2016
Annual Report

Nationale-Nederlanden Bank N.V.

NN

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 2016 was as follows:

Management Board

Composition as at 31 December 2016

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

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

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

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

Resigned in 2017

J. (Sjaak) de Graaf (1955), COO and vice-chair[1]

Supervisory Board

Composition as at 31 December 2016

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

D. (Delfin) Rueda (1964)

D.E. (David) Knibbe (1971)

G.A.N. (Toon) Krooswijk (1973)

Appointed in 2017

A.M. (Maarten) Mol (1956)[2]

[1] Resignation as at 1 January 2017 by resignation letter.
[2] Appointment as at 1 March 2017 at the General Meeting on 28 February 2017.

NN Group and NN Bank at a glance

NN Bank is part of NN Group N.V.

NN Group

NN Group N.V. (NN Group) is an insurance and asset management company. We are active in 18 countries, with a leading position in the Netherlands and a strong presence in a number of European markets and Japan. NN Group includes NN, Nationale-Nederlanden and NN Investment Partners.

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. We are committed to helping people secure their financial futures, offering retirement services, insurance, investment and banking products. Our strategy is to deliver an excellent customer experience, based on transparent products and services, and long-term relationships.

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').

Possible impact Delta Lloyd acquisition

On 12 April 2017, NN Group and Delta Lloyd jointly announced that NN had acquired 79.9% of the issued and outstanding ordinary shares of Delta Lloyd. Payment of these shares at the offer price of EUR 5.40 per share (cum dividend) took place, which marked the official settlement of this transaction. The combined company will move forward as a leading player in insurance and pensions in the Dutch market, with a strong market position in Belgium, as well as provide an attractive offering in asset management and banking products.

Combining Delta Lloyd with the Dutch and Belgian activities of NN Group builds on our strategy to deliver an excellent customer experience and generate shareholder return. The combination of the activities of both companies will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution, and customer service. It will provide increased possibilities for knowledge sharing, strengthening capabilities and talent development. And, it will bring growth perspective and lead to opportunities for employees of both NN Group and Delta Lloyd. The new company will be a well-diversified leader in the Dutch pensions, life and non-life insurance and banking sectors, with a strong asset management platform, attractive international presence, ample growth opportunities, and appealing customer propositions. It creates consolidation in the insurance sector, and as such brings additional stability in the markets, and will generate materially higher cash return to our shareholders over time through benefits of scale.

Now that the acquisition is completed, NN Group and Delta Lloyd will start the integration process. NN Group and Delta Lloyd will align and integrate their operations in the Netherlands and Belgium, to fully benefit from the additional scale, capabilities, combined reach and resources. This will result in an overall stronger platform from which to provide enhanced customer propositions and generate shareholder return. The integration will be led by the NN Group Management Board.

Read more in Note 39 'Subsequent and other events'.

NN Bank

NN Bank was founded on 26 April 2011 as a Dutch retail bank. It is part of NN Group, and its broad range of banking products is complementary to Nationale-Nederlanden's (NN's) individual life and non-life insurance products for retail customers in the Netherlands. NN Bank's purpose is to help retail customers create and secure their financial futures: helping them manage and protect their assets and income through mortgage loans, (internet) savings, bank annuities, consumer lending and retail investment products. Furthermore, NN Bank distributes NN-labelled credit cards and insurance products. In addition, NN Bank provides administration and management services to ING Bank N.V. (former WestlandUtrecht Bank), Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Leven), Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Schade), NN Insurance Belgium N.V. (NN Belgium) 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 offices 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.

Legal position

Until 1 November 2016, NN Bank was a direct subsidiary of NN Insurance Support Nederland B.V., which in turn is a fully-owned subsidiary of NN Insurance Eurasia N.V. NN Insurance Eurasia N.V. is fully owned by NN Group. On 1 November 2016, the shares of NN Bank were transferred from NN Insurance Support Nederland B.V. to NN Group. As a result of this transfer, NN Bank is directly owned by NN Group as of 1 November 2016.

Report of the Management Board

Business developments

2016: building the future

NN Bank is a Dutch retail bank offering a broad range of banking products and services. In 2016, NN Bank realised a balanced growth of its balance sheet (+26%), while continuing its focus on helping retail customers realise their financial goals.

Besides further growing its business, 2016 marked a year in which NN Bank undertook activities to prepare for and build its future.

- NN Bank invested in customer process (re)design, aimed at fundamentally improving the customer experience and allowing customers to easily manage their affairs themselves. For example, we improved the mortgage interest rate renewal process and introduced new online options such as automated quotations and mortgage interest rate averaging. This resulted in reduced handling times and less rework.
- NN Bank complemented its retail banking portfolio by introducing a new retail investment proposition ('Beheerd Beleggen') in August 2016, providing customers easy access to discretionary investment management by the specialists of NN Bank
- The migration of the retail investment portfolio to a new platform provided better online options for customers, as well as increased operational efficiency
- On the funding side, NN Bank has taken further steps to broaden its investor base and strengthen its funding profile. Furthermore, it retained its strong liquidity position.
- On 10 January 2016, NN Bank was rated 'A' by Standard & Poor's Credit Market Services Europe Limited (Standard & Poor's)
- Furthermore, after setting up for the centrally cleared swaps, NN Bank has been executing such swaps since April 2016
- NN Bank initiated a reorganisation, taking effect as of 1 January 2017. In order to become more agile and flexible for further growth, NN Bank is organised in a value chain structure, focused on its core retail banking activities: Mortgages & Consumer Loans and Savings & Investments.

Our values

At NN, we want to help people to 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. And 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 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's strategy is to deliver an excellent customer experience, based on transparent products and services 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.
To improve the customer experience, NN Bank continued to invest in two areas in 2016: provide efficient and flawless service and be personal and relevant in every customer contact.

Improving efficiency in customer processes is a key objective, beneficial to both customer experience as well as NN Bank's cost level.

Efforts focused on providing efficient and flawless service included:

- For its retail investment, personal loan and 'Aanvullend PensioenSparen' (Supplementary Pension Savings) products, NN Bank introduced online application processes in 2016
- NN Bank extended digital tooling and self-service processes, providing customers with insight and options to make adjustments to their products. Examples include 'Mijn Hypotheekaanvraag' (My Mortgage Application) and the mortgage interest-rate-averaging tool.
- More products have become available in the personal digital channel (mijnnn.nl), as well as the mobile channel (NN app), including retail investments, bank annuities, personal loans and revolving credit
- NN Bank realised a higher level of automation and straight-through processing, resulting in reduced handling time and less rework. Examples include the new platform for our retail investment products and the interest rate renewal process.

For an excellent customer experience, in addition to smooth customer processes, it is essential to know each customer and act accordingly. In order to be more personal and relevant in every customer contact, NN Bank:

- Launched a personalised welcome programme for new customers, welcoming them as our new customer and introducing NN through topics specifically relevant to them based on insights from for example customer segmentation
- Developed a content marketing strategy that helps us to reach both customers and prospects with customised content for specific customer needs, demonstrating our ambition to be a helpful and relevant financial service provider to our customers. With this content marketing strategy, we realised 1.2 million interactions and 15,400 new followers on our social media channels in 2016.
- Introduced a divorce package proposition: a partnership with independent divorce experts helping with the financial, fiscal and legal complexities that people encounter when faced with a divorce. The aim is to work towards a clear and workable set of agreements, providing a new financial perspective for both ex-partners involved.

To ensure that the voice of the customer is heard in our organisation, NN Bank strives to actively involve customers in many ways. For almost all customer processes, customer feedback is collected on an on-going basis. Continuous improvement teams analyse customer feedback, define required improvements and implement them. Customer-driven design which is based on customer interviews as well as beta testing is an integral part of our new product development process. This helps us work towards the best fit with customer needs in an iterative process.

Our efforts have resulted in the gradual improvement of the customer experience, which is demonstrated by an increase in our Net Promoter Score (NPS) from -4 (Q4 2015) to +3 (Q4 2016). In

Report of the Management Board

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addition, more than 23% of NN Bank customers indicate they intend to recommend NN to their friends and family.

Our strategy

We are building a company that truly matters to our stakeholders. Our role in society and our approach to sustainability is something we take very seriously. We will continue to focus on improving people's financial well-being and manage the assets entrusted to us by our customers, as well as our own assets, in a responsible way.

NN Bank is a Dutch retail bank offering a broad range of banking products and services. Our strategy is to deliver an excellent customer experience. We do this by being personal and relevant in every customer contact. A convenient and increasingly digital customer process supports this. The strategy is built on the following pillars: transparent products and services, multi-access distribution, effective and efficient operations and excellent balance sheet management.

Transparent products and services

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

In 2016, NN Bank complemented its retail banking portfolio with the launch of 'Beheerd Beleggen' (Discretionary Investment Management), a new online product developed for customers who want to increase their wealth but have limited expertise in investments. NN Bank's investment experts help customers to secure their financial futures.

In addition, we have successfully migrated the existing retail investments portfolio to the new NN platform, leading to improved customer experience and efficiency.

In savings, our products received several awards. 'Aanvullend PensioenSparen' and 'Aanvullende PensioenUitkering' (Supplementary Pension Benefits) were awarded with a MoneyView Five Star rating on the product rating 'price'. In addition, NN Bank's internet savings account received the 2016 'Gouden Spaarrente' (Golden Savings Interest Rate) Award from Spaarrente.nl.

In mortgages, NN Bank was also awarded with a MoneyView Five Star rating for offering the best price in the market for its BankSpaarPlus Mortgage.

For our mortgage customers, both new and existing, a number of improvements were made to the customer process, offering new digital self-service options as well as straight-through processing. This has significantly improved the customer experience while also increasing operational efficiency.

Multi-access distribution

NN Bank strives to be available to customers wherever they require. We operate via intermediaries, own advisors, call agents and direct servicing, which allows customers to choose how and when they interact with us.

The online channel is increasingly important for providing effective access in an efficient way, matching customer expectations. Around 1 million people visit the website, nn.nl, every month. The personal online environment, mijnnn.nl, was extended with a number of tools and insight opportunities making it more user-friendly. The NN app has been downloaded nearly 62,500 times. By the end of 2016, NN had 84,400 followers on Facebook, Twitter and LinkedIn.

In line with our omnichannel ambitions, we have unlocked the online distribution channel mijnnn.nl for 'Aanvullend PensioenSparen', consumer loans and our new 'Beheerd Beleggen' products.

In addition, more products have become available in the NN app, in order to serve customers via the mobile channel as well. Examples include investment products, bank annuity savings products and consumer loans.

Effective and efficient operations

NN Bank aims to make processes as efficient and effective as possible in order to deliver value for money for our customers. Also, we invest in implementing an operating model with more standardised processes and simplify innovation and improving the IT infrastructure.

NN Bank is able to realise efficient operations, because it has no cost-intensive bank branches and does not offer payment services. Developing digital self-service processes for customers is one of our strategic priorities. By incorporating digital self-service processes into the customer experience, we increase customer satisfaction, reduce customer service costs and enrich customer profiles. It also offers opportunities to cross-sell to the existing base.

In 2016, NN Bank focused on further digitisation. For mortgages, this included the online mortgage interest-rate-averaging tool, aimed at providing customers insight into their personal situation and giving them the ability to change the interest rate term directly.

Furthermore, to track the progress and status of new mortgage applications, NN Bank launched the online 'Mijn Hypotheekaanvraag' service (My Mortgage Application).

Due to the growth of the bank, NN Bank invested in further maturing the control environment throughout its entire organisation.

Excellent balance sheet management

Maintaining a strong balance sheet is key to absorbing market volatility and ensuring NN Bank is sufficiently capitalised at all times.

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

On 10 January 2016, NN Bank was rated 'A' by Standard & Poor's.

In 2016, NN Bank continued with its successful RMBS programme 'Hypenn RMBS'. Following a private placement of RMBS Notes at the beginning of the year with Hypenn V, RMBS notes were also placed with a large group of European institutional investors with Hypenn VI in December 2016.

In addition to continuing the successful relationship with NN Leven, NN Schade and the NN Dutch Residential Mortgage Fund, NN Bank also sold its first mortgage loan portfolio to NN Belgium.

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On 26 August 2016, NN Bank published its first debt issuance programme, under which NN Bank may, from time to time, issue (unsecured) debt instruments with an aggregate nominal amount outstanding of EUR 3 billion. To date, no notes have been issued under this programme.

Besides strengthening its funding profile, NN Bank retained a strong liquidity position by expanding its Liquidity Coverage Ratio (LCR) eligible assets. The revolving credit facility with NN Group was extended, and one of the external mortgage warehouse credit facilities matured.

Innovation

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

NN Bank started a pilot of originating buy-to-let mortgages. The buy-to-let mortgage enables people to buy a house that they may let to tenants interested in renting the house.

In early 2016, NN Bank started with an innovation for the housing market called 'Brickler', with the conviction that buying and selling a house can be much easier than the traditional way. With the Brickler app, people are able to see how much they can borrow, which house they can buy and whether this fits their financial profile. At the end of 2016, the Brickler app was being tested.

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 staff received awareness training in light of the introduction of the new NN Group general Code of Conduct. The Code provides employees with a comprehensive set of principles and rules that guide employees in their day-to-day operations. Compliance with the Code of Conduct is a necessity to ensure that NN acts with a high level of integrity, in accordance with external regulation and in the interest of our clients. The training focused on raising awareness of the required staff behaviour in relation to these principles and regulations.

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 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 2016, the engagement score remained relatively strong at 72% (2015: 74%).

Reorganisation

NN Bank has existed in its current form since 1 July 2013. Over the past few years, NN Bank has successfully enhanced interaction with its retail clients through various distribution channels. Hereby, NN Bank was responsible for the integral relationship of the retail customer within NN Netherlands.

Now we have come to the point at which NN Group needs to prepare for the future. Strategy NL, the strategy of NN Group's Dutch business units focuses on the creation of a central customer domain at the Netherlands level. Some general customer-related activities that were being performed within NN Bank have been moved to the new central customer organisation, Customer & Commerce. Customer & Commerce will intensify the contact moments with customers, and provide excellent service at the right time, through the right channel. And together with the other business units, Customer & Commerce will ensure consistency in brand and customer experience.

The retail activities that NN Bank performed for other business units (NN Leven and NN Schade) have been returned to their respective business units. NN Bank will therefore focus on its core activities: retail banking products.

At the same time, NN Bank reconsidered its organisational structure looking in search of optimisation that will make the bank more agile and flexible to enable further growth. To create a more effective organisation, NN Bank adopted a value chain structure. The new organisation is organised into two value chains: Mortgages & Consumer Loans and Savings & Investments. A separate Change, Technology & Information domain is responsible for general IT and operations not linked to a particular value chain. A Strategy & Innovation domain focuses on long-term value creation. Furthermore, NN Bank realised a cost reduction, intended to stay competitive in cost/income ratio and profitability.

The changes as mentioned above took effect and NN Bank was set up according to the new organisation as of 1 January 2017.

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

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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.

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

Nationale-Nederlanden has launched a new campaign theme 'Er is maar één Nederlander zoals jij' (There's only one Dutch person like you). The concept entails that we all have unique financial needs and expectations. NN has the experience and insight needed to address each individual's needs in a personal and relevant way. The campaign offers two service propositions supporting the concept. The 'Jouw inkomen later' (Your future income) pension service, and the 'Beheerd Beleggen' investment service.

The pension service highlighted in the campaign, 'Jouw inkomen later', makes it easy for customers to find out if they will have an adequate pension income in their later years. It generates tips and advice on how to increase their pension income, if needed. Online tools offer further insight and support.

With the 'Beheerd Beleggen' discretionary investment management proposition, customers invest a minimum of EUR 50 per month: an amount manageable for most customers. NN Bank investment experts invest the funds in accordance with standardised investment portfolios with different investment strategies.

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. Also, NN Bank employees participated in an initiative to train secondary school students for their job interviews.

This year, we also organised several 'Theme Months' in our Nationale-Nederlanden DE Café, for example: Reach your Goals, Innovation Café and the Entrepreneur Café, where we held a variety of workshops to inspire and help entrepreneurs with designing their business or bringing their business to a higher level.

Conclusions and ambitions

NN Bank's ambition is to further deepen the relationship with our customers by helping them reach their goals and desired lifestyle with our financial products and services. NN Bank wants to differentiate on the customer experience, being personal and relevant to customers in every contact. To compete successfully, efficient and flawless customer processes are essential.

2016 was a year in which NN Bank worked meticulously on building the future. The introduction of the new 'Beheerd Beleggen' proposition complemented our retail banking portfolio. The ongoing digitisation of several customer processes fulfilled a growing customer need for user-friendly self-service, while making operations more efficient and flawless. The implementation of a customer process redesign method for the key customer journeys of NN Bank further enhanced the customer experience. And the new campaign 'Er is maar één Nederlander zoals jij' was launched to underscore our ambition to serve every customer in a personal and relevant way.

