2018
Annual Report

Nationale-Nederlanden Bank N.V.

nationale
nederlanden

Annual report contents

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 2018 was as follows:

Management Board

Composition as at 31 December 2018

E. (Erik) Muetstege (1960), CEO and chair

J.E. (Sandra) van Eijk (1971), CFO

M.E. (Monique) Tailor-Hemerijck (1960), CRO

A.J.M. (Marcel) Zuidam (1970), CTO[1]

Resigned in 2019

E. (Erik) Muetstege (1960), CEO and chair[2]

Supervisory Board

Composition as at 31 December 2018

H.G.M. (Hein) Blocks (1945), chair

D. (Delfin) Rueda (1964)

D.E. (David) Knibbe (1971)

A.A.G. (André) Bergen (1950)[3]

J.H. (Jan-Hendrik) Erasmus (1980)[3]

Resigned in 2018

A.M. (Maarten) Mol (1956)[4]

1 Appointment as CEO and chair as at 15 March 2019 by the general meeting on 5 March 2019.
2 Resignation as at 15 March 2019 by resignation letter.
3 Appointment as at 1 January 2018 by the general meeting on 31 December 2017.
4 Resignation as at 1 January 2018 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 a financial services company, active in 18 countries, with a strong presence in a number of European countries and Japan. Our ambition is to be a company that truly matters in the lives of our stakeholders, for example by living our values: 'care, clear, commit'.

We are committed to helping people secure their financial futures, with strong products and services, and long-term relationships. With all our employees, NN Group offers retirement services, pensions, insurance, investments and banking products to approximately 17 million customers. NN Group's main brand are Nationale-Nederlanden, NN, NN Investment Partners, ABN AMRO Insurance, Movir, AZL, BeFrank and OHRA.

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. NN Group became a standalone company on 2 July 2014. Since that date, our shares are listed and traded on Euronext Amsterdam under the listing name 'NN Group'. More information about NN Group's business model, values and performance is available on www.nn-group.com and in the NN Group Annual Report.

Integrating Delta Lloyd
In 2017, NN Group acquired Delta Lloyd group and started integrating activities in the Netherlands and Belgium. The aim was to create an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our customer service, distribution and products.

In 2018, the combined company aligned its systems and portfolios, and Delta Lloyd products and offices were rebranded to NN. In addition, the legal mergers of several NN and Delta Lloyd entities were completed, Delta Lloyd Bank N.V. merged into Nationale-Nederlanden Bank N.V., Delta Lloyd Asset Management N.V. merged into NN Investment Partners B.V., and Delta Lloyd Life N.V. merged into NN Insurance Belgium N.V.

NN Group continues to aim for efficiency improvements and to maximise the potential synergies offered by the combined business. NN Group expects that these efforts will achieve total cost savings of EUR 400 million by the end of 2020. The successful integration of Delta Lloyd in the Netherlands and Belgium is one of NN Group's top priorities.

NN Bank
NN Bank was founded on 26 April 2011 as a Dutch retail bank. It is a fully owned subsidiary 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 secure their financial futures: helping them manage and protect their assets and income through mortgage loans, (internet) savings, bank annuities, consumer lending and retail investment products. In addition, NN Bank provides administration and management services to ING Bank N.V. (former WestlandUtrecht Bank), Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven'), NN Insurance Belgium N.V. ('NN Belgium'), the NN Dutch Residential Mortgage Fund and other entities.

NN Bank has two fully owned subsidiaries:

HQ Hypotheken 50 B.V., which was founded on 21 August 2012 with registered office in Rotterdam. Through this subsidiary, NN Bank offers mortgage loans to customers via a business partner.

Nationale-Nederlanden Beleggingsrekening N.V. This is a dormant company, not currently conducting any business or other activities.

On 31 December 2017, NN Bank entered into a legal merger with Delta Lloyd Bank N.V. ('Delta Lloyd Bank'). As a result of this merger, Delta Lloyd Bank ceased to exist as a separate entity and NN Bank acquired all assets and liabilities of Delta Lloyd Bank under universal title of succession, as at 1 January 2018.

Report of the Management Board

Business developments

2018: Integration and preparing for the future

The first year of the combined bank has been successful. Both financially, and in terms of the integration and business improvements.

After NN Group's acquisition of Delta Lloyd group, NN Bank and Delta Lloyd Bank started preparing for the merger of both banks in 2017. On 31 December 2017, the legal merger between NN Bank and Delta Lloyd Bank was effectuated. On 1 January 2018, the joint organisation started.

In 2018, the main integration milestones included further integration of the NN Bank and former Delta Lloyd Bank teams. This included location changes, onboarding of the former Delta Lloyd Bank employees and migration to the NN workplace.

As a part of the integration, NN Bank is in the process of realising an integrated control framework. In addition, NN Bank took the first steps to integrate the data environment. Finally, the first platform migrations were completed. This includes the migration of the treasury management platform and the internet savings portfolios to NN Bank's target platform.

Besides the integration, NN Bank continued to develop its business:

- NN Bank expanded its retail funding capabilities by starting an internet savings proposition in Spain, on a cross-border basis. For NN Spain, internet savings customers will visit the NN website more frequently and therefore cross-sell opportunities could increase. This initiative supports the diversification of funding through the creation of an extra savings distribution channel.

- In 2018, the renewal of the back-office system for the NN-labelled mortgage portfolio was an important innovation. This new system, 'Close', is a modern solution and a completely cloud-based Software as a Service application. For NN Bank, it is an important step in the renewal of the mortgage architecture. The new system will help NN Bank implement future innovations with a shorter time to market.

- In the second quarter of 2018, NN Bank successfully migrated 255,000 NN Bank savings accounts to the platform system of our business partner, Ohpen. In addition, NN Bank migrated investments accounts. These migrations have led to significant cost savings.

- NN Bank further improved its funding profile in 2018 with the issue of a EUR 500 million 7-year covered bond in June and a EUR 500 million 10-year covered bond in September. These issues were well received by the market, reflecting the reliable nature of this funding instrument for NN Bank. Furthermore, NN Bank successfully repurchased the Hypenn III securitisation in September.

In 2018, NN Bank performed a strategic review. This included an analysis of the bank's current capabilities, market position, future market developments and potential business opportunities, as well as the impact on profitability and customer satisfaction. Based on the results of this review, further studies and pilots will be carried out in 2019.

Our values

At NN Bank, we want to help people secure their financial futures. To fulfil this purpose, we base our work on three core values: care, clear, commit. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us. They are brought to life through our day-to-day work. Our values, which we published under the title 'NN statement of Living our Values', set the standard for conduct and provide a compass for decision-making. Every single NN Bank employee is responsible and accountable for living up to them. More information is available in the 'Who we are' section of www.nn-group.com.

Our customers

NN Bank wants to help people secure their financial futures based on great service and long-term relationships. We offer our customers 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.

In addition, NN Bank aims to be personal and relevant in every customer contact. The bank strives to create an excellent experience in which the customer feels recognised and understood. In 2018, NN Bank offered customers and brokers a better and more relevant service by redesigning the bank's services through customer journey research. With this qualitative research method, NN Bank designed these services together with customers and brokers, to make sure that the bank's services meet their needs. For example, the bank improved the cooperation with the notary through customer journey research on the mortgage process. This resulted in improved cooperation, communication and processes between NN Bank and the notary, and prevents delays for the customer.

For NN Bank, offering an excellent customer experience means providing customers with efficient and flawless services. In 2018, this included:

- Introduction and expansion of the Quality Lane for mortgage applications. With the Quality Lane, intermediaries that deliver a certain quality level have guaranteed service delivery times. In 2018, 350 intermediaries were added to the Quality Lane.

- Introduction of a new declaration process for mortgage construction deposits. For example, NN Bank offers customers the possibility to submit construction invoices via the NN app.

- Also in 2018, we announced plans to implement a new mortgage pricing system, under which mortgage rates charged to customers are automatically adjusted during the fixed-rate period if the loan moves to a risk category with a lower risk premium as a result of redemptions. In addition, the mortgage rate will be adjusted to reflect a higher property valuation upon request of the customer if this leads to a lower risk premium. Facilitating this for customers with a NN mortgage from 1 January 2019 onwards has proven to be more technically complex than expected. Customers with a NN mortgage that are entitled to a lower risk premium due to repayment of the mortgage will be compensated for the period from 1 January 2019 until final implementation.

- Improvement of the underwriting criteria for mortgages. NN Bank's underwriting criteria were made more competitive. These improvements make it more attractive and easier for a customer to take out an NN mortgage.

- Improvement of the digital customer experience. NN Bank improved the digital customer experience by restructuring

Report of the Management Board Continued

and redesigning web pages and improving communication based on customer feedback. NN Bank introduced 'iDEAL' in the online savings channel in the Netherlands. iDEAL is an e-commerce payment system used in the Netherlands, and based on online banking. NN Bank improved the digital customer journey by making it easier for customers to identify themselves in a mandatory payment.

All the efforts in 2018 have improved NN Bank's customers' experience and led to an increase in the Net Promoter Score (NPS) from +6.7 (2017) to +8.4 (2018).

Our strategy

Our ambition is to truly matter in the lives of our stakeholders. Our increased scale and strong market position enable us to improve our customer experience, drive efficiency and deliver on cross-sell ambitions.

In the Netherlands, we build and capitalise on our leading market position by being personal and relevant in every customer contact. A convenient and increasingly digital customer process supports this. We continue to create value for our stakeholders: customers, shareholders, employees, business partners, and society at large.

NN Group's strategic priorities for creating long-term value for the company and its stakeholders are:

- Disciplined capital allocation
- Innovation in our business and industry
- An agile and cost-efficient operating model
- Value-added products and services

NN Bank fulfils these strategic priorities as follows.

Disciplined capital allocation

In 2018, NN Bank saw its Risk-Weighted Assets (RWA) decline by EUR 0.2 billion over the year, driven by lower RWA on its mortgage book. In combination with strong profit generation, this enables NN Bank to pay a dividend of EUR 55.9 million over 2018.

Innovate our business and industry

NN Bank is a key partner in the Dutch Blockchain Coalition, a public-private consortium that aims to apply blockchain technology to advance the Dutch society. Within the Dutch Blockchain Coalition, NN Bank is leading the development of the project that would allow a customer to instantly deliver verified financial information to a bank, using a Digital Identity. This solution is based on blockchain technology. The project's developing partners include ING, Rabobank, ABN AMRO, IBM and PwC. Many customers across all banks see the delivery of financial documents as a time-consuming and difficult step in the mortgage application process. Therefore, this is a potentially impactful use case.

NN Bank introduced a growth marketing team using data-driven techniques and experimentation to enhance online marketing skills and effectiveness. This new initiative led to a doubling of visitors to the mortgage pages on NN's website.

In 2018, NN Bank started a pilot within the mortgage chain to assess documents automatically. Data Text Analysis ensures a faster customer process and a more efficient organisation.

A smooth and digital onboarding process is important for an excellent customer experience. Therefore, NN Bank introduced video onboarding for the online savings product (Cuenta de Ahorro) in Spain. This has made NN Bank's banking processes in Spain paperless.

Agile and cost-efficient operating model

NN Bank aims to make processes as efficient as possible in order to deliver value for money to our customers.

The processes for mortgages and consumer loans are continuously made more efficient. For example, NN Bank introduced improvements in the construction deposit declaration process, mortgage customers can view all their documents in the personalised NN online client portal and NN Bank introduced the possibility for intermediaries to apply for an interim interest rate renewal via a fully automated online process.

Within the Savings and Investments value chain, the migration of the IT systems to one platform will create cost efficiencies. In 2018, NN Bank successfully migrated all internet savings accounts. In November, a portion of the investment products was migrated.

In 2018, NN Bank discontinued the NN-labelled credit card offer, due to a lack of growth in the client base for this product.

NN Bank took the next steps in the Agile way of working. For example, NN Bank teams were turned into combined development and operations teams ('Devops'): IT Operations and functional management of the IT value chain were added to the agile teams. This resulted in teams that are end-to-end responsible and autonomous.

Value added products and services

NN Bank is committed to delivering products and services that are easy to understand and meet the customers' lifetime needs. They are built in a standardised, modular way, with flexible features tailored to the needs of individual customers.

In 2018, NN Bank introduced three new mortgage propositions, servicing specific target groups:

- The 'Senior Citizens Residence Mortgage', allowing customers of 57 years and older to finance a new, smaller house
- The 'Expat Mortgage' for expats who want to settle in the Netherlands
- The 'Buy to let Mortgage' for retail customers who want to buy a house for rental purposes

Furthermore, NN Bank introduced several pilots for the investment product 'Beheerd Beleggen'. For example, a pilot for millennials, a proposition for future parents who want to have a financial plan for their child, and a proposition for wealthy customers who already have an investment product with a competitor.

In 2018, NN Bank's 'Beheerd Beleggen' product was awarded the 'Best choice 2018' ('IEX Gouden Stier') in the category Online Discretionary Investments.

Report of the Management Board Continued

Our employees
At NN Bank, people truly 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: care, clear, commit.

NN Bank stimulates all employees to work on their personal development plan. NN Bank invests in attracting young (potential) employees by offering students the opportunity to gain work experience and through the traineeship programme for talent.

NN Bank's ambition is to become more agile and to increasingly focus on customer-driven innovations. This requires engaged employees. NN Group has a new partner for employee engagement surveys, Peakon. NN Bank launched three Peakon-surveys in May, August (which showed increased results) and November. The last survey showed an unchanged engagement score (7.3) and the response rate was 79%. The benchmark in the financial services industry is 7.3 with a response rate of 81%.

The integrated bank began operations on 1 January 2018. In the first half of 2018, former Delta Lloyd Bank employees moved from the Amsterdam offices to the NN offices in The Hague and Rotterdam. NN Bank organised several onboarding meetings to welcome the new colleagues.

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

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

We are building a company that truly matters to our stakeholders. We take our role in society and our approach to sustainability very seriously. We will continue to focus on improving people's financial well-being and managing the assets entrusted to us by our customers, as well as our own assets, in a responsible way. Embedding a sustainable role in society remains an important priority in NN's core activities and processes.

This entails, amongst other things, offering products and services that are suitable, transparent and contribute to the financial well-being of our customers. For example, the Senior Citizens Residence Mortgage was introduced to stimulate flow in the housing market.

At NN Bank, we strive to help people in financial distress, so they can stay in their own homes as long as reasonably possible. In order to do so, we analyse the customer's situation to define where we can help best. This includes coaching and tools intended to generate more income, cut expenses, reduce monthly mortgage costs or a combination of these.

NN Bank is therefore involved in a coalition of creditors, the 'Schuldeiserscoalitie'. In this organisation, large Dutch companies work together to fight poverty in the Netherlands. The participating companies conform to an ethical manifesto regarding how to deal with customers facing payments difficulties.

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.

In addition, our employees have the opportunity to spend time on volunteer work. This includes LEF Coaching, a programme aimed at coaching people who need help getting a job.

Our employees have the opportunity to request a donation for the charity they support, based on the internal charities foundation 'Wij en de Maatschappij' ('Together for Society').

Conclusions 2018
2018 was the first year in which the joint organisation was operational. The former Delta Lloyd Bank employees were welcomed.

NN Bank achieved important integration milestones. The first platform migrations were completed and the first steps to integrate the data environment were taken.

Besides the integration, NN Bank continued to fulfil the bank's ambitions to deepen the customer relationship and help customers reach their financial goals. Meaningful examples are the introduction of more customised mortgages for specific segments and the introduction and expansion of the Quality Lane for mortgage applications.

In addition to the integration and investing in the customer relationship, NN Bank started exploring future business opportunities.

Report of the Management Board Continued

Financial Developments

Analysis of results

Amounts in millions of euros	2018	2017[1]
Interest income	600.3	529.2
Interest expenses	383.2	306.5
Interest result	**217.1**	**222.8**
Gains and losses on financial transactions and other income	**15.4**	**14.3**
Fee and commission income	**86.5**	**47.6**
Valuation results derivatives	**-3.7**	**4.2**
Total income	**315.3**	**288.9**
Addition to loan loss provisions	-5.4	-3.5
Staff expenses	111.0	90.3
Regulatory levies	16.8	11.2
Other operating expenses	95.0	77.6
Total expenses	**217.3**	**175.5**
Result before tax	**97.9**	**113.4**
Taxation	22.1	28.4
Net result	**75.8**	**85.0**

Key figures

Amounts in millions of euros	2018	2017[1]
Loans	18,443	13,740
Customer deposits and other funds on deposit	14,476	10,605
Net interest margin[2]	1.0%	1.4%
Cost/Income ratio[2]	65.3%	58.1%
Return on assets[2]	0.4%	0.5%
Return on equity[2]	8.1%	12.7%
Total assets	21,602	16,069
CET1 capital[3]	906	681
CET1 ratio[3]	16.3%	15.1%
Total capital[3]	991	766
Total capital ratio[3]	17.9%	16.9%
Leverage ratio	4.1%	4.2%
Liquidity Coverage Ratio ('LCR')	171%	162%
Average number of FTE	824	675

1 The 2017 figures do not include Delta Lloyd Bank
2 These ratios are calculated as follows:
Net interest margin: the net interest margin is calculated as interest result divided by the average total assets in a year (for reference see Note 19 'Interest result').
Cost/Income ratio: the cost/income ratio is calculated as staff expenses plus other expenses minus regulatory levies divided by total income.
Return on assets: the return on assets is calculated as net result divided by the average total assets in a year.
Return on equity: the return on equity is calculated as net result divided by the average equity in a year.
3 These are not final until filed with the regulators. If DNB approves of the second half-year result of 2018 being added, then the Total capital ratio is 17.9% and CET1 ratio is 16.4%.

Profit and loss

For NN Bank, the year 2018 was characterised by the integration with Delta Lloyd Bank.

Furthermore, NN Bank prepared itself for the future by:

- Launching an internet savings product in Spain
- Refinancing a part of the wholesale funding portfolio
- Announcing a new risk-based pricing policy
- Commissioning of Close (mortgages back-office system)
- Re-assessing the current business model

These are all important steps to remain a viable and future-proof bank.

While on the one hand, NN Bank worked on the integration and building a future-proof bank, on the other hand it also faced the current intense competition in mortgage market. In the past few years, the low interest rate environment has made mortgages an attractive investment for other parties, such as pension funds and insurance companies. New competitors with less capital-intensive business models entered the market, driving the margins further downward.

Both external and internal factors impacted NN Bank's 2018 Net result, resulting in a lower Net result compared with 2017. Non-recurring items that negatively impacted the net result were the financial impact of the risk-based pricing methodology (EUR 21.6 million) and expenses related to the integration (EUR 16.9 million).

The interest result is slightly below the level of 2017, despite the inclusion of Delta Lloyd Bank. The continuing strong competition and incidental items put the margin under pressure. The Net interest margin declined from 1.4% to 1.0%. The decline is mainly attributable to the inclusion of the Delta Lloyd portfolio, with a stand alone NIM of approximately 0.7%, and the one-off impact of the new risk-based pricing methodology (-0.1%). These impacts were partly offset by higher prepayment penalties and lower client rates on the savings portfolio.

Fee and commission income strongly increased. This was mainly due to inclusion of the portfolio previously serviced by Delta Lloyd Bank, of an average of EUR 9.8 billion. Furthermore, the origination on behalf of NN Leven increased compared with 2017, resulting in a EUR 13.2 million higher origination fee. The production by Amstelhuys N.V. ('Amstelhuys') on behalf of Delta Lloyd entities contributed EUR 4.7 million to the commission income.

Addition to loan loss provisions was EUR 1.9 million lower than the previous year. The increased releases were attributable to the further improvement of housing prices. Furthermore, NN Bank has updated and improved its risk models, resulting in a more accurate estimation of the credit risk. The improvement resulted in a release of loan loss provision.

NN Group is committed to reaching an expense reduction of EUR 400 million, of which NN Bank will contribute approximately 10%. To meet this expectation, NN Bank is actively integrating processes and systems to maximise the synergy benefits of the integration. Until the end of 2018, NN Bank reduced expenses by 12.5% to EUR 205.7 million (from EUR 235.1 million 2016 cost baseline), including levies and excluding integration expenses and severance payments. The Cost/Income ratio corrected for integration expenses and the impact of the risk-based pricing methodology was 56.0%, an improvement of 2.1% compared with 2017 (58.1%).

The regulatory levies increase is an effect of the inclusion of the Delta Lloyd balance sheet/savings portfolio, an increase in the amount of funds entrusted and the slightly increased relative risk profile of NN Bank (compared with peers), which is the basis for calculation of the Deposit Guarantee Scheme contribution.

Retail portfolios

The mortgage portfolio remained broadly stable. On 1 January 2018, NN Bank's mortgage portfolio grew by EUR 4.5 billion, due to the merger with Delta Lloyd Bank. The redemptions in the portfolio were offset by EUR 1.8 billion organic growth and transfers from ING Bank, resulting in a net growth of the loans portfolio of EUR 0.2 billion.

NN Bank experienced strong competition in the Dutch mortgage market. Despite this pressure, NN Bank, selling mortgages through NN Bank, HQ Hypotheken 50 B.V. ('HQ 50') and

Report of the Management Board Continued

Delta Lloyd's former mortgage originator Amstelhuys, managed to increase its volume of originations to EUR 6.1 billion compared with EUR 3.8 billion in 2017 (EUR 5.7 billion when Amstelhuys is included). The market share of the NN-labelled mortgages increased from 3.8% to 4.6% in 2018. EUR 5.3 billion was originated by NN Bank, EUR 0.7 billion was originated by Amstelhuys, and EUR 0.1 billion was produced through HQ 50. Of the EUR 6.1 billion production, EUR 3.4 billion was originated on behalf of NN Leven, EUR 0.5 billion was ceded to Delta Lloyd Levensverzekering N.V. and EUR 0.5 billion to the NN Dutch Residential Mortgage Fund. Other Group entities bought EUR 0.3 billion in mortgages.

The customer savings portfolio remained the main funding source for NN Bank. On 1 January 2018, NN Bank's customer savings portfolio grew by EUR 3.6 billion, due to the merger with Delta Lloyd Bank, and a further EUR 0.3 billion from the inflow of retail savings in 2018. Furthermore, in 2018, NN Bank introduced an internet savings product in Spain. The full launch took place in September. The net inflow in 2018 amounted to EUR 40 million.

Capital & liquidity

NN Bank aims to have access to diversified funding sources, both in terms of investors and markets. Funding and liquidity from professional counterparties support this.

Following the merger with Delta Lloyd Bank, the NN Bank and Delta Lloyd Bank refinancing profiles were combined. Given the concentration of call dates for its securitisations, all outstanding Hypenn III notes were redeemed early in September 2018, which improves the redemption profile in 2020. At the same time, an opportunity emerged to refinance this buy-back by issuing a longer-dated covered bond transaction.

NN Bank issued its second and third Conditional Pass-Through Covered Bonds in 2018 under its covered bond programme with maturities of 7.25 years and 10 years, respectively.

In addition, NN Bank has been active in the private placement market for unsecured funding with a wide range of national and European counterparties in a number of formats, including Schuldscheine and NSV (Namen Schuld Verschreibung).

To manage the LCR (Liquidity Coverage Ratio), NN Bank has a large portfolio of retained RMBS notes and liquidity facilities, in addition to the on-balance-sheet HQLA (High Quality Liquid Assets) portfolio and cash.

The integration of Delta Lloyd Bank had a positive impact on NN Bank's liquidity position. Delta Lloyd Bank had a high LCR at the end of 2017 due to a high level of HQLA. At that time, Delta Lloyd Bank did not have any committed lines available or retained notes to support the LCR.

NN Bank maintained a solid liquidity position with an LCR of 171%. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2018, NN Bank had external credit facilities in place: two committed loan facilities secured by mortgages and a credit facility with NN Group.

NN Bank has maintained a solid capital position, with a Capital Requirement Regulation (CRR) transitional total capital ratio of 17.9% (2017: 16.9%) and a CRR transitional CET1 ratio of 16.3% at year-end 2018 (2017: 15.1%). Delta Lloyd Bank's capital position consisted almost entirely of Common Equity. The growth in capital was driven by internal capital generation in the form of retained profits. No additional Tier 2 capital transactions with NN Group were needed in 2018. Furthermore, for the first time, NN Bank paid a dividend of EUR 8 million in 2018, following adoption of the 2017 Annual Report by the general meeting of NN Bank (General Meeting).

Market and business developments

Economic conditions

According to the CPB (Netherlands Bureau for Economic Policy Analysis), the Dutch economy grew by 2.6% in 2018. Unemployment fell to 3.9%, and most households saw an improvement in their purchasing power (Source: CPB).

Consumer confidence was positive and higher than in recent years. However, consumers were slightly less optimistic about their economic situation. Consumers were less positive about their future financial situation, because of the intended increase in the lower Dutch VAT rate (from 6% to 9%, from 1 January 2019) and increased inflation. In addition, there were increasing uncertainties that could negatively affect the economy. This applied to the uncertain Italian budgetary policy and the possible cliff-edge Brexit. The stagnating housing market also had an effect on the consumer confidence (Source: TU Delft).

The Dutch housing market showed scarcity and price increases. In many regions in the Netherlands, housing prices rose substantially (an average of >10%), but at the same time, the number of houses sold decreased (-9.7%), due to scarcity (Source: Kadaster).

In the coming years, the housing market tightness is expected to continue. Until 2020, there will be a shortage of newly built homes, causing rising house prices and a decrease in the number of houses sold. However, house prices are expected to grow less sharply in the years ahead than they did in 2017 and 2018. DNB expects price rises of 5.5% in 2019 and 2.8% in 2020. This development is in line with the estimated decline in economic growth and consumer confidence. In addition, the decline in mortgage interest rates has stalled (Source: DNB EOV, December 2018).

CPB's expected economic growth rate for 2019 is 2.2%. By 2019, CPB expects an increase in consumer spending of 1.9%.

Mortgages

Increasing scarcity, predominantly in the large cities, caused increased house prices. Buying a house became more attractive for those who can afford it and rental houses were scarce and expensive. This also applied to expats. Their number is growing, caused by more international organisations settling in the Netherlands. As a result of the market circumstances, it became extra difficult for first-time buyers to buy a house (predominantly in the large cities). A growing group of Dutch people think it is an unfavourable time to buy a home. Main arguments are the decreased affordability (67%) and limited choice (51%) in the market (Source: TU Delft - Eigen Huis Marktindicator 2018Q4).

As a result, the Dutch mortgage market was still experiencing growth, but the growth of new mortgage production has decreased from 25% in 2017 to 5% in 2018 (Source: Kadaster).

Amstelhuys stopped selling Delta Lloyd-labelled mortgages at the beginning of 2018. Despite this, NN Bank managed to increase its new sales of NN-labelled mortgages to EUR 5.3 billion. The market share of the NN label increased from 3.8% in 2017 to 4.7% in 2018 (Source: Kadaster).

Report of the Management Board Continued

Savings
The savings market grew stronger in 2018 (+3.86%) than in 2017 (+0.87%; Source: DNB), despite the fact that the interest rates for savings have been low for many years and consumer savings are undermined by taxes and rising inflation (CPI). The growth is mainly related to bank annuity savings (Source: DNB).

Most people save for buffers and (un-)expected costs (Source: Trendmonitor Vermogen VODW). The low savings rate and changing mentality of new generations have changed saving behaviour. For example, most young people say that it is not financially possible for them to put money aside, due to high costs, low income or other priorities. Seeking safe returns, wealthy individuals increasingly invest in real estate due to rising house prices.

