
– other liabilities		-3,069	-42,612
Net cash flow from operating activities		**-1,253,061**	**-889,516**
Investments and advances: – available-for-sale investments		-177,874	-168,634
Disposals and redemptions: – available-for-sale investments		141,492	83,205
Net cash flow from investing activities		**-36,382**	**-85,429**
Proceeds from issuance of subordinated debt[1]		30,000	40,000
Proceeds from issuance of debt securities[1]		1,162,583	847,022
Repayments of debt securities[1]		-28,959	-10,738
Proceeds from other borrowed funds		220,000	
Capital contribution		57,000	
Dividend paid	23		
Net cash flow from financing activities		**1,440,624**	**876,284**
Net cash flow		**151,181**	**-98,661**

1 For purposes of comparison, amounts in 2014 have been reclassified to show more detailed information.

Cash and cash equivalents

For the year ended 31 December

	notes	2015	2014
Cash and cash equivalents at beginning of the period		382,022	480,683
Net cash flow		151,181	-98,661
Cash and cash equivalents at end of the period	24	**533,203**	**382,022**

References relate to the Notes on page 37. These form an integral part of the Consolidated annual accounts.

Consolidated statement of changes in equity

	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			6,215	6,215
Realised gains or losses transferred to the profit and loss account			-477	-477
Total amount recognised directly in equity (Other comprehensive income)			**5,738**	**5,738**
Net result			33,747	33,747
Total comprehensive income			**39,485**	**39,485**
Capital contribution				
Balance as at 31 December 2014	**10,000**	**409,000**	**-10,377**	**408,623**

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January 2015	10,000	409,000	-10,377	408,623
Unrealised revaluations available-for-sale investments			24	24
Realised gains or losses transferred to the profit and loss account			-220	-220
Total amount recognised directly in equity (Other comprehensive income)			**-196**	**-196**
Net result			67,094	67,094
Total comprehensive income			**66,898**	**66,898**
Capital contribution		57,000		57,000
Employee share plans			213	213
Balance as at 31 December 2015	**10,000**	**466,000**	**56,734**	**532,734**

Notes to the Consolidated annual accounts of NN Bank

Notes to the Consolidated annual accounts

Nationale-Nederlanden Bank N.V. ('NN Bank') is a public limited liability company (naamloze vennootschap) incorporated under Dutch law. NN Bank has its official seat and its office address in The Hague, the Netherlands. NN Bank is recorded in the Commercial Register, no. 52605884. The principal activities of NN Bank are described in the section 'NN Group and NN Bank at a glance'.

1 Accounting policies

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 the 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 applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU.

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 policy choices made by NN Bank. The accounting policies that are most significant to NN Bank are included in the section 'Critical accounting policies'.

The preparation of the Consolidated annual accounts requires 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 expenses for the year. The actual outcome may differ from these estimates.

The presentation of, and certain terms used in, the Consolidated balance sheet, Consolidated profit and loss account, Consolidated statement of cash flows, Consolidated statement of changes in equity and the notes were 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.

(Upcoming) Changes in IFRS-EU

In 2015, no changes to IFRS-EU became effective that had any impact on the NN Bank annual accounts. Upcoming changes in IFRS-EU after 2015 for NN Bank relate to IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. 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. IFRS 9 is effective in 2018, if endorsed by the EU.

Classification and measurement

The classification and measurement of financial assets under IFRS 9 will depend on NN Bank'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 or 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 twelve 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 asset.

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. As these simplifications currently excludes macro hedge accounting, impact on NN Bank is limited.

NN Bank is currently assessing the impact of the new requirements. The implementation of IFRS 9, if and when endorsed by the EU, may have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

Other

IFRS 15 'Revenue from Contracts with Customers'

This standard becomes effective as of 1 January 2018, subject to endorsement by the EU. IFRS 15 provides more specific guidance on recognising revenue other than financial instruments. The implementation of IFRS 15, if and when endorsed by the EU, is not expected to have a significant impact on the Consolidated annual accounts of NN Bank.

IFRS 16 'Leases'
IFRS 16 is effective for annual periods beginning on or after 1 January 2019, subject to endorsement by the EU. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16, if and when endorsed by the EU, is not expected to have a significant impact on shareholder's equity and net result of NN Bank.

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, the determinations of 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 and the information below.

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.

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 25 under 'Impairments of loans (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, based on market conditions existing at each balance sheet date. 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.

Valuation techniques are subjective in nature, and significant judgement is involved in establishing the 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 the 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 Note 39 'Risk management' for the related sensitivities.

Impairments

Impairments are especially relevant for Available-for-sale securities.

All debt securities (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 debt securities, 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 debt securities the full difference between the (acquisition) cost and fair value is removed from equity and recognised in Net result. Impairments on debt securities 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 impairments 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. Significantly different results can occur as circumstances change and additional information becomes known.

General accounting policies

Consolidation

NN Bank comprises Nationale-Nederlanden Bank N.V. and its subsidiaries. NN Bank's Consolidated annual accounts comprise the accounts of Nationale-Nederlanden Bank N.V. and its subsidiaries. Subsidiaries (including consolidated structured entities) are entities over which NN Bank has control. NN Bank has control over an entity when NN Bank is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between NN Bank and the entity and, among other things, considers existing and potential voting shares that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

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 asset 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 Net result.

All intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. The accounting policies used by subsidiaries are consistent with NN Bank policies. The reporting dates of subsidiaries are the same as the reporting date of NN Bank.

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

Foreign currency translation

Functional and presentation currency

The Consolidated annual accounts are presented in euros, which is NN Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing 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 generally (de)recognised at trade date, which is the date on which NN Bank commits to purchase or sell the asset. Loans and receivables 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 where 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 sales proceeds and (amortised) cost. For debt securities, the cost is determined by specific identification.

Partial transfer 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. Transferred mortgage parts are recognised and derecognised at their nominal value.

Fair value of financial assets and liabilities

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

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

Reference is made to Note 26 ‘Fair value of financial assets and liabilities’ and Note 39 ‘Risk management’ for the basis of determination of the fair value of financial assets and liabilities.

Impairments of loans (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 value 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 value 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 in ‘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 may grant 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-EU. 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 is explained in Note 39 ‘Risk management’.

Taxation

NN Bank is part of the Dutch fiscal unity for corporation tax purposes of NN Group, 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.

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

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is determined using tax rates (and laws) applicable that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred 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 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.

Employee benefits

Defined contribution pension plans

For defined contribution plans, NN Bank 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 when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in 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.

Share-based payments

Share-based payment expenses, based on the share plan for NN Group, are recognised as staff expenses over the vesting period.

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 the estimated future cash payments or receipts throughout 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 have been written down as a result of an impairment loss, 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 from non-trading derivatives are classified as interest income and interest expense 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 consolidated 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.

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition. Investments qualify as a cash equivalent if they are readily convertible into a known amount of cash and are not subject to significant risk of changes in value.

The net cash flow shown in respect of ‘Loans’ relates only to transactions involving actual payments or receipts. The ‘Addition to loan loss provisions’, which is deducted from the item ‘Loans’ 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 Article 402, Book 2 of the Dutch Civil Code.

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 4 and 14)

A financial asset is classified as at fair value through profit or 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. Transaction costs on initial recognition are expensed as incurred.

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.

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 that 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 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 investments' 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)'. On disposal, 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 'Impairments of Available-for-sale investments'.

Loans (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 measured 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, Debt securities issued and Other borrowed funds (Note 9, 10 and 11)
'Subordinated debt', 'Debt securities issued' and 'Other borrowed funds' are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between 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 as equity.

Customer deposits and other funds on deposit (Note 13)
'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.

Net fee and commission income (Note 18)
Fees and commissions are generally recognised when the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts when the service is provided.

2 Cash and balances at central banks

Cash and balances at central banks

	2015	2014
Amounts held at central banks	474,079	321,140
Cash and balances at central banks	**474,079**	**321,140**

'Amounts held at central banks' reflects the demand balances. The amounts held at central banks include a mandatory reserve deposit of EUR 51.8 million.

3 Amounts due from banks

Amounts due from banks

	2015	2014
Cash advances, overdrafts and other balances	59,124	60,882
Amounts due from banks	**59,124**	**60,882**

Cash advances, overdrafts and other balances comprise current accounts and accrued interest with banks. Reference is also made to Note 30 'Assets not freely disposable'.

4 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes only non-trading derivatives.

Non-trading derivatives

	2015	2014
Non-trading derivatives used in fair value hedges	11,505	8,725
Other non-trading derivatives	208,714	39,604
Non-trading derivatives	**220,219**	**48,329**

For non-trading derivatives used in fair value hedges, reference is made to Note 27 'Derivatives and hedge accounting'.

Other non-trading derivatives include interest rate swaps used in securitisation transactions. Reference is made to Note 35 'Structured entities'.

5 Available-for-sale investments

Available-for-sale investments by type

	2015	2014
Government bonds	530,581	493,909
Financial institution bonds	19,710	20,002
Available-for-sale investments	**550,291**	**513,911**

Government bonds include 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

	2015	2014
Available-for-sale investments – Opening balance	513,911	426,541
Reclassification to Accrued interest other		-5,691
Additions	190,658	178,517
Amortisation	-12,519	-9,883
Changes in unrealised revaluations	-262	7,632
Disposals and redemptions	-141,497	-83,205
Available-for-sale investments – Closing balance	**550,291**	**513,911**

6 Loans

Loans by type

	2015	2014
Loans secured by mortgages, guaranteed by public authorities	2,461,465	1,774,380
Loans secured by mortgages	7,954,996	6,140,022
Consumer lending, other	248,714	185,547
Loans – before Loan loss provisions	**10,665,175**	**8,099,949**
Loan loss provisions	37,930	26,359
Loans	**10,627,245**	**8,073,590**

No individual loan has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of NN Bank. For additional details see Note 39 'Risk management'.

Reference is made to Note 26 'Fair value of financial assets and liabilities', for disclosure by fair value hierarchy and Note 39 'Risk management' for NN Bank's credit risk exposure and on significant credit risk exposures.

Changes in Loans

	2015	2014
Loans – Opening balance	8,099,949	5,976,871
Mortgage portfolio transfer	1,596,675	1,296,230
Partial transfer of mortgage loans	55,731	42,266
Origination	2,997,706	2,405,340
Sale of mortgages to NN Leven	-887,785	-1,241,691
Sale of mortgages to NN Schade	-301,210	
Sale of mortgages to NN Dutch Residential Mortgage Fund	-164,501	
Change in mortgage premium	10,222	8,781
Fair value change hedged items	-13,726	105,033
Redemptions	-727,886	-492,881
Loans – Closing balance	**10,665,175**	**8,099,949**

In 2015, the mortgage portfolio transfer from WestlandUtrecht Bank amounted to EUR 1.6 billion. The agreement under which these transfers take place lasts until 31 December 2020. The total potential loans volume to be transferred until this date is EUR 5.3 billion.

NN Bank has sold mortgages to securitisation vehicles that, in turn, issued notes to investors that are collateralised by the purchased assets. These mortgage loans continue to be recognised on NN Bank's balance sheet, as NN Bank retained all or substantially all of the risks and rewards of the mortgage loans. Reference is made to Note 35 'Structured entities'.

Loan loss provisions analysed by type

	2015	2014
Loans secured by mortgages	23,381	15,508
Consumer lending	14,549	10,851
Loans loss provisions by type	**37,930**	**26,359**

Loan loss provisions

	2015	2014
Loan loss provisions – Opening balance	26,359	19,158
Write-offs	-6,744	-4,331
Recoveries	119	68
Loan loss provisions in transfers of mortgage loans	325	873
Addition to the loan loss provisions	17,871	10,565
Other		26
Loan loss provisions – Closing balance	**37,930**	**26,359**

In 2015, the provision increased because of the growing and more maturing mortgage and consumer loans portfolio and a credit risk model enhancement.

7 Other assets

Other assets

	2015	2014
Deferred tax assets	1,610	1,217
Accrued interest mortgages	34,505	28,420
Accrued interest non-trading derivatives	283	4,452
Accrued interest other	7,480	6,799
Current account NN Insurance Eurasia N.V.	31,592	385
Current account other group companies	3,922	6,706
Intangibles	1,325	990
Other accrued assets	6,621	2,002
Other	4,282	256
Total other assets	**91,620**	**51,227**

Disclosures in respect of Deferred tax assets are presented in Note 25 'Taxation'.

The current account NN Insurance Eurasia N.V. is used for daily settlement of mortgages and has just for timing reasons a balance as at 31 December 2015.

The line item 'Other' includes receivables with ING companies in relation to fees and commissions, amounts to be settled and other receivables.

8 Equity

Total equity

	2015	2014
Share capital	10,000	10,000
Share premium	466,000	409,000
Revaluation reserve	5,487	5,206
Other reserves	51,247	-15,583
Shareholder's equity	**532,734**	**408,623**

The Revaluation reserve consists of the Available-for-sale reserve and cannot be freely distributed.

Share capital

	Shares (in numbers)		Ordinary shares	
	Number x 1,000		Amount	
	2015	2014	2015	2014
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 Shareholders 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 Note 40 'Capital and liquidity management'.