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Financial Developments

Analysis of results

Amounts in millions of euros	2016	2015
Interest income	498.0	428.6
Interest expenses	295.2	259.4
Interest result	**202.8**	**169.2**
Gains and losses on financial transactions and other income	**41.4**	**33.4**
Fee and commission income	**47.8**	**52.1**
Valuation results derivatives	**-5.5**	**0.9**
Total income	**286.5**	**255.6**
Addition to loan loss provisions	4.8	17.9
Staff expenses	93.0	85.6
Regulatory levies	8.5	0.3
Other operating expenses	73.6	62.2
Total expenses	**179.9**	**166.0**
Result before tax	**106.6**	**89.6**
Taxation	26.7	22.5
Net result	**79.9**	**67.1**

Key figures

Amounts in millions of euros	2016	2015
Loans	12,686	10,627
Customer deposits and other funds on deposit	10,226	8,139
Net interest margin[1]	1.5%	1.6%
Cost/Income ratio[1]	58%	58%
Return on assets[1]	0.6%	0.6%
Return on equity[1]	13.8%	14.3%
Total assets	15,136	12,023
CET1 capital	625	528
CET1 ratio – transitional[2]	14.3%	14.7%
Total capital	695	598
Total capital ratio – transitional	15.9%	16.6%
Leverage ratio – transitional[3,4]	4.0%	4.0%
Liquidity Coverage Ratio (LCR)[4]	205%	160%
Average number of FTE	633	586

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 the net result divided by the average equity in a year
2 The CET1 ratio 2015 was restated from 14.6% to 14.7%, to align with the COREP 2015 report.
3 In calculating the leverage ratio, NN Bank has implemented a conversion factor on the off-balance commitments, in accordance with annex I of the CRR. The 2015 leverage ratio has not been restated.
4 Per September 2016, both the LCR and the leverage ratio are replaced by the LCR-Delegated Act (LCR-DA) and LR-Delegated Act (LR-DA). In the DA detailed rules for the calculation of the LCR and leverage ratio are set out. The 2015 LCR and leverage ratio have not been restated. This replacement has a total impact of approximately -3%, which is due to the higher outflow assumptions for savings under the LCR-DA.

Profit and loss

NN Bank's net result grew further in 2016, to EUR 79.9 million. NN Bank benefited from the increase in the mortgage market. Mortgage production volume grew by EUR 0.6 billion (+15%), mainly attributable to the increased mortgage appetite of NN Life. NN Bank succeeded in maintaining its interest margin at 1.5%, despite the strong growth in the internet savings portfolio. The production and mortgage portfolio transfers from ING compensated for the early redemptions and led to further balance sheet growth, contributing to a higher interest income. Furthermore, the mortgage loan sales volume to other NN Group companies (NN Schade and NN Belgium) and the NN Dutch Residential Mortgage fund grew, generating additional commission income for mortgage portfolios servicing. However, lower commission from ING Bank offset this additional commission income.

'Gains and losses on financial transactions and other income' comprises the origination fee and premium on the mortgages NN Bank sold to the NN Dutch Residential Mortgage Fund, NN Schade, and NN Belgium. In 2016, EUR 1.2 billion of the assets were ceded (2015: EUR 1.4 billion). The assets were sold at an average premium of 158 bp, as a result of decreased interest rates. The origination on behalf of NN Leven resulted in EUR 27.3 million in commission income.

Despite growth in the mortgage portfolio, the addition to loan loss provisions strongly decreased by EUR 13.1 million. The 2015 additions to the loan loss provisions were high due to further enhancement of credit risk models. In 2016, NN Bank benefited from the improved macro-economic climate in which housing prices further improved and unemployment rates slightly declined. Furthermore, NN Bank enhanced its arrears management process, also contributing to lower loan loss provisions.

Compared with 2015, operating expenses increased. In 2015, the Dutch NN business units launched the new Strategy NL, resulting in expenditure in 2016. Furthermore, a number of strategic projects took place in 2016, e.g. the migration of the investment portfolio, the retail investment proposition and the preparation for replacement of the mortgage back-office system. Also, expenses include a reorganisation provision of EUR 8.4 million since NN Bank reconsidered its organisational structure .

NN Bank is investing in its future profitability by procuring a new back-office system for mortgages, which will ultimately result in lower expenses. This project was launched after the summer, and the initial rollout of this system is expected in 2018. In the second half of 2016, NN Bank prepared a Request for Advice to significantly change its organisational structure and governance. The main goal of this reorganisation is to become a more agile organisation. Furthermore, it enables NN Bank to further reduce the cost/income ratio in future years. The new organisation came into effect as of 1 January 2017.

The number of internal FTEs increased compared with 2015, mainly in the mortgage acceptance and maintenance departments, caused by the growth in production volume and mortgage portfolios.

Balance sheet

NN Bank further expanded its balance sheet by EUR 3.1 billion to EUR 15.1 billion. The mortgage portfolio grew to EUR 12.7 billion, driven by an increase in own production, compensating for high redemptions. Furthermore, NN Bank purchased NN-branded mortgage loans from ING Bank on the respective interest reset dates of the mortgage loans and related loan parts, totalling EUR 1.3 billion.

The customer savings portfolio remains the main funding source for NN Bank. The portfolio grew strongly, by EUR 2.1 billion, supported by attractive client rates and an excellent customer process. In addition, NN Bank placed two Residential Mortgage Backed Security transactions (RMBS) in the market, attracting EUR 1.1 billion in medium-term funding.

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Furthermore, NN Bank has become more active in the unsecured funding market.

Capital & Liquidity

Notwithstanding the balance sheet increase, NN Bank has maintained a solid capital position, with a Capital Requirements Directive (CRDIV) transitional total capital ratio of 15.9% (2015: 16.6%) and a CRDIV transitional CET1 ratio of 14.3% at year-end 2016 (2015: 14.7%). Internal capital generation and a capital contribution from NN Group of EUR 15 million achieved this position.

NN Bank maintained a solid liquidity position with an LCR of 205%. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2016, the credit facility with NN Group has been extended and one of the external credit facilities matured.

Market and business developments

Economic conditions

According to the Centraal Plan Bureau (CPB), the Dutch economy grew by 2.1% in 2016. Driven by increasing domestic spending, the economy is expected to grow by 2.3% in 2017 (source: DNB), despite negative effects of the Brexit referendum and lower gas production (source: CPB). In 2016, consumer purchasing power rose, due to a combination of rising wages, low inflation and tax cuts, but is expected to temper in 2017 following rising inflation and stabilising wages. Unemployment fell to 6.0% in 2016, and is expected to decrease to 5.3% in 2017 (source: CPB).

Mortgages

The mortgage market is currently experiencing substantial growth, driven by low interest rates and rising consumer confidence (source: Eigen Huis marktindicator). Particularly in the Randstad area the supply of houses is decreasing, while demand remains high, causing house prices to rise. The average price of houses in the Netherlands increased by 5% in 2016 (source: CBS/Kadaster). Because of the increasing prices of houses, home owners more often sell their current homes without any loss, improving their chance to move, and raising demand for houses. This, subsequently leads to a further increase in housing prices, and so on (source: DNB). In the long term, rising housing prices are expected to have a negative effect on the affordability of a home. For now however, the limited rental home stock in the private sector has caused home rental prices in the Netherlands to rise even more strongly in recent years (source: Pararius). Investors therefore engage in buying so-called 'starter homes' to rent out (buy-to-let), also stimulating the shortage on the housing market and raising prices.

The affordability of a house depends on the mortgage interest rates as well. Autumn 2016 brought an end to the downward trend in mortgage interest rates, due to increasing interest rates on the capital market (source: DNB). It is uncertain how the mortgage interest rates will develop further. Should the upward trend continue, the affordability of a home will decrease, with a tempering effect on mortgage lending as a result.

In summary, in 2016, the mortgage market was characterised by a significant growth of 24.5%. NN Bank's new mortgage sales increased by 14.3% to EUR 4.7 billion in 2016, which includes sales of our white label mortgage product and EUR 1.8 billion originated for NN Leven. As a result, NN Bank's market share in new mortgages, including white label product sales, slightly decreased to 6.1% in 2016 (2015: 6.7%) (source: Kadaster).

Savings

Growth in the savings market slowed down in 2016 due to low interest rates that stimulated consumers to opt for more profitable alternatives and accounted for less accrued interest. Lending standards for mortgages are becoming stricter, resulting in households having to invest more of their own savings when buying a house. Also, consumers continued dissaving by paying off on their mortgage. In addition, good performance of the stock market and increased consumer confidence in retail investments as a way to grow assets has resulted in a shift towards investing.

Despite moderate market growth of 1.0% in the savings market in 2016 (source: CBS/Statline), NN Bank saw total customer savings increase by 27% to EUR 10.2 billion in 2016 (2015: EUR 8.1 billion). Welcoming more than 34,000 new customers, NN Bank's internet savings portfolio exceeded EUR 5.2 billion in 2016 (2015: EUR 4.2 billion), making NN Bank the largest Dutch savings bank without a branch network. For our Bank Annuity products, 2016 was another successful year, with net growth of our prize-winning portfolio exceeding a total volume of EUR 3.3 billion (2015: EUR 2.7 billion), excluding almost EUR 0.8 billion in bank annuities for mortgages. This growth can be attributed to NN's strong brand name, combined with the continued competitive interest rates on NN Banks' savings accounts. NN Bank received the 2016 'Gouden Spaarrente' award from Spaarrente.nl for the savings account with the best yield and a stable interest rate policy.

Investment services

The retail investment market benefited from the ongoing economic recovery and growing confidence of the retail investor. Low interest rates further stimulated this market. Research shows that young people in particular are increasingly opting for investing (source: TNS Nipo). FinTech solutions make (the costs of) investment services more transparent for consumers and the number of suppliers offering online investment services is growing.

Consumer lending

Despite the economic growth and increasing consumer confidence, the consumer lending portfolio in the market showed a decline of -7.5% in 2016 (source: DNB). NN Bank's market share in new consumer lending production decreased from 4.8% in 2015 to 1.6% in 2016 (source: GFK).

Distribution

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

Outlook

NN Bank anticipates further growth in 2017. It will focus even more on delivering a personal, relevant and digital customer experience. In order to do so, customer process redesign, digitisation and innovation remain key for NN Bank.

In 2017, NN Bank will improve its flexibility and efficiency by working in a new organisational structure, focusing on its core retail banking activities based on an agile value-chain organisation.

Report of the Management Board

Continued

Mortgages

In 2017, the Dutch mortgage market is expected to grow to EUR 78 billion (+3.9%). NN Bank intends to maintain its market position. In the first half of 2017, a branding campaign to promote our new service 'Mijn Hypotheekaanvraag' will be launched.

Foreign players, pension funds and insurers continue to show interest in investing in the Dutch mortgage market in search of return on investment. Since 2010, they have doubled their investments in mortgages and ultimo 2016 they financed 20% of new mortgage production (source: DNB). NN Bank believes that the market, therefore will continue to be highly competitive.

Finally, the mortgage process is changing. Due to digitisation and robotics, the process will be further simplified. By using new technology, the application for a mortgage is easier to understand for consumers, faster and cheaper to purchase and can be handled entirely online. NN Bank keeps investing in straight-through processing of the application and service demand processes.

Nationale-Nederlanden Bank N.V. is following the starting points of Dutch Regulator AFM with regard to the compensation in relation to early redemptions of mortgages. Insofar there are irregularities, Clients will be compensated. The impact is not material

Savings

The savings market is expected to grow by 0.6% in 2017. Dissaving by repaying mortgage debt and the shift towards investing are expected to continue. NN Bank intends to maintain its solid position by offering one of the most attractive interest rates in the savings market. It will focus on further strengthening its position in the bank annuities savings market, for example by adding the 'Aanvullende Pensioen-Uitkering' to the online distribution channel.

Investment services

In 2017, the assets under management of private households is expected to grow to EUR 134 billion. This is due to stock market performance and an increasing number of retail investors. NN Bank expects to gradually expand the fee business with its recently introduced retail investment proposition by attracting new customers and through cross-sell campaigns for existing customers. The invested assets of Dutch private households are expected to grow further over the next few years.

Consumer lending

Although stricter mortgage loan-to-value requirements have an upward effect on the market for personal loans, the consumer credit market is expected to decrease by 9% in 2017. This is entirely due to a decrease in loans with a continuous character. NN Bank will focus on maintaining its market position by making the consumer credit products suitable for intermediaries specialised in mortgages.

Conclusions and ambitions

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

With the organisational adjustments taking effect as of 1 January 2017, NN Bank is prepared to realise its ambitions to be a growing and robust retail bank, while being able to anticipate changing customer needs and technological developments.

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 end of 2016, the Management Board consisted of four members: a CEO, CFO, CRO and COO. There were no changes to the Management Board in 2016. Due to the reorganisation as of 1 January 2017, the composition of the Management Board has changed. The Management Board currently consists of three members: a CEO, CFO and CRO. There is no longer a COO position. The former COO resigned as of 1 January 2017.

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 policy framework of NN Group, unless waived by NN Group
- The embedding of the policy framework, guidelines and procedures in the Three Lines of Defence control model

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

Board composition
NN Bank aims to have an adequate and balanced composition of the Management Board and 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 2016, 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 2016. 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.

Ernst & Young Accountants LLP, in its capacity as external auditor of NN Bank for the financial year 2015, attended the meeting of the Supervisory Board on 12 April 2016. KPMG Accountants N.V., in its capacity as external auditor of NN Bank for the financial years 2016 through 2019, attended the Supervisory Board meetings on 12 April and 1 November 2016.

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 Money Laundering and Terrorist Financing (Prevention) Act, the Consumer Lending Act and the regulations based on this legislation.

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

Banking Code
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.

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

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 objective 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 NN Bank as well, expects exemplary behaviour from its entire staff, irrespective of their job function. Needless to say, effective business contacts, both within and outside NN Group, are to be based on honesty, integrity and fairness. NN Group's General Code of Conduct also includes a whistle-blower procedure. This procedure ensures anonymity when reporting irregularities, including violations of laws and regulations.

Risk management organisation

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

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

NN Bank is exposed to various financial and non-financial risks. For a more detailed description of these risks and the way in which they are managed, reference is made to Note 40 'Risk management'.

Risk Appetite Framework

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

The Risk Appetite Framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. The RAS and the underlying limits frameworks are based on the annual Internal Capital and Liquidity Adequacy Assessment Processes, and on the business plan in force, including capital and funding plans. The RAS provides constraints for the business plan.

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 a RAS proposal in close consultation with the CFO. The risk management organisation assists the CRO, including analyses of the current risk positions and risk tolerances. The Management Board and Supervisory Board approve the proposed risk appetite as part of the input for the annual business plan.

Internal capital and liquidity adequacy

In terms of capital, De Nederlandsche Bank (DNB) requires an annual internal evaluation to determine whether the capital and liquidity position and risk management is sufficient, given NN Bank's operations now and in the near future, including stress testing. This internal evaluation is performed using an Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP). The ICLAAP and Supervisory Review & Evaluation Process (SREP) show that NN Bank has a robust capital and liquidity position.

Financial reporting process

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

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

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 which an assessment is made. In 2016, 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 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 and the provisions for Individual Not Significant Assets (INSFA). Within NN Bank, this is referred to as the portfolio Expected Loss (EL), which is determined as the multiplication of the underlying Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The PD, LGD and EAD are determined in statistical models. In 2016, add-ons were incorporated where deemed necessary to calculate EL as accurately as possible.
- Approval: in which the figures are reviewed for approval in the NN Bank Impairment and Provisioning Committee (IPC)
- Reporting: in which the figures are booked in NN Bank General Ledger and used for internal and external reporting (i.e. DNB)

In view of the LLP process it is noted that as of 1 January 2018 IFRS 9 will be effective. IFRS 9 'Financial instruments' replaces IAS 39. It includes requirements for, amongst others, classification of financial assets. The recognition and measurement of impairment under IFRS 9 is intended to be forward-looking. For further details reference is made to Note 1 'Accounting policies' in the Consolidated annual accounts.

The Hague, 9 May 2017

The Management Board

Report of the Supervisory Board

Supervisory Board meetings
In 2016, the Supervisory Board met four times. The Supervisory Board discussed the Annual Reports and Accounts 2015, the ICAAP/ILAAP submissions and the Long Term Forecast (LTF) 2017-2019. The SB also discussed the reorganisation plans of NN Bank as implemented per 1 January 2017 and the plans of the take-over of the Delta Lloyd Group (including Delta Lloyd Bank).

The chair of the Supervisory Board met the Works Council. In November a separate meeting took place between a delegation of the Supervisory Board (including the chair), the internal auditor of NN Bank (CAS), the external auditor (KPMG), the head of Operational Risk Management and the head of Legal & Compliance to discuss the audit approach of KPMG, the audit plan of CAS and the year plans of the ORM and Legal & Compliance departments.

Apart from closely monitoring the commercial developments in 2016, the Supervisory Board also monitored the progress of growth of the bank, the further strengthening of the internal control framework, client satisfaction measures and metrics and the funding of NN Bank, including the set-up of a debt issue programme under which NN Bank can attract unsecured funding. The Supervisory Board was pleased to hear that on 20 January 2016 NN Bank obtained a good credit rating from S&P.

Committees
The activities of an audit committee are performed by the Supervisory Board as a whole. In 2016, these activities included discussions about the quarterly results, the reports of CAS and regulatory matters. The LTF, 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, the reports from the external auditor, financial reporting and internal controls over financial reporting.

Risk
At each regular meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed in detail, as well as the Risk Appetite Statements (RAS). In April 2016, the Supervisory Board approved the updated RAS. The ICAAP and ILAAP (including the stress test scenarios) are discussed annually.

Functioning of the Management Board
In the fourth quarter of 2016, the Supervisory Board initiated its annual review cycle. The results of the review, including the functioning of the Management Board in 2016, were subsequently discussed by the Supervisory Board in its February 2017 meeting. The Supervisory Board concluded that the Management Board meets the expectations of the Supervisory Board both in terms of composition and capabilities as well as in terms of delivering results.