Consumers still dissave by repaying mortgage debt. More and more often, starters get a donation from their parents when they buy their first house (Source: De Belastingdienst).

Bank annuities grew stronger, mainly due to interest accrued, aging population and periodic payments. Consumer awareness about their pension gap is increasing, partly due to the current pension debate. As a result, consumers are saving more in the third pillar.

Despite the moderate market growth of 3.86% in the savings market in 2018 (Source: DNB), NN Bank's savings portfolio rose 3.8% to EUR 14.5 billion, representing approximately 4.1% of total Dutch households' savings.

Investment services
Between 2002 and 2016, the penetration of investors among households decreased from 25% to 12%. Research from GfK ('Gesellschaft für Konsumforschung') shows that former investors are considering to invest again and the penetration among young people, in particular, has increased. According to the Retail Investor of Kantar TNS, the number of Dutch retail investors in 2018 increased by 11% to 1,540,000 (a penetration of 20%).

The most important reason for this growth was the low savings rate. However, for many investors, the possibility to make a better return does not outweigh the likelihood of a possible loss. With new technology, combined with smart propositions, providers are trying to make investing more accessible. Many of them offer the opportunity to invest periodically a low amount and reach new target groups. Alternatives have become popular. Due to rising house prices, individuals have invested more in real estate.

NN Bank's market share in new consumer asset management production remained stable at 2.3% (Source: GfK).

Consumer loans
Due to economic prosperity and increased consumer spending, the consumer lending portfolio in the market grew by 2.8% in 2018. This is the first growth since the start of the financial crisis in 2008 (Source: DNB). Dutch households wich currently have a revolving credit or a personal loan have borrowed mainly to buy a car (40%), to improve or renovate their houses (31%) or to pay off a residual debt (30%) (Source: VFN). This growth is reflected in new production, which grew by 13.9% in 2018 (Source: DNB).

NN Bank's market share in new consumer lending production decreased from 0.8% in 2017 to 0.5% in 2018.

Distribution
Retail banking distribution is an increasingly digital proposition, with customers accessing more services on their smartphones and desktops. Banking customers are also increasingly adopting web-based chat sessions with advisors and video-based remote advisory services. However, despite the growing prevalence of digital distribution in banking, no market is fully digital. Therefore, for the next three to five years the human touch will remain important for 30 to 50 percent of consumers in most markets (Source: McKinsey).

Outlook
Mortgages
In 2019, the Dutch mortgage market is expected to remain stable. Scarcity, the reduced affordability of a house and the expected stagnation of the mortgage refinancing market cause pressure on the mortgage market. To counter the housing shortage, more houses need to be built. However, construction companies do not have sufficient capacity. The housing shortage is expected to peak in 2020 (Source: ABF Research & Capital Value).

In 2019, NN Bank will continue focusing on straight-through processing and on initiatives that contribute to an excellent customer experience.

Savings
The savings market is expected to remain stable in 2019. The shift of savings to real estate will go on. The bank annuities market will remain important. Our competitive price and smooth application process has made us market leader in the bank annuities market.

In 2019, NN Bank wants to remain one of the market leaders in the bank annuities savings market. NN Bank aims for further growth in its market share in the Spanish savings market.

Investment services
In 2019, the assets under management of private households are expected to grow by 9% due to stock market performance and an increasing number of retail investors in the Netherlands. The process of investing is further simplified thanks to digitisation and robotics. This opens, and is expected to boost the low-wealth market. Wealthy and experienced individuals invest more in alternatives, like (holiday) rentals, which inhibits growth. Traditional investment advice is losing ground, caused by digital developments and MiFID II. Direct players are winning, especially through low cost levels and online and digital tooling. Wealthy clients already are increasingly using robotic advisors.

In 2019, NN Bank will remain focused on services and propositions for specific niche target groups. For example, millennials and future parents.

Consumer loans
The consumer loans market is expected to increase by 1.1% in 2019. This is driven, in part, by an increase in consumer spending. In 2019, NN Bank wants to improve its position on the consumer loans market.

Non-financial statement
NN Bank is exempt from the requirements of the Decree disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie, the 'Decree'). NN Bank is a direct subsidiary of NN Group. NN Group includes the non-financial information in its Report of the Management Board for NN Group as a whole, pursuant to the Decree.

Report of the Management Board Continued

Conclusions and ambitions 2019

In 2019, offering an excellent customer experience remains key for NN Bank. Therefore, NN Bank will continue to invest in offering personal and relevant services to its customers in 2019.

For NN Bank, 2019 will be the year of further integration. All portfolio migrations to the target platform will be finalised, and the rebranding of Delta Lloyd products to NN will be completed. The integrated IFRS 9 model will be implemented.

As part of the exploration on the future of the bank (which started in 2018), business opportunities will be further explored and several pilots will be started.

Appreciation for the NN Bank employees

The Management Board would like to thank all employees for their dedication and hard work. The Management Board realises that the past year has also brought uncertainties. Despite that, important integration results have been achieved thanks to the efforts of all employees. In addition, we have further improved our service to customers, which has resulted in higher customer satisfaction. The board looks forward, together with all employees, to furthering expand the success of NN Bank in 2019.

Corporate governance

General
NN Bank has a two-tier Board system, consisting of a Supervisory Board and a Management Board. The Management Board determines the mission, strategy, policy and objectives of NN Bank and is responsible for realising this. The Management Board focuses on business continuity and, in its decision making, makes a balanced assessment of the interests of all stakeholders including customers, investors, employees and the shareholder. The Supervisory Board supervises the policy pursued by the Management Board, the Management Board's performance of its managerial duties and the company's general course of affairs, taking account of the interests of the company's stakeholder.

The General Meeting appoints the Management Board members. The Management Board of NN Bank consists of three members: a CEO, CFO and CRO.

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 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 NN Group policy framework, 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 the Supervisory Board (Boards). The Supervisory Board assesses the composition of the Boards annually. NN Bank aims for a gender balance, by having at least 30% men and at least 30% women amongst the members of the Boards. In 2018, the composition of the Management Board met the aforementioned gender balance. However, as NN Bank needs to weigh several relevant selection criteria when composing the Supervisory Board, the composition of the Supervisory Board did not meet the aforementioned gender balance in 2018. 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 28 May 2015, the general meeting 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 2 July 2015, the general meeting 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 7 February, 24 April and 29 August 2018.

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 Directive / Capital Requirements Regulation, Basel III, the General Data Protection Regulation, the Competitive Trading Act, the Telecommunications Act, the (Anti-)Money Laundering and Terrorist Financing (Prevention) Act, the Consumer Lending Act and the regulations based on this legislation.

As a member of the Nederlandse Vereniging van Banken (Dutch Banking Association, NVB) NN Bank also upholds the NVB 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, (Netherlands Authority for the Financial Markets).

Banking Code
The Banking Code contains principles for 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). It applies to all banks that have been granted a banking license under the Financial Supervision Act.

On the Nationale-Nederlanden website (www.nn.nl), NN Bank publishes a report 'Application of the Banking Code by Nationale-Nederlanden Bank' regarding its compliance with this Banking Code.

Remuneration policy
NN Bank is well aware of the public debate about remuneration in the financial industry. NN Group's remuneration policies 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 objectives 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

Corporate governance Continued

- 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 a 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 Code of Conduct and the NN statement of Living our Values. NN Group, and therefore also NN Bank, expects exemplary behaviour from its entire staff, irrespective of their job function. Needless to say, effective business contacts, both within and outside NN Group, are to be based on honesty, integrity and fairness. NN Group's 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 line has 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, and 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 functions. 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 40 '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 business plan in force, including capital and funding plans. The RAS provides constraints for the business plan.

NN Bank's risk committees monitor usage of the risk limits per risk category. The RAS is adjusted during the year, if necessary.

Within the Management Board, the CRO is responsible for drawing up an RAS proposal in close consultation with the CFO. The risk management organisation and Compliance function assists the CRO, including providing 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 business plan.

Internal capital and liquidity adequacy
In terms of capital and liquidity, De Nederlandsche Bank (Dutch Central 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 part of NN Group, the policies and procedures for establishing and maintaining adequate internal control over financial reporting are similar to those applied by NN Group for its Consolidated financial statements.

Internal control over financial reporting is a process designed under the supervision of the CFO, to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of NN Bank's assets
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NN Bank's receipts and expenditures are handled only in accordance with authorisation of its management and directors
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or

disposition of the assets that could have a material effect on 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

At NN Bank, the Loan Loss Provisioning (LLP) process is a quarterly process, carefully executed and well monitored and controlled. This process encompasses the following key phases:

- Identification: In 2018, the underlying legislation that describes the minimum requirements for the determination of the LLP shifted from incurred losses (IAS 39) to lifetime expected losses (IFRS 9)
- Determination of significant increase of credit risk (SICR) and provisions: NN Bank's credit risk exposure models are used to calculate the level of 12-month Expected Loss (for Stage 1) and the Lifetime Expected Loss (for Stage 2 and Stage 3 exposures) as well as the provision for Purchased Other Credit Impaired (POCI) assets. The LLP is the sum of Stage 1, 2, 3 and POCI provisions.
- Approval: The NN Bank Impairment and Provisioning Committee (IPC) reviews the figures for approval
- Reporting: The figures are booked in the NN Bank General Ledger and used for internal and external reporting (e.g. DNB)

For a detailed explanation of the IFRS 9 methodology, reference is made to Note 1 'Accounting policies' in the Consolidated annual accounts.

The Hague, 2 April 2019

The Management Board

Report of the Supervisory Board

Supervisory Board meetings
In 2018, the Supervisory Board met four times and also attended a permanent education session. The Supervisory Board discussed the Annual Reports and Accounts 2017, the ICAAP/ILAAP submissions for the bank and the Business Plan 2019-2021. In addition the Supervisory Board discussed the future strategic options for the bank.

For the Supervisory Board, the integration of the activities and processes and IT platforms of the former Delta Lloyd Bank and NN Bank was of great importance during this year. The integration reports were discussed during all of its meetings. The introduction of a new risk-based pricing system for the mortgages portfolio was extensively discussed. In addition to closely monitoring the commercial developments in 2018, the Supervisory Board also monitored the further strengthening of the Risk Control Framework, client satisfaction measures and metrics and NN Bank's funding.

Committees
The Supervisory Board, as a whole, performs the activities of an audit committee. In 2018, these activities included discussions about the quarterly results, the reports of the internal and external auditors and regulatory matters. The funding plan, liquidity plan and 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, internal and external audit planning, internal and external audit reports, financial reporting and internal controls over financial reporting. The Supervisory Board decided to establish a separate Audit and Risk Committee in 2019.

The Supervisory Board also discussed the functioning of the external auditor, including his independence (for example regarding the desirability of rotating the responsible partners of an external audit firm that provides audit services, and the desirability of the same audit firm providing non-audit services to the company also in light of applicable legislation), with the Management Board.

Risk
At each regular meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed and monitored against the Risk Appetite Statements (RAS). In April 2018, the Supervisory Board approved the updated RAS. The ICAAP and ILAAP (including the stress test scenarios) submissions were approved in its August meeting.

Functioning of the Management Board
The Supervisory Board performed its annual review of the functioning of the Management Board in 2018. The Supervisory Board concluded the Management Board to be capable and effective and that that the Management Board met the Supervisory Board's expectations.

Composition of the Management Board
The composition of the Management Board did not change during the year 2018. On 15 March 2019, Erik Muetstege resigned as Chief Executive Officer of NN Bank. Marcel Zuidam, who has been Chief Transition Officer up to that date, was concomitantly appointed as NN Bank's new CEO.

Composition of the Supervisory Board
Maarten Mol resigned from the Supervisory Board in 2018.

Annual Report, Banking Code and dividend
The Management Board has prepared the Annual Report and discussed this with the Supervisory Board. The Annual Report will be submitted for adoption at the 2019 Annual General Meeting. NN Bank will propose to pay a dividend over 2018 at the 2019 Annual 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 2018.

The Supervisory Board would also like to thank all employees of NN Bank for their hard work during the year, for their support in the integration, their commitment to customers and their continuous efforts to further strengthen the Risk Control Framework in 2018.

The Hague, 2 April 2019

The Supervisory Board

Conformity statement

The Management Board is required to prepare the Annual accounts and the Report of the Management Board of Nationale-Nederlanden Bank N.V. for each financial year, in accordance with applicable Dutch law and those International Financial Reporting Standards that were endorsed by the European Union (IFRS-EU).

Conformity statement pursuant to section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht)

The Management Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, and for making judgements and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures that ensure that all major financial information is known to the Management Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his/her knowledge:

- The Nationale-Nederlanden Bank N.V. 2018 Annual accounts, as referred to in section 2:361 of the Dutch Civil Code including the relevant additional information as referred to in section 2:392 paragraph 1 of the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of Nationale-Nederlanden Bank N.V. and the entities included in the consolidation taken as a whole
- The Nationale-Nederlanden Bank N.V. 2018 Report of the Management Board, as referred to in section 2:391 of the Dutch Civil Code, gives a true and fair view of the position at the balance sheet date, and the development and performance of the business during the financial year 2018 of Nationale-Nederlanden Bank N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks Nationale-Nederlanden Bank N.V. is confronted with.

The Hague, 2 April 2019

The Management Board

A.J.M. (Marcel) Zuidam, CEO and chair

J.E. (Sandra) van Eijk, CFO

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

Consolidated balance sheet

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

	notes	31 December 2018	1 January 2018[1]	31 December 2017[2]
Assets				
Cash and balances at central banks	3	1,314,956	1,476,908	1,085,613
Amounts due from banks	4	481,883	386,990	398,900
Financial assets at fair value through profit or loss:				
– non-trading derivatives	5	125,597	201,054	193,271
Available-for-sale investments		0	0	547,331
Investment securities	6	1,068,417	817,947	0
Loans	7	18,442,939	18,280,709	13,739,818
Intangible assets	8	8,056	4,479	4,479
Other assets	9	160,169	109,464	99,886
Total assets		**21,602,017**	**21,277,551**	**16,069,298**
Liabilities				
Amounts due to banks	10	264,500	432,415	432,394
Customer deposits and other funds on deposit	11	14,476,439	14,170,868	10,604,951
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	12	243,647	223,732	208,153
Other borrowed funds	13	330,000	485,000	485,000
Other liabilities	14	225,579	95,819	56,817
Deferred tax liabilities	26	18,142	29,351	3,752
Provisions	15	5,889	6,033	1,001
Debt securities issued	16	4,968,112	4,830,567	3,481,034
Subordinated debt	17	97,000	97,000	85,000
Total liabilities		**20,629,308**	**20,370,785**	**15,358,102**
Equity				
Shareholder's equity		972,709	906,766	711,196
Total equity	18	**972,709**	**906,766**	**711,196**
Total equity and liabilities		**21,602,017**	**21,277,551**	**16,069,298**

1 The Consolidated balance sheet as at 31 December 2018 and 1 January 2018 have been prepared reflecting the adoption of IFRS 9 after the legal merger. Reference is made to Note 2 for the reconciliation of the balance sheet from IAS 39 to IFRS 9 and for the legal merger impact.
2 The Consolidated balance sheet as at 31 December 2017 does not include Delta Lloyd Bank.

References relate to the notes starting on page 24. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account

Amounts in thousands of euros, unless stated otherwise

Consolidated profit and loss account

	notes		2018[1]		2017[2]
Interest income		600,300		529,245	
Interest expenses		383,212		306,477	
Interest result	19		217,088		222,768
Gains and losses on financial transactions and other income	20		15,428		14,326
– gross fee and commission income		102,389		63,819	
– fee and commission expenses		15,921		16,219	
Net fee and commission income	21		86,468		47,600
Valuation results on non-trading derivatives	22		-3,731		4,247
Total income			**315,253**		**288,941**
Addition to loan loss provisions			-5,430		-3,452
Staff expenses	23		110,977		90,261
Regulatory levies	24		16,808		11,155
Other operating expenses	25		94,978		77,575
Total expenses			**217,333**		**175,539**
Result before tax			**97,920**		**113,402**
Taxation	26		22,134		28,406
Net result			**75,786**		**84,996**

1 The 2018 Consolidated profit and loss account has been prepared reflecting the adoption of IFRS 9 after the legal merger.
2 The 2017 Consolidated profit and loss account has been prepared reflecting the previous application of IAS 39 and does not include Delta Lloyd Bank.

Consolidated statement of comprehensive income

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of comprehensive income

		2018[1]		2017[2]
Net result		**75,786**		**84,996**
– unrealised revaluations available-for-sale investments	0		-3,196	
– unrealised revaluations Investment securities at fair value through other comprehensive income	-2,131		0	
– realised gains or losses transferred to the profit and loss account	0		0	
Items that may be reclassified subsequently to the profit and loss account		-2,131		-3,196
Total other comprehensive income		**-2,131**		**-3,196**
Total comprehensive income		**73,655**		**81,800**
Comprehensive income attributable to:				
Shareholder of the parent		73,655		81,800
Total comprehensive income		**73,655**		**81,800**

1 The 2018 Consolidated statement of comprehensive income has been prepared reflecting the adoption of IFRS 9 after the legal merger.
2 The 2017 Consolidated statement of comprehensive income has been prepared reflecting the previous application of IAS 39 and does not include Delta Lloyd Bank.

Consolidated statement of cash flows

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of cash flows

For the year ended 31 December	notes	2018[1]	2017[2]
Result before tax		97,920	113,402
Adjusted for:			
– amortisation of intangible assets	8	77	934
– amortisation of mortgage premium	7	50,183	15,044
– Modifications3	7	21,601	0
– addition to loan loss provisions		-5,430	-3,452
– addition to provisions	15	4,781	928
– fair value change on hedged mortgages	7	-90,037	69,165
– accrued interest	9/14	10,955	-3,032
– amortisation agio	6	13,081	7,958
– increase (decrease) deferred tax	26	-10,532	1,473
– movement employee share plan	18	237	223
– other		51	0
Taxation paid	9/14/26	-14,007	-28,070
Changes in:			
– amounts due to banks	10	-167,915	381,871
– non-trading derivatives	5/12	95,371	-125,081
– loans	7	-959,360	-2,089,040
– sale of mortgages	7	821,112	954,183
– other assets	9	-51,979	13,507
– customer deposits and other funds on deposit	11	305,571	379,221
– other liabilities	14	107,028	-4,197
Net cash flow from operating activities		**228,708**	**-314,963**
Investments and advances:			
– available-for-sale investments	6	0	-497,982
– investment securities	6	-591,213	0
– intangible assets	8	-3,654	0
Disposals and redemptions:			
– available-for-sale investments	6	0	323,892
– investment securities	6	324,554	0
Net cash flow from investing activities		**-270,313**	**-174,090**
Proceeds from issuance of subordinated debt	17	0	15,000
Proceeds from issuance of debt securities	16	1,043,218	533,505
Repayments of debt securities	16	-905,672	-345,891
Proceeds from other borrowed funds	13	235,000	465,000
Repayments of other borrowed funds	13	-390,000	-385,000
Dividend paid	18	-8,000	0
Net cash flow from financing activities		**-25,454**	**282,614**
Net cash flow		**-67,059**	**-206,439**

1 The 2018 Consolidated statement of cash flows has been prepared reflecting the adoption of IFRS 9 after the legal merger.
2 The 2017 Consolidated statement of cash flows has been prepared reflecting the previous application of IAS 39 and does not include Delta Lloyd Bank.
3 Reference is made to Note 7 'Loans'.

Interest included in net cash flow from operating activities

For the year ended 31 December	2018	2017
Interest received	601,576	540,380
Interest paid	-349,142	-329,356
Interest received and paid	**252,434**	**211,024**

Cash and cash equivalents

For the year ended 31 December		2018	2017
Cash and cash equivalents at beginning of the period		1,484,513	1,690,952
Delta Lloyd Bank merger 1 January 2018		379,385	0
Cash and cash equivalents - 1 January		**1,863,898**	**1,690,952**
Net cash flow		-67,059	-206,439
Cash and cash equivalents at end of the period	3/4	**1,796,839**	**1,484,513**

Consolidated statement of cash flows Continued

For the year ended 31 December		2018	2017
Cash and balances at central banks	3	1,314,956	1,085,613
Amounts due from banks	4	481,883	398,900
Cash and cash equivalents at end of year		**1,796,839**	**1,484,513**

'Cash and balances at central banks' includes a mandatory reserve deposit of EUR 72.3 million (2017: EUR 78.2 million).

Consolidated statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of changes in equity (2018)[1]

	Share capital	Share premium	Reserves	Total equity
Equity – opening balance	**10,000**	**481,000**	**220,196**	**711,196**
Delta Lloyd Bank merger 1 January 2018	0	0	196,629	196,629
IFRS 9 impact 1 January 2018	0	0	-1,059	-1,059
Equity – 1 January 2018	**10,000**	**481,000**	**415,766**	**906,766**
Unrealised revaluations investment securities at fair value through other comprehensive income	0	0	-2,131	-2,131
Realised gains or losses transferred to the profit and loss account	0	0	0	0
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-2,131**	**-2,131**
Net result	0	0	75,786	75,786
Total comprehensive income	**0**	**0**	**73,655**	**73,655**
Dividend paid	0	0	-8,000	-8,000
Employee share plans	0	0	237	237
Other	0	0	51	51
Equity - 31 December 2018	**10,000**	**481,000**	**481,709**	**972,709**

Consolidated statement of changes in equity (2017)[2]

	Share capital	Share premium	Reserves	Total equity
Equity - 1 January 2017	**10,000**	**481,000**	**138,173**	**629,173**
Unrealised revaluations available-for-sale investments	0	0	-3,196	-3,196
Realised gains or losses transferred to the profit and loss account	0	0	0	0
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-3,196**	**-3,196**
Net result	0	0	84,996	84,996
Total comprehensive income	**0**	**0**	**81,800**	**81,800**
Dividend paid	0	0	0	0
Employee share plans	0	0	223	223
Other	0	0	0	0
Equity - 31 December 2017	**10,000**	**481,000**	**220,196**	**711,196**

1 The 2018 Consolidated statement of changes in equity has been prepared reflecting the adoption of IFRS 9 after the legal merger.
2 The 2017 Consolidated statement of changes in equity has been prepared reflecting the previous application of IAS 39 and does not include Delta Lloyd Bank.

Notes to the Consolidated annual accounts

Amounts in thousands of euros, unless stated otherwise

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.

NN Bank's principal activities are providing retail customers with mortgage loans, (internet) savings, bank annuities, consumer lending and retail investment products. In addition, NN Bank provides mortgage administration and management services to ING Bank N.V. (former WestlandUtrecht Bank), Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven'), NN Insurance Belgium N.V. ('NN Belgium'), the NN Dutch Residential Mortgage Fund and other entities.

Legal merger with Delta Lloyd Bank

The legal merger with Delta Lloyd Bank significantly impacts these Consolidated annual accounts of NN Bank. As a result of this merger, Delta Lloyd Bank ceased to exist as a separate entity and NN Bank acquired all assets and liabilities of Delta Lloyd Bank under universal title of succession as at 1 January 2018. Information on the legal merger, the book value accounting applied and the impact on the financial information included in this Annual Report is included in Note 2 'Reconciliation of Consolidated balance sheet 31 December 2017 to 1 January 2018' and, where relevant, in the individual notes hereafter.

Upcoming legal mergers with Amstelhuys N.V. and OHRA Hypotheken Fonds N.V.

In 2018, the decision was made to legally merge Amstelhuys N.V. and OHRA Hypotheken Fonds N.V. ('OHF') into NN Bank. These mergers are expected to become effective in the course of 2019. It is expected that these mergers will have a marginal impact on Shareholder's equity and Net result of NN Bank due to the limited size and activities of these companies.

1 Accounting policies

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

Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2018 and are relevant to NN Bank mainly relate to IFRS 16 'Leases'. The impact of adoption of IFRS 16 is stated below.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. There were no changes relevant to NN Bank resulting from the implementation of IFRS 16, since NN Bank has no contracts with group companies and external parties that qualify for lease accounting. As a result, the implementation of IFRS 16 as at 1 January 2019 is not expected to have significant impact on Shareholder's equity at that date, and did not impact the net result of NN Bank. It is not expected to have a significant impact on the ratios.

Change in accounting policies

NN Bank has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' as from 1 January 2018. In 2018, no other changes to IFRS-EU became effective that had an impact on the Consolidated annual accounts of NN Bank.

NN Bank entered into a legal merger with Delta Lloyd Bank, whereby NN Bank acquired all assets and liabilities of Delta Lloyd Bank under universal title of succession as per 1 January 2018. In connection with the concurrence of the adoption of IFRS 9 and this legal merger, NN Bank has chosen to disclose the combined impact of the IFRS 9 adoption after the legal merger, as disclosed below. Information on the reconciliation of book values before the merger under IAS 39 and after the merger including the adoption of IFRS 9 is included in Note 2 'Reconciliation of Consolidated balance sheet 31 December 2017 to 1 January 2018' and, where relevant, in the individual notes hereafter.

Notes to the Consolidated annual accounts Continued

IFRS 9 Financial Impact

NN Bank adopted IFRS 9 'Financial Instruments' on 1 January 2018. The impact of the adoption on NN Bank's combined equity as at 1 January 2018, including the legal merger with Delta Lloyd Bank, is based on the assessments undertaken and is summarised below.

	As reported at 31 December 2017	Adjustment due to adoption of IFRS 9	Adjusted opening balance at 1 January 2018
Revaluation reserve	2,602	1,148	3,750
Retained earnings	14,747	-2,207	12,540
Total	**17,349**	**-1,059**	**16,290**

The total adjustment (net of tax) to the combined opening balance of NN Bank's equity at 1 January 2018 is a EUR 1.1 million charge after tax. The components of this adjustment are as follows:

- An increase in 'Revaluation reserve' amounting to EUR 1.1 million after tax relating to a re-measurement of investment securities. This re-measurement is further disclosed in the paragraph 'IFRS 9 Classification and Measurement'.
- A decrease in 'Retained earnings' amounting to EUR 2.7 million after tax relating to the IFRS 9 application of expected losses on loans and investment securities, which is further disclosed in the 'IFRS 9 Impairment' paragraph and a re-measurement amounting to EUR 0.5 million after tax relating to loans. This re-measurement is further disclosed in the paragraph 'IFRS 9 Classification and Measurement'.

IFRS 9 Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the Business Model in which assets are managed as well as their cash flow characteristics. The standard contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The IAS 39 categories Held-to-maturity, Loans and receivables and Available-for-sale are replaced by these IFRS 9 classification categories.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 for NN Bank after the legal merger including the impact on deferred tax liabilities on 1 January 2018:

	IAS 39 carrying amount	Reclassification	Re-measurement	IFRS 9 carrying amount
Financial assets				
Amortised cost				
Investment securities	0	272,163	1,408	273,571
Loans	18,283,427	-138,131	-3,446	18,141,850
FVOCI				
Available-for-sale investments	816,640	-816,640	0	0
Investment securities	0	544,477	-101	544,376
FVTPL				
Loans	0	138,131	727	138,858
Total impact on assets	**19,100,067**	**0**	**-1,412**	**19,098,655**
Deferred tax liabilities	28,969	0	-353	28,616
Total impact on liabilities	**28,969**	**0**	**-353**	**28,616**
Net impact after tax	**19,071,098**	**0**	**-1,059**	**19,070,039**

As a result of the analysis of the Business Models and cash flow characteristics for NN Bank after the legal merger, the classification and measurement has changed as follows:

- The most significant change is the reclassification of a part of the available-for-sale investments portfolio, which is split into an Investment securities portfolio classified at AC and a portfolio classified at FVOCI
- For a part of the loans portfolio, the measurement is changed from AC to FVTPL as it meets the Selling business model requirements, since it relates to the sale of mortgages to NN Dutch Residential Mortgage Fund, NN Schade and NN Belgium

The carrying amounts and classification of other assets and liabilities did not change in the transition from IAS 39 to IFRS 9.