Changes in Equity (2015)

	Share capital	Share premium	Reserves	Total shareholder's equity
Changes in equity – Opening balance	10,000	409,000	-10,377	408,623
Net result for the period			67,094	67,094
Total amount recognised directly in equity (Other comprehensive income)			-196	-196
Capital contribution		57,000		57,000
Employee share plans			213	213
Changes in equity – Closing balance	**10,000**	**466,000**	**56,734**	**532,734**

Changes in Equity (2014)

	Share capital	Share premium	Reserves	Total
Changes in equity – Opening balance	10,000	409,000	-49,862	369,138
Net result for the period			33,747	33,747
Total amount recognised directly in equity (Other comprehensive income)			5,738	5,738
Capital contribution				
Employee share plans				
Changes in equity – Closing balance	**10,000**	**409,000**	**-10,377**	**408,623**

On 21 May 2015, NN Group issued 2.2 million ordinary shares at a price of EUR 26.16 per share to ING Groep N.V. The proceeds of EUR 57 million were used by NN Group to increase the common equity Tier 1 capital of NN Bank by the same amount. In addition, ING Bank provided a facility to NN Bank under which NN Bank has the unconditional right to receive Additional Tier 1 (AT1) capital up to an amount of EUR 63 million until 31 December 2018 at prevailing market terms. With these transactions, ING Group fulfilled its commitments to the EC pertaining to the capitalisation of NN Bank.

9 Subordinated debt

NN Group provided the following subordinated loans to NN Bank:

Subordinated debt

Interest rate	Year of issue	Due date	First call date	Notional amount		Balance sheet value	
				2015	2014	2015	2014
2.66%	2015	26 February 2025	26 February 2020	30,000		30,000	
3.60%	2014	26 September 2024	26 September 2019	25,000	25,000	25,000	25,000
3.76%	2014	26 June 2024	26 June 2019	15,000	15,000	15,000	15,000
Subordinated debt				**70,000**	**40,000**	**70,000**	**40,000**

The subordinated loans were provided by NN Group to NN Bank to raise Tier 2 capital. Under IFRS-EU these debt instruments are classified as liabilities. They are considered capital for regulatory purposes.

All subordinated debt is denominated in euro.

10 Debt securities issued

Debt securities issued relates to debentures and other issued debt securities with either fixed or floating interest rates. NN Bank does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities, based on the earliest contractual payment date of the debt securities, are as follows:

Debt securities issued – maturities

	2015	2014
Fixed rate debt securities:		
– More than 1 year but less than 2 years	72,774	
– More than 2 years but less than 3 years		73,593
– More than 3 years but less than 4 years	100,000	
– More than 4 years but less than 5 years	394,494	100,000
– More than 5 years	270,000	663,373
Fixed rate debt securities	**837,268**	**836,966**
Floating rate debt securities:		
– More than 3 years but less than 4 years	360,751	
– More than 4 years but less than 5 years	1,163,073	390,501
– More than 5 years		
Floating rate debt securities	**1,523,824**	**390,501**
Debt securities issued	**2,361,092**	**1,227,467**

Debt securities issued relates to the Residential Mortgage Backed Securities under the Hypenn RMBS securitisation programme held by third and related parties. The notes issued to third parties amounted to EUR 1,469 million as at 31 December 2015 (31 December 2014: EUR 317 million). The notes issued to related parties amounted to EUR 892 million as at 31 December 2015 (31 December 2014: EUR 910 million), of which EUR 270 million relates to an unsecured loan (31 December 2014: EUR 270 million).

The notes issued by the Hypenn RMBS entities which are held by NN Bank are not presented in the table above. The notes issued to NN Bank amounted to EUR 1,453 million as at 31 December 2015 (31 December 2014: EUR 1,333 million) and consist of EUR 285 million junior notes (31 December 2014: EUR 197 million) and EUR 1,168 million senior notes (31 December 2014: EUR 1,135 million senior notes).

The cash inflow of the repayment of the mortgages is 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 Special Purpose Entities ('SPEs'). The cash inflow of the interest of the mortgages is used for the payment of interest of the notes and follows the same waterfall structure as described above.

11 Other borrowed funds

Other borrowed funds by remaining term (2015)

	2016	2017	2018	2019	2020	Years after 2020	Total
NN Group						200,000	200,000
Other	20,000						20,000
Other borrowed funds	**20,000**					**200,000**	**220,000**

Other borrowed funds mainly relate to a senior loan provided on 16 March 2015 by NN Group to NN Bank at a fixed interest rate of 1.406% per annum. The repayment of the loan will be on the maturity date of 16 March 2022.

In addition, NN Group provided another credit facility commitment to NN Bank up to an amount of EUR 250 million, which as at 31 December 2015 had not been used by NN Bank.

12 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

	2015	2014
Interest bearing	331,228	130,894
Amounts due to banks	**331,228**	**130,894**

The increase comprises a repurchase transaction and an additional warehouse loan. NN Bank uses these short-term funding instruments to manage its liquidity position.

As at 31 December 2015, NN Bank had unused lines of credit available of EUR 325 million (31 December 2014: EUR 150 million).

13 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by type

	2015	2014
Savings	4,231,262	4,052,307
Bank annuities	2,680,859	1,841,587
Other	1,226,678	1,167,372
Customer deposits and other funds on deposit	**8,138,799**	**7,061,266**

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

Customers have not entrusted any funds to NN Bank on terms other than those prevailing in the normal course of business. All customer deposits and other funds on deposit are interest-bearing.

Customer deposits and other funds on deposit

	2015	2014
Customer deposits and other funds on deposit – Opening balance	7,061,266	5,811,384
Deposits taken	3,491,204	3,389,738
Withdrawals	-2,413,671	-2,139,856
Customer deposits and other funds on deposit – Closing balance	**8,138,799**	**7,061,266**

14 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes only non-trading derivatives.

Non-trading derivatives

	2015	2014
Non-trading derivatives used in fair value hedges	107,858	117,577
Other non-trading derivatives	208,714	39,604
Non-trading derivatives	**316,572**	**157,181**

For non-trading derivatives used in fair value hedges, reference is made to Note 27 ‘Derivatives and hedge accounting’.

Other non-trading derivatives include interest rate swaps used in securitisation transactions. Reference is made to Note 35 ‘Structured entities’.

15 Other liabilities

Other liabilities

	2015	2014
Deferred tax liabilities	2,175	
Income tax payable	5,871	4,245
Other taxation and social security contributions	6,476	7,451
Accrued interest non-trading derivatives	17,730	13,309
Accrued interest other	4,519	1,167
Costs payable	4,469	4,983
Reorganisation provision	5,737	10,528
Other provisions	35	10
Amounts to be settled	313	1,984
Other	4,828	-29
Other liabilities	**52,153**	**43,648**

Reorganisation provisions

	2015	2014
Reorganisation provisions – Opening balance	10,528	25,940
Additions	1,330	2,500
Releases	-1,283	-5,222
Charges	-4,838	-12,690
Reorganisation provisions – Closing balance	**5,737**	**10,528**

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 2015, EUR 1.3 million was added to the reorganisation provision, due to initiatives announced in 2015.

In 2015, EUR 4.8 million was charged to the provision for the cost of workforce reductions during the year (2014: EUR 12.7 million). 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 year-end accruals and other payables to group companies and third parties in the normal course of business.

16 Interest result

Interest result

	2015	2014
Interest income on loans	378,837	303,840
Interest income on Available-for-sale debt securities	2,072	2,262
Interest income on non-trading derivatives	47,659	40,646
Other interest income		59
Total interest income	**428,568**	**346,807**
Interest expense on amounts due to banks	229	42
Interest expense on customer deposits and other funds on deposit	144,878	135,440
Interest expense on debt securities issued and other borrowed funds	32,763	26,917
Interest expense on subordinated loans	2,138	531
Interest expense on non-trading derivatives	77,766	56,972
Other interest expense	1,623	201
Total interest expense	**259,397**	**220,103**
Interest result	**169,171**	**126,704**

‘Other interest expense’ includes negative interest income charged by DNB.

Interest margin in percentages

	2015	2014
Interest margin	**1.6%**	**1.6%**

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2015 and 2014, respectively.

17 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2015	2014
Realised gains or losses of debt securities	282	668
Results from financial transactions	33,897	48,320
Other income	-816	89
Gains and losses on financial transactions and other income	**33,364**	**49,077**

'Results from financial transactions' comprises mainly the sale of mortgages to NN Leven and NN Schade.

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

18 Net fee and commission income

Gross fee and commission income

	2015	2014
Service management fee	26,519	24,215
Brokerage and advisory fees	36,374	10,016
Other	-82	147
Gross fee and commission income	**62,811**	**34,378**

Fee and commission expenses

	2015	2014
Asset management fees	8,154	6,928
Brokerage and advisory fees	2,334	2,224
Other	189	154
Fee and commission expenses	**10,677**	**9,306**

NN Bank services a total loan portfolio of EUR 18.3 billion (2014: EUR 18.6 billion) for NN Leven, NN Schade, ING Bank and the NN Dutch Residential Mortgage Fund. Furthermore, NN Bank started to originate mortgage loans for NN Leven, which resulted in EUR 25 million in fee income.

19 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2015	2014
Gains or losses (fair value changes) in fair value hedges relating to:		
– the hedging instrument (non-trading derivatives)	14,648	-110,786
– the hedged items (mortgages) attributable to the hedged risk	-13,726	105,033
Net accounting ineffectiveness recognised in profit and loss	**922**	**-5,753**
Valuation results on non-trading derivatives not related to the macro fair value hedge accounting		154
Net valuation results	**922**	**-5,599**

Included in Valuation results on non-trading derivatives are the fair value movements used to economically hedge exposures, for which hedge accounting is applied. The fair value movements on the derivatives are influenced by changes in market conditions such as interest rates. Gains and losses on hedging instruments and hedged items in 2015, were smaller and opposite compared to those of 2014 due to the difference in nature of decreases and increases in the interest rate curve in both years.

For more details on the 'Valuation results on non-trading derivatives not related to the macro fair value hedge accounting', reference is made to Note 26 'Fair value of financial assets and liabilities'.

20 Staff expenses

Staff expenses

	2015	2014
Salaries	45,107	44,268
Pension and other staff-related benefit costs	9,167	8,474
Social security costs	4,705	5,269
Share-based compensation arrangements	363	
External staff costs	25,269	30,018
Education	521	688
Other staff costs	499	450
Staff expenses	**85,631**	**89,167**

NN Bank staff are employed by NN Insurance Personeel B.V. NN Bank is billed for its staff expenses by NN Insurance Personeel B.V., under a service level agreement. Although these costs are not paid out in the form of salaries, they do have the character of staff expenses and they are therefore recognised as such. A staff provision for holiday entitlement and bonuses is recognised at NN Group. Actual spending will be charged to NN Bank as per the contract with NN Insurance Personeel B.V.

Defined contribution plans

NN Bank is one of the sponsors of the NN Group collective defined contribution plan (NN CDC Pensioenfonds). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally 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 defined contribution plans amounts to EUR 9.2 million (2014: EUR 8.5 million).

Number of employees at full-time equivalent basis

	2015	2014
Number of employees at full-time equivalent basis average	586	582

For the remuneration of Management Board and Supervisory Board, reference is made to Note 37 'Key management personnel compensation'.

Share plans

NN Group has granted shares to a number of senior executives. The purpose of the share schemes is, to attract, retain and motivate senior executives.

Share awards comprise Deferred Shares and (until March 2014) Performance Shares. The entitlement to the Deferred Shares and Performance Shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. Deferred Shares and Performance Shares were awarded to senior executives. A retention period applies of one year from the moment of grant respectively vesting of these awards.

Per the date of settlement of the IPO in 2014, all outstanding share awards on ING Groep N.V. shares, NN Group's ultimate parent company in 2014, were converted into awards on NN Group N.V. shares (for employees in active employment with NN Group on the IPO date). The outstanding option awards on ING Groep N.V. shares, which are all fully vested, remained unchanged.

Share awards on NN Group shares

Share awards on NN Group shares for NN Bank (2015)

	Share awards (in number)	Weighted average grant date fair value (in euros)
Share awards outstanding – Opening balance	13,639	14.41
Granted	8,654	26.38
Performance effect	2	11.23
Vested	-12,704	16.38
Forfeited		
Share awards outstanding – Closing balance	**9,590**	**19.42**

In 2015, 8,654 share awards on NN Group shares were granted to the members of the Management Board of NN Bank.

As at 31 December 2015 the share awards on NN Group shares consisted of 9,590 share awards relating to equity-settled share based payment arrangements.

NN Group grants NN Group shares to employees of NN Bank. NN Bank accounts for these share awards as equity-settled. The expenses of these share awards from 2015 upfront and 2013-2015 deferred programs, are allocated over the vesting period of the share awards and included in the staff expenses with a corresponding increase in shareholder's equity.

As at 31 December 2015, total unrecognised compensation costs related to share awards amount to EUR 74 thousand. These costs are expected to be recognised over a weighted average period of 1.4 years.

NN Bank has not disclosed comparative information for share-based payments. For reasons of materiality, NN Bank decided not to include this information in the annual report of 2014.

