2017
Annual Report
Nationale-Nederlanden Bank N.V.

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 2017 was as follows:

Management Board

Composition as at 31 December 2017

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 2017

J. (Sjaak) de Graaf (1955), COO and vice-chair[2]

Supervisory Board

Composition as at 31 December 2017

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

D. (Delfin) Rueda (1964)

D.E. (David) Knibbe (1971)

A.M. (Maarten) Mol (1956)[3]

Resigned in 2017

G.A.N. (Toon) Krooswijk (1973)[4]

Appointed in 2018

J.H. (Jan-Hendrik) Erasmus (1980)[5]

A.A.G (André) Bergen (1950)[5]

Resigned in 2018

A.M. (Maarten) Mol (1956)[6]

1 Appointment as Chief Transition Officer as at 1 July 2017 at the General Meeting on 27 June 2017.
2 Resignation as at 1 January 2017 by resignation letter.
3 Appointment as at 1 March 2017 at the General Meeting on 28 February 2017.
4 Resignation as at 31 July 2017 by resignation letter.
5 Appointment as at 1 January 2018 at the General Meeting on 31 December 2017.
6 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. Our values are: care, clear and 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 brands are Nationale-Nederlanden, NN, Delta Lloyd, NN Investment Partners, ABN AMRO Verzekeringen, 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' (symbol 'NN'). 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.

Acquisition of Delta Lloyd

NN Group and Delta Lloyd have joined forces in the Netherlands and Belgium. On 12 April 2017, they jointly announced that NN Group had acquired 79.9% of Delta Lloyd shares: the acquisition was completed. NN Group and Delta Lloyd started the integration process. At the end of April 2017, NN Group held more than 93% of Delta Lloyd shares, and appointed senior management at the business units and functional leaders at the head office. On 1 June 2017, NN Group established a legal merger to effectively achieve full ownership of the Delta Lloyd group. From that date, Delta Lloyd N.V. was no longer a listed company and ceased to exist. Read more about the Delta Lloyd transaction in Note 44 'Companies and business acquired and divested' of the NN Group Financial Report.

The combination of NN Group and Delta Lloyd's activities will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution, and customer service.

For NN Bank, the acquisition means that it will integrate the activities of Delta Lloyd Bank into its current organisation.

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 in relation to mortgages to ING Bank N.V. (former WestlandUtrecht Bank), Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven'), Nationale-Nederlanden Schadeverzekering Maatschappij N.V. ('NN Schade'), NN Insurance Belgium N.V. ('NN Belgium'), Delta Lloyd Levensverzekering N.V. ('Delta Lloyd Leven') and the NN Dutch Residential Mortgage Fund.

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 per 1 January 2018. Reference is made to Note 38 'Subsequent and other events'.

Report of the Management Board

Business developments

2017: further growth and preparing for integration

NN Bank is a Dutch retail bank offering a broad range of retail banking products and services. In 2017, NN Bank realised a balanced growth of its balance sheet (6%). NN Bank's focus on helping retail customers to realise their financial goals continued to be the driver for the financial growth of NN Bank.

2017 turned out to be an important year for NN Bank's future. After NN Group's acquisition of Delta Lloyd group, NN Bank and Delta Lloyd Bank started preparing for the merger of both banks. Combining the businesses leads to economies of scale and increased profitability.

As a first step in the integration of NN Bank and Delta Lloyd Bank, the Management Board was expanded with a Chief Transition Officer as at 1 July 2017. Furthermore, the members of the management team of the intended combined bank were appointed and the plans for the integration were started (including a reorganisation of NN Bank as at the date of the merger and the selection of NN Bank's target systems). The appointed persons, who were given identical responsibilities at Delta Lloyd Bank, were made responsible for the preparations of the integration of both banks. On 11 September 2017, NN Bank filed its request for a declaration of no objection (DNO), with respect to the merger of both banks, with the Dutch Central Bank (DNB). On 8 December 2017, DNB issued this DNO. On 31 December 2017, NN Bank entered into a legal merger with 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 per 1 January 2018.

In 2017, NN Bank continued to develop its business further:

- Developing digital self-service processes is one of NN Bank's priorities. By incorporating more self-service processes into the digital customer environments (online and app), it is easier for customers to manage their financial transactions themselves. In addition to increased customer satisfaction and reduced customer service costs, this resulted in enriched customer profiles.
- In 2017, NN Bank set up a Covered Bond Programme with a first issuance of bonds thereunder. With a tenor of seven years and a swap flat pricing, in combination with a wide range of investors, the transaction was received positively.
- NN Bank changed its operational organisation and is now organised in a value chain structure. The structure focuses on core banking activities: Mortgages & Consumer Loans and Savings & Investments.

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.

For NN Bank, offering an excellent customer experience means providing customers with efficient and flawless services. In 2017, this included:

- Improvement of the mortgage proposition for self-employed customers. In addition to a strong improvement of the application process, NN Bank offers mortgages to self-employed customers who started their business less than three years ago.
- Further development of the self-service tooling and processes. For example, the optimisation of 'Mijn Hypotheekaanvraag' (the online My Mortgage application). Mortgage applicants can follow their mortgage application step by step within the personal, online, secured environment ('mijn.nn.nl').
- Alignment between NN Bank and NN Life of the processes related to internal money transfers for retail life products. Due to the alignment, customers do not need to follow separate processes with NN Bank and NN Life.
- Redesign of the process for downloading customers' annual financial statements. After implementation of this online process, based on the results of customer surveys, NN Bank has achieved a 30% decrease in the number of calls and a 22% decrease in complaints concerning this process.

In addition, NN Bank aims to be personal and relevant in every customer contact. NN Bank strives to create an excellent experience in which the customer feels recognised and understood. In 2017, NN Bank:

- Optimised and personalised the customer experience on nn.nl and mijn.nn.nl
- Offered Next Best Actions (relevant service and commercial signals) to Savings, Investments and Mortgage customers

Many customer-journey-related processes have been (re)designed or improved by multi-disciplinary teams, and concepts are tested with a group of customers. This leads to detailed customer insights for NN Bank and helps to improve the customer experience, which fits customer needs.

All the efforts in 2017 have improved NN Bank's customers' experience and led to an increase in our Net Promoter Score (NPS) from +3 (Q4 2016) to +11 (Q4 2017).

Report of the Management Board Continued

Our strategy

Our ambition is to truly matter in the lives of our customers. We want to deliver digital, personal and relevant services. We achieve this by being personal and relevant in every customer contact. A convenient and increasingly digital customer process supports this. Clearly refining our strategy for the future will help ensure that we continue to create value for our stakeholders: customers, shareholders, employees, business partners and society at large. NN Group's strategic priorities are:

- disciplined capital allocation
- innovation in our business and industry
- an agile and cost-efficient operating model
- value-added products and services

Disciplined capital allocation

2017 has been an important year for the management of NN Bank's capital. With a moderate balance sheet growth and a strong profit generation, combined with the receipt of a EUR 15 million subordinated unsecured loan from NN Group (eligible for Tier 2 capital), all capital ratios have improved over the year. This has allowed NN Bank to propose a 2017 dividend of EUR 8 million.

NN Group is committed to disciplined capital allocation. Capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value-creating corporate opportunities. A clear example is the acquisition of Delta Lloyd in April 2017, combining Delta Lloyd with the Dutch and Belgian activities of NN Group.

Innovate our business and industry

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

In 2017, NN Bank started a chatbot pilot. The chatbot uses machine learning to suggest answers to customer questions, which can be used by the agent. This quicker and more cost-effective response will improve customer satisfaction and operational efficiency.

NN Bank developed and piloted the 360-degree video service, a virtual reality tool to support customers in selling their house. NN Bank facilitates customers to present their property online, and provide a personal tour, which allows potential buyers to digitally move through the house. NN Bank distributes these videos to a selection of potential buyers via social media.

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. NN Bank, together with several key partners, is actively participating in a pilot to process mortgage applications through blockchain. This pilot aims to increase process efficiency and customer satisfaction and decrease fraud risk in the mortgage application process.

NN Bank introduced Brickler, an online platform that makes buying and selling a house easier. Brickler is part of NN Bank, but is being developed outside the existing organisation according to the lean start up method.

In 2016, NN Bank started a beta test (a small pilot) of the 'Verhuurhypotheek' (buy-to-let mortgage). This mortgage enables customers to buy a house for investment purposes and to rent it to others as a permanent residence. In 2017, we continued the beta test, after improving the commercial attractiveness.

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.

NN Bank changed its operational organisation. As of January 2017, NN Bank is organised in a value chain structure, focused on its core banking activities: Mortgages & Consumer Loans and Savings & Investments. Due to the new set up, NN Bank became more agile and flexible.

Developing digital self-service processes for customers is a priority for NN Bank. An important example is the introduction of the new fully automated process of interest rate averaging ('rentemiddeling').

The customer experience in the Savings & Investments contact centre improved substantially due to a structured forecasting and planning process for the necessary capacity (Work Force Management), the introduction of multi-skilled agents and training and coaching based on a new dialogue model ('Your Dialogue'). This resulted in an increased NPS (-1.7 in Q4 2016 and 7.2 in Q4 2017).

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.

NN Bank was awarded a silver award for mortgage providers, the 'Zilveren Spreekbuis Hypotheekverstrekkers 2017'. This award is recognition from customers and intermediaries of NN Bank's innovations.

In addition to a strong improvement of the application process, NN Bank now offers mortgages to self-employed customers who started their business less than three years ago.

NN Bank expanded its services regarding arrears management, amongst which offering more assistance to mortgage customers facing difficulty paying their mortgage instalments. For example, using our Budget Coach, we can help our customers by restructuring the mortgage contract and with personal advice.

MoneyView, an independent research organisation that collects information about financial products and makes them transparent and comparable, awarded NN Bank and Delta Lloyd Bank's bank savings products a Five-Star rating.

Regarding the online savings product, NN Bank enabled the termination of the savings account online. Customers who wish

Report of the Management Board Continued

to terminate their account can easily do this in their own personal and secure online environment: mijn.nn.nl.

In 2017, NN Bank introduced the option to apply for the bank annuity savings product 'Aanvullende PensioenUitkering' in the online channel. It is now possible for customers to apply for all NN Bank savings and investment products online.

NN Bank launched an online campaign for discretionary asset management: 'Beheerd Beleggen'. The campaign focused on the dreams and goals people have in life and how the investment advisors of NN Bank can help them to achieve these goals financially. The campaign was very successful in terms of positive interactions, and led to a 30% growth in the new 'Beheerd Beleggen' customer base.

NN strives to support the customer in the way the customer wants to be supported. We help our customers via intermediaries, NN Bank Advice, call agents and the online channel. In this way, NN Bank offers customers the possibility to choose how and when they communicate with us.

The majority of customer contact takes place in the online channel. Therefore, improving the online channel is important for offering an excellent customer experience and maintaining contact with customers. In 2017, NN's website was visited around 975,000 times a month. Around 110,000 customers had downloaded the NN app by the end of 2017. Every month, NN Bank customers visit the NN app about 260,000 times. Around 560,000 customers have activated access to their personal, online, secured website 'mijn.nn.nl'.

To improve the customer's omnichannel experience when talking with an intermediary, NN Bank introduced online insights in contract details for intermediaries. On the intermediary portal 'adviseur.nn.nl', the financial advisor can check current characteristics of his customer's banking products.

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.

All employees are encouraged to invest in themselves and their employment prospects by taking part in education and training. From mandatory Wft (Financial Supervision Act) training for sales and call personnel to permanent education programmes for the Management Board, development opportunities are numerous. 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. The strategic theme 'we make the difference' involves improving our employees' engagement, following the belief that an engaged employee goes the extra mile to make the difference for a customer. In 2017, the engagement score remained relatively strong at 72% (2016: 72%).

Since NN Group's acquisition of Delta Lloyd group in early 2017, plans were made to integrate the NN and Delta Lloyd businesses. Via a 'Hello You' platform and the monthly bulletin 'Hello you essentials', employees are informed and updated about the integration. Employees were also invited to complete several 'Hello you' surveys. Numerous colleagues participated in this survey, expressing how they feel about the integration and providing open comments.

Reorganisation

After NN Group's acquisition of Delta Lloyd group, NN Bank and Delta Lloyd Bank decided to integrate their businesses and applied for a DNO from the regulator. In 2017, the following steps were taken to integrate the two banks.

For the integration of the two companies, NN Group has set clear principles aimed at maximising synergies and executional certainty and facilitating speed. A central programme structure has been installed to steer and coordinate the process, working in close cooperation with dedicated integration teams in the different business units and support functions to ensure an aligned integration. In designing the integration, the NN operating model is leading, but we aim to keep the strong elements of the Delta Lloyd organisation as agreed in the Merger Protocol. This clear set of principles allowed us to set ambitious targets. A single customer database and interface will be in place, enabling us to service customers in the way they want.

At the beginning of 2017, the Management Board of NN Bank consisted of three members: a CEO, CFO and CRO. As a result of NN Group's acquisition of Delta Lloyd group, NN Bank and Delta Lloyd Bank intended to merge. In view of this intended merger, a CTO was appointed to the Management Board of NN Bank on 1 July 2017. In June and July 2017, the rest of the management team of NN Bank was appointed. The appointed persons, who were given identical responsibilities at Delta Lloyd Bank, were made responsible for the preparations of the integration of both banks.

In cooperation with the trade unions, a Joint Reorganisation Framework was determined. This framework sets out clear definitions and procedures that apply to all reorganisations related to the integration process, and that take place between 1 September 2017 and 1 January 2019. The joint framework describes the placement principles for equivalent, discontinued and changed jobs. It also describes the placement principles if a job remains unchanged for an NN employee, but changes for a Delta Lloyd employee, and vice versa.

Another important condition for equal opportunities was the revised Job Framework. In close cooperation with the trade unions, the Job Framework has been updated to provide a level playing field between NN employees and Delta Lloyd employees. In September, all employees received a letter with their job title and level in the new Job Framework. The new job title and level are the starting point in the reorganisation plans related to the integration. Approximately 1,000 employees at NN Bank and Delta Lloyd Bank received a new job title and level.

Report of the Management Board Continued

In July 2017, a weekly dialogue with the Works Council began to discuss the integration plans. The goal was to submit a Request for Advice in October 2017 regarding the reorganisation plans for integrations plans to be implemented between January and July 2018. In the reorganisation plans, the design of the organisational structure for the combined bank was described, including the required jobs based on the new Job Framework and the number of FTEs per job. Also the insight of the staffing consequences was given based on the principles from the Reorganisation Framework. The integration will take shape over the next few years. As a result a bank will be created that is larger in size and scale than the current solo banks. Within the combined bank, sharing of specific knowledge and expertise can take place, which enables the improvement of services to new and existing customers and makes the combined bank more competitive. The combined bank will be well prepared for the future. Increase in scale leads to synergy benefits and reduction of costs, a better risk profile and an improved capital position. The combined bank will have a better market and competitive position. At the end of November, the Works Council gave its positive advice on the integrations plans. In December, all employees were informed about individual consequences arising from the Request for Advice.

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. 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.

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, NN Bank employees participated in an initiative to help secondary school students prepare for job interviews.

Conclusions 2017

2017 was the year in which the preparations began for the merger with Delta Lloyd Bank. Obtaining the DNO from DNB, choosing the target platforms for the combined bank, the Request for Advice to the Works Council and finishing the integration and reorganisation plans were important milestones for the future bank. On 31 December 2017, NN Bank entered into a legal merger with Delta Lloyd Bank.

Furthermore, NN Bank set up a Covered Bond Programme. The inaugural transaction took place on 6 October 2017.

In 2017, NN Bank continued to fulfil the bank's ambition: to deepen the relationship with customers by helping them to reach their financial goals with our financial products and services. NN Bank wants to differentiate on the customer experience, being personal and relevant in every contact. To compete successfully, efficient and flawless customer processes are essential. NN Bank has implemented improvements related to these ambitions. Meaningful examples are the implementation of the mortgage proposition for self-employed customers, providing the intermediaries with online insights in product details and further development of online self-service facilities for customers.

Report of the Management Board Continued

Financial Developments

Analysis of results

Amounts in millions of euros	2017	2016
Interest income	539.1	498.0
Interest expenses	306.5	295.2
Interest result	**232.6**	**202.8**
Gains and losses on financial transactions and other income	**14.3**	**41.4**
Fee and commission income	**47.6**	**47.8**
Valuation results derivatives	**-5.6**	**-5.5**
Total income	**288.9**	**286.5**
Addition to loan loss provisions	-3.5	4.8
Staff expenses	100.1	93.0
Regulatory levies	11.2	8.5
Other operating expenses	67.7	73.6
Total expenses	**175.5**	**179.9**
Result before tax	**113.4**	**106.6**
Taxation	28.4	26.7
Net result	**85.0**	**79.9**

Key figures

Amounts in millions of euros	2017	2016
Loans and advances to customers	13,740	12,686
Customer deposits and other funds on deposit	10,605	10,226
Net interest margin[1]	1.5%	1.5%
Cost/Income ratio[1]	58.1%	58.0%
Return on assets[1]	0.5%	0.6%
Return on equity[1]	12.7%	13.8%
Total assets	16,070	15,136
CET1 capital[2]	681	625
CET1 ratio - transitional[2]	15.1%	14.3%
Total capital[2]	766	695
Total capital ratio - transitional[2]	16.9%	15.9%
Leverage ratio – transitional	4.2%	4.0%
Liquidity Coverage Ratio ('LCR')	162%	205%
Average number of FTE	675	633

1 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 17 '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

2 These are not final until filed with the regulators. If DNB approves of the fourth quarter result of 2017 being added, then the Total capital ratio – transitional is 17.3% and CET1 ratio- transitional is 15.4%.

Profit and loss

NN Bank's net result improved in 2017 compared with the previous year. Despite the strong competition in the mortgage market in 2017, NN Bank managed to keep the net interest margin stable at 1.5%. This is mainly driven by the margin on customer deposits. The client rate was lowered several times in 2017, to match growth of the savings portfolio with growth of the mortgage portfolio.

Own production totalled EUR 3.8 billion in 2017. The strong competition caused a decline in production volume of 22% compared with the previous year. The larger part of the production was on behalf of NN Life (EUR 2.2 billion) or ceded to other NN Group companies (NN Belgium and NN Schade EUR 0.3 billion) and the NN Dutch Residential Mortgage Fund (EUR 0.7 billion). The assets were sold at an average premium of -14 bps (2016: 158 bps), which is reflected in lower income on 'Gains and losses on financial transactions and other income'. The negative premiums are the result of (on average) higher market rates at transaction date compared with the average client rate on the sold portfolios.

The cessions to other NN Group companies and the NN Dutch Residential Mortgage Fund resulted in additional commission income for servicing the individual mortgage loans on behalf of those companies, partly offset by lower commission from ING Bank. The production on behalf of NN Life resulted in EUR 32.8 million in commission income (2016: EUR 27.3 million).

Despite growth of the mortgage portfolio, the addition to loan loss provisions again decreased by EUR 8.3 million to EUR 3.5 million (gain) (2016: EUR 4.8 million loss). In 2017, the macro-economic climate further improved and the average unemployment rate further declined to 4.9% (2016: 6.0%). The increase in house prices continued. As in 2016, NN Bank benefited from these improvements.

Staff expenses increased by EUR 7.1 million. 2016 included a redundancy provision of EUR 7.2 million. Other operating expenses (excluding the regulatory levies) decreased by EUR 5.9 million compared with 2016. At 1 January 2017, NN Bank implemented a new organisational structure, which enabled more efficient processes and collaboration. This contributed to cost savings, though offset by expenses that are attributable to the first steps taken in the integration of Delta Lloyd Bank and NN Bank. Furthermore, NN Bank invested in expansion of the funding portfolio through the launch of a Covered Bond Programme, and the preparation of a new savings proposition in Spain, which will be launched in the first quarter of 2018.

The number of internal FTEs increased compared with 2016, which is mainly reflected in the value chains. External contracts were partly replaced by internal contracts and the overall capacity increased as a result of an increase in service demands accompanying the growing portfolios under management.

Balance sheet

NN Bank's balance sheet grew in 2017 by EUR 1.0 billion to EUR 16.1 billion, fully explained by the growth in the mortgage portfolio. The mortgage portfolio grew to EUR 13.6 billion. Growth was driven by the purchase of NN-branded mortgage loans from ING Bank on the respective interest reset dates of the mortgage loans and related loan parts (EUR 1.3 billion). Redemptions in the mortgage portfolio (as a percentage of the start portfolio) remained at a comparable level of 9.2% (2016: 9.0%).

The customer savings portfolio remains the main funding source for NN Bank. The portfolio grew by EUR 0.4 billion. In addition, NN Bank established its EUR 5 billion NN Conditional Pass-Through Covered Bond Programme on 20 September 2017. NN Bank issued a first tranche of covered bonds of EUR 0.5 billion at 0.5% with a tenor of seven years on 10 October 2017.

Report of the Management Board Continued

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.

NN Bank issued its first Conditional Pass-Through Covered Bond in 2017. The Hypenn I A1 tranche was called at the first possible call date in November 2017. The long-term unsecured loan to NN Group was repaid in April 2017.

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.

For the management of the LCR ratio, NN Bank has a large portfolio of retained RMBS and liquidity facilities, in addition to the on-balance-sheet HQLA portfolio and cash. The call of the Hypenn I A1 tranche led to EUR 260 million decrease in the retained notes portfolio.

The transition to centrally cleared interest rate swaps was completed. In 2017, NN Bank back-loaded all remaining interest rate swaps that were eligible for clearing under EMIR, thereby ensuring one uniform process and approach.

The balance sheet increase notwithstanding, NN Bank has maintained a solid capital position, with a Capital Requirement Regulation (CRR) transitional total capital ratio of 16.9% (2016: 15.9%) and a CRR transitional CET1 ratio of 15.1% at year-end 2017 (2016: 14.3%). Profits which are retained and a Tier 2 capital contribution from NN Group of EUR 15 million achieved this position. NN Bank maintained a solid liquidity position with an LCR of 162%. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2017, NN Bank has external credit facilities in place. Two committed loan facilities secured by mortgages and a credit facility with NN Group.