IFRS 9 Presentation

IFRS 9 resulted in changes to IAS 1 for the presentation of Interest income for instruments calculated using the effective interest rate method. The revised presentation requires it be shown as a separate line item in the Consolidated statement of profit or loss. To enhance the relevance of the interest disclosures, NN Bank changed its separate presentation of interest for discontinued hedge relations to present the full fair value movements in 'Valuation results on non-trading derivatives'. The interest for discontinued hedge relations is presented in the line item 'Interest income on loans' under 'Interest result'. Reference is made to Note 19 'Interest result' and Note 22 'Valuation result on non-trading derivatives'.

Notes to the Consolidated annual accounts Continued

IFRS 9 Impairment

Measurement of expected credit losses

Unlike IAS 39, the recognition and measurement of impairments under IFRS 9 is forward-looking. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through Other comprehensive income (Equity). For NN Bank, these impairment requirements apply to mortgages, consumer loans, bonds and other assets, such as amounts receivable from banks. Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months. This is referred to as 'Stage 1'. If a significant increase of credit risk does not result in a default event, the exposure is in 'Stage 2'. 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 remaining lifetime of the financial asset. This is referred to as 'Stage 3' if the exposure is in default. These expected credit losses are calculated based on different macro-economic scenarios (stress, base-case, positive) with individual weights for the probability that these scenarios will occur. These probabilities are set at 80% for the base case scenario and at 10% for both the stress and the positive scenario. These impairment requirements are also applicable for other assets. The impact is limited on other assets since NN Bank is a fully-owned subsidiary of NN Group and the other assets mainly comprise intercompany relationships within NN Group. The expected credit losses for these exposures are assessed as limited.

Inputs into measurement of expected credit losses

As a starting point, NN Bank uses the components of an Internal Ratings-Based Approach to calculate minimum required capital:

- Probability of default (PD): the statistically determined likelihood that a customer experiences a default event over a 12-month horizon. This probability is modelled over a time horizon that encompasses a full economic cycle, e.g. Through The Cycle (TTC).
- Exposure at Default (EAD): the expected exposure amount in the case of default
- Loss Given Default (LGD): the percentage of the EAD that is expected to result in a loss, taking into account the potential that the defaulted customer will be able to cure and the potential proceeds of primary and/or secondary collateral. As with PD, LGD is determined on a TTC basis.

In the IFRS 9 model, these components are transformed from TTC for regulatory purposes to Point in Time (PIT) for accounting purposes in order to present the current state of the economy. TTC PD represents the credit worthiness of a client in an average economy, while the PIT PD represents the credit worthiness of a client in the economy at a certain point in time. The further modelling is clarified in the paragraph below.

Definition of default

The Capital Requirements Regulation ('CRR') refers to 'default', while IFRS refers to 'credit-impaired' with potential differences between these two concepts. In addition, European Banking Authority (EBA) often refer to 'Non-performing exposures' (NPE). In order to avoid confusion, NN Bank has implemented these three definitions in exactly the same way. A client at NN Bank is credit-impaired or in default if:

- The client was not in default the previous month, and this month arrears of three months or more exist, or
- The client was in default the previous month, and this month any arrears (also one or two months) exist, or
- The client is deemed to be unlikely to pay

For the NN Bank mortgage portfolio (exclusive former Delta Lloyd Bank), a margin of conservatism on top of the calculated PD has been added to account for missed unlikely to pay signals. During 2018, the unlikely to pay signals for the combined bank have been harmonised. The arrears are calculated on a First In First Out ('FIFO') basis. This means that if a client misses one payment and continues with regular and full payments of single monthly terms, it is assumed that the last payment is used to catch up on the delinquent amount. Consequently, the new term is missed and the client receives a new one-month-past-due status. In this way, a customer can be one or two months delinquent, although the date of the first missed payment can be much longer ago. Because of this calculation method, the 90-days-past-due criterion is effectively the same as three monthly terms past due. For both 90 days past due and three monthly terms past due, we look at the total of unpaid amounts up to three terms. The calculation of the amount past due includes any missed payments on secondary collateral, such as pledged savings or insurance policies.

Purchased or Originated Credit-Impaired (POCI) assets

POCI assets are financial assets that are credit-impaired on initial recognition and stem from mortgage portfolio transfers from ING Bank. Impairment on a POCI asset is determined based on lifetime 'expected credit loss' (ECL) from initial recognition. POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit-adjusted effective interest rate. In subsequent periods, any changes to the estimated lifetime ECL are recognised in the profit and loss account. Favourable changes are recognised as an impairment gain if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at acquisition of the asset.

Credit risk grades

The PD model consists of two sub-models, a model for customers without payment arrears and a model for delinquent customers. All PDs are mapped to a Master Rating Scale.

Notes to the Consolidated annual accounts Continued

Determination significant increase of credit risk
For IFRS 9, a lifetime expected loss needs to be calculated for Stage 2 and 3 loans. Credit-impaired loans are placed in Stage 3 while a loan will be placed in Stage 2 if a Significant Increase in Credit Risk (SICR) has been observed. A threshold is set for this significant increase. To determine whether a significant increase in credit risk has occurred, two lifetime PDs are calculated:

- Lifetime PD at reporting date
- Lifetime PD determined at initial recognition with a horizon from reporting date to maturity date

For these lifetime PDs, both the absolute and relative difference is determined. For both mortgages and consumer loans, NN Bank made a sensitivity analysis for the absolute and relative threshold.

In addition, a backstop exists: when the loan is currently more than 30 days past due and the delinquency amount is higher than EUR 100, the loan is placed in Stage 2. An active forbearance indicator is also used as a backstop for mortgages. This is not the case for consumer loans, because no forbearance measures are currently in place for the Consumer Loans portfolio.

Mortgage offers are assumed to always have a low credit risk profile, without the possibility to experience a significant increase in credit risk. Therefore, only a 12-month EL is calculated for mortgage offers.

Term structure of default probabilities
An important methodological component is the determination of the lifetime PD. For the mortgage portfolio, NN Bank uses migration matrices to create PD forecasts. Migration matrices are matrices that show migration probabilities. At NN Bank, migration matrices are constructed based on the rating changes in a 12-month period. These 12-month migration matrices are referred to as 'PIT migration matrices'. Using historical rating observations of clients, NN Bank is able to create a time series of historical Point in Time (PIT) migration matrices.

NN Bank links historically observed migration matrices to macro-economic factors. Subsequently, NN Bank forecasts the development of macro-economic factors. Thereafter, using the historically observed relationship between the macro-economic factors and migration matrices, and the forecasted macro-economic factors, NN Bank is able to forecast migration matrices. The first forecasted migration matrix contains the forecasted 12-month PDs. By multiplying consecutive migration matrixes, lifetime PD estimates are obtained. Finally, the forecasted migration matrices can be used to calculate marginal PD forecasts. These marginal PDs are the PDs that serve as input in the IFRS 9 mortgage Expected Credit Loss model.

Forward-looking information
IFRS 9 adjusted input parameters are estimated over the remaining lifetime of the asset. A macro-economic overlay is used to derive scenarios to estimate the future development of PD, LGD and EAD. The following macro-economic time series are taken into consideration:

- Unemployment rate (PD model of mortgages as well as consumer credit)
- GDP (PD model of mortgages and LGD model consumer credit)
- Housing price index (LGD model of mortgages)

Unemployment rate
The unemployment rate is defined as the unemployed labour force as a percentage of the total labour force. NN Bank has chosen to follow CBS figures. The unemployed labour force refers to persons without work who are actively searching for paid work and who are directly available to work. The labour force refers to persons willing to work at least twelve hours a week, and requires prompt availability for the labour market within a period of three months.

Gross domestic product
Gross domestic product ('GDP') is a quantity that expresses the size of an economy. The volume change of GDP during a reference period expresses the growth or shrinkage of the economy. NN Bank has chosen to follow the expenditure approach of GDP, as this definition is also used in the forecasts of, amongst others, CPB and DNB. In the expenditure approach, GDP is the sum of final uses of goods and services by resident institutional units (final consumption and gross capital formation), plus exports and minus imports of goods and services. The GDP growth refers to the relative change of GDP compared to the year before.

House prices
Calculation of house prices is executed based on the house price index. The house price index of existing own homes is based on the Dutch Land Registry Office (Kadaster) complete registration of sales of homes and the property valuation (Waardering Onroerende Zaken, WOZ) of all homes in the Netherlands. The figures of existing homes are related to the stock of existing homes sold. The homes are located on Dutch territory and sold by private buyers. These existing homes are owner-occupied homes that are already on the market.

ECL former Delta Lloyd Bank mortgage portfolio
NN Bank is applying the methodology as described above for the former Delta Lloyd Bank mortgage portfolio. The Delta Lloyd residential mortgage book started to grow in 2003 as the parent insurance company from that time sought to diversify. The book has seen organic growth since then with no major acquisitions or divestitures. All the collateral is located in the Netherlands. Prior to the credit crunch, part of the book was securitised. However the portfolio has resided on the bank's balance sheet. In 2018, the Delta Lloyd Bank portfolio was closed to new business. The NN Bank PD and LGD models are applied to determine the Delta Lloyd Bank PDs and LGDs. There are also some small differences in the calculation of days past due (and therefore the definition of default). The calculation of the days past due is based on the monthly mortgages term combined with First In First Out principle. Missed payments on secondary collateral are excluded.

Notes to the Consolidated annual accounts Continued

Consumer credit
Compared to mortgages, the methodology used for Consumer Lending (CL) is less sophisticated. NN Bank applies constant PD's in this model. The methodology to calculate the (Lifetime) Expected Losses is applicable to all of NN Bank's CLs. NN Bank's CLs include Instalment Loans, Revolving Loans, and Second mortgages.

- Instalment Loans are consumer loans that repay to a fixed maturity date
- Revolving Loans do not mature, furthermore a client can withdraw to increase the exposure
- Second mortgages are mortgages in which another financial institution holds the first lien. In case of a forced sale, the owner of the first lien first needs to be fully compensated. Only mortgages with low Loan-To-Values result in a (partial) compensation for the owner of the second mortgage. That is why the credit risk for these loans is comparable with loans without a cover (Instalment Loans and Revolving Loans). Most second mortgages are interest-only loans; they do not have a maturity date.

The set of macro-economic factors used to calculate future PDs and LGDs is limited for consumer credit. Only unemployment rate has been used to project default probabilities, and only GDP has been used to project LGDs. The relationship between the macroeconomic factors and PD resp. LGD has been estimated on the basis of historical correlations in combination with expert opinion. Rather than using migration matrices, the future values are derived on a marginal basis (e.g. PD curve).

ECL former Delta Lloyd Bank Consumer credit portfolio
The Consumer credit portfolio of the former Delta Lloyd Bank is a run-off portfolio comprising a mix of revolving credits and personal loans. The calculation of Lifetime expected losses is a simplified approach:

- Stage assessment based on internal blocking codes and days past due
- 12-month ECL loans without arrears receive an ECL based on a 12-month PD
- Stage 2 and 3 ECLs are based on lifetime PD
- Forward-Looking Information applied in Stage 2 is unemployment rate for the calculation of PD. In Stage 3, LGD will be increased or decreased based on the scenarios for unemployment rate, reflecting the increased or decreased chance of cure

Non-retail book
NN Bank applies a simple approach to calculate the ELs for non-retail assets. In determining the level of sophistication of the selected approach, NN Bank considered entity factors (including: credit quality, size, business model, complexity, cross-border activity, use of SA or IRB approach) and portfolio factors (including: complexity, materiality and available data). Given these factors, NN Bank concluded that it is appropriate to use a simple approach to calculate ELs for non-retail assets.

Following the investment mandate regarding Investment securities, only investment-grade assets are held in the non-retail portfolio. The assets in the non-retail portfolio always have a low credit risk, as a significant increase in credit risk would place these securities outside the investment mandate and are to be divested. Therefore, only a 12-month EL is calculated for assets in the non-retail portfolio.

Private banking portfolio
The private banking portfolio from the former Delta Lloyd Bank is a run-off portfolio with a small number of loans and marginal exposure. The calculation of lifetime expected losses is based on arrears, credit risk score ratings and defaults in combination with expert based staging.

Impact assessment
The IFRS 9-related addition to provisions for investment securities and loans is EUR 3.6 million for the combined NN Bank and Delta Lloyd Bank. As from implementation as per 1 January 2018, the charge to or release from loan loss provisions has shown more volatility arising from application of lifetime expected losses with forward-looking information.

NN Bank has completed the implementation of IFRS 9, but continues to work on improving the used models and follow-up on the model validation findings.

Part of the integration of Delta Lloyd Bank into NN Bank is the integration of the portfolios and ECL models. This integration requires a consistent definition and implementation of default definition and staging methodology in the operations departments of both banks, which has largely taken place in 2018. Consequently, the impact of adopting this standard may continue to change, since NN Bank is fine-tuning the expected loss models - including its underlying components (e.g. PDs and LGDs) and its processes. It is not expected that this will significantly impact the outcomes as presented in the disclosures in this Annual Report.

IFRS 9 and hedge accounting
The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. As these simplifications currently exclude macro hedge accounting under the EU 'carve-out' of IFRS-EU, the impact on NN Bank is limited. NN Bank has chosen the option to continue applying IAS 39 for hedge accounting.

IFRS 9 Transition
NN Bank has applied the exemption not to restate comparative information for prior years. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 have been be recognised in 'Shareholder's equity' as at 1 January 2018.

Notes to the Consolidated annual accounts Continued

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue other than arising from financial instruments. There were no changes relevant to NN Bank resulting from the implementation of IFRS 15. As a result, the implementation of IFRS 15 as at 1 January 2018 did not have significant impact on Shareholder's equity at that date and also not on NN Bank's net result. The accounting policies in this respect are already consistent with these new requirements and are briefly summarised below.

Revenue from contracts with customers

NN Bank is in the business of originating mortgage loans and servicing mortgage loan portfolios for other NN group companies, NN Dutch Residential Mortgage Fund and ING Bank. In addition, NN Bank is also active in the business of servicing investment portfolios for retail clients. Revenue from contracts with customers is recognised when services are transferred to the customer at an amount that reflects the consideration NN Bank expects to be entitled in exchange for those services.

Revenue relating to servicing mortgage loan and investment portfolios is recognised over time, since customers simultaneously receives and consume the benefits provided by NN Bank's performance of the services. The revenue of the services is a variable consideration, since the remuneration fluctuates based on the number of mortgages or investments serviced over a specified period. At the end of this period, when the invoice is issued, it is highly probable that any significant revenue reversal would not occur. The servicing fees are recognised as revenue at the end of the period.

Revenue relating to origination of mortgage loans is recognised at a point in time as soon as the origination of mortgage loans has been completed; the criteria for over time recognition are not met.

A contract regarding origination of mortgages contains a significant financing component, since the payment of the origination fee is done over the lifetime of mortgages even though the performance obligation is satisfied at a point in time. The fee is split into a consideration for the origination service and a consideration for the financing service. In the profit and loss account, both fees are presented separately. The consideration for the origination service in the line item 'Results from financial transactions' under 'Gains and losses on financial transactions and other income'; the fee for the financing service is presented under 'Interest result'.

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 judgements and assumptions, and relate to the loan loss provisions, the determination of the fair value of financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. All valuation techniques used are subject to internal review and approval. For a further discussion of the application of these accounting policies, reference is made to the applicable notes in the Consolidated annual accounts and the information below.

For the impact of the adoption of IFRS 9 'Financial Instruments' as from 1 January 2018, reference is made to Note 1 'Accounting policies' under 'Change in accounting policies'.

Reference is made to Note 40 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Loan loss provisions

IFRS 9 is forward-looking in regard to the recognition and measurement of impairments. Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months ('Stage 1'). 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 remaining lifetime of the financial asset. This is referred to as 'Stage 3' if the exposure is in default and 'Stage 2' if the increase in credit risk does not result in a default event. These expected credit losses are calculated based on different macro-economic scenarios (stress, base-case, positive) with individual weights for the probability that these scenarios will occur.

Reference is also made to the 'Impairments' section below.

Modification mortgage loans

NN Bank has amended its pricing system, which automatically leads to an adjustment of the mortgage interest rate by moving to a lower risk premium category. The 'modifications' under 'Loans' and 'Interest result' relates to the LTV-charge resulting from the estimated impact of the modification of outstanding mortgage loans as a result of this amended pricing system. In this estimation, the gross carrying amount of mortgage loans is recalculated as the present value of modified contractual cash flows that are discounted at the original effective interest rate taking into account client behaviour, such as prepayment assumptions and client response assumptions.

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. When 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.

Notes to the Consolidated annual accounts Continued

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.

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 various 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 27 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments
IFRS 9 contains a single impairment model, which is applied to all financial assets measured at amortised cost and at fair value through Other comprehensive income (Equity). The expected-loss impairment model requires accounting for expected credit losses from when financial instruments are first recognised and recognising full lifetime expected losses in case of a significant credit deterioration. For NN Bank, these impairment requirements apply to mortgages, consumer loans and bonds and other assets such as amounts receivable from banks.

General accounting policies
Consolidation
NN Bank comprises Nationale-Nederlanden Bank N.V. and all its subsidiaries. The Consolidated annual accounts of NN Bank comprise the accounts of Nationale-Nederlanden Bank N.V. and all entities over which NN Bank has control. NN Bank has control over an entity when NN Bank has existing rights that give it the ability to direct the relevant activities, and 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 considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

For interests in investment entities, the existence of control is determined while 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. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with NN Bank policies. The reporting dates of subsidiaries are the same as NN Bank's reporting date.

A list of principal subsidiaries is included in Note 35 '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
NN Bank does not conduct transactions in foreign currency.

Recognition and derecognition of financial instruments
Financial assets and liabilities are generally (de)recognised at trade date, which is the date on which NN Bank commits to purchasing or selling 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 when NN Bank has transferred substantially all risks and rewards of ownership. If NN Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

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 (generally FIFO).

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

Notes to the Consolidated annual accounts Continued

parts. Transferred mortgage parts are recognised and derecognised at their nominal value. Following these arrangements, the changes are added or deducted from the amount of Loans. For the former Delta Lloyd Bank portfolio, these objectives are realised with help of sub-participation agreements. The mechanism are the same as described above, however the ownership is not transferred. NN Bank has a receivable following arrangements to transfer mortgage parts in an intercompany account; or NN Bank has a payable representing the claim on related parties at the level of built-up savings premiums for the former Delta Lloyd Bank portfolio.

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount is reported in the balance sheet, when NN Bank has a current, legally enforceable right to set off the recognised amounts and intends to either settle on a net basis, or to realise the asset and settle the liability at the same time.

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 27 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial assets and liabilities.

Impairments of assets

IFRS 9 comprises an impairment model for all financial assets measured at amortised cost and at fair value through Other comprehensive income (Equity). The expected-loss impairment model requires to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses in case of significant credit deterioration. For NN Bank, these impairment requirements apply to mortgages, consumer loans, investment securities and other assets such as amounts receivable from banks. The impact on other assets is limited, since NN Bank is a fully owned subsidiary of NN Group and the other assets mainly comprise intercompany relationships within NN Group. The expected credit losses for these exposures are assessed as limited.

A more extensive description is taken up in Note 1 'Accounting policies' under the heading 'Change in accounting policies' in various IFRS 9 subheadings.

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value, not considering any impairments or loan loss provisions, 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 33 '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 NN Bank's balance sheet 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 40 'Risk management'.

Taxation

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

Income tax on the result for the year consists of 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 values in the balance sheet. Deferred tax is determined using tax rates (and laws) applicable that have been enacted or substantively enacted at 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 when it is probable that future taxable profits will be available, against which the temporary differences can be used. Deferred tax is provided on temporary differences arising from investments in subsidiaries, except when 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 when it is probable that future taxable profits will be available, against which these losses can be used.

Offsetting deferred tax assets with deferred tax liabilities is allowed when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on the same entity or on the same fiscal unity.

Notes to the Consolidated annual accounts Continued

Employee benefits

Defined contribution pension plans

For defined contribution plans, NN Bank pays contributions to the NN CDC Pensioenfonds and Delta Lloyd 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.

Share-based payments

Share-based payment expenses are recognised as staff expenses over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. For cash-settled share-based payment transactions, a liability is recognised at fair value. This fair value is remeasured at every balance sheet date.

Interest income and expenses

Interest income and expenses 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 expenses 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 value of the financial asset or financial liability. When calculating the effective interest rate, NN Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset, or a group of similar financial assets has been written down as a result of 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 expenses in the profit and loss account. Changes in the ‘clean fair value’ are included in ‘Valuation results on non-trading derivatives’.

Statement of cash flows

The 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 comprises balances with less than three months’ maturity from the date of acquisition. Investments qualify as 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.

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 5 and 12)

A financial asset or liability 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. Interest income from debt securities and loans and receivables classified as at fair value through profit or loss is recognised in the profit and loss account using the effective interest method.

Derivatives and hedge accounting

Derivatives are initially recognised and subsequently measured at fair value. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative. In general, NN Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments. NN Bank applies this fair value hedge accounting whereby the movement in measurement of derivatives is off-set by the movement in measurement of the hedged item in profit and loss account. NN Bank has designated derivatives as fair value hedge accounting on the interest rate risk inherent in its mortgage portfolio (macro hedge), as well as on the interest rate risk related to debt securities issued (micro 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 ongoing 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 deposits and under-hedging strategies. Under the IFRS-EU ‘carve-out’, hedge accounting may be applied to 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. In further notes, macro fair value hedge accounting is referred to as Fair value hedge accounting.

Notes to the Consolidated annual accounts Continued

Fair value hedge accounting
Changes in the fair value of derivatives that are designated and qualify as fair value hedge accounting 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 NN Bank uses 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.

Reference is made to Note 27 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of the derivatives.

Investment securities (Note 6)
The investment securities portfolio is divided in two sub-portfolios. The objective of the 'hold-to-collect' sub-portfolio is to hold and maintain critical mass in high quality liquid assets in order to meet liquidity and capital needs. This portfolio is measured at AC. The other sub-portfolio is measured at FVOCI, since the objective are both 'hold-to-collect' and selling investment securities.

Loans (Note 7)
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, Loans are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans is recognised in 'Interest result' in the profit and loss account using the effective interest method. Mortgage loans sold to NN Dutch Residential Mortgage Fund and other NN entities are in the Selling business model, and the measurement is FVTPL.

Intangible assets (Note 8)
Intangible assets consist of computer software that has been purchased or generated internally for own use and is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed five years. Amortisation is included in 'Other operating expenses'.

Intangible assets are reviewed for impairments at least annually if events indicate that impairments may have occurred. They are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

Other assets (Note 9)
'Other assets' includes a receivable for origination fees, which is a non-current asset and relates to origination fees to be received following a long-term contract. Its measurement is based on a discounted cash flow calculation.

Customer deposits and other funds on deposit (Note 11)
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 expenses on customer deposits and other funds on deposit are recognised in 'Interest expenses' in the profit and loss account using the effective interest method.

Other borrowed funds, debt securities issued and subordinated debt (Note 13, 16 and 17)
Other borrowed funds, debt securities issued and subordinated debt 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.

Provisions (Note 15)
Provisions consist of reorganisation provisions and other 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 the 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.

Net fee and commission income (Note 21)
Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts when the service is provided.

Notes to the Consolidated annual accounts Continued

2 Reconciliation of Consolidated balance sheet 31 December 2017 to 1 January 2018

Legal merger and adoption of IFRS 9

The legal merger relates to the merger between NN Bank and Delta Lloyd Bank. This merger between NN Bank and Delta Lloyd Bank was between companies with the same parent ('under common control'). IFRS 3 Business combinations is not applicable for common control transactions. As a result of this merger, Delta Lloyd Bank ceased to exist as a separate entity and NN Bank acquired all assets and liabilities of Delta Lloyd Bank under universal title of succession as at 1 January 2018. The accounting took place on the basis of existing carrying amounts of Delta Lloyd Bank, whereby its accounting policies were harmonised with those of NN Bank. The adoption of IFRS 9 includes changes in classification and measurement of financial assets and impairments following expected credit losses.

Reconciliation of Consolidated balance sheet 31 December 2017 to 1 January 2018

	Legal merger						
	NN Bank under IAS 39	**Delta Lloyd Bank under IAS 39**	**Eliminations**	**1 January 2018 Balance**	**Harmonisation accounting policies**	**Adoption IFRS 9**	**1 January 2018 Combined**
Assets							
Cash and balances at central banks	1,085,613	396,196	0	1,481,809	-4,901	0	1,476,908
Amounts due from banks	398,900	118,090	-130,000	386,990	0	0	386,990
Financial assets at fair value through profit or loss:							
– non-trading derivatives	193,271	7,783	0	201,054	0	0	201,054
Available-for-sale investments	547,331	269,309	0	816,640	0	-816,640	0
Investment securities	0	0	0	0	0	817,947	817,947
Loans and advances to customers	13,739,818	4,543,609	0	18,283,427	0	-2,719	18,280,709
Intangible assets	4,479	0	0	4,479	0	0	4,479
Other assets	99,886	4,677	0	104,563	4,901	0	109,464
Deferred tax assets	625	0	0	625	-625	0	0
Total assets	**16,069,923**	**5,339,666**	**-130,000**	**21,279,587**	**-625**	**-1,412**	**21,277,551**
Liabilities							
Amounts due to banks	432,394	130,021	-130,000	432,415	0	0	432,415
Customer deposits and other funds on deposit	10,604,951	3,565,917	0	14,170,868	0	0	14,170,868
Financial liabilities at fair value through profit or loss:							
– non-trading derivatives	208,153	15,579	0	223,732	0	0	223,732
Other borrowed funds	485,000	0	0	485,000	0	0	485,000
Other liabilities	56,817	40,361	0	97,178	-1,360	0	95,818
Deferred tax liabilities	4,377	24,592	0	28,969	735	-353	29,351
Provisions	1,001	5,032	0	6,033	0	0	6,033
Debt securities issued	3,481,034	1,349,533	0	4,830,567	0	0	4,830,567
Subordinated debt	85,000	12,000	0	97,000	0	0	97,000
Total liabilities	**15,358,727**	**5,143,035**	**-130,000**	**20,371,762**	**-625**	**-353**	**20,370,785**
Equity							
Shareholder's equity	**711,196**	**196,629**	**0**	**907,825**	**0**	**-1,059**	**906,766**
Total equity and liabilities	**16,069,923**	**5,339,663**	**-130,000**	**21,279,587**	**-625**	**-1,412**	**21,277,551**

Notes to the Consolidated annual accounts Continued

3 Cash and balances at central banks

Cash and balances at central banks

	31 December 2018	1 January 2018	31 December 2017
Amounts held at central banks	1,314,956	1,476,908	1,085,613
Cash and balances at central banks	**1,314,956**	**1,476,908**	**1,085,613**

'Amounts held at central banks' reflects the demand balances. 'Amounts held at central banks' includes a mandatory reserve deposit of EUR 72.3 million (2017: EUR 78.2 million), which is not freely disposable to NN Bank. Reference is made to Note 31 'Assets not freely disposable'. The remainder of 'Amounts held at central banks' is at free disposal of NN Bank.