Composition of the Management Board
During 2016, there were no changes in the composition of the Management Board. In 2016, the Supervisory Board took notice that the COO, Sjaak de Graaf, would resign as Management Board member as per 1 January 2017. The COO role is eliminated in the reorganisation per the same date. The COO role was primarily created to allow for a smooth integration process of the former WestlandUtrecht Bank into NN Bank.

Composition of the Supervisory Board
During 2016, there were no changes in the composition of the Supervisory Board. Because of the changing business environment an additional external member of the SB with a background in banking and FinTech-experience was appointed as per 1 March 2017.

Annual report, Banking Code and dividend
The Management Board has prepared the Annual Report and Accounts and discussed these with the Supervisory Board. The Annual Report and Accounts will be submitted for adoption at the 2017 General Meeting. NN Bank will not propose to pay a dividend over 2016 at the 2017 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 2016. NN Bank realised stable and profitable growth and at the same time carefully managed a prudent risk profile. Furthermore NN Bank obtained a good credit rating and enhanced its funding capacity by setting-up an own debt issue programme.

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

A special thank is given to Mr. De Graaf for his shown dedication to smoothly merge the operations of the former WestlandUtrecht Bank into the NN Bank's operations.

The Hague, 9 May 2017

The Supervisory Board

Consolidated balance sheet

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2016	2015
Assets			
Cash and balances at central banks	2	1,555,008	474,079
Amounts due from banks	3	77,262	59,124
Financial assets at fair value through profit or loss:	4		
– non-trading derivatives		250,675	220,219
Available-for-sale investments	5	385,460	550,291
Loans	6	12,685,718	10,627,245
Other assets	7	181,800	91,620
Total assets		**15,135,923**	**12,022,578**
Equity			
Shareholders' equity		629,173	532,734
Total equity	8	**629,173**	**532,734**
Liabilities			
Subordinated debt	9	70,000	70,000
Debt securities issued	10	3,293,420	2,361,092
Other borrowed funds	11	405,000	220,000
Amounts due to banks	12	45,000	331,228
Customer deposits and other funds on deposit	13	10,225,730	8,138,799
Financial liabilities at fair value through profit or loss:	14		
– non-trading derivatives		390,639	316,572
Provisions	15	9,591	5,772
Other liabilities	16	67,370	46,381
Total liabilities		**14,506,750**	**11,489,844**
Total equity and liabilities		**15,135,923**	**12,022,578**

References relate to the notes starting on page 22. 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		2016		2015
Interest income		498,054		428,568	
Interest expenses		295,234		259,397	
Interest result	17		202,820		169,171
Gains and losses on financial transactions and other income	18		41,409		33,364
– gross fee and commission income		60,467		62,811	
– fee and commission expenses		12,691		10,677	
Net fee and commission income	19		47,776		52,134
Valuation results on non-trading derivatives	20		-5,521		922
Total income			**286,484**		**255,591**
Addition to loan loss provisions	6		4,810		17,871
Staff expenses	21		92,988		85,631
Other operating expenses	22		82,069		62,513
Total expenses			**179,867**		**166,015**
Result before tax			**106,617**		**89,576**
Taxation	26		26,706		22,482
Net result			**79,911**		**67,094**

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2016		2015
Net result		79,911		67,094
– unrealised revaluations available-for-sale investments	552		24	
– realised gains or losses transferred to the profit and loss account	0		-220	
Items that may be reclassified subsequently to the profit and loss account		552		-196
- Changes taxation prior years	770		0	
Items that will not be reclassified to the profit and loss account		770		0
Total comprehensive income		**81,233**		**66,898**
Comprehensive income attributable to:				
Shareholders of the parent		81,233		66,898
Total comprehensive income		**81,233**		**66,898**

Reference is made to Note 26 ‘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	2016	2015
Result before tax		106,617	89,576
Adjusted for:			
– amortisation	22	525	0
– addition to loan loss provision	6	4,810	17,871
– addition to redundancy provision	22	6,999	0
– fair value change on hedged mortgages	20	-50,612	13,726
– accrued interest	7/16	8,329	5,177
– other		-21	-48
Taxation paid	7/16	-24,882	-19,008
Changes in:			
– amounts due to banks	12	-286,228	200,335
– non-trading derivatives	4/14	43,610	-12,499
– loans	6	-3,243,759	-3,938,748
– sale of mortgages	6	1,231,088	1,353,496
– other assets	7	-87,575	-37,403
– customer deposits and other funds on deposit	13	2,086,931	1,077,533
– other liabilities	16	6,075	-3,069
Net cash flow from operating activities		**-198,093**	**-1,253,061**
Investments and advances:			
– available-for-sale investments	5	-143	-177,874
Disposals and redemptions:			
– available-for-sale investments	5	164,975	141,492
Net cash flow from investing activities	23	**164,832**	**-36,382**
Proceeds from issuance of subordinated debt	9	0	30,000
Proceeds from issuance of debt securities	10	1,075,810	1,162,583
Repayments of debt securities	10	-143,482	-28,959
Proceeds from other borrowed funds	11	185,000	220,000
Capital contribution	8	15,000	57,000
Dividend paid	24	0	0
Net cash flow from financing activities		**1,132,328**	**1,440,624**
Net cash flow		**1,099,067**	**151,181**

Reference is made to Note 24 'Interest included in net cash flow' for the classification of interest and dividend included in net cash flow.

Cash and cash equivalents

For the year ended 31 December	notes	2016	2015
Cash and cash equivalents at beginning of the period		533,203	382,022
Net cash flow		1,099,067	151,181
Cash and cash equivalents at end of the period	25	**1,632,270**	**533,203**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2016)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January 2016	**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	**0**	**0**	**81,233**	**81,233**
Capital contribution	0	15,000	0	15,000
Employee share plans	0	0	206	206
Balance as at 31 December 2016	**10,000**	**481,000**	**138,173**	**629,173**

Consolidated statement of changes in equity (2015)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January 2015	**10,000**	**409,000**	**-10,377**	**408,623**
Unrealised revaluations available-for-sale investments	0	0	24	24
Realised gains or losses transferred to the profit and loss account	0	0	-220	-220
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-196**	**-196**
Net result	0	0	67,094	67,094
Total comprehensive income	**0**	**0**	**66,898**	**66,898**
Capital contribution	0	57,000	0	57,000
Employee share plans	0	0	213	213
Balance as at 31 December 2015	**10,000**	**466,000**	**56,734**	**532,734**

Notes to the Consolidated annual accounts

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

The principal activities of NN Bank are providing retail customers with mortgage loans, (internet) savings, bank annuities, consumer lending and retail investment products. Furthermore, NN Bank distributes NN-labelled credit cards and insurance products. In addition, NN Bank also provides administration and management services to ING Bank N.V. 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 was 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. In this respect, reference is made to Note 36 'Structured entities' for the accounting estimate update of the duration of cash flows in the balanced guaranteed swaps.

Upcoming changes in IFRS-EU

In 2016, no changes to IFRS-EU became effective that had an impact on the Consolidated annual accounts of NN Bank. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2016 and are relevant to NN Bank mainly relate to IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 was endorsed by the EU in November 2016 and is effective as of 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 or 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 intended to be forward-looking. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity). 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 scenario analysis. 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. NN Bank is currently assessing the impact of the requirements and is developing the expected loss model. The impact of this model cannot be reasonably or reliably estimated. The implementation of IFRS 9 may lead to a significant increase in loan loss provisions and decrease in shareholders' equity. After implementation, the charge to or release from loan loss provisions will show more volatility arising from application of lifetime expected losses. In the second half of 2017, parallel processing is planned.

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. As these simplifications currently exclude macro hedge accounting, impact on NN Bank is limited. NN Bank will have the option to continue applying IAS 39 for hedge accounting.

Other

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 is not expected to have a significant impact on the Consolidated annual accounts of NN Bank.

Notes to the Consolidated annual accounts

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IFRS 16 'Leases'

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

Critical accounting policies

NN Bank has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those that involve the most complex or subjective 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 to the Consolidated annual accounts and the information below.

Reference is made to Note 40 '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 27 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

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

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

Notes to the Consolidated annual accounts

Continued

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 is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between NN Bank and the entity, and considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

For interests in investment entities, the existence of control is determined while taking into account both NN Bank's financial interests for own risk and its role as asset manager.

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

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

A list of principal subsidiaries is included in Note 35 'Principal subsidiaries'.

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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 whenNN 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.

Notes to the Consolidated annual accounts

Continued

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

Impairments of 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, 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, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. NN Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has 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, in a subsequent period, the impairment loss on a loan or a debt instrument classified as available-for-sale reverses, which can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value, not considering any impairments or loan loss provisions, for the relevant financial assets. For the off-balance sheet items, the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 33 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. As a large part of the loans on the balance sheet of NN Bank consists of loans secured by mortgages, the actual credit exposure is significantly lower. The manner in which NN Bank manages credit risk and determines credit risk exposures is explained in Note 40 'Risk management'.

Taxation

NN Bank is part of the Dutch fiscal unity of NN Group for corporation tax purposes, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables 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.

Notes to the Consolidated annual accounts

Continued

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

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

Accounting policies for specific items

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

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.

Notes to the Consolidated annual accounts

Continued

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

At the inception of the hedge transaction, NN Bank documents the relationship between hedging instruments and hedged items, its risk management objectives, together with the methods selected to assess hedge effectiveness. In addition NN Bank documents its assessment, both at hedge inception and on an 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 hedges or Hedge accounting.

Fair value hedges

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

Non-trading derivatives that do not qualify for hedge accounting

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

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

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, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans is recognised in 'Interest result' in the profit and loss account using the effective interest method.

Other assets (Note 7)

Intangible assets is 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.

Subordinated debt, debt securities issued and other borrowed funds (Note 9, 10 and 11)

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

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

Customer deposits and other funds on deposit (Note 13)

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

Notes to the Consolidated annual accounts

Continued

Provisions (Note 15)

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

Net fee and commission income (Note 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

	2016	2015
Amounts held at central banks	1,555,008	474,079
Cash and balances at central banks	**1,555,008**	**474,079**

'Amounts held at central banks' reflects the demand balances. The amounts held at central banks include a mandatory reserve deposit of EUR 65.6 million (2015: EUR 51.8 million), which is not freely disposable to NN Bank. Reference is made to Note 31 'Assets not freely disposable'. The remainder of 'Amounts held at central banks' is at free disposal of NN Bank.

3 Amounts due from banks

Amounts due from banks

	2016	2015
Cash advances overdrafts and other balances	77,262	59,124
Amounts due from banks	**77,262**	**59,124**

'Cash advances, overdrafts and other balances' comprise current accounts, accrued interest with banks and collateral regarding centrally cleared swaps. Reference is also made to Note 31 'Assets not freely disposable'.

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2016	2015
Non-trading derivatives used in fair value hedges	23,656	11,505
Other non-trading derivatives	227,019	208,714
Non-trading derivatives	**250,675**	**220,219**

For 'Non-trading derivatives used in fair value hedges', reference is made to Note 28 'Derivatives and hedge accounting'.

'Other non-trading derivatives' consist of balanced guaranteed swaps, which are used in securitisation transactions. Reference is made to Note 36 'Structured entities'.

5 Available-for-sale investments

Available-for-sale investments by type

	2016	2015
Government bonds	365,047	530,581
Corporate bonds	972	0
Financial institution bonds	19,441	19,710
Available-for-sale investments	**385,460**	**550,291**

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. All bonds have an external rating of at least AA-. The corporate bonds have a rating of AA+.

Changes in available-for-sale investments

	2016	2015
Available-for-sale investments – opening balance	550,291	513,911
Additions	9,907	190,658
Amortisation	-10,499	-12,519
Changes in unrealised revaluations	736	-262
Disposals and redemptions	-164,975	-141,497
Available-for-sale investments – closing balance	**385,460**	**550,291**

Notes to the Consolidated annual accounts

Continued

6 Loans

Loans by type

	2016	2015
Loans secured by mortgages, guaranteed by public authorities	3,094,456	2,461,465
Loans secured by mortgages	9,364,892	7,954,996
Consumer lending, other	264,933	248,714
Loans – before loan loss provisions	**12,724,281**	**10,665,175**
Loan loss provisions	38,563	37,930
Loans	**12,685,718**	**10,627,245**

No individual loan has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of NN Bank. For additional details see Note 40 'Risk management'.

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

Changes in Loans

	2016	2015
Loans – opening balance	10,665,175	8,099,949
Mortgage portfolio transfer	1,274,581	1,596,675
Partial transfer of mortgage loans	29,326	55,731
Origination	2,914,649	2,997,706
Sale of mortgages	-1,231,088	-1,353,496
Change in mortgage premium	5,149	10,222
Fair value change hedged items	50,612	-13,726
Redemptions	-984,123	-727,886
Loans – closing balance	**12,724,281**	**10,665,175**

In 2016, the mortgage portfolio transfer from ING Bank amounted to EUR 1.3 billion. The agreement under which these transfers take place lasts until 31 December 2020. The total potential loans volume to be transferred until this date is EUR 3.0 billion.

NN Bank has sold mortgage loans to securitisation entities that, in turn, issued notes to investors that are collateralised by the purchased assets. These mortgage loans continue to be recognised on NN Bank's balance sheet, as NN Bank retained all or substantially all of the risks and rewards of the mortgage loans. Reference is made to Note 36 'Structured entities'.

Loan loss provisions analysed by type

	2016	2015
Loans secured by mortgages	23,857	23,381
Consumer lending	14,706	14,549
Loan loss provisions by type	**38,563**	**37,930**

Changes in loan loss provisions

	2016	2015
Loan loss provisions – opening balance	37,930	26,359
Write-offs	-7,913	-6,744
Recoveries	516	119
Loan loss provisions in transfers of mortgage loans	3,220	325
Addition to the loan loss provisions	4,810	17,871
Loan loss provisions – closing balance	**38,563**	**37,930**

In 2016, the loan loss provision increased slightly because the portfolio grew, while at the same time delinquencies decreased and house prices increased.

Notes to the Consolidated annual accounts

Continued

7 Other assets

Other assets

	2016	2015
Deferred tax assets	3,041	1,610
Accrued interest mortgages	37,419	34,505
Accrued interest non-trading derivatives	0	283
Accrued interest other	5,563	7,480
Current account NN Insurance Eurasia N.V.	61,156	31,592
Current account other group companies	124	3,922
Amounts receivable from brokers	58,682	0
Intangibles	1,261	1,325
Other accrued assets	653	6,621
Other	13,901	4,282
Total other assets	**181,800**	**91,620**

For disclosures in respect of 'Deferred tax assets', reference is made to Note 26 'Taxation'.

The current account NN Insurance Eurasia N.V. is used for daily settlement of mortgages.

'Amounts receivable from brokers' concerns collateral regarding centrally cleared swaps. Reference is also made to Note 31 'Assets not freely disposable'.

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

8 Equity

Total equity

	2016	2015
Share capital	10,000	10,000
Share premium	481,000	466,000
Revaluation reserve	6,792	5,487
Retained earnings and unappropriated result	131,381	51,247
Shareholder's equity	**629,173**	**532,734**

Share capital

	Ordinary shares			
	Shares (in numbers)		Amount	
	2016	2015	2016	2015
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 (2016)

	Share capital	Share premium	Reserves	Total shareholders' 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	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**

Notes to the Consolidated annual accounts

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Changes in Equity (2015)

	Share capital	Share premium	Reserves	Total
Changes in equity – Opening balance	10,000	409,000	-10,377	408,623
Net result for the period	0	0	67,094	67,094
Total amount recognised directly in equity (Other comprehensive income)	0	0	-196	-196
Capital contribution	0	57,000	0	57,000
Employee share plans	0	0	213	213
Changes in equity – Closing balance	**10,000**	**466,000**	**56,734**	**532,734**

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. The 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 issued and outstanding capital and less the reserves required by law. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

In addition to the legal and regulatory restrictions on distributing dividends, there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations. Reference is also made to Note 41 'Capital and liquidity management'.

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

Distributable reserves based on the Dutch Civil Code

		2016		2015
Total shareholders' equity		629,173		532,734
– share capital	10,000		10,000	
– revaluation reserve	6,792		5,487	
Total non-distributable part of shareholders' equity		**16,792**		**15,487**
Distributable reserves based on the Dutch Civil Code		**612,381**		**517,247**

Proposed appropriation of result

The result is appropriated pursuant to Article 21 of the Articles of Association of NN Bank, of which the relevant provisions state that the appropriation of result shall be determined by the General Meeting, on the proposal of the Management Board, as approved by the Supervisory Board. It is proposed to add the 2016 net result of EUR 79.9 million to the retained earnings.

9 Subordinated debt

Subordinated debt

				Notional amount		Balance sheet value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**2016**	**2015**	**2016**	**2015**
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				**70,000**	**70,000**	**70,000**	**70,000**

The subordinated loans were provided by NN Group to NN Bank to raise capital, which qualify as Tier 2 capital under the CRR. Under IFRS-EU, these debt instruments are classified as liabilities. They are considered capital for regulatory purposes. NN Bank has the right to pay off the debt at the call date. All subordinated debt is euro denominated.