Market and business developments

Economic conditions

The Dutch economy is flourishing. According to the Dutch Bureau for Economic Policy Analysis (CPB), the Dutch economy grew by more than 3% for the first time since 2007. Increased employment, income, spending and a booming housing market drove the economic growth of 3.2%. Consumer spending grew by 2.2% in 2017 (source: CPB).

Unemployment decreased to 4.9% in 2017.

Due to the buoyant housing market, the sale of houses is at a high level. In the coming years, the sales of houses is expected to slow down due to scarcity and a decreasing affordability of homes (source: MEV2018, CPB).

CPB's expected economic growth rate for 2018 is 3.1%. By 2018, CPB expects an increase in consumer spending by 2.4%. The disposable income will grow sharply due to higher employment rates and increasing wages.

Mortgages

The mortgage market is still experiencing substantial growth. Low mortgage interest rates (source: DNB) and stable high consumer confidence (source: Eigen Huis Marktindicator) provided a positive flow on the mortgage market for the fourth year in a row. The Dutch housing market shows signs of overheating in certain areas. On the one hand, house prices increased by 9.1% in 2017. At the same time, the number of houses sold stagnated due to the shortage in supply, especially in the Randstad, which is the agglomeration of the cities Amsterdam, Utrecht, Rotterdam and The Hague (source: NVM).

In 2017, the mortgage market was characterised by a significant growth of EUR 101 billion (+24.7%) (source: Kadaster). NN Bank's new mortgage sales decreased by 22% to EUR 3.8 billion in 2017, which includes sales of our white label mortgage product. NN Bank's market share in new mortgage production, including our white label, decreased from 6.1% in 2016 to 3.9% in 2017 (source: Kadaster). In 2017, NN Bank chose to achieve its return targets above its turnover targets.

In the short term, growth of the mortgage market is expected to continue. In the long term, scarcity and rising house prices will have a downward effect on the affordability of a house and, as a consequence, on the mortgage market. Starters in particular will experience difficulties because of strict mortgage regulations and scarcity.

Savings

In 2017, the average interest rate for savings was 0.6% and the savings market showed growth of 0.7% to EUR 339 billion (source: CBS).

In looking for safe investments with stable returns, wealthy individuals increasingly invest in real estate. In 2016, 17% of house purchases were financed without a mortgage and the trend is increasing (source: Kadaster). In addition, consumers still dissave by repaying mortgage debt. Starters more often get a supporting contribution from their parents when they buy their first house. This is stimulated by favourable tax rules (source: De Hypotheker Hypotheek Index). Strict mortgage rules force consumers to invest savings when purchasing a new home.

The recovered economy and rising employment allow the 2.5 million Dutch households with limited savings to put money aside and replenish shrunken buffers for unexpected or planned costs (source: Nibud). NN Bank is still able to attract new savings in this stabilised market. Our strong brand allows us to attract savings at competitive prices.

Consumer awareness about their pension gap is increasing, partly due to the current pension debate. Consumers therefore save with supplementary private pension products and, as a result, bank annuity savings grow. Our competitive price and smooth application process have made NN Bank a Top three player in the private pension market.

Despite the moderate market growth of 0.7% in 2017 (source: CBS), NN Bank's savings portfolio increased by 3.7% to EUR 10.6 billion (2016: EUR 10.2 billion), representing approximately 3.1% of total Dutch households' savings. NN Bank's internet savings portfolio decreased by EUR 283 million to EUR 4.96 billion. In 2017, 11,500 new internet savings accounts were opened. Bank annuity savings at NN Bank totalled more than EUR 4.0 billion in 2017.

Report of the Management Board Continued

Investment services
Between 2002 and 2016, fewer consumers in the Dutch households invested (from 25% to 12%) (Source: GFK). Research from GFK shows that former investors now reconsider investing again. The main reason for Dutch consumers to reconsider investments is the low yield on savings. However, for many consumers the possibility of a higher return does not outweigh the risk of losing everything.

Fintech solutions have the ability to make (the costs of) investing more transparent. The number of providers with online investment solutions is increasing. These developments are interesting for consumers who are not used to investing. With the investments product 'Beheerd Beleggen', based on discretionary management, NN Bank has a solution for consumers with an appetite for investments and who lack the time or the specific skills to do their own investments. NN Bank's claim in several marketing campaigns is therefore: 'let our experts handle your investments; we do the work, you get the benefit.' NN Bank's market share in new consumer Discretionary management production increased from 1.3% in 2016 to 2.1% in 2017 (source: GFK).

Consumer loans
In 2017, the Dutch consumer loans portfolio was stable at EUR 32.7 billion (+0.1%) (source: DNB). Consumers are more inclined to spend their savings or rather choose to pay off their debts. This has resulted in deleveraging by consumers, negatively impacting the loans portfolio of credit providers. Nevertheless, they took out more new personal loans (+16.5%), partially caused by the gradually decreasing loan-to-value standard for mortgages. New production of revolving credits has decreased (-15.5%), leading to a small increase of 1.5% in the total consumer loans production (source: DNB).

NN Bank's market share in new consumer loans production decreased from 1.6% in 2016 to 0.8% in 2017 (source: GFK).

Distribution
Technological developments and changing customer needs influence the distribution landscape. The market offers customers more possibilities, such as online self-service tools, to buy and manage products themselves. Online and mobile channels are gaining importance. Convenience and cost savings are important drivers for consumers to opt for this channel.

Outlook
For NN Bank, 2018 will be the year of the operational integration of Delta Lloyd Bank. It will be the first year in which the combined bank will serve its customers as one bank. The combined bank will focus even more on personal, relevant and digital customer experiences.

Mortgages
In 2018, the Dutch mortgage market is expected to grow by 5%. Persistent low interest rates and increasing consumer confidence stimulate this growth, but growth is tempered by scarcity on the housing market. Rising house prices and a limited offer of houses for sale will temper further growth.

In addition, there are major regional differences in the Dutch housing market. In the Randstad (Amsterdam, Utrecht, Rotterdam and The Hague) and some other major cities, the housing market will remain strained, due to insufficient supply, while it will grow steadily in the other areas.

NN Bank will continue investing in straight-through processing of the application and service demand processes. Offering an excellent customer experience remains key.

Savings
The savings market is expected to grow by 2% in 2018. The trend of using savings in order to repay mortgage debt is expected to continue, as a result of low interest rates. The bank annuity savings market will be the main driver of the market growth. NN Bank's focus next year will be on further growth of market share in the savings market.

Early 2018, NN Bank has started a proof of concept by offering an online savings product in Spain, very similar to the current Dutch product ('Internetsparen'). This is offered using a cross-border passport (under the Dutch banking licence). Savings in Spain will be used to diversify NN Bank's funding base.

Investment services
In 2018, the assets under management of private households is expected to grow by 5%. This is due to stock market performance and an increasing number of retail investors. The process of investing is further simplified thanks to digitisation and robotics. Direct players will gain market share, especially by offering online and digital tooling at low costs.

In 2018, NN Bank expects to expand its investments portfolio with a bank annuity product with an investment component for pension purposes.

With several campaigns, NN Bank continues to target consumers who search for alternatives for their savings.

Consumer loans
The consumer loans market is expected to decrease by 9% in 2018. On the one hand, this is caused by a decrease in revolving credit loans. On the other hand, more strict mortgage loan-to-value requirements might have an upward effect on the market for personal loans.

Non-financial statement and diversity information
NN Bank is exempt from the requirements of the Decree Disclosure of Non-financial Information (Besluit bekendmaking niet-financiële informatie) and the Decree Disclosure of Diversity Information (Besluit bekendmaking diversiteitsbeleid). NN Bank is a direct subsidiary of NN Group which includes a non-financial and diversity statement in its Report of the Management Board for NN Group as a whole, pursuant to the Decrees.

Report of the Management Board Continued

Conclusions and ambitions 2018

For NN Bank, 2018 will be the first year of the integrated bank after the legal merger with Delta Lloyd Bank which took effect on 1 January 2018. For a further elaboration on the merger, reference is made to Note 38 'Subsequent and other events'.

NN Bank expects synergies by combining the two banking businesses of Delta Lloyd and NN. The combination will lead to economies of scale. Staff and other functions will be reduced and IT systems will be rationalised leading to a lower cost base in the coming years. NN Bank expects to contribute approximately 10% of the overall expected savings from integration of Delta Lloyd group and NN Group (as communicated on the Capital Markets Day).

Therefore, 2018 will be a year of further sustainable growth for NN Bank. In 2018, NN Bank has important goals, amongst which are realising the first phase of synergies and rebranding all new production to NN.

The financial impact of the implementation of IFRS 9 per 1 January 2018 is expected to be limited. It is currently expected that the IFRS 9 impact at transition on NN Bank's equity will be EUR 1 million charge. This impact is mainly caused by the application of lifetime expected losses on Loans and re-measurement of Investment securities. Reference is made to Note 1 'Accounting policies'.

Further investing in an excellent (digital) customer experience and focusing on being personal and relevant in NN Bank's contact with customers will be continued. Combining the best of both banks will help NN Bank to achieve this.

Corporate governance

General
NN Bank has a two-tier Board system, consisting of a Supervisory Board and a Management Board. The Supervisory Board supervises the policy of the Management Board and the general course of events at the company, and assists the Management Board by providing advice. The Management Board is responsible for the daily management of the company.

The general meeting of shareholders (General Meeting) appoints the Management Board members. At the beginning of 2017, the Management Board consisted of three members: a CEO, CFO and CRO. Due to NN Group's acquisition of Delta Lloyd group, NN Bank and Delta Lloyd Bank intended to merge. In view of this intended merger, a CTO was added to the Management Board of NN Bank on 1 July 2017. Since this date, the Management Board of NN Bank consists of four members: a CEO, CFO, CRO and CTO.

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 2017, 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 2017. 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, 9 May and 7 November 2017.

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 Personal Data Protection Act, 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 Code of Conduct and decisions that are binding for its members, as well as the Codes of Conduct generally applicable to the banking sector, such as the Banking Code, the Code of Conduct for Financial Institutions on the Processing of Personal Data, the Code of Conduct for Consumer Lending, the Code of Conduct for Mortgage Loans and the Principles of Modern Savings Policy, 2010 (Netherlands Authority for the Financial Markets).

Banking Code
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 its website, 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.

Corporate governance 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
- 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 General 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 General Code of Conduct also includes a whistle-blower procedure. This procedure ensures anonymity when reporting irregularities, including violations of laws and regulations.

Risk management organisation
In line with NN Group, the Three Lines of Defence model, on which NN Bank's risk management structure and governance is based, defines three risk management levels. Each 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 function. The CRO steers a functional independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted of excessive risk. The Third Line of Defence is provided by Corporate Audit Services (CAS) and offers an independent assessment of the standard of internal control with respect to NN Bank's business and support processes, including governance, risk management and internal controls.

NN Bank is exposed to various financial and non-financial risks. For a more detailed description of these risks and the way in which they are managed, reference is made to Note 36 '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.

On at least a monthly basis, 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 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 the same as 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.

Corporate governance Continued

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 or Debt Provisioning is a quarterly process, carefully executed and well controlled. This process encompasses the following key phases:

- Identification: In 2017, NN Bank had no assets on its books that classify for Individually Significant Financial Asset (ISFA) provisioning. ISFA provisions are calculated for impaired non-retail loans. For all consumer loans and mortgage loans (also with an exposure above EUR 1 million), model provisions are calculated (IBNR provisions for performing loans or INSFA provisions when the loan is impaired).
- Determination: whereby the preliminary amount of loan loss provisions is determined. NN Bank's credit risk exposure models are used to calculate the level of Incurred Loss in the portfolio. This loss is the sum of the Incurred But Not Reported (IBNR) provisions for performing loans and the provisions for Individual Non Significant Assets (INSFA) when the loan is impaired. Within NN Bank, this is referred to as the portfolio Expected Loss (EL), which is determined as the multiplication of the underlying Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The PD, LGD and EAD are determined in statistical models. In 2017, add-ons were incorporated where deemed necessary to calculate EL as accurately as possible.
- Approval: in which the NN Bank Impairment and Provisioning Committee (IPC) reviews the figures for approval
- Reporting: in which the figures are booked in the NN Bank General Ledger and used for internal and external reporting (i.e. DNB)

It should be noted that, as per 1 January 2018, provisions are calculated on the basis of IFRS 9 – which has replaced IAS 39 as the applicable accounting standard. For a detailed explanation of the IFRS 9 methodology, reference is made to Note 1 'Accounting policies' in the Consolidated annual accounts.

The Hague, 24 April 2018
The Management Board

Report of the Supervisory Board

Supervisory Board meetings
In 2017, the Supervisory Board met five times and also attended permanent education sessions. The Supervisory Board discussed the Annual Reports and Accounts 2016, the ICAAP/ILAAP submissions for the combined bank and the Long-Term Forecast (LTF) 2018-2020.

For the Supervisory Board, Delta Lloyd Bank and NN Bank's merger and integration was of paramount importance during this year. The plans were discussed during all of its meetings. Apart from closely monitoring the commercial developments in 2017, the Supervisory Board also monitored the progress of NN Bank's growth, the further strengthening of the internal control framework, client satisfaction measures and metrics and NN Bank's funding, including the set-up of and inaugural issuance under a Covered Bond Programme.

Committees
The Supervisory Board, as a whole, performs the activities of an audit committee. In 2017, 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 the capital plan were also topics of debate during the year. The activities of the Supervisory Board as audit committee also include discussions about the Annual Report, in- and external audit planning, in- and external audit reports, financial reporting and internal controls over financial reporting.

Risk
At each regular meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed, as well as the Risk Appetite Statements (RAS). In April 2017, the Supervisory Board approved the updated RAS. The ICAAP and ILAAP (including the stress test scenarios) submission were approved in one of its August meetings.

Functioning of the Management Board
The Supervisory Board performed its annual review, including the functioning of the Management Board in 2017, in its February 2017 meeting. The Supervisory Board concluded that it was capable and effective during what was a turbulent year for NN Bank. Furthermore, the Board concluded that the Management Board met the Supervisory Board's expectations.

Composition of the Management Board
As per 1 July 2017, Mr Marcel Zuidam was appointed as Chief Transition Officer of NN Bank.

Composition of the Supervisory Board
On 1 March 2017, Mr Maarten Mol joined the Supervisory Board of NN Bank. At 31 July 2017, Mr Toon Krooswijk resigned from the Supervisory Board. With the merger of Delta Lloyd Bank and NN Bank as per 1 January 2018, the composition of the Supervisory Board was amended to reflect the combined bank. Mr André Bergen and Mr Jan-Hendrik Erasmus, members of the Supervisory Board of Delta Lloyd Bank until the merger, were both appointed as members of the Supervisory Board effective as of the merger date. Mr Mol resigned at the same date from the Supervisory Board. The Supervisory Board would like to express its gratitude to Mr Mol and Mr Krooswijk for their dedicated work during their tenure on the Board.

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 2018 General Meeting. NN Bank will propose to pay a dividend over 2017 at the 2018 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 2017. The Board acknowledges that NN Bank realised a successful and swift legal merger while at the same time achieving growth and working on further maturity of its internal control framework.

The Supervisory Board would also like to thank all employees of the combined NN Bank for their hard work on combining the two banks, their commitment to customers and their efforts in bringing the internal control framework to a higher level.

The Supervisory Board is of the opinion that the combination of the former Delta Lloyd Bank and NN Bank will bring the combined strengths of both banks to further fruition.

The Hague, 24 April 2018

The Supervisory Board

Consolidated balance sheet

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2017[1]	2016[2]
Assets			
Cash and balances at central banks	2	1,085,613	1,555,008
Amounts due from banks	3	398,900	135,944
Financial assets at fair value through profit or loss:	4		
– non-trading derivatives		193,271	250,675
Available-for-sale investments	5	547,331	385,460
Loans and advances to customers	6	13,739,818	12,685,718
Other assets	7	104,365	120,077
Deferred tax assets	23	625	3,041
Total assets		**16,069,923**	**15,135,923**
Liabilities			
Amounts due to banks	8	432,394	50,522
Customer deposits and other funds on deposit	9	10,604,951	10,225,730
Financial liabilities at fair value through profit or loss:	10		
– non-trading derivatives		208,153	390,639
Other borrowed funds	11	485,000	405,000
Other liabilities	12	56,817	55,463
Deferred tax liabilities	23	4,377	6,385
Provisions	13	1,001	9,591
Debt securities issued	14	3,481,034	3,293,420
Subordinated debt	15	85,000	70,000
Total liabilities		**15,358,727**	**14,506,750**
Equity			
Shareholders' equity		711,196	629,173
Total equity	16	**711,196**	**629,173**
Total equity and liabilities		**16,069,923**	**15,135,923**

1 The 2017 consolidated balance sheet has been changed to reflect the order of liquidity.
2 For purposes of comparison, amounts from 2016 have been reclassified.

References relate to the notes starting on page 23. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account

Consolidated profit and loss account

For the year ended 31 December	notes		2017		2016
Interest income		539,109		498,054	
Interest expenses		306,477		295,234	
Interest result	17		232,632		202,820
Gains and losses on financial transactions and other income	18		14,326		41,409
– gross fee and commission income		63,819		60,467	
– fee and commission expenses		16,219		12,691	
Net fee and commission income	19		47,600		47,776
Valuation results on non-trading derivatives	20		-5,617		-5,521
Total income			**288,941**		**286,484**
Addition to loan loss provisions	6		-3,452		4,810
Staff expenses	21		100,140		92,988
Regulatory levies	22		11,155		8,476
Other operating expenses	22		67,696		73,593
Total expenses			**175,539**		**179,867**
Result before tax			**113,402**		**106,617**
Taxation	23		28,406		26,706
Net result			**84,996**		**79,911**

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2017		2016
Net result		84,996		79,911
– unrealised revaluations available-for-sale investments	-3,196		552	
– 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		-3,196		552
- Changes taxation prior years	0		770	
Items that will not be reclassified to the profit and loss account		0		770
Total comprehensive income		**81,800**		**81,233**
Comprehensive income attributable to:				
Shareholders of the parent		81,800		81,233
Total comprehensive income		**81,800**		**81,233**

Reference is made to Note 23 ‘Taxation’ for the disclosure on the income tax effects on components of comprehensive income.

Consolidated statement of cash flows

Consolidated statement of cash flows

For the year ended 31 December	notes	2017	2016[1]
Result before tax		113,402	106,617
Adjusted for:			
– amortisation of intangible assets	22	934	525
– amortisation of mortgage premium	6	-15,044	-12,843
– addition to loan loss provision	6	-3,452	4,810
– addition to redundancy provision	22	928	6,999
– fair value change on hedged mortgages	6	69,165	-50,612
– accrued interest	7/12	-3,032	8,329
– amortisation agio	5	7,958	10,499
– increase (decrease) Deferred Tax	23	1,473	2,778
– movement employee share plan	16	223	220
– other		-4	-21
Taxation paid	7/12/23	-28,070	-27,661
Changes in:			
– amounts due to banks	8	381,872	-227,546
– non-trading derivatives	4/10	-125,082	43,610
– loans	6	-2,058,952	-3,230,917
– sale of mortgages	6	954,183	1,231,088
– other assets	7	13,507	-87,575
– customer deposits and other funds on deposit	9	379,221	2,086,931
– other liabilities	12	-4,197	5,856
Net cash flow from operating activities		**-314,963**	**-128,911**
Investments and advances:			
– available-for-sale investments	5	-497,982	-10,642
Disposals and redemptions:			
– available-for-sale investments	5	323,892	164,974
Net cash flow from investing activities		**-174,090**	**154,332**
Proceeds from issuance of subordinated debt	15	15,000	0
Proceeds from issuance of debt securities	14	533,505	1,075,811
Repayments of debt securities	14	-345,891	-143,483
Proceeds from other borrowed funds	11	465,000	185,000
Repayments of other borrowed funds	11	-385,000	0
Capital contribution	16	0	15,000
Dividend paid		0	0
Net cash flow from financing activities		**282,614**	**1,132,328**
Net cash flow		**-206,439**	**1,157,749**

1 For purposes of comparison, amounts from 2016 have been reclassified.

Interest included in net cash flow from operating activities

For the year ended 31 December	2017	2016
Interest received	540,380	497,339
Interest paid	-329,356	-299,399
Interest received and paid	**211,024**	**197,940**

Cash and cash equivalents

For the year ended 31 December	notes	2017	2016
Cash and cash equivalents at beginning of the period		1,690,952	533,203
Net cash flow		-206,439	1,157,749
Cash and cash equivalents at end of the period	2/3	**1,484,513**	**1,690,952**

For the year ended 31 December	notes	2017	2016
Cash and balances at central banks	2	1,085,613	1,555,008
Amounts due from banks	3	398,900	135,944
Cash and cash equivalents at end of year		**1,484,513**	**1,690,952**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2017)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January	**10,000**	**481,000**	**138,173**	**629,173**
Changes taxation prior years	0	0	0	0
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**
Capital contribution	0	0	0	0
Employee share plans	0	0	223	223
Balance as at 31 December	**10,000**	**481,000**	**220,196**	**711,196**

Consolidated statement of changes in equity (2016)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January	**10,000**	**466,000**	**56,734**	**532,734**
Changes taxation prior years	0	0	770	770
Unrealised revaluations available-for-sale investments	0	0	552	552
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**	**1,322**	**1,322**
Net result	0	0	79,911	79,911
Total comprehensive income	**10,000**	**466,000**	**81,233**	**557,233**
Capital contribution	0	15,000	0	15,000
Employee share plans	0	0	206	206
Balance as at 31 December	**10,000**	**481,000**	**138,173**	**629,173**

Notes to the Consolidated annual accounts

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

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 also provides administration and management services to ING Bank N.V., NN Dutch Residential Mortgage Fund, Delta Lloyd Leven, and other NN entities.