4 Amounts due from banks

Amounts due from banks

	31 December 2018	1 January 2018	31 December 2017
Bank balances	164,190	163,585	89,801
Loans to credit institutions	0	0	130,000
Collateral posted	317,693	223,405	179,099
Amounts due from banks	**481,883**	**386,990**	**398,900**

'Bank balances' comprises current accounts and accrued interest with banks. Reference is also made to Note 31 'Assets not freely disposable'.

'Loans to credit institutions' concerned a short-placed loan with Delta Lloyd Bank. This loan ceased to exist following the merger of NN Bank and Delta Lloyd Bank on 1 January 2018 because the lender and the borrower are the same legal entity, as of that date.

'Collateral posted' concerns posted collateral regarding centrally cleared swaps. Reference is also made to Note 31 'Assets not freely disposable'.

5 Financial assets at fair value through profit or loss

Non-trading derivatives

	31 December 2018	1 January 2018	31 December 2017
Derivatives held for macro fair value hedge accounting	24,795	54,496	46,784
Derivatives held for micro fair value hedge accounting	12,845	0	0
Balanced guaranteed swaps	84,965	146,367	146,367
Other non-trading derivatives	2,992	191	120
Non-trading derivatives	**125,597**	**201,054**	**193,271**

For 'Derivatives held for macro/micro fair value hedge accounting', reference is made to Note 28 'Derivatives and hedge accounting'.

For 'Balanced guaranteed swaps', which are used in securitisation transactions, reference is made to Note 36 'Structured entities'.

'Other non-trading derivatives' mainly includes interest rate swaps, which are not used as hedge accounting instruments.

6 Investment securities

Investment securities by type 31 December 2018

	AC[1]	FVOCI[2]	31 December 2018
Government bonds	180,049	300,466	480,515
Corporate bonds	2,672	12,200	14,872
Financial institution bonds	62,148	483,797	545,945
Asset backed securities	27,609	0	27,609
Investment securities - before loss provisions	**272,478**	**796,463**	**1,068,941**
Investment securities loss provisions	-38	-486	-524
Investment securities - after loss provisions	**272,440**	**795,977**	**1,068,417**

1 AC = Amortised Cost
2 FVOCI = Fair Value through Other Comprehensive Income

Notes to the Consolidated annual accounts Continued

Investment securities by type 1 January 2018

	AC	FVOCI	1 January 2018
Government bonds	178,106	257,370	435,476
Corporate bonds	2,784	19,692	22,476
Financial institution bonds	62,199	267,415	329,614
Asset backed securities	30,605	0	30,605
Investment securities - before loss provisions	**273,694**	**544,477**	**818,171**
Investment securities loss provisions	-123	-101	-224
Investment securities - after loss provisions	**273,571**	**544,376**	**817,947**

'Government bonds' include supranational and government bonds from member states of the European Union. All supranational bonds are from organisations based within the European Union.

Financial institution bonds consist for the largest part of Covered Bonds issued by banks within the European Union (EUR 475.7 million) and for the remainder of unsecured debt of Banks guaranteed by Governments within the European Union (EUR 70.2 million).

All bonds have an external rating of at least A (Fitch). The corporate bonds have a rating of at least AA+ (Fitch) or Aa1 (Moody's).

Changes in investment securities

	2018
Available-for-sale investments – opening balance	547,331
Delta Lloyd Bank merger 1 January 2018	269,309
IFRS 9 impact 1 January 2018	1,531
Investment securities – opening balance	**818,171**
Additions	591,213
Amortisation	-13,081
Changes in unrealised revaluations	-2,808
Disposals and redemptions	-324,554
Investment securities – closing balance	**1,068,941**

NN Bank and Delta Lloyd Bank were integrated at the beginning of 2018. The changes in the portfolio are the consequence of the alignment to the integrated mandate in the asset management agreement. The sales did not have an impact on the business model classification.

7 Loans

Loans by type 31 December 2018

	AC	FVTPL[1]	31 December 2018
Loans secured by mortgages, guaranteed by public authorities	5,293,003	13,509	5,306,512
Loans secured by mortgages[2]	12,663,560	18,842	12,682,402
Consumer lending	229,484	0	229,484
Group companies	253,015	0	253,015
Loans – before loan loss provisions	**18,439,062**	**32,351**	**18,471,413**
Loan loss provisions	-28,474	0	-28,474
Loans	**18,410,588**	**32,351**	**18,442,939**

1 FVTPL = Fair Value through Profit and Loss
2 including purchased credit-impaired assets

Loans by type 1 January 2018

	AC	FVTPL	1 January 2018
Loans secured by mortgages, guaranteed by public authorities	5,297,784	40,462	5,338,246
Loans secured by mortgages	12,360,574	98,396	12,458,970
Consumer lending	278,259	0	278,259
Group companies	244,119	0	244,119
Loans – before loan loss provisions	**18,180,736**	**138,858**	**18,319,594**
Loan loss provisions	-38,885	0	-38,885
Loans	**18,141,851**	**138,858**	**18,280,709**

'Group companies' relate to a receivable following arrangements to transfer mortgage parts in an intercompany account for the former Delta Lloyd Bank portfolio.

Notes to the Consolidated annual accounts Continued

Loans by stage 31 December 2018

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	No allocated stage	31 December 2018
Loans - before loan loss provisions	17,737,960	251,043	111,350	32,327	338,733	18,471,413
Loan loss provisions	-3,036	-3,896	-20,801	-741	0	-28,474
Loans - after loan loss provisions	**17,734,924**	**247,147**	**90,549**	**31,586**	**338,733**	**18,442,939**

Loans by stage 1 January 2018

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	No allocated stage	1 January 2018
Loans - before loan loss provisions	17,451,864	389,654	150,571	32,685	294,820	18,319,594
Loan loss provisions	-6,667	-4,803	-25,374	-2,041	0	-38,885
Loans - after loan loss provisions	**17,445,197**	**384,851**	**125,197**	**30,644**	**294,820**	**18,280,709**

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 40 'Risk management'.

'Loans' comprises a run-off private banking portfolio with a limited number of loans to small and medium sized businesses with in certain cases secured by mortgages. This portfolio has a marginal size in the total 'Loans' portfolio.

Reference is made to Note 27 'Fair value of financial assets and liabilities', for disclosure by fair value hierarchy and Note 40 'Risk management' for NN Bank's credit risk exposure and on significant credit risk exposures.

Changes in loans by stage

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	No allocated stage	2018	2017
Loans – opening balance	0	0	0	0	13,767,910	13,767,910	12,724,281
Delta Lloyd Bank merger 1 January 2018	0	0	0	0	4,550,981	4,550,981	0
IFRS 9 remeasurement	17,451,864	389,654	150,571	32,685	-18,024,071	703	0
Loans - 1 January	**17,451,864**	**389,654**	**150,571**	**32,685**	**294,820**	**18,319,594**	**12,724,281**
Mortgage portfolio transfer	474,453	24,893	4,501	4,046	0	507,893	1,344,294
Partial transfer of mortgage loans	43,241	-969	-377	0	0	41,895	5,662
Origination	2,291,899	28,362	8,357	0	0	2,328,618	1,943,818
Sale of mortgages	-803,524	-17,589	0	0	0	-821,113	-954,182
Premium new mortgages	0	0	0	551	14,351	14,902	31,974
Amortisation mortgage premium	0	0	0	0	-50,183	-50,183	-15,044
Fair value change hedged items	0	0	0	0	90,037	90,037	-69,165
Modifications	-21,528	-73	0	0	0	-21,601	0
Redemptions	-1,698,445	-173,235	-51,702	-5,797	0	-1,929,179	-1,243,728
Reclassifications to other assets	0	0	0	0	-10,292	-10,292	0
Changes in credit quality	0	0	0	842	0	842	0
Loans – closing balance	**17,737,960**	**251,043**	**111,350**	**32,327**	**338,733**	**18,471,413**	**13,767,910**

In 2018, the mortgage portfolio transfer from ING Bank amounted to EUR 508 million. As at 31 December 2018, both parties had already determined to transfer EUR 187 million in mortgage loans for the first four months in 2019. As settlement date accounting is applied, these mortgages are not recognised in the balance sheet as at 31 December 2018.

NN Bank has sold mortgage loans to securitisation entities that, in turn, issued notes to investors that are collateralised by the purchased assets. In addition, mortgage loans are structured through the Covered Bond Programme. 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 31 'Assets not freely disposable' and Note 36 'Structured entities'.

'Sale of mortgages' includes EUR 301 million of sales with related parties NN Schade and NN Belgium (2017: EUR 299 million).

The 'Modifications' is the estimated impact of the modification of the outstanding mortgage loans as a result of the amended mortgage interest rate pricing system. As a result of this amended pricing system, NN Bank has revised its estimates of future (interest) cash flows to be received. The contractually determined fixed interest rate until clients' interest reset date is modified to a floating interest rate based upon the respective loan-to-value of the mortgage. As the modification does not result into derecognition of the mortgage, a modification loss is recognised in profit and loss account. In this estimation, the gross carrying amount of mortgage loans is recalculated as the present value of modified contractual cash flows that are discounted at the original effective interest rate. In this calculation, estimates about client behaviour are included such as prepayment assumptions and client response assumptions on submission of updated valuation reports. This estimation has been reviewed by Risk management of NN Bank. The related impact of EUR 21.6 million was recognised as a one-off charge in the profit and loss account in the second quarter of 2018. The expected implementation of this pricing system is in the course of 2019. The actual impact will be calculated and recorded by an extension to the mortgage system to be implemented in 2019 and may differ from the estimation above, due to different actual prepayments, response rates and a more granular calculation.

Notes to the Consolidated annual accounts Continued

Purchased or Originated Credit-Impaired loans (POCI)

	2018
POCI - opening balance	32,685
Mortgage portfolio transfer	4,046
Amortisation value adjustment	551
Redemptions	-5,797
Unfavourable changes in credit quality	-395
Favourable changes in credit quality	1,237
POCI - closing balance	**32,327**

Loan loss provisions by type

	31 December 2018	1 January 2018
Loans secured by mortgages	10,701	20,971
Consumer lending	17,773	17,914
Loan loss provisions by type	**28,474**	**38,885**

Changes in loan loss provisions by stage

	Stage 1 12-month ECL non-credit impaired	Stage 2 Lifetime ECL non-credit impaired	Stage 3 Lifetime ECL credit impaired	Purchased credit-impaired	2018
Loan loss provisions – opening balance	6,667	4,803	25,374	2,041	38,885
Addition to the loan loss provisions	-3,009	-1,409	-7,143	-315	-11,876
Changes in models and methodologies	-629	939	-2,299	-985	-2,974
Transfers to:					
– Stage 1	0	-2,364	-1,537		-3,901
– Stage 2	-130	0	-1,498		-1,628
– Stage 3	-50	-592	0		-642
Transfers from:					
– Stage 1	0	2,328	2,596		4,924
– Stage 2	170	0	2,469		2,639
– Stage 3	17	191	0		208
Write-offs	0	0	2,839	0	2,839
Loan loss provisions – closing balance	**3,036**	**3,896**	**20,801**	**741**	**28,474**
Recoveries	0	0	-946	0	-946

In 2018, the loan loss provision decreased despite the slight portfolio growth, because of model updates, increasing house prices and the slight decrease in delinquencies. For additional details see Note 40 'Risk management'. In 2018, there were no significant loan write-offs.

Modified financial assets

	2018
Financial assets modified during the period	
Amortised cost before modification	2,271,660
Net modification loss	21,601
Financial assets modified since initial recognition	
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period	40,429

Modified financial assets 2018 relate to the modification of the outstanding mortgage loans as a result of the amended pricing system. This resulted in a one-off charge to the profit and loss account of EUR 21.6 million.

Notes to the Consolidated annual accounts Continued

8 Intangible assets

Intangible assets

	31 December 2018	1 January 2018	31 December 2017
Intangibles	**8,056**	**4,479**	**4,479**

	2018	2017
Intangibles – opening balance	4,479	1,261
Additions	3,654	4,153
Amortisation	-77	-545
Impairments	0	-390
Intangibles – closing balance	**8,056**	**4,479**
Gross carrying value	13,154	9,501
Accumulated amortisation	-5,098	-5,022
Net carrying value	**8,056**	**4,479**

The additions to the intangible assets in 2017 and 2018 relate to a new back-office system for mortgages. The amortisation period is five years from the beginning of 2019, after fully implementation of the new system.

9 Other assets

Other assets

	31 December 2018	1 January 2018	31 December 2017
Accrued interest mortgages	34,642	36,984	36,984
Accrued interest other	7,886	6,821	4,727
Current account NN Insurance Eurasia N.V.	78,810	47,047	47,047
Current account other group companies	7,441	125	125
Other accrued assets	3,063	404	404
Other	28,327	18,084	10,599
Total other assets	**160,169**	**109,464**	**99,886**

'Current account NN Insurance Eurasia N.V.' is mainly used for daily settlement of mortgages.

The line item 'Other' includes receivables in relation to fees and commissions, amounts to be settled and other receivables. The deposit guarantee scheme balance of EUR 4.9 million is also included in the line item 'Other'.

10 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

	31 December 2018	1 January 2018	31 December 2017
Interest bearing	264,500	430,702	430,681
Collateral received	0	1,713	1,713
Amounts due to banks	**264,500**	**432,415**	**432,394**

The decrease in 'Amounts due to banks (interest bearing)' of EUR 166.2 million is partly due to an increase of EUR 190.0 million of new contracted warehouse loan and loans with third parties. And is also due to repayments of EUR 356.2 million of loans.

'Collateral received' concerns received collateral regarding centrally cleared swaps.

As at 31 December 2018, NN Bank had unused lines of credit available of EUR 606 million (31 December 2017: EUR 590 million).

Notes to the Consolidated annual accounts Continued

11 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by type

	31 December 2018	1 January 2018	31 December 2017
Savings	6,617,874	6,859,944	5,686,606
Bank annuities	6,413,447	5,975,322	4,020,159
Bank annuities related to mortgages	1,369,782	1,259,053	898,186
Corporate deposits	5,000	5,000	0
Group companies	70,336	71,549	0
Customer deposits and other funds on deposit	**14,476,439**	**14,170,868**	**10,604,951**

'Group companies' relate to a payable representing the claim of those group companies at the level of built-up savings premiums for the former Delta Lloyd Bank portfolio.

The interest payable on savings accounts is contractually added to the accounts and as such presented in the balance.

Customers have not entrusted any funds to NN Bank on terms other than those prevailing in the normal course of business.

Changes in customer deposits and other funds on deposit

	2018	2017
Customer deposits and other funds on deposit – opening balance	10,604,951	10,225,730
Delta Lloyd Bank merger 1 January 2018	3,565,917	0
Customer deposits and other funds on deposit – 1 January	**14,170,868**	**10,225,730**
Deposits received	3,796,359	3,649,431
Withdrawals	-3,490,788	-3,270,210
Customer deposits and other funds on deposit – closing balance	**14,476,439**	**10,604,951**

12 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

	31 December 2018	1 January 2018	31 December 2017
Derivatives held for macro fair value hedge accounting	150,279	73,459	57,951
Derivatives held for micro fair value hedge accounting	0	695	695
Balanced guaranteed swaps	84,965	146,367	146,367
Other non-trading derivatives	8,403	3,211	3,140
Non-trading derivatives	**243,647**	**223,732**	**208,153**

For 'Derivatives held for macro/micro fair value hedge accounting', reference is made to Note 28 'Derivatives and hedge accounting'.

For 'Balanced guaranteed swaps', which are used in securitisation transactions, reference is made to Note 36 'Structured entities'.

'Other non-trading derivatives' mainly includes interest rate swaps that are not used as hedge accounting instruments.

13 Other borrowed funds

Other borrowed funds

	31 December 2018	1 January 2018	31 December 2017
Other borrowed funds	**330,000**	**485,000**	**485,000**

In 2018, EUR 390 million of 'Other borrowed funds' were repaid. New loans amounting to EUR 235 million were contracted with third parties.

In addition, NN Group provided a credit facility commitment to NN Bank up to an amount of EUR 250 million, which as at 31 December 2018 was not drawn by NN Bank.

Notes to the Consolidated annual accounts Continued

14 Other liabilities

Other liabilities

	31 December 2018	1 January 2018	31 December 2017
Income tax payable	11,290	3,163	5,251
Other taxation and social security contributions	9,999	9,596	9,596
Accrued interest non-trading derivatives	39,940	22,418	17,925
Accrued interest other	14,019	21,862	9,065
Current account other group companies	107,100	0	0
Costs payable	9,143	8,474	7,120
Other	34,088	30,306	7,860
Other liabilities	**225,579**	**95,819**	**56,817**

'Current account other group companies' mainly comprises payables to Amstelhuys N.V. of EUR 99.1 million.

'Other' mainly relates to year-end accruals and other payables to third parties in the normal course of business.

15 Provisions

Provisions

	31 December 2018	1 January 2018	31 December 2017
Restructuring provisions	4,689	6,033	1,001
Other provisions	1,200	0	0
Provisions	**5,889**	**6,033**	**1,001**

Restructuring provisions

	2018	2017
Restructuring provisions – opening balance	1,001	9,581
Delta Lloyd Bank merger 1 January 2018	5,032	0
Restructuring provisions - 1 January	**6,033**	**9,581**
Additions	4,071	1,052
Releases	-490	-124
Charges	-4,925	-9,508
Restructuring provisions – closing balance	**4,689**	**1,001**

In 2018, a net impact for restructuring provision of EUR 3.6 million was recognised (2017: EUR 6.5 million for NN Bank and Delta Lloyd Bank combined).

At the end of 2017, the first Request for Advice (RfA) was submitted announcing the reorganisation planned in the first half of 2018. In 2018, new information became available, which led to an addition of EUR 1.1 million. Additionally, the second RfA was published announcing further organisational changes related to the integration. As a result, a provision of EUR 2.7 million was recognised. At the end of 2018, the provisions related to the first RfA and the second RfA were revaluated, leading to a release of EUR 0.2 million.

The remaining restructuring provision at the balance sheet date represents the best estimate of the expected future redundancy costs and is expected to be sufficient to cover the remaining costs of the restructuring programme.

Notes to the Consolidated annual accounts Continued

16 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

	31 December 2018	1 January 2018	31 December 2017
Fixed rate debt securities:			
– Within 1 year	380,000	0	0
– More than 1 year but less than 2 years	522,853	380,000	100,000
– More than 2 years but less than 3 years	100,000	521,532	396,532
– More than 3 years but less than 4 years	0	100,000	0
– More than 4 years but less than 5 years	0	0	0
– More than 5 years	0	0	0
Fixed rate debt securities	**1,002,853**	**1,001,532**	**496,532**
Floating rate debt securities:			
– Within 1 year	328,145	0	0
– More than 1 year but less than 2 years	665,388	452,093	271,441
– More than 2 years but less than 3 years	631,735	1,297,072	944,993
– More than 3 years but less than 4 years	493,268	741,318	429,516
– More than 4 years but less than 5 years	0	535,047	535,047
– More than 5 years	0	0	0
Floating rate debt securities	**2,118,536**	**3,025,530**	**2,180,997**
Subtotal debt securities	**3,121,389**	**4,027,062**	**2,677,529**
Covered bond issues			
Fixed rate debt securities:			
– More than 5 years	1,499,662	497,005	497,005
Fixed rate debt securities	**1,499,662**	**497,005**	**497,005**
Unsecured debt securities			
Fixed rate debt securities:			
– Within 1 year	0	4,000	4,000
– More than 2 years but less than 3 years	18,995	0	0
– More than 4 years but less than 5 years	270,663	0	0
– More than 5 years	57,403	302,500	302,500
Fixed rate debt securities	**347,061**	**306,500**	**306,500**
Debt securities issued	**4,968,112**	**4,830,567**	**3,481,034**

NN Bank has the right to redeem the Residential Mortgage Backed Securities under the Arena NHG and Hypenn RMBS securitisation programmes at First Optional Redemption Date (FORD). These dates for the debt securities issued are as follows:

	FORD	31 December 2018	1 January 2018	31 December 2017
Arena NHG 2014-I	17-4-2019	384,873	460,652	0
Arena NHG 2014-II	17-4-2020	400,627	477,079	0
Arena NHG 2016-I	17-7-2021	348,868	411,802	0
Hypenn RMBS I A3	17-11-2020	397,853	396,532	396,532
Hypenn RMBS II	17-5-2019	323,272	371,442	371,442
Hypenn RMBS III	9-6-2020	0	500,237	500,237
Hypenn RMBS IV	17-7-2020	389,761	444,755	444,755
Hypenn RMBS V	17-4-2021	382,867	429,516	429,516
Hypenn RMBS VI	17-12-2022	493,268	535,047	535,047
Total		**3,121,389**	**4,027,062**	**2,677,529**

	Maturity date	31 December 2018	1 January 2018	31 December 2017
Covered bond September 2017	10-10-2024	498,164	497,853	497,853
Covered bond June 2018	11-9-2025	496,418	0	0
Covered bond September 2018	25-09-2028	493,376	0	0
Fair value change hedged items		11,704	-848	-848
Total		**1,499,662**	**497,005**	**497,005**

Notes to the Consolidated annual accounts Continued

'Debt securities issued' includes the Residential Mortgage Backed Securities under the Arena NHG and the Hypenn RMBS securitisation programmes held by third and related parties, the bonds issued under the Covered Bond Programme and 'Schuldschein' securities. The debt securities issued to third parties amounted to EUR 4,868 million as at 31 December 2018 (1 January 2018: EUR 4,730 million), of which EUR 1,500 million relates to the Covered Bonds (1 January 2018: EUR 497.0 million) and EUR 347.4 million relates to unsecured debt securities (1 January 2018: EUR 306.5 million). The notes issued to related parties amounted to EUR 100 million as at 31 December 2018 (1 January 2018: EUR 100 million).
For the Arena NHG and Hypenn RMBS securitisation programmes and the Covered Bond Programme, reference is made to Note 36 'Structured entities'.

On 17 September 2018, the Hypenn RMBS III Notes were redeemed early, after consent solicitation with the noteholders to change the FORD.

The notes issued by the Arena NHG and Hypenn RMBS entities that are held by NN Bank are not presented in the table above. The notes issued to NN Bank amounted to EUR 1,649 million as at 31 December 2018 (1 January 2018: EUR 1,761 million) and consist of EUR 614 million junior notes (1 January 2018: EUR 662 million) and EUR 1,035 million senior notes (1 January 2018: EUR 1,099 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, repayment of the junior noteholders will take place. NN Bank is holder of all the class B and 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.

17 Subordinated debt

Subordinated debt

				Notional amount		Balance sheet value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**31 December 2018**	**1 January 2018**	**31 December 2018**	**1 January 2018**
3.02%	2017	27 February 2027	26 February 2022	15,000	15,000	15,000	15,000
2.66%	2015	26 February 2025	26 February 2020	30,000	30,000	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
6.00%	2009	13 July 2019	-	12,000	12,000	12,000	12,000
Subordinated debt				**97,000**	**97,000**	**97,000**	**97,000**

NN Group provided four subordinated loans to NN Bank for an amount of EUR 85.0 million, which qualify as Tier 2 capital under the CRR. Under IFRS-EU, these debt instruments are classified as liabilities. They are considered capital for regulatory purposes. NN Bank has the right to pay off the debt at the call date. The subordinated debt of EUR 12.0 million is a former Delta Lloyd Bank subordinated loan. This loan qualifies as Tier 2 capital for an amount of EUR 480 thousand. All subordinated debt is euro denominated.

18 Equity

Total equity

	31 December 2018	**1 January 2018**	**31 December 2017**
Share capital	10,000	10,000	10,000
Share premium	481,000	481,000	481,000
Revaluation reserve	1,619	3,750	3,596
Retained earnings and unappropriated result	480,090	412,016	216,600
Shareholder's equity	**972,709**	**906,766**	**711,196**

Share capital

			Ordinary shares	
	Shares (in numbers)		**Amount (in EUR thousand)**	
	2018	**2017**	**2018**	**2017**
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**

Notes to the Consolidated annual accounts Continued

Changes in equity (2018)

	Share capital	Share premium	Reserves	Total shareholder's equity
Equity – opening balance	10,000	481,000	220,196	711,196
Delta Lloyd Bank merger 1 January 2018	0	0	196,629	196,629
IFRS 9 impact 1 January 2018	0	0	-1,059	-1,059
Equity – 1 January 2018	**10,000**	**481,000**	**415,766**	**906,766**
Net result for the period	0	0	75,786	75,786
Total amount recognised directly in equity ('Other comprehensive income')	0	0	-2,131	-2,131
Dividend paid	0	0	-8,000	-8,000
Employee share plans	0	0	237	237
Other	0	0	51	51
Equity – 31 December 2018	**10,000**	**481,000**	**481,709**	**972,709**

Changes in equity (2017)

	Share capital	Share premium	Reserves	Total shareholder's equity
Equity – 1 January 2017	10,000	481,000	138,173	629,173
Net result for the period	0	0	84,996	84,996
Total amount recognised directly in equity ('Other comprehensive income')	0	0	-3,196	-3,196
Employee share plans	0	0	223	223
Equity – 31 December 2017	**10,000**	**481,000**	**220,196**	**711,196**

Ordinary shares
All shares are in registered form. Shares may be transferred by means of a deed of transfer, subject to the approval of the General Meeting. At 31 December 2018, issued and fully paid ordinary share capital consists of 1,000,000 ordinary shares, with a par value of EUR 10.00 per share.

Distributable reserves
NN Bank is subject to legal restrictions regarding the amount of dividends it can pay to its shareholder. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to total shareholder's equity less the paid-up and called share capital and less the reserves pursuant to law or the articles of association. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

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, rating agency and 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 41 'Capital management'.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from NN Bank and its subsidiaries are as follows:

Distributable reserves based on the Dutch Civil Code

		2018		2017
Total shareholder's equity		972,709		711,196
– share capital	10,000		10,000	
– revaluation reserve	1,619		3,596	
– intangible assets reserve	8,056		4,479	
Total non-distributable part of shareholder's equity		19,675		18,075
Distributable reserves based on the Dutch Civil Code		**953,034**		**693,121**

Proposed appropriation of result
The result is appropriated pursuant to article 21 of the Articles of Association of NN Bank, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board. It is proposed to add the 2018 net result of EUR 75.8 million, less the proposed cash dividend of EUR 55.9 million, to the retained earnings.