Notes to the Consolidated annual accounts

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10 Debt securities issued

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

Debt securities issued – maturities

	2016	2015
Fixed rate debt securities:		
– within 1 year	71,130	0
– more than 1 year but less than 2 years	0	72,774
– more than 2 years but less than 3 years	100,000	0
– more than 3 years but less than 4 years	395,613	100,000
– more than 4 years but less than 5 years	0	394,494
– more than 5 years	270,000	270,000
Fixed rate debt securities	**836,743**	**837,268**
Floating rate debt securities:		
– more than 2 years but less than 3 years	321,260	0
– more than 3 years but less than 4 years	1,059,607	360,751
– more than 4 years but less than 5 years	476,820	1,163,073
– more than 5 years	598,990	0
Floating rate debt securities	**2,456,677**	**1,523,824**
Debt securities issued	**3,293,420**	**2,361,092**

NN Bank has the right to redeem the Residential Mortgage Backed Securities under the Hypenn RMBS securitisation programme at First Optional Redemption Date (FORD). The accounting estimate with respect to the duration of the balanced guaranteed swaps was updated during 2016. A reference is made to Note 36 'Structured entities' for these balanced guaranteed swaps and the update in accounting estimates. These dates for the debt securities issued are as follows:

	FORD	2016	2015
Hypenn RMBS I A1	18-11-2017	71,130	72,774
Hypenn RMBS I A3	17-11-2020	395,613	394,493
Hypenn RMBS II	17-5-2019	421,260	460,751
Hypenn RMBS III	9-6-2020	561,340	614,842
Hypenn RMBS IV	17-7-2020	498,267	548,231
Hypenn RMBS V	17-4-2021	476,820	0
Hypenn RMBS VI	17-12-2022	598,990	0
Total		**3,023,420**	**2,091,092**
Unsecured debt security		270,000	270,000
Total		**3,293,420**	**2,361,092**

'Debt securities issued' relates to the Residential Mortgage Backed Securities under the Hypenn RMBS securitisation programme held by third and related parties. The notes issued to third parties amounted to EUR 3,091 million as at 31 December 2016 (31 December 2015: EUR 1,469 million), of which EUR 270 million relates to an unsecured debt security (31 December 2015: EUR 270 million). The notes issued to related parties amounted to EUR 202 million as at 31 December 2016 (31 December 2015: EUR 892 million). Starting from 2016, ING Bank is no longer a related party, causing a shift from related parties to third parties.

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 1,805 million as at 31 December 2016 (31 December 2015: EUR 1,453 million) and consist of EUR 376 million junior notes (31 December 2015: EUR 285 million) and EUR 1,429 million senior notes (31 December 2015: EUR 1,168 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.

Notes to the Consolidated annual accounts

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11 Other borrowed funds

Other borrowed funds

	2016	2015
NN Group	200,000	200,000
Other	205,000	20,000
Other borrowed funds	**405,000**	**220,000**

'Other borrowed funds' includes a senior loan provided on 16 March 2015 by NN Group to NN Bank at a fixed interest rate of 1.406% per annum. In 2016, new loans amounting to EUR 185 million have been 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 2016 was not drawn by NN Bank.

12 Amounts due to banks

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

Amounts due to banks by type

	2016	2015
Interest bearing	45,000	331,228
Amounts due to banks	**45,000**	**331,228**

The decrease in amounts due to banks of EUR 286 million is mainly due to the repayments of a warehouse loan and a repurchase transaction (repo). In 2016, new loans amounting to EUR 45 million have been contracted with third parties.

As at 31 December 2016, NN Bank had unused lines of credit available of EUR 380 million (31 December 2015: EUR 325 million).

13 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by type

	2016	2015[1]
Savings	6,103,043	4,798,997
Bank annuities	3,324,697	2,680,859
Bank annuities related to mortgages	797,990	658,943
Customer deposits and other funds on deposit	**10,225,730**	**8,138,799**

[1] To better align with the current period presentation, amounts in 2015 have been reclassified.

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

	2016	2015
Customer deposits and other funds on deposit – opening balance	8,138,799	7,061,266
Deposits received	4,674,841	3,491,204
Withdrawals	-2,587,910	-2,413,671
Customer deposits and other funds on deposit – closing balance	**10,225,730**	**8,138,799**

14 Financial liabilities at fair value through profit or loss

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

Non-trading derivatives

	2016	2015
Non-trading derivatives used in fair value hedges	163,620	107,858
Other non-trading derivatives	227,019	208,714
Non-trading derivatives	**390,639**	**316,572**

Notes to the Consolidated annual accounts

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For 'Non-trading derivatives used in fair value hedges', reference is made to Note 28 'Derivatives and hedge accounting'.

'Other non-trading derivatives' consist of balanced guaranteed swaps, which are used in securitisation transactions. Reference is made to Note 36 'Structured entities'.

15 Provisions

Provisions

	2016	2015
Reorganisation provisions	9,581	5,737
Other	10	35
Provisions	**9,591**	**5,772**

Reorganisation provisions

	2016	2015
Reorganisation provisions – opening balance	5,737	10,528
Additions	8,357	1,330
Releases	-1,358	-1,283
Charges	-3,155	-4,838
Reorganisation provisions – closing balance	**9,581**	**5,737**

In 2016, a reorganisation provision of EUR 8.4 million was recognised. NN Bank reconsidered its organisational structure looking for optimisation in order to become more agile and flexible to enable further growth.

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

16 Other liabilities

Other liabilities

	2016	2015
Deferred tax liabilities	6,385	2,175
Income tax payable	4,915	5,871
Other taxation and social security contributions	6,377	6,476
Accrued interest non-trading derivatives	20,987	17,730
Accrued interest other	10,306	4,519
Amounts payable to brokers	5,522	0
Costs payable	6,298	4,469
Amounts to be settled	0	313
Other	6,580	4,828
Other liabilities	**67,370**	**46,381**

For disclosures in respect of 'Deferred tax liabilities' reference is made to Note 26 'Taxation'.

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

Notes to the Consolidated annual accounts

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17 Interest result

Interest result

	2016	2015
Interest income on loans	428,106	378,837
Interest income on available-for-sale debt securities	1,603	2,072
Interest income on non-trading derivatives	68,345	47,659
Total interest income	**498,054**	**428,568**
Interest expenses on amounts due to banks	312	229
Interest expenses on customer deposits and other funds on deposit	140,340	144,878
Interest expenses on debt securities issued and other borrowed funds	30,954	32,763
Interest expenses on subordinated loans	2,258	2,138
Interest expenses on non-trading derivatives	105,786	77,766
Negative interest on assets	9,425	1,193
Other interest expenses	6,159	430
Total interest expenses	**295,234**	**259,397**
Interest result	**202,820**	**169,171**

'Negative interest on assets' includes negative interest income charged by DNB of EUR 3.7 million (2015: EUR 1.2 million). The remainder mainly concerns interest on derivatives.

Interest margin in percentages

	2016	2015
Interest margin	**1.5%**	**1.6%**

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2016 and 2015, respectively.

18 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2016	2015
Realised gains or losses of debt securities	703	282
Results from financial transactions	41,103	33,897
Other income	-397	-816
Gains and losses on financial transactions and other income	**41,409**	**33,364**

'Results from financial transactions' mainly comprises the results on the sale of mortgages to NN Dutch Residential Mortgage Fund, NN Schade and NN Belgium. The included origination fee 2016 amounts to EUR 20.5 million (2015: EUR 20.8 million) and premiums amount to EUR 20.6 million (2015: EUR 13.1 million).
'Other income' includes currency results on payments in foreign currencies and some other income and expenses.

19 Net fee and commission income

Net fee and commission income

	2016	2015
Service management fee	24,541	26,519
Brokerage and advisory fees	35,926	36,374
Other	0	-82
Gross fee and commission income	**60,467**	**62,811**
Asset management fees	8,457	8,154
Brokerage and advisory fees	3,454	2,334
Other	780	189
Fee and commission expenses	**12,691**	**10,677**
Net fee and commission income	**47,776**	**52,134**

Notes to the Consolidated annual accounts

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NN Bank services a total loan portfolio of EUR 18.6 billion (2015: EUR 18.3 billion) for NN Leven, NN Schade, NN Belgium, 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 27.3 million (2015: EUR 25.1 million) and is part of 'Brokerage and advisory fees'.

20 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2016	2015
Gains or losses (fair value changes) in fair value hedges relating to:		
– the hedging instrument (non-trading derivatives)	-56,133	14,648
– the hedged items (mortgages) attributable to the hedged risk	50,612	-13,726
Valuation results on non-trading derivatives	**-5,521**	**922**

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 2016 increased compared to those of 2015, mainly due to decreases in the interest rate curve. This result is also impacted by amortisation of previously entered into hedge accounting relationships. Reference is made to Note 28 'Derivatives and hedge accounting'.

Part of the results stem from balanced guaranteed swaps included in structured entities. Reference is made to Note 36 'Structured entities'.

21 Staff expenses

Staff expenses

	2016	2015
Salaries	47,068	45,107
Pension and other staff-related benefit costs	9,499	9,167
Social security costs	5,710	4,705
Share-based compensation arrangements	397	363
External staff costs	29,196	25,269
Education	591	521
Other staff costs	527	499
Staff expenses	**92,988**	**85,631**

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.

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

	2016	2015
Average number of employees on full-time equivalent basis	633	586

Remuneration of Management Board and Supervisory Board

Reference is made to Note 38 'Key management personnel compensation'.

Share plans

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

Share awards comprise upfront shares and deferred shares. The entitlement to the deferred shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. A retention period applies from the moment of vesting these awards (5 years for Management Board and 1 year for Identified Staff).

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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)	
	2016	2015	2016	2015
Share awards outstanding – opening balance	9,590	13,639	19.42	14.41
Granted	8,793	8,654	29.43	26.38
Performance effect	207	2	0.00	11.23
Vested	-10,280	-12,704	22.02	16.38
Forfeited	0	0	0.00	0.00
Share awards outstanding – closing balance	**8,310**	**9,590**	**25.87**	**19.42**

In 2016, 6,896 share awards on NN Group shares (2015: 8,654) were granted to the members of the Management Board of NN Bank. To other employees of NN Bank 1,897 share awards on NN Group shares (2015: 936) were granted.

As at 31 December 2016 the share awards on NN Group shares consist of 8,310 (2015: 9,590) 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 2016 total unrecognised compensation costs related to share awards amount to EUR 72 thousand (2015: EUR 74 thousand). These costs are expected to be recognised over a weighted average period of 1.4 years (2015: 1.4 years).

Sharesave Plan

In August 2014, NN Group introduced a 'Sharesave' plan, which is open to all employees. Under the plan, from August 2014, eligible employees can save a fixed monthly amount of between EUR 25 and EUR 250 for a period of three years. At the end of the three-year period, employees will receive their savings together with a gross gain, if at the end of the three-year period the NN Group share price exceeds the initial trading price of NN Group shares on the Euronext Amsterdam on 7 July 2014. The gross gain is limited to a 100% increase in the share price and is paid in cash. If an employee leaves the plan before the end of the three-year plan period, or if the share price at the end of the plan period is equal to or less than the initial trading price, the amount contributed by the employee is repaid (without addition of any gross gain).

At the start, 180 employees participated in the Sharesave plan. The number of participants of NN Bank was 209 as at 31 December 2016 (2015: 161).

The plan is accounted for as a cash-settled share-based payment plan. The expense recognised in 'Staff expenses' by NN Bank for the 'Sharesave' plan amounts to EUR 191 thousand (2015: EUR 150 thousand).

22 Other operating expenses

Other operating expenses

	2016	2015[1]
Computer costs	10,039	9,195
Office expenses	6,864	8,698
Travel and accommodation expenses	1,484	1,426
Advertising and public relations	6,409	7,099
IT outsourcing	18,647	18,821
Bank costs	217	207
Addition/release of provision for reorganisation	6,999	0
Amortisation of intangible assets	525	0
Regulatory levies	8,476	334
Other	22,409	16,733
Other operating expenses	**82,069**	**62,513**

[1] To better align with the current period presentation, amounts in 2015 have been reclassified.

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

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

'Other' mainly consists of corporate staff department costs charged from NN Group to NN Bank, which increased compared to 2015 due to the growth of NN Bank.

Reference is made to Note 50 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees.

Notes to the Consolidated annual accounts

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23 Net cash flow from investing activities

In 2016, NN Bank did not acquire or dispose of companies. Net cash flow from investing activities was EUR 164.8 million (EUR 2015: EUR -36.4 million) and concerns investments and disposals of bonds.

24 Interest included in net cash flow

Interest received and paid

	2016	2015
Interest received	497,339	424,779
Interest paid	299,399	216,045
Interest received and paid	**197,940**	**208,734**

'Interest received' and 'Interest paid' are included in operating activities in the Consolidated statement of cash flows. In 2016 and 2015, no dividend was paid.

25 Cash and cash equivalents

Cash and cash equivalents

	2016	2015
Cash and balances at central banks	1,555,008	474,079
Amounts due from banks	77,262	59,124
Cash and cash equivalents at end of year	**1,632,270**	**533,203**

'Amounts due from banks' comprises, amongst others, cash advances and as such classify as cash equivalents. Reference is made to Note 3 'Amounts due from banks'.

26 Taxation

NN Bank is part of the Dutch fiscal unity of NN Group for corporate income tax purposes, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group. Income tax payable amounts to EUR 4,915 thousand and concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 16 'Other liabilities'.

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
Provisions	-1,434	0	-1,607	-3,041
Other liabilities	371	0	-371	0
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.

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Deferred tax (2015)

	Net liability 2014[1]	Change through equity	Change through net result	Net liability 2015[1]
Investments	1,797	7	0	1,804
Financial assets and liabilities at fair value through profit or loss	-382	0	206	-176
Provisions	-2,632	0	1,198	-1,434
Other liabilities	0	0	371	371
Deferred tax	**-1,217**	**7**	**1,775**	**565**
Presented in the balance sheet as:				
– deferred tax liabilities	1,797			2,175
– deferred tax assets	-3,014			-1,610
Deferred tax	**-1,217**			**565**

1 Positive amounts are liabilities, negative amounts are assets.

Taxation on result

	2016	2015
Current tax	24,110	20,707
Deferred tax	2,596	1,775
Taxation on result	**26,706**	**22,482**

Taxation in 2016 increased by EUR 4.2 million to EUR 26.7 million, from EUR 22.5 million in 2015.

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

	2016	2015
Result before tax	106,617	89,576
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**26,654**	**22,394**
Expenses not deductible for tax purposes	52	53
Adjustments to prior periods	0	26
Other	0	9
Effective tax amount	**26,706**	**22,482**
Effective tax rate	**25.1%**	**25.1%**

The statutory tax rate in 2016 was 25.0%, as in 2015. The effective tax rate in 2016 was 25.1% as in 2015.

Taxation on components of other comprehensive income

	2016	2015
Unrealised revaluations	184	7
Realised gains or losses transferred to the profit and loss account	0	-73
Total income tax related to components of other comprehensive income	**184**	**-66**

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27 Fair value of financial assets and liabilities

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2016	**2015**	**2016**	**2015**
Financial assets				
Cash and balances at central banks	1,555,008	474,079	1,555,008	474,079
Amounts due from banks	77,262	59,124	77,262	59,124
Financial assets at fair value through profit or loss:				
– non-trading derivatives	250,675	220,219	250,675	220,219
Available-for-sale investments	385,460	550,291	385,460	550,291
Loans[1]	13,610,417	11,408,399	12,685,718	10,627,245
Other assets[2]	177,499	88,684	177,499	88,684
Financial assets	**16,056,321**	**12,800,796**	**15,131,622**	**12,019,642**
Financial liabilities				
Subordinated debt	73,011	70,872	70,000	70,000
Debt securities issued	3,420,634	2,482,383	3,293,420	2,361,092
Other borrowed funds	407,850	218,636	405,000	220,000
Amounts due to banks	44,923	331,404	45,000	331,228
Customer deposits and other funds on deposit	10,671,040	8,574,335	10,225,730	8,138,799
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	390,639	316,572	390,639	316,572
Other liabilities[3]	49,693	31,860	49,693	31,860
Financial liabilities	**15,057,790**	**12,026,062**	**14,479,482**	**11,469,551**

[1] The estimated fair value of Loans 2015 was updated.
[2] 'Other assets' does not include (deferred) tax assets, intangibles and net defined benefit assets.
[3] 'Other liabilities' does not include (deferred) tax liabilities, net defined benefit 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 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,

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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.

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.

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.

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.

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 (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**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Non-trading derivatives	0	11,505	208,714	220,219
Available-for-sale investments	442,113	108,178	0	550,291
Financial assets	**442,113**	**119,683**	**208,714**	**770,510**
Financial liabilities				
Non-trading derivatives	0	107,858	208,714	316,572
Financial liabilities	**0**	**107,858**	**208,714**	**316,572**

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

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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 – (Unadjusted) Quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Bank can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide reliable pricing information on an 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

	2016	2015
Level 3 Financial assets – opening balance	208,714	39,604
Amounts recognised in the profit and loss account during the year	-74,236	-18,187
Purchase	92,541	187,297
Level 3 Financial assets – closing balance	**227,019**	**208,714**

Changes in Level 3 Financial liabilities

	2016	2015
Level 3 Financial liabilities – opening balance	208,714	39,604
Amounts recognised in the profit and loss account during the year	-74,236	-18,187
Purchase	92,541	187,297
Level 3 Financial liabilities – closing balance	**227,019**	**208,714**

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

	2016	2015
Financial assets		
Non-trading derivatives	-74,236	-18,187
Financial assets	**-74,236**	**-18,187**
Financial liabilities		
Non-trading derivatives	74,236	18,187
Financial liabilities	**74,236**	**18,187**

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 fair value valuation of these swaps, prepayment behaviour of underlying mortgage loans is included. The accounting estimate with respect to the duration of the balanced guaranteed swaps was updated

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during 2016. A reference is made to Note 36 'Structured entities' for these balanced guaranteed swaps and the update in accounting estimate. This update comprises a change from legal maturity to the maturity up to 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 2016 of EUR 636.1 million (31 December 2015: EUR 770.5 million) include an amount of EUR 227.0 million (35.7%) that is classified as Level 3 (31 December 2015: EUR 208.7 million, 27.1%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2016 of EUR 390.6 million (31 December 2015: EUR 316.6 million) include an amount of EUR 227.0 million (58.1%) that is classified as Level 3 (31 December 2014: EUR 208.7 million, 65.9%).