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

In 2017, no changes to IFRS-EU became effective that had an impact on NN Bank's Consolidated annual accounts. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2017 and are relevant to NN Bank mainly relate to IFRS 9 'Financial Instruments'. The impact of adoption of IFRS 9 is stated below.

Impact adoption IFRS 9

NN Bank has adopted IFRS 9 'Financial Instruments' as from 1 January 2018. 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 in Note 38 'Subsequent and other events'.

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. The implementation of IFRS 15 as at 1 January 2018 did not have significant impact on Shareholders' equity at that date. The implementation of IFRS 15 will not have significant impact on NN Bank's 2018 Consolidated annual accounts.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. NN Bank is currently assessing the impact of the implementation of IFRS 16. The implementation of IFRS 16 is not expected to have a significant impact on shareholders' equity or the net result of NN Bank.

Critical accounting policies

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

Notes to the Consolidated annual accounts Continued

For the impact of the adoption of IFRS 9 'Financial Instruments' as from 1 January 2018, reference is made to Note 38 'Subsequent and other events' under 'Impact adoption IFRS 9', since NN Bank has chosen to disclose the combined impact of the IFRS 9 adoption after the legal merger with Delta Lloyd Bank.

Reference is made to Note 36 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Loan loss provisions

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

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

Reference is made to the 'Impairments of loans (Loan loss provisions)' section below.

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.

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

Impairments

All debt securities and loans (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Upon impairment of available-for-sale debt securities the full difference between the (acquisition) cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment, which can be objectively related to an observable event, after the impairment.

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

General accounting policies

Consolidation

NN Bank comprises Nationale-Nederlanden Bank N.V. and 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 gives 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.

Notes to the Consolidated annual accounts Continued

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 32 'Principal subsidiaries'.

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Recognition and derecognition of financial instruments

Financial assets 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 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.

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

Impairments of loans (loan loss provisions)

NN Bank assesses - periodically and at each balance sheet date - whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised if, and only if,

Notes to the Consolidated annual accounts Continued

there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

In certain circumstances, NN Bank may grant borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns, it is also referred to as 'forbearance'. In general, forbearance represents an impairment trigger under IFRS-EU. In such cases, the net present value of the postponement and/or reduction of loan principal and/or interest payments is taken into account in the determination of the appropriate level of loan loss provisioning, as described below.

In determining the impairment loss, future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. NN Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. In this assessment, historical data are used for the estimation of probability of default (PD).

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

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

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

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

If an event occurs after the impairment loss was recognised in the profit and loss account that leads to a reversal of the impairment loss in a subsequent period, the impairment loss is reversed through the profit and loss account.

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value, 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 30 '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 36 '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 of 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.

Employee benefits

Defined contribution pension plans

For defined contribution plans, NN Bank pays contributions to the NN CDC Pensioenfonds on a contractual basis. NN Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due.

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 4 and 10)

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.

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

Available-for-sale investments (Note 5)

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

Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income (equity). On disposal, the related accumulated fair value adjustments are included in the profit and loss account as 'Gains and losses on financial transactions and other income'. For impairments of available-for-sale financial assets, reference is made to the section 'Impairments of available-for-sale investments'.

Loans (Note 6)

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, 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.

Other assets (Note 7)

Intangible assets are part of 'Other assets'. 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 three 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' also 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.

Subordinated debt, debt securities issued and other borrowed funds (Note 11, 14 and 15)

Subordinated debt, debt securities issued and other borrowed funds are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference

Notes to the Consolidated annual accounts Continued

between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

Customer deposits and other funds on deposit (Note 9)

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.

Provisions (Note 13)

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 19)

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 Cash and balances at central banks

Cash and balances at central banks

	2017	2016
Amounts held at central banks	1,085,613	1,555,008
Cash and balances at central banks	**1,085,613**	**1,555,008**

'Amounts held at central banks' reflects the demand balances. 'Amounts held at central banks' includes a mandatory reserve deposit of EUR 78.2 million (2016: EUR 65.6 million), which is not freely disposable to NN Bank. Reference is made to Note 28 'Assets not freely disposable'. The remainder of 'Amounts held at central banks' is at free disposal of NN Bank.

3 Amounts due from banks

Amounts due from banks

	2017	2016[1]
Cash advances overdrafts and other balances	89,801	77,262
Loans to credit institutions	130,000	0
Collateral posted	179,099	58,682
Amounts due from banks	**398,900**	**135,944**

1 For purposes of comparison, amounts in 2016 relating to 'Collateral' have been reclassified from 'Other assets'.

'Cash advances, overdrafts and other balances' comprises current accounts and accrued interest with banks. Reference is also made to Note 28 'Assets not freely disposable'.

'Loans to credit institutions' concerns a short placed loan with Delta Lloyd Bank. This loan will cease to exist following the merger of NN Bank and Delta Lloyd Bank on 1 January 2018 because the lender and the borrower will be the same legal entity. Reference is made to Note 38 'Subsequent and other events'.

'Collateral posted' concerns posted collateral regarding centrally cleared swaps. Reference is also made to Note 28 'Assets not freely disposable'.

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2017	2016
Non-trading derivatives used in fair value hedge accounting	46,784	23,656
Balanced guaranteed swaps	146,367	227,019
Other non-trading derivatives	120	0
Non-trading derivatives	**193,271**	**250,675**

For 'Non-trading derivatives used in fair value hedge accounting', reference is made to Note 25 'Derivatives and hedge accounting'.

For 'Balanced guaranteed swaps', which are used in securitisation transactions, reference is made to Note 33 'Structured entities'.

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

5 Available-for-sale investments

Available-for-sale investments by type

	2017	2016
Government bonds	261,465	365,047
Corporate bonds	941	972
Financial institution bonds	284,925	19,441
Available-for-sale investments	**547,331**	**385,460**

'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.

Notes to the Consolidated annual accounts Continued

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

All bonds have an external rating of at least A (Fitch). The corporate bonds have a rating of at least AA+ (Fitch) or Aa2 (Moody's).

Changes in available-for-sale investments

	2017	2016
Available-for-sale investments – opening balance	385,460	550,291
Additions	497,982	9,907
Amortisation	-7,958	-10,499
Changes in unrealised revaluations	-4,261	736
Disposals and redemptions	-323,892	-164,975
Available-for-sale investments – closing balance	**547,331**	**385,460**

6 Loans

Loans by type

	2017	2016
Loans secured by mortgages, guaranteed by public authorities	3,221,540	3,094,456
Loans secured by mortgages	10,308,128	9,364,892
Consumer lending	238,241	264,933
Loans – before loan loss provisions	**13,767,909**	**12,724,281**
Loan loss provisions	28,091	38,563
Loans	**13,739,818**	**12,685,718**

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 36 'Risk management'.

Reference is made to Note 24 'Fair value of financial assets and liabilities', for disclosure by fair value hierarchy, and Note 36 'Risk management' for NN Bank's credit risk exposure and on significant credit risk exposures.

Changes in Loans

	2017	2016
Loans – opening balance	12,724,281	10,665,175
Mortgage portfolio transfer	1,344,294	1,274,581
Partial transfer of mortgage loans	5,662	29,326
Origination	1,943,818	2,914,649
Sale of mortgages	-954,183	-1,231,088
Premium new mortgages	31,974	17,992
Amortisation mortgage premium	-15,044	-12,843
Fair value change hedged items	-69,165	50,612
Redemptions	-1,243,728	-984,123
Loans – closing balance	**13,767,909**	**12,724,281**

'Sale of mortgages' includes EUR 299 million of sales with related parties NN Schade and NN Belgium (2016: EUR 380 million).

In 2017, the mortgage portfolio transfer from ING Bank amounted to EUR 1.35 billion. As per 31 December 2017, both parties had already determined to transfer EUR 105 million in mortgage loans for the first four months in 2018. As settlement date accounting is applied, these mortgages are not recognised in the balance sheet as at 31 December 2017.

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 28 'Assets not freely disposable' and Note 33 'Structured entities'.

Notes to the Consolidated annual accounts Continued

Loan loss provisions analysed by type

	2017	2016
Loans secured by mortgages	17,585	23,857
Consumer lending	10,506	14,706
Loan loss provisions by type	**28,091**	**38,563**

Changes in loan loss provisions

	2017	2016
Loan loss provisions – opening balance	38,563	37,930
Write-offs	-9,070	-7,913
Recoveries	310	516
Loan loss provisions in transfers of mortgage loans	1,740	3,220
Addition to the loan loss provisions	-3,452	4,810
Loan loss provisions – closing balance	**28,091**	**38,563**

In 2017, the loan loss provision decreased despite portfolio growth, because delinquencies decreased and expected shortfalls in (non-performing) loans decreased due to increased housing prices.

7 Other assets

Other assets

	2017	2016
Accrued interest mortgages	36,984	37,419
Accrued interest other	4,727	5,563
Current account NN Insurance Eurasia N.V.	47,047	61,156
Current account other group companies	125	124
Intangibles	4,479	1,261
Other accrued assets	404	653
Other	10,599	13,901
Total other assets	**104,365**	**120,077**

'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.

8 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

	2017	2016 [1]
Interest bearing	430,681	45,000
Collateral received	1,713	5,522
Amounts due to banks	**432,394**	**50,522**

1 For purposes of comparison, amounts in 2016 relating to 'Collateral received' have been reclassified from 'Other liabilities'.

The increase in 'Amounts due to banks (interest bearing)' of EUR 385.5 million is due to new contracted warehouse loans, loans with third parties and repurchase transactions (repos).

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

As at 31 December 2017, NN Bank had unused lines of credit available of EUR 590 million (31 December 2016: EUR 380 million).

Notes to the Consolidated annual accounts Continued

9 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by type

	2017	2016
Savings	5,686,606	6,103,043
Bank annuities	4,020,159	3,324,697
Bank annuities related to mortgages	898,186	797,990
Customer deposits and other funds on deposit	**10,604,951**	**10,225,730**

The interest payable on savings accounts is contractually added to the accounts.

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

	2017	2016
Customer deposits and other funds on deposit – opening balance	10,225,730	8,138,799
Deposits received	3,649,431	4,674,841
Withdrawals	-3,270,210	-2,587,910
Customer deposits and other funds on deposit – closing balance	**10,604,951**	**10,225,730**

10 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

	2017	2016
Non-trading derivatives used in fair value hedge accounting	58,646	163,620
Balanced guaranteed swaps	146,367	227,019
Other non-trading derivatives	3,140	0
Non-trading derivatives	**208,153**	**390,639**

For 'Non-trading derivatives used in fair value hedge accounting', reference is made to Note 25 'Derivatives and hedge accounting'.

For 'Balanced guaranteed swaps', which are used in securitisation transactions, reference is made to Note 33 'Structured entities'.

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

11 Other borrowed funds

Other borrowed funds

	2017	2016
NN Group	0	200,000
Other borrowed funds	485,000	205,000
Other borrowed funds	**485,000**	**405,000**

On 11 April 2017, NN Bank repaid the senior loan provided on 16 March 2015 by NN Group to NN Bank at a fixed interest rate of 1.406% per annum. In 2017, EUR 185 million of 'Other borrowed funds' were repaid. And new loans amounting to a total of EUR 465 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 2017 was not drawn by NN Bank.

Notes to the Consolidated annual accounts Continued

12 Other liabilities

Other liabilities

	2017	2016
Income tax payable	5,251	4,915
Other taxation and social security contributions	9,596	6,377
Accrued interest non-trading derivatives	17,925	20,987
Accrued interest other	9,065	10,306
Costs payable	7,120	6,298
Other	7,860	6,580
Other liabilities	**56,817**	**55,463**

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

13 Provisions

Provisions

	2017	2016
Restructuring provisions	1,001	9,581
Other provisions	0	10
Provisions	**1,001**	**9,591**

Restructuring provisions

	2017	2016
Restructuring provisions – opening balance	9,581	5,737
Additions	1,052	8,357
Releases	-124	-1,358
Charges	-9,508	-3,155
Restructuring provisions – closing balance	**1,001**	**9,581**

In autumn 2017, it was announced that Delta Lloyd Bank would be integrated into NN Bank, which will lead to efficiency in products and services and to some employee redundancies. The personnel was informed and the Works Council issued their advice to NN Bank's management. Subsequently, the individual employees were informed about their placement in the integrated bank. Consequently, a restructuring provision of EUR 1.1 million was recognised. When an agreement with an employee has been reached on contract termination this is presented as other liability (as the amount and timing is known). 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.

14 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

	2017	2016
Fixed rate debt securities:		
– Within 1 year	0	71,130
– More than 1 year but less than 2 years	100,000	0
– More than 2 years but less than 3 years	396,532	100,000
– More than 3 years but less than 4 years	0	395,613
– More than 4 years but less than 5 years	0	0
– More than 5 years	0	0
Fixed rate debt securities	**496,532**	**566,743**
Floating rate debt securities:		
– More than 1 year but less than 2 years	271,441	0
– More than 2 years but less than 3 years	944,993	321,260
– More than 3 years but less than 4 years	429,516	1,059,607
– More than 4 years but less than 5 years	535,047	476,820
– More than 5 years	0	598,990
Floating rate debt securities	**2,180,997**	**2,456,677**

Notes to the Consolidated annual accounts Continued

Covered bond issues		
Fixed rate debt securities:		
– More than 5 years	497,005	0
Fixed rate debt securities	**497,005**	**0**
Unsecured debt securities		
Fixed rate debt securities:		
– Within 1 year	4,000	0
– More than 5 years	302,500	270,000
Fixed rate debt securities	**306,500**	**270,000**
Debt securities issued	**3,481,034**	**3,293,420**

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

	FORD	2017	2016
Hypenn RMBS I A1	18-11-2017	0	71,130
Hypenn RMBS I A3	17-11-2020	396,532	395,613
Hypenn RMBS II	17-5-2019	371,442	421,260
Hypenn RMBS III	9-6-2020	500,237	561,340
Hypenn RMBS IV	17-7-2020	444,755	498,267
Hypenn RMBS V	17-4-2021	429,516	476,820
Hypenn RMBS VI	17-12-2022	535,048	598,990
Total		**2,677,530**	**3,023,420**
Covered bond issues		497,852	0
Fair value change hedged items		-848	0
Unsecured debt securities		306,500	270,000
Total		**3,481,034**	**3,293,420**

'Debt securities issued' includes the Residential Mortgage Backed Securities under the Hypenn RMBS securitisation programme 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 3,381 million as at 31 December 2017 (31 December 2016: EUR 3,091 million), of which EUR 497.0 million relates to the Covered Bonds (31 December 2016: EUR 0) and EUR 306.5 million relates to unsecured debt securities (31 December 2016: EUR 270 million). The notes issued to related parties amounted to EUR 101 million as at 31 December 2017 (31 December 2016: EUR 202 million).

For the Hypenn RMBS securitisation programme and the Covered Bond Programme, reference is made to Note 33 'Structured entities'.

The fair value adjustment is the fair value of bonds that are included in a micro hedge relationship as at 31 December 2017.

The notes issued by the 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 1,476 million as at 31 December 2017 (31 December 2016: EUR 1,805 million) and consist of EUR 377 million junior notes (31 December 2016: EUR 376 million) and EUR 1,099 million senior notes (31 December 2016: EUR 1,429 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 all the class C notes of the Special Purpose Entities (SPEs). The cash inflow of the interest of the mortgages is used for the payment of interest of the notes and follows the same waterfall structure as described above.

15 Subordinated debt

Subordinated debt

				Notional amount		Balance sheet value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**2017**	**2016**	**2017**	**2016**
3.02%	2017	27 February 2027	26 February 2022	15,000	0	15,000	0
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
Subordinated debt				**85,000**	**70,000**	**85,000**	**70,000**

NN Group provided the subordinated loans to NN Bank which qualify as Tier 2 capital under the CRR. Under IFRS-EU, these debt

Notes to the Consolidated annual accounts Continued

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. All subordinated debt is euro denominated.

16 Equity

Total equity

	2017	2016
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	3,596	6,792
Retained earnings and unappropriated result	216,600	131,381
Shareholder's equity	**711,196**	**629,173**

Share capital

	Ordinary shares			
	Shares (in numbers)		Amount (in EUR thousand)	
	2017	2016	2017	2016
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 Equity (2017)

	Share capital	Share premium	Reserves	Total shareholders' equity
Changes in equity – opening balance	10,000	481,000	138,173	629,173
Changes taxation prior years	0	0	0	0
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
Capital contribution	0	0	0	0
Employee share plans	0	0	223	223
Changes in equity – closing balance	**10,000**	**481,000**	**220,196**	**711,196**

Changes in Equity (2016)

	Share capital	Share premium	Reserves	Total shareholder's equity
Changes in equity – opening balance	10,000	466,000	56,734	532,734
Changes taxation prior years	0	0	770	770
Net result for the period	0	0	79,911	79,911
Total amount recognised directly in equity ('Other comprehensive income')	0		552	552
Capital contribution	0	15,000	0	15,000
Employee share plans	0	0	206	206
Changes in equity – closing balance	**10,000**	**481,000**	**138,173**	**629,173**

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 2017, 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 shareholders' 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 37 'Capital and liquidity management'.

Notes to the Consolidated annual accounts Continued

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

		2017		2016
Total shareholders' equity		711,196		629,173
– share capital	10,000		10,000	
– revaluation reserve	3,596		6,792	
– intangible assets reserve	4,479		1,261	
Total non-distributable part of shareholders' equity		18,076		18,053
Distributable reserves based on the Dutch Civil Code		**693,121**		**611,120**

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 2017 net result of EUR 85 million, less the proposed cash dividend of EUR 8 million, to the retained earnings.

17 Interest result

Interest result

	2017	2016
Interest income on loans	457,240	428,106
Interest income on available-for-sale debt securities	633	1,603
Interest income on non-trading derivatives	80,740	68,345
Negative interest on liabilities	496	0
Total interest income	**539,109**	**498,054**
Interest expenses on amounts due to banks	1,577	312
Interest expenses on customer deposits and other funds on deposit	126,930	140,340
Interest expenses on debt securities issued and other borrowed funds	31,473	30,954
Interest expenses on subordinated loans	2,649	2,258
Interest expenses on non-trading derivatives	124,322	105,786
Negative interest on assets	18,325	9,425
Other interest expenses	1,201	6,159
Total interest expenses	**306,477**	**295,234**
Interest result	**232,632**	**202,820**

'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 4.9 million (2016: EUR 3.7 million). The remainder mainly concerns interest on derivatives.

Interest margin in percentages

	2017	2016
Interest margin	**1.5%**	**1.5%**

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2017 and 2016, respectively.

18 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2017	2016
Realised gains or losses of debt securities	2,458	703
Results from financial transactions	12,171	41,103
Other income	-303	-397
Gains and losses on financial transactions and other income	**14,326**	**41,409**

'Results from financial transactions' mainly comprises the results on the sale of mortgages to NN Dutch Residential Mortgage Fund,

Notes to the Consolidated annual accounts Continued

NN Schade and NN Belgium. The included origination fee 2017 amounts to EUR 13.6 million (2016: EUR 20.5 million) and premiums amount to EUR -1.4 million (2016: EUR 20.6 million).

'Other income' includes certain other income and expenses.

19 Net fee and commission income

Net fee and commission income

	2017	2016
Service management fee	24,556	24,541
Brokerage and advisory fees	39,263	35,926
Gross fee and commission income	**63,819**	**60,467**
Asset management fees	11,303	8,457
Brokerage and advisory fees	3,755	3,454
Other	1,161	780
Fee and commission expenses	**16,219**	**12,691**
Net fee and commission income	**47,600**	**47,776**

NN Bank services a total loan portfolio of EUR 18.8 billion (2016: EUR 18.6 billion) for NN Leven, NN Schade, NN Belgium, Delta Lloyd Leven, NN Dutch Residential Mortgage Fund and ING Bank.

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 32.8 million (2016: EUR 27.3 million) and is included in 'Brokerage and advisory fees'.

20 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2017	2016
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	62,700	-56,133
– the hedged items (mortgages) attributable to the hedged risk	-68,317	50,612
Valuation results on non-trading derivatives	**-5,617**	**-5,521**

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 2017 increased compared to those of 2016, mainly due to the increase in the overnight indexed swap curve (OIS). This result is also impacted by amortisation of 'Fair value of de-designated hedged items' from hedge accounting relationships. Reference is made to Note 25 'Derivatives and hedge accounting'.

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 33 'Structured entities'.

21 Staff expenses

Staff expenses

	2017	2016
Salaries	48,897	47,068
Pension and other staff-related benefit costs	11,091	9,499
Social security costs	5,968	5,710
Share-based compensation arrangements	722	397
External staff costs	30,976	29,196
Education	1,159	591
Other staff costs	1,327	527
Staff expenses	**100,140**	**92,988**

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

Notes to the Consolidated annual accounts Continued

Pension costs

Defined contribution plans

NN Bank is one of the sponsors of the NN Group defined contribution plan (NN CDC Pensioenfonds). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in 'Other assets' or 'Other liabilities'.

Number of employees

	2017	2016
Average number of employees on full-time equivalent basis	675	633

Remuneration of Management Board and Supervisory Board

Reference is made to Note 35 '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)	
	2017	2016	2017	2016
Share awards outstanding – opening balance	8,310	9,590	25.87	19.42
Granted	8,941	8,793	31.01	29.43
Performance effect	0	207	0.00	0.00
Vested	-8,474	-10,280	27.66	22.02
Share awards outstanding – closing balance	**8,777**	**8,310**	**84.54**	**25.87**

In 2017, 4,586 share awards on NN Group shares (2016: 6,896) were granted to the members of the NN Bank Management Board. To other employees of NN Bank, 4,355 share awards on NN Group shares (2016: 1,897) were granted.