Notes to the Consolidated annual accounts Continued

19 Interest result

Interest result

	2018	2017
Interest income on loans	558,049	447,376
Modifications	-21,601	0
Interest income on available-for-sale debt securities	0	633
Interest income on non-trading derivatives	63,428	80,740
Negative interest on liabilities	424	496
Total interest income	**600,300**	**529,245**
Interest expenses on amounts due to banks	5,643	1,577
Interest expenses on customer deposits and other funds on deposit	182,950	126,930
Interest expenses on debt securities issued and other borrowed funds	34,871	31,473
Interest expenses on subordinated loans	3,431	2,649
Interest expenses on non-trading derivatives	125,493	124,322
Negative interest on assets	24,818	18,325
Other interest expenses	6,006	1,201
Total interest expenses	**383,212**	**306,477**
Interest result	**217,088**	**222,768**

IFRS 9 resulted in changes of IAS 1 in the presentation of Interest income for instruments calculated using the effective interest method, which NN Bank reports as a separate line item in the Consolidated annual accounts. To further enhance the relevance of the interest disclosures, NN Bank changed its separate presentation of amortisation of discontinued hedge relations to presenting the full fair value movements in 'Valuation results on non-trading derivatives'. Consequently, an amount of EUR 9.9 million regarding discontinued hedge relations was reclassified from 'Valuation result on non-trading derivatives to the line item 'Interest income on loans' under 'Interest result'.

'Negative interest on liabilities' consists of negative interest expenses on other borrowed funds.

'Negative interest on assets' includes negative interest income charged by DNB of EUR 5.6 million (2017: EUR 4.9 million). The remainder mainly concerns interest on derivatives and interest on investment securities.

'Modifications' concerns the LTV charge, which is the estimated impact of the modification of the outstanding mortgage loans as a result of the amended pricing system. Reference is made to Note 7 'Loans'.

Interest margin in percentages

	2018	2017
Interest margin	**1.0%**	**1.4%**

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2018 and 2017, respectively.

20 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2018	2017
Realised gains or losses of debt securities	2,979	2,458
Results from financial transactions	15,476	12,171
Net income from loans measured at FVTPL	-6	0
Other income	-3,021	-303
Gains and losses on financial transactions and other income	**15,428**	**14,326**

For the reason for derecognition of debt securities, reference is made to Note 6 'Investment securities'.

'Results from financial transactions' mainly comprises the results on the sale of mortgages to NN Dutch Residential Mortgage Fund, NN Schade and NN Belgium. The related origination fee 2018 amounts to EUR 11.9 million (2017: EUR 13.6 million) and premiums amount to EUR 3.0 million (2017: EUR -1.4 million).

'Other income' includes certain other income and expenses. In 2018, it includes expenses of EUR 2.9 million resulting from the buy-back of Hypenn III.

21 Net fee and commission income

Net fee and commission income

	2018	2017
Service management fee	40,774	24,556
Brokerage and advisory fees	61,615	39,263
Gross fee and commission income	**102,389**	**63,819**
Asset management fees	11,520	11,303
Brokerage and advisory fees	3,609	3,755
Other	792	1,161
Fee and commission expenses	**15,921**	**16,219**
Net fee and commission income	**86,468**	**47,600**

NN Bank services a total loan portfolio of EUR 30.3 billion (2017: EUR 18.8 billion) for NN Leven, NN Belgium, NN Dutch Residential Mortgage Fund, ING Bank and other entities.

NN Bank sells mortgages directly on behalf of NN Leven and receives an origination fee for this service. The origination fee for the NN Leven loan portfolio amounts to EUR 48.0 million (2017: EUR 32.8 million) and for the Amstelhuys loan portfolio EUR 4.7 million. It is included in 'Brokerage and advisory fees'.

22 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2018	2017
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	-96,452	62,595
– the hedged items (mortgages/debt securities) attributable to the hedged risk	91,640	-58,453
Gains or losses (fair value changes) in other non-trading derivatives	1,081	105
Valuation results on non-trading derivatives	**-3,731**	**4,247**

Included in 'Valuation results on non-trading derivatives' are the fair value movements used to economically hedge exposures. The fair value movements on the derivatives are influenced by changes in market conditions, such as interest rates. Gains and losses on hedged items and hedging instruments in 2018 increased compared to those of 2017, mainly due to the decrease of the medium- to long-term yield curves and due to the settlement of new derivatives for hedging purposes.

The comparative figures have been adjusted due to a reclassification regarding the amortisation of discontinued hedge relations from 'Valuation result on non-trading derivatives' to 'Interest result'.

Included in the 'Valuation results on non-trading derivatives' are the results from balanced guaranteed swaps included in structured entities. Reference is made to Note 36 'Structured entities'.

23 Staff expenses

Staff expenses

	2018	2017
Salaries	55,464	43,557
Pension and other staff-related benefit costs	11,483	9,995
Social security costs	7,543	5,248
Share-based compensation arrangements	151	709
External staff costs	33,313	28,345
Education	1,125	1,079
Other staff costs	1,898	1,328
Staff expenses	**110,977**	**90,261**

NN Insurance Personeel B.V. and Delta Lloyd Services B.V. employ NN Bank staff. These entities charge NN Bank for its staff expenses, under a service level agreement. Although these costs are not paid out in the form of staff expenses by NN Bank, they do have the characteristics of staff expenses and they are therefore recognised as such. NN Insurance Personeel B.V. and Delta Lloyd Services B.V. recognise a provision for holiday entitlement and bonuses. Actual costs are charged to NN Bank when accrued.

Pension costs

Defined contribution plans

NN Bank is one of the sponsors of the NN Group defined contribution plans (NN CDC Pensioenfonds and Delta Lloyd Pensioenfonds). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as

Notes to the Consolidated annual accounts Continued

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' or 'Other liabilities'.

Number of employees

	2018	2017
Average number of employees on full-time equivalent basis	824	675

Remuneration of Management Board and Supervisory Board

Reference is made to Note 38 '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 upfront shares and deferred shares. The entitlement to the deferred 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. A retention period applies from the moment of vesting these awards (five years for Management Board and one year for Identified Staff).

Share awards on NN Group shares

Changes in share awards on NN Group shares outstanding for NN Bank

	Share awards (in numbers)		Weighted average grant date fair value (in euros)	
	2018	2017	2018	2017
Share awards outstanding – opening balance	8,777	8,310	29.61	25.87
Granted	4,893	8,941	36.00	31.01
Performance effect	0	0	0.00	0.00
Vested	-6,995	-8,474	32.35	27.66
Share awards outstanding – closing balance	**6,675**	**8,777**	**33.27**	**29.61**

In 2018, 4,398 share awards on NN Group shares (2017: 4,586) were granted to the members of the NN Bank Management Board. To other employees of NN Bank, 495 share awards on NN Group shares (2017: 4,355) were granted.

As at 31 December 2018, the share awards on NN Group shares consist of 6,675 (2017: 8,777) share awards relating to equity-settled share-based-payment arrangements and no share awards to cash-settled share-based-payment arrangements .

The fair value of share awards granted is allocated over the vesting period of the share awards as an expense under 'Staff expenses'.

As at 31 December 2018, total unrecognised compensation costs related to share awards amount to EUR 81 thousand (2017: EUR 74 thousand). These costs are expected to be recognised over a weighted average period of 1.4 years (2017: 1.4 years).

24 Regulatory levies

Regulatory levies

	2018	2017
Regulatory levies	16,808	11,155
Regulatory levies	**16,808**	**11,155**

'Regulatory levies' represents contributions to Deposit Guarantee Schemes (DGS) and the Single Resolution Fund (SRF). The contributions to DGS were EUR 13.5 million (2017: EUR 9.2 million) and contributions to the SRF were EUR 3.2 million (2017: EUR 2.0 million).

Notes to the Consolidated annual accounts Continued

25 Other operating expenses

Other operating expenses

	2018	2017
Computer costs	19,814	12,939
Office expenses	264	162
Travel and accommodation expenses	2,655	2,695
Advertising and public relations	4,681	3,252
Bank costs	62	285
Addition/release of provision for reorganisation	3,581	928
Amortisation of intangible assets	77	934
Other	9,532	4,948
Other operating expenses	**40,667**	**26,143**
Customer&Commerce	22,966	15,464
IT	16,094	17,165
Facility Management	6,045	5,180
General Management	4,679	9,251
Group HR	3,318	2,561
Shared service center Finance	1,209	1,812
Total Group Services	**54,311**	**51,432**
Total other operating expenses	**94,978**	**77,575**

The Delta Lloyd Bank merger and the change in the process of charged expenses related to Customer & Commerce mainly caused the increase in 'Other operating expenses' in 2018, compared to 2017. In 2017 these expenses were charged to the different line items, mainly staff expenses, and in 2018 to the line item 'Customer & Commerce'. Moreover, 'Total Group Services' are allocated to different group departments.

For 'Addition/release of provision for reorganisation', reference is made to the disclosure on the reorganisation provision in Note 15 'Provisions'.

'Other' mainly consists of contributions, audit fees and termination fee with Stater. Stater is the mortgage service provider of the former Delta Lloyd Bank mortgage portfolio.

Fees of auditors

Reference is made to Note 48 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees and audit related fees. The services rendered by the auditor, in addition to the statutory audit, include an audit in relation to reporting to regulators, audit of annual accounts of subsidiaries, review of interim report, assurance on internal control reports provided to third parties and regulators, services in relation to prospectuses and issuance of debt and reports of factual findings to external parties and regulators.

26 Taxation

NN Bank is part of the Dutch fiscal unity of NN Group for corporate income tax purposes, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables from and payables to NN Group. Income tax payable amounts to EUR 11,290 thousand and concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 14 'Other liabilities'.

Deferred tax (2018)

	Net liability 1 January 2018[1]	Change through equity	Change through net result	Net liability 2018[1]
Investments	1,580	-397	-51	1,132
Financial assets and liabilities at fair value through profit or loss	3,207	0	-3,207	0
Loans	-680	0	-171	-851
Provisions	-1,637	0	464	-1,172
IFRS ruling	26,880	0	-7,847	19,033
Deferred tax	**29,351**	**-397**	**-10,812**	**18,142**

1 Positive amounts are liabilities, negative amounts are assets.

IFRS ruling

In 2017, Delta Lloyd Bank was added to the Dutch fiscal unity of NN Group. Within the Dutch fiscal unity, the former Delta Lloyd group entities operate under the general Dutch fiscal policies, whereas NN Bank operates under an IFRS ruling. As from 1 January 2018, after the legal merger, the IFRS ruling is applied for assets and liabilities of the former Delta Lloyd Bank. This resulted in a difference between fiscal and financial figures of the Delta Lloyd Day One premiums. These premiums are being amortised over a period of multiple years, thereby reducing the difference. Based on this amortisation schedule, the estimated impact is a EUR 2.6 million reduction in the deferred tax liability and an equivalent increase in the profit and loss of NN Bank as per 31 December 2018.

Notes to the Consolidated annual accounts Continued

Impact of changes in tax regulation in the Netherlands
On 28 December 2018, the proposed reduction of the Dutch corporate income tax rates was enacted. This implies that the corporate tax rate in 2019 will remain 25%, but that the tax rate for 2020 will become 22.55% and for 2021 and subsequent years will become 20.5%. As a result, the deferred tax assets and liabilities of NN Bank were remeasured to the new tax rates. As most of NN Bank's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 20.5% rate that applies as of 2021.

The net impact of the tax rate change was EUR 2.6 million (positive), of which EUR 0.1 million (negative), related to the revaluation reserves in equity, is recognised directly in equity and the remaining EUR 2.7 million (positive) is recognised in the profit and loss account.

Deferred tax (2017)

	Net liability 2016[1]	Change through equity	Change through net result	Net liability 2017[1]
Investments	1,988	-1,065	0	923
Financial assets and liabilities at fair value through profit or loss	4,397	0	-943	3,454
Provisions	-3,041	0	2,416	-625
IFRS ruling	0	0	0	0
Deferred tax	**3,344**	**-1,065**	**1,473**	**3,752**

1 Positive amounts are liabilities, negative amounts are assets.

Taxation on result

	2018	2017
Current tax	32,947	26,933
Deferred tax	-10,812	1,473
Taxation on result	**22,134**	**28,406**

Taxation in 2018 decreased by EUR 6.3 million to EUR 22.1 million, from EUR 28.4 million in 2017.

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

	2018	2017
Result before tax	97,920	113,402
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**24,480**	**28,350**
Expenses not deductible for tax purposes	-59	56
Effective tax amount	**22,134**	**28,406**
Effective tax rate	**22.6%**	**25.0%**

The statutory tax rate in 2018 was 25.0%, as in 2017. The effective tax rate in 2018 was 22.6% (2017: 25.0%).

Taxation on components of other comprehensive income

	2018	2017
Unrealised revaluations	397	-1,065
Realised gains or losses transferred to the profit and loss account	0	0
Total income tax related to components of other comprehensive income	**397**	**-1,065**

Notes to the Consolidated annual accounts Continued

27 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		
	31 December 2018	1 January 2018	31 December 2017	31 December 2018	1 January 2018	31 December 2017
Financial assets						
Cash and balances at central banks	1,314,956	1,476,908	1,085,613	1,314,956	1,476,908	1,085,613
Amounts due from banks	481,883	386,990	398,900	481,883	386,990	398,900
Financial assets at fair value through profit or loss:						
– non-trading derivatives	125,597	201,054	193,271	125,597	201,054	193,271
Available-for-sale investments	0	0	547,331	0	0	547,331
Investment securities	1,068,658	818,171	0	1,068,417	817,947	0
Loans	19,109,028	19,625,252	14,775,870	18,442,939	18,280,709	13,739,818
Financial assets	**22,100,122**	**22,508,375**	**17,000,985**	**21,433,792**	**21,163,608**	**15,964,933**
Financial liabilities						
Amounts due to banks	263,914	432,415	432,257	264,500	432,415	432,394
Customer deposits and other funds on deposit	15,000,590	14,935,368	11,039,543	14,476,439	14,170,868	10,604,951
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	243,647	223,732	208,153	243,647	223,732	208,153
Other borrowed funds	329,925	485,035	485,035	330,000	485,000	485,000
Debt securities issued	5,042,185	4,961,381	3,600,234	4,968,112	4,830,567	3,481,034
Subordinated debt	100,448	99,520	86,953	97,000	97,000	85,000
Financial liabilities	**20,980,709**	**21,137,451**	**15,852,175**	**20,379,698**	**20,239,582**	**15,296,532**

For the other financial assets and financial liabilities not included in the table above, including short-term receivables and payables, the carrying amount is a reasonable approximation of fair value.

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 the 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.

NN Bank used the following methods and assumptions 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 the 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 the fair value.

Financial assets and liabilities at fair value through profit or loss

Derivatives

Derivative 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 on 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, Black-Scholes option models 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 financial 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

Notes to the Consolidated annual accounts Continued

rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Investment securities

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 repriced frequently and have had no significant changes in credit risk, carrying values 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.

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 borrowed funds

The fair value of other borrowed funds 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.

Subordinated debt and debt securities issued

The fair value of subordinated debt and debt securities is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments listed on the market place.

Financial assets and liabilities at fair value and amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities (2018)

	Balance sheet value	Total fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value					
Non-trading derivatives	125,597	125,597	0	40,632	84,965
Investment securities - FVOCI	795,977	796,463	177,952	618,511	0
Loans - FVTPL	32,351	32,351	0	0	32,351
Financial assets not measured at fair value					
Cash and balances at central banks	1,314,956	1,314,956	1,314,956	0	0
Amounts due from banks	481,883	481,883	481,883	0	0
Investment securities - AC	272,440	272,195	104,947	167,248	0
Loans - AC	18,410,588	19,076,676	0	0	19,076,676
Financial assets	**21,433,792**	**22,100,122**	**2,079,738**	**826,391**	**19,193,993**
Financial liabilities measured at fair value					
Non-trading derivatives	243,647	243,647	0	158,682	84,965
Financial liabilities not measured at fair value					
Amounts due to banks	264,500	263,914	0	263,914	0
Customer deposits and other funds on deposit	14,476,439	15,000,590	8,855,366	6,120,653	24,571
Other borrowed funds	330,000	329,925	0	329,925	0
Debt securities issued	4,968,112	5,042,185	1,496,660	3,545,525	0
Subordinated debt	97,000	100,448	0	100,448	0
Financial liabilities	**20,379,698**	**20,980,709**	**10,352,026**	**10,519,147**	**109,536**

Notes to the Consolidated annual accounts Continued

Methods applied in determining the fair value of financial assets and liabilities (1 January 2018)

	Balance sheet value	Total fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value					
Non-trading derivatives	201,054	201,054	0	54,687	146,367
Investment securities - FVOCI	544,376	544,477	216,830	327,647	0
Loans - FVTPL	138,858	138,858	0	0	138,858
Financial assets not measured at fair value					
Cash and balances at central banks	1,476,908	1,476,908	1,476,908	0	0
Amounts due from banks	386,990	386,990	386,990	0	0
Investment securities - AC	273,571	273,694	105,200	168,494	0
Loans - AC	18,141,851	19,486,394	0	0	19,486,394
Financial assets	**21,163,608**	**22,508,374**	**2,185,927**	**550,828**	**19,771,619**
Financial liabilities measured at fair value					
Non-trading derivatives	223,732	223,732	0	77,365	146,367
Financial liabilities not measured at fair value					
Amounts due to banks	432,415	432,415	0	432,415	0
Customer deposits and other funds on deposit	14,170,868	14,935,368	6,429,894	8,485,199	20,275
Other borrowed funds	485,000	485,035	0	485,035	0
Debt securities issued	4,830,567	4,961,381	1,352,494	3,608,887	0
Subordinated debt	97,000	99,520	0	99,520	0
Financial liabilities	**20,239,582**	**21,137,451**	**7,782,388**	**13,188,421**	**166,642**

NN Bank has categorised its financial instruments that are either measured in the balance sheet at fair value or for 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 ongoing basis.

The fair value hierarchy consists of three levels, depending on whether the fair value is 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, 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 on the date of the event or change of circumstances that caused the transfer.

Level 1 – 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 ongoing 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 elements 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 likely occur can be derived.

Notes to the Consolidated annual accounts Continued

Changes in Level 3 Financial assets

	2018			2017
	Non-trading derivatives	Loans - FVTPL	Total	
Level 3 Financial assets – opening balance	146,367	138,858	285,225	227,019
Amounts recognised in the profit and loss account during the year	-42,202	-7	-42,208	-80,652
Additions	0	382,391	382,391	0
Sale of assets	-19,200	-488,892	-508,092	0
Level 3 Financial assets – closing balance	**84,965**	**32,351**	**117,316**	**146,367**

Changes in Level 3 Financial liabilities

	2018	2017
Level 3 Financial liabilities – opening balance	146,367	227,019
Amounts recognised in the profit and loss account during the year	-61,402	-80,652
Level 3 Financial liabilities – closing balance	**84,965**	**146,367**

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

	2018	2017
Financial assets		
Non-trading derivatives	-61,402	-80,652
Financial assets	**-61,402**	**-80,652**
Financial liabilities		
Non-trading derivatives	61,402	80,652
Financial liabilities	**61,402**	**80,652**

The derecognition in 'Level 3 financial assets or liabilities' relates to the early redemption of Hypenn III and sale of Loans – FVTPL to the related parties, NN Schade and NN Belgium.

The 'Non-trading derivatives' consist of balanced guaranteed swaps. In the valuation of these swaps, prepayment behaviour of underlying mortgage loans is included. The maturity of these swaps is based on the First Optional Redemption Date (FORD).

Level 3 financial assets and liabilities at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2018 of EUR 973.1 million (31 December 2017: EUR 740.6 million) include an amount of EUR 136.0 million (14.0%) that is classified as Level 3 (31 December 2017: EUR 146.4 million, 22.6%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2018 of EUR 243.6 million (31 December 2017: EUR 208.2 million) include an amount of EUR 85.0 million (34.9%) that is classified as Level 3 (31 December 2017: EUR 146.4 million, 66.8%)

Unrealised gains and losses in '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'.

28 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Bank uses derivatives for effective portfolio management and the management of its asset and liability portfolios. In this respect, NN Bank has designated derivatives as fair value hedge accounting on the interest rate risk inherent in its mortgage portfolio (macro hedge), as well as on the interest rate risk related to debt securities issued (micro hedge). 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.

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.

Notes to the Consolidated annual accounts Continued

The fair value of the outstanding non-trading derivative is as follows:

	Positive value		Negative value		Balance	
	2018	2017	2018	2017	2018	2017
Derivatives held for macro fair value hedge accounting	24,795	46,784	150,279	57,951	-125,484	-11,167
Derivatives held for micro fair value hedge accounting	12,845	0	0	695	12,845	-695
Balanced Guaranteed Swaps	84,965	146,367	84,965	146,367	0	0
Other non-trading derivatives	2,992	120	8,403	3,140	-5,411	-3,020
	125,597	**193,271**	**243,647**	**208,153**	**-118,050**	**-14,882**

Macro 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.

NN Bank discontinues and restarts the hedging relationships with each change in its hedging instruments, but at least once per month. The main sources of ineffectiveness are the sensitivity to multiple interest rate curves, differences in payment frequencies, and maturity mismatches between the designated hedging instruments and hedged items. Any results on the discontinuation of hedge relations are included under 'Interest result'. Reference is made to Note 19 'Interest result'.

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.

The valuation result on macro fair value hedge accounting is as follows:

	2018	2017
Fair value movements in hedging instruments	-109,993	63,290
Fair value movements in hedged item attributable to hedged risks	105,068	-59,301
Net effect macro fair value hedge	**-4,925**	**3,989**

Micro fair value hedge accounting

NN Bank also entered into derivative transactions in order to limit the interest rate risk of its funding operations. Fair value micro hedge accounting for those derivatives is applied. The hedged item consists of individual external borrowings in 'Debt securities issued' while the hedging instrument consists of interest rate swaps. NN Bank periodically assesses the fair value change of the micro hedge in the hedged part of 'Debt securities issued' attributable to the hedged risk, on the basis of the expected interest reset date. When NN Bank assesses the hedge as effective, it recognises the fair value change in the hedged part of 'Debt securities issued' in the balance sheet and the gain or loss in the profit and loss account.

The valuation result on micro fair value hedge accounting is as follows:

	2018	2017
Fair value movements in hedging instruments	13,541	-695
Fair value movements in hedged item attributable to hedged risks	-13,428	848
Net effect micro fair value hedge	**113**	**153**

Non-trading derivatives

The following table shows the non-trading derivatives by type and maturity.

Non-trading derivatives by type and maturity (2018)

	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	64	3,774	6,431	10,269	41	159
Balanced Guaranteed Swaps	446	2,921	0	3,367	85	85
Interest rate caps	570	1,606	0	2,176	0	0
Total non-trading derivatives	**1,080**	**8,301**	**6,431**	**15,812**	**126**	**244**

Notes to the Consolidated annual accounts Continued

Non-trading derivatives by type and maturity (2017)

	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	363	4,832	4,075	9,270	47	62
Balanced Guaranteed Swaps	0	4,912	0	4,912	146	146
Interest rate caps	0	2,332	0	2,332	0	0
Total non-trading derivatives	**363**	**12,076**	**4,075**	**16,514**	**193**	**208**

29 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 (2018)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,314,956	0	0	0	0	1,314,956
Amounts due from banks	164,190	317,693	0	0	0	481,883
Financial assets at fair value through profit or loss:						
– non-trading derivatives[2]	0	0	2,073	87,231	36,293	125,597
Investment securities	0	0	29,176	996,625	42,616	1,068,417
Loans	92,666	59,443	223,624	1,026,199	17,041,007	18,442,939
Intangible assets	0	0	0	8,056	0	8,056
Other assets	128,780	31,389	0	0	0	160,169
Total assets	**1,700,592**	**408,525**	**254,873**	**2,118,111**	**17,119,916**	**21,602,017**
Risk management derivatives:						
– inflow	100	706	9,920	42,690	120,778	174,194
– outflow	-618	-1,695	-6,195	-43,121	-79,165	-130,794

1 Includes assets on demand.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the interest rate swap curve per 31 December 2018.

Assets by contractual maturity (2017)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,085,613	0	0	0	0	1,085,613
Amounts due from banks	89,801	309,099	0	0	0	398,900
Financial assets at fair value through profit or loss:						
– non-trading derivatives[2]	0	0	0	148,637	44,634	193,271
Available-for-sale investments	0	0	10,174	495,510	41,647	547,331
Loans	226,753	35,556	136,445	682,063	12,659,001	13,739,818
Intangible assets	0	0	0	4,479	0	4,479
Other assets	88,883	11,003	0	0	0	99,886
Total assets	**1,491,050**	**355,658**	**146,619**	**1,330,689**	**12,745,282**	**16,069,298**
Risk management derivatives:						
– inflow	3	0	131	37,515	201,882	239,530
– outflow	-1,663	-3,941	-13,213	-60,014	-112,238	-191,069

1 Includes assets on demand.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 29 December 2017.

Notes to the Consolidated annual accounts Continued

30 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.

Non-financial liabilities are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 40 'Risk Management' for a description on how liquidity risk is managed.

Liabilities by maturity (2018)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Amounts due to banks	0	0	90,000	174,500	0	264,500
Customer deposits and other funds on deposit	8,941,312	117,794	512,017	2,077,390	2,827,926	14,476,439
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives[2]	7	0	2,112	116,342	125,186	243,647
Other borrowed funds	0	125,000	115,000	90,000	0	330,000
Debt securities issued	0	0	708,145	2,702,902	1,557,065	4,968,112
Subordinated debt	0	0	12,000	0	85,000	97,000
Financial liabilities	**8,941,319**	**242,794**	**1,439,274**	**5,161,134**	**4,595,176**	**20,379,697**
Other liabilities	53,959	126,242	45,378	0	0	225,579
Deferred tax liabilities	0	0	18,142	0	0	18,142
Other provisions	1,085	1,244	3,221	339	0	5,889
Non-financial liabilities	**55,044**	**127,486**	**66,741**	**339**	**0**	**249,610**
Total liabilities	**8,996,363**	**370,280**	**1,506,015**	**5,161,474**	**4,595,176**	**20,629,308**
Risk management derivatives:						
– outflow	6,548	10,959	60,543	240,769	408,575	727,394
– inflow	-35	-27	-201	-58,349	-491,217	-549,829
Coupon interest due on financial liabilities	-19,257	-16,214	-68,435	-418,712	-293,233	-815,850

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. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 31 December 2018.

Liabilities by maturity (2017)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Amounts due to banks	34,713	38,181	185,000	174,500	0	432,394
Customer deposits and other funds on deposit	7,128,964	53,540	242,758	848,048	2,331,641	10,604,951
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives[2]	0	0	3,084	164,657	40,412	208,153
Other borrowed funds	45,000	180,000	190,000	70,000	0	485,000
Debt securities issued	0	0	4,000	2,677,529	799,505	3,481,034
Subordinated debt	0	0	0	0	85,000	85,000
Financial liabilities	**7,208,677**	**271,721**	**624,842**	**3,934,734**	**3,256,558**	**15,296,532**
Other liabilities	26,990	16,716	13,111	0	0	56,817
Deferred tax liabilities	0	0	3,752	0	0	3,752
Other provisions	160	191	650	0	0	1,001
Non-financial liabilities	**27,150**	**16,907**	**17,513**	**0**	**0**	**61,570**
Total liabilities	**7,235,827**	**288,628**	**642,355**	**3,934,734**	**3,256,558**	**15,358,102**
Derivative management derivatives:						
– outflow	0	118	3,934	43,826	194,952	242,830
– inflow	-992	-2,802	-33,447	-106,001	-167,894	-311,136
Coupon interest due on financial liabilities	-49,197	-7,741	-36,078	-299,484	-191,019	-583,519

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. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 29 December 2017.