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 (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	77,262	0	0	77,262
Loans	0	0	13,610,417	13,610,417
Financial assets	**1,632,270**	**0**	**13,610,417**	**15,242,687**
Financial liabilities				
Subordinated debt	0	73,011	0	73,011
Debt securities issued	0	3,420,634	0	3,420,634
Other borrowed funds	0	407,850	0	407,850
Amounts due to banks	0	44,923	0	44,923
Customer deposits and other funds on deposit	6,421,796	4,249,244	0	10,671,040
Financial liabilities	**6,421,796**	**8,195,662**	**0**	**14,617,458**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances at central banks	474,079	0	0	474,079
Amounts due from banks	59,124	0	0	59,124
Loans	0	0	11,551,109	11,551,109
Financial assets	**533,203**	**0**	**11,551,109**	**12,084,312**
Financial liabilities				
Subordinated debt	0	70,872	0	70,872
Debt securities issued	0	2,482,383	0	2,482,383
Other borrowed funds	0	218,636	0	218,636
Amounts due to banks	0	331,404	0	331,404
Customer deposits and other funds on deposit	4,618,007	3,956,328	0	8,574,335
Financial liabilities	**4,618,007**	**7,059,623**	**0**	**11,677,630**

28 Derivatives and hedge accounting

Use of derivatives and hedge accounting

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

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Fair value hedge accounting

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

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

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

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

For the year ended 31 December 2016, NN Bank recognised EUR -56.1 million (31 December 2015: EUR 14.6 million) of fair value changes on derivatives designated under 'Fair value hedge accounting' in the profit and loss account. This amount was offset by EUR 50.6 million (2015: EUR -13.7 million) fair value changes recognised on hedged items. This resulted in EUR -5.5 million (2015: EUR 0.9 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2016, the fair value of outstanding derivatives designated under 'Fair value hedge accounting' was EUR -139.9 million (31 December 2015: EUR -96.4 million), presented in the balance sheet as EUR 23.7 million (2015: EUR 11.5 million) positive fair value under assets and EUR 163.6 million (2015: EUR 107.9 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 2016.

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**

Non-trading derivatives by type and maturity (2015)

	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	410	3,768	1,904	6,082	220	317
Total non-trading derivatives	**410**	**3,768**	**1,904**	**6,082**	**220**	**317**

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29 Assets by contractual maturity

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

Assets by contractual maturity (2016)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjust-ment[2]	Total
Assets								
Cash and balances at central banks	1,555,008	0	0	0	0	0	0	1,555,008
Amounts due from banks	77,262	0	0	0	0	0	0	77,262
Financial assets at fair value through profit or loss:								
– non-trading derivatives	0	0	0	0	0	0	250,675	250,675
Available-for-sale investments	43,907	46,895	86,992	159,203	48,463	0	0	385,460
Loans	31,220	56,061	187,383	584,482	11,826,572	0	0	12,685,718
Other assets	104,262	73,236	3,041	0	0	1,261	0	181,800
Total assets	**1,811,659**	**176,192**	**277,416**	**743,685**	**11,875,035**	**1,261**	**250,675**	**15,135,923**
Risk management derivatives[2]:								
– inflow	0	3,609	0	16,464	250,564	0	0	270,637
– outflow	-1,062	0	-12,731	0	0	0	0	-13,793
	1,810,597	**179,801**	**264,685**	**760,149**	**12,125,599**	**1,261**	**250,675**	**15,392,767**

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.

Assets by contractual maturity (2015)

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

1 Includes assets on demand.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 31 December 2015.

30 Liabilities by maturity

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket.

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

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Liabilities by maturity (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[2]	Total
Liabilities								
Subordinated debt	0	0	0	0	70,000	0	0	70,000
Debt securities issued	0	0	71,130	2,353,300	868,990	0	0	3,293,420
Other borrowed funds	0	0	185,000	0	220,000	0	0	405,000
Amounts due to banks	0	0	45,000	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
Financial assets at fair value through profit or loss:								
– non-trading derivatives	0	0	0	0	0	0	390,639	390,639
Financial liabilities	**7,228,100**	**57,815**	**538,720**	**3,339,372**	**2,875,143**	**0**	**390,639**	**14,429,789**
Other provisions	0	0	9,591	0	0	0	0	9,591
Other liabilities	36,815	12,675	17,880	0	0	0	0	67,370
Non-financial liabilities	**36,815**	**12,675**	**27,471**	**0**	**0**	**0**	**0**	**76,961**
Total liabilities	**7,264,915**	**70,490**	**566,191**	**3,339,372**	**2,875,143**	**0**	**390,639**	**14,506,750**
Risk management derivatives[2]:								
– outflow	1,001	7,274	41,481	152,218	212,801	0	0	414,775
– inflow	-558	0	-5,932	0	0	0	0	-6,490
Coupon interest due on financial liabilities	13,608	9,899	35,535	286,068	210,614	0	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.

Liabilities by maturity (2015)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[2]	Total
Liabilities								
Subordinated debt	0	0	0	0	70,000	0	0	70,000
Debt securities issued	0	0	0	2,097,110	270,000	-6,018	0	2,361,092
Other borrowed funds	0	0	20,000	0	200,000	0	0	220,000
Amounts due to banks	180,935	150,293	0	0	0	0	0	331,228
Customer deposits and other funds on deposit	5,680,798	47,739	190,403	775,328	1,444,531	0	0	8,138,799
Financial assets at fair value through profit or loss:								
– non-trading derivatives	0	0	0	0	0	0	316,572	316,572
Financial liabilities	**5,861,733**	**198,032**	**210,403**	**2,872,438**	**1,984,531**	**-6,018**	**316,572**	**11,437,691**
Other provisions			5,772					5,772
Other liabilities	22,250	11,258	12,873	0	0	0	0	46,381
Non-financial liabilities	**22,250**	**11,258**	**18,645**	**0**	**0**	**0**	**0**	**52,153**
Total liabilities	**5,883,983**	**209,290**	**229,048**	**2,872,438**	**1,984,531**	**-6,018**	**316,572**	**11,489,844**
Derivative management derivatives:								
– outflow	1,549	1,348	38,282	141,115	148,930	0	0	331,224
– inflow	-4,981	-715	103	-76,346	-174,801	0	0	-256,740
Coupon interest due on financial liabilities	7,177	7,231	23,579	287,776	228,832	0	0	554,595

[1] Includes deposits on demand, arranged by the earliest possible contractual maturity without taking into account expected client behaviour and other factors.
[2] Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 31 December 2015.

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31 Assets not freely disposable

Assets not freely disposable

	2016	2015
Loans	4,899,356	3,790,903
Cash and balances at central banks	65,590	51,800
Amounts due from banks	69,727	45,700
Other assets	58,682	0
Assets not freely disposable	**5,093,355**	**3,888,403**

The amount not freely disposable for 'Loans' and 'Amounts due from banks' reflects the securitised mortgages portfolios to Hypenn RMBS I to VI and the money held by the Hypenn RMBS entities, respectively. 'Cash and balances at central banks' concerns the mandatory reserve deposit at DNB. 'Other assets' concerns the collateral accounts regarding centrally cleared swaps.

32 Transferred, but not derecognised financial assets

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

In 2016, NN Bank has paid back the following loan agreements:

- A repurchase transaction (repo) and a long-term refinancing operation (LTRO) agreement. Mortgage loans transferred, incorporated in notes issued by Hypenn RMBS I, amounted to EUR 168 million as at 31 December 2015.
- A warehouse credit facility agreement. Mortgage loans transferred amounted to EUR 208 million as at 31 December 2015.

Assets transferred to consolidated securitisation entities are not included, as these related assets are not transferred from a consolidated perspective. Reference is made to Note 36 'Structured entities'.

33 Contingent liabilities and commitments

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

Contingent liabilities and commitments (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	0	0	0	0	0	106,654	106,654
Mortgage and consumer lending offerings	225,502	429,439	222,348	0	0	0	877,289
Construction deposits	58,338	107,110	325,594	0	0	0	491,042
Contingent liabilities and commitments	**283,840**	**536,549**	**547,942**	**0**	**0**	**106,654**	**1,474,985**

Contingent liabilities and commitments (2015)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees	0	0	0	0	0	0	0
Irrevocable credit facilities	0	0	0	0	0	93,656	93,656
Mortgage and consumer lending offerings	243,825	359,675	100,685	0	0	0	704,184
Construction deposits	25,667	50,933	191,229	0	0	0	267,829
Contingent liabilities and commitments	**269,491**	**410,608**	**291,914**	**0**	**0**	**93,656**	**1,065,669**

'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. As the maturity of these facilities are not determinable, maturity is not applicable.

In 2013 and 2014, NN Bank entered into a cooperation agreement with subsidiaries of ING Group. This agreement deals, amongst others, with the transfer of mortgage loans from Nationale Nederlanden Hypotheekbedrijf N.V., a subsidiary of ING Group, to NN Bank. The potential portfolioto be transferred is approximately EUR 3.0 billion until 2020. The mortgage loans will be transferred to NN Bank if and when the customer renews the relevant mortgage loan at the interest reset date.

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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 2016 amounted to EUR 17,789 thousand (2015: EUR 20,624 thousand receivable).

34 Legal proceedings

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 that may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of NN Bank.

35 Principal subsidiaries

NN Bank has two fully owned subsidiaries:

- HQ Hypotheken 50 B.V. was founded on 21 August 2012 and has its official seat and registered offices in Rotterdam. Via this subsidiary, NN Bank offers mortgage loans to customers via a business partner (Quion Hypotheekbemiddeling B.V.).
- Nationale-Nederlanden Beleggingsrekening N.V. has its official seat in The Hague. This is a dormant company, not currently conducting any business or other activities.

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

36 Structured entities

NN Bank's activities involve transactions with structured entities in the normal course of business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in determining who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. NN Bank uses structured entities for securitisation transactions of residential mortgages. NN Bank 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.

These 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 transactions amounted to EUR 227.0 million as at 31 December 2016 (31 December 2015: EUR 208.7 million) and are presented gross, as offsetting is not applicable.

For the fair value calculations, NN Bank updated its accounting estimate with respect to the duration of cash flows in the balanced guaranteed swaps during 2016. Management has determined that all portfolio sellers in the RMBS market are exercising their rights on the First Optional Redemption Date of the SPEs. As a consequence, the accounting estimate for the maturity of these balanced guaranteed swaps was updated from legal maturity to the maturity up to the First Optional Redemption Date. The impact on the fair value of non-trading derivatives, both as financial assets and as financial liabilities, is a decrease of EUR 83 million; the counter-entry in the profit and loss under 'Valuation results on non-trading derivatives not related to the macro fair value hedge accounting' is equal and offsetting.

In 2016, NN Bank set up two public Residential Mortgage Backed Securitisation transactions ('RMBS'), raising a total amount of EUR 1.1 billion in funding from institutional investors. These transactions, Hypenn RMBS V and Hypenn RMBS VI, are NN Bank's fifth and sixth RMBS transactions. These structured entities are consolidated by NN Bank and the related mortgage loans continue to be recognised in the balance sheet. As at 31 December 2016, these structured entities held EUR 4.9 billion in mortgage loans (2015: EUR 3.6 billion).

The ownership of the mortgage loans amounting to EUR 1,441 million in 2016 (2015: EUR 1,287 million) was transferred to the structured entities in 2016 in exchange for notes. As at the balance sheet date, EUR 2,892 million (2015: EUR 2,091 million) of the notes had been sold to third parties. NN Bank holds the remainder of the notes.

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In the table below, the Residential Mortgage Backed Securitisation transactions issued and the related mortgage loans are summarised:

	Maturity year		Related mortgage loans		RMBS issued
		2016	2015	2016	2015
Hypenn RMBS I	2019	1,806,803	1,791,067	466,743	467,268
Hypenn RMBS II	2019	471,945	510,617	421,260	460,751
Hypenn RMBS III	2020	634,803	685,229	561,340	614,842
Hypenn RMBS IV	2020	549,450	596,409	498,267	548,231
Hypenn RMBS V	2021	517,892	0	476,820	0
Hypenn RMBS VI	2022	923,134	0	598,990	0
Total		**4,904,027**	**3,583,323**	**3,023,420**	**2,091,092**

Besides the notes, NN Bank recognises the balanced guaranteed swap transactions mentioned earlier.

37 Related parties

In the normal course of business, NN Bank enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Transactions between related parties have taken place on an arm's length basis, and include rendering and receiving of services, 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' on the next page.
- Sale of mortgages to other NN Group companies. Reference is made to Note 6 'Loans'.
- Transactions with NN Group concerning financing arrangements and the payment of taxes, as NN Group heads the fiscal unity. For more details, reference is made to Notes 8, 9, 11 and 33 to the Consolidated balance sheet.
- Asset management services to group companies, carried out by NN Bank. For more details reference is made to the tables on the next page.
- Facility services carried out by group companies
- Transactions relating to the remuneration of Board members. Reference is made to Note 38 'Key management personnel compensation'.

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

Parent group companies

Parent group companies	**2016**	**2015**
Assets	0	33,737
Liabilities	273,540	273,702
Income received	-5,842	-5,398
Expenses paid	51,006	34,711

The assets with 'Parent group companies' 2015 (EUR: 33 million) mainly consist of the current account with NN Insurance Eurasia N.V. and receivables from parent companies. Due to the transfer of shares of NN Bank to NN Group on 1 November 2016, NN Insurance Eurasia N.V. is considered as 'Other group companies' and accordingly included in the line item 'Assets' within the 'Other group companies'. The 2015 has not been reclassified. The increase in this amount is explained in Note 7 'Other assets' to the Consolidated balance sheet. The liabilities reflect the subordinated loan with, and other borrowed funds from NN Group. Reference is also made to Note 9 'Subordinated debt' and Note 11 'Other borrowed funds'.

The interest paid on loans from NN Group is included in 'Interest result' as part of 'Total income' in the Consolidated profit and loss account. The expenses paid include mainly expenses charged by staff departments of NN Group, especially for IT, Human Resources and facility management services. The increase compared with 2015 is due to the increased activities of NN Bank. Reference is also made to Note 22 'Other operating expenses'.

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Other group companies

Other group companies	2016	2015
Assets	-197,940	11,782
Liabilities	368,399	352,613
Income received	-53,381	33,142
Expenses paid	-46,429	2,175

'Assets' comprises the current account, with NN Insurance Eurasia N.V. (EUR 46 million) and derivative positions including accrued interest with Nationale-Nederlanden Interfinance B.V. ('NN IF'). NN IF is an indirect subsidiary of NN Group, with which derivative positions are traded.

'Liabilities' reflects issued debt securities, Hypenn notes, to NN Leven of EUR 203 million (2015: EUR 228 million) and derivative positions, including accrued interest on derivative positions with NN IF. For more details on derivative positions, we refer to Notes 4 and 14 to the Consolidated balance sheet.

'Income received' reflects mainly the positive financial transaction result of EUR 20 million (2015: EUR 33 million) on whole loan sales to NN Leven and NN Schade and fee income on mortgage origination on behalf of NN Leven of EUR 27 million (2015: EUR 25 million). Valuation and interest result on derivative positions with NN IF (mostly offset in the profit and loss account by the fair value change on the hedged items) are also included. Valuation results, both positive and negative, are included in 'Total income' in the Consolidated profit and loss account. For more details on valuation results on derivatives, reference is made to Note 20 'Valuation results on non-trading derivatives' to the Consolidated profit and loss account. Interest expenses on funding from NN Leven amounting to EUR 22 million (2015: EUR 22 million), income from loan portfolio servicing fees and negative income on asset management fees to NN IP are also included.

'Expenses paid' includes charged expenses by NN Leven and NN Schade for work done by those entities on behalf of NN Bank.

As stated in the accounting policies to the Consolidated annual accounts, paragraph 'Partial transfer of mortgage loans', NN Bank transfers mortgage parts as part of certain arrangements. The net amount of partial mortgages loans transferred to NN Leven amounted to EUR 251 million as at 31 December 2016 (2015: EUR 302 million).

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

ING Group

During 2016, ING Group, NN Group's former parent company, sold its remaining stake in NN Group. Therefore, ING Group ceased to be a related party of NN Group in the course of 2016.

38 Key management personnel compensation

Transactions with key management personnel (Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code.

Management Board

	2016	2015
Fixed compensation:		
- base salary	1,000	998
- pension costs[1]	105	101
- individual savings allowance1	164	161
Variable compensation:		
- up-front cash	107	131
- up-front shares	107	106
- deferred cash	94	91
- deferred shares	94	91
Other benefits	154	103
Fixed and variable compensation	**1,825**	**1,782**

[1] The pension costs consist of an amount of employer contribution (EUR 105 thousand) and an individual savings allowance (EUR 164 thousand, which is 27.7% of the amount of base salary above EUR 101,519).

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The NN Bank Supervisory Board members do not receive any compensation for their activities, except for one Supervisory Board member who is not an employee within NN Group (2015: two external Supervisory Board members). The remuneration of EUR 20 thousand (2015: EUR 35 thousand) is recognised in the profit and loss account in 'Operating expenses'. Some Supervisory Board members hold remunerated (board) positions within NN Group, but not within NN Bank.Their remuneration is part of the allocation of head quarter expenses and they do not receive any (additional) allowances for their role as Supervisory Board members.