Sharesave Plan

In August 2014, NN Group introduced a 'Sharesave' plan, which is open to all employees. Under the plan, from August 2014, eligible 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 before the end of the three-year plan period, or if the share price at the end of the period is equal to or less than the initial trading price, the amount contributed by the employee is repaid (without addition of any gross gain).

At the start, 180 employees of NN Bank participated in the Sharesave plan. The number of participants of NN Bank was 161 as at 31 December 2015.

The plan is accounted for as a cash-settled share-based payment plan. The expense recognised in 'Staff expenses' by NN Bank for the 'Sharesave' plan amounts to EUR 150 thousand (2014: EUR 68 thousand).

21 Other operating expenses

Other operating expenses

	2015	2014
Computer costs	9,195	5,084
Office expenses	8,698	5,196
Travel and accommodation expenses	1,426	1,657
Advertising and public relations	7,099	7,058
IT outsourcing	18,821	20,657
Bank costs	1,191	600
Addition/release of provision for reorganisation		-2,722
Other reorganisation costs		1,095
Other	16,083	11,352
Other operating expenses	**62,513**	**49,977**

For addition/release of reorganisation provisions, reference is made to the disclosure on the reorganisation provision in Note 15 'Other liabilities'.

The line 'Other', in 'Other operating expenses', mainly consists of corporate staff department costs charged from NN Group to NN Bank, which increased compared to 2014 due to the growth of NN Bank. In addition, the contribution for 2015 to the National Resolution Fund, as determined by DNB, has been included.

22 Net cash flow from investing activities

In 2015, NN Bank did not acquire or dispose of companies. Net cash flow from investing activities was EUR -36.4 million (EUR 2014: EUR -85.4 million).

23 Interest included in net cash flow

Interest received and paid

	2015	2014
Interest received	424,779	344,323
Interest paid	216,045	195,232
Interest received and paid	**208,734**	**149,091**

Interest received and interest paid are included in operating activities in the Consolidated statement of cash flows. In 2015, no dividend was paid.

24 Cash and cash equivalents

Cash and cash equivalents

	2015	2014
Cash and balances at central banks	474,079	321,140
Amounts due from banks	59,124	60,882
Cash and cash equivalents at end of year	**533,203**	**382,022**

25 Taxation

NN Bank is part of the Dutch fiscal unity for tax purposes of NN Group, 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 15 'Other liabilities', 'Income tax payable' concerns tax payable to NN Group.

Deferred tax (2015)

	Net liability 2014[1]	Change through equity	Change through net result	Changes in the composition of the group and other changes	Other	Net liability 2015[1]
Investments	1,797	7				1,804
Financial assets and liabilities at fair value through profit or loss	-382		206			-176
Provisions	-2,632		1,198			-1,434
Other liabilities			371			371
Deferred tax	**-1,217**	**7**	**1,775**			**565**
Presented in the balance sheet as:						
– deferred tax liabilities	1,797					2,175
– deferred tax assets	-3,014					-1,610
Deferred tax	**-1,217**					**565**

1 Positive amounts are liabilities, negative amounts are assets.

Deferred tax (2014)

	Net liability 2013[1]	Change through equity	Change through net result	Changes in the composition of the group and other changes	Other	Net liability 2014[1]
Investments	-111	1,908				1,797
Financial assets and liabilities at fair value through profit or loss			-382			-382
Provisions	-6,485		3,853			-2,632
Deferred tax	**-6,596**	**1,908**	**3,471**			**-1,217**
Presented in the balance sheet as:						
– deferred tax liabilities						1,797
– deferred tax assets	-6,596					-3,014
Deferred tax	**-6,596**					**-1,217**

1 Positive amounts are liabilities, negative amounts are assets.

Taxation on result

	2015	2014
Current tax	20,707	8,327
Deferred tax	1,775	3,471
Taxation on result	**22,482**	**11,798**

The 2015 taxation increased by EUR 10.6 million to EUR 22.5 million, from EUR 11.8 million in the previous year. This increase was caused by a higher result before tax compared with 2014.

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

	2015	2014
Result before tax	89,576	45,545
Statutory tax rate	25%	25.0%
Statutory tax amount	**22,394**	**11,386**
Expenses not deductible for tax purposes	53	
Adjustments to prior periods	26	236
Other	9	176
Effective tax amount	**22,482**	**11,798**
Effective tax rate	**25.1%**	**25.9%**

The statutory tax rate in 2015 was 25.0%, as in 2014. The effective tax rate in 2015 was 25.1% (2014: 25.9%), which is marginally higher than the statutory tax rate, due to expenses not deductible for tax purposes and prior-year adjustments.

Taxation on components of other comprehensive income

	2015	2014
Unrealised revaluations	7	1,908
Realised gains or losses transferred to the profit and loss account	-73	191
Total income tax related to components of other comprehensive income	**-66**	**2,099**

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.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2015	2014	2015	2014
Financial assets				
Cash and balances at central banks	474,079	321,140	474,079	321,140
Amounts due from banks	59,124	60,882	59,124	60,882
Financial assets at fair value through profit or loss:				
– non-trading derivatives	220,219	48,329	220,219	48,329
Available-for-sale investments	550,291	513,911	550,291	513,911
Loans[3]	11,551,109	8,871,555	10,627,245	8,073,590
Other assets[1]	88,684	50,010	88,684	50,010
Financial assets	**12,943,506**	**9,865,827**	**12,019,642**	**9,067,862**
Financial liabilities				
Subordinated debt	70,872	41,632	70,000	40,000
Debt securities issued	2,482,383	1,386,728	2,361,092	1,227,467
Other borrowed funds	218,636		220,000	
Amounts due to banks	331,404	131,293	331,228	130,894
Customer deposits and other funds on deposit[3]	8,574,335	7,453,507	8,138,799	7,061,266
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	316,572	157,181	316,572	157,181
Other liabilities[2]	31,860	21,413	31,860	21,413
Financial liabilities	**12,026,062**	**9,191,754**	**11,469,551**	**8,638,221**

1 'Other assets' does not include (deferred) tax assets and intangibles.
2 'Other liabilities' does not include (deferred) tax liabilities, provisions and other taxation and social security contributions.
3 The line items on which the estimated fair value 2014 is presented, differs from the annual report 2014.

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 unadjusted 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 measures 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:

Cash and balances at central banks

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

Amounts due from banks

'Amounts due from banks' consists of cash advances, overdrafts and other balances. These comprise current accounts and accrued interest with banks. Current accounts and accrued interest are recognised at their nominal value, which approximates its fair value.

Financial assets at fair value through profit or 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 that are not actively traded, the 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 and Monte Carlo simulation. 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 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.

Debt securities

The 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 market interest rate curves, referenced credit spreads, maturity of the investment and estimated prepayment rates, where applicable.

Loans

For loans 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 discount 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

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

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 issued and Other borrowed funds

The fair value of Debt securities issued 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

'Amounts due to banks' consists of payables including accrued interest. The fair value is based 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 maturities 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

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 (2015)

	Level 1	Level 2	Level 3	Total
Financial assets				
Non-trading derivatives		11,505	208,714	220,219
Available-for-sale investments	442,113	108,178		550,291
Financial assets	**442,113**	**119,683**	**208,714**	**770,510**
Financial liabilities				
Non-trading derivatives		107,858	208,714	316,572
Financial liabilities		**107,858**	**208,714**	**316,572**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Non-trading derivatives		8,725	39,604	48,329
Available-for-sale investments	393,465	120,446		513,911
Financial assets	**393,465**	**129,171**	**39,604**	**562,240**
Financial liabilities				
Non-trading derivatives		117,577	39,604	157,181
Financial liabilities		**117,577**	**39,604**	**157,181**

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 the fair value was 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 that are unobservable and that 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 levels in the fair value hierarchy 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 reliable pricing information on an on-going basis.

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), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable, 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.

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.

Level 3 Financial assets – Non-trading derivatives

	2015	2014
Level 3 Financial assets - Non-trading derivatives – Opening balance	39,604	
Amounts recognised in the profit and loss account during the year	-18,187	39,604
Purchases of assets	187,297	
Level 3 Financial assets – Non-trading derivatives - Closing balance	**208,714**	**39.604**

Level 3 Financial liabilities - Non-trading derivatives

	2015	2014
Level 3 Financial liabilities - Non-trading derivatives – Opening balance	39,604	
Amounts recognised in the profit and loss account during the year	-18,187	39,604
Purchases of liabilities	187,297	
Level 3 Financial liabilities - Non-trading derivatives – Closing balance	**208,714**	**39,604**

Level 3 – Amounts recognised in the profit and loss account during the year

	2015	2014
Financial assets – Held at balance sheet date		
Non-trading derivatives	-18,187	39,604
Level 3 Amounts recognised in the profit and loss account during the year	**-18,187**	**39,604**
Financial liabilities – Held at balance sheet date		
Non-trading derivatives	18,187	-39,604
Level 3 Amounts recognised in the profit and loss account during the year	**18,187**	**-39,604**

The non-trading derivatives comprise back-to-back swaps in place with ING Bank in the Hypenn RMBS II, III and IV SPE structure. Reference is also made to Note 35 'Structured entities'.

Level 3 financial assets and liabilities at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2015 of EUR 770.5 million (31 December 2014: EUR 562.2 million) include an amount of EUR 208.7 million (27.1%) that is classified as Level 3 (31 December 2014: EUR 39.6 million, 7.0%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2015 of EUR 316.6 million (31 December 2014: EUR 157.2 million) include an amount of EUR 208.7 million (65.9%) that is classified as Level 3 (31 December 2014: EUR 39.6 million, 25.2%).

NN Bank has entered into non-trading derivatives transactions with an ING Group entity. The fair value of these transactions amount to EUR 208.7 million as at 31 December 2015 (31 December 2014: EUR 39.6 million) and are presented gross, as offsetting is not applicable. Reference is made to Note 35 'Structured entities'.

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'.

Financial assets and liabilities at amortised cost

The fair value of financial instruments carried at amortised cost in the balance sheet (where fair value is disclosed) was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities (2015)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances at central banks	474,079			474,079
Amounts due from banks	59,124			59,124
Loans			11,551,109	11,551,109
Financial assets	**533,203**		**11,551,109**	**12,084,312**
Financial liabilities				
Subordinated debt		70,872		70,872
Debt securities issued		2,482,383		2,482,383
Other borrowed funds		218,636		218,636
Amounts due to banks		331,404		331,404
Customer deposits and other funds on deposit	4,618,007	3,956,328		8,574,335
Financial liabilities	**4,618,007**	**7,059,623**		**11,677,630**

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 at central banks	321,140			321,140
Amounts due from banks[1]	60,882			60,882
Loans[1]			8,871,555	8,871,555
Financial assets	**382,022**		**8,871,555**	**9,253,577**
Financial liabilities				
Subordinated debt		41,632		41,632
Debt securities issued		1,386,728		1,386,728
Amounts due to banks		131,293		131,293
Customer deposits and other funds on deposit[1]	4,471,213	2,982,294		7,453,507
Financial liabilities	**4,471,213**	**4,451,947**		**9,013,160**

1 The 2014 amount has been reclassified for purposes of comparison.

27 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Bank uses interest rate swaps for economic hedging purposes in the management of its asset and liability portfolios, and has designated interest rate swaps in fair value macro hedge accounting relationships. The objective of economic 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' to its hedge of the interest rate risk of mortgage loans.

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.

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 ended 31 December 2015, NN Bank recognised EUR 14.6 million (31 December 2014: EUR -110.8 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 -13.7 million (2014: EUR 105.0 million) fair value changes recognised on hedged items. This resulted in EUR 0.9 million (2014: EUR -5.8 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2015, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -96.4 million (31 December 2014: EUR -108.9 million), presented in the balance sheet as EUR 11.5 million (2014: EUR 8.7 million) positive fair value under assets and EUR 107.9 million (2014: EUR 117.6 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 2015.

Non-trading derivatives by type (2015)

	notionals, amounts in millions of euros				amounts in millions of euros	
	< 1 year	**Between 1 and 5 years**	**> 5 years**	**Total**	**Positive fair value**	**Negative fair value**
Interest rate swaps	410	3,768	1,904	6,082	220	317
Total non-trading derivatives	**410**	**3,768**	**1,904**	**6,082**	**220**	**317**

Non-trading derivatives by type (2014)

	notionals, amounts in millions of euros				amounts in millions 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	157
Total non-trading derivatives	**2,022**	**1,256**	**2,393**	**5,671**	**48**	**157**

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 (2015)

	Less than 1 month[1]	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Maturity not applicable**	**Adjustment[2]**	**Total**
Assets								
Cash and balances at central banks	474,079							474,079
Amounts due from banks	59,124							59,124
Financial assets at fair value through profit or loss:								
– non-trading derivatives							220,219	220,219
Available-for-sale investments	13,350	6,272	135,818	317,111	77,740			550,291
Loans	27,383	54,340	204,018	1,024,912	9,128,769	187,823		10,627,245
Other assets	77,781	8,759	1,611		2,144	1,325		91,620
Total assets	**651,717**	**69,371**	**341,447**	**1,342,023**	**9,208,653**	**189,148**	**220,219**	**12,022,578**
Risk management derivatives:								
– inflow		0						0
– outflow	-4,833	-533	50	-30,352				-35,668
	646,884	**68,838**	**341,497**	**1,311,671**	**9,208,653**	**189,148**	**220,219**	**11,986,910**

1 Includes assets on demand.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis.

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
Assets								
Cash and balances at central banks	321,140							321,140
Amounts due from banks	60,882							60,882
Financial assets at fair value through profit or loss:								
– non-trading derivatives							48,329	48,329
Available-for-sale investments	21,581	3,204	114,667	265,226	109,233			513,911
Loans[3]	3,346	9,309	41,595	222,679	7,605,335	191,326		8,073,590
Other assets[4]	46,761	114	1,218		2,144	990		51,227
Total assets	**453,710**	**12,627**	**157,480**	**487,905**	**7,716,712**	**192,316**	**48,329**	**9,069,079**
Risk management derivatives:								
– inflow		1,623	4,362	4,044	13,739			23,768
– outflow	-61	-1,427	-3,234	-9,726	-9,435			-23,883
	453,649	**12,823**	**158,608**	**482,223**	**7,721,016**	**192,316**	**48,329**	**9,068,964**

1 Includes assets on demand.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis.
3 For purposes of comparison, the fair value adjustment hedge accounting on loans has been reclassified.
4 For purposes of comparison, 2014 amounts have been reclassified.