Notes to the Consolidated annual accounts Continued

31 Assets not freely disposable

Assets not freely disposable

	2018	2017
Loans	6,779,512	5,111,691
Cash and balances at central banks	72,290	78,220
Amounts due from banks	150,420	85,267
Collateral posted	317,693	179,099
Assets not freely disposable	**7,319,915**	**5,454,277**

The amount not freely disposable for ‘Loans’ reflects the securitised mortgages portfolios to Arena NHG 2014-2016 and Hypenn RMBS I, II, IV to VI, the mortgage loans structured through the Covered Bond Programme and collateralised mortgage loans for the warehouse credit facility agreements.

‘Cash and balances at central banks’ concerns the mandatory reserve deposit at DNB.

The amount not freely disposable for ‘Amounts due from banks’ reflects the money held by the Arena NHG, Hypenn RMBS entities and the Covered Bond companies.

‘Collateral posted’ concerns the collateral accounts regarding centrally cleared swaps.

32 Transferred, but not derecognised financial assets

The majority of NN Bank’s financial assets, which have been transferred but do not qualify for derecognition, are mortgage loans incorporated in notes issued by the Arena NHG and 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.

Mortgage loans transferred to consolidated securitisation entities are not included, as these related mortgage loans are not transferred from a consolidated perspective. Reference is made to Note 36 ‘Structured entities’.

33 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 (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	1,043	1,043
Irrevocable credit facilities	120,704	0	0	0	0	120,704
Mortgage and consumer lending offerings	157,612	232,503	119,228	0	0	509,342
Construction deposits	23,756	40,808	137,411	121,445	10	323,429
Contingent liabilities and commitments	**302,071**	**273,311**	**256,638**	**121,445**	**1,053**	**954,518**

Contingent liabilities and commitments (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	0	0
Irrevocable credit facilities	104,979	0	0	0	0	104,979
Mortgage and consumer lending offerings	72,965	174,654	103,212	0	0	350,831
Construction deposits	1,956	2,410	38,158	171,910	0	214,434
Contingent liabilities and commitments	**179,900**	**177,064**	**141,370**	**171,910**	**0**	**670,244**

‘Irrevocable facilities’ relate to liabilities arising from irrevocable undertakings and include credit facilities, except mortgage offerings. These are mortgage loans with undrawn facilities and undrawn revolving credit facilities.

In 2018, NN Bank signed an amended contract with ING Bank with regards to NN-labelled mortgages held by ING Bank. In this amendment, the end date of 2020 has been replaced by the commitment of NN Bank to continue the purchase of resetting loans until all loans have been transferred. This is expected to continue until approximately 2036. In addition, the resetting loans now also contain certain other loans with an adjustment in interest rates. As per 31 December 2018 the size of the portfolio of NN labelled mortgage held by ING Bank was EUR 2.2 billion.

Tax liabilities

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 payable by NN Group at the end of 2018 amounted to EUR 1,464 thousand (2017: EUR 28,043 thousand receivable).

34 Legal proceedings

General

NN Bank is 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, NN Bank is not aware of any proceedings against it that may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of NN Bank.

However, on 6 February 2018 two consumer protection organisations (Consumentenbond and Vereniging Eigen Huis) publicly announced the start of a trial process claiming that prepayment penalties charged prior to 14 July 2016 should be recalculated and potentially be repaid to borrowers. The outcome of such a trial process may negatively impact financial institutions and, thus, impact NN Bank's financial position, business, revenues, result of operations and prospects.

35 Principal subsidiaries

NN Bank has two fully owned subsidiaries:

- HQ Hypotheken 50 B.V. was founded on 21 August 2012 and has its official seat and 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. has its official seat in The Hague. This is a dormant company, not currently conducting any business or other activities.

The Arena NHG entities (2014-I, 2014-II and 2016-I), Hypenn RMBS entities (I , II, IV – VI) and NN Conditional Pass-Through Covered Bond Company B.V. are not legal subsidiaries of NN Bank. Since NN Bank has control over the structured entities, these special-purpose entities (SPEs) have been consolidated as group companies. Reference is made to Note 36 'Structured entities'.

No country-by-country reporting has been included as NN Bank has no activities abroad (apart from saving attraction in Spain), and as such this will not provide additional insights.

36 Structured entities

NN Bank's activities involve 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. For example, when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. NN Bank uses structured entities for securitisation transactions of residential mortgages and in the Covered Bond Programme. 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.

NN Bank has established a EUR 5 billion Conditional Pass-Through Covered Bond Programme. Under this Programme, the payment of interest and principal on the bonds issued by NN Bank is guaranteed by an NN Bank-administered structured entity, NN Conditional Pass-Through Covered Bond Company B.V. (CBC). In order for the CBC to fulfil its guarantee, NN Bank legally transfers Dutch prime residential mortgage loans originated by NN Bank to the CBC. Economically, the mortgages are on the balance sheet of NN Bank. The CBC is consolidated by NN Bank.

NN Bank issued the following bonds under the Conditional Pass-Through Covered Bond Programme, which were placed with a wide range of institutional investors:

	Due date	Notional amount	Fixed coupon
Covered bond September 2017	10-10-2024	500,000	0.500%
Covered bond June 2018	11-9-2025	500,000	0.625%
Covered bond September 2018	25-9-2028	500,000	1.000%
		1,500,000	

Securitisation transactions are used to diversify NN Bank's funding sources and to manage its liquidity profile. In these transactions, NN Bank sells a portfolio of mortgage receivables (e.g. mortgage loans) to a structured entity that 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 derivative financial instruments in these securitisation transactions. These financial instruments relate to balanced guaranteed 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 these derivative financial instruments, which are exactly the opposite of the financial instruments of NN Bank. The fair value of these balanced guaranteed swap transactions amounted to EUR 85.0 million as at 31 December 2018 (31 December 2017: EUR 146.4 million) and are presented gross. Offsetting is not applicable as it concerns separate contracts.

Notes to the Consolidated annual accounts Continued

In the table below, the carrying amounts of the Residential Mortgage Backed Securitisation transactions issued and Covered Bond transactions issued, including the related mortgage loans, are summarised:

	Maturity Year			Related mortgage loans			Notes / bonds issued
		31 December 2018	1 January 2018	31 December 2017	31 December 2018	1 January 2018	31 December 2017
Arena NHG 2014-I	2019	461,929	569,722	0	384,873	460,652	0
Arena NHG 2014-II	2020	488,376	587,798	0	400,627	477,079	0
Arena NHG 2016-I	2021	463,393	535,107	0	348,868	411,802	0
Hypenn RMBS I	2020	1,447,574	1,484,867	1,484,867	397,853	396,532	396,532
Hypenn RMBS II	2019	378,413	425,279	425,279	323,272	371,442	371,442
Hypenn RMBS III	2020	0	573,226	573,226	0	500,237	500,237
Hypenn RMBS IV	2020	444,496	498,884	498,884	389,761	444,755	444,755
Hypenn RMBS V	2021	424,324	469,838	469,838	382,867	429,516	429,516
Hypenn RMBS VI	2022	770,258	842,465	842,465	493,268	535,047	535,047
Covered bonds	2024	1,790,765	599,774	599,774	1,487,958	497,853	497,853
Total		**6,669,527**	**6,586,960**	**4,894,333**	**4,609,347**	**4,524,915**	**3,175,382**

37 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. Transactions between related parties have taken place on an arm's length basis, and include rendering and receiving of services, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised in outstanding balances with related parties.

NN Bank conducts transactions with its parent company and its subsidiaries. NN Bank is part of NN Group. The following categories of transactions are conducted under market-compliant conditions with related parties:

- The management of financial instruments takes place via a management agreement with NN Investment Partners Holdings N.V. ('NN IP'). Reference is made to the table 'Transactions with Other group companies'.
- Sale of mortgages to other NN Group companies. Reference is made to Note 7 'Loans'.
- Transactions with NN Group concerning financing arrangements and the payment of taxes, as NN Group heads the fiscal unity. Reference is made to Notes 17 'Subordinated debt' and 33 'Contingent liabilities and commitments'.
- Asset management services to group companies, carried out by NN Bank. For more details reference is made to the tables that follow.
- Facility and other services carried out by group companies
- Transactions relating to the remuneration of Board members. Reference is made to Note 38 '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 company

Parent group company	2018	2017
Assets	0	0
Liabilities	86,714	86,693
Income received	-3,496	-6,757
Expenses paid	24,315	32,372

'Liabilities' mainly reflect the subordinated loans from NN Group. Reference is made to Note 17 'Subordinated debt'.

The interest paid on loans from NN Group is included in 'Interest result' as part of 'Total income' in the Consolidated profit and loss account. 'Expenses paid' includes mainly expenses charged by staff departments on behalf of NN Group, especially for IT, Human Resources and facility management services. Reference is also made to Note 25 'Other operating expenses'.

Other group companies

Other group companies	2018	2017
Assets	123,136	-89,522
Liabilities	339,903	172,129
Income received	85,424	131,467
Expenses paid	38,384	22,773

'Assets' comprises the current account with NN Insurance Eurasia N.V. of EUR 52 million (2017: EUR 28 million) and positions resulting from partial transfer of mortgage loans with NN Leven.

Notes to the Consolidated annual accounts Continued

NN Bank transfers mortgage parts as part of certain arrangements. The net amount of partial mortgages loans transferred to NN Leven amounted to EUR 141 million as at 31 December 2018 (2017: EUR 192 million). For the former Delta Lloyd Bank portfolio, NN Bank has a receivable following arrangements to transfer mortgage parts in an intercompany account amounted to EUR 253 million as at 31 December 2018.

'Liabilities' mainly consists of Hypenn notes, owned by NN Leven of EUR 100 million (2017: EUR 101 million), payables to Amstelhuys N.V. of EUR 99 million and repos of EUR 75 million (2017: EUR 75 million). Furthermore, NN Bank has a payable of EUR 70 million representing the claim at the level of built-up savings premiums for the former Delta Lloyd Bank portfolio For more details, reference is made to Note 10 'Amounts due to banks', Note 11 'Customer deposits and other funds on deposit', Note 14 'Other liabilities' and Note 16 'Debt securities issued'.

'Income received' mainly reflects fee income on mortgage origination and servicing on behalf of NN Leven of EUR 63.8 million (2017: EUR 48 million), the servicing fee for Amstelhuys-originated loans EUR 14.3 million and EUR 5.0 million interest received on the transfer mortgage parts for the former Delta Lloyd Bank portfolio. Interest expenses on funding from NN Leven amounting to EUR 22.8 million (2017: EUR 19.9 million), EUR 2.6 million interest expenses relating to the built-up savings premiums for the former Delta Lloyd Bank portfolio, income from loan portfolio servicing fees and negative income on asset management fees to NN IP are also included.

'Expenses paid' mainly comprises expenses by Customer & Commerce for work done by this entity on behalf of NN Bank.

38 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 of Book 2 of the Dutch Civil Code.

Management Board

	2018[2]	2017
Fixed compensation:		
- base salary	929	800
- pension costs[1]	107	108
- individual savings allowance[1]	138	136
Variable compensation:		
- up-front cash	90	93
- up-front shares	90	93
- deferred cash	90	93
- deferred shares	90	93
Other benefits[3]	232	224
Fixed and variable compensation	**1,766**	**1,640**

1 The pension costs consist of an amount of employer contribution (EUR 107 thousand) and an individual savings allowance (EUR 138 thousand, which is 27.2% of the amount of base salary above EUR 105,075).
2 Reference is made to Composition of the Boards on page 4.
3 In the comparative figures are the other benefits adjusted as to include social security contributions

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 NN Bank Supervisory Board members do not receive any compensation for their activities, except for two Supervisory Board members who are not employees of NN Group (2017: two external Supervisory Board members). The remuneration of EUR 61,300 (2017: EUR 36,300) 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. Their remuneration is part of the allocation of head quarter expenses and they do not receive any (additional) allowances for their role as Supervisory Board members.

The remuneration of the Supervisory Board members includes VAT for 2018 and 2017. 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.

The total remuneration, as disclosed in the table above (2018: EUR 1,766 thousand), includes all variable remuneration related to the performance year 2018. 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 2018 and therefore included in 'Total expenses' in 2018, relating to the fixed expenses of 2018 and the vesting of variable remuneration of 2018 and earlier performance years, is EUR 1,755 thousand (2017: EUR 1,469 thousand).

Remuneration policy

As a direct 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. NN Group's remuneration policies 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 objectives of the company.

Notes to the Consolidated annual accounts Continued

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
- Claw-back and hold-back arrangements
- Attract and retain talented personnel

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Management Board members	0	0	0.0%	0.0%	0	0
Supervisory Board members	495	577	5.0%	5.0%	82	83
Loans and advances to key management	**495**	**577**			**82**	**83**

The loans and advances provided to members of the Supervisory Board consist of mortgage loans. The total amount of redemptions of these mortgage loans during 2018 was EUR 82 thousand (2017: EUR 83 thousand).

39 Subsequent and other events

Subsequent events

Covered Bonds issuance

NN Bank concluded its fourth public covered bond transaction at the end of February 2019. An amount of EUR 500 million was raised from a large group of international investors by the issuance of a covered bond, with a tenor of 5 years and a fixed coupon of 0.25%. In addition, NN Bank raised EUR 45 million of 20-year funding through the issuance of privately placed covered bonds to individual investors.

Arena NHG 2014-I

On 22 February 2019, NN Bank announced that it will repurchase mortgages from the Arena 2014-1 NHG BV transaction. As a result, NN Bank will facilitate the full redemption of the current outstanding EUR 85 million Class A2 notes, EUR 280 million Class A3 notes, EUR 85 million Class B notes and EUR 12 million Class C notes on 17 April 2019.

40 Risk management

Unless stated otherwise, the 31 December 2017 figures do not include Delta Lloyd Bank. As at 1 January 2018 and onwards, the figures are after the legal merger.

Introduction

Risk management is a fundamental part of the banking business that must be addressed appropriately to enable NN Bank to successfully meet its obligations towards customers, regulators and other stakeholders. Accepting risk is an integral part of NN Bank's business: having the right functions and systems in place to manage risks is important. 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.

The NN Bank risk management structure and governance follows the 'Three Lines of Defence' concept and includes its integration into NN Bank's strategic planning cycle, the management information generated and granular risk assessment. In line with NN Group, NN Bank has defined and categorised its generic inherent risk types in a mutually exclusive and collectively exhaustive risk taxonomy, and subsequently expressed its appetite for these risk types in three key risk appetite statements.

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 and managed
- NN Bank's risk profile is transparent, is 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

Risk management system and governance

NN Bank's organisational risk management structure comprises 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 NN Bank's profitability, solvency or liquidity. This involves an independent risk management function – in accordance with the relevant regulatory requirements (Wft, CRR and EBA) and the policy frameworks of NN Group and NN Bank.

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

- Risk governance: NN Bank's risk governance follow the 'Three Lines of Defence' concept, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN Bank's risk management
- Risk management system: NN Bank's risk management structure 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. This includes 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 organisation.

Risk Governance

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 NN 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 business conduct 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 NN 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.

Notes to the Consolidated annual accounts Continued

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.
- Data Governance Committee (DGC): responsible for maintenance and implementation of the Data Governance & Quality Management Policy. The DGC is chaired by the head of Change, Technology, and Information.
- 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 on 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.
- Balance Sheet Management Committee (BMC): the BMC is responsible for management of the pricing of savings and mortgages to ensure that they meet at least ROE/profitability targets, while striving for economic profit per products greater than zero. Decisions made in the BMC are mandatory guidance for the pricing committees. The BMC is chaired by the CEO.

Risk Policy framework

NN Bank's risk policy framework ensures that all risks are managed consistently and that NN Bank as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the board committee structure. Potential waivers to the policies have to be approved through the Management Board or its board committees.

Three Lines of Defence concept

In line with NN Group, the 'Three Lines of Defence' concept 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 NN Group's risk appetite:

- 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. This includes responsibility for tracking and testing control effectiveness. Finance and Treasury departments are part of the First Line of Defence.
- 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

Independent risk management function (Second Line of Defence)

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. Four risk departments support the CRO: 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 system 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.

Notes to the Consolidated annual accounts Continued

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 in NN Bank as a reliable financial service provider
- To generate sustainable profitability and stable shareholder value

Model Governance and Model Validation
Through model governance and independent model validation NN Bank aims to ensure that its models are fit for their intended purpose. The NN Bank Model Committee approves models and their disclosed metrics. This committee is responsible for modelling policies, processes, methodologies, and parameters that are applied within NN Bank. Furthermore, NN Bank uses the independent NN Group model validation function to carry out validations of its models. Any changes to models that have an impact larger than certain pre-set materiality thresholds require approval at NN Group level.

Risk management system
The risk management system is not a sequential process, but a dynamic and integrated system. The system comprises three important and interrelated components:

- A risk control cycle, embedded in
- An appropriate organisation, with
- A comprehensive risk appetite framework

NN Bank's business environment exposes NN Bank to inherent risks and obligations. As such, the environment determines the 'playing field' and rules with which to calibrate all risk management activities. These activities are carried out within an internal environment reflected by NN Bank's risk appetite and framework.

Every employee has a role in identifying risk in his/her area of responsibility, and the role of management is to decide how to manage that risk. It is paramount to know which risks we take and why, to be aware of large existing and emerging risks, and to ensure an adequate return for the risk assumed in the business.

With risk management, we do not try to predict the future, but instead prepare pro-actively for a wide range of possibilities.

When assessing and managing risks, we work systematically, aim for completeness and document what we do. Each risk analysis performed shall be focused and relevant. It thus becomes clear and transparent throughout the organisation, for the benefit of management and stakeholders alike.

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

Emerging and strategic risks
In general, strategic and emerging risks are identified using a scenario analysis approach. Strategic options are developed and executed to mitigate these risks as part of strategic planning.

Solvency and liquidity risks
- Credit risk: the risk of potential loss due to default of NN Bank's debtors
- Interest rate risk in the banking book: the exposure of a bank's financial condition to adverse movements in interest rates originated from positions in the banking book
- 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 risks and emerging risks are included in business risk.
- 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.

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.
- Business conduct risk: the risk of impairment of NN Bank's integrity. Business conduct risk is the risk of failure (or perceived failure) to comply with NN Group's business principles and the business conduct 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.

Notes to the Consolidated annual accounts Continued

Risk control cycle

In line with the NN Group Risk Control Framework, NN Bank's risk control cycle consists of four steps: strategy, assessment, control and monitoring. The cycle starts with business processes that support business and risk objectives-setting (the latter resulting in a risk strategy: risk appetite, policies and standards). This is followed by business processes aimed at realisation of those objectives, leading to risks that need to be managed by identifying/assessing them, effective mitigation through controls and continuous monitoring of the effectiveness of controls, including reporting of risk levels.

The risk control cycle, combined with the Business Plan/financial control cycle and performance management/HR cycle, enables the realisation of business objectives by ensuring that NN Bank operates within the risk appetite.

Risk Strategy – Risk Appetite Framework

In line with the NN Group Risk Control Framework, NN Bank uses an integrated risk management approach for its banking activities. NN Bank's Management Board uses the NN 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.

Within NN Bank, the CRO is responsible for advising on the risk appetite, in close consultation with the CFO and the Head of Legal, Compliance & FJA. 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 and verifies that they are in accordance with the set risk appetite.

Qualitative risk appetite metrics

In line with the NN Group Risk Control Framework, NN Bank key qualitative risk appetite statements are as follows:

Risk Appetite Statement	Risk class	Risk strategy
Strategic Challenges (Shaping the business)	Emerging & Strategic Risks	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders and respond and adapt to emerging external challenges, and act as a firm with responsibility in society at large.
Strong Balance Sheet (Running the business - financially)	Solvency Risk	We accept financial risks on our balance sheet that we understand and can effectively manage insofar as we are required to accept them in order to produce products for our clients, and by designing and pricing products responsibly, yet we will limit credit, concentration and interest rate risks.
	Liquidity Risk	We want to meet our payment and collateral obligations, even under severe liquidity stress scenarios.
Sound Business Performance (Running the business – operationally)	Non-Financial Risk	We do not accept material breaches of applicable laws and regulations, NN Group policies and standards.
		We actively monitor and manage employee conduct and foster a business culture demonstrating that we live the NN Values.
		We only market products and services that add value to our clients over their expected lifetime, and can be explained in a simple, transparent manner.
		We accept but limit losses from non-financial risk and therefore manage to agreed tolerances.
		We have no appetite for material errors in external financial reports.
		We avoid, to the extent possible and even under severe circumstances, sustained discontinuation of business.

Notes to the Consolidated annual accounts Continued

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. These metrics are shown below along with their levels at year-end:

Key risk metrics

	31 December 2018	1 January 2018	Level end of 31 December 2017
Total capital ratio[1]	17.9%	16.7%	16.9%
Common Equity Tier 1 ratio[1]	16.3%	15.2%	15.1%
Leverage ratio	4.1%	4.1%	4.2%
Liquidity Coverage Ratio (LCR)	171%	175%	162%

1 These are not final until filed with the regulators. If DNB approves of the second half-year result of 2018 being added, then the Total capital ratio is 17.9% and CET1 ratio is 16.4%.

The increase in the balance sheet notwithstanding, NN Bank has maintained a solid capital position with a Total capital ratio of 17.9% and a CET1 ratio of 16.3% at year-end 2018. The leverage ratio stands at 4.1%. At the end of December 2018, NN Bank had an LCR ratio of 171%. This is well above the regulatory and internal limits. It shows a solid liquidity position given our liquidity risks.

Risk Assessment & Control
Risk assessments are regularly performed throughout NN Bank. Risks that do not directly impact the balance sheet generally require more professional judgment to be identified and quantified. Risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess, report on and follow up on identified risks.

Risk Appetite Statement	Risk class	Risk assessment and example mitigation technique
Strategic Challenges (Shaping the business)	Emerging & Strategic Risks	Scenario analysis, strategic planning, strategic risk assessments, ICAAP, ILAAP, stress testing, recovery & resolution planning, overall solvency, liquidity and non-financial risk appetite limit setting, model governance,
Strong Balance Sheet (Running the business - financially)	Solvency Risk	Monitoring & management against risk appetite of retail & non-retail credit risk, interest rate risk in the banking book, business/customer behaviour risk using models as appropriate, PARP.
	Liquidity Risk	Monitoring & management against risk appetite of liquidity risks using models as appropriate
Sound Business Performance (Running the business – operationally)	Non-Financial Risk	Value chain and operational level non-financial risk assessments, 1st line non-financial risk monitoring and key control testing and, independent 2nd line reviews, PARP.

Product approval and review process (PARP)
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.

Internal capital adequacy assessment (ICAAP) and liquidity adequacy assessment (ILAAP) processes
At least once a year, NN Bank performs an ICAAP and ILAAP in compliance with European Banking Authority (EBA) requirements. ICAAP and ILAAP test whether NN Bank is sufficiently resilient against severe but plausible stress. Stress testing is a key part of NN Bank's internal capital and liquidity adequacy assessment processes.

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 Regulation (CRR), 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).

Stress tests focus on topical issues and the sensitivity of NN Bank's capital and liquidity position to certain risks. 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. These analyses determine risk appetite and provide input that helps to steer strategic direction and support decision-making to ensure that NN Bank can survive severe but plausible stress. In addition, this information is important input for the annual Supervisory Review and Evaluation Process (SREP) performed by the regulator, resulting in capital requirements for NN Bank.

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 and historical scenario analysis is a core part of the NN Bank stress testing approach. The scenario design takes systematic and institution-specific changes in the present and near future into account.
- 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

Notes to the Consolidated annual accounts Continued

Recovery and resolution 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, allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending upon the type of crisis.

Non-financial risks
Business conduct, operations, continuity & security risks, and related second order potential reputation impact are monitored in their mutual relationship as 'Non-Financial Risk' (NFR). NFRs are identified, assessed, mitigated, monitored and reported in the overall risk control cycle within NN Bank. Key NFRs are included in the quarterly risk reporting.

Risk Monitoring
The risk profile is monitored against risk appetite; risk assessments are performed to determine risk appetite and to set risk limits. Risk monitoring reports, including deficiencies, conclusions and advice, are regularly provided to the NN Bank Management Board or the respective Board committees. Management takes action when monitoring indicates that risks are not adequately controlled.

Specifically, the Credit Risk Committee and the Asset and Liability Committee, respectively, monitor credit risk, interest rate risk in the banking book, business/customer behaviour risk and liquidity risk on a monthly basis. On a quarterly basis, the Non-Financial Risk Committee monitors non-financial risks. At least on a quarterly basis, the NN Bank Management Board monitors the integrated risk profile across all risk types, including emerging and strategic risks. All risk reporting and monitoring is performed in a forward-looking manner.

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
- Limitation of a bank's leverage via a ratio that becomes part of Pillar I of the Basel framework
- Liquidity and funding requirements via the 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.
- Reducing '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 are being implemented – taking into account transitional arrangements – through the Capital Requirement Regulation (CRR/CRDIV) effective per 1 January 2014 with full implementation as of 1 January 2019. The European Council and European Parliament agreed upon the amendments to the CRR/CRDIV requirements (CRRII/CRDV) in 2018. Implementation is expected in H1 2019. The CRRII/CRDV requirements contain the final set of rules for the Leverage Ratio and the Net Stable Funding Ratio, along with some other implementation issues that were either pending or subject to review some years after the CRR entered into force.

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 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. Credit risk and operational risk are the relevant risks for NN Bank that are taken into account under Pillar I. Market risk in the trading book does not apply to NN Bank, since NN Bank does not have a trading book.

NN Bank applies the Standardised Approach (SA) to calculate its minimum capital requirement for credit risk and the Standardised Approach for operational risk. Nevertheless, it is NN Bank's aim to obtain advanced internal ratings-based approach (AIRB) status for credit risk, 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
Pillar II concerns the internal risk estimation of NN Bank's risks, 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, interest rate risk in the banking book, business risk and model risk. Stress testing is a key part of NN Bank internal capital and liquidity adequacy assessment processes.

Notes to the Consolidated annual accounts Continued

Pillar III: Approach to Market Discipline Requirements

Pillar III concerns the rules for the compulsory disclosure of information that provides insight into 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 in a separate document.

Basel IV

The Basel Committee on Banking Supervision has decided on a series of final revisions of the Basel III framework in order to continue to strengthen the regulation and supervision for banks worldwide. The revisions aim, amongst others, to simplify capital requirement calculations. The revisions cover market risk, operational risk, and credit risk and have as implementation date 1 January 2022. NN Bank will take a prudent approach with respect to Basel IV. The Basel IV requirements still need to be translated into the Capital Regulations Requirements (CRR) in order to become legally effective.

Business environment developments 2018

Mortgage market

As a Dutch bank, NN Bank is influenced by the developments in the Dutch markets, including the political and economic climate. According to the Centraal Plan Bureau (CPB), the Dutch GDP grew by 2.6% over 2018, marking the fifth year of robust growth in a row (CBS: 2.9% in 2017). Consumer purchasing power increased on balance, buoyed by a combination of rising wages and decreasing unemployment. The economy is edging ever-closer to full employment, with 2018's unemployment rate testing pre-crisis levels at 3.9% and expected to decrease even further (Source: CPB).