The remuneration of the Supervisory Board members includes VAT for 2016 and 2015. 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.

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The total remuneration, as disclosed in the table above (2016: EUR 1,825 thousand), includes all variable remuneration related to the performance year 2016. 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 2016 and therefore included in 'Total expenses' in 2016, relating to the fixed expenses of 2016 and the vesting of variable remuneration of 2016 and earlier performance years, is EUR 1,614 thousand (2015: EUR 1,550 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. The remuneration policies of NN Group take into account all applicable regulations and codes, including the Banking Code. The NN Group Remuneration Framework strikes a balance between interests of its customers, employees, shareholder and society at large, and supports the long-term objective of the company.

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

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

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Management Board members	0	0	0.0%	0.0%	0	0
Supervisory Board members	660	743	5.2%	4.7%	83	83
Loans and advances to key management	**660**	**743**			**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 2016 was EUR 83 thousand equal to 2015.

39 Subsequent and other events

Subsequent events

On 27 February 2017, NN Bank received a EUR 15 million subordinated loan from NN Group and on 12 April 2017, NN Bank made a full early repayment of the EUR 200 million senior loan to NN Group due 2022.

Other events

On 2 February 2017, NN Group announced a recommended public cash offer by NN Group Bidco B.V., a direct wholly-owned subsidiary of NN Group (the 'Offeror') to all holders of issued and outstanding ordinary shares in the capital of Delta Lloyd (the 'Shares') to acquire their shares at a price of EUR 5.40 (cum dividend) (the 'Offer Price') in cash for each share (the 'Offer'), representing a total consideration of EUR 2.5 billion. The Offer is supported and recommended by the Delta Lloyd Executive Board and the Delta Lloyd Supervisory Board. On 7 April 2017, the Offeror declared the Offer unconditional. Settlement of the Offer took place on 12 April 2017. NN Group funded the transaction through a combination of existing cash resources and debt.

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40 Risk management

Introduction

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

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

- Risk management structure and governance systems: NN Bank's risk management structure and governance systems follow the Three Lines of Defence model, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN Bank's risk management
- Risk management 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, CRDIV/CRR and related Delegated Acts and EBA guidance) and the policy frameworks set by NN Group – which is responsible for the risk management policy framework and the monitoring thereof.

Management Board and its committees

NN Bank's Management Board is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective. It has full management responsibility for all of NN Bank's activities, including setting, implementing, monitoring and, if necessary, adjusting the Bank's policy. Within the Board, the division of duties regarding operational direction of the second line is shared between the CRO (risk management in general), the CEO (legal and compliance risk management) and the CFO (control activities within Finance). The Management Board or its committees approve all risk management policies, as well as the quantitative and qualitative elements of NN Bank's risk appetite. NN Group is informed of the resolutions of the NN Bank Management Board within the policy frameworks NN Group has set. The Management Board reports and discusses these topics with the Supervisory Board on a quarterly basis.

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

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The NN Bank Management Board committees are as follows:

- Asset & Liability Committee (ALCO): responsible for policy and management of interest-rate risk, liquidity risk, customer behaviour risk, for determination of funding and capital instruments to be deployed and for overseeing the implementation of (new) funding and capital instruments. The ALCO is chaired by the CRO.
- Credit Risk Committee (CRC): responsible for policy and management of all credit risks incurred by NN Bank for existing credit portfolios, assigned or acquired credit portfolios and new loans. The CRC is chaired by the CRO.
- Crisis Committee (CC): responsible for management of financial and non-financial risk-related crises. The CC is chaired by the CEO.
- Impairment & Provisioning Committee ('IPC'): responsible for establishing the size of the provisions formed by NN Bank in accordance with its credit risk policy. The IPC is chaired by the CFO.
- Model Committee (MoC): responsible for model risk management. Model risk is the risk of incorrect model design, implementation and usage. The MoC has approval authority for the models, methodologies and parameters. The MoC is chaired by the CRO.
- Non-Financial Risk Committee (NFRC): responsible for policy and for the identification, measurement and monitoring of significant non-financial risks and the adequate mitigation thereof by (line) management. The NFRC is chaired by the CEO.
- Product Approval & Review Committee (PRC): responsible for periodic review of existing products and review for approval of new products. The PRC is chaired by the CEO.
- Disclosure Committee (DC): responsible for advising the Group-level Disclosure Committee on bank-relevant disclosures. Ensures that all disclosures are accurate, complete and appropriate, and that they fairly present NN Bank's condition in all material respects. The DC is chaired by the CFO.
- 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

Three Lines of Defence model

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

- First Line of Defence: NN Bank Business Management has primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their business
- Second Line of Defence: oversight functions with a major role for the risk management organisation, legal and the compliance function. The CRO steers a functional independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risk. These oversight functions include:
  - Developing the policies and guidance for their specific risk and control area
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinating the reporting of risks
  - Supporting the First Line of Defence in making proper risk-return trade-offs

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- 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 serial process, but a dynamic and integrated system. The system is structured around three elements, which need to be in place:

- A risk control cycle, embedded in
- An appropriate organisation, following
- The business strategy and (risk) objectives, set in alignment with the environment

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.

In this philosophy, every employee has a role in identifying risk in their domain, and the role of management is to decide how to manage them. It is paramount to know which risks we take and why, have our eyes wide open for both the biggest risks and everyday risks, and ensure an adequate return for risk.

With risk management, we do not try to predict the future, but manage possibilities. It encompasses all our risks to all key business objectives.

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 executed in a sound risk culture. The risk control 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 effectiveness of controls, including reporting of risk levels.

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

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Risk management policies, standards and processes

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

Risk Appetite Framework

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

Risk appetite process

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

Quantitative risk appetite metrics

For financial risks, NN Bank expresses its risk appetite as the tolerance to allow key metrics to deviate from their target levels. The following key risk metrics have tolerance levels set at Bank level, and are monitored on a monthly basis. The actual levels as per end of 2016 and 2015 are included in the table below.

Key risk metrics

	Level end of	
Amounts in millions of euros	**2016**	**2015**
Total capital ratio - transitional	15.9%	16.6%
Common Equity Tier 1 ratio - transitional	14.3%	14.7%
Leverage ratio Delegated Act – transitional[1,2]	4.0%	4.0%
Liquidity Coverage Ratio Delegated Act (LCR-DA)[2]	205%	160%

1 In calculating the leverage ratio, NN Bank has implemented a conversion factor on the off-balance commitments, in accordance with annex I of the CRR. The 2015 leverage ratio has not been restated.
2 Per September 2016, both the LCR and the leverage ratio are replaced by the LCR-Delegated Act (LCR-DA) and LR-Delegated Act (LR-DA). In the DA detailed rules for the calculation of the LCR and leverage ratio are set out. The 2015 LCR and leverage ratio have not been restated. This replacement has a total impact of approximately -3%, which is due to the higher outflow assumptions for savings under the LCR-DA.

The increase of the balance sheet notwithstanding, NN Bank has maintained a solid capital position with a CRDIV transitional Total capital ratio of 15.9% and a CRDIV transitional CET1 ratio of 14.3% at year-end. Internal capital generation and a capital contribution from NN Group of EUR 15 million allowed this achievement. The CET1 capital ratio reduction in 2016 from 14.7% to 14.3% is explained by the growth of the balance sheet. The leverage ratio DA remained stable at 4.0% in 2016. The LCR was 205% (2015: 160%) showing a robust liquidity position.

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. The exposure of NN Bank to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence, as well its potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced or accepted as a residual risk.

Product approval and review process

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

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ICAAP, ILAAP and stress testing

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

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

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

Recovery planning

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

Model governance

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

Risk profile

Main types of risks

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

Financial risks

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

Non-financial risks

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

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Regulatory environment

Basel III

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

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

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

NN Bank already complies with 2019 CRDIV/CRR liquidity and capital requirements, insofar as they are currently known. The policies concerning actual risk management are developed in separate risk management policies and a separate ICAAP/ILAAP document. This policy area falls under Risk Management. Principles involved are described below.

Pillar I: Approach to Quantifying Regulatory Capital (minimum regulatory capital)

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

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

Pillar II: Capital and SREP Approach

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

Pillar III: Approach to Market Discipline Requirements

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

Basel IV

The Basel Committee on Banking Supervision issued a series of new proposals in order to continue to strengthen the regulation and supervision for banks worldwide. The proposals aim, amongst others, to simplify capital requirement calculations. Some commentators refer to these proposals as 'Basel IV'. The proposals are currently in the consultation phase, and cover market risk, operational risk, and credit risk. At present, the finalisation, implementation, and implementation timelines of these new proposals are uncertain. Irrespective of the outcome, NN Bank will take a prudent approach with respect to Basel IV. Currently, NN Bank capitalisation complies with end -2018- applicable, fully loaded CRR/CRD IV requirements.

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 will become effective as from 2018.

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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 intended to be more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity). Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial assets. These expected lifetime credit losses will be calculated based on scenario analysis. 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. NN Bank is currently assessing the impact of the requirements, and is developing the expected loss model. The impact of this model cannot be reasonably or reliably estimated. The implementation of IFRS 9 may lead to a significant increase in loan loss provisions and decrease in shareholders' equity. After implementation, the charge to or release from loan loss provisions will show more volatility arising from application of lifetime expected losses. In the second half of the year 2017, parallel processing is planned.

Risk developments 2016

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 economy grew by 2.1% in 2016. Driven by increasing domestic spending, the economy is expected to grow steadily by the same rate in 2017, despite negative effects of the Brexit referendum and lower gas production (source: CPB). In 2016, purchasing power of consumers rose, due to a combination of rising wages, low inflation and tax cuts, but is expected to temper in 2017, following rising inflation and stabilising wages. Unemployment fell to 6.0% in 2016, and is expected to decrease to 5.3% in 2017 (source: CPB).

In 2016, the mortgage market experienced a substantial growth of 25% driven by low interest rates and rising consumer confidence (source: Eigen Huis marktindicator). Particularly in the Randstad area, the supply of houses is decreasing, while demand remains high, causing housing prices to rise. Average house prices in the Netherlands increased by 6% in 2016 (source: CBS). Because of the rising house prices, home owners more often sell their current home without any loss, improving their chances to move and raising demand for houses. This subsequently leads to a further increase of the house prices (source DNB). In the long term, rising house prices are expected to have a negative effect on the affordability of a home. For now however, the limited rental home stock in the private sector has caused home rental prices in the Netherlands rise even more strongly in recent years (source: Pararius). Investors therefore engage in buying so-called 'starter homes' to rent out (buy-to-let), also stimulating the shortage on the housing market and increasing prices.

The affordability of a house also depends on the mortgage interest rates. Autumn of 2016 brought an end to the downward trend in mortgage interest rates, due to increasing interest rates on the capital market (source: DNB). It is uncertain how the mortgage interest rates will develop further. In case the upward trend continues, the affordability of a home will strongly decrease, with a tempering effect on mortgage lending as a result.

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. Newly originated mortgages will have to be repaid for a minimum of 50% over a maximum period of 30 years, following an annuity or stricter repayment scheme. Last but not least, as per 1 January 2016, the maximum tax deductibility has been reduced to 50.5%. Each following year, this will be further brought down by 0.5%-point, to an eventual maximum level of 38%.

Credit risk

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

Credit risk profile

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

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- 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 in transition 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.

Loan-to-value

As at the end of 2016, NN Bank's mortgage book had a weighted average loan-to-value ratio of 83% (2015: 84%), and 27% (2015: 26%) of the outstanding mortgage amounts were guaranteed through National State Guarantee (Nationale Hypotheek Garantie or NHG). Residential mortgage loans below EUR 245,000 are eligible for coverage by governmental insurance under the NHG in the Netherlands. The NHG guarantees, to a large extent, the repayment of a loan in case of a forced property sale.

Credit approval process

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

Past-due loans

As can be seen in the table below, delinquencies in NN Bank's mortgage portfolio have decreased in 2016, 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.

The credit profile of NN Bank 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 2015 Annual Report, the exposure amounts in this paragraph represented the gross credit risk exposure of the portfolio (these figures have not been restated). In this Annual Report, the exposures of the financial statement (without subtracting the provisions) are used. The 2016 figures in the table below, slightly differ 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	
	2016	2015	2016	2015	2016	2015
0 days	12,157,385	10,222,035	242,275	220,675	12,399,660	10,442,710
1 – 30 days	120,976	51,494	5,707	5,525	126,683	57,019
31 – 60 days	43,420	99,280	1,975	5,950	45,395	105,230
61 – 90 days	45,159	53,893	745	963	45,904	54,856
> 90 days	91,586	91,934	15,053	16,216	106,639	108,150
Total	**12,458,526**	**10,518,636**	**265,755**	**249,329**	**12,724,281**	**10,767,965**

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 1.1% of total loans to customers as at the end of 2016 are classified as non-performing (EUR 143 million in impaired loans out of EUR 12.7 billion total loans to customers).

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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%.

Balance sheet items exposed to credit risk

	Not impaired		Past due but not impaired		Impaired	
	2016	2015	2016	2015	2016	2015
Mortgages	12,157,385	10,222,035	174,086	168,482	127,055	128,119
Consumer loans	242,275	220,674	7,999	11,394	15,481	17,261
Total	**12,399,660**	**10,442,709**	**182,085**	**179,876**	**142,536**	**145,380**

Forbearance

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

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

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

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

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

- Performing: if the contract is considered to be performing prior to any forbearance measure, and also after granting the forbearance measure, the forbearance status for this client needs to be reported for a minimum of two years.
- Non-performing: if the contract is considered to be non-performing prior to any forbearance measure, the client will retain 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 the performing status, only when
  - One year has passed since the forbearance measures were granted
  - The granting of forbearance does not lead to the recognition default
  - 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 2016 amounted to EUR 22 million (0.2% of lending exposure). Credit risk management monitors the performance of clients with modified loans at least on a monthly basis. The (re)modified loans are segregated from the other parts of the loan portfolio for collective impairment assessment to reflect the possibility of higher losses in this segment and to recognise the financial loss that already has occurred – e.g. the contractually agreed interest rate reduction for a period of time.

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Forbearance category in percentage of total lending exposure

	2016	2015
Change in loan	0.07%	0.03%
Change in secondary cover	0.03%	0.00%
Write-off interest payments	0.07%	0.06%
Other	0.01%	0.00%
Total forbearance	**0.18%**	**0.09%**

In the 2015 Annual Report a bigger part of the portfolio was flagged as Forbearance. Also a different classification was used. The 2015 figures have been restated in this report. The reason for this change is that in Q1 2016 NN Bank formalised its Forbearance policy (and implemented the Forbearance consequences). NN Bank carefully looked at all instruments that are used within the delinquency management department; not all instruments classify as Forbearance. For example: 'rentemiddeling' (interest-rate averaging) is provided to all clients and that means that the instrument is not a Forbearance measure. So loans in which interest-rate averaging is applied do not receive a Forbearance flag.

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 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

The total risk costs of NN Bank as at the end of 2016 was EUR 4.8 million, compared to EUR 17.9 million at the end of 2015. The reduction is mainly caused by the increase in house prices and the further enhanced arrears management. Also, in 2015, one-off risk costs were taken for credit risk model enhancement. 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 38.6 million. Write-offs in 2016 amounted to EUR 7.9 million. As at 31 December 2016, the total risk costs expressed as basis points (bps) of exposure at default were 3.7 bps.

Market risk

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

Interest rate risk

Interest rate risk in the banking book is defined as the exposure of a bank's financial condition to adverse movements in interest rates originated from positions in the banking book. Commercial activities result in interest rate risk as, for example, repricing tenors of assets differ from those of liabilities. Changes in interest rates affect earnings and market value. These two perspectives are complementary, and both are necessary to comprehensively capture interest rate risk.

Customer behaviour risk

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

Convexity risk

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

Risk profile

In the following sections, the interest rate risk exposures in the banking book are presented. NN Bank uses risk measures from both an earnings 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.

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Value perspective

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

- Effective duration
- NPV at Risk

Each of these measures is based on the NPV, sometimes also referred to as market value. The NPV is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. The NPV is defined as the current value of all future cash flows, given the current market circumstances. The NPV is calculated by discounting the expected cash flows using the relevant current interest rates. The interest rates used for discounting are zero rates, which are derived from coupon-bearing EURIBOR, and IRS rates, plus a spread that corresponds to the product characteristics, at least including the liquidity and credit spread

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

The duration and key rate duration are interest rate risk measures for small changes in interest rates. To determine the impact of large changes in interest rates, the NPV at Risk (NPVaR) measure is used. This risk figure measures the impact of changing interest rates on the market value of NN Bank's balance sheet. In the table below, the impact of a 1% interest rate shock on the market value of the balance sheet is presented. The NPVaR is mainly impacted by the interest rate sensitivity of the long-term investments of own funds. The NPVaR is expressed as a percentage of regulatory capital, taking the worst-case impact of the up-and-down 100 basis points shock scenarios. A negative percentage means a negative impact on the market value of equity.

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 the bank. Therefore, the NPVaR cannot be directly linked with the balance sheet or profit and loss account.

NPVaR

Percentage of total equity	2016	2015
Parallel shift 100 basis points	-1.07%	0.74%

In comparison to 2015, NN Bank's NPVaR sensitivity to 100 basis points shock scenarios changed from +0.7% to -1.1%. This change is in line with the change in the overall duration, which was negative in December 2015 and positive in December 2016. Given the low level of the yield curve, the sensitivity for the downward shift scenario is also impacted by the flooring assumption in the definition of this scenario. NN Bank follows the flooring assumption prescribed (i.e. a non-negative interest rate) by the DNB in the above table.