As at 31 December 2017, the share awards on NN Group shares consist of 8,777 (2016: 8,310) 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 2017, total unrecognised compensation costs related to share awards amount to EUR 74 thousand (2016: EUR 72 thousand). These costs are expected to be recognised over a weighted average period of 1.4 years (2016: 1.4 years).

Sharesave Plan

In August 2014, NN Group introduced a 'Sharesave' plan which was open to all employees. Under the plan, from August 2014, eligible employees could save a fixed monthly amount of between EUR 25 and EUR 250 for a period of three years. The Sharesave plan ended in 2017. At the end of this three-year period, employees received their savings together with a gross gain, as at the end of the three-year period the NN Group share price exceeded the initial trading price of NN Group shares on the Euronext Amsterdam on 7 July 2014. The gross gain was limited to a 100% increase in the share price and was paid in cash.

Notes to the Consolidated annual accounts Continued

22 Regulatory levies and Other operating expenses

Regulatory levies

	2017	2016
Regulatory levies	11,155	8,476
Regulatory levies	**11,155**	**8,476**

'Regulatory levies' comprises the contribution to the Dutch Deposit Guarantee Scheme (DGS), which started in 2016, and the European Single Resolution Fund (SRF), which is the continuation of the 2015 National Resolution Fund (NRF).

Other operating expenses

	2017	2016
Computer costs	14,821	10,039
Office expenses	4,107	6,864
Travel and accommodation expenses	2,951	1,484
Advertising and public relations	6,699	6,409
IT outsourcing	17,165	18,647
Bank costs	285	217
Addition/release of provision for reorganisation	928	6,999
Amortisation of intangible assets	934	525
Other	19,806	22,409
Other operating expenses	**67,696**	**73,593**

For 'Addition/release of provision for reorganisation', reference is made to the disclosure on the reorganisation provision in Note 13 'Provisions'.

'Other' mainly consists of corporate staff department costs charged from NN Group to NN Bank.

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, includes an audit in relation to reporting to regulators, audit of annual accounts of subsidiaries, review of quarterly statutory special purpose financial information, 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.

23 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 5,251 thousand and concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 12 'Other liabilities'.

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
Deferred tax	**3,344**	**-1,065**	**1,473**	**3,752**
Presented in the balance sheet as:				
– deferred tax liabilities	6,385			4,377
– deferred tax assets	-3,041			-625
Deferred tax	**3,344**			**3,752**

1 Positive amounts are liabilities, negative amounts are assets.

Notes to the Consolidated annual accounts Continued

Deferred tax (2016)

	Net liability 2015[1]	Change through equity	Change through net result	Net liability 2016[1]
Investments	1,804	184	0	1,988
Financial assets and liabilities at fair value through profit or loss	-176	0	4,574	4,397
Other liabilities	371	0	-371	0
Provisions	-1,434	0	-1,607	-3,041
Deferred tax	**565**	**184**	**2,596**	**3,344**
Presented in the balance sheet as:				
– deferred tax liabilities	2,175			6,385
– deferred tax assets	-1,610			-3,041
Deferred tax	**565**			**3,344**

1 Positive amounts are liabilities, negative amounts are assets.

Taxation on result

	2017	2016
Current tax	26,933	24,110
Deferred tax	1,473	2,596
Taxation on result	**28,406**	**26,706**

Taxation in 2017 increased by EUR 1.7 million to EUR 28.4 million, from EUR 26.7 million in 2016.

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

	2017	2016
Result before tax	113,402	106,617
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**28,350**	**26,654**
Expenses not deductible for tax purposes	56	52
Effective tax amount	**28,406**	**26,706**
Effective tax rate	**25.0%**	**25.1%**

The statutory tax rate in 2017 was 25.0%, as in 2016. The effective tax rate in 2017 was 25.0% (2016: 25.1%).

Taxation on components of other comprehensive income

	2017	2016
Unrealised revaluations	-1,065	184
Realised gains or losses transferred to the profit and loss account	0	0
Total income tax related to components of other comprehensive income	**-1,065**	**184**

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24 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	
	2017	2016	2017	2016
Financial assets				
Cash and balances at central banks	1,085,613	1,555,008	1,085,613	1,555,008
Amounts due from banks	398,900	135,944	398,900	135,944
Financial assets at fair value through profit or loss:				
– non-trading derivatives	193,271	250,675	193,271	250,675
Available-for-sale investments	547,331	385,460	547,331	385,460
Loans	14,775,870	13,610,417	13,739,818	12,685,718
Other assets[1]	99,886	118,817	99,886	118,817
Financial assets	**17,100,871**	**16,056,321**	**16,064,819**	**15,131,622**
Financial liabilities				
Amounts due to banks	432,257	50,445	432,394	50,522
Customer deposits and other funds on deposit	11,039,543	10,671,040	10,604,951	10,225,730
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	208,153	390,639	208,153	390,639
Other borrowed funds	485,035	407,850	485,000	405,000
Other liabilities[2]	41,970	44,171	41,970	44,171
Debt securities issued	3,600,234	3,420,634	3,481,034	3,293,420
Subordinated debt	86,953	73,011	85,000	70,000
Financial liabilities	**15,894,145**	**15,057,790**	**15,338,502**	**14,479,482**

1 'Other assets' does not include (deferred) tax assets and intangibles.
2 'Other liabilities' does not include (deferred) tax liabilities, provisions and other taxation and social security contributions.

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

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possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Available-for-sale investments

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

The fair value of the financial instruments carried at fair value was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Non-trading derivatives	0	46,904	146,367	193,271
Available-for-sale investments	169,707	377,624	0	547,331
Financial assets	**169,707**	**424,528**	**146,367**	**740,602**
Financial liabilities				
Non-trading derivatives	0	61,786	146,367	208,153
Financial liabilities	**0**	**61,786**	**146,367**	**208,153**

Methods applied in determining the fair value of financial assets and liabilities (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Non-trading derivatives	0	23,656	227,019	250,675
Available-for-sale investments	303,615	81,845	0	385,460
Financial assets	**303,615**	**105,501**	**227,019**	**636,135**
Financial liabilities				
Non-trading derivatives	0	163,620	227,019	390,639
Financial liabilities	**0**	**163,620**	**227,019**	**390,639**

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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.

Changes in Level 3 Financial assets

	2017	2016
Level 3 Financial assets – opening balance	227,019	208,714
Amounts recognised in the profit and loss account during the year	-80,652	-74,236
Purchases of assets	0	92,541
Level 3 Financial assets – closing balance	**146,367**	**227,019**

Changes in Level 3 Financial liabilities

	2017	2016
Level 3 Financial liabilities – opening balance	227,019	208,714
Amounts recognised in the profit and loss account during the year	-80,652	-74,236
Purchases of liabilities	0	92,541
Level 3 Financial liabilities – closing balance	**146,367**	**227,019**

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

	2017	2016
Financial assets		
Non-trading derivatives	-80,652	-74,236
Financial assets	**-80,652**	**-74,236**
Financial liabilities		
Non-trading derivatives	80,652	74,236
Financial liabilities	**80,652**	**74,236**

None of the Level 3 financial assets or liabilities were derecognised during the period.

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 2017 of EUR 740.6 million (31 December 2016: EUR 636.1 million) include an amount of EUR 146.4 million (22.6%) that is classified as Level 3 (31 December 2016: EUR 227.0 million, 35.7%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2017 of EUR 208.2 million (31 December 2016: EUR 390.6 million) include an amount of EUR 146.4 million (66.8%) that is classified as Level 3 (31 December 2016: EUR 227.0 million, 58.1%).

Unrealised gains and losses that relate to 'Level 3 financial assets and liabilities' relating to non-trading derivatives are included in the profit and loss account as 'Valuation results on non-trading derivatives'.

Financial assets and liabilities at amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances at central banks	1,085,613	0	0	1,085,613
Amounts due from banks	398,900	0	0	398,900
Loans	0	0	14,775,870	14,775,870
Financial assets	**1,484,513**	**0**	**14,775,870**	**16,260,383**
Financial liabilities				
Amounts due to banks	0	432,257	0	432,257
Customer deposits and other funds on deposit	5,504,962	5,514,306	20,275	11,039,543
Other borrowed funds	0	485,035	0	485,035
Debt securities issued	501,233	3,099,001	0	3,600,234
Subordinated debt	0	86,953	0	86,953
Financial liabilities	**6,006,195**	**9,617,552**	**20,275**	**15,644,022**

Methods applied in determining the fair value of financial assets and liabilities (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances at central banks	1,555,008	0	0	1,555,008
Amounts due from banks	135,944	0	0	135,944
Loans	0	0	13,610,417	13,610,417
Financial assets	**1,690,952**	**0**	**13,610,417**	**15,301,369**
Financial liabilities				
Amounts due to banks	0	50,445	0	50,445
Customer deposits and other funds on deposit	6,421,796	4,249,244	0	10,671,040
Other borrowed funds	0	407,850	0	407,850
Debt securities issued	0	3,420,634	0	3,420,634
Subordinated debt	0	73,011	0	73,011
Financial liabilities	**6,421,796**	**8,201,184**	**0**	**14,622,980**

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25 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.

Fair value hedge accounting

NN Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve-out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument, and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits, and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. NN Bank applies the IFRS-EU 'carve-out' to its hedge of the interest rate risk of mortgage loans.

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

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 loans in Debt securities issued while the hedging instrument consists of interest rate swaps. The Bank periodically assesses the fair value change of the micro hedge in the hedged part of the 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.

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

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

For the year ended 31 December 2017, NN Bank recognised EUR 62.7 million (31 December 2016: EUR -56.1 million) of fair value changes on derivatives designated under the macro hedge in the profit and loss account. This amount was offset by EUR -68.3 million (2016: EUR 50.6 million) fair value changes recognised on hedged items. This resulted in EUR -5.6 million (2016: EUR -5.5 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2017, the fair value of outstanding derivatives designated under the macro hedge was EUR -11.8 million (31 December 2016: EUR -139.9 million), presented in the balance sheet as EUR 46.8 million (2016: EUR 23.7 million) positive fair value under assets and EUR 58.6 million (2016: EUR 163.6 million) negative fair value under liabilities.

For the year ended 31 December 2017, NN Bank recognised EUR -0.7 million (31 December 2016: EUR 0 million) of fair value changes on derivatives designated under the micro hedge in the profit and loss account. This amount was offset by EUR 0.8 million (2016: EUR 0 million) fair value changes recognised on hedged items. This resulted in EUR 0.2 million (2016: EUR 0 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2017, the fair value of outstanding derivatives designated under the micro hedge was EUR -0.7 million (31 December 2016: EUR 0 million), presented in the balance sheet as EUR 0 million (2016: EUR 0 million) positive fair value under assets and EUR 0.7 million (2016: EUR 0 million) negative fair value under liabilities.

The following table shows the maturity of interest rate swaps that are designated in macro fair value hedge accounting relationships and other interest rate swaps that are economic hedges as at 31 December 2017.

Non-trading derivatives by type and maturity (2017)

	notionals, 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	193	208
Total non-trading derivatives	**363**	**4,832**	**4,075**	**9,270**	**193**	**208**

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Non-trading derivatives by type and maturity (2016)

	notionals, amounts in millions of euros					
	< 1 year	Between 1 and 5 years	> 5 years	Total	Positive fair value	Negative fair value
Interest rate swaps	360	4,050	3,544	7,954	251	391
Total non-trading derivatives	**360**	**4,050**	**3,544**	**7,954**	**251**	**391**

26 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 (2017)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment[2]	Total
Assets							
Cash and balances at central banks	1,085,613	0	0	0	0	0	1,085,613
Amounts due from banks	89,801	309,099	0	0	0	0	398,900
Financial assets at fair value through profit or loss:							
– non-trading derivatives	0	0	0	0	0	193,271	193,271
Available-for-sale investments	0	0	10,174	495,510	41,647	0	547,331
Loans	226,753	35,556	136,445	682,063	12,659,001	0	13,739,818
Other assets	88,883	11,003	0	4,479	0	0	104,365
Deferred tax assets	0	0	625	0	0	0	625
Total assets	**1,491,050**	**355,658**	**147,244**	**1,182,052**	**12,700,648**	**193,271**	**16,069,923**
Risk management derivatives:							
– inflow	0	160	2,219	113,837	396,834	0	513,050
– outflow	-1,421	-3,438	-19,204	-11,946	0	0	-36,009

[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 29 December 2017.

Assets by contractual maturity (2016)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment[2]	Total
Assets							
Cash and balances at central banks	1,555,008	0	0	0	0	0	1,555,008
Amounts due from banks	77,262	58,682	0	0	0	0	135,944
Financial assets at fair value through profit or loss:							
– non-trading derivatives	0	0	0	0	0	250,675	250,675
Available-for-sale investments	43,907	46,895	86,992	159,203	48,463	0	385,460
Loans	31,220	56,061	187,383	584,482	11,826,572	0	12,685,718
Other assets	104,262	14,554	0	1,261	0	0	120,077
Deferred tax assets	0	0	3,041	0	0	0	3,041
Total assets	**1,811,659**	**176,192**	**277,416**	**744,946**	**11,875,035**	**250,675**	**15,135,923**
Risk management derivatives:							
– inflow	0	3,609	0	16,464	250,564	0	270,637
– outflow	-1,062	0	-12,731	0	0	0	-13,793

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 30 December 2016.

27 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 36 'Risk Management' for a description on how liquidity risk is managed.

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Liabilities by maturity (2017)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment[2]	Total
Liabilities							
Amounts due to banks	34,713	38,181	185,000	174,500	0	0	432,394
Customer deposits and other funds on deposit	7,128,964	53,540	242,758	848,048	2,331,641	0	10,604,951
Financial liabilities at fair value through profit or loss:							
– non-trading derivatives	0	0	0	0	0	208,153	208,153
Other borrowed funds	45,000	180,000	190,000	70,000	0	0	485,000
Debt securities issued	0	0	4,000	2,677,529	799,505	0	3,481,034
Subordinated debt	0	0	0	0	85,000	0	85,000
Financial liabilities	**7,208,677**	**271,721**	**621,758**	**3,770,077**	**3,216,146**	**208,153**	**15,296,532**
Other liabilities	26,990	16,716	13,111	0	0	0	56,817
Deferred tax liabilities	0	0	4,377	0	0	0	4,377
Other provisions	160	191	650	0	0	0	1,001
Non-financial liabilities	**27,150**	**16,907**	**18,138**	**0**	**0**	**0**	**62,195**
Total liabilities	**7,235,827**	**288,628**	**639,896**	**3,770,077**	**3,216,146**	**208,153**	**15,358,727**
Risk management derivatives:							
– outflow	1,768	4,510	35,385	192,663	280,133	0	514,459
– inflow	-538	-1,164	-9,774	-6,099	0	0	-17,575
Coupon interest due on financial liabilities	-49,197	-7,741	-36,078	-299,484	-191,019	0	-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.

Liabilities by maturity (2016)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment[2]	Total
Liabilities							
Amounts due to banks	5,522	0	45,000	0	0	0	50,522
Customer deposits and other funds on deposit	7,228,100	57,815	237,590	986,072	1,716,153	0	10,225,730
Financial liabilities at fair value through profit or loss:							
– non-trading derivatives	0	0	0	0	0	390,639	390,639
Other borrowed funds	0	0	185,000	0	220,000	0	405,000
Debt securities issued	0	0	71,130	2,353,300	868,990	0	3,293,420
Subordinated debt	0	0	0	0	70,000	0	70,000
Financial liabilities	**7,233,622**	**57,815**	**538,720**	**3,339,372**	**2,875,143**	**390,639**	**14,435,311**
Other liabilities	31,293	12,675	11,495	0	0	0	55,463
Deferred tax liabilities	0	0	6,385	0	0	0	6,385
Other provisions	0	0	9,591	0	0	0	9,591
Non-financial liabilities	**31,293**	**12,675**	**27,471**	**0**	**0**	**0**	**71,439**
Total liabilities	**7,264,915**	**70,490**	**566,191**	**3,339,372**	**2,875,143**	**390,639**	**14,506,750**
Derivative management derivatives:							
– outflow	1,001	7,274	41,481	152,218	212,801	0	414,775
– inflow	-558	0	-5,932	0	0	0	-6,490
Coupon interest due on financial liabilities	13,608	9,899	35,535	286,068	210,614	0	555,724

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 30 December 2016.

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28 Assets not freely disposable

Assets not freely disposable

	2017	2016
Loans	5,111,691	4,899,356
Cash and balances at central banks	78,220	65,590
Amounts due from banks	85,267	69,727
Collateral on balanced guaranteed swaps	179,099	58,682
Assets not freely disposable	**5,454,277**	**5,027,765**

The amount not freely disposable for 'Loans' reflects the securitised mortgages portfolios to Hypenn RMBS I to VI, the mortgage loans structured through the Covered Bond Programme and collateralised mortgage loans for the warehouse credit facility agreements. The amount not freely disposable for 'Amounts due from banks' reflects the money held by the Hypenn RMBS entities. 'Cash and balances at central banks' concerns the mandatory reserve deposit at DNB. 'Collateral on balanced guaranteed swaps' concerns the collateral accounts regarding centrally cleared swaps.

29 Transferred, but not derecognised financial assets

The majority of NN Bank's financial assets, that have been transferred but do not qualify for derecognition, are mortgage loans incorporated in notes issued by the Hypenn entities or in the Covered Bond Programme. 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 33 'Structured entities'.

30 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 (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees	0	0	0	0	0	0	0
Irrevocable credit facilities	104,979	0	0	0	0	0	104,979
Mortgage and consumer lending offerings	72,965	174,654	103,212	0	0	0	350,831
Construction deposits	1,956	2,410	38,158	171,910	0	0	214,434
Contingent liabilities and commitments	**179,900**	**177,064**	**141,370**	**171,910**	**0**	**0**	**670,244**

Contingent liabilities and commitments (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees	0	0	0	0	0	0	0
Irrevocable credit facilities	106,654	0	0	0	0	0	106,654
Mortgage and consumer lending offerings	225,502	429,439	222,348	0	0	0	877,289
Construction deposits[1]	3,734	5,134	26,659	455,516	0	0	491,042
Contingent liabilities and commitments	**335,890**	**434,573**	**249,007**	**455,516**	**0**	**0**	**1,474,985**

1 For purposes of comparison, amounts from 2016 have been reclassified.

'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 2013 and 2014, NN Bank entered into a cooperation agreement with subsidiaries of ING Groep N.V. ('ING Group'). This agreement deals, amongst others, with the transfer of mortgage loans from Nationale-Nederlanden Hypotheekbedrijf N.V., a subsidiary of ING Group, to NN Bank. Reference is made to Note 38 'Subsequent and other events', chapter 'Loan purchases' for an update on the amended contract between ING Bank and NN Bank.

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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 receivable by NN Group at the end of 2017 amounted to EUR 28,043 thousand (2016: EUR 17,789 thousand receivable).

31 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 to start a trial process claiming that prepayment penalties charged prior to 14 July 2016 should be recalculated and potentially be repaid to the borrowers. No claim has been received and legal proceedings have not yet been initiated. 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.

32 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 Hypenn RMBS entities (I – 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 33 'Structured entities'.

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

33 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.

In September 2017, NN Bank 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 company to fulfil its guarantee, NN Bank legally transfers Dutch prime residential mortgage loans originated by NN Bank to the CBC company. Economically, the mortgages are on the balance sheet of NN Bank. The CBC company is consolidated by NN Bank. In October 2017, NN Bank announced that it had priced its inaugural EUR 500 million Conditional Pass-Through Covered Bonds. The bonds, which were placed with a broad range of institutional investors, have a tenor of seven years and a fixed coupon of 0.5%.

Securitisation transactions are used to diversify its funding sources and to manage its liquidity profile. In these transactions, NN Bank sells a portfolio of mortgage receivables (i.e. 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

Notes to the Consolidated annual accounts Continued

transactions amounted to EUR 146.4 million as at 31 December 2017 (31 December 2016: EUR 227.0 million) and are presented gross, as offsetting is not applicable.

In the table below, 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	
		2017	2016	2017	2016
Hypenn RMBS I	2020	1,484,867	1,806,803	396,532	466,743
Hypenn RMBS II	2019	425,279	471,945	371,442	421,260
Hypenn RMBS III	2020	573,226	634,803	500,237	561,340
Hypenn RMBS IV	2020	498,884	549,450	444,755	498,267
Hypenn RMBS V	2021	469,838	517,892	429,516	476,820
Hypenn RMBS VI	2022	842,465	923,134	535,048	598,990
Covered bond issues	2024	599,774	0	497,852	0
Total		**4,894,332**	**4,904,027**	**3,175,382**	**3,023,420**

34 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, leases, 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. Reference is made to the table 'Transactions with Other group companies'.
- Sale of mortgages to other NN Group companies. Reference is made to Note 6 'Loans'.
- Transactions with NN Group concerning financing arrangements and the payment of taxes, as NN Group heads the fiscal unity. Reference is made to Notes 11 'Other borrowed funds', 15 'Subordinated debt', and 30 '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 services carried out by group companies
- Transactions relating to the remuneration of Board members. Reference is made to Note 35 '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	2017	2016
Assets	0	0
Liabilities	86,693	273,540
Income received	-6,757	-5,842
Expenses paid	32,372	51,006

'Liabilities' mainly reflect the subordinated loans from NN Group. Compared to 2016, NN Bank redeemed the unsecured loan from NN Group of EUR 200 million and issued a new subordinated loan of EUR 15 million. Reference is also made to Note 15 'Subordinated debt' and Note 11 'Other borrowed funds'.

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 22 'Other operating expenses'.

Notes to the Consolidated annual accounts Continued

Other group companies

Other group companies	2017	2016
Assets	-89,522	-197,940
Liabilities	172,129	368,399
Income received	131,467	-53,381
Expenses paid	22,773	-46,429

'Assets' comprises the current account, with NN Insurance Eurasia N.V. (EUR 28 million), a EUR 130 million short-term loan to Delta Lloyd Bank, and positions resulting from partial transfer of mortgage loans with NN Leven.