Increasing scarcity, predominantly in the larger cities, has caused an increase in house prices. Buying a house has become more attractive for those who can afford to do so. Rental houses are increasingly scarce and expensive. This also applies to expats. Their number is growing, as more and more international organisations settle in the Netherlands. As a result of market circumstances, first-time home buyers faces increasing difficulties in buying a house (again, predominantly in the larger cities). A growing group of Dutch people think it is an unfavourable time to buy a home, for which the main arguments appear to be decreased affordability (67%) and limited choice (51%) in the market (Source: TU Delft – Eigen Huis Marktindicator 2018Q4). As a result, the Dutch mortgage market still saw growth, but the growth of the new mortgage production has decreased from 25% in 2017 to 5% in 2018 (Source: Kadaster).

Housing affordability depends on mortgage interest rates. These rates have continued to decline on average in 2018, though the pace is slowing. This made home loans more accessible, but put more upwards pressure on the housing prices. Historically, the Dutch mortgage 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. Rate deductibility was capped at 50% in 2017, reduced to 49,5% in 2018. Each following year, this will be further brought down by 0.5%-point, until reaching a final 37% ceiling. Furthermore, regulation on minimum mortgage underwriting criteria has been tightened in order to reduce the overall loan-to-value (LTV) ratio in the Dutch mortgage market. Effective in 2018, the maximum LTV for new mortgages is 100%. Newly originated mortgages will have their interest-only component capped at 50%, with the remainder following an annuity or stricter repayment scheme over a maximum period of 30 years.

Risk developments 2018

Integration Delta Lloyd Bank

The merger of NN Bank and Delta Lloyd Bank was prepared through an integration programme that started in 2017. The operational integration will run until 2020. Through the integration programme, integration risks are continuously monitored and mitigated at workstream level and integration programme management level.

Brexit

NN Bank has a number of transaction related parties that are UK (based) firms and transaction documentation under English Law. With the impending withdrawal of the UK from the EU a response plan for NN Bank has been implemented to safeguard its ability to hedge its interest rate position via new transactions after 29 March 2019 through an EU based set-up, regardless of any Brexit scenario. Amongst others, clearing documentation has been prepared with current clearing brokers and clearing access to Eurex via the current clearing brokers is in the process of being obtained.

Furthermore, the European Commission implemented its 'no-deal' Contingency Action Plan. One of the measures includes a "temporary and conditional equivalence decision in order to ensure that there will be no disruption in central clearing". This measure ensures that more time is available to make arrangements to further safeguard NN Bank's clearing access and the potential transfer of the derivatives portfolio to Eurex.

Credit risk

This section provides information about the credit risk profile of the NN Bank portfolio, and NN Bank's credit risk management. Please note that in the credit risk tables of this paragraph, the loan exposures of the financial statement (without subtracting the provisions) are used. These figures differ slightly from the notional amounts (gross credit risk exposures) that are used in the NN Group Annual Report. The loan exposures in the NN Bank Annual Report are adjusted for (amongst others) construction depots, savings, accrued interest and mortgage premiums.

Notes to the Consolidated annual accounts Continued

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, money market risk, counterparty lending risk and issuer risk on investment are categorised under counterparty credit risk and are part of the non-retail credit risk framework. Within NN Bank, the pre-settlement credit risk category is currently associated with OTC derivatives. The interest rate swap portfolio is transferred to mandatory central clearing through a Central Clearing Counterparty (CCP) under the European Market Infrastructure Regulation (EMIR).

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 lending credit book.

Net exposure on mortgages

Amounts in thousands of euros	31 December 2018	1 January 2018	31 December 2017
Balance amount	18,243,328	18,041,335	13,529,668
Indexed market value primary cover	28,020,187	24,917,241	19,326,311
Secondary cover value	1,321,007	1,261,544	1,014,282
NHG guarantee value	5,306,512	5,338,246	3,220,560
Total cover value + NHG guarantee capped at balance amount	18,155,677	17,917,543	13,415,477
Remaining exposure at risk[1]	87,651	123,792	114,191

1 'Remaining exposure at risk' is calculated as 'Balance amount' minus 'Total cover value + NHG guarantee capped at balance amount'

The table above shows the credit risk mitigants (covers and NHG guarantee, 'Nationale Hypotheekgarantie' or national mortgage guarantee) related to NN Bank's mortgage book. In addition to the total value of the different covers and guarantees, the net exposure is also calculated. This risk measure is calculated at loan level without double-counting any cover value or guarantee value. The value is capped at the carrying value. The Net exposure can be seen as credit without any type of cover or guarantee. This amount decreased in 2018, due to the increasing housing price index and the development of secondary covers. Furthermore, new production shows a low net exposure. The reason is that for new loans, the maximum LTV is reduced (to 100% this year), while most loans also have an annuity or linear redemption scheme (because of tax deduction).

Please note that the NHG guarantee value is lower than the exposure that is flagged as such. The reason is that the NHG guarantee value decreases in time following an annuity scheme. For example, for Interest-Only loans, the loan exposure is stable while the NHG guarantee value decreases. For mortgages that started after 31 December 2013, the NHG guarantee value is also corrected with 10% for the own risk (on the granted NHG claim) that applies to all banks.

The table shows the composition of the portfolio without the old Delta Lloyd Bank (per 31 December 2017) and including the old Delta Lloyd Bank (per 1 January 2018). The same applies to the Loan-to-value table below.

Loan-to-value

As at the end of 2018, NN Bank's mortgage book had a weighted average loan-to-value ratio of 73% (2017: 78%), and 34% (2017: 27%) of the outstanding mortgage amounts are guaranteed under NHG. Effective in 2018, new residential mortgage loans below EUR 265,000 were eligible for coverage by governmental insurance under the NHG in the Netherlands (2019 threshold is EUR 290,000). The NHG guarantees, to a large extent, the repayment of a loan in case of a forced property sale.

Notes to the Consolidated annual accounts Continued

Mortgage portfolio by LTV segment

	31 December 2018	1 January 2018	31 December 2017
<80%	41%	34%	38%
80% – 90%	12%	13%	15%
>90% – 100%	7%	10%	12%
> 100%	6%	7%	8%
NHG <= 90%	29%	26%	19%
NHG > 90%	5%	10%	8%
Total	**100%**	**100%**	**100%**

The 2018 production contained 29% NHG, which is why the NHG bucket slightly decreased in 2018. Increasing house prices resulted in a migration towards lower LTV buckets.

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, delinquencies > 30 days in NN Bank's mortgage portfolio slightly decreased in 2018, despite the slight growth of the portfolio. This is the result of the slightly improving macro-economic conditions. There are relatively many delinquencies 1-30 days, because this bucket contains administrative delinquencies. In the new source system, withdrawals from a construction depot are seen as a delinquency.

- The mortgage portfolio is of good quality because of the benign macro-economic circumstances (low unemployment rate and increasing housing prices). Furthermore, the portfolio grew relatively quickly in the past few years because of a substantial level of own production (which has a low number of delinquencies).
- The consumer loans portfolio decreased and as a result, slightly deteriorated

Delinquency

	Mortgages		Consumer lending		Total	
	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018
0 days	17,896,336	17,761,734	200,958	246,833	18,095,904	18,008,567
1 – 30 days	197,618	123,334	7,747	8,621	205,365	131,955
31 – 60 days	74,436	67,766	5,571	7,478	80,007	75,244
61 – 90 days	22,274	33,159	1,376	1,646	23,650	34,805
> 90 days	52,665	55,342	13,822	13,681	66,487	69,023
Total	**18,243,329**	**18,041,335**	**229,474**	**278,259**	**18,471,413**	**18,319,594**

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.

IFRS 9 Stage 1 and 2

Under IFRS 9, most of the loans in portfolio fall in Stage 1. Loans that show a significantly increased level of credit risk (SICR) at reporting date (versus origination date) are classified as Stage 2 loans; then a lifetime expected loss is calculated. To establish whether a SICR has taken place, (internally determined) absolute and relative thresholds have been set (quantitative triggers).

Past-due loans (that are not qualified as NPL) and loans with past delinquencies, receive an elevated PD classification. This can lead to Stage 2 when the quantitative triggers are hit. There are also two backstops:

- Loans that are > 30 days past due.
- Forborne performing customers (discussed more thoroughly later in this paragraph). All performing forborne customers receive a fixed PD of 30% to reflect the elevated risk profile, when compared to performing customers that are not forborne.

IFRS 9 Stage 3

Stage 3 loans are qualified as non-performing (NPL) and receive a PD of 100%, a lifetime expected loss is calculated under IFRS 9. As can be derived from the table below, 0.6% (EUR 111 million) of the total loans to customers as at the end of 2018 (0.8% at the end of 2017), are classified as Stage 3. Stage 3 slightly decreased for mortgages because of a less tight default definition (fewer unlikely to pay situations). For consumer loans % Stage 3 increased because the portfolio slightly deteriorate.

Notes to the Consolidated annual accounts Continued

A client flows into Stage 3 (and becomes non-performing) when one of his/her loans is at least three months past due, when the client is deemed to be unlikely to pay or in specific forbearance situations (see more explanation later this paragraph). This status remains until the delinquency amount has been fully repaid and no default triggers apply.

Loans exposed to credit risk (Stages by exposure)

	Stage 1		Stage 2		Stage 3		POCI assets		Total	Total
	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018
Mortgages	17,537,389	17,199,948	240,690	382,777	92,801	131,104	32,327	32,685	17,903,207	17,746,514
Consumer loans	200,571	251,916	10,353	6,877	18,549	19,467	0	0	229,473	278,260
Total	**17,737,960**	**17,451,864**	**251,043**	**389,654**	**111,350**	**150,571**	**32,327**	**32,685**	**18,132,680**	**18,024,774**

Note: The total exposure of this table does not match the exposure of the other tables in this section. The reason is that the category "Not applicable" of the "Changes in loans by stage" table has been left out.

Risk costs

Risk costs are defined as net additions to the loan loss provisions, plus write-offs, minus recoveries. NN Bank's total risk costs over 2018 were negative (i.e. a release from Loan Loss Provisions) and amounted EUR -5.4 million (-3.0 bps), compared to EUR - 3.5 million (-3.2 bps) at the end of 2017. There were several model updates which resulted in lower provisions:

- IFRS 9 implementation, including a Point In Time adjustment and a LGD-in-default model replacing relatively high provisions for loans that are in default for a long time (three years for mortgages and two years for consumer loans).
  Note that the accounting treatment of POCI assets was also adjusted in 2018. This resulted in higher risk costs.
- For consumer loans a new PD and LGD model were developed
- The old DL portfolio is scored with the NN provision model
- While the loan loss provisions have been determined with due care, following the regular process, NN Bank observes that the current loan loss provisions are at a historical (relatively) low level

Furthermore, provisions decreased because of the increase in housing prices in combination with the slightly decreasing unemployment rate. The portfolio grew as a result of autonomous growth, as well as the merger with Delta Lloyd Bank. For the mortgage, consumer credit and bonds portfolio together, the stock of provisions as at year-end amounted to EUR 29 million. Write-offs minus recoveries in 2018 amounted to EUR 1.9 million.

Impact of IFRS 9 versus IAS 39

The impact of IFRS 9 and delta provisions in 2018 can be seen in the table below:

Provisions by stage

	Stage 1		Stage 2		Stage 3		POCI assets		Total (IFRS 9)	Total (IFRS 9)	Total (IAS 39)
	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2017
Mortgages	1,593	3,974	1,617	3,665	6,750	11,291	741	2,041	10,701	20,971	20,043
Consumer loans	1,443	2,693	2,279	1,138	14,051	14,083	0	0	17,773	17,914	15,463
Total	**3,036**	**6,667**	**3,896**	**4,803**	**20,801**	**25,374**	**741**	**2,041**	**28,474**	**38,885**	**35,506**

Note: under IFRS 9 NN Bank also calculates provisions for bonds (non-retail), which amounts to EUR 0.5 million per year-end 2018. Under IAS 39, no provisions were calculated for bonds.

The following remarks can be made:

- For mortgages and consumer loans, the lifetime adjustment led to higher provisions under IFRS 9. However the Point-In-Time adjustment (implemented simultaneously) partly stemmed this increase in provisions. The LGD-in-default model replacing relatively high provisions for loans that are in default for a long time, led to a further decrease of provisions.
- For mortgages, the PIT adjustment was relatively high and for consumer loans the LGD-in-default impact was relatively high
- During 2018, the provisions decreased because of the benign economic circumstances (favourable housing price developments)

Forbearance

According to NN Bank's definition, forbearance occurs when the client is considered to be unable to meet his/her 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 a new loan contract in place to ensure the total or partial repayment of an existing loan contract, with which the debtor is unable to comply

Notes to the Consolidated annual accounts Continued

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

NN Bank has established clear criteria to determine whether a client is eligible for a modification or refinancing. 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 his/her 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 probation 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 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
  - 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 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 2018 amounted to EUR 42 million (0.2% of lending exposure). This percentage slightly decreased because not many new forbearance measures were used, while the probation period of some past forbearance measures ended.

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

	31 December 2018	1 January 2018	31 December 2017
Change in loan	0.20%	0.19%	0.09%
Change in secondary cover	0.05%	0.05%	0.09%
Write-off interest payments	0.09%	0.10%	0.08%
Other	0.04%	0.05%	0.03%
Total forbearance	**0.38%**	**0.39%**	**0.28%**

Interest rate risk 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.

Business risk

Business risk for NN Bank is predominantly interest rate related customer behaviour risk that influences volumes and margins. Business risk may manifest itself due to internal, industry, or wider market factors. Business risk is covered under Pillar II. 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.

Notes to the Consolidated annual accounts Continued

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 and a value perspective. Earnings at Risk (EaR) is used from an earnings perspective. Duration and Net Present Value (NPV) at Risk are used from a value perspective.

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

- Effective duration
- NPV at Risk

Each of these measures is based on the NPV, sometimes also referred to as market value. The NPV is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. 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. For the measurement of interest rate risk, risk-free discounting is applied in line with EBA GL/2018/02.

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 2% 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 investments of own funds. The NPVaR is expressed as a percentage of regulatory capital, taking the worst-case impact of the up-and-down 200 basis points parallel shock scenarios. A negative percentage means a negative impact on the market value of equity. NN Bank measures NPVaR for both parallel and non-parallel scenarios.

The loss of market value has no direct measurable impact on the reported equity or profit and loss. This loss in value will materialise through time in the profit and loss of NN Bank. Therefore, the NPVaR cannot be directly linked with the balance sheet or profit and loss account.

NPVaR

Percentage of total equity	31 December 2018	1 January 2018	31 December 2017
Parallel shift 200 basis points	-1.65%	-1.34%	-0.98%

Exposure to NPVaR per end-of 2018 is at the same level as at end-of 2017 (pre-merger figure excluding DL). The exposure is well below regulatory and internal limits.

Earnings at Risk
Earnings at Risk (EaR) measures the impact of changing interest rates on the projected interest results (net interest income) over a certain time horizon. The EaR is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. The EaR is a reflection of the repricing mismatch in the balance sheet on a horizon of a maximum of three years. For this horizon, the main risk drivers are the repricing of investments and floating receiver swaps on the asset side, versus the repricing of variable savings on the liability side. The repricing of variable savings is determined by the tracking speed, which captures how fast, and to what extent, a change in market rates is adopted in the savings rates.

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 expected interest income. NN Bank measures EaR for both parallel and non-parallel scenarios.

Earnings at Risk

Percentage of interest result	31 December 2018	1 January 2018	31 December 2017
Parallel shift – 100 basis points	-10.6%	-3.2%	-3.4%
Parallel shift + 100 basis points	5.5%	-0.7%	-1.6%

Exposure to EaR per end-of 2018 is at a higher level than per end-of 2017 (pre-merger figure excluding DL) due to the additional hedging following the adoption of risk-free discounting. Interest income is sensitive to the rates-down scenario driven by the repricing of the floating receiver swap legs.

Notes to the Consolidated annual accounts Continued

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).

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 long 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 long-term mortgage portfolio and the ability to attract long-term funding are the main causes of funding liquidity risk. 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 NN 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 those based on CRR regulation, such as:

- Liquidity Coverage Ratio (LCR), and
- Net Stable Funding Ratio (NSFR)

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 times 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

	31 December 2018	1 January 2018	31 December 2017
LCR	171%	175%	162%

At the end of December 2018, NN Bank had an LCR ratio of 171%. This is well above the regulatory and internal limits. It shows a solid liquidity position given our liquidity risks. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2018, NN Bank has external credit facilities in place. Two committed loan facilities secured by mortgages and a credit facility with NN Group.

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 to govern the process of identifying, assessing, mitigating, monitoring and reporting non-financial risks.

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 business conduct risk.

Notes to the Consolidated annual accounts Continued

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 historical 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.

Business conduct risk

Risk profile

Business conduct 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 business conduct 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 business conduct risks. The purpose is that the compliance function supports the businesses to effectively manage their business conduct risks. Compliance is therefore an essential part of good corporate governance. NN Group continuously enhances its business conduct risk management programme to ensure that NN Group and its subsidiaries comply with international standards and laws.

NN Group separates business conduct 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), Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, U.S., and other sanction 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 customers' needs.

Notes to the Consolidated annual accounts Continued

41 Capital 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.

NN Bank publishes risk-weighted assets (RWA), Common Equity Tier 1, Total capital and accompanying capital ratios based on CRR, as applicable. 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 management process
In conjunction with the annual MTP process, capital, liquidity 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. NN Bank's risk appetite statements, which determine risk limit and target-setting, form the foundation of the capital, liquidity and funding plans.

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. In addition, this information is important input for the annual Supervisory Review and Evaluation Process (SREP) performed by the regulator, resulting in capital requirements for NN Bank.

Recovery planning is a natural extension and follows NN Bank's Risk Management Framework. No resolution strategy has yet been defined by the NRA, and subsequently, no MREL requirements are set for NN Bank.

Capital adequacy
During 2018, NN Bank maintained a solid capital position, both on a CRR transitional and fully phased-in basis.

Transitional capital position

Amounts in millions of euros	31 December 2018	1 January 2018	31 December 2017
Common Equity Tier 1 Capital[1]	906	877	681
Risk Weighted Assets	5,545	5,760	4,520
Common Equity Tier 1 ratio[1]	16.3%	15.2%	15.1%
Total capital ratio[1]	17.9%	16.7%	16.9%

1 These are not final until filed with the regulators. If DNB approves of the second half-year result of 2018 being added, then the Total capital ratio is 17.9% and CET1 ratio is 16.4%.

NN Bank has maintained a solid capital position with a CRR transitional Total capital ratio of 17.9% (2017: 16.9%) and a CRR transitional CET1 ratio of 16.3% at 2018 (2017: 15.1%). The growth in capital has been driven by internal capital generation in the form of retained profits. The Common Equity Tier 1 Capital amounts to EUR 906 million (2017: EUR 681 million) and mainly increased due to profit after tax, which was added to the capital.

Authorisation to the Consolidated annual accounts

The Consolidated annual accounts of NN Bank for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the NN Bank Management Board on 2 April 2019.

The Hague, 2 April 2019

The Management Board

A.J.M. (Marcel) Zuidam, CEO and chair

J.E. (Sandra) van Eijk, CFO

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

The Supervisory Board

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

A.A.G. (André) Bergen

J.H. (Jan-Hendrik) Erasmus

D.E. (David) Knibbe

D. (Delfin) Rueda

Confirmed and adopted by the General Meeting, dated 3 June 2019.

Parent company balance sheet

Amounts in thousands of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result	notes	2018	2017[1]
Assets			
Cash and balances at central banks		1,314,956	1,085,613
Amounts due from banks	2	330,691	313,486
Financial assets at fair value through profit or loss:			
– non-trading derivatives		125,591	193,271
Available-for-sale investments		0	547,331
Investment securities		1,068,417	0
Loans	3	17,336,928	12,650,113
Receivables from group companies	4	1,171,331	1,100,212
Other assets	5	81,618	52,411
Deferred tax assets		0	0
Investments in group companies	6	74,171	51,973
Intangible assets		8,056	4,479
Total assets		**21,511,759**	**15,998,889**
Liabilities			
Amounts due to banks		264,500	432,394
Customer deposits and other funds on deposit		14,476,439	10,604,951
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives	7	158,682	61,787
Other borrowed funds		330,000	485,000
Other liabilities	8	66,713	47,066
Deferred tax liabilities		18,145	3,752
Provisions		5,889	1,001
Debt securities issued	9	1,846,899	803,504
Loans from group companies	10	3,274,784	2,763,238
Subordinated debt		97,000	85,000
Total liabilities		**20,539,051**	**15,287,693**
Equity			
Share capital		10,000	10,000
Share premium		481,000	481,000
Revaluation reserve		1,619	3,596
Retained earnings		404,304	131,604
Unappropriated result		75,786	84,996
Shareholder's equity	11	**972,709**	**711,196**
Total equity and liabilities		**21,511,759**	**15,998,889**

1 The Parent company balance sheet as at 31 December 2017 has been prepared reflecting the previous application of IAS 39 and does not include Delta Lloyd Bank.

References relate to the Notes starting on page 81. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account

Amounts in thousands of euros, unless stated otherwise

Parent company profit and loss account

For the year ended 31 December	notes		2018		2017[1]
Interest income		612,867		552,284	
Interest expenses		522,072		421,513	
Interest result	12		90,795		130,771
Income from group companies	6		22,226		21,913
Gains and losses on financial transactions and other income	13		167,998		149,711
– gross fee and commission income		102,389		63,818	
– fee and commission expenses		9,733		8,138	
Net fee and commission income	14		92,656		55,680
Valuation results on non-trading derivatives	15		-65,681		-76,405
Total income			**307,994**		**281,670**
Addition to loan loss provisions	3		-5,280		-3,402
Staff expenses			110,977		101,040
Regulatory levies			16,808		11,155
Other operating expenses			94,977		66,778
Total expenses			**217,482**		**175,571**
Result before tax			**90,512**		**106,098**
Taxation			14,726		21,102
Net result			**75,786**		**84,996**

1 The 2017 Parent company profit and loss account has been prepared reflecting the previous application of IAS 39 and does not include Delta Lloyd Bank.

Parent company statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Parent company statement of changes in equity (2018)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Equity – opening balance	**10,000**	**481,000**	**3,596**	**216,600**	**711,196**
Delta Lloyd Bank merger 1 January 2018[2]	0	0	-995	197,624	196,629
IFRS 9 impact 1 January 2018[2]	0	0	1,149	-2,208	-1,059
Equity – 1 January 2018	**10,000**	**481,000**	**3,750**	**412,016**	**906,766**
Unrealised revaluations after taxation	0	0	-2,131	0	-2,131
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-2,131**	**0**	**-2,131**
Net result	0	0	0	75,786	75,786
Total comprehensive income	**0**	**0**	**-2,131**	**75,786**	**73,655**
Dividend paid	0	0	0	-8,000	-8,000
Employee share plans	0	0	0	237	237
Other	0	0	0	51	51
Equity - 31 December 2018	**10,000**	**481,000**	**1,619**	**480,090**	**972,709**

1 'Other reserves' include Retained earnings and Unappropriated result.

Parent company statement of changes in equity (2017)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Equity - 1 January 2017	**10,000**	**481,000**	**6,792**	**131,381**	**629,173**
Unrealised revaluations after taxation	0	0	-3,196	0	-3,196
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-3,196**	**0**	**-3,196**
Net result	0	0	0	84,996	84,996
Total comprehensive income	**0**	**0**	**-3,196**	**84,996**	**81,800**
Dividend paid	0	0	0	0	0
Employee share plans	0	0	0	223	223
Other	0	0	0	0	0
Equity - 31 December 2017	**10,000**	**481,000**	**3,596**	**216,600**	**711,196**

1 'Other reserves' include Retained earnings and Unappropriated result.
2 Reference is made to Note 1 'Accounting policies' in the Consolidated annual accounts.

Notes to the Parent company annual accounts

Amounts in thousands of euros, unless stated otherwise

1 Accounting policies for the Parent company annual accounts

The Parent company accounts of NN Bank 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 with the exception of investments in group companies. These are recognised at net asset value with goodwill, if any, recorded under intangible assets.

In accordance with Article 379 (1), Book 2 of the Dutch Civil Code, reference is made to Note 35 'Principal subsidiaries' in the Consolidated annual accounts.

2 Amounts due from banks

	2018	2017
Bank balances	12,998	4,387
Loans to credit institutions	0	130,000
Collateral posted	317,693	179,099
Amounts due from banks	**330,691**	**313,486**

3 Loans

Loans analysed by type

Loans analysed by type	2018	2017
Loans secured by mortgages, guaranteed by public authorities	4,347,303	2,290,972
Loans secured by mortgages	12,788,570	10,149,051
Consumer lending, other	229,474	238,241
Loans – before loan loss provisions	**17,365,347**	**12,678,265**
Loan loss provisions	-28,419	-28,151
Loans	**17,336,928**	**12,650,113**

Structured entities

Reference is made to Note 36 'Structured entities' in the Consolidated annual accounts. As these securitisation transactions did not transfer substantially all the risk and rewards, NN Bank continues to recognise mortgage receivables. For the same reason, with reference to the balance sheet item 'Derivatives', the non-trading derivative transactions of EUR 146 million are recognised.

Changes in loans

	2018	2017
Loans to third parties – opening balance	12,678,265	11,705,816
Delta Lloyd Bank merger 1 January 2018	4,550,981	0
IFRS 9 remeasurement	740	0
Loans to third parties – 1 January	**17,229,986**	**11,705,816**
Reclassification from/to loans from group companies	0	0
Mortgage portfolio transfer	507,893	1,344,294
Partial transfers of mortgage loans	41,895	5,662
Origination	2,312,160	1,872,639
Sale of mortgages	-821,113	-954,183
Change in mortgage premium	-35,281	16,930
Fair value change hedged items	90,037	-69,165
Modifications	-21,601	0
Redemptions	-1,929,179	-1,243,728
Reclassifications to other assets	-10,292	0
Changes in credit quality	842	0
Loans to third parties – closing balance	**17,365,347**	**12,678,265**

4 Receivables from group companies

Changes in receivables from group companies

	2018	2017
Receivables from group companies – opening balance	1,100,212	1,060,035
Reclassification from/to Other assets	0	0
Additions	71,119	40,177
Redemptions	0	0
Receivables from group companies – closing balance	**1,171,331**	**1,100,212**

Notes to the Parent company annual accounts Continued

‘Receivables from group companies’ consists of loans to HQ Hypotheken 50 B.V. for the funding of the third-party loans as serviced by Quion. The interest for 2018 is the same as 2017, and is based on Euro Interbank Offered Rate (EONIA) with an add-on of 0.6%.

5 Other assets

Other assets by type

	2018	2017
Accrued assets	31,039	24,078
Other receivables	50,579	28,333
Other assets	**81,618**	**52,411**

All other assets are expected to be recovered or settled within 12 months.

6 Investments in group companies

Investment in group companies

	Interest held 2018	Balance sheet value 2018	Interest held 2017	Balance sheet value 2017
HQ Hypotheken 50 B.V.	100%	74,047	100%	51,849
Nationale-Nederlanden Beleggingsrekening N.V.	100%	124	100%	124
Investments in group companies		**74,171**		**51,973**

Changes in investments in group companies

	2018	2017
Investments in group companies – Opening balance	51,973	30,060
IFRS 9 remeasurement	-28	0
Investments in group companies – 1 January	**51,945**	**30,060**
Results from group companies	22,226	21,913
Investments in group companies – Closing balance	**74,171**	**51,973**

7 Non-trading derivatives

Non-trading derivatives

	2018	2017
Non-trading derivatives used in fair value hedge accounting	150,279	57,951
Derivatives held for micro fair value hedge accounting	0	695
Other non-trading derivatives	8,403	3,140
Non-trading derivatives	**158,682**	**61,787**

8 Other liabilities

Other liabilities

	2018	2017
Income tax payable	9,373	3,433
Accrued interest	10,680	23,491
Costs payable	8,703	6,669
Other taxation and social contribution	9,990	9,596
Other amounts payable	27,967	3,878
Other liabilities	**66,713**	**47,066**

‘Other’ mainly relates to year-end accruals and other payables to group companies and third parties in the normal course of business.