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 mainly influenced by the sensitivity of savings to interest rate movements. The main driver of the EaR sensitivity of NN Bank is the tracking speed of variable rate savings. This tracking determines how fast, and to what extent, a change in market rates is adopted in the savings rates. In case of an upward market rate shock, savings rate tracking is relatively fast, leading to a negative impact on interest income on a one-year horizon.

In the table below, the EaR figures for a 1% parallel shock with a one-year horizon are shown. The EaR is expressed as a percentage of the interest results. A negative percentage means a negative impact on the expected interest income.

Earnings at Risk

Percentage of interest result	2016	2015
Parallel shift – 100 basis points	-0.01%	1.16%
Parallel shift + 100 basis points	-2.00%	-5.12%

The EaR has decreased compared to 2015, due to better alignment of asset and liability repricing.

Liquidity risk

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

The management of liquidity risk follows the Funding and Liquidity Risk policy, as approved by ALCO NN Bank. This policy describes roles and responsibilities, and risk metrics. Policies and procedures related to interest rate risk management are also defined. The framework enables NN Bank to manage the funding and liquidity position adequately on a going-concern basis and in the event of contingency situations. Market Risk

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Management is responsible for determining adequate policies and procedures for managing liquidity risk and for monitoring the compliance with these guidelines.

Risk profile

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

For the management of liquidity risk, a distinction is made between the short- and longer term. The main objective for the short term is that NN Bank has sufficient liquid assets to meet short-term obligations both on a going-concern basis and in stress circumstances during its defined survival period. For the long term, the funding profile is managed in such a way that long-term compliance to both internal and external targets is ensured. This implies that the maturities of the assets and the corresponding funding should be matched as well as possible. Given the profile of NN Bank, the 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 the Bank aims to fund the longer-term assets with stable and longer-term liabilities. Monitoring and control of the funding is achieved through a dedicated funding and liquidity framework. Each year, the business strategy is translated into a funding plan for a minimum of three years. The funding plan and corresponding liquidity gap are monitored in the ALCO on a monthly basis.

Tactical liquidity risk management

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

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

Also on a monthly basis, NN Bank reports a number of stress scenarios, based on regulatory requirements, including:

- One-month DNB liquidity buffer, according to DNB regulation including a six-month grace period
- Liquidity Coverage Ratio Delegated Act (LCR-DA), based on CRDIV/CRR regulation

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

Contingency liquidity risk

Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in 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

	2016	2015
LCR-DA[1]	205%	160%

[1] Per September 2016, both the LCR and the leverage ratio are replaced by the LCR-Delegated Act (LCR-DA) and LR-Delegated Act (LR-DA). In the DA detailed rules for the calculation of the LCR and leverage ratio are set out. The 2015 LCR and leverage ratio have not been restated. This replacement has a total impact of approximately -3%, which is due to the higher outflow assumptions for savings under the LCR-DA.

Business risk

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

Non-financial risk management

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

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Main developments in 2016

Scenario analysis

NN Bank has further iterated its assessment of key rare, but potentially severe, non-financial risks relevant for its risk profile. First-line senior management has an important lead role in identifying and assessing scenarios and in further enhancing the control environment based on the scenario results. The scenario analysis results are also used as input for the ICAAP. Amongst the areas covered are cybercrime/fraud and compliance risk. In 2016, NN Bank increased its IT-risk-related scenarios.

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.

Compliance risk

Risk profile

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

Risk mitigation

NN Group's compliance function has developed a framework that governs the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The purpose is that the compliance function supports the businesses to effectively manage their compliance risks. Compliance is therefore an essential part of good corporate governance. NN Group continuously enhances its compliance risk management programme to ensure that NN Group and its subsidiaries comply with international standards and laws.

NN Group separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct, and financial services conduct. In addition to effective reporting systems, NN Group has a whistle-blower procedure that protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or business principles. NN Group also has policies and procedures regarding anti-money-laundering, sanctions and anti-terrorist-financing, gifts and entertainment, anti-bribery, customer suitability, Chinese walls and confidential- and insider information, as well as a Code of Conduct for its personnel.

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

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

Notes to the Consolidated annual accounts

Continued

41 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 CRDIV, as applicable. NN Bank already meets the 2019 minimum Basel III capital and liquidity requirements, insofar as they are currently known. For the calculation of RWA, NN Bank applies the Standardised Approach for Credit Risk and the Basic Indicator Approach for Operational Risk. NN Bank does not have a trading book, and therefore Market Risk RWA is not applicable.

Capital & liquidity management process

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

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

Capital adequacy

During 2016, NN Bank maintained a solid capital position, both on a CRDIV transitional and fully phased-in basis.

Transitional capital position

Amounts in millions of euros	2016	2015
Common Equity Tier 1 Capital	625	528
Risk Weighted Assets	4,371	3,596
Common Equity Tier 1 ratio – transitional	14.3%	14.7%
Total capital ratio – transitional	15.9%	16.6%

Notwithstanding the balance sheet increase, NN Bank has maintained a solid capital position with a CRDIV transitional Total capital ratio of 15.9% (2015: 16.6%) and a CRDIV transitional CET1 ratio of 14.3% at year-end (2015: 14.7%). Internal capital generation and a capital contribution from NN Group of EUR 15 million were responsible for this achievement. The Common Equity Tier 1 Capital amounts to EUR 625 million (2015: 528 EUR million) and mainly increased due to positive results which were added to the capital. The CET1 capital ratio reduction in 2016 from 14.7% to 14.3% is explained by the balance sheet growth.

Liquidity adequacy

During 2016, NN Bank maintained an adequate liquidity position.

Liquidity position

	2016	2015
Liquidity Coverage Ratio Delegated Act (LCR-DA)[1]	205%	160%

[1] Per September 2016, both the LCR and the leverage ratio are replaced by the LCR-Delegated Act (LCR-DA) and LR-Delegated Act (LR-DA). In the DA detailed rules for the calculation of the LCR and leverage ratio are set out. The 2015 LCR and leverage ratio have not been restated. This replacement has a total impact of approximately -3%, which is due to the higher outflow assumptions for savings under the LCR-DA.

NN Bank maintained a solid liquidity position with an LCR-DA of 205%. This is in comparison to an LCR of 160% in 2015. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2016, the NN Group line has been extended, and one of the external lines matured.

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Bank for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Management Board of NN Bank on 9 May 2017.

The Hague, 9 May 2017

The Management Board

E. (Erik) Muetstege, CEO and chair

J.E. (Sandra) van Eijk, CFO

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

The Supervisory Board

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

D. (Delfin) Rueda

D.E. (David) Knibbe

G.A.N. (Toon) Krooswijk

A.M. (Maarten) Mol

Confirmed and adopted by the General Meeting, dated 7 June 2017.

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	2016	2015[1]
Assets			
Cash and balances at central banks		1,555,008	474,079
Debt securities		385,460	550,291
Amounts due from banks		76,538	55,981
Derivatives		250,675	220,219
Loans	2	11,667,350	9,921,272
Investments in group companies	3	36,102	11,935
Receivables from group companies	4	987,795	689,256
Intangibles	5	1,261	1,325
Other assets	6	176,818	96,225
Total assets		**15,137,007**	**12,020,583**
Liabilities			
Loans from group companies		200,000	200,000
Other borrowed funds		205,000	20,000
Amounts due to banks		45,000	331,228
Customer deposits and other funds on deposit		10,225,730	8,138,799
Derivatives	7	163,620	107,858
Other liabilities	8	3,588,893	2,614,192
Provisions		9,591	5,772
Subordinated debt		70,000	70,000
Total liabilities		**14,507,834**	**11,487,849**
Equity			
Share capital		10,000	10,000
Share premium		481,000	466,000
Revaluation reserve		6,792	5,487
Retained earnings		51,470	-15,847
Unappropriated result		79,911	67,094
Total equity	9	**629,173**	**532,734**
Total equity and liabilities		**15,137,007**	**12,020,583**

[1] To better align with the current period presentation, amounts in 2015 have been reclassified.

References relate to the Notes starting on page 71. 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		2016		2015
Interest income		472,552		409,937	
Interest expenses		294,389		255,501	
Interest result	10		178,163		154,436
Income from group companies	3		24,167		14,403
Gains and losses on financial transactions and other income			41,406		33,354
– gross fee and commission income		60,467		62,812	
– fee and commission expenses		12,271		10,383	
Net fee and commission income	11		48,196		52,429
Valuation results on non-trading derivatives			-5,521		922
Total income			**286,411**		**255,544**
Addition to loan loss provisions	2		4,737		17,823
Staff expenses			92,988		85,631
Other operating expenses			82,069		62,513
Total expenses			**179,794**		**165,968**
Result before tax			**106,617**		**89,576**
Taxation			26,706		22,482
Net result			**79,911**		**67,094**

Parent company statement of changes in equity

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.

Parent company statement of changes in equity (2015)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Balance as at 1 January 2015	**10,000**	**409,000**	**5,206**	**-15,583**	**408,623**
Effect of adjustment of realised gains or losses transferred to the profit and loss account in prior periods	0	0	477	-477	0
Balance as at 1 January 2015 after effect of adjustment	**10,000**	**409,000**	**5,683**	**-16,060**	**408,623**
Unrealised revaluations after taxation	0	0	24	0	24
Realised gains or losses transferred to the profit and loss account	0	0	-220	0	-220
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-196**	**0**	**-196**
Net result	0	0	0	67,094	67,094
Total comprehensive income	**0**	**0**	**-196**	**67,094**	**66,898**
Capital contribution	0	57,000	0	0	57,000
Employee share plans	0	0	0	213	213
Balance as at 31 December 2015	**10,000**	**466,000**	**5,487**	**51,247**	**532,734**

[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.

Due to an amendment to the Dutch Civil Code, NN Bank is no longer permitted to present a condensed parent company profit and loss account under Section 402 of Part 9 of Book 2 of the Dutch Civil Code. Therefore, as of 2016, the parent company profit and loss account is presented in a full, uncondensed format. In line with the requirements for an accounting policy change, the comparatives for the year 2015 are presented in the new format as well.

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

2 Loans

Loans analysed by type

	2016	2015
Loans secured by mortgages, guaranteed by public authorities	2,245,393	1,886,744
Loans secured by mortgages	9,195,490	7,823,671
Consumer lending, other	264,933	248,714
Loans – before loan loss provisions	**11,705,816**	**9,959,129**
Loan loss provisions	38,466	37,857
Loans	**11,667,350**	**9,921,272**

Structured entities

We refer to Note 36 'Structured entities' of the Notes to the Consolidated annual accounts. As these securitisation transactions did not transfer substantially all the risk and rewards, NN Bank has recognised mortgage receivables equal to the securitisation transactions and the notes sold to third parties. For the same reason, with reference to the balance sheet item 'Derivatives', the non-trading derivative transactions of EUR 227.0 million are recognised.

Changes in Loans

	2016	2015
Loans – opening balance	9,959,129	7,503,514
Reclassification from/to receivables from group companies	0	273,009
Mortgage portfolio transfer	1,274,581	1,596,675
Partial transfers of mortgage loans	29,326	55,731
Origination	2,577,900	2,610,589
Sale of mortgages	-1,231,088	-1,353,496
Change in mortgage premium	5,149	8,677
Fair value change hedged items	50,612	-13,726
Redemptions	-959,793	-721,844
Loans – closing balance	**11,705,816**	**9,959,129**

3 Investments in group companies

Investment in group companies

	Interest held 2016	Balance sheet value 2016	Interest held 2015	Balance sheet value 2015
HQ Hypotheken 50 B.V.	100%	35,977	100%	11,810
Nationale-Nederlanden Beleggingsrekening N.V.	100%	125	100%	125
Investments in group companies		**36,102**		**11,935**

Notes to the Parent company annual accounts

Changes in Investments in group companies

	2016	2015
Investments in group companies – opening balance	11,935	1,143
Result of group companies	24,167	10,792
Investments in group companies – closing balance	**36,102**	**11,935**

4 Receivables from group companies

Changes in Receivables from group companies

	2016	2015
Receivables from group companies – opening balance	689,256	598,360
Reclassification from/to loans	0	-273,009
Additions	299,689	363,905
Redemptions	-1,150	0
Receivables from group companies – closing balance	**987,795**	**689,256**

The Receivables from group companies consist of loans to HQ Hypotheken 50 B.V. for the funding of the third party loans as serviced by Quion. The interest for 2016 is based on Euro Interbank Offered Rate (EONIA) with an add-on of 0.60% (2015: average interest of 0.5%).

5 Intangible assets

Changes in Intangible assets

	2016	2015
Intangible assets – opening balance	1,325	990
Additions	461	413
Amortisation	525	-78
Intangible assets – closing balance	**1,261**	**1,325**

6 Other assets

Other assets by type

	2016	2015
Receivables from group companies	60,791	42,798
Deferred tax assets	3,041	1,610
Accrued assets	42,425	47,740
Other receivables	70,561	4,077
Other assets	**176,818**	**96,225**

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

7 Derivatives

Non-trading derivatives

	2016	2015
Non-trading derivatives used in fair value hedges	163,620	107,858
Non-trading derivatives	**163,620**	**107,858**

Notes to the Parent company annual accounts

8 Other liabilities

Other liabilities

	2016	2015
Payable to structured entities	3,520,440	2,569,805
Deferred tax liabilities	6,385	2,175
Income tax payable	3,274	4,473
Accrued interest	31,293	22,249
Costs payable	5,868	4,300
Other taxation and social contribution	6,377	6,476
Other amounts payable	15,256	4,714
Other liabilities	**3,588,893**	**2,614,192**

All other liabilities are expected to be settled within 12 months, except for the payable to structured entities.

For disclosure in respect of 'Deferred tax liabilities' reference is made to Note 26 'Taxation' of the Consolidated annual accounts.

Reference is made to Note 36 'Structured entities' to 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 'Issued Notes to third party investors'. This position reflects a liability towards the SPE.

9 Equity

Equity

	2016	2015
Share capital	10,000	10,000
Share premium	481,000	466,000
Revaluation reserve	6,792	5,487
Retained earnings	51,470	-15,847
Unappropriated result	79,911	67,094
Total equity	**629,173**	**532,734**

Share capital

			Ordinary shares	
	Shares in number		Amount (in EUR thousand)	
	2016	2015	2016	2015
Authorised share capital	5,000,000	5,000,000	50,000	50,000
Unissued share capital	4,000,000	4,000,000	40,000	40,000
Issued share capital	**1,000,000**	**1,000,000**	**10,000**	**10,000**

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

Changes in Revaluation reserve, retained earnings and unappropriated result (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
Changes taxation prior years	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**

Notes to the Parent company annual accounts

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

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Changes in Revaluation reserve, retained earnings and unappropriated result – opening balance	5,206	-49,330	33,747	-10,377
Reclassification	477	-477	0	0
Net result for the period	0	0	67,094	67,094
Unrealised revaluation	-196	0	0	-196
Transfers to/from retained earnings	0	33,747	-33,747	0
Employee share plans	0	213	0	213
Changes in Revaluation reserve, retained earnings and unappropriated result – closing balance	**5,487**	**-15,847**	**67,094**	**56,734**

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.

10 Interest result

Interest result

	2016	2015
Interest income on loans	402,604	361,399
Interest income on available-for-sale debt securities	1,603	2,072
Interest income on non-trading derivatives	68,345	47,659
Total interest income	**472,552**	**411,130**
Interest expenses on amounts due to banks	312	229
Interest expenses on customer deposits and other funds on deposit	140,340	144,878
Interest expenses on debt securities issued and other borrowed funds	30,954	32,763
Interest expenses on subordinated loans	2,258	2,138
Interest expenses on non-trading derivatives	105,786	77,766
Negative interest on liabilities	9,425	1,193
Other interest expenses	5,314	2,273
Total interest expenses	**294,389**	**256,694**
Interest result	**178,163**	**154,436**

The 'Negative interest on liabilities' includes negative interest income charged by DNB of EUR 3.7 million (2015: EUR 1.2 million). The remainder concerns interest on derivatives.

Interest margin in percentages

	2016	2015
Interest margin	**1.3%**	**1.3%**

The interest margin is calculated by dividing the interest result by the average of the total assets for the year ending 2016 and 2015, respectively.

Notes to the Parent company annual accounts

11 Net fee and commission income

Net fee and commission income

	2016	2015
Service management fee	24,541	26,519
Brokerage and advisory fees	35,926	36,374
Other	0	-82
Gross fee and commission income	**60,467**	**62,812**
Asset management fees	8,037	7,859
Brokerage and advisory fees	3,454	2,334
Other	780	189
Fee and commission expenses	**12,271**	**10,383**
Net fee and commission income	**48,196**	**52,429**

12 Maturity of certain assets and liabilities

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	76,538	0	0	0	0	0	0	76,538
Loans	29,394	53,313	175,573	489,939	11,906,927	0	0	12,655,146
Liabilities								
Amounts due to banks	0	0	45,000	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

Analysis of certain assets and liabilities (2015)

	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	474,079	0	0	0	0	0	0	474,079
Amounts due from banks	55,981	0	0	0	0	0	0	55,981
Loans	26,222	52,005	193,333	963,662	9,189,028	186,278	0	10,610,528
Liabilities								
Amounts due to banks	180,935	150,293	0	0	0	0	0	331,228
Customer deposits and other funds on deposit	5,680,798	47,739	190,403	775,328	1,444,531	0	0	8,138,799

13 Contingent liabilities

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	0	0	0	0	0	106,654	106,654
Mortgage and consumer lending offerings	196,853	395,014	215,636	0	0	0	807,503
Construction deposits	57,998	105,998	320,817	0	0	0	484,813
Contingent liabilities and commitments	**254,851**	**501,012**	**536,453**	**0**	**0**	**106,654**	**1,398,970**

Notes to the Parent company annual accounts

Contingent liabilities and commitments (2015)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Guarantees							
Irrevocable credit facilities	0	0	0	0	0	93,656	93,656
Mortgage and consumer lending offerings	197,570	295,920	90,442	0	0	0	583,932
Construction deposits	25,102	49,798	186,031	0	0	0	260,931
Contingent liabilities and commitments	**222,672**	**345,718**	**276,473**	**0**	**0**	**93,656**	**938,519**

14 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 2016 amounts to EUR 0.8 million (2015: EUR 2.7 million).