As stated in the accounting policies in the Consolidated annual accounts, paragraph 'Partial transfer of mortgage loans', NN Bank transfers mortgage parts as part of certain arrangements. The net amount of partial mortgages loans transferred to NN Leven amounted to EUR 192 million as at 31 December 2017 (2016: EUR 251 million).

'Liabilities' reflects Hypenn notes, owned by NN Leven of EUR 101 million (2016: EUR 203 million) and repos. For more details, reference is made to Notes 8 'Amounts due to banks' and Note 14 'Debt securities issued'.

'Income received' mainly reflects fee income on mortgage origination and servicing on behalf of NN Leven of EUR 48 million (2016: EUR 27 million). Valuation and interest result on derivative positions with Nationale-Nederlanden Interfinance B.V. (mostly offset in the profit and loss account by the fair value change on the hedged items) are also included. Valuation results, both positive and negative, are included in 'Total income' in the Consolidated profit and loss account. For more details on valuation results on derivatives, reference is made to Note 20 'Valuation results on non-trading derivatives'. Interest expenses on funding from NN Leven amounting to EUR 19.9 million (2016: EUR 22 million), 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.

35 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

	2017[2]	2016
Fixed compensation:		
- base salary	800	1,000
- pension costs[1]	108	105
- individual savings allowance[1]	136	164
Variable compensation:		
- up-front cash	93	107
- up-front shares	93	107
- deferred cash	93	94
- deferred shares	93	94
Other benefits	147	154
Fixed and variable compensation	**1,563**	**1,825**

1 The pension costs consist of an amount of employer contribution (EUR 128 thousand) and an individual savings allowance (EUR 136 thousand, which is 31.6% of the amount of base salary above EUR 103,317).
2 Reference is made to Composition of the Boards on page 4.

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. During 2017 new members of the Management Board were appointed due to the integration with Delta Lloyd. As per the date of integration the Management Board is responsible for both NN Bank and Delta Lloyd Bank. As per the date of appointment the Management Board members hold remunerated positions within the new combined organisation. The related remuneration costs are allocated within NN Bank and not allocated to Delta Lloyd Bank.

The NN Bank Supervisory Board members do not receive any compensation for their activities, except for two Supervisory Board members who are not employees within NN Group (2016: one external Supervisory Board member). The remuneration of EUR 36,300 (2016: EUR 24,200) 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.

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The remuneration of the Supervisory Board members includes VAT for 2017 and 2016. 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 (2017: EUR 1,563 thousand), includes all variable remuneration related to the performance year 2017. 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 2017 and therefore included in 'Total expenses' in 2017, relating to the fixed expenses of 2017 and the vesting of variable remuneration of 2017 and earlier performance years, is EUR 1,392 thousand (2016: EUR 1,614 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 objective of the company.

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

- Enhance focus on the long-term interest of NN Group and the interest of customers
- Align with company values, business strategy and risk appetite
- Promote and align with robust and effective risk management
- Comply with and support the spirit of the (inter)national regulations on remuneration policies
- Aim to avoid improper treatment of customers and employees
- Create a balanced compensation mix with a reduced emphasis on variable compensation
- 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Management Board members	0	0	0.0%	0.0%	0	0
Supervisory Board members	577	660	5.0%	5.2%	83	83
Loans and advances to key management	**577**	**660**			**83**	**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 2017 was EUR 83 thousand equal to 2016.

Notes to the Consolidated annual accounts Continued

36 Risk management

Introduction

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

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

- **Risk management structure and governance systems:** NN Bank’s risk management structure and governance systems 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 system 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.

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 structure and governance system

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

Management Board and its committees

NN Bank’s Management Board is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective. It has full management responsibility for all of NN Bank's activities, including setting, implementing, monitoring and, if necessary, adjusting 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 the Group-level Disclosure Committee on bank-relevant disclosures. Ensures that all disclosures are accurate, complete and appropriate, and that they fairly present NN Bank's condition in all material respects. The DC is chaired by the CFO.
- 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 MTP 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.

Independent risk management function

The CRO is a member of NN Bank's Management Board and functionally reports to the CRO of NN Group through the NN Group Head of Risk Management Netherlands. 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.

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

Notes to the Consolidated annual accounts Continued

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
- Second line of defence: Oversight functions with a major role for the risk management organisation, legal and the compliance function. The CRO steers a functional independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risk. These oversight functions include:
  - Developing the policies and guidance for their specific risk and control area
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinating the reporting of risks
  - Supporting the first line of defence in making proper risk-return trade-offs
  - Exercising escalation power in relation to business activities that are judged to present unacceptable risks to NN Bank
- Third line of defence: Corporate Audit Services (CAS) offers an independent assessment of the standard of internal control with respect to NN Bank's business and support processes, including governance, risk management and internal controls

Risk management system

The risk management system is not a sequential process, but a dynamic and integrated system. The system comprises of 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 philosophy (or: risk culture), called Active Risk Management. We assess the effectiveness of this philosophy twice yearly through Risk Culture Dashboards.

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 control cycle

NN Bank's risk control cycle consists of four steps. 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), 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.

Notes to the Consolidated annual accounts Continued

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 management policies, standards and processes

NN Bank has a framework of risk management policies, procedures and standards in place. These policies, standards and processes are regularly updated to align with industry practices and changes in NN Bank's business profile, and to comply with applicable laws and regulations. Key areas of risk management for which NN Bank has established policies, standards and processes are described in this section.

Risk Appetite Framework

NN Bank uses an integrated risk management approach for its banking activities. NN Bank's Management Board uses 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.

Risk appetite process

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.

Quantitative risk appetite metrics

For financial risks, NN Bank expresses its risk appetite as the tolerance to allow key metrics to deviate from their target levels. The following key risk metrics have tolerance levels set at Bank level, and are monitored on a monthly basis. The actual levels as per end of 2017 and 2016 are included in the table below.

Key risk metrics

		Level end of
	2017	**2016**
Total capital ratio - transitional[1]	16.9%	15.9%
Common Equity Tier 1 ratio - transitional[1]	15.1%	14.3%
Leverage ratio – transitional	4.2%	4.0%
Liquidity Coverage Ratio (LCR)	162%	205%

1 These are not final until filed with the regulators. If DNB approves of the fourth quarter result of 2017 being added, then the Total capital ratio – transitional is 17.3% and CET1 ratio-transitional is 15.4%.

The increase in the balance sheet notwithstanding, NN Bank has maintained a solid capital position with a CRR transitional Total capital ratio of 16.9% and a CRR transitional CET1 ratio of 15.1% at year-end 2017. Internal capital generation and a Tier 2 capital contribution from NN Group of EUR 15 million allowed this achievement. The leverage ratio increased to 4.2% in 2017. At the end of December 2017, NN Bank had an LCR ratio of 162%. This is well above the regulatory and internal limits. It shows a solid liquidity position given our liquidity risks. At the end of December 2016, NN Bank had an LCR ratio of 205%, as a result of the exceptionally high inflow of savings. In 2016, NN Bank raised more than EUR 2 billion in retail savings.

Notes to the Consolidated annual accounts Continued

Qualitative risk appetite statements
NN Bank strives for a prudent risk profile and:

- Is risk mindful with regard to capitalisation and liquidity
- Operates within the legal and regulatory frameworks as applicable to banks
- Adheres to the behavioural codes and guidelines applicable to banks
- Respects the frameworks as set by the NN Group Policy House
- Complies with the business principles of NN Group

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

Product approval and review process
The product approval and review process (PARP) has been developed to enable effective design, underwriting, and pricing of all products, as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements as to the product risk profile features to ensure that products are aligned with NN Bank's strategy. The PARP takes into account customer benefits and product suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

ICAAP, ILAAP and stress testing
Stress testing is a key tool of risk management that involves consideration of the impact of adverse movements in one or more risk factors. The Capital Requirement 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).

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

- Sensitivity analysis is the simple stressing of one risk driver to assess the sensitivity of the institution to that risk driver
- Forward-looking hypothetical scenario analysis is a core part of the suite of stress tests that banks should include in their stress-testing programmes. The scenario design takes 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

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

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

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

Notes to the Consolidated annual accounts Continued

Financial 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.

Regulatory environment

Basel III

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

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

For European banks, the Basel III requirements have been implemented – taking into account transitional arrangements – through the Capital Requirement Regulation (CRR). These requirements came into effect in Europe as of 1 January 2014, with full implementation as of 1 January 2019. NN Bank is well prepared to operate under the new framework. NN Bank monitors regulatory developments closely and, as appropriate, seeks opportunities for the public to comment and to ensure timely compliance.

NN Bank already complies with 2019 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.

Notes to the Consolidated annual accounts Continued

Pillar II: Capital and SREP Approach

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, operational risk, credit risk, business risk and model risk. Liquidity risk is covered through the internal liquidity assessment process (ILAAP). Stress testing is a key part of NN Bank internal capital and liquidity adequacy assessment processes. The ICAAP capital is the basis for the dialogue with the supervisor regarding NN Bank's required solvency ratio: the so-called SREP Capital.

Pillar III: Approach to Market Discipline Requirements

Pillar III concerns the rules for the compulsory disclosure of information that provides 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 or in the annual accounts.

Basel 4

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 4. Currently, NN Bank capitalisation complies with end-2018-applicable, fully loaded CRR/CRD IV requirements.

Interest rate risk in the banking book

NN Bank is reviewing and developing its management of interest rate risk in the banking books following the standards set by the Basel Committee on Banking Supervision in 2016 and the EBA guidelines (consultation phase) of 2017. In particular, NN Bank is applying the Basel term structure and standard scenarios for parallel and non-parallel shocks of the yield curve in its computation of earnings and value sensitivities.

IFRS 9

The IASB issued IFRS 9 'Financial Instruments' in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The EU endorsed IFRS 9 in November 2016, and is effective as from 1 January 2018.

Classification and measurement

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

Impairment

The recognition and measurement of impairments under IFRS 9 is more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity). For NN Bank, this applies to mortgages, consumer loans and bonds. Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial assets. These expected lifetime credit losses will be calculated based on different macro-economic scenarios. The event of significant increase will be determined by comparing the lifetime Probability of Default (PD) at reporting date with the remaining lifetime PD at origination date, where both are measured for the remaining lifetime at reporting date. After implementation, the charge to or release from loan loss provisions are expected to show more volatility, arising from the application of lifetime expected losses. Per 1 January 2018, the increase in provisions because of IFRS 9 is EUR 3.6 million before taxes.

Business environment developments 2017

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 3.2% in 2017 – the highest growth since 2007. Driven by the government's procyclical spending policy, the economy is expected to grow steadily by 3.1% in 2018 (source: CPB). In 2017, consumer purchasing power increased, due to a combination of rising wages and decreasing unemployment. 2017 also saw the lowest unemployment rates since 2008, at 4.9%. This trend is expected to continue in the future, as projections show 2018 unemployment rates to be as low as 3.9%.

Trust in the housing market was at an all-time high in the beginning of 2017, but declined over the year (source: Eigen Huis marktindicator). Consumers realised it is not a good time to buy a house due to the increase in demand, rising prices (8.2% overall) and fewer available homes to choose from. Especially in the Randstad area, housing prices increased dramatically. Adding to the difficulty of buying a home, investors heavily engage in buying so-called 'starter homes' to rent out. This stimulates the increase in prices and drives housing shortage

Notes to the Consolidated annual accounts Continued

(source: DNB). These developments have made it more difficult to settle in urbanised areas, especially for the middle class. Finally, the affordability of a house also depends on the mortgage interest rates. In 2017, mortgage rates have dropped across the board. From fixed to 30 years fixed, all mortgage interest rates went down. This made the loans to buy a house more accessible, but put more pressure on the housing market.

Dutch mortgages

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. 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. The maximum LTV at origination has been reduced and will continue to decrease by 1%-point per year, to 100% of the market value in 2018. Newly originated mortgages will have to be repaid for a minimum of 50% over a maximum period of 30 years, following an annuity or stricter repayment scheme. Also, in 2017 the maximum tax deductibility of interest has been reduced to 50%. Each following year, this will be further brought down by 0.5%-point, to an eventual maximum level of 38%.

Risk developments 2017

Integrated risk

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.

Effective control framework implementation

With the implementation of the Effective Control Framework (ECF), NN Bank has further strengthened its control environment to support a more agile organisation that is able to quickly respond to changing environments and customer demands with a culture of ownership and accountability, where entrepreneurship can flourish.

Credit risk

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

Credit risk profile

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

- Retail credit risk: arises when NN Bank grants a loan to a retail counterparty, or issues guarantees on behalf of a retail counterparty. This includes term loans, mortgages, revolving credits, guarantees, etc. The risk is measured as the notional amount of the financial obligation that the retail counterparty has to repay to NN Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.
- Non-retail credit risk: is the credit default and risk-rating migration risk that is associated with NN Bank's investments in bonds, securitisations and other similar publicly traded securities. This can be viewed as the worst-case scenario loss that NN Bank may incur as a result of holding a position in underlying securities whose issuer's credit quality deteriorates or defaults. The sole purpose of NN Bank's investments in the banking book is for liquidity management. Within NN Bank, (pre)settlement risk, 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 finance credit book.

Notes to the Consolidated annual accounts Continued

Loan-to-value

As at the end of 2017, NN Bank's mortgage book had a weighted average loan-to-value ratio of 78% (2016: 83%), and 27% (2016: 27%) of the outstanding mortgage amounts were guaranteed through National State Guarantee (Nationale Hypotheek Garantie or NHG). In 2017, new residential mortgage loans below EUR 245,000 are eligible for coverage by governmental insurance under the NHG in the Netherlands. The NHG guarantees, to a large extent, the repayment of a loan in case of a forced property sale.

Credit approval process

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

Past-due loans

As can be seen in the table below, delinquencies in NN Bank's mortgage portfolio have decreased in 2017, despite the growth of the portfolio. This is the result of the improving macro-economic conditions, in combination with a more effective process in the Problem Loans department.

NN Bank's credit profile is characterised by the good credit quality of the start portfolio (per July 2013) and of the subsequent inflow due to own origination. As the start portfolio (EUR 4.2 billion) contained in principle no arrears, the loss numbers and expected losses were extremely low. After this date, mortgage loans that reached their reset date have been transferred from ING Bank to NN Bank. These resets may contain delinquent loans, and are therefore in credit quality representative of a matured portfolio. Furthermore, NN Bank has a substantial level of own production, which has a low number of delinquencies. Please note that in the table below, the exposures of the financial statement (without subtracting the provisions) are used. These figures differ slightly from those of the NN Group Annual Report because, in the NN Group Annual Report, the gross credit risk exposures are used.

Delinquency

	Mortgages		Consumer lending		Total	
	2017	2016	2017	2016	2017	2016
0 days	13,296,913	12,157,385	217,397	242,275	13,514,310	12,399,660
1 – 30 days	101,113	120,976	5,377	5,707	106,490	126,683
31 – 60 days	46,487	43,420	2,569	1,975	49,056	45,395
61 – 90 days	34,441	45,159	591	745	35,032	45,904
> 90 days	50,714	91,586	12,307	15,053	63,021	106,639
Total	**13,529,668**	**12,458,526**	**238,241**	**265,755**	**13,767,909**	**12,724,281**

NN Bank measures its portfolio in terms of payment arrears on a continuous basis. The retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in delinquency levels. Generally, an obligation is considered 'past due' if a payment of interest or principal is more than one day late. When this happens, a specialised team contacts the customer to explore the possibilities of getting the customer back into financial health as soon as possible.

Impaired and non-performing loans

NN Bank's loans to customers are exposed to credit risk. As can be derived from the table below, approximately 0.7% of total loans to customers as at the end of 2017 are classified as non-performing (EUR 99 million in impaired loans out of EUR 13.8 billion total loans to customers).

A client becomes non-performing when one of his/her loans is at least three months past due. This status remains until the delinquency amount has been fully repaid (taking into account the forbearance probation period). Loans that are 90 (or more) days past due receive a 100% PD classification, and are fully provisioned for at the appropriate Loss Given Default (LGD) level. Performing forborne loans receive a minimum PD of 30%.The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due.

Loans exposed to credit risk

	Not impaired		Past due but not impaired		Impaired		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Mortgages	13,289,455	12,157,385	154,191	174,086	86,022	127,055	13,529,668	12,458,526
Consumer loans	217,397	242,275	8,188	7,999	12,656	15,481	238,241	265,755
Total	**13,506,852**	**12,399,660**	**162,379**	**182,085**	**98,678**	**142,536**	**13,767,909**	**12,724,281**

Notes to the Consolidated annual accounts Continued

Forbearance

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

- Modification is defined as changing the terms and conditions of the contract to enable the client to service the debt
- Refinancing relates to putting 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

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 2017 amounted to EUR 36 million (0.3% of lending exposure). This percentage slightly increased because forbearance measures were introduced in 2015. Most of the forbearance flags since then are still active while also new forbearance measures have been taken. 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

	2017	2016
Change in loan	0.09%	0.07%
Change in secondary cover	0.09%	0.03%
Write-off interest payments	0.08%	0.07%
Other	0.02%	0.01%
Total forbearance	**0.28%**	**0.18%**

Notes to the Consolidated annual accounts Continued

Provisions

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

- Individual Significant Financial Asset (ISFA) Provisions. These are for loans in which specific, individualised provisions are required. Unless a counterpart from the investment portfolio defaults, NN Bank does not need to book ISFA provisions. For all consumer loans and mortgage loans (also those with an exposure above EUR 1 million), model provisions are calculated (IBNR provisions or INSFA provisions when the loan is impaired).
- Individually Not Significant Financial Asset (INSFA) Provisions. These are made for acknowledged issues that are below the threshold amount. Due to their small size, the IFRS-EU rules permit a statistical approach to measuring these provisions. Therefore, the calculation is based on the same statistical formula that is used to determine IBNR Provisions.
- Incurred But Not Reported (IBNR) Provisions. These are for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio, but which NN Bank has not yet determined or recognised. These provisions are based on an expected loss methodology.

Risk costs

NN Bank's total risk costs as at the end of 2017 were EUR -3.5 million, compared to EUR 4.8 million at the end of 2016. The increase in house prices and the further enhanced arrears management, in combination with the decreasing unemployment rate, are the main causes of the reduction. Risk costs are defined as net additions to the loan loss provisions, plus write-offs, minus recoveries, minus compensation from ING for the transfer of non-performing mortgages to NN Bank. For the mortgage and consumer credit portfolio together, the stock of provisions as at year-end amounted to EUR 28 million. Write-offs in 2017 amounted to EUR 9.1 million. As at 31 December 2017, the total risk costs expressed as basis points (bps) of exposure at default were -3.2 bps.

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.

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

Notes to the Consolidated annual accounts Continued

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. The interest rates used for discounting are zero rates, which are derived from coupon-bearing EURIBOR, and IRS rates, plus a spread that corresponds to the product characteristics, at least including the liquidity and credit spread.

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

The duration and key rate duration are interest rate risk measures for small changes in interest rates. To determine the impact of large changes in interest rates, the NPV at Risk (NPVaR) measure is used. This risk figure measures the impact of changing interest rates on the market value of NN Bank's balance sheet. In the table below, the impact of a 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 long-term 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	2017	2016
Parallel shift 200 basis points	-0.98%	-2.25%

In comparison to 2016, NN Bank's NPVaR sensitivity to 200 basis points shock scenarios changed from -2.25% to -0.98%. This change is in line with the change in the overall duration of equity, which was relatively low at -0.2y per the end of 2017.

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. During 2017 the EaR repricing mismatch has been relatively small and the risk exposure has been well within the risk appetite of NN Bank.

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	2017	2016
Parallel shift – 100 basis points	-3.39%	-0.01%
Parallel shift + 100 basis points	-1.60%	-2.00%

EaR exposures in both 2016 and 2017 have been small. In comparison to 2016, the higher exposure to the down scenario is partly due to a lower expected savings rate tracking speed.

Liquidity risk

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

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

Risk profile

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

Notes to the Consolidated annual accounts Continued

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

	2017	2016
LCR	162%	205%

At the end of December 2017, NN Bank had an LCR ratio of 162%. This is well above the regulatory and internal limits. It shows a solid liquidity position given our liquidity risks. At the end of December 2016, NN Bank had an LCR ratio of 205% as a result of the exceptionally high inflow of savings. In 2016, NN Bank raised more than EUR 2 billion in retail savings. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2017, 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.

Main developments in 2017

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

Notes to the Consolidated annual accounts Continued

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.

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

37 Capital and liquidity management

Regulatory requirements
Capital adequacy and regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by DNB for supervisory purposes.

Basel III
NN Bank publishes risk-weighted assets (RWA), Common Equity Tier 1, Total capital and accompanying capital ratios based on CRR, as applicable. NN Bank already meets the 2019 minimum Basel III capital and liquidity requirements, insofar as they are currently known. For the calculation of RWA, NN Bank applies the Standardised Approach for Credit Risk and the Standardised Approach for Operational Risk. NN Bank does not have a trading book, and therefore Market Risk RWA is not applicable.

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

Capital adequacy
During 2017, 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	2017	2016
Common Equity Tier 1 Capital[1]	681	625
Risk Weighted Assets	4,520	4,371
Common Equity Tier 1 ratio – transitional[1]	15.1%	14.3%
Total capital ratio – transitional[1]	16.9%	15.9%

1 These are not final until filed with the regulators. If DNB approves of the fourth quarter result of 2017 being added, then the Total capital ratio – transitional is 17.3% and CET1 ratio-transitional is 15.4%.