All other liabilities are expected to be settled within 12 months.

9 Debt securities issued

	2018	2017
Covered bond issues	1,499,523	497,004
Unsecured debt securities	347,376	306,500
Total	**1,846,899**	**803,504**

Reference is made to Note 36 ‘Structured entities’ in the Consolidated annual accounts, specifically directed to the Covered Bond Programme.

Notes to the Parent company annual accounts Continued

10 Loans from group companies

Reference is made to Note 36 'Structured entities' in the Consolidated annual accounts and specifically, the derivative that is in place in the 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 'Loans from group companies'. This position reflects a liability towards the SPE.

11 Equity

Equity

	2018	2017
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	1,619	3,596
Retained earnings	404,305	131,604
Unappropriated result	75,786	84,996
Total equity	**972,709**	**711,196**

Share capital

			Ordinary shares	
	Shares in number		Amount (in EUR thousand)	
	2018	2017	2018	2017
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**

Changes in revaluation reserve, retained earnings and unappropriated result (2018)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Revaluation reserve, retained earnings and unappropriated result – opening balance	3,596	131,604	84,996	220,196
Delta Lloyd Bank merger 1 January 2018	-995	197,624	0	196,629
IFRS 9 impact 1 January 2018	1,149	-2,208	0	-1,059
Revaluation reserve, retained earnings and unappropriated result – 1 January	**3,750**	**327,020**	**84,996**	**415,766**
Dividend paid	0	-8,000	0	-8,000
Net result for the period	0	0	75,786	75,786
Unrealised revaluation	-2,131	0	0	-2,131
Transfers to/from retained earnings	0	84,996	-84,996	0
Employee share plans	0	237	0	237
Other	0	51	0	51
Revaluation reserve, retained earnings and unappropriated result – closing balance	**1,619**	**404,304**	**75,786**	**481,709**

Changes in revaluation reserve, retained earnings and unappropriated result (2017)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Revaluation reserve, retained earnings and unappropriated result – opening balance	6,792	51,470	79,911	138,173
Dividend paid	0	0	0	0
Net result for the period	0	0	84,996	84,996
Unrealised revaluation	-3,196	0	0	-3,196
Transfers to/from retained earnings	0	79,911	-79,911	0
Employee share plans	0	223	0	223
Other	0	0	0	0
Revaluation reserve, retained earnings and unappropriated result – closing balance	**3,596**	**131,604**	**84,996**	**220,196**

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

The total amount of 'Equity' in the Parent company annual accounts equals 'Shareholder's equity' in the Consolidated annual accounts.

Notes to the Parent company annual accounts Continued

12 Interest result

Interest result

	2018	2017
Interest income on loans	572,870	472,803
Modifications	-21,601	0
Interest income on available-for-sale debt securities	0	633
Interest income on non-trading derivatives	61,174	78,352
Negative interest on liabilities	424	496
Total interest income	**612,867**	**552,284**
Interest expenses on amounts due to banks	5,643	1,577
Interest expenses on customer deposits and other funds on deposit	180,606	125,504
Interest expenses on debt securities issued and other borrowed funds	12,423	12,345
Interest expenses on subordinated loans	3,431	2,649
Interest expenses on non-trading derivatives	64,319	45,969
Negative interest on assets	24,818	18,325
Other interest expenses	4,358	3,228
Interest expenses on structured entities	226,474	211,916
Total interest expenses	**522,072**	**421,513**
Interest result	**90,795**	**130,771**

'Negative interest on assets' includes negative interest income charged by DNB of EUR 5.6 million (2017: EUR 4.9 million). The remainder concerns interest on non-trading derivatives and investment securities.

Interest margin in percentages

	2018	2017
Interest margin	**0.5%**	**0.9%**

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2018 and 2017, respectively.

13 Gains and losses on financial transactions and other income

	2018	2017
Realised gains or losses of debt securities	2,979	2,458
Results from financial transactions	105,224	66,644
Net income from loans measured at FVTPL	-6	0
Other income	59,801	80,608
Gains and losses on financial transactions and other income	**167,998**	**149,711**

14 Net fee and commission income

Net fee and commission income

	2018	2017
Service management fee	40,774	24,556
Brokerage and advisory fees	61,615	39,262
Gross fee and commission income	**102,389**	**63,818**
Asset management fees	5,192	3,872
Brokerage and advisory fees	3,748	3,585
Other	793	681
Fee and commission expenses	**9,733**	**8,138**
Net fee and commission income	**92,656**	**55,680**

15 Valuation results on non-trading derivatives

	2018	2017
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	-96,452	62,700
– the hedged items (mortgages) attributable to the hedged risk	91,640	-58,453
Gains or losses (fair value changes) in other non-trading derivatives	-60,869	-80,652
Valuation results on non-trading derivatives	**-65,681**	**-76,405**

Notes to the Parent company annual accounts Continued

16 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,314,956	0	0	0	0	1,314,956
Amounts due from banks	12,998	317,693	0	0	0	330,691
Loans	90,518	55,128	203,994	915,241	16,072,047	17,336,928
Liabilities						
Amounts due to banks	0	0	90,000	174,500	0	264,500
Customer deposits and other funds on deposit	8,941,312	117,794	512,017	2,077,390	2,827,926	14,476,439
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	7	0	2,112	31,377	125,186	158,682
Debt securities issued	0	0	0	289,658	1,557,241	1,846,899

Analysis of certain assets and liabilities (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,085,613	0	0	0	0	1,085,613
Amounts due from banks	4,387	309,099	0	0	0	313,486
Loans	224,622	31,497	117,982	577,699	11,698,313	12,650,113
Liabilities						
Amounts due to banks	34,713	53,181	170,000	174,500	0	432,394
Customer deposits and other funds on deposit	7,128,964	53,540	242,758	848,048	2,331,641	10,604,951
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	0	3,084	18,291	40,412	61,787
Debt securities issued	0	0	4,000	0	799,504	803,504

17 Contingent liabilities

Contingent liabilities and commitments (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	1,043	1,043
Irrevocable credit facilities	120,704	0	0	0	0	120,704
Mortgage and consumer lending offerings	155,708	230,976	119,147	0	0	505,831
Construction deposits	22,915	40,410	136,900	121,445	10	321,680
Contingent liabilities and commitments	**299,327**	**271,386**	**256,047**	**121,445**	**1,053**	**949,258**

Contingent liabilities and commitments (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	0	0
Irrevocable credit facilities	104,979	0	0	0	0	104,979
Mortgage and consumer lending offerings	69,496	169,941	102,257	0	0	341,694
Construction deposits	688	2,262	37,364	171,910	0	212,224
Contingent liabilities and commitments	**175,163**	**172,203**	**139,621**	**171,910**	**0**	**658,897**

18 Related parties

NN Bank has entered into transactions with its principal subsidiary, HQ Hypotheken 50 B.V. 'Receivables from 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 expenses for 2018 amount to EUR 0.1 million (2017: EUR 0.3 million).

For more details about related parties, reference is made to Note 37 'Related parties' in the Consolidated annual accounts.

Notes to the Parent company annual accounts Continued

19 Other

Fiscal unity

NN Bank and its subsidiaries (excluding consolidated structured entities) are part of the Dutch fiscal unity of NN Group for corporation tax purposes, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern NN Group's receivables and payables.

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Bank for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board on 2 April 2019.

The Hague, 2 April 2019

The Management Board

A.J.M. (Marcel) Zuidam, CEO and chair

J.E. (Sandra) van Eijk, CFO

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

The Supervisory Board

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

A.A.G (André) Bergen

J.H. (Jan-Hendrik) Erasmus

D.E. (David) Knibbe

D. (Delfin) Rueda

Confirmed and adopted by the General Meeting, dated 3 June 2019.

Independent auditor's report

KPMG

Independent auditor's report

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

Report on the audit of the annual accounts 2018 included in the 2018 annual report

Our opinion

In our opinion:

— the accompanying consolidated annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2018 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

— the accompanying parent company annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the annual accounts 2018 of Nationale-Nederlanden Bank N.V. ('the Company' or 'NN Bank') based in The Hague. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1 the consolidated balance sheet as at 31 December 2018;

2 the following consolidated statements for 2018: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1 the parent company balance sheet as at 31 December 2018;

2 the parent company profit and loss account for 2018;

3 the parent company statement of changes in equity for 2018; and

4 the notes comprising a summary of the significant accounting policies and other explanatory information.

KPMG

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 EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Audit approach

Summary

Materiality

- Materiality of EUR 5.0 million
- 5.1% of the result before tax
- 4.2% of the normalised result before tax

Group audit

- 100% of total assets and total liabilities
- 100% of revenue

Key audit matters

- Estimation uncertainty on impairment losses on mortgage loans under IFRS 9
- Financial impact of the amended mortgage interest rate pricing system
- Integration of Delta Lloyd Bank
- IT migration risk

Opinion

Unqualified opinion

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 5 million (2017: EUR 5 million). The materiality is determined with reference to the normalised result before tax (4.2%). We consider result before tax as the most appropriate benchmark given the nature and the operations of NN Bank. Furthermore, result before tax is an important driver for (changes in) the regulatory capital of the Company. We have normalised result before tax for the financial impact of the modification of the mortgage interest rate pricing system amounting to EUR 21.6 million as we consider its impact as an isolated event (refer also to the key audit matter related to this topic). Without normalisation materiality would be 5.1% of the result before tax. We have also taken into account misstatements and/or 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 EUR 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 has two fully-owned subsidiaries: HQ Hypotheken 50 B.V. and Nationale-Nederlanden Beleggingsrekening N.V. Through HQ Hypotheken 50 B.V., NN Bank offers mortgage loans to customers via a business partner. Nationale-Nederlanden Beleggingsrekening N.V. is a dormant entity, currently not conducting any business or other activities. The financial information of these subsidiaries is included in the annual accounts of NN Bank. We are ultimately responsible for the opinion on these annual accounts and therefore we are responsible for directing, supervising and performing the group audit. In addition, part of the portfolios and accounts included in the consolidated accounts of NN Bank are serviced by external business partners or service providers within NN Group. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group purposes.

We have:

— performed audit procedures ourselves at NN Bank;

— made use of the work of other auditors, appointed by the business partners (service organisations) of NN Bank, for the account balances of HQ Hypotheken 50 B.V. and the mortgage portfolio of former Delta Lloyd Bank. We furthermore made use of the work of auditors of portfolios administered by service providers within NN Group in respect of investments securities and personnel related accounts and disclosures;

— sent audit instructions to the aforementioned auditors (hereafter also referred to as 'component auditors'), covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to us.

As group auditor we have satisfied ourselves that the audit work performed by the component auditors meets the requirements set out in the audit instructions that we have sent.

Independent auditor's report Continued

KPMG

Our procedures included regular communication about the assessment of risks and audit response thereto. Furthermore, we discussed the information reported to us including audit observations and performed a review of the audit files to ensure these are consistent with the instructions sent by us and support the audit opinion provided by the component auditor on the financial information that we relied upon in the completion of our audit of NN Bank.

By performing the procedures mentioned above at group components, 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 on the consolidated annual accounts.

The items audited by the group audit team include, but are not limited to, the consolidation of the group, the disclosures in the financial statements and certain accounting topics that are performed at group level, such as the assessment of the impairment losses on mortgages and consumer loans, the assessment of the tax position and the assessment of the use of the going concern assumption. In addition, in 2018, special attention was given to the implementation of the new accounting standards that are effective as from 1 January 2018.

We obtained an audit coverage of 100% of total assets, liabilities and revenues of the group.

Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the annual accounts taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we use the evaluation of management in relation to fraud risk management (prevention, detection and response) including ethical standards to create a culture of honesty, and to compliance with laws and regulations.

Fraud risk

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management and the Supervisory Board. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the annual accounts.

Based on the auditing standards we identified and addressed the following presumed fraud risk that was relevant to our audit:

— fraud risk in relation to management override of controls.

Based on our risk assessment we did not identify a presumed fraud risk in relation to the revenue recognition. Furthermore, we identified and addressed the following other inherent fraud risk which could have a material impact on the annual accounts:

— fraud risk with respect to the former Delta Lloyd Bank savings portfolio and client investment portfolio, resulting from ineffectiveness in General IT Controls (GITC) of underlying applications in combination with migration activities. Lack of segregation of duties could result in misappropriation of assets.

Independent auditor's report Continued

KPMG

Our audit procedures in relation to the risk of management override included an evaluation of the internal controls relevant to mitigate these risks and supplementary substantive audit procedures, including detailed testing of high risk journal entries and inspecting communication with the 'Autoriteit Financiële Markten' and 'De Nederlandsche Bank'.

In response to the additional identified fraud risk we reassessed our risk of material misstatement for the accounts involved and as such performed additional audit procedures. We furthermore specifically inspected the activity of super users in the respective application and performed data analytics on movements in the savings and investment portfolios as administered in the application.

Data analytics, including the use of super users in the IT environment, are part of our audit approach to address fraud risks which could have a material impact on the annual accounts. This also relates to audit procedures carried out to address the risk of management override of controls.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address fraud risks did not result in significant findings.

Compliance with laws and regulations

We also assessed factors related to the risk of non-compliance with laws and regulations, which could have a direct or indirect impact on the annual accounts.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts through discussion with management and the Supervisory Board. We discussed with them the policies and procedures regarding compliance with these laws and regulations. We communicated identified laws and regulations throughout our team and remained alert on any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the annual accounts varies considerably.

Apart from disclosures on the solvency and liquidity position of NN Bank, which is based on the requirements of the Capital Requirements Directive IV and Capital Requirements Regulation, on which we have performed relevant audit procedures, NN Bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts. This for instance through the imposition of fines or litigation. We have identified the following areas as most likely to have such an effect: the Financial Supervision Act ('Wet financieel toezicht'), the General Data Protection Regulation (GDPR) and the (Anti-)Money Laundering and Terrorist Financing (Prevention) Act.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations, which we performed, to inquiry of management and those charged with governance, inspection of minutes of management and Supervisory Board meetings and inspection of regulatory and legal correspondence.

We are not responsible for preventing non-compliance and cannot be expected to detect all non-compliance with laws and regulations.

Our procedures to address non-compliance to laws and regulations did not result in significant findings.

KPMG

Our key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

In line with last year we considered the estimation uncertainty with respect to impairment losses on loans secured by mortgages a key audit matter. For 2018 we have also incorporated the impact of the implementation of IFRS 9, that came into effect as per 1 January 2018, into this key audit matter. In comparison to our audit 2017 we no longer consider the sale of mortgages to related parties a key audit matter. NN Bank has changed its practices with respect to the sale of mortgages following the implementation of IFRS 9, and starting 2018 only sells recently originated mortgages. As a result the part of the portfolio from which mortgages are sold is measured at fair value under IFRS 9, instead of amortised cost under IAS 39. This reduces the risk of incorrect revenue recognition at the time of the actual sale.

New in comparison with 2017 are the key audit matters with respect to the financial impact of the modification of the mortgage interest rate pricing system, the integration of Delta Lloyd Bank and IT migration risk.

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.

Estimation uncertainty on impairment losses on mortgage loans under IFRS 9

Description

The largest part of the portfolio loans secured by mortgages ('mortgage loans') of NN Bank is classified at amortised cost and amounts to EUR 18.2 billion. The amortised cost is determined by subtracting the provision for loan losses from the outstanding balance of the mortgage loans. As IFRS 9 is effective from 1 January 2018, NN Bank has applied an expected credit loss approach to determine the provision for loan losses. Up to 31 December 2017 an incurred loss approach was applied in line with IAS 39. Certain aspects of the determination of expected credit losses require significant judgement of management, such as the definition of significant increase in credit risk and definition of default, determination of the probability of default using migration matrices and estimating the recoverable amount to determine the loss given default.

Due to the significance of loans secured by mortgages, the related estimation uncertainty and the first time implementation of an expected credit loss model, we consider the estimation uncertainty around the valuation of mortgages loans a key audit matter.

KPMG

Our response

Our audit approach included both testing the effectiveness of internal controls around determining the loan loss provision, as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the accuracy of mortgage loan and collateral data, and the process for identifying increases in credit risk, such as arrears, and the management thereof. Significant attention was given to the approach taken by management for model development and model validation, including the back testing of the Probability of Default, Exposure at Default and Loss Given Default. The validations are performed by a specialised department of NN Group N.V.

In our substantive procedures:

- we involved our credit risk modelling specialists to test the compliance of the expected credit loss model for mortgage loans as developed by NN Bank with the detailed requirements of IFRS 9. We assessed the appropriateness of the model design and formulas used. Furthermore, we tested the approach towards the impact of macro-economic scenarios on the expected credit loss calculations in cooperation with our specialists;
- we recalculated the Probability of Default, Exposure at Default and Loss Given Default for a sample of mortgage loans;
- we have tested the accuracy and completeness of the data used for the calculations. As part of that we performed tests of reconciliations between source data, data captured in risks systems and the general ledger;
- we assessed whether the disclosures appropriately address the uncertainty that exists when determining the expected credit losses and whether the disclosure of the key judgements and assumptions made was sufficiently clear.

In addition to the procedures above and in order to test the appropriate classification of mortgage loans as held to collect and therefore their measurement at amortised cost (instead of fair value through profit and loss), we tested, for a sample of mortgage loans, whether these mortgage loans meet the solely payment of principal and interest ('SPPI') criteria and assessed the intention of management to hold them to collect the contractual cashflows ('business model test').

Our observation

Based on our procedures performed, we concluded that, NN Bank has determined an expected credit loss for its portfolio of loans secured by mortgages within an acceptable range and adequately disclosed information on the transition and estimation uncertainty in note 1, note 7 and note 40 to the annual accounts. To further increase the robustness of the expected credit loss models used, we have made recommendations to management to enhance the documentation of data lineage and (historical) data quality and to further embed robustness testing in the model development process.

Independent auditor's report Continued

Financial impact of the amended mortgage interest rate pricing system

Description

NN Bank publically announced on 25 May 2018 that as of the end of 2018, the interest rates for NN mortgages will be based on the ratio between the unpaid principal balance of the mortgage loan compared to the (estimated) collateral value, also referred to as the Loan-to-Value (LtV). This policy will result in a lower interest rate for the client if the LtV improves above a certain threshold. As a consequence, NN Bank created a constructive obligation to its mortgage loan clients. Whilst the implementation date has been postponed to mid-2019, NN Bank has publically communicated on 10 January 2019, that NN mortgage loan clients will receive a retrospective compensation for the period 1 January 2019 – until implementation date. For mortgage loans originated by the former Delta Lloyd Bank N.V. the implementation of the amended interest rate pricing system will commence at the moment that the servicing of these mortgage loans will be transferred to NN Bank. This date is yet to be determined.

Due to the significance of mortgage loans (EUR 18.2 billion) to the balance sheet of the bank, the impact of the amended mortgage interest rate pricing system of EUR 21.6 million and the estimation uncertainty stemming from a complex model that inherently requires significant judgement from management, we consider the accurate and complete accounting for the financial impact of the modification a key audit matter.

Our response

Our audit approach included both testing the effectiveness of internal controls around determining the amended mortgage interest rate pricing system, as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the accuracy of mortgage loan and collateral data used to calculate the expected LtV during the life of the loan, and the process of transferring the data to the IT application which included the model developed to calculate the financial impact.

Our substantive procedures included the following:

- We assessed whether the financial impact of the modification is accounted for in accordance with IFRS. We involved financial instruments accounting specialists in this assessment.
- We assessed the model design and devoted significant attention to the judgements made by management to develop the model and the parameters used to calculate the impact. Key input parameters are the (partial) prepayment rate, client response rate and the estimated development of collateral values. We inspected the results of the model review as performed by a second line function of NN Bank.
- We involved IT specialists in our audit to inspect the program code used in the application used to calculate the impact. As part of that we performed tests of reconciliations between source data, data captured in risk systems and the general ledger.
- We assessed whether the disclosures appropriately address the nature of the accounting impact and the estimation uncertainty that exists given the current status of implementation of the amended mortgage interest rate pricing system.

KPMG

Our observation

Based on our procedures performed, we determined that NN Bank has estimated the financial impact of the modification of the interest rate pricing system within an acceptable range and adequately disclosed information on the status of implementation (of the model) and the uncertainty stemming from the deferral of the actual implementation, in note 1, note 7 and note 19. Furthermore, NN Bank has disclosed information on the loan-to-value in note 40. We have made recommendations to management for further improving the granularity of the model. The model used to calculate the impact is a temporary model. Implementation for both NN and Delta Lloyd mortgages is awaited. The actual impact might deviate significantly from the impact currently accounted for in the 2018 annual accounts.

Integration of Delta Lloyd Bank

Description

As per 1 January 2018, NN Bank and Delta Lloyd Bank N.V. legally merged. As a consequence, the balance sheet of NN Bank as of that date consists of the respective assets and liabilities of the former NN Bank and Delta Lloyd Bank. In addition to the direct accounting impact, as disclosed in note 2 of the annual accounts, the integration of Delta Lloyd Bank also has a significant impact on the internal control over financial reporting by NN Bank. We refer to note 40 in the annual accounts. The risk profile of the NN Bank's financial reporting processes and underlying financial data is impacted by the following risks:

- Organisational risk: this includes the risk related to changes in key management positions, people leaving the merged bank, lack of clarity with regard to roles and responsibilities as a result of the integration and uncertainty on job security for employees potentially impacting their execution of internal controls.
- Risk related to changes in the business processes, support processes, IT applications and underlying IT infrastructure in 2018.
- Risk related to changes in the financial reporting processes and systems.

The factors mentioned above inherently increase the risk of error for the 2018 annual accounts. Considering the pervasive impact of this, we determined this to be a key audit matter.

We refer to the paragraph 'Audit procedures in response to fraud risk' where specific attention is paid to a fraud risk stemming from the Delta Lloyd Bank integration, that we consider not to be part of this key audit matter. This risk is addressed separately in our audit.

Our response

For our audit we primarily performed the following procedures:

- Obtaining an understanding of the Company's risk assessment in relation to the changes in the internal control environment and processes. These procedures consisted of (corroborative) inquiry and inspection of documents, such as the combined control framework and additional employee surveys that have been conducted by management.

- Testing both the effectiveness of internal controls around the changes in financial reporting processes as a result of the integration as well as performing additional substantive audit procedures to mitigate increased risks not sufficiently covered by internal controls.
- Specific areas of attention included the IT General Controls in the Delta Lloyd Bank environment, the analysis of suspense accounts, the opening balance, the alignment of accounting policies and models, and the (financial) impact of further alignment of processes and systems.

Our observation

An increased outflow of former Delta Lloyd Bank employees was noticed at NN Bank in the beginning of 2018. For the remainder of the year no specific developments were noted in this respect.

In 2018, management integrated Delta Lloyd Bank by applying the NN approach of internal control testing over financial reporting. In addition, accounting principles have been aligned. During 2018, management implemented an integrated model related to Loan Loss Provision of mortgages, while at the start of the financial year separate models were applied for (former) NN and (former) Delta Lloyd mortgage portfolios, both for IFRS 9 and IAS 39. Also for macro fair value hedge accounting as from 1 January 2018 one model is used for (former) Delta Lloyd and NN portfolios to determine hedge effectiveness.

Management has prepared plans to realise further integration in 2019.

IT migration risk

Description

NN Bank has performed data migrations for various source systems in 2018. Every data transfer entails the inherent risk that data is not accurately and completely transferred. Proper data migration requires data originated from one source to be delivered to the final destination without any loss of data and/or inappropriate modifications. Furthermore, data potentially has to be converted to fit to the data requirements of the new source system. Errors in transferred data in the target source administration could lead to inaccurate or incomplete financial reporting. Considering the potential pervasive impact on the annual accounts, we have identified this as a key audit matter.

Our response

We have performed the following procedures:

- Corroborative inquiry with management and the employees involved in data migrations regarding the progress, outcomes and potential incidents in the migrations.
- Inspection of the general migration frameworks, specific migration plans, management approval provided and reports on the outcomes of the migrations, for instance with respect to the complete and accurate transfer of data.
- Tested the design, implementation and operating effectiveness of IT General Controls of the relevant source systems involved.
- Inspection of suspense accounts used by NN Bank as part of data migrations, to assess unexplained outstanding balances.

Independent auditor's report Continued

KPMG

- Reconciliation of the relevant data elements between the former source system and new source system.
- For the migrations of data of mortgage loans we have reconciled for a sample of 240 mortgages the data as registered in the new source system with the (original) contracts.

In our procedures we have involved IT specialists.

Our observation

We have no significant findings to report in the context of our audit of the annual accounts. We shared recommendations with management in respect of data quality controls and governance in respect of the migrations.

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the annual report contains other information that consists of:

- Composition of the Boards;
- NN Group and NN Bank at a glance;
- Report of the Management Board;
- Corporate Governance;
- Report of the Supervisory Board;
- Conformity statement;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the below outlined procedures, we conclude that the other information:

- is consistent with the annual accounts and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

The Management Board is responsible for the preparation of the other information, including the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

KPMG

Report on other legal and regulatory requirements

Engagement

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 2 July 2015, the General Meeting of Shareholders of NN Bank appointed KPMG Accountants N.V. as external auditor for the financial years 2016 through 2019.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the annual accounts

Responsibilities of the Management Board and the Supervisory Board for the annual accounts

The Management Board of NN Bank is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and 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 the Management Board 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 engagement 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 detect all material errors and fraud during our audit.

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.

Independent auditor's report Continued

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 2 April 2019

KPMG Accountants N.V.

E.D.H. Vinke-Smits RA

Appropriation of result

The result is appropriated pursuant to article 21 of the Articles of Association of NN Bank, the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board. Reference is made to Note 18 'Equity' of the Consolidated annual accounts, for the proposed appropriation of result.

Contact and legal information

Contact us

Nationale-Nederlanden Bank N.V.
Prinses Beatrixlaan 35-37,
2595 AK The Hague

PO Box 90504, 2509 LM The Hague
The Netherlands
Telephone +31 70 37 81887
Internet: www.nn.nl
Commercial Register number 52605884

Nationale-Nederlanden Bank N.V. is part of NN Group N.V.

Disclaimer

Small differences are possible in the tables due to rounding. Certain of the statements in this 2018 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Bank's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) changes affecting interest rate levels, (6) changes affecting currency exchange rates, (7) changes in investor and customer behaviour, (8) changes in general competitive factors, (9) changes in laws and regulations and the interpretation and application thereof, (10) changes in the policies and actions of governments and/or regulatory authorities, (11) conclusions with regard to accounting assumptions and methodologies, (12) changes in ownership that could affect the future availability to NN Bank of net operating loss, net capital and built-in loss carry forwards, (13) changes in credit and financial strength ratings, (14) NN Bank's ability to achieve projected operational synergies, (15) catastrophes and terrorist-related events, (16) adverse developments in legal and other proceedings and (17) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Bank.

Any forward-looking statements made by or on behalf of NN Bank in this Annual Report 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.