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.

Liabilities by maturity (2015)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[2]	Total
Liabilities								
Subordinated debt					70,000			70,000
Debt securities issued				2,097,110	270,000	-6,018		2,361,092
Other borrowed funds			20,000		200,000			220,000
Amounts due to banks	180,935	150,293						331,228
Customer deposits and other funds on deposit	5,680,798	47,739	190,403	775,328	1,444,531			8,138,799
Financial assets at fair value through profit or loss:								
– non-trading derivatives							316,572	316,572
Financial liabilities	**5,861,733**	**198,032**	**210,403**	**2,872,438**	**1,984,531**	**-6,018**	**316,572**	**11,437,691**
Other liabilities	22,250	11,258	18,645					52,153
Non-financial liabilities	**22,250**	**11,258**	**18,645**					**52,153**
Total liabilities	**5,883,983**	**209,290**	**229,048**	**2,872,438**	**1,984,531**	**-6,018**	**316,572**	**11,489,844**
Risk management derivatives:								
– outflow	1,549	1,348	38,282	141,115	148,930			331,224
– inflow	-4,981	-715	103	-76,346	-174,801			-256,740
Coupon interest due on financial liabilities	7,177	7,231	23,579	287,776	228,832			554,595

1 Includes deposits on demand, arranged by the earliest possible contractual maturity without taking into account expected client behaviour and other factors.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis.

Liabilities by maturity (2014)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable[1]	Adjustment[2]	Total
Liabilities								
Subordinated debt					40,000			40,000
Debt securities issued				559,262	670,000	-1,795		1,227,467
Amounts due to banks	5,794	24,969	100,000			131		130,894
Customer deposits and other funds on deposit[3]	5,628,161	30,488	133,873	600,325	668,419			7,061,266
Financial assets at fair value through profit or loss:								
– non-trading derivatives							157,181	157,181
Financial liabilities	**5,633,955**	**55,457**	**233,873**	**1,159,587**	**1,378,419**	**-1,664**	**157,181**	**8,616,808**
Other liabilities[3]	14,477	14,418	14,753					43,648
Non-financial liabilities	**14,477**	**14,418**	**14,753**					**43,648**
Total liabilities	**5,648,432**	**69,875**	**248,626**	**1,159,587**	**1,378,419**	**-1,664**	**157,181**	**8,660,456**
Derivative management derivatives:								
– outflow	1,121	792	29,103	106,863	102,996			240,875
– inflow	-441	-1,691	-7,536	-39,559	-74,789			-124,016
Coupon interest due on financial liabilities[4]	6,601	3,455	23,383	225,511	213,602			472,552

1 Includes deposits without contractual maturity.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis.
3 For purposes of comparison, amounts have been reclassified.
4 For purposes of comparison, amounts have been restated.

30 Assets not freely disposable

Assets not freely disposable

	2015	2014
Available-for-sale investments		5,691
Loans	3,790,903	2,440,330
Amounts due from banks	45,700	25,194
Assets not freely disposable	**3,836,603**	**2,471,215**

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

The amount not freely disposable for ‘Loans’ and ‘Amounts due from banks,’ reflects the securitised mortgages portfolios to Hypenn RMBS I to IV and the money held by the Hypenn RMBS entities, respectively. In addition, mortgages pledged in respect of the repurchase transaction and the ‘warehouse’ loan agreement are included.

31 Transferred, but not derecognised financial assets

The majority of NN Bank’s financial assets that have been transferred but do not qualify for derecognition are mortgage loans incorporated in notes issued by the Hypenn entities. NN Bank retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash or other financial assets.

NN Bank has entered into:

- A repurchase transaction (repo) and a long-term refinancing operation (‘LTRO’) agreement. Mortgage loans transferred, incorporated in notes issued by Hypenn RMBS I, amounted to EUR 168 million as at 31 December 2015 (31 December 2014: EUR 29 million in respect of a repo).
- A warehouse loan agreement. Mortgage loans transferred amounted to EUR 208 million as at 31 December 2015 (2014: EUR 124 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.

Contingent liabilities and commitments (2015)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees							
Irrevocable credit facilities						93,656	93,656
Mortgage and consumer lending offerings	243,825	359,675	100,685				704,184
Construction deposits	25,667	50,933	191,229				267,829
Contingent liabilities and commitments	**269,491**	**410,608**	**291,914**			**93,656**	**1,065,669**

Contingent liabilities and commitments (2014)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees	109						109
Irrevocable credit facilities[1]	50,000					78,769	128,769
Mortgage and consumer lending offerings[1]	370,348	511,706	156,811				1,038,865
Construction deposits[2]	12,991	38,974	103,931				155,896
Contingent liabilities and commitments	**433,448**	**550,680**	**260,742**			**78,769**	**1,323,639**

1 Reclassified for purposes of comparison.
2 Added for purposes of comparison.

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

In 2013 and 2014, NN Bank entered into a cooperation agreement with subsidiaries of ING Group. This agreement deals, amongst others, with the transfer of mortgage loans from Nationale Nederlanden Hypotheekbedrijf N.V., a subsidiary of ING Group, to NN Bank. The cooperation is expected to result in a transfer of mortgage loans of approximately EUR 5 billion in the years 2016 to 2020. The mortgage loans will be transferred to NN Bank if and when the relevant mortgage loan is renewed by the customer at the interest reset date.

Tax liabilities

NN Bank is part of the Dutch fiscal unity for corporation tax purposes of NN Group, 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.

Together with the other group companies that are part of the fiscal unity. NN Bank is jointly and severally liable for income tax payable by NN Group. The income tax receivable by NN Group at the end of 2015 amounted to EUR 20,624 thousand (2014: EUR 16,601 thousand receivable).

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 customers 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.

As NN Bank has no business activities in other countries than the Netherlands, the country-by-country reporting has not been included.

35 Structured entities

NN Bank's activities include transactions with structured entities in the normal course of business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in determining 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.

In 2015, NN Bank closed two public Residential Mortgage Backed Securitisation transactions ('RMBS'), raising a total amount of EUR 1.3 billion of funding from institutional investors. These transactions, Hypenn RMBS III and Hypenn RMBS IV, are NN Bank's third and fourth RMBS transactions. Earlier transactions were closed in 2013 for an amount of approximately EUR 2.1 billion and in 2014 for an amount of approximately EUR 0.5 billion. The related structured entities (Hypenn RMBS I B.V., Hypenn RMBS II B.V., Hypenn RMBS III B.V. and Hypenn RMBS IV B.V.) are consolidated by NN Bank. The related mortgage loans continue to be recognised in the balance sheet. As at 31 December 2015, these structured entities held EUR 3.6 billion in mortgage loans (2014: EUR 2.3 billion). These are partly funded through the issue of Residential Mortgage Backed Securities to ING Bank of EUR 394 million (2014: 394 million) and to other third parties of EUR 1.5 billion (2014: EUR 316 million).

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.e. mortgage loans) to a structured entity which issues notes. The notes are issued both to third parties and to NN Bank. With the proceeds of the notes, the SPE can finance the purchase of the mortgage receivables. 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 NN 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 amounted to EUR 208.7 million as at 31 December 2015 (31 December 2014: EUR 39.6 million) and are presented gross as offsetting is not applicable.

With these at arm's length securitisations, the ownership of the mortgage loans amounting to EUR 1,287 million in 2015 and EUR 538 million in 2014 was transferred to the structured entities in exchange for notes. As at the balance sheet date, EUR 2,091 million (2014: EUR 957 million) of the notes were sold to related and third parties. The remainder of the notes are held by NN Bank. Besides the notes, NN Bank recognises the non-trading derivatives transactions mentioned earlier of EUR 208.7 million in 2015 (2014: EUR 39.6 million). 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 various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. ING Group, ING Bank, NN Group and their subsidiaries are considered related parties. Transactions between related parties have taken place at an arm's length basis and include rendering or receiving of services, transfers under finance arrangements and provisions of guarantees or collateral. 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.

The following categories of transactions are conducted under market-compliant conditions with related parties:

- Mortgage portfolio transfer and financing arrangements with ING Bank. For more details reference is made to Note 6 'Loans' and Note 10 'Debt securities issued'.
- Management of financial instruments via a management agreement with NN Investment Partners Holding N.V. ('NN IP'). Reference is made to the table 'Transactions with Other group companies' on the next page.
- Sale of mortgages to other NN Group companies. Reference is made to Note 6 'Loans'.
- Transactions with NN Group concerning financing arrangements and the payment of taxes, as NN Group heads the fiscal unity. For more details, reference is made to Notes 8, 9, 11 and 32 to the consolidated balance sheet.
- Asset management services to group companies, carried out by NN Bank. For more details reference is made to the tables on next page.
- Facility services carried out by group companies.
- Transactions relating to the remuneration of Board members. Reference is made to Note 37 'Key management personnel compensation'.

The tables below present the outstanding financial positions, as at the end of the year and income received and expenses paid for the year, resulting from transactions with related parties.

Parent group companies

	2015	2014
Assets	33,737	2,529
Liabilities	273,702	40,531
Income received	-5,398	-730
Expenses paid	34,711	17,459

The assets with Parent group companies consist mainly of the current account with NN Insurance Eurasia N.V. and receivables from parent companies amounting to EUR 33 million (2014: EUR 2 million). The increase in this amount is explained in Note 7 to the consolidated balance sheet. The liabilities reflect the subordinated loan with, and other borrowed funds from NN Group. Reference is also made to Note 9 'Subordinated debt' and Note 11 'Other borrowed funds'.

The interest paid on loans from NN Group, included in 'Interest result' as part of Total income in the consolidated profit and loss account, is presented with a negative amount in Income received. The expenses paid include mainly expenses charged by staff departments of NN Group, especially for IT, Human Resources and facility management services. The increase compared with 2014 is due to the growing volume and maturity of NN Bank within NN Group. Reference is also made to Note 21 'Other operating expenses'.

Other group companies

	2015	2014
Assets	11,782	14,956
Liabilities	352,613	356,016
Income received	33,142	-92,927
Expenses paid	2,175	1,970

Assets comprise derivative positions including accrued interest with Nationale-Nederlanden Interfinance B.V. ('NN IF'). NN IF is an indirect subsidiary of NN Group, with which derivative positions are traded.

The liabilities reflect issued debt securities, the Hypenn notes, to NN Leven of EUR 228 million (2014: EUR 247 million) and derivative positions, including accrued interest on derivative positions with NN IF. For more details on derivative positions, we refer to Notes 4 and 14 to the consolidated balance sheet.

The income received reflects mainly the positive financial transaction result of EUR 33 million (2014: EUR 48 million) on whole loan sales to NN Leven, NN Schade and the Dutch Residential Mortgage Fund ('DRMF'), managed by NN IP, and fee income on mortgage origination on behalf of NN Leven of EUR 25 million (2014: EUR 0 million). Valuation and interest result on derivative positions with NN IF (mostly offset in the profit and loss account by the fair value change on the hedged items) are also included. Valuation results, both positive and negative, are included in 'Total income' in the consolidated profit and loss account. For more details on valuation results on derivatives, reference is made to Note 19 to the consolidated profit and loss account. Interest expenses on funding from NN Leven amounting to EUR 22 million (2014: EUR 26 million), income from loan portfolio servicing fees and negative income on asset management fees to NN IP are also included.

The expenses paid include charged expenses by NN Leven and NN Schade for work done by those entities on behalf of NN Bank.

As stated in the accounting policies to the Consolidated annual accounts, paragraph 'Partial transfer of mortgage loans', in certain arrangements NN Bank transfers mortgage parts. The net amount of partial mortgages loans transferred to NN Leven amounted to EUR 302 million as at 31 December 2015 (2014: EUR 356 million).

Further reference is made to Note 6 'Loans' to the consolidated balance sheet.