The balance sheet increase notwithstanding, NN Bank has maintained a solid capital position with a CRR transitional Total capital ratio of 16.9% (2016: 15.9%) and a CRR transitional CET1 ratio of 15.1% at 2017 (2016: 14.3%). Internal capital generation and a Tier 2 capital contribution from NN Group of EUR 15 million were responsible for this achievement. The Common Equity Tier 1 Capital amounts to EUR 681 million (2016: 625 EUR million) and mainly increased due to profit after tax, which were added to the capital.

Liquidity adequacy
During 2017, NN Bank maintained an adequate liquidity position.

Liquidity position

	2017	2016
Liquidity Coverage Ratio ('LCR')	162%	205%

At the end of December 2017, NN Bank had an LCR ratio of 162%. This is well above the regulatory and internal limits. It shows a solid liquidity position given our liquidity risks. At the end of December 2016, NN Bank had an LCR ratio of 205% as a result of the exceptionally high inflow of savings. In 2016, NN Bank raised more than EUR 2 billion in retail savings. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2017, NN Bank has external credit facilities in place. Two committed loan facilities secured by mortgages and a credit facility with NN Group.

Notes to the Consolidated annual accounts Continued

38 Subsequent and other events

Subsequent events

Legal merger

During 2017, Delta Lloyd Bank was a public limited liability company operating under the laws of the Netherlands. Until April 2017, it was fully owned by Delta Lloyd N.V. In April, NN Group acquired the qualified majority of the shares of Delta Lloyd N.V. and Delta Lloyd Bank was fully owned by NN Group. With retail banking services that cover mortgage loans, consumer loans, bank annuities, savings products and mutual funds, Delta Lloyd Bank helps its customers to be well prepared for the important moments in their financial lives. Its modern and customer-friendly mobile and online banking environment makes it easier for its customers to manage their financial affairs. Its products are sold through independent intermediaries and directly online under both Delta Lloyd and OHRA label. Delta Lloyd Bank offers mortgage administration and reporting services to other NN Group subsidiaries, as well.

NN Bank entered into a legal merger with 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 per 1 January 2018.

The merger between NN Bank and Delta Lloyd Bank is between companies with the same parent ('under common control'). IFRS 3 Business combinations is not applicable for common control transactions. The accounting took place on the basis of existing carrying amounts of Delta Lloyd Bank, whereby its accounting policies are harmonised with those of NN Bank. Because it is a legal merger with application of this book value accounting, there is no purchase consideration transferred and no goodwill or newly recognised intangible assets. There were no significant acquisition-related costs.

The balance sheet of Delta Lloyd Bank as per 31 December 2017 was summarised as follows:

	31 December 2017
Assets	
Loans	4,546,526
Other assets, at balance	796,055
Total assets	**5,342,581**
Liabilities	
Customer deposits and other funds on deposit	3,565,917
Debt securities issued	1,349,533
Other liabilities, at balance	228,315
Total liabilities	**5,143,765**
Equity	
Shareholders' equity	**198,816**
Total equity and liabilities	**5,342,581**

The contingent liabilities of Delta Lloyd Bank amount to EUR 53.8 million as per 31 December 2017.

	31 December 2017
Guarantees	807
Irrevocable (credit) facilities	31,417
Construction deposits	17,061
Operational lease commitments	4,515
Total	**53,800**

Notes to the Consolidated annual accounts Continued

Pro forma combined balance sheet of NN Bank and Delta Lloyd Bank

In order to provide insight into the impact of the legal merger, the pro forma combined balance sheet of NN Bank and Delta Lloyd Bank as per 31 December 2017 is as follows:

				31 December 2017
	NN Bank	Delta Lloyd Bank	Eliminations	Pro forma combined
Assets				
Cash and balances at central banks	1,085,613	396,196	0	1,481,809
Amounts due from banks	398,900	118,090	-130,000	386,990
Financial assets at fair value through profit or loss:	0	0	0	0
– non-trading derivatives	193,271	7,783	0	201,054
Available-for-sale investments	547,331	269,309	0	816,640
Loans and advances to customers	13,739,818	4,546,526	0	18,286,344
Other assets	104,365	4,677	0	109,042
Deferred tax assets	625	0	0	625
Total assets	**16,069,923**	**5,342,581**	**-130,000**	**21,282,504**

				31 December 2017
	NN Bank	Delta Lloyd Bank	Eliminations	Pro forma combined
Liabilities				
Amounts due to banks	432,394	130,021	-130,000	432,415
Customer deposits and other funds on deposit	10,604,951	3,565,917	0	14,170,868
Financial liabilities at fair value through profit or loss:	0	0	0	0
– non-trading derivatives	208,153	15,579	0	223,732
Other borrowed funds	485,000	0	0	485,000
Other liabilities	56,817	43,278	0	100,095
Deferred tax liabilities	4,377	24,592	0	28,969
Provisions	1,001	5,032	0	6,033
Debt securities issued	3,481,034	1,349,533	0	4,830,567
Subordinated debt	85,000	12,000	0	97,000
Total liabilities	**15,358,727**	**5,145,952**	**-130,000**	**20,374,679**

				31 December 2017
	NN Bank	Delta Lloyd Bank	Eliminations	Pro forma combined
Equity				
Shareholders' equity	**711,196**	**196,629**	**0**	**907,825**
Total equity and liabilities	**16,069,923**	**5,342,581**	**-130,000**	**21,282,504**

Harmonisation accounting policies

Following the legal merger and the application of book value accounting, the accounting policies of Delta Lloyd Bank were compared with those of NN Bank. It appeared that the accounting policies of both banks are aligned.

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 companies 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. The financial impact is an increase of Deferred tax liabilities amounting to EUR 2.6 million and a corresponding decrease in the Tax liability.

Other information on legal merger

	over 2017
Total income[1] recognised in the profit and loss account of Delta Lloyd Bank in 2017	63,838
Net result after tax recognised in the profit and loss account of Delta Lloyd Bank in 2017	-814

1 'Total income' includes interest result, gains and losses on financial transactions and other income, net fee and commission income, and valuation results on non-trading derivatives

Notes to the Consolidated annual accounts Continued

Pro forma combined regulatory ratios of NN Bank and Delta Lloyd Bank

	31 December 2017
CET1 capital[1]	878
CET1 ratio – transitional[1]	15.4%
Leverage ratio - transitional	4.1%
LCR	175%

1 These ratios are excluding the fourth quarter result of 2017 and dividend for NN Bank. The negative result of DL Bank is included.

The pro-forma combined regulatory ratios stemming from the merger of NN Bank and Delta Lloyd Bank are calculated based on the results of the regulatory reporting process of each individual bank. The ratios presented in the table above are calculated based on the respective components of the presented individual ratios, such as common equity tier 1 capital and risk weighted assets for the CET1 ratio. As much as possible, the separate policies and data definitions used for the calculation of these ratios have been aligned.

Regulatory policies

CET1 capital, CET1 ratio – transitional and Leverage ratio – transitional

The CET1 capital, CET1 ratio and Leverage ratio of the combined bank are calculated by adding the COREP (regulatory reporting) results of the individual banks. The COREP and leverage ratio for both banks are calculated using the same method. To achieve this alignment, changes were made so that the operational risk calculation of NN Bank changed from BIA to SA. Furthermore, both COREPs were adjusted to comply with annual reporting standards. These adjustments are excluding the fourth quarter result of 2017 result and excluding dividend.

LCR

The LCR ratio of the combined bank is calculated by adding the HQLA and LCR Net Cash Outflows of the individual LCR ratios of both NN Bank and Delta Lloyd Bank.

IFRS 9 Financial Impact

NN Bank adopted IFRS 9 'Financial Instruments' on 1 January 2018. The estimated 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	Estimated adjustment due to adoption of IFRS 9	Estimated adjusted opening balance at 1 January 2018
Revaluation reserve	2,601	1,676	4,277
Retained earnings	14,748	-2,735	12,013
Total	**17,349**	**-1,059**	**16,290**

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

- A decrease in 'Retained earnings' amounting to EUR 2.7 million relating to the IFRS 9 application of expected losses on Loans, which is further disclosed in the 'IFRS 9 Impairment' paragraph
- An increase in 'Revaluation reserve' amounting to EUR 1.7 million relating to a re-measurement of Investment securities amounting to EUR 1.2 million and a re-measurement amounting to EUR 0.5 million relating to Loans. These re-measurements are 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 and their cash flow characteristics. The standard contains three principal classification categories for financial assets: measured at amortised cost, 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.

Notes to the Consolidated annual accounts Continued

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for NN Bank's loans, investment securities and deferred tax liabilities after the legal merger as at 1 January 2018:

	Note	Original classification under IAS 39	Original measurement under IAS 39	Classification under IFRS 9	New measurement under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Investments securities	5	Available-for-sale	FVOCI	Held-to-collect and for selling	FVOCI	544,477	544,376
Investments securities	5	Available-for-sale	FVOCI	Held-to-collect	AC	272,163	273,571
Loans	6	Loans and receivables	AC	Held-to-collect	AC	18,129,920	18,126,498
Loans	6	Loans and receivables	AC	Held-to-collect and for selling	FVOCI	138,131	138,834
Loans	6	Loans and receivables	AC	Neither H-t-C nor H-t-C and selling	FVTPL	18,293	18,293
Deferred tax liabilities	23	Financial liability	AC	Financial liability	AC	28,969	28,616

Deferred tax liabilities refer to tax payables and receivables to NN Group.

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 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Investment securities	0	272,163	1,408	273,571
Loans	18,286,344	-156,424	-3,422	18,126,498
FVOCI				
Available-for-sale investments	816,640	-816,640	0	-0
Investment securities	0	544,477	-101	544,376
Loans	0	138,131	703	138,834
FVTPL				
Loans	0	18,293	0	18,293
Total impact on assets	**19,102,984**	**0**	**-1,412**	**19,101,572**
Financial liabilities				
Amortised cost				
Deferred tax liabilities	28,969	0	-353	28,616
Total impact on liabilities	**28,969**	**0**	**-353**	**28,616**
Net impact after tax	**19,074,015**	**0**	**-1,059**	**19,072,956**

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 mortgage portfolio, the measurement is changed from AC to FVOCI as it meets the Held-to-Collect and Selling business model requirements
- Another part of the consumer credit portfolio previously booked at AC is measured at FVTPL as the cash flow characteristics did not meet the required test

IFRS 9 Impairment

Measurement of expected credit losses

The recognition and measurement of impairments under IFRS 9 is more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through Other comprehensive income (Equity). For NN Bank, this applies to mortgages, consumer loans and 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'. 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 unfold. These impairment requirements are also applicable for other assets. The impact is limited since NN Bank is a fully-owned subsidiary of NN Group and the other assets mainly comprises relationships within NN Group.

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, i.e. 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 model these components are transformed from TTC to Point in Time (PIT) in order to present the current state of the economy. The further modelling is clarified in the paragraph below.

Definition of default

At NN Bank a client is in default if:

- The client was not in default the previous month, and this month arrears of three months or more exists, 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

This definition is in accordance with Capital Requirement Regulation (CRR). 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.

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 PD's are mapped to a Master Rating Scale.

Determination significant increase of credit risk

For IFRS 9 a lifetime expected loss needs to be calculated for Stage 2 and 3 loans. A loan will be placed in a subsequent stage if a significant increase in credit risk has been observed. A threshold is set for this significant increase. To determine whether a significant increase in credit risk has occurred, two lifetime PD's 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 PD's, 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 > 30 days past due and the delinquency amount is higher than EUR 100, the loan is placed in Stage 2. An active forbearance flag is also used as a backstop for mortgages. This is not the case for consumer loans because no forbearance measures are used for the active Consumer Loans portfolio.

Notes to the Consolidated annual accounts Continued

Term structure of default probabilities

Another important methodological component is the determination of the lifetime PD. 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 macro-economic factors. Thereafter, using the historically observed link 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

The unemployment rate is defined as the unemployed labour force as a percentage of the total labour force. 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 the relative change of GDP compared to the year before.

House prices

Calculation for house prices is executed based on the house price index. The house price index of existing own homes is based on a complete registration of sales of homes by the Dutch Land Registry Office (Kadaster) 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.

Inflation

The harmonised index for consumer prices is used for inflation. The index reflects the price changes of a package of goods and services purchased by the average Dutch household and by foreigners residing in the Netherlands.

Impact assessment

The estimated addition to provisions is EUR 3.6 million for the pro forma combined NN Bank and Delta Lloyd Bank. As from implementation as per 1 January 2018, the charge to or release from loan loss provisions will show more volatility arising from application of lifetime expected losses with forward-looking information.

Part of the integration of Delta Lloyd Bank into NN Bank is the integration of the portfolios and 'expected credit loss' (ECL) models. This integration requires also a consistent definition and implementation of default definition and staging methodology in the operations departments of both banks, which will take place in 2018. NN Bank has almost completed the implementation of IFRS 9. The main procedures that are in the process of being finalised are the embedding of project activities, integration of internal controls, testing of the developed models, and the follow up on the findings of the performed model validations. Additionally, due to the integration of Delta Lloyd Bank two sets of models are used which leads to differences in model choices, definitions and expert judgements. Consequently, the actual impact of adopting this standard may change, since NN Bank is fine-tuning the expected loss models - including its underlying components (i.e. PDs and LGDs) and its processes. It is not expected that this 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 macro fair value hedge accounting under the EU 'carve-out' for the interest rate risk in its mortgage portfolio.

For the interest rate risk related to Debt securities issued, NN Bank has chosen to apply micro fair value hedge accounting under IFRS 9 as from 1 January 2018. The hedged item consists of individual external loans in Debt securities issued, while the hedging instrument consists of interest rate swaps.

Notes to the Consolidated annual accounts Continued

IFRS 9 Transition

NN Bank applies 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 will be recognised in 'Shareholders' equity' as at 1 January 2018.

Other events

Nationale-Nederlanden Spain (NN Spain)

NN Spain and NN Bank are working on a joint opportunity (pilot) to launch a banking proposition in Spain. One of NN Bank's strategic goals is to diversify its funding base, especially in retail funding (i.e. saving deposits), for which an international expansion is an option.

The potential business model would be a NN Bank on-demand savings product, very similar to the current Dutch product ('Internetsparen'), offered using a cross-border passport (under the Dutch banking licence). We chose Spain because of local presence NN Seguros and the presence of a large savings market.

Loan purchases

On 5 March 2018 NN Bank has signed an amended contract with ING Bank with regards to NN labeled 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. In addition, the resetting loans now also contain certain other loans with an adjustment in interest rates. Per the end of February the size of the portfolio of NN labeled mortgage held by ING Bank was EUR 3.1 billion.

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Bank for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the NN Bank Management Board on 24 April 2018.

The Hague, 24 April 2018

The Management Board

E. (Erik) Muetstege, CEO and chair

J.E. (Sandra) van Eijk, CFO

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

A.J.M. (Marcel) Zuidam, CTO

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 1 June 2018.

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	2017	2016[1]
Assets			
Cash and balances at central banks		1,085,613	1,555,008
Amounts due from banks	2	313,486	65,494
Financial assets at fair value through profit or loss:			
– non-trading derivatives		193,271	250,675
Debt securities:			
- Available-for-sale investments		547,331	385,460
Loans and advances to customers	3	12,650,113	11,667,350
Receivables from group companies	4	1,100,212	1,060,035
Other assets	5	52,411	39,610
Deferred tax assets		625	3,041
Investments in group companies	6	51,973	30,060
Intangibles	7	4,479	1,261
Total assets		**15,999,514**	**15,057,994**
Liabilities			
Amounts due to banks		432,394	50,522
Customer deposits and other funds on deposit		10,604,951	10,225,730
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives	8	61,787	163,620
Other borrowed funds		485,000	205,000
Other liabilities	9	47,066	26,450
Deferred tax liabilities		4,377	6,385
Provisions		1,001	9,591
Debt securities issued	10	803,504	270,000
Loans from group companies	11	2,763,238	3,401,523
Subordinated debt		85,000	70,000
Total liabilities		**15,288,318**	**14,428,821**
Equity			
Share capital		10,000	10,000
Share premium		481,000	481,000
Revaluation reserve		3,596	6,792
Retained earnings		131,604	51,470
Unappropriated result		84,996	79,911
Shareholders' equity	12	**711,196**	**629,173**
Total equity and liabilities		**15,999,514**	**15,057,994**

[1] As restated. Reference is made to Note 1 'Accounting policies'.

References relate to the Notes starting on page 80. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account

Parent company profit and loss account

For the year ended 31 December	notes		2017		2016[1]
Interest income		562,148		472,552	
Interest expenses		421,513		349,767	
Interest result	13		140,635		122,785
Income from group companies	6		21,913		18,125
Gains and losses on financial transactions and other income			69,059		90,531
– gross fee and commission income		63,818		60,467	
– fee and commission expenses		8,138		6,026	
Net fee and commission income	14		55,680		54,441
Valuation results on non-trading derivatives			-5,617		-5,521
Total income			**281,670**		**280,362**
Addition to loan loss provisions	3		3,402		4,737
Staff expenses			101,040		92,988
Regulatory levies			11,155		8,476
Other operating expenses			66,778		73,586
Total expenses			**175,571**		**179,787**
Result before tax			**106,098**		**100,575**
Taxation			21,102		20,664
Net result			**84,996**		**79,911**

[1] As restated. Reference is made to Note 1 ‘Accounting policies’.

Parent company statement of changes in equity

Parent company statement of changes in equity (2017)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Balance as at 1 January 2017	**10,000**	**481,000**	**6,792**	**131,381**	**629,173**
Changes taxation prior years	0	0	0	0	0
Unrealised revaluations after taxation	0	0	-3,196	0	-3,196
Realised gains or losses transferred to the profit and loss account	0	0	0	0	0
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**
Capital contribution	0	0	0	0	0
Employee share plans	0	0	0	223	223
Balance as at 31 December 2017	**10,000**	**481,000**	**3,596**	**216,600**	**711,196**

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

Parent company statement of changes in equity (2016)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Balance as at 1 January 2016	**10,000**	**466,000**	**5,487**	**51,247**	**532,734**
Changes taxation prior years	0	0	753	17	770
Unrealised revaluations after taxation	0	0	552	0	552
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**1,305**	**17**	**1,322**
Net result	0	0	0	79,911	79,911
Total comprehensive income	**0**	**0**	**1,305**	**79,928**	**81,233**
Capital contribution	0	15,000	0	0	15,000
Employee share plans	0	0	0	206	206
Balance as at 31 December 2016	**10,000**	**481,000**	**6,792**	**131,381**	**629,173**

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

Notes to the Parent company annual accounts

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 32 'Principal subsidiaries' in the Consolidated annual accounts.

Change in comparative figures

In 2017 the presentation of the Parent company balance sheet, the Parent company profit and loss account and the Notes to the Parent company annual accounts were adjusted in order to provide relevant information and better align with current period presentation. These updates have no impact on Shareholders' equity or Net result over any year and are therefore assessed as a non-material omission of the 2016 Parent company annual accounts. The impact of these updates on the line items of the balance sheet and profit and loss account are stated below.

Effect on balance sheet as at 31 December 2016	**2016 before restatement**	**Restatement**	**2016 after restatement**
Amounts due from banks	76,538	-11,044	65,494
Receivables from group companies	987,795	72,240	1,060,035
Other assets	176,818	-137,208	39,610
Deferred tax assets	0	3,041	3,041
Investments in group companies	**36,102**	**-6,042**	**30,060**
Assets at balance		-79,014	
Amounts due to banks	45,000	5,522	50,522
Other liabilities	3,588,893	-3,562,443	26,450
Deferred tax liabilities	0	6,385	6,385
Debt securities issued	0	270,000	270,000
Loans from group companies	**200,000**	**3,201,523**	**3,401,523**

Effect on profit and loss account 2016	**2016 before restatement**	**Restatement**	**2016 after restatement**
Interest expenses	-294,389	-55,378	-349,767
Gains and losses on financial transactions and other income	41,406	49,125	90,531
Net fee and commission income	48,196	6,245	54,441
Income at balance		**-7**	
Other operating expenses	82,069	-8,483	73,586
Expenses at balance		**-8,483**	
Total effect on result		**8,476**	

Due to the change in comparative figures the following disclosures have been restated: Balance sheet, Profit and loss account, Note 2 'Amounts due from banks', Note 4 'Receivables from group companies', Note 5 'Other assets', Note 6 'Investments in group companies', Note 9 'Other liabilities', Note 10 'Debt securities issued', Note 11 'Loans from group companies', Note 13 'Interest result' and Note 14 'Net fee and commission income'.

2 Amounts due from banks

	2017	**2016**
Cash advances overdrafts and other balances	4,387	6,811
Loans to credit institutions	130,000	0
Collateral posted	179,099	58,682
Amounts due from banks	**313,486**	**65,494**

Notes to the Parent company annual accounts Continued

3 Loans

Loans analysed by type

Loans analysed by type	2017	2016
Loans secured by mortgages, guaranteed by public authorities	2,290,972	2,245,393
Loans secured by mortgages	10,149,051	9,195,490
Consumer lending, other	238,241	264,933
Loans – before loan loss provisions	**12,678,265**	**11,705,816**
Loan loss provisions	28,151	38,466
Loans	**12,650,113**	**11,667,350**

Structured entities

Reference is made to Note 33 '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

Changes in Loans	2017	2016
Loans to third parties – opening balance	11,705,816	9,959,129
Reclassification from/to loans from group companies	0	0
Mortgage portfolio transfer	1,344,294	1,274,581
Partial transfers of mortgage loans	5,662	29,326
Origination	1,872,639	2,577,900
Sale of mortgages	-954,183	-1,231,088
Change in mortgage premium	16,930	5,149
Fair value change hedged items	-69,165	50,612
Redemptions	-1,243,728	-959,793
Loans to third parties – closing balance	**12,678,265**	**11,705,816**

4 Receivables from group companies

Changes in Receivables from group companies

	2017	2016
Receivables from group companies – opening balance	1,060,035	723,034
Reclassification from/to Other assets	0	29,835
Additions	40,177	308,316
Redemptions	0	-1,150
Loans to group companies – closing balance	**1,100,212**	**1,060,035**

'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 2017 is based on Euro Interbank Offered Rate (EONIA) with an add-on of 0.6% (2016: average interest of 0.6%).