ING Bank (including ING Bank subsidiaries)

	2015	2014
Assets	495,316	342,959
Liabilities	879,091	711,062
Income received	2,089	2,571
Expenses paid	1,863	-698

Relationship agreement

In connection with the initial public offering of NN Group, ING Group and NN Group entered into a Relationship Agreement. The relationship agreement contains certain arrangements regarding the continuing relationship between ING Group and NN Group. The Relationship Agreement, with the exception of certain specific provisions, terminated on 2 February 2016, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 15% of the issued and outstanding ordinary shares. As a subsidiary of ING Group, ING Bank is considered as a related party.

The assets comprise partial transfers of mortgage loans from ING Bank to NN Bank of EUR 273 million (2014: EUR 270 million), bank account balances of EUR 12 million (2014: EUR 30 million), derivative assets, consisting of the back-to-back swaps related to the securitisation transactions of EUR 208 million (2014: EUR 39 million) and accrued assets.

The liabilities reflect an issued debt security of EUR 270 million (2014: EUR 270 million), the Hypenn notes of EUR 394 million (2014: EUR 393 million), related to the Residential Mortgage-Backed Securities ('RMBS') transaction, and derivative liabilities, back-to-back swaps, of EUR 208 million (2014: EUR 39 million).

The income received comprises mainly servicing fees on mortgages of EUR 12 million (2014: EUR 15 million) and interest paid of EUR 10 million (2014: EUR 11 million) on the outstanding amounts due to ING Bank. The expenses are related to the financial instruments used in the securitisation transactions.

Reference is also made to Notes 6, 8, 32 and 35 to the Consolidated annual accounts.

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.

Management Board

	2015	2014
Fixed compensation:		
Base salary	998	958
Pension costs[1]	262	225
Other benefits	103	136
Variable compensation:		
Up-front cash	131	136
Up-front shares	106	114
Deferred cash	91	100
Deferred shares	91	100
Fixed and variable compensation	**1,782**	**1,769**

1 As per 1 January 2015, the pension scheme for the members of the Management Board changed as a result of new pension legislation (Witteveen kader 2015). The pension costs consist of an amount of employer contribution (EUR 101 thousand) and an individual savings allowance (EUR 161 thousand which is 27.3% of the amount of base salary above EUR 100 thousand).

Remuneration of the members of the Management Board is recognised in the profit and loss account in Staff expenses as part of Total expenses.

The total remuneration, as disclosed in the table above (for 2015 EUR 1,782 thousand), includes all variable remuneration related to the performance year 2015. 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 expenses in 2015, and therefore included in Total expenses in 2015, relating to the fixed expenses of 2015 and the vesting of variable remuneration of earlier performance years, is EUR 1,550 thousand (2014: EUR 1,700 thousand).

Due to the enactment of new Dutch pension legislation, the pension arrangements of the members of the Management Board have been amended as per 1 January 2015. A defined contribution pension scheme was provided to the members of the Management Board until 31 December 2014. New legislation limits pension contributions to standard tax deferred pension schemes. To meet the requirements of this new legislation, the Supervisory Board of NN Group proposed that the members of the Management Board of NN Bank join the same new pension arrangements as applicable to all staff of NN Group in the Netherlands. The general meeting of shareholders of NN Group approved this amendment on 28 May 2015. The arrangements comprise a collective defined contribution (CDC) plan up to the new tax limit and a taxable individual savings allowance on pensionable fixed remuneration exceeding the tax limit.

Remuneration policy

As an indirect subsidiary of NN Group, NN Bank is in scope of the NN Group Remuneration Framework. NN Bank is well aware of the public debate about pay in the financial 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, shareholder and society at large, and supports the long-term objective of the company.

The general principles underpinning the NN Group Remuneration Framework are (amongst others) as follows:

- Enhance focus on the long-term interest of NN Group and the interest of customers.
- Align with company values, business strategy and risk appetite.
- Promote and align with robust and effective risk management.
- Comply with and support the spirit of the (inter)national regulations on remuneration policies.
- Aim to avoid improper treatment of customers and employees.
- Create a balanced compensation mix with a reduced emphasis on variable compensation.
- Have claw-back and hold-back arrangements in place.
- Attract and retain talented personnel.

The variable remuneration is linked to clear targets. These targets are, for a large part, non-financial.

In 2015, the NN Bank Supervisory Board members did not receive any compensation for their activities, except for two Supervisory Board members who are not employees within NN Group. The remuneration of EUR 35 thousand (2014: EUR 32 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 headquarters cost allocation from NN Group to NN Bank.

The remuneration of the Supervisory Board members includes VAT for 2015 and 2014. 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.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2015	2014	2015	2014	2015	2014
Management Board members						
Supervisory Board members	743	825	4.7%	4.4%	83	
Loans and advances to key management	**743**	**825**			**83**	

The loans and advances provided to members of the Management Board and Supervisory Board consist of mortgage loans. The total amount of redemptions of these mortgage loans during 2015 was EUR 83 thousand (2014: EUR 0 thousand).

38 Subsequent and other events

Subsequent events

In January 2016, Standard &Poor's ('S&P') assigned a long-term rating of single A, a short-term rating of A-1 and a stable outlook as S&P views NN Bank as a 'highly strategic' subsidiary of NN Group. With this rating, NN Bank has access to a more diverse range of funding instruments.

On 11 April 2016, NN Bank issued the Hypenn RMBS V transaction raising EUR 531 million of funding.

Other events

The Deposit Guarantee Scheme ('DGS') in the Netherlands was based on ex-post funding. Banks only paid if the DGS was invoked, i.e. if a bank was declared insolvent. As of 1 July 2015, the DGS is funded ex-ante. This means that banks (including NN Bank) will be required to pay, as of 1 January 2016, a quarterly contribution into a fund for the DGS. The contribution by NN Bank will be approximately EUR 2 million per quarter.

39 Risk management

Introduction

Risk taking is integral to the business model for banking organisations such as NN Bank. NN Bank has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Through its risk management practices, NN Bank seeks to meet its obligations to customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

NN Bank's approach to risk management is based on the following components:

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

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. 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 overall bank strategy and risk appetite.
- Communication to internal and external stakeholders on risk management and value creation is transparent.

Organisational risk management structure

NN Bank's organisational risk management structure 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 NN Bank's profitability or solvency. This involves an independent risk management function – in accordance with the relevant regulatory requirements (Wft, CRDIV/CRR and related Delegated Acts and EBA guidance) and the policy frameworks set by NN Group – which is responsible for the risk management policy framework and the monitoring thereof.

Management Board and its committees

NN Bank's Management Board is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective. It 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). The Management Board or its committees approve all risk management policies, as well as the quantitative and qualitative elements of NN Bank's risk appetite. NN Group is informed of the resolutions of the NN Bank Management Board within the policy frameworks NN Group has set. The Management Board reports and discusses these topics with the Supervisory Board, on a quarterly basis.

NN Bank's Management Board has 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 NN Bank Management Board committees are as follows:

- *Asset & Liability Committee ('ALCO').* Responsible for policy and management of interest-rate risk, liquidity risk, customer behaviour risk, for determination of funding and capital instruments to be deployed and for overseeing the implementation of (new) funding and capital instruments. 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 and usage. The MoC has approval authority for the models, methodologies and parameters. The MoC is chaired by the CRO.
- *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 and appropriate, and that they fairly present NN Bank's condition in all material respects. The DC is chaired by the CFO.

Independent risk management function
The CRO is a member of NN Bank's Management Board and functionally reports to the CRO of NN Group through the NN Group Head of Risk Management Netherlands. The CRO is supported by four risk departments: Risk Integration & Control, 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:

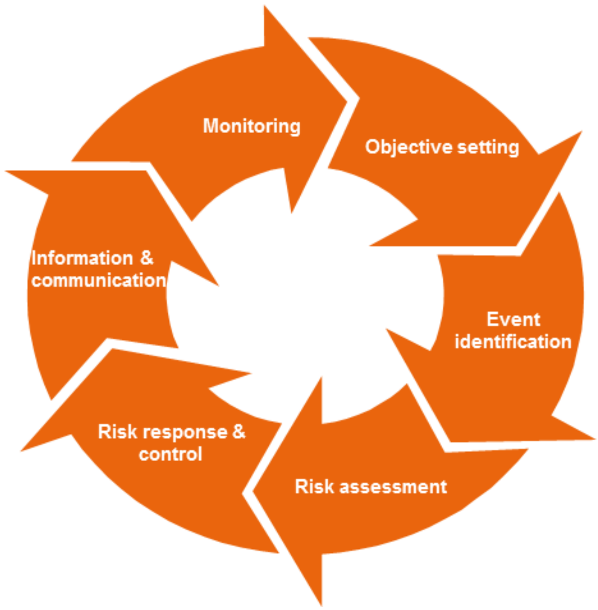
- To create and safeguard transparency, awareness and understanding of the risks associated with the products and portfolios, ensuring that the risk positions taken are carefully considered and in line with the formulated risk appetite.
- To retain (potential) customers' confidence of in NN Bank as a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

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

- *First Line of Defence:* NN Bank Business Management has primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their business.
- *Second Line of Defence:* Oversight functions with a major role for the risk management organisation, 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 the policies and guidance for their specific risk and control area;
  - encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinating the reporting of risks;
  - supporting the First Line of Defence in making proper risk-return trade-offs;
  - exercising escalation power in relation to business activities that are judged to present unacceptable risks to 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 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 here below sets out these steps.



- *Objective setting.* Business planning and priority-setting is undertaken through an annual medium term planning ('MTP') process, which is aligned with NN Bank's internal capital adequacy assessment process ('ICAAP') and liquidity adequacy assessment process ('ILAAP'). These processes regulate risk appetite and provide input that helps to steer strategic direction. NN Bank establishes strategic objectives. Those strategic objectives are used to establish and define NN Bank's risk appetite, which consist of quantitative and qualitative statements defining those risks NN Bank wishes to acquire, to avoid, to retain and/or to remove.
- *Event identification.* NN Bank identifies events that may potentially impact its risk position, recognising that uncertainties exist, and that NN Bank cannot know with certainty which events will occur and when, or what the outcome or impact would be if they did occur. As part of event identification, NN Bank considers both external and internal factors that affect event occurrence. External factors include economic, business, natural environment, political, demographic, social and technological factors. Internal factors reflect NN Bank's choices and concern such matters as infrastructure, personnel, process and technology.
- *Risk assessment.* NN Bank considers how events identified in the previous step might affect the achievement of its strategic objectives. Key risks are assessed on a regular basis and, where appropriate, this analysis is supported by models. NN Bank conducts regular assessments of its key risks.
- *Risk response and control*. Once a risk is assessed, NN Bank identifies potential responses to those risks and analyses the mitigating impact of those responses. Taking into account the risk tolerances set out in the Risk Appetite Framework NN Bank designs its response for each assessed risk. Risk and control activities are performed throughout NN Bank.
- *Information and communication.* Communication of information is a key part of NN Bank's risk management framework. Risk management officers, departments, and committees within NN Bank are informed regularly of NN Bank's position compared to its strategic objectives and its risk appetite to enable them to monitor developments and to take timely appropriate decisions. Comprehensive reports on NN Bank's financial and non-financial risks are prepared and discussed on a monthly basis.
- *Monitoring.* The effectiveness of NN Bank's risk management itself is also monitored. Regular monitoring ensures that risk management is maintained within NN Bank and is carried out by all three lines of defence.

Risk management policies, standards and processes

NN Bank has a framework of risk management policies, procedures and standards in place. 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 described in this section.

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 at least 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. NN Bank's Management Board reviews the advised risk appetite for approval 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 NN Bank's execution of the risk policies verifies that they are 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 2015 and 2014 are included in the table below.

Key risk metrics

	Level end of 2015	Level end of 2014	Metric explanation
BIS & CET1 ratios transitional	BIS: 16.6% CET1: 14.6%	BIS: 16.8% CET1: 15.3%	The BIS and Common Equity Tier 1 ('CET1') ratios show the level of available capital relative to the risk-weighted assets.
Leverage ratio – transitional	4.0%	3.9%	The leverage ratio presented is Tier 1 capital divided by the exposure value of 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	160%	165%	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 one-month liquidity measure	EUR 690 million	EUR 706 million	In the one-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.

NN Bank maintained a solid capital position with a CRDIV transitional BIS ratio of 16.6% and a CRDIV transitional CET1 ratio of 14.6% at year-end. The CRDIV fully phased-in BIS ratio comes to 16.7% (2014: 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. On 21 May 2015, NN Group issued 2.2 million ordinary shares at a price of EUR 26.16 per share to ING Groep N.V. The proceeds of EUR 57 million were used by NN Group to increase the common equity Tier 1 capital of NN Bank by the same amount. The CET1 capital ratio reduction in 2015 from 15.3% to 14.6% 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 increased from 3.9% in 2014 to 4.0% in 2015. The LCR was 160% (2014: 165%) 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 monitoring

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 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 programs. 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 NN 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 that 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 NN Group Model Validation independently conducts model validation itself. 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. For NN Bank, market risk consists of interest rate risk in the banking book only as NN Bank does not trade in financial instruments.
- *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:

- 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 full implementation as of 1 January 2019. NN Bank is well prepared to operate under the new framework. NN Bank monitors regulatory developments closely and as appropriate seeks opportunities for the public to comment and to ensure timely compliance.