5 Other assets

Other assets by type

	2017	2016
Accrued assets	24,078	25,131
Other receivables	28,333	14,479
Other assets	**52,411**	**39,610**

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

Notes to the Parent company annual accounts Continued

6 Investments in group companies

Investment in group companies

	Interest held 2017	Balance sheet value 2017	Interest held 2016	Balance sheet value 2016 [1]
HQ Hypotheken 50 B.V.	100%	51,848	100%	29,935
Nationale-Nederlanden Beleggingsrekening N.V.	100%	125	100%	125
Investments in group companies		**51,973**		**30,060**

Changes in Investments in group companies

Changes in Investments in group companies	2017	2016
Investments in group companies – Opening balance	30,060	11,935
Results from group companies	21,913	18,125
Investments in group companies – Closing balance	**51,973**	**30,060**

1 For purposes of comparison amounts in 2016 have been reclassified.

7 Intangible assets

Changes in Intangible assets

	2017	2016
Intangible assets – opening balance	1,261	1,325
Additions	4,153	461
Amortisation	-935	-525
Intangible assets – closing balance	**4,479**	**1,261**

8 Derivatives

Non-trading derivatives

	2017	2016
Non-trading derivatives used in fair value hedge accounting	58,646	163,620
Other non-trading derivatives	3,140	0
Non-trading derivatives	**61,787**	**163,620**

9 Other liabilities

Other liabilities

	2017	2016
Income tax payable	3,433	3,274
Accrued interest	23,491	2,450
Costs payable	6,669	5,653
Other taxation and social contribution	9,596	6,377
Other amounts payable	3,878	8,696
Other liabilities	**47,066**	**26,450**

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

10 Debt securities issued

	2017	2016
Covered bond issues	497,852	0
Unsecured debt securities	306,500	270,000
Total	**804,352**	**270,000**

Reference is made to Note 33 'Structured entities' in the Consolidated annual accounts specifically directed to the Covered Bond Programme.

Notes to the Parent company annual accounts Continued

11 Loans from group companies

Reference is made to Note 33 '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.

12 Equity

Equity

	2017	2016
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	3,596	6,792
Retained earnings	131,604	51,470
Unappropriated result	84,996	79,911
Total equity	**711,196**	**629,173**

Share capital

			Ordinary shares	
	Shares in number		Amount (in EUR thousand)	
	2017	2016	2017	2016
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 (2017)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Changes in Revaluation reserve, retained earnings and unappropriated result – opening balance	6,792	51,470	79,911	138,173
Changes taxation prior years	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
Changes in Revaluation reserve, retained earnings and unappropriated result – closing balance	**3,596**	**131,604**	**84,996**	**220,196**

Changes in Revaluation reserve, retained earnings and unappropriated result (2016)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Changes in Revaluation reserve, retained earnings and unappropriated result – opening balance	5,487	-15,847	67,094	56,734
Reclassification	753	17	0	770
Net result for the period	0	0	79,911	79,911
Unrealised revaluation	552	0	0	552
Transfers to/from retained earnings	0	67,094	-67,094	0
Employee share plans	0	206	0	206
Changes in Revaluation reserve, retained earnings and unappropriated result – closing balance	**6,792**	**51,470**	**79,911**	**138,173**

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 'Shareholders' equity' in the Consolidated annual accounts.

Notes to the Parent company annual accounts Continued

13 Interest result

Interest result

	2017	2016
Interest income on loans	482,667	402,604
Interest income on available-for-sale debt securities	633	1,603
Interest income on non-trading derivatives	78,352	68,345
Negative interest on liabilities	496	0
Total interest income	**562,148**	**472,552**
Interest expenses on amounts due to banks	1,577	312
Interest expenses on customer deposits and other funds on deposit	125,504	96,173
Interest expenses on debt securities issued and other borrowed funds	12,345	28,242
Interest expenses on subordinated loans	2,649	2,258
Interest expenses on non-trading derivatives	45,969	44,548
Negative interest on assets	18,325	9,425
Other interest expenses	3,228	4,872
Interest expenses on structured entities	211,916	163,937
Total interest expenses	**421,513**	**349,767**
Interest result	**140,635**	**122,785**

'Negative interest on assets' includes negative interest income charged by DNB of EUR 4.9 million (2016: EUR 3.7 million). The remainder concerns interest on derivatives.

Interest margin in percentages

	2017	2016
Interest margin	**0.9%**	**1.3%**

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2017 and 2016, respectively.

14 Net fee and commission income

Net fee and commission income

	2017	2016
Service management fee	24,556	24,541
Brokerage and advisory fees	39,263	35,926
Gross fee and commission income	**63,819**	**60,467**
Asset management fees	10,678	2,482
Brokerage and advisory fees	3,755	3,292
Other	1,161	252
Fee and commission expenses	**15,594**	**6,026**
Net fee and commission income	**48,225**	**54,441**

15 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment	Total
Assets								
Cash and balances at central banks	1,085,613	0	0	0	0	0	0	1,085,613
Amounts due from banks	313,486	0	0	0	0	0	0	313,486
Loans	224,622	31,497	117,982	577,699	11,698,313	0	0	12,650,113
Liabilities								
Amounts due to banks	34,713	53,181	170,000	174,500	0	0	0	432,394
Customer deposits and other funds on deposit	7,128,964	53,540	242,758	848,048	2,331,641	0	0	10,604,951

Notes to the Parent company annual accounts Continued

Analysis of certain assets and liabilities (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment	Total
Assets								
Cash and balances at central banks	1,555,008	0	0	0	0	0	0	1,555,008
Amounts due from banks	65,494	0	0	0	0	0	0	65,494
Loans	29,394	53,313	175,573	489,939	10,919,131	0	0	11,667,350
Liabilities								
Amounts due to banks	0	0	50,522	0	0	0	0	45,000
Customer deposits and other funds on deposit	7,228,100	57,815	237,590	986,072	1,716,153	0	0	10,225,730

16 Contingent liabilities

Contingent liabilities and commitments (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees							
Irrevocable credit facilities	104,979	0	0	0	0	0	104,979
Mortgage and consumer lending offerings	69,496	169,941	102,257	0	0	0	341,694
Construction deposits	688	2,262	37,364	171,910	0	0	212,224
Contingent liabilities and commitments	**191,930**	**222,682**	**175,230**	**171,910**	**0**	**0**	**761,752**

Contingent liabilities and commitments (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees							
Irrevocable credit facilities	106,654	0	0	0	0	0	106,654
Mortgage and consumer lending offerings	196,853	395,014	215,636	0	0	0	807,503
Construction deposits	2,825	4,302	22,170	455,516	0	0	484,813
Contingent liabilities and commitments	**306,332**	**399,316**	**237,806**	**455,516**	**0**	**0**	**1,398,970**

1 For purposes of comparison, amounts from 2016 have been reclassified.

17 Related parties

NN Bank has entered into transactions with its principal subsidiary, HQ Hypotheken 50 B.V. 'Loans to group companies' comprises a loan for funding purposes of the mortgage production by Quion Hypotheekbemiddeling B.V. on behalf of NN Bank's subsidiary. The interest expenses for 2017 amount to EUR 0.3 million (2016: EUR 0.8 million).

For more details about related parties, reference is made to Note 34 'Related parties' in the Consolidated annual accounts.

18 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 2017 were authorised for issue in accordance with a resolution of the NN Bank Management Board on 24 April 2018.

The Hague, 24 April 2018

The Management Board

E. (Erik) Muetstege, CEO and chair

J.E. (Sandra) van Eijk, CFO

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

A.J.M. (Marcel) Zuidam, CTO

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 1 June 2018.

Independent auditor's report

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 2017 included in the 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 2017 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 company annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2017 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 2017 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 company annual accounts.

The consolidated annual accounts comprise:

1 the consolidated statement of financial position as at 31 December 2017;
2 the following consolidated statements for 2017: 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 company annual accounts comprise:

1 the parent company balance sheet as 31 December 2017;

Independent auditor's report Continued

2 the parent company profit and loss account for 2017; and
3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of Nationale-Nederlanden Bank N.V. 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
- 4.4% of result before tax

GROUP AUDIT
- 100% of total assets
- 100% of revenue

KEY AUDIT MATTERS
- Impairment of mortgage loans
- Sale of mortgages to related parties

UNQUALIFIED OPINION

Independent auditor's report Continued

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 5.0 million (2016: EUR 4.8 million). The materiality is determined with reference to result before tax from continuing operations (4.4%). We consider result before tax from continuing operations the most appropriate benchmark given the nature and operations of NN Bank. Furthermore, result before tax from continuing operations is an important driver for changes in the regulatory capital of the Company. 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 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 Nationale-Nederlanden Bank N.V.;

— made use of the work of another auditor, of the business partner (service organisation) of NN Bank, for the account balances of HQ Hypotheken 50 B.V.;

— made use of the work of another auditor with respect to the information presented on Delta Lloyd Bank in the subsequent and other events disclosure in note 38;

— sent audit instructions to the aforementioned 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. Our procedures included regular communication about the assessment of risk 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 Nationale-Nederlanden Bank N.V.

By performing the procedures mentioned above at group components, together with additional procedures at group level, including but not limited to the use of the going concern assumption, the consolidation of the group, disclosures included in the annual accounts and certain accounting topics, we have been able to obtain sufficient and appropriate audit

Independent auditor's report Continued

evidence about the group's financial information to provide an opinion on the consolidated annual accounts.

We obtained an audit coverage of 100% of the Group.

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 impairment losses on loans secured by mortgages and the sale of mortgages to related parties as key audit matters. In comparison to our 2016 audit, we no longer consider General IT Controls: user access management a key audit matter, resulting from management's actions in 2017 to reduce the risk. Furthermore, with respect to impairment on loans we no longer consider the impairment on consumer lending a key audit matter as for consumer lending the notional amount involved is less significant and calculations in respect of the determination of the impairment are less complex in nature.

The key audit 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 with respect to impairment losses on loans secured by mortgages

Description

NN Bank's portfolio loans secured by mortgages amounts to EUR 13.5 billion as at 31 December 2017. These loans are measured at amortised cost, less a provision for loan losses (EUR 17.6 million). Certain aspects of the accounting for mortgage loan losses require significant judgement of management, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, determining the value of collateral and estimating the recoverable amount.

Due to the significance of loans secured by mortgages and the related estimation uncertainty, we consider the valuation of loans secured by mortgages as a key audit matter. Refer to the 'Accounting policies' section in Note 1 and Note 6 of the Consolidated annual accounts and the related disclosures included in the 'Risk Management' paragraph in Note 37.

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, the determination of risk ratings and the process for identifying arrears and the management thereof. In our audit, we also considered the process around the internal validation and implementation of the models used to determine the loan loss provision, as well as the periodic evaluation of the parameters applied in these models. We furthermore assessed the collective impairment methodologies, focusing on the potential impact of changes to inputs and assumptions. With the assistance of our financial risk management specialists, we evaluated the models, the assumptions and data used by NN Bank in its collective provision model. This includes the provision for incurred but not reported loan losses ('IBNR'). In addition, we have assessed the methodology and framework designed and implemented by NN Bank to determine whether the collective provision model outcomes appropriately reflect the current characteristics of the portfolio performance and economic conditions. As a result of internal control deficiencies identified during the year regarding model development, the level of substantive audit procedures was increased, resulting in extended model specialist involvement and additional analysis on the development of the loan loss provision for loans secured by mortgages. Furthermore, we tested and recalculated the loan loss provision recorded for a sample of mortgages loans using underlying source documentation.

Our observation

We observed that management's assessment of the provision for loan losses is mildly cautious. We concur with the related disclosures included in Note 6 of the annual accounts.

Independent auditor's report Continued

Sale of mortgages to related parties

Description

NN Bank enters into substantial transactions relating to the origination of mortgages and the disposal to other entities that are part of the NN Group, as well as other related parties. These transactions are carried out at arm's length. The fair value measurement of the mortgages and the determination of the correct allocation of the different components of the results from the sale require judgement. Significant components of the result include compensation for originations costs, servicing fees and the associated transaction result. To arrive at the fair value measurement, various assumptions including the discount rate and prepayment rates are determined. Furthermore, the calculation is dependent on the quality of data of the mortgage loan portfolio. As a result of the significance of the results on the sale of mortgage loans to related parties and the associated inherent subjective judgements and the nature of the transactions we consider this a key audit matter. Refer to the 'Accounting policies' section in Note 1 of the Consolidated annual accounts and related disclosures in Note 6, Note 18 and Note 34.

Our response

Our audit approach included both testing the effectiveness of internal controls around mortgage data and transactions as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the adequate registration of key data used in the valuation, such as the nominal and residual value of the mortgage loan, as well as the appropriate registration of the fact that a mortgage loan is sold in order to prevent that the same mortgage loan cannot be sold twice. We concluded that these controls were effective and could be relied upon for our audit procedures.

We assessed the accounting methodology of NN Bank and the accounting treatment of the different components leading to transaction results such as agio resulting from the sale of the mortgage loans and charged origination costs. Furthermore, we involved KPMG valuation specialists to assist us in the audit procedures performed. The valuation specialists' procedures included evaluating the methodology and key parameters used by management as well as valuation outcome for the selected mortgage transactions.

Our observation

We observed that the outcomes of the methodology and key parameters used by management are within the acceptable range and in line with market practices.

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:

- Report of the Management Board;
- Corporate governance (report);
- Report of the Supervisory Board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- additional information as included on pages 88 to 102.

Based on the following procedures performed, 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.

Independent auditor's report Continued

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

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of Nationale-Nederlanden Bank N.V. on 28 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

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 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 the Management Board 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 annual accounts is located at the website of the 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 auditor's report.

Amstelveen, 24 April 2018

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 16 ‘Equity’ of the Consolidated annual accounts, for the proposed appropriation of result.

Additional information

Pillar III

Introduction

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

The Pillar III disclosures are prepared in accordance with the Capital Requirement Regulation (CRR). The CRR is legally enforced by Dutch law under Wft (Financial Supervision Act). Also, effective as per the 2016 Annual Report, Pillar III includes the Basel-required disclosures. The tables displayed below are included. All tables are part of the Pillar III paragraph, except for the remuneration disclosures. Reference is made to the NN Group website, 'Capital Requirements Regulation (CRR) 2017 Remuneration Disclosure NN Bank'.

Basel Pillar III	Tables and templates	New or changed table
Part 2 – Overview of risk management, key prudential metrics and RWA	KM1 – Key metrics (at consolidated group level)	Yes
	KM2 – Key metrics – TLAC requirements (at resolution group level) - Not applicable to NN Bank.	No
	OVA – Bank risk management approach	No
	OV1 – Overview of RWA	Yes
Part 3 – Linkages between financial statements and regulatory exposures	LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	No
	LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements	No
	LIA – Explanations of differences between accounting and regulatory exposures amounts	No
	PV1 – Prudent valuation adjustments (PVA)	n/a
Part 4 – Composition of capital and TLAC	CC1 – Composition of regulatory capital	n/a
	CC2 – Reconciliation of regulatory capital to balance sheet	n/a
	CCA – Main features of regulatory capital instruments and of other TLAC- eligible instruments	n/a
	TLAC1 until TLAC3 - Not applicable to NN Bank	n/a
Part 5 – Macro prudential supervisory measures	Not applicable to NN Bank	n/a
Part 6 – Leverage ratio	LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure	Yes
	LR2 – Leverage ratio common disclosure template	Yes
Part 7 – Liquidity	LIQA – Liquidity risk management	Yes
	LIQ1 – Liquidity Coverage Ratio (LCR)	Yes
	LIQ 2 – Net Stable Funding Ratio (NSFR)	n/a
Part 8 – Credit risk	CRA – General qualitative information about credit risk	No
	CR1 – Credit quality of assets	Yes
	CR2 – Changes in stock of defaulted loans and debt securities	No
	CRB – Additional disclosure related to the credit quality of assets	No
	CRC – Qualitative disclosure requirements related to credit risk mitigation techniques	No
	CR3 – Credit risk mitigation techniques – overview	No
	CRD – Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk	No
	CR4 – Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects	No
	CR5 – Standardised approach – exposures by asset classes and risk weights	No
	CRE till CR10 – Not applicable to NN Bank	n/a
Part 9 – Counterparty credit risk	CCRA – Qualitative disclosure related to counterparty credit risk	No
	CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach	No
	CCR2 – Credit valuation adjustment (CVA) capital charge	No
	CCR3 – Standardised approach of CCR exposures by regulatory portfolio and risk weights	No
	CCR4 – IRB – CCR exposures by portfolio and PD scale - Not applicable to NN Bank	No
	CCR5 – Composition of collateral for CCR exposure	No
	CCR6 – Credit derivatives exposures	No
	CCR7 – RWA flow statements of CCR exposures under the Internal Model Method (IMM) - Not applicable to NN Bank.	No
	CCR8 – Exposures to central counterparties	No
Part 10 – Securitisation	Not applicable to NN Bank	n/a
Part 11 – Market risk	Not applicable to NN Bank	n/a
Part 12 – Interest rate risk in the banking book	IRRBBA – IRRBB risk management objective and policies	Yes
	IRRBB1 – Quantitative information on IRRBB	Yes
Part 13 – Remuneration	REMA – Remuneration policy	Yes
	REM1 – Remuneration awarded during the financial year	Yes
	REM2 – Special payments	Yes
	REM3 – Deferred remuneration	Yes

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

The next table provides an overview of where information on each EDTF recommendation can be found in the 2017 Annual Report.

Type	No	Brief description	Reference
General	1	Consolidate all risk-related information in either note 36 'Risk Management' or Pillar III. If not possible, provide an index to aid navigation.	This table
	2	Define the bank's risk terminology and risk measures and present key parameter values used.	Risk management
	3	Describe and discuss top and emerging risks for the bank.	Risk management
	4	Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio.	Risk management
Risk governance, risk management and business model	5	Summarise prominently the bank's risk management organisation, processes and key functions.	Risk management
	6	Describe bank's risk culture, related procedures and strategies.	Risk management
	7	Describe key risks arising from bank's business model and activities, the bank's risk appetite and how it manages these risks.	Risk management
	8	Describe the use of stress testing within bank's risk governance and capital frameworks.	Risk management
Capital and liquidity management	9	Provide minimum Pillar I capital requirements, including surcharges and buffers, or the minimum internal ratio.	Capital management
	10	Summarise composition of capital based on Basel Committee templates.	PIII
	11	Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in Common Equity Tier 1, Tier 1 and Tier 2 capital.	PIII
	12	Qualitatively and quantitatively discuss capital planning with a more general discussion of management's strategic planning.	Capital management
	13	Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.	PIII
	14	Present a table showing the capital requirements for each method used for calculating RWAs for credit risk per Basel asset class, as well as for major portfolios within those classes.	PIII
	15	Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel assets classes.	PIII
	16	Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type.	PIII
	17	Provide a narrative putting Basel Pillar III back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.	Future disclosure as appropriate
Liquidity	18	Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components analysis of the liquidity reserve held to meet these needs.	PIII
Funding	19	Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories.	Future disclosure as appropriate
	20	Tabulate consolidated assets, liabilities and off-balance sheet commitments by (contractual) maturity at the balance sheet date.	Annual Report starting page 18
	21	Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.	PIII

Additional information Continued

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

KM1 Key risk metrics

		4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	681	667	643	625	625
1a	Fully loaded ECL accounting model					
2	Tier 1	681	667	643	625	625
2a	Fully loaded ECL accounting model Tier 1					
3	Total capital	766	752	728	710	695
3a	Fully loaded ECL accounting model total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	4,520	4,686	4,603	4,584	4,371
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	15.1%	14.2%	14.0%	13.6%	14.3%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)					
6	Tier 1 ratio (%)	15.1%	14.2%	14.0%	13.6%	14.3%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	Total capital ratio (%)	16.9%	16.0%	15.8%	15.5%	15.9%
7a	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.25%	1.25%	1.25%	1.25%	0.625%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10	Bank G-SIB and/or D-SIB additional requirements (%)	n/a	n/a	n/a	n/a	n/a
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	1.25%	1.25%	1.25%	1.25%	0.625%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.9%	8.0%	7.8%	7.5%	7.9%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	16,202	16,194	15,721	16,060	15,625
14	Basel III leverage ratio (%) (row 2 / row 13)	4.2%	4.1%	4.1%	3.9%	4.0%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)					
	Liquidity Coverage Ratio					
15	Total HQLA[1]	1,651	1,672	1,701	1,654	1,462
16	Total net cash outflow[1]	979	944	896	839	769
17	LCR ratio (%)[1]	168%	177%	191%	198%	190%
	Net Stable Funding Ratio					
18	Total available stable funding	n/a	n/a	n/a	n/a	n/a
19	Total required stable funding	n/a	n/a	n/a	n/a	n/a
20	NSFR ratio	n/a	n/a	n/a	n/a	n/a

1 15, 16, 17 Reported figures are averages of 12 monthly reporting observations.