NN Bank already complies with 2019 CRDIV/CRR 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 applies 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 profile and 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 Basel disclosure requirements. 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 2015
Housing market
In 2015, the Dutch housing market further improved and consumer confidence rose to pre-crisis levels. As a Dutch bank, NN Bank is influenced by the developments in the Dutch markets, including the political and economic climate. The Dutch economy improved in 2015. Throughout 2015 interest rates remained low.

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 has been reduced to 51%. Each following year, this will be further brought down by 0.5%-point, to an eventual maximum level of 38%.

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.

- *Retail credit 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 credit 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. The sole purpose of NN Bank's investments in the banking book is for liquidity management. Within NN Bank, (pre)settlement risk and money market risk are categorised under non-retail credit 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 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 of 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

As at the end of 2015, NN Bank's mortgage book had a weighted average loan-to-value ratio of 84% (2014: 84%), and 26% (2014: 26%) of the outstanding mortgage amounts were guaranteed through National State Guarantee (Nationale Hypotheek Garantie or 'NHG'). Residential mortgage loans below EUR 245,000 are eligible for coverage by governmental insurance under the NHG in the Netherlands. 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 below, the exposure amount of past due loans in NN Bank's mortgage portfolio has grown considerably in 2015 due to growth and further maturing of the portfolio. The number of delinquencies, as well as the distribution thereof, in the mortgage asset class is also impacted by the change from the previously used ING Group credit data warehouse to NN Bank's internal risk warehouse and reporting system. The credit profile of NN Bank is characterised by the good credit quality of the start portfolio and of the subsequent inflow due to own origination. As the start portfolio contained in principle no arrears, the loss numbers and expected losses were extremely low. After this date, mortgage loans that reached their reset date, have been transferred from ING Bank to NN Bank. These resets may contain delinquent loans, and are therefore in credit quality representative of a matured portfolio. Furthermore, NN Bank had a substantial level of own production, which has a low number of delinquencies. Please note that the exposure amounts presented here below represent the gross credit risk exposure of the portfolio.

Delinquency

	Mortgages		Consumer lending		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
0 days	10,222,035	7,765,819	220,675	165,801	10,442,710	7,931,620
1 – 30 days	51,494	100,202	5,525	10,450	57,019	110,652
31 – 60 days	99,280	30,003	5,950	2,130	105,230	32,134
61 – 90 days	53,893	14,087	963	1,111	54,856	15,198
> 90 days	91,934	51,587	16,216	6,054	108,150	57,641
	10,518,636	**7,961,698**	**249,329**	**185,546**	**10,767,965**	**8,147,245**

NN Bank measures its portfolio in terms of payment arrears on a continuous basis. 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. When this happens, a specialised team contacts the customer to explore the possibilities of getting the customer back into financial health as soon as possible.

Impaired and non-performing loans

NN Bank's loans to customers are exposed to credit risk. As can be inferred from the table below, approximately 1.4% of total loans to customers as at the end of 2015 are classified as non-performing (EUR 145.4 million in impaired loans out of EUR 10.8 billion total loans 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 Loss Given Default ('LGD') level.

Balance sheet items exposed to credit risk

	Not impaired		Past due but not impaired		Impaired		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Mortgages	10,222,035	7,724,153	168,482	113,273	128,119	124,273	10,518,636	7,961,699
Consumer loans	220,674	160,334	11,394	8,794	17,261	16,418	249,329	185,546
Total	**10,442,709**	**7,884,487**	**179,876**	**122,067**	**145,380**	**140,691**	**10,767,965**	**8,147,245**

Forbearance

NN Bank's definition of forbearance is: 'Forbearance occurs when the client is considered to be unable to meet its financial commitments under the contract due to financial difficulties, and based on these difficulties NN Bank decides to grant concessions towards the client by either loan modification or refinancing'.

- Modification is defined as changing the terms and conditions of the contract to enable the client to service the debt.
- Refinancing relates to putting in place a new loan contract to ensure the total or partial repayment of an existing loan contract, with which the debtor is unable to comply.

Examples of forbearance measures are: postponement or reduction of loan principal or interest payments, extended payment terms and debt consolidations.

Clear criteria to determine whether a client is eligible for a modification or refinancing have been established for NN Bank. Also, specific approval mandates are in place to approve the modifications and refinancing, as well as procedures to manage, monitor and report the forbearance activities.

Clients who are granted forbearance measures can be performing or non-performing:

- Performing. If the contract is considered to be performing prior to any forbearance measure, and also after granting the forbearance measure, the forbearance status for this client needs to be reported for a minimum of two years.
- Non-performing. If the contract is considered to be non-performing prior to any forbearance measure, the client will retain its non-performing status for a minimum of one year.

The status of clients with forbearance measures can also change during the forbearance reporting period:

- From performing to non-performing. If the performing client, after forbearance measures have been granted, becomes more than 30 days past due or receives additional forbearance measures during the reporting period, the client needs to be classified as non-performing.
- From non-performing to performing. The non-performing client, after forbearance measures have been granted, may receive the performing status, only when
  - one year has passed since the forbearance measures were granted,
  - the granting of forbearance does not lead to the recognition default, and
  - there is no past due amount or no concerns regarding full repayment of the exposure according to the post-forbearance conditions.

The total minimum reporting period of forbearance for any 'cured' non-performing client will take three years: one year as non-performing and subsequently the two years as performing.

The forbearance classification on a client shall be discontinued, when all of the following conditions are met:

- The contract is considered as performing and has been reported as 'performing forbearance' for a minimum of two years.
- The client is less than 30 days past due at the end of the forbearance reporting period.

The underlying NN Bank exposure classified as forborne as at year-end 2015 amounted to EUR 96 million (0.9% of lending exposure). 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.

Forbearance category in percentage of total lending exposure

	2015	2014
Temporary decrease of monthly payments	0.04%	0.01%
Revision of interest rate	0.06%	0.02%
Product change	0.02%	0.01%
Write-off small interest payments	0.01%	0.01%
Other forbearance indications	0.01%	
Forbearance payment agreements	0.74%	0.28%
Total forbearance	**0.88%**	**0.34%**

Provisions

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

- *Individual Significant Financial Asset ('ISFA') Provisions.* These are for loans in which specific, individualised provisions are 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.* These are made for acknowledged issues 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.
- *Incurred But Not Reported ('IBNR') Provisions.* These are 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 an expected loss methodology.

Risk costs

The total risk costs of NN Bank as at the end of 2015 came to EUR 17.9 million. Risk costs are defined as net additions to the loan loss provisions, plus write-offs, minus recoveries. Due to the growing and maturing portfolio and a credit risk model enhancement in 2015, the additions for the mortgage portfolio to the loan loss provisions amounted to EUR 7.3 million. For both the mortgage and consumer credit portfolios, the stock of provisions as at year-end amounted to EUR 37.9 million. Write-offs in 2015 amounted to EUR 6.7 million. As at 31 December 2015, the total risk costs expressed as basis points (bps) of exposure at default were 16.4 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, repricing 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. Market Risk Management models the customer behaviour in relation to mortgages, loans and savings. 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 consumer 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 type 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 on a daily basis.

The duration and key rate duration are interest rate 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 NN Bank's balance sheet. In the table below, the impact of a 1% interest rate shock on the market value of the balance sheet 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 the total market value of equity. A negative percentage means a negative impact on the market value of equity.

NPVaR

Percentage of total equity	2015	2014
Parallel shift – 100 basis points	2.41%	6.32%
Parallel shift + 100 basis points	0.74%	-3.97%

In comparison to 2014, NN Bank's interest rate sensitivity has reduced thanks to a reduction in NN Bank's interest rate risk exposure. The sensitivity for the upward shift scenario changed from -4% to +1%. This change is in line with the change in the overall duration, which was positive in December 2014 and negative in December 2015. Given the low level of the yield curve the sensitivity for the downward shift scenario is also impacted by the flooring assumption in the definition of this scenario. NN Bank follows the flooring assumption prescribed (i.e. a non-negative interest rate) by DNB in the above table.

Earnings at Risk

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

In the table below, the EaR-figures for a 1% parallel shock with a one-year horizon 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

Percentage of interest result	2015	2014
Parallel shift – 100 basis points	1.16%	7.66%
Parallel shift + 100 basis points	-5.12%	-10.33%

The reduction in the interest rate risk exposure and a further refinement of the parameters used for modelling the various savings accounts led to a decrease in the EaR in comparison to 2014.

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 profile

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.

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 CRDIV/CRR 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.

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	2015	2014
One-week DNB	1,262	1,212
One-month DNB	690	706
LCR	160%	165%

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

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

Main developments in 2015

Scenario analysis

NN Bank has further iterated 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.

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 for the purpose of a minimum regulatory operational risk capital charge.

Risk mitigation

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

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 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. It 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 that governs 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 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.

When developing products, NN Bank performs product reviews 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 products and services and to meet the customers' needs.

40 Capital and liquidity management

Regulatory requirements

Capital adequacy and 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 DNB for supervisory purposes.

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 2019 minimum Basel III capital and liquidity requirements, insofar 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 Market Risk RWA is not applicable.

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 appetite statements, which determine risk limit and target setting.

Important inputs to the capital and liquidity planning and management process are provided by stress testing that is 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 determine risk appetite and provide input that help to steer strategic direction. Recovery planning is a natural extension, and follows NN Bank's Risk Management Framework.

Capital adequacy

During 2015, NN Bank maintained a solid capital position, both on a CRDIV transitional and fully phased-in basis.

Transitional capital position (amounts in millions of euros)

	2015	2014
Common Equity Tier 1 Capital[1]	528	402
Risk Weighted Assets	3,611	2,626
Common Equity Tier 1 ratio – transitional[1]	14.6%	15.3%
BIS ratio – transitional	16.6%	16.8%
BIS ratio – fully phased-in	16.7%	17.0%

1 Amount and percentage differ from those reported by NN Group on NN Bank, because of the inclusion of the net result for the total year of 2015. It is expected that DNB will approve the fourth quarter result of 2015 being added.

NN Bank maintained a solid capital position with a CRDIV transitional BIS ratio of 16.6% (2014: 16.8%) and a CRDIV transitional CET1 ratio of 14.6% at year-end (2014: 15.3%). The CRDIV fully phased-in BIS ratio comes to 16.7% (2014: 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. On 21 May 2015, NN Bank received a capital injection of EUR 57 million CET1 capital from NN Group, who made use of proceeds of a capital injection in the same amount and on the same day by ING Group. This capital injection was initiated in order to meet European Commission commitments. In addition a EUR 30 million subordinated loan was granted by NN Group, which qualifies as Tier 2 capital. Furthermore, ING Bank provided a EUR 63 million facility of Additional Tier 1 (AT1) capital. The capital injection and the Additional Tier 1 (AT1) capital facility are a consequence of the EC commitments. The CET1 capital ratio reduction in 2015 from 15.3% to 14.6% 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.

Liquidity adequacy

During 2015, NN Bank maintained an adequate liquidity position.

Liquidity position (amounts in millions of euros)

	2015	2014
Liquidity Coverage Ratio ('LCR')	160%	165%
DNB 1 month liquidity measure	690	706

NN Bank maintained a solid liquidity position with an LCR of 160% and a DNB one-month liquidity of EUR 690 million at year end. This is in comparison to an LCR of 165% and a DNB one-month liquidity of EUR 706 million for 2014.

Authorisation of Consolidated annual accounts

The Consolidated annual accounts of NN Bank for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Management Board of NN Bank on 12 April 2016. 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 during the meeting. The General Meeting of Shareholders can decide not to adopt the Consolidated accounts, propose amendments and then adopt the Consolidated annual accounts after a normal due process.

The Hague, 12 April 2016

The Management Board

E. (Erik) Muetstege, chairman

J. (Sjaak) de Graaf

J.E. (Sandra) van Eijk

M.E. (Monique) Tailor-Hemerijck

The Supervisory Board

H.G.M. (Hein) Blocks, chairman

D.E. (David) Knibbe

G.A.N. (Toon) Krooswijk

D. (Delfin) Rueda

Confirmed and adopted by the General Meeting of Shareholders, dated 8 June 2016.