Linkages between financial statements and regulatory exposures

LI 1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (Basel requirement)

			Carrying values of items				
Amounts in thousands of euros	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	**Subject to credit risk framework**	**Subject to counterparty credit risk framework**	**Subject to the securitisation framework**	**Subject to the market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Assets							
Cash and balances at central banks	1,085,613	1,085,613	1,085,613	0	0	0	0
Amounts due from banks	398,900	398,900	232,503	0	0	0	0
Financial assets at fair value through profit or loss:	0	0	0	0	0	0	0
– non-trading derivatives	193,271	193,271	0	224,056	0	0	0
Available-for-sale investments	547,331	547,331	0	552,059	0	0	0
Loans	13,739,817	13,739,817	13,926,985	0	0	0	0
Other assets	104,365	104,365	48,675	0	0	0	0
Total assets	**16,069,297**	**16,069,297**	**15,293,776**	**776,115**	**0**	**0**	**0**
Liabilities							
Amounts due to banks	432,394	432,394	0	0	0	0	0
Customer deposits and other funds on deposit	10,604,951	10,604,951	0	0	0	0	0
Financial liabilities at fair value through profit or loss:	0	0	0	0	0	0	0
– non-trading derivatives	208,153	208,153	0	0	0	0	0
Other borrowed funds	485,000	485,000	0	0	0	0	0
Other liabilities	56,817	56,817	0	0	0	0	0
Provisions	1,001	1,001	0	0	0	0	0
Debt securities issued	3,481,034	3,481,034	0	0	0	0	0
Subordinated debt	85,000	85,000	0	0	0	0	0
Total liabilities	**15,354,350**	**15,354,350**	**0**	**0**	**0**	**0**	**0**

LI 2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (Basel requirement)

Amounts in thousands of euros	**Total**	**Credit risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
Asset carrying value amount under scope of regulatory consolidation (as per template LI 1)	16,069,891	15,293,776	0	776,115	0
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI 1)	0	0	0	0	0
Total net amount under regulatory scope of consolidation	**16,069,891**	**15,293,776**	**0**	**776,115**	**0**
Off-balance sheet amounts	511,850	511,850	0	0	0
Differences in valuations	0	0	0	0	0
Differences due to different netting rules, other than those already included in row 2	0	0	0	0	0
Differences due to consideration of provisions	0	0	0	0	0
Differences due to prudential filters	0	0	0	0	0
Exposure amounts considered for regulatory purposes	**16,581,741**	**15,805,626**	**0**	**776,115**	**0**

Capital adequacy and RWA

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

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

NN Bank's RWA is composed of RWA for credit risk and operational risk. NN Bank does not have a trading book, and therefore no RWA for market risk is required under Pillar I. The RWA for operational risk is based on the Standardized Approach, and therefore shows no movement over the course of 2017. RWA for operational risk in 2017 was EUR 461 million and EUR 328 million in 2016. This means that the main developments in RWA are related to credit risk RWA. The movement in credit risk RWA is provided in the table Credit risk SA RWA movement in 2017.

The movements in capital composition are presented in the table Capital composition and a result of addition of profit.

Capital composition

Amounts in millions of euros	2017	2016	Movement
Tier 1 Capital	681	625	56
Common Equity Tier 1 ('CET1') Capital	681	625	56
- retained earnings, other accumulated income, intangible assets, CRR filters and deductions	685	610	75
- NN Group capital injection		15	-15
Additional Tier 1 Capital	0	0	0
Tier 2 Capital	85	70	15
Total Capital	**766**	**695**	**71**

LR1 Summary comparison of accounting assets vs leverage ratio exposure measure (Basel requirement)

		a
1	Total consolidated assets as per published financial statements	16,069
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustments for derivative financial instruments	0
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	112
7	Other adjustments	-1
8	**Leverage ratio exposure measure**	**16,202**

LR2 Leverage ratio common disclosure template (Basel requirement)

		A	B
		2017	**2016**
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	15,868	14,827
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-1	-12
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**15,867**	**14,815**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	181	249
5	Add-on amounts for PFE associated with all derivatives transactions	43	65
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
8	(Exempted CCP leg of client-cleared trade exposures)	0	0
9	Adjusted effective notional amount of written credit derivatives	0	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
11	**Total derivative exposures (sum of rows 4 to 10)**	**224**	**314**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
14	CCR exposure for SFT assets	0	0
15	Agent transaction exposures	0	0
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**0**	**0**
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	58	202
18	(Adjustments for conversion to credit equivalent amounts)	53	299
19	**Off-balance sheet items (sum of rows 17 and 18)**	**112**	**501**
	Capital and total exposures	0	0
20	Tier 1 capital	681	606
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**16,202**	**15,625**
	Leverage ratio		
22	Basel III leverage ratio	4.2%	3.9%

OV1 Overview of RWA (Basel requirement)

		a	b	c
		RWA		Minimum capital requirements
		2017	2016	T
1	Credit risk (excluding counterparty credit risk)	4,069	3,944	326
2	Of which: standardised approach (SA)	4,069	3,944	0
3	Of which: foundation internal ratings-based (F-IRB) approach	0	0	0
4	Of which: supervisory slotting approach	0	0	0
5	Of which: advanced internal ratings-based (A-IRB) approach	0	0	0
6	Counterparty credit risk (CCR)	56	44	5
7	Of which: standardised approach for counterparty credit risk	56	44	0
8	Of which: Internal Model Method (IMM)	0	0	0
9	Of which: other CCR	0	0	0
10	Credit valuation adjustment (CVA)	7	16	1
11	Equity positions under the simple risk weight approach	0	0	0
12	Equity investments in funds – look-through approach	0	0	0
13	Equity investments in funds – mandate-based approach	0	0	0
14	Equity investments in funds – fall-back approach	0	0	0
15	Settlement risk	0	0	0
16	Securitisation exposures in banking book	0	0	0
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	0	0	0
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)	0	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0	0
20	Market risk	0	0	0
21	Of which: standardised approach (SA)	0	0	0
22	Of which: internal model approaches (IMA)	0	0	0
23	Capital charge for switch between trading book and banking book	0	0	0
24	Operational risk	386	328	31
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
26	Floor adjustment	0	0	0
27	**Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 +26)**	**4,520**	**4,333**	**362**

EDTF recommendations 13, 14 and 16 are combined in the table OV1 Overview of RWA (Basel requirement).

EDTF recommendation 13 – Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks

EDTF recommendation 14 – Present a table showing the capital requirements for each method used for calculating RWAs for credit risk per Basel asset class as well as for major portfolios within those classes

EDTF recommendation 16 – Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type

Credit risk

Credit risk SA RWA movement in 2017

Amounts in thousands of euros	Mortgages	Consumer loans	Other items	Total
Portfolio beginning of year	3,564,528	211,525	227,266	4,003,320
Inflow in portfolio, own production	302,737	23,756	46,374	372,867
Inflow in portfolio, transfers	321,187	0	0	321,187
Existing portfolio	-57,502	-12,872	-35,903	-106,277
Outflow out portfolio, (p)repayments and write-offs	-238,050	-31,036	0	-269,085
Outflow out portfolio, transfers	-196,334	0	0	-196,334
Portfolio end of year	**3,696,566**	**191,373**	**237,737**	**4,125,676**

The RWA on the existing portfolio of mortgages and consumer loans decreased because of a decrease in Non-performing Loans, and for mortgages also because of the increase of house price index. Overall, RWA increased because of the relatively high own production.

Other items consist mainly of Interest Rate Swaps and bank accounts. Please note that the RWA presented here concerns the credit risk RWA of the portfolio excluding CVA and RWA for operational risk.

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

Risk measures

		Mortgages		Consumer Loans		Mortgages & Consumer Loans
Amounts in thousands of euros	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance amount	13,529,668	12,458,526	238,241	265,755	13,767,909	12,724,281
% Non-performing Loans	0.6%	1.0%	5.3%	6.2%	0.7%	1.1%
Probability of Default IBNR (Regulatory)	0.7%	0.8%	1.7%	3.9%	0.8%	0.9%
Loss Given Default (IAS)	4.0%	4.3%	60.8%	50.3%	5.0%	5.3%
Risk costs	-4,622	2,939	1,170	1,872	-3,452	4,811
SA Risk Weight	29%	30%	76%	76%	30%	31%

The table shows a decrease in risk costs from 2016 to 2017 because of a decrease in delinquencies (reference is made to Note 36 'Risk Management for more explanation). The Non-performing Loans (NPLs), PD, LGD and SA RW decreased, reflecting improving economic conditions.

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

Net loan to indexed value

	2017	**2016**
<80%	38%	32%
80% – 90%	15%	13%
>90% – 100%	12%	15%
> 100%	8%	14%
NHG <= 90%	19%	12%
NHG > 90%	8%	14%
Total	**100%**	**100%**

Region

		Mortgages
	2017	**2016**
Noord-Holland, Zuid-Holland, Zeeland	47%	47%
Gelderland, Noord-Brabant, Overijssel, Utrecht, Limburg	44%	44%
Drenthe, Flevoland, Friesland, Groningen	9%	9%

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

The RWA for derivatives amounts to EUR 10.1 million, exclusive of a EUR 0.6 million capital charge for Credit Valuation Adjustments. Of the aforementioned amount, EUR 4.2 million is related to centrally cleared Interest Rate Swap positions, EUR 4.6 million to a back-to-back swap position with ING Bank, EUR 1.2 million to a back-to-back swap position with Rabobank. NN Bank does not trade derivatives for profit generation purposes; only for hedging or liquidity reasons.

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

Net exposure on mortgages

Amounts in thousands of euros	**2017**	**2016**
0. Balance amount	13,529,668	12,458,526
1. Indexed market value primary cover	19,326,311	16,997,774
2. Secondary cover value	1,014,282	932,194
3. NHG guarantee value	3,220,560	3,094,456
4. Total cover value + NHG guarantee capped at balance amount	13,415,477	12,271,357
Remaining exposure at risk: (0) minus (4)	114,191	187,168

The table Net exposure on mortgages shows the credit risk mitigants (covers and NHG 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 2017, due to the increasing housing price index in combination with 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 (this year 101%), while these loans also have an annuity or linear redemption scheme (because of tax reduction).

Please note that the NHG guarantee value is lower than the exposure that is flagged as NHG. The reason is that the NHG guarantee value decreases in time following an annuity scheme. For example, for Interest-Only loans, the exposure is stable while the NHG guarantee value decreases. The NHG guarantee value is not corrected for the 10% own risk (on the granted NHG claim).

CR1 Credit quality of assets (Basel requirement)

	Gross carrying values of			
Amounts in thousands of euros	**Defaulted exposures**	**Non-defaulted exposures**	**Allowances/ impairments**	**Net values**
Loans	98,678	13,669,231	27,526	13,740,383
Debt Securities	-	-	-	-
Off-balance sheet exposures	-	511,850	566	511,285
Total	**98,678**	**14,181,082**	**28,091**	**14,251,668**

CR2 Changes in stock of defaulted loans and debt securities (Basel requirement)

Amounts in thousands of euros	**Mortgages**	**Consumer loans**
NPL beginning of year	127,055	15,481
NPL inflow	65,305	3,508
NPL cure	-77,063	-1,061
NPL write-offs	-29,274	-5,273
NPL end of year	**86,022**	**12,656**

CRB Additional disclosure related to the credit quality of assets (Basel requirement)

Amounts in thousands of euros	**Mortgages**
Instruments with modifications in their terms and conditions	8,066,323
Refinancing	8,008,808
Total Performing exposures with forbearance measures	**16,075,131**
	0
Instruments with modifications in their terms and conditions	5,923,036
Refinancing	13,660,948
Total Non-performing exposures with forbearance measures	**19,583,985**

CRC Qualitative disclosure requirements related to credit risk mitigation techniques (Basel requirement)

Regarding the qualitative disclosure requirements related to credit risk mitigation techniques: NN Bank does not use on- and off-balance sheet netting. NHG is used as a credit risk mitigant for mortgage lending. The guarantor is the Dutch Government.

CR3 Credit risk mitigation techniques – overview (Basel requirement)

Amounts in thousands of euros	**Exposures unsecured: carrying amount**	**Exposures secured by collateral**	**Exposures secured by collateral, of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**
Loans	350,559	13,576,426	13,443,085	3,729,321	18,951
Debt securities	-	-	-	-	-
Total	**350,559**	**13,576,426**	**13,443,085**	**3,729,321**	**18,951**
Of which defaulted	5,376	72,175	71,466	19,826	101

CR4 Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (Basel requirement)

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Amounts in thousands of euros	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWAdensity**
Sovereigns and their central banks	1,085,613	0	4,307,153	0	0	0%
Non-central government public sector entities	0	0	0	0	0	0%
Multilateral development banks	0	0	0	0	0	0%
Banks	232,503	0	219,629	0	43,926	20%
Securities firms	0	0	0	0	0	0%
Corporates	0	0	0	0	0	0%
Regulatory retail portfolios	345,183	51,743	344,131	25,815	277,460	75%
Secured by residential property	13,504,251	460,107	9,440,079	62,954	3,660,026	39%
Secured by commercial real estate	0	0	0	0	0	0%
Equity	0	0	0	0	0	0%
Past-due loans	77,551	0	51,750	0	51,835	100%
Higher-risk categories	0	0	0	0	0	0%
Other assets	48,675	0	62,049	0	62,049	100%
Total	**15,293,776**	**511,850**	**14,424,792**	**88,769**	**4,095,296**	**28%**

CR5 Standardised approach – exposures by asset classes and risk weights (Basel requirement)

	Risk weight class								
Amounts in thousands of euros	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total credit exposures amount(post CCF and post-CRM)**
Sovereigns and their central banks	4,307,153	0	0	0	0	0	0	0	4,307,153
Non-central government public sector entities	0	0	0	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0
Banks	0	219,629	0	0	0	0	0	0	219,629
Securities firms	0	0	0	0	0	0	0	0	0
Corporates	0	0	0	0	0	0	0	0	0
Regulatory retail portfolios	0	0	0	0	369,947	0	0	0	369,947
Secured by residential property	0	0	8,668,123	0	834,910	0	0	0	9,503,033
Secured by commercial real estate	0	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0	0
Past-due loans	0	0	0	0	0	51,580	170	0	51,750
Higher-risk categories	0	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	62,049	0	0	62,049
Total	**4,307,153**	**219,629**	**8,668,123**	**0**	**1,204,857**	**113,630**	**170**	**0**	**14,513,561**

CCR1 Analysis of counterparty credit risk (CCR) exposure by approach (Basel requirement)

Amounts in thousands of euros	**Replacement cost**	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post- CRM**	**RWA**
SA-CCR (for derivatives)	184,113	39,943	0	1	224,056	10,006
Internal Model Method (for derivatives and SFTs)	0	0	n/a	n/a	n/a	n/a
Simple Approach for credit risk mitigation (for SFTs)	0	0	0	0	n/a	n/a
Comprehensive Approach for credit risk mitigation (for SFTs)	0	0	0	0	n/a	n/a
VaR for SFTs	0	0	0	0	n/a	n/a
Total	**0**	**0**	**0**	**0**	**0**	**10,006**

1 Only concerns the EAD for derivatives and differs therefore from the exposure reported in table OV1. OV1 also includes exposure from current accounts.

CCR2 Credit valuation adjustment (CVA) capital charge (Basel requirement)

Amounts in thousands of euros	**EAD post- CRM**	**RWA**
Total portfolios subject to the Advanced CVA capital charge	0	0
(i) VaR component (including the 3×multiplier)	0	0
(ii) Stressed VaR component (including the 3×multiplier)	0	0
All portfolios subject to the Standardised CVA capital charge	15,229	5,830
Total subject to the CVA capital charge	**15,229**	**5,830**

CCR3 Standardised approach – CCR exposures by regulatory portfolio and risk weights (Basel requirement)

Amounts in thousands of euros	0%	20%	50%	100%	Others	Total credit exposure
Sovereigns	309,057	0	0	0	0	309,057
Non-central government public sector entities (PSEs)	39,257	0	0	0	0	39,257
Multilateral development banks (MDBs)	0	0	0	0	0	0
Banks	0	5,949	9,280	0	412,571	427,800
Securities firms	0	0	0	0	0	0
Corporates	0	0	0	0	0	0
Regulatory retail portfolios	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Total	**348,314**	**5,949**	**9,280**	**0**	**412,571**	**776,115**

CCR5 Composition of collateral for CCR exposure (Basel requirement)

	Collateral used in derivative transactions					
	Fair value of collateral received		Fair value of posted collateral		Collateral used in SFTs	
Amounts in thousands of euros	Segregated	Unsegregated	Segregated	Unsegregated	Fairvalue of collateral received	Fairvalue of posted collateral
Cash – domestic currency	n/a	n/a	180,812	n/a	n/a	n/a
Cash – other currencies	n/a	n/a	n/a	n/a	n/a	n/a
Domestic sovereign debt	n/a	n/a	n/a	n/a	n/a	n/a
Other sovereign debt	n/a	n/a	n/a	n/a	n/a	n/a
Government agency debt	n/a	n/a	n/a	n/a	n/a	n/a
Corporate bonds	n/a	n/a	n/a	n/a	n/a	n/a
Equity securities	n/a	n/a	n/a	n/a	n/a	n/a
Other collateral	n/a	n/a	n/a	n/a	n/a	n/a
Total	**n/a**	**n/a**	**180,812**	**n/a**	**n/a**	**n/a**

CCR6 Credit derivatives exposures (Basel requirement)

Amounts in thousands of euros	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	n/a	n/a
Index credit default swaps	n/a	n/a
Total return swaps	n/a	2,385,595
Credit options	n/a	n/a
Other credit derivatives	n/a	n/a
Total notionals	**n/a**	**2,385,595**
Fair values	**0**	**0**
Positive fair value (asset)	**n/a**	**n/a**
Negative fair value (liability)	**n/a**	**-184,880**

CCR8 Exposures to central counterparties (Basel requirement)

Amounts in thousands of euros	EAD (post-CRM)	RWA
Exposures to QCCPs (total)	208,827	4,177
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	208,827	4,177
(i) OTC derivatives	208,827	4,177
(ii) Exchange-traded derivatives	n/a	n/a
(iii) Securities financing transactions	n/a	n/a
(iv) Netting sets where cross-product netting has been approved	n/a	n/a
Segregated initial margin	142,734	2,855
Non-segregated initial margin	n/a	n/a
9 Pre-funded default fund contributions	n/a	n/a
Unfunded default fund contributions	n/a	0
Exposures to non-QCCPs (total)	0	0
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	n/a	n/a
(i) OTC derivatives	n/a	n/a
(ii) Exchange-traded derivatives	n/a	n/a
(iii) Securities financing transactions	n/a	n/a
(iv) Netting sets where cross-product netting has been approved	n/a	n/a
Segregated initial margin	n/a	0
Non-segregated initial margin	n/a	n/a
Pre-funded default fund contributions	n/a	n/a
Unfunded default fund contributions	n/a	n/a

1 The initial margin is subject to a 2% risk weight.
2 Not applicable for NN Bank as a client. No pay-out of unfunded default fund contributions.

CRD Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk (Basel requirement)

The external credit assessment institutions (ECAIs) and export credit agencies (ECAs) that NN Bank uses are Moody's, S&P and Fitch. The asset classes for which the ECAI or ECA are used, are Repo, Money Market, Hypenn swaps (BGS) and Covered Bonds. NN Bank does not transfer the issuer to issue credit ratings onto comparable assets in the banking book.

Liquidity risk and funding

Liquidity buffer

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

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

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

Sources that have a predictable value and that can be transferred to cash within a short period of time are part of the internal liquidity buffer. The internal liquidity buffer consists of:

- Unencumbered eligible assets: all eligible assets for ECB standing facilities (excl. emergency facilities)
  - Investment portfolio
  - Retained RMBS notes
- Warehouse facilities (unused portion)
- Committed credit lines (unused portion)
- Cash/balance bank account

Funding strategy

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

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

The largest part of NN Bank's funding consists of retail funding. NN Bank has, in addition to savings deposits, two major funding sources available: Whole loan sales and Long-term secured/unsecured funding. In the table below, the composition of the funding mix per ultimo 2017 is shown.

Funding mix

	2017	2016
Retail funding (consist of savings/deposits and bank annuities)	68%	68%
Wholesale funding (long-term)	26%	25%
Equity and Tier2	5%	4%
Other liabilities	2%	3%
Total	**100%**	**100%**

LIQ1 Liquidity Coverage Ratio (LCR)

Amounts in millions of euros	**4Q 2017**	**3Q 2017**	**2Q 2017**	**1Q 2017**
Liquidity buffer	1,651	1,672	1,701	1,654
Net liquidity outflow	979	944	896	839
Liquidity coverage ratio (%)	168%	177%	191%	198%
Reported figures are averages of 12 monthly reporting observations.				

Non-financial risk

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

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

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

- *Compliance Risk:* the risk of impairment of NN's integrity. Compliance risk is the risk of failure (or perceived failure) to comply with NN Group's business principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by NN Bank or its ensuing activities, which could damage NN's reputation and lead to legal or regulatory sanctions and financial loss.
- *Continuity Risk:* the risk of events (e.g. natural disasters, power outages, terrorism) leading to a situation that threatens business continuity
- *Control Risk:* the risk of loss due to non-compliance with controls set through governance procedures and/or project management methods caused by improper of insufficient monitoring (testing) of entities or activities
- *Employment Practice Risk:* the risk of loss due to acts inconsistent with employment, health laws, safety, or agreements, from payment of personal injury claims, or from diversity/discrimination events
- *External Fraud Risk:* the risk due to deliberate abuse of procedures, systems, assets, products and/or services of NN by external parties who intend to deceitfully or unlawfully benefit themselves or others
- *Information (Technology) Risk:* the risk of loss due to inadequate information security resulting in a loss of information confidentiality and/or integrity and/or availability

- *Personal and Physical Security Risk:* the risk of criminal and environmental threats to assets entrusted to NN, or those that might have an impact on the NN organisation's confidentiality, integrity or availability
- *Processing Risk:* the risk of loss due to unintentional human error during (transaction) processing. Processing risk deals with the risk of losses due to failed transaction processing or process management
- *Unauthorised Activity Risk:* the risk of loss caused by unauthorised employee activities, approvals or overstepping of authority (based on intentional human behaviour that is not intended to deceitfully or unlawfully benefit themselves or others)

Remuneration

For the disclosure on the Basel-required remuneration, reference is made to the report, 'Capital Requirements Regulation (CRR) 2017 Remuneration Disclosure Nationale-Nederlanden Bank N.V. ('NN Bank')', which is disclosed on the NN Group website.

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Disclaimer

Certain of the statements in this 2017 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 us 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 the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Bank and/or related to NN Bank.

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.