Parent company balance sheet of NN Bank

Amounts in thousands of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result

	notes	2015	2014
Assets			
Cash and balances at central banks	2	474,079	321,140
Amounts due from banks	3	55,981	56,417
Loans	4	10,610,528	8,075,550
Debt securities	5		
– Available-for-sale		550,291	513,911
Investments in group companies	6	11,935	1,143
Intangibles	7	1,325	990
Other assets	8	316,444	100,654
Total assets		**12,020,583**	**9,069,805**
Liabilities			
Amounts due to banks	9	331,228	130,894
Customer deposits and other funds on deposit	10	8,138,799	7,061,266
Loans from group companies	11	200,000	270,000
Other liabilities	12	2,742,050	1,148,484
General provisions	13	5,772	10,538
Subordinated debt	14	70,000	40,000
Total liabilities		**11,487,849**	**8,661,182**
Equity			
Share capital		10,000	10,000
Share premium		466,000	409,000
Revaluation reserve		5,487	5,206
Retained earnings		-15,847	-49,330
Unappropriated result		67,094	33,747
Total equity	15	**532,734**	**408,623**
Total equity and liabilities		**12,020,583**	**9,069,805**

References relate to the Notes starting on page 69. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account of NN Bank

Parent company profit and loss account

For the year ending 31 December

	2015	2014
Result of group companies after taxation	10,792	955
Other results after taxation	56,302	32,792
Net result	**67,094**	**33,747**

Parent company statement of changes in equity of NN Bank

Parent company statement of changes in equity

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Balance as at 1 January 2014	10,000	409,000	-532	-49,330	369,138
Unrealised revaluations after taxation			6,215		6,215
Realised gains or losses transferred to the profit and loss account			-477		-477
Total amount recognised directly in equity (Other comprehensive income)			**5,738**		**5,738**
Net result				33,747	33,747
Total comprehensive income			**5,738**	**33,747**	**39,485**
Balance as at 31 December 2014	**10,000**	**409,000**	**5,206**	**-15,583**	**408,623**
Balance as at 1 January 2015	10,000	409,000	5,206	-15,583	408,623
Effect of adjustment of realised gains or losses transferred to the profit and loss account in prior periods			477	-477	
Balance as at 1 January 2015 after effect of adjustment	10,000	409,000	5,683	-16,060	408,623
Unrealised revaluations after taxation			24		24
Realised gains or losses transferred to the profit and loss account			-220		-220
Total amount recognised directly in equity (Other comprehensive income)			**-196**		**-196**
Net result				67,094	67,094
Total comprehensive income			**-196**	**67,094**	**67,094**
Capital contribution		57,000			57,000
Employee share plans				213	213
Balance as at 31 December 2015	**10,000**	**466,000**	**5,487**	**51,247**	**532,734**

Notes to the Parent company annual accounts of NN Bank

1 Accounting policies for the Parent company annual accounts

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. 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 Article 402, Book 2 of the Dutch Civil Code.

In accordance with Article 379 (1), Book 2, of the Dutch Civil Code, reference is made to Note 34 'Principal subsidiaries' to the Consolidated annual accounts.

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.

2 Cash and balances at central banks

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

3 Amounts due from banks

Amounts due from banks

	2015	2014
Cash advances, overdrafts and other balances	55,981	56,417
Amounts due from banks	**55,981**	**56,417**

'Cash advances, overdrafts and other balances' comprises current accounts and accrued interest with banks.

4 Loans

Loans analysed by counterparty type

		2015	2014
–	Group companies	689,256	598,360
–	Third parties	9,921,272	7,477,190
Loans		**10,610,528**	**8,075,550**

Loans analysed by type

	2015	2014
Loans secured by mortgages, guaranteed by public authorities	1,886,744	1,483,296
Loans secured by mortgages	7,823,671	6,107,678
Consumer lending, other	248,714	185,547
Other loans[1]	689,256	325,353
Loans – before Loan loss provisions	**10,648,385**	**8,101,874**
Loan loss provisions	37,857	26,324
Loans	**10,610,528**	**8,075,550**

1 For purposes of comparison, 2014 amount has been reclassified.

Structured entities

We refer to Note 35 ‘Structured entities’ of the Notes to the Consolidated annual accounts. As these securitisation transactions 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, with reference to Note 8 ‘Other assets’ on the next page, the non-trading derivative transactions of EUR 208.7 million are recognised.

Loans to group companies

	2015	2014
Loans to group companies – Opening balance	598,360	
Reclassification from Customer deposits and other funds on deposit		24,626
Reclassification from/to Loans to third parties	-273,009	208,952
Origination	363,905	404,817
Redemptions		-40,035
Loans to group companies – Closing balance	**689,256**	**598,360**

Loans to third parties

	2015	2014
Loans to third parties– Opening balance	7,503,514	5,953,297
Reclassification from/to loans from group companies	273,009	-208,952
Mortgage portfolio transfer	1,596,675	1,296,230
Partial transfers of mortgage loans	55,731	42,266
Origination	2,610,589	2,009,415
Sale of mortgages	-1,353,496	-1,241,691
Change in mortgage premium	8,677	8,781
Fair value change hedged items	-13,726	105,033
Redemptions	-721,844	-460,865
Loans to third parties – Closing balance	**9,959,129**	**7,503,514**

The reclassification adjustment refers to the partial transfers of mortgage loans from a group company and from an ING company.

5 Debt securities

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

6 Investments in group companies

Investments in group companies

	Interest held 2015	Balance sheet value 2015	Interest held 2014	Balance sheet value 2014
HQ Hypotheken 50 B.V.	100%	11,810	100%	1,018
Nationale-Nederlanden Beleggingsrekening B.V.	100%	125	100%	125
Investments in group companies		**11,935**		**1,143**

Investments in group companies

	2015	2014
Investments in group companies – Opening balance	1,143	313
Legal merger		-125
Results from group companies	10,792	955
Investments in group companies – Closing balance	**11,935**	**1,143**

7 Intangibles

Intangible assets

	Software		Total	
	2015	2014	2015	2014
Intangible assets – Opening balance	990		990	
Additions	413	990	413	990
Depreciation	-78		-78	
Intangible assets – Closing balance	**1,325**	**990**	**1,325**	**990**

8 Other assets

Other assets by type

	2015	2014
Receivables from group companies	42,798	9,064
Derivatives	220,219	48,329
Deferred tax assets	1,610	1,217
Accrued assets	47,740	41,674
Other receivables	4,077	370
Other assets	**316,444**	**100,654**

9 Amounts due to banks

Amounts due to banks by type

	2015	2014
Interest bearing	331,228	130,894
Amounts due to banks	**331,228**	**130,894**

10 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit

	2015	2014
Third parties	8,138,799	7,061,266
Customer deposits and other funds on deposit	**8,138,799**	**7,061,266**

'Customer deposits and other funds on deposit' comprises savings.

Third party customer deposits

	2015	2014
Third party customer deposits – Opening balance	7,061,266	5,787,881
Reclassification to Loans to group companies		24,626
Deposits taken	3,491,204	3,389,739
Withdrawals	-2,413,671	-2,139,856
Other		-1,124
Third party customer deposits – Closing balance	**8,138,799**	**7,061,266**

11 Loans from group companies

Amounts owed to group companies by remaining term

	2015	2014[1]
More than 5 years	200,000	270,000
Loans from group companies – Closing balance	**200,000**	**270,000**

1 For purposes of comparison, the 2014 amount of issued notes to related parties, has been reclassified to 'Other liabilities'.

'Loans from group companies' includes other borrowed funds from NN Group. The amount of EUR 270 thousand comprises a loan from ING Bank, not considered as a group company as from 2015.

12 Other liabilities

Other liabilities

	2015	2014
Issued notes to third party investors	1,676,967	356,713
Issued notes to related party investors[1]	892,838	640,359
Deferred tax liabilities	2,175	
Income tax payable	4,473	4,090
Derivatives	107,858	117,577
Accrued interest	22,249	14,335
Costs payable	4,300	4,718
Other taxation and social contribution	6,476	7,451
Other amounts payable	24,713	3,241
Other liabilities	**2,742,049**	**1,148,484**

1 For purposes of comparison, the 2014 amount of issued notes to related parties, has been reclassified from 'Loans from group companies'.

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.

Reference is made to Note 35 'Structured entities' to the Consolidated annual accounts and specifically the back-to-back derivative that is in place in the Hypenn RMBS II and III 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 line item '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.

'Other amounts payables' includes a short-term deposit obtained from a third party financial institution.

13 General provisions

General provisions

	2015	2014
Reorganisations and relocations	5,737	10,528
Other	35	10
General provisions	**5,772**	**10,538**

14 Subordinated debt

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

15 Equity

Equity

	2015	2014
Share capital	10,000	10,000
Share premium	466,000	409,000
Revaluation reserve	5,487	5,206
Retained earnings	-15,847	-49,330
Unappropriated result	67,094	33,747
Total equity	**532,734**	**408,623**

Share capital

			Ordinary shares	
	Shares in number		Amount (in EUR thousand)	
	2015	2014	2015	2014
Authorised share capital	5,000,000	5,000,000	50,000	50,000
Unissued share capital	4,000,000	4,000,000	40,000	40,000
Issued share capital	**1,000,000**	**1,000,000**	**10,000**	**10,000**

For details on the changes in share premium, reference is made to Note 8 'Equity' in the Consolidated annual accounts.

Changes in Revaluation reserve, retained earnings and unappropriated result (2015)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Changes in Revaluation reserve, retained earnings and unappropriated result – Opening balance	5,206	-49,330	33,747	-10,377
Reclassification	477	-477		
Net result for the period			67,094	67,094
Unrealised revaluation	-196			-196
Transfers to/from retained earnings		33,747	-33,747	
Employee share plans		213		213
Changes in Revaluation reserve, retained earnings and unappropriated result – Closing balance	**5,487**	**-15,847**	**67,094**	**56,734**

Changes in Revaluation reserve, retained earnings and unappropriated result (2014)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Changes in Revaluation reserve, retained earnings and unappropriated result – Opening balance	-532	-11,606	-37,724	-49,862
Reclassification				
Net result for the period			33,747	33,747
Unrealised revaluation	5,738			5,738
Transfers to/from retained earnings		-37,724	37,724	
Changes in Revaluation reserve, retained earnings and unappropriated result – Closing balance	**5,206**	**-49,330**	**33,747**	**-10,377**

The Revaluation reserve cannot be freely distributed. Share premium reserves are not freely distributable up to the negative amount of Retained earnings.

16 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities (2015)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment	Total
Assets								
Cash and balances at central banks	474,079							474,079
Amounts due from banks	55,981							55,981
Loans	26,222	52,005	193,333	963,662	9,189,028	186,278		10,610,528
Liabilities								
Amounts due to banks	180,935	150,293						331,228
Customer deposits and other funds on deposit	5,680,798	47,739	190,403	775,328	1,444,531			8,138,799

Analysis of certain assets and liabilities (2014)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment	Total
Assets								
Cash and balances at central banks	321,140							321,140
Amounts due from banks	56,417							56,417
Loans	3,383	9,413	42,059	224,849	7,693,652	102,194		8,075,550
Liabilities								
Amounts due to banks	5,794	24,969	100,000			131		130,894
Customer deposits and other funds on deposit[1]	5,628,161	30,488	133,873	600,325	668,419			7,061,266

1 For purposes of comparison, 2014 amounts have been reclassified.

17 Assets not freely disposable

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

18 Contingent liabilities

Contingent liabilities and commitments (2015)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees							
Irrevocable credit facilities						93,656	93,656
Mortgage and consumer lending offerings	197,570	295,920	90,442				583,932
Construction deposits	25,102	49,798	186,031				260,931
Contingent liabilities and commitments	**222,672**	**345,718**	**276,473**			**93,656**	**938,519**

Contingent liabilities and commitments (2014)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees	109						109
Irrevocable credit facilities[1]	50,000					78,769	128,769
Mortgage and consumer lending offerings[1]	303,148	424,884	136,348				864,380
Construction deposits[2]	12,198	36,594	97,583				146,375
Contingent liabilities and commitments	**365,455**	**461,479**	**233,932**			**78,769**	**1,139,633**

1 Reclassified for purposes of comparison.
2 Added for purposes of comparison.

19 Related parties

NN Bank has entered into transactions with its principal subsidiary HQ Hypotheken 50 B.V. 'Loans to group companies' comprises a loan for funding purposes of the mortgage production by Quion Hypotheekbemiddeling B.V. on behalf of NN Bank's subsidiary. The interest expense for 2015 amounts to EUR 2.7 million (2014: EUR 0.6 million).

For more details about related parties reference is made to Note 36 'Related parties' to the Consolidated annual accounts.

20 Other

Fiscal unity

Nationale-Nederlanden Bank N.V. and its subsidiaries (excluding consolidated structured entities) are part of the fiscal unity for corporation tax purposes together with NN Group 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 12 'Other liabilities', 'Income tax payable' concerns tax payable by NN Bank to NN Group, for the most recent quarter.

Authorisation of Parent company annual accounts

The Hague, 12 April 2016

The Management Board

E. (Erik) Muetstege, chairman

J. (Sjaak) de Graaf

J.E. (Sandra) van Eijk

M.E. (Monique) Tailor-Hemerijck

The Supervisory Board

H.G.M. (Hein) Blocks, chairman

D.E. (David) Knibbe

G.A.N. (Toon) Krooswijk

D. (Delfin) Rueda

Confirmed and adopted by the General Meeting of Shareholders, dated 8 June 2016.

Other information

Independent auditor's report

To: the shareholders and supervisory board of Nationale-Nederlanden Bank N.V.

Report on the audit of the 2015 annual accounts

Our opinion

We have audited the accompanying 2015 annual accounts of Nationale-Nederlanden Bank N.V., based in The Hague (NN Bank or the Company). The annual accounts include the consolidated annual accounts and the parent company annual accounts.

In our opinion:

- The consolidated annual accounts give a true and fair view of the financial position of NN Bank as at 31 December 2015 and of its result and its cash flows for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code.
- The parent company annual accounts give a true and fair view of the financial position of NN Bank as at 31 December 2015 and of its result for 2015 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated annual accounts comprise:

- The following statements for 2015: the consolidated balance sheet as at 31 December 2015, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

- The parent company balance sheet as at 31 December 2015 and the parent company profit and loss account for 2015.
- 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 annual accounts section of our report.

We are independent of 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

Materiality

Planning Materiality	€2.1 million
Benchmark used	5% of NN Bank's profit before tax over 2015
Rationale for the benchmark applied	NN Bank's shareholder is NN Group N.V., which is a listed company. The shareholder focuses amongst others on operating performance, particularly profit before tax and the related ability to pay future dividends. Furthermore profit constitutes part of the Company's solvency which is relevant for the Company's regulators. Accordingly we have based materiality on NN Bank's profit as the key indicator for the users of its financial statements.

We have also taken into account misstatements and possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €0.2 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.

Scope of the group audit

NN Bank is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of NN Bank.

Our group audit mainly focused on NN Bank (parent company) being the only significant group entity.
We have performed the audit procedures ourselves. By performing certain procedures relating to the other group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts. 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 annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Key audit matter	Our audit response
Impairments on loans and advances: In the section accounting policies under 'Impairments on loans and advances' and in section 'Risk Management'' relating to 'Credit Risk' in the financial statements, NN Bank N.V. provides disclosures on its impairment policies. 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. 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. NN Bank N.V. 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, supported by our specialists, 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: In the note on 'Related Parties' of the financial statements, NN Bank N.V. provides disclosures on the relationship, nature and size of transactions regarding related parties. NN Bank N.V. enters into substantial related party transactions relating the acquisition of mortgages from ING Bank N.V. and origination and disposal to Nationale-Nederlanden Levensverzekering Maatschappij N.V. and Nationale-Nederlanden Schadeverzekering Maatschappij N.V. These transactions are carried out at fair value. The fair value measurement and associated transaction result can be a subjective area and involve various assumptions regarding pricing and prepayment factors. The use of different valuation techniques and assumptions could produce significantly different estimates. 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 fair 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: NN Bank is highly dependent on its IT infrastructure for the continuity of the operations. NN Bank continues to invest in its IT infrastructure and processes to meet clients' needs and business requirements. The Group is continuously improving the efficiency and effectiveness of its IT infrastructure and the reliability and continuity of the electronic data processing, including its defence against cyber-attacks. An area of attention is the ongoing development of IT systems and processes to meet regulatory reporting requirements under CRDIV.	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.

Responsibilities of the management board and the supervisory board for the annual accounts

The management board is responsible for the preparation and fair presentation of the annual accounts in accordance with IFRS-EU 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, the management board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the annual accounts 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. The management board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

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

Our responsibilities for the audit of the annual accounts

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.

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 annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

- Identifying and assessing the risks of material misstatement of the annual accounts, 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.
- 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 board’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 annual accounts 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 to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosures.
- Evaluating whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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 annual accounts 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 of the management board 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 Report of the management board and other information):

- We have no deficiencies to report as a result of our examination whether the Report of the management board, 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 Report of the management board, to the extent we can assess, is consistent with the annual accounts.

Engagement

We were appointed as external auditor at the Nationale-Nederlanden Bank N.V. general meeting held in October 2012. We will mandatorily rotate off of the Nationale-Nederlanden Bank N.V. audit for purpose of the 2016 annual accounts in accordance with Dutch law.

Amsterdam, 12 April 2016

Ernst & Young Accountants LLP

A.B. Roeders

Proposed appropriation of result

The result is appropriated pursuant to Article 21 of the Articles of Association of Nationale-Nederlanden Bank N.V., the relevant stipulations of which state that the result shall be determined by the General Meeting of Shareholders, having heard the Management Board and the Supervisory Board.

Proposed appropriation of result (in thousands of euros)

	2015
Net result	67,094
Proposed to be added to the Other reserves pursuant to Article 21(3) of the Articles of Association	**67,094**

In 2015, a contribution of EUR 57 million was received from its shareholder (2014: EUR nil). Reference is made to Note 8 'Equity' to the Consolidated annual accounts.

For 2015 it is proposed to add the entire result to the reserves, so that no final dividend will be paid.

Subsequent events

In January 2016, Standard &Poor's ('S&P') assigned a long-term rating of single A, a short-term rating of A-1 and a stable outlook as S&P views NN Bank as a 'highly strategic' subsidiary of NN Group. With this rating, NN Bank has access to a more diverse range of funding instruments.

On 11 April 2016, NN Bank issued the Hypenn RMBS V transaction raising EUR 531 million of funding.

Disclaimer

Certain of the statements in this 2015 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 Group'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 Group'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 Group and/or related to NN Group.

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.

Additional information

Pillar III

Introduction

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

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

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.

Type	No	Brief description	Reference
General	1	Consolidate all risk-related information in either Note 39 Risk Management 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.	Note 39 Risk management
	3	Describe and discuss top and emerging risks for the bank.	Note 39 Risk management
	4	Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio.	Note 39 Risk management
Risk governance, risk management and business model	5	Summarise prominently the bank's risk management organisation, processes and key functions.	Note 39 Risk management
	6	Describe bank's risk culture, related procedures and strategies.	Note 39 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.	Note 39 Risk management
	8	Describe the use of stress testing within bank's risk governance and capital frameworks.	Note 39 Risk management
	9	Provide minimum Pillar I capital requirements, including surcharges and buffers, or the minimum internal ratio.	Note 40 Capital and liquidity 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 with a more general discussion of management's strategic planning.	Note 40 Capital and liquidity 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 assets 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 analysis 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 assets, liabilities and off-balance sheet commitments by (contractual) maturity at the balance sheet date.	Annual report starting page 44
	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

	22	Link balance sheet items and income statement with positions included	Note 39 Risk management
	23	Provide further qualitative and quantitative breakdowns of significant market risk measurement model limitations through time and descriptions of the reasons for back-testing exceptions.	Note 39 Risk management
	24	Provide qualitative and quantitative disclosures that describes significant market risk measurement model limitations through time and descriptions of the reasons for back-testing exceptions.	Future disclosure as appropriate
Market risk	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 Vary, earnings or economic values scenario results.	Future disclosure as appropriate
	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.	Note 39 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.	Note 39 Risk management
	29	Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions.	PIII
Credit risk	30	Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful.	PIII
	31	Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed.	PIII
Other risk	32	Discuss publicly known risk event 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.

Transitional own funds disclosure template

	2015	2014
Capital instruments and the related share premium accounts of which:	476,000	419,000
– Instrument type 1	476,000	419,000
– Retained earnings	51,247	-16,115
– Accumulated other comprehensive income (and other reserves to include unrealised gains and losses under the applicable	5,487	5,738
Common Equity Tier 1 ('CET1') capital before regulatory adjustments	**532,734**	**408,623**
Intangible assets (net related tax liability) (negative amount)	-1,325	-990
Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required per CRR of which:	-3,292	-5,748
– Comprehensive income	-3,292	-5,748
Common Equity Tier 1 ('CET1') capital	**528,116**	**401,885**
Tier 1 ('T1') capital	**528,116**	**401,885**
Capital instruments and the related share premium accounts	70,000	40,000
Tier 2 (T2) capital	70,000	40,000
Total capital (TC=T1+T2)	**598,116**	**441,885**
Risk weighted assets	3,611,179	2,625,557
Total risk-weighted assets	**3,611,179**	**2,625,557**
Common Equity Tier 1 (as a percentage of risk exposure amount)	14.6%	15.3%
Tier 1 (as a percentage of risk exposure amount)	14.6%	15.3%
Total capital (as a percentage of risk exposure amount)	**16.6%**	**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 2015. RWA for operational risk in 2014 was EUR 46 million and EUR 170 million for 2015. This means that the main developments in RWA are related to credit risk RWA. The movement in credit risk RWA is provided below under EDTF recommendations 13, 14 and 16. The movements in capital composition are presented in the table below. Next to addition of profit, the key movements are the CET1 capital injection from NN Group and the issuance of Tier 2 capital in 2015 to further optimise the capital composition.

Capital composition

Amounts in millions of euros	2015	2014	Movement
Tier 1 Capital	528	402	126
Common Equity Tier 1 ('CET1') Capital	528	402	126
- Retained earnings, other accumulated income, intangible assets, CRR filters and deductions	471	402	69
- NN Group capital injection	57		57
Additional Tier 1 Capital			
Tier 2 Capital	70	40	30
BIS Capital	**598**	**442**	**156**

On 21 May 2015, NN Bank received a capital injection of EUR 57 million CET1 capital from NN Group, who made use of proceeds of a capital injection in the same amount and on the same day by ING Group. This capital injection was initiated in order to meet European Commission commitments. In addition a EUR 30 million subordinated loan was granted by NN Group, which qualifies as Tier 2 capital. Furthermore, ING Bank provided a EUR 63 million facility of Additional Tier 1 (AT1) capital. The capital injection and the Additional Tier 1 capital (AT1) facility are a consequence of the EC commitments.

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 2015

	Mortgages	Consumer loans	Other items	Total
Portfolio beginning of year	2,243,533	158,394	177,905	2,579,832
Inflow in portfolio, own production	948,340	80,877		1,029,217
Inflow in portfolio, transfers	441,761			441,761
Existing portfolio	200	-6,726	-14,416	-20,942
Outflow out portfolio, (p)repayments and write-offs	-215,588	-21,958		-237,545
Outflow out portfolio, transfers	-373,710			-373,710
Portfolio end of year	**3,044,537**	**210,587**	**163,489**	**3,418,613**

The RWA on the existing mortgages and consumer loans decreased because of a decrease in Non-performing Loans (and for mortgages also because of the increase of house price index). 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.

Additional information — continued

Risk measures

	Mortgages		Consumer loans		Mortgages & Consumer loans	
	2015	2014	2015	2014	2015	2014
Exposure	10,518,636	7,961,698	249,329	185,546	10,767,965	8,147,245
Percentage non-performing loans	1.2%	1.5%	6.9%	8.5%	1.4%	1.7%
Probability of default IBNR	1.0%	1.3%	3.7%	3.9%	1.1%	1.4%
Loss given default	4.8%	5.1%	49.5%	47.7%	5.7%	6.1%
Risk costs	12,085	9,199	5,786	1,365	17,871	10,565
SA risk weight	30.7%	31.7%	76.6%	76.2%	31.6%	32.7%

The table shows an increase in risk costs from 2014 to 2015. Apart from the increase in exposure over this period, a model enhancement resulted in higher provisions. The Non-Performing Loans ('NPLs'), PD, LGD and SA RW decreased, reflecting both improving economic conditions and the growth of the portfolio (inflow of non-delinquent loans). Please note that the exposure presented here represents the gross credit risk exposure of the portfolio.

Credit risk

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

Loan to income

	Mortgages	
	2015	2014
<=3,5	34%	36%
3.5 – 4.5	35%	32%
4.5 – 5.5	19%	19%
>5.5	12%	13%
Total	**100%**	**100%**

Net loan to indexed value

	Mortgages	
	2015	2014
<=80%	31%	31%
80% – 90%	11%	11%
90% – 100%	17%	12%
> 100%	16%	19%
NHG <= 90%	7%	8%
NHG > 90%	18%	19%
Total	**100%**	**100%**

Region

	Mortgages	
	2015	2014
Noord-Holland, Zuid-Holland	46%	47%
Flevoland, Gelderland, Limburg, Noord-Brabant, Utrecht, Zeeland	43%	42%
Drenthe, Friesland, Groningen, Overijssel	11%	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

	Mortgages	
	2015	**2014**
0. Balance amount	10,518,636	7,961,698
1. Secondary cover value	801,598	656,458
2. NHG cover value	2,480,851	1,715,309
3. Indexed market value primary cover	12,700,445	10,455,985
2b. Capped NHG cover value: minimum of (2) and ((0) minus (1))	2,474,598	1,700,523
3b. Capped indexed market value primary cover: minimum of (3) and ((0) minus (1) minus (2b))	6,798,526	5,317,056
Remaining exposure at risk: (0) minus (1) minus (2b) minus (3b)	**443,915**	**287,661**

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.

Next to the total value of the different covers, also the remaining exposure at risk is calculated. This risk measure (and risk measures 2b & 3b) is calculated at loan level without double counting any cover value. The remaining exposure at risk can be seen as credit without any cover. The amount of the remaining exposure at risk has grown due to the growth of the portfolio. The figures in the table above are the aggregated results of the calculations at loan level.

- The NHG Value per mortgage loans is capped at the net mortgage exposure (balance amount minus secondary cover value). When a client has made prepayments or has deposited a large initial amount for the secondary cover, the net mortgage exposure can be lower than the NHG cover value.
- The market value of the primary cover is capped at the balance amount minus secondary cover value and minus the NHG cover value. For example: when the cover value of a NHG mortgage loan is higher than the net mortgage exposure, the capped market value of the primary cover is zero.

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 that 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 2015 is shown. To further optimise the funding mix in line with strategy, the share of wholesale funding has increased from 15% to 24% and the share of retail funding has decreased from 78% to 67% in 2015.

Funding mix

	2015	2014
Retail funding (consist of savings/deposits and bank annuities)	67%	78%
Wholesale funding (long-term)	24%	15%
Equity	5%	5%
Other liabilities	4%	2%
Total	**100%**	**100%**

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 of 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.
- *Personal and Physical Security Risk.* Personal & physical security risk is the risk of criminal and environmental threats to assets entrusted to NN, or those that 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 unauthorized 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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