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

15 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 the receivables and payables of NN Group.

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Bank for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Management Board on 9 May 2017.

The Hague, 9 May 2017

The Management Board

E. (Erik) Muetstege, CEO and chair

J.E. (Sandra) van Eijk, CFO

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

The Supervisory Board

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

D. (Delfin) Rueda

D.E. (David) Knibbe

G.A.N. (Toon) Krooswijk

A.M. (Maarten) Mol

Confirmed and adopted by the General Meeting, dated 7 June 2017.

Independent auditor's report

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 accompanying annual accounts 2016

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 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands 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 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the annual accounts 2016 of Nationale-Nederlanden Bank N.V. (hereafter: 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 balance sheet as at 31 December 2016;
2. the following consolidated statements for the year ended 2016: the profit and loss account, the statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company annual accounts comprise:

1. the company balance sheet as at 31 December 2016;
2. the company profit and loss account for the year ended 2016; 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 NN Bank in accordance with 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

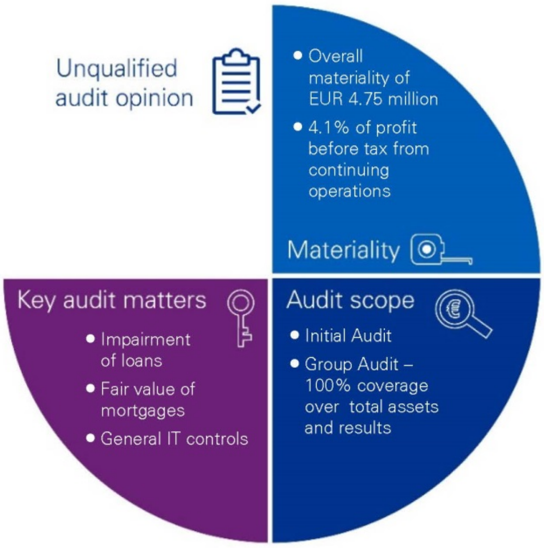
Independent auditor's report

Continued

KPMG

Audit approach

Summary



Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 4,750,000. The materiality is determined with reference to profit before tax from continuing operations (4.1%). To arrive at profit before tax from continuing operations we deducted the additions to the reorganisation provisions as we consider this a one off item. We consider profit before tax from continuing operations as the most appropriate benchmark given the nature and business of NN Bank. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Supervisory Board that misstatements in excess of EUR 200,000, 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.

Initial Audit

The year 2016 was the first year we have audited the annual accounts of NN Group, therefore we provide more information on how we prepared for this so-called initial audit.

Before commencing our audit work in October 2015, we ensured that we were independent of NN Bank. This involved ceasing commercial relationships and changing financial arrangements for partners and for staff who work on the audit of NN Bank before commencing our audit procedures.

After being appointed we developed a comprehensive plan to ensure an effective transition from the predecessor auditor. Our transition activities included, but were not limited to, obtaining an initial understanding of the company and its business, its strategy and business risks, the IT landscape and the financial reporting and internal controls framework. We assessed the opening balances and selection and consistent application of the accounting policies by discussing the audit with the predecessor auditor and reviewing their audit files. Furthermore, we attended closing meetings related to the 2015 audit. We also attended the Supervisory Board Meeting of NN Bank on 12 April 2016 where the 2015 audit report and annual accounts were discussed. The foregoing steps were undertaken to assist us in performing our risk assessment procedures and served as a basis for

Independent auditor's report

Continued

preparing our Audit Plan, that was discussed and agreed with Management and the Supervisory Board of NN Bank.

Group audit

NN Bank has two fully-owned subsidiaries. The financial information of these subsidiaries is included in the consolidated annual accounts of NN Bank

We have performed all audit procedures ourselves at NN Bank and its subsidiaries. We have not used the work of component auditors. We have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the annual accounts.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

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

Estimation uncertainty with respect to impairment losses on loans
Description NN Bank's portfolio of mortgage and consumer loans amounts to EUR 12.7 billion as at 31 December 2016. These loans are measured at amortised cost, less a provision for loan losses (EUR 38.6 million). Certain aspects of the accounting for 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 and advances to customers and the related estimation uncertainty, we consider the valuation of loans as a key audit matter. Refer to the 'Accounting policies' section in Note 1 of the Consolidated annual accounts and the related disclosures included in the 'Risk Management' paragraph in Note 40.
Our response Our audit approach included both testing the effectiveness of internal controls around determining the loan loss provisions, as well as substantive audit procedures. Our procedures over internal controls focused on controls around the accuracy of 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 provisions, as well as the periodic evaluation of the parameters applied in these models. As a result of internal control deficiencies identified during the year regarding the accuracy of loan and collateral data, the level of substantive audit procedures was increased resulting in data analytic procedures on the entire portfolio. 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 and 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. Furthermore, we recalculated a sample of mortgages for which a loan loss provision was determined by NN Bank.
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

Fair value of mortgages

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 to external parties. These transactions are carried out at fair value. The fair value measurement and the determination of the correct allocation of the different components, such as the fair value of the mortgages, the service and origination fees, in the associated transaction result involve various assumptions including the discount rate and prepayment rates. Furthermore, the calculation is dependent on high quality data of the mortgage loan portfolio. As a result of the significance of the results on the sale of mortgage loans to the annual accounts and the associated inherent subjective judgements, 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 18.

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 residual value of the mortgages, and such that mortgages cannot be sold twice.

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

Our observation

We observed that the outcomes of the methodology and key parameters used by management are mildly cautious.

General IT controls: user access management

Description

NN Bank is highly dependent on its IT-infrastructure for the reliability and continuity of its operations and financial reporting. In particular there was increased management attention on information security. This is important to ensure that access and changes to applications and data are properly authorised and made in an appropriate manner. We have therefore identified the effectiveness of user access management as part of the general IT controls a key audit matter.

Our response

Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access controls over IT systems. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists in all stages of the financial statement audit (risk assessment, planning, execution and reporting).

Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2016 annual accounts. We assessed and tested the design and operating effectiveness of the controls over the integrity of the IT systems relevant for financial reporting. We examined the framework of governance over the Bank's IT organisation and the IT general controls, access to programs and data, program changes and IT operations, including compensating controls where those were required. We also examined the Bank's response to cyber risk in relation to highly critical infrastructure for financial reporting.

Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. In our evaluation of IT related findings, we considered the

Independent auditor's report

Continued

KPMG

General IT controls: user access management
impact on the risk of error as well as the risk of fraud taking into account the compensating controls and additional analyses performed by management. A particular area of focus related to the logical access management and segregation of duties controls. Access rights were tested to the extent relied upon for financial reporting and this resulted in the identification of a number of control weaknesses. As a consequence we have performed additional test work over management's remediation of user access controls. For those control weaknesses that were not remediated, we tested compensating controls that were not impacted by ineffective user access management controls. For certain applications we substantively assessed (can do – did do analysis) whether inappropriate access occurred and whether changes made were appropriate. Finally we performed additional audit procedures such as data analysis, to test the effectiveness of management's response to identified IT security breaches to satisfy ourselves this was appropriate in the context of the audit of the annual accounts.
Our observation In 2016 NN Bank made significant progress to improve IT systems and processes to increase the reliability and continuity of the IT processing. This is in line with our observation that NN Bank would benefit from further automating its operational processes and internal controls therein. The combination of the tests of controls and the substantive tests performed provided sufficient evidence to enable us to rely on the IT systems for the purpose of our audit.

Report on the other information included in the annual report

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

- the Report of the Management Board;
- Corporate Governance report;
- the Report of the Supervisory Board;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;
- additional information included on the pages 85 to 94.

Based on the below 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 Netherlands 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 Netherlands Civil Code and the Dutch Audit Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of NN Bank on 28 May 2015, as of the audit for year 2016 and have operated as statutory auditor since then.

Independent auditor's report

Continued

KPMG

Description of the responsibilities for the annual accounts

Responsibilities of the Management Board and 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 with Part 9 of Book 2 of the Netherlands 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 errors or fraud.

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 framework 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 annual accounts

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in 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.

For a further description of our responsibilities in respect of an audit of annual accounts we refer to the website of the professional body for accountants in the Netherlands (NBA): www.nba.nl/Engels_oob_2016

Amstelveen, 9 May 2017

KPMG Accountants N.V.

E.D.H. Vinke-Smits RA

Appropriation of result/Articles of Association

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 8 '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 Requirements Directive (CRDIV). The CRDIV is legally enforced by Dutch law under Wft (Financial Supervision Act). Also, effective as per 2016 Annual Report, Pillar III includes the Basel-required disclosures.

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 2016 Annual Report.

Type	No	Brief description	Reference
General	1	Consolidate all risk-related information in either note 39 Risk Management or Pillar III. If not possible, provide an index to aid navigation.	This table
	2	Define the bank's risk terminology and risk measures and present key parameter values used.	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 46
	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

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	1,555,008	1,555,008	1,555,008	0			
Amounts due from banks	77,262	77,262	79,058	77,651			
Financial assets at fair value through profit or loss:							
– non-trading derivatives	250,675	250,675	0	36,852			
Available-for-sale investments	385,460	385,460	388,502	0			
Loans	12,685,718	12,685,718	13,053,803	0			
Other assets	181,800	181,800	93,715	0			
Total assets	**15,135,923**	**15,135,923**	**15,170,086**	**114,503**			
Liabilities							
Subordinated debt	70,000	70,000					
Debt securities issued	3,293,420	3,293,420					
Other borrowed funds	405,000	405,000					
Amounts due to banks	45,000	45,000					
Customer deposits and other funds on deposit	10,225,730	10,225,730					
Financial liabilities at fair value through profit or loss:							
– non-trading derivatives	390,639	390,639					
Provisions	9,591	9,591					
Other liabilities	67,370	67,370					
Total liabilities	**14,506,750**	**14,506,750**					

Additional information

Continued

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 LI1)	15,284,589	15,170,086	0	114,503	0
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0	0	0	0
Total net amount under regulatory scope of consolidation	15,284,589	15,170,086	0	114,503	0
Off-balance sheet amounts	**1,091,457**	**1,091,364**	**0**	**93**	**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	**16,376,046**	**16,261,451**	**0**	**114,595**	**0**

Capital adequacy and RWA

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

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

Transitional own funds disclosure template

Amounts in thousands of euros	2016	2015
Capital instruments and the related share premium accounts of which:		
– Instrument type 1	491,000	476,000
– Retained earnings	131,381	51,247
– Accumulated other comprehensive income (and other reserves to include unrealised gains and losses under the applicable	6,792	5,487
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**629,173**	**532,734**
Intangible assets (net related tax liability) (negative amount)	-1,291	-1,325
Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required per CRR	-2,717	-3,292
Common Equity Tier 1 (CET1) capital	**625,165**	**528,116**
Tier 1 (T1) capital	625,165	528,116
Tier 2 (T2) capital	70,000	70,000
Total capital (TC=T1+T2)	**695,165**	**598,116**
Risk weighted assets	4,371,019	3,596,260
Total risk-weighted assets	**4,371,019**	**3,596,260**
Common Equity Tier 1 (as a percentage of risk exposure amount)	14.3%	14.7%
Tier 1 (as a percentage of risk exposure amount)	14.3%	14.7%
Total capital (as a percentage of risk exposure amount)	**15.9%**	**16.6%**

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

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

NN Bank's RWA is composed of RWA for credit risk and operational risk. NN Bank does not have a trading book, and therefore no RWA for market risk is required under Pillar I. The RWA for operational risk is based on the Basic Indicator Approach, and therefore shows no movement over the course of 2016. RWA for operational risk in 2016 was EUR 328 million and EUR 170 million in 2015. This means that the main developments in RWA are related to credit risk RWA. The movement in credit risk RWA is provided below under EDTF recommendations 13, 14 and 16. The movements in capital composition are presented in the table below and a result of addition of profit.

Additional information

Continued

Capital composition

Amounts in millions of euros	2016	2015	Changes
Tier 1 Capital	625	528	97
Common Equity Tier 1 (CET1) Capital	625	528	97
- Retained earnings, other accumulated income, intangible assets, CRR filters and deductions	610	471	139
- NN Group capital injection	15	57	-42
Additional Tier 1 Capital	0	0	0
Tier 2 Capital	70	70	0
Total Capital	**695**	**598**	**97**

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

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

OV1 Overview of RWA (Basel requirement)

	RWA		Minimum capital requirements
Amounts in thousands of euros	2016	2015	2016
Credit risk (excluding counterparty credit risk) (CCR)	3,966,562	3,351,615	317,325
Of which standardised approach (SA)	3,966,562	3,351,615	317,325
Of which internal rating-based (IRB) approach	n/a	n/a	
Counterparty credit risk	76,181	74,907	6,095
Of which standardised approach for counterparty credit risk (SA-CCR)	76,181 [1]	74,907	6,095
Of which internal model method (IMM)	n/a	n/a	
Equity positions in banking book under market-based approach	n/a	n/a	
Equity investments in funds – look-through approach	n/a	n/a	
Equity investments in funds – mandate-based approach	n/a	n/a	
Equity investments in funds – fall-back approach	n/a	n/a	
Settlement risk	n/a	n/a	
Securitisation exposures in banking book	n/a	n/a	
Of which IRB ratings-based approach (RBA)	n/a	n/a	
Of which IRB Supervisory Formula Approach (SFA)	n/a	n/a	
Of which SA/simplified supervisory formula approach (SSFA)	n/a	n/a	
Market risk	n/a	n/a	
Of which standardised approach (SA)	n/a	n/a	
Of which internal model approaches (IMM)	n/a	n/a	
Operational risk	328,276	169,738	26,262
Of which Basic Indicator Approach	328,276	169,738	26,262
Of which Standardised Approach	n/a	n/a	
Of which Advanced Measurement Approach	n/a	n/a	
Amounts below the thresholds for deduction (subject to 250% risk weight)	n/a	n/a	
Floor adjustment	n/a	n/a	
Total	**4,371,019**	**3,596,260**	**349,682**

[1] Includes CVA

Credit risk

Credit risk SA RWA movement in 2016

Amounts in thousands of euros	Mortgages	Consumer loans	Other items	Total
Portfolio beginning of year (end of 2015)	3,044,537	210,587	163,489	3,418,613
Inflow in portfolio, own production	1,044,822	60,494	0	1,105,316
Inflow in portfolio, transfers	394,289	0	0	394,289
Existing portfolio	-162,084	-17,001	63,777	-115,308
Outflow out portfolio, (p)repayments and write-offs	-262,774	-42,554	0	-305,328
Outflow out portfolio, transfers	-494,262	0	0	-494,262
Portfolio end of year (end of 2016)	**3,564,528**	**211,526**	**227,266**	**4,003,320**

Additional information

Continued

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

Risk measures

		Mortgages		Consumer loans	Mortgages & Consumer loans	
Amounts in thousands of euros	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Balance amount	12,458,526	10,518,636	265,755	249,329	12,724,281	10,767,965
% Non Performing Loans	1.0%	1.2%	6.2%	6.9%	1.1%	1.4%
Probability of Default IBNR (Regulatory)	0.8%	1.0%	3.9%	3.7%	0.9%	1.1%
Loss Given Default (IAS)	4.3%	4.8%	50.3%	49.5%	5.3%	5.9%
Risk costs	2,939	12,084	1,872	5,786	4,811	17,870
SA Risk Weight	29.7%	30.7%	75.8%	76.6%	30.7%	31.7%

The table shows a decrease in risk costs from 2015 to 2016 because a decrease in delinquencies (see the RM paragraph for more explanation). The Non-Performing Loans (NPLs), PD, LGD and SA RW decreased, reflecting both improving economic conditions and the growth of the portfolio (inflow of non-delinquent loans). Please note that in the 2015 Annual Report, the exposure amounts in pillar 3 represented the gross credit risk exposure of the portfolio. In this Annual Report the exposures of the financial statement (without subtracting the provisions) are used.

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

		Mortgages
	2016	**2015**
<=80%	32%	31%
80% – 90%	13%	11%
90% – 100%	15%	17%
> 100%	14%	16%
NHG <= 90%	12%	7%
NHG > 90%	14%	18%
Total	**100%**	**100%**

Region

		Mortgages
	2016	**2015**
Noord-Holland, Zuid-Holland, Zeeland	47%	48%
Gelderland, Noord-Brabant, Overijssel, Utrecht, Limburg	44%	43%
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 44.4 million, exclusive of a EUR 1.3 million capital charge for Credit Valuation Adjustments. Of the aforementioned amount, EUR 36.9 million is related to regular Interest Rate Swap positions, EUR 1.1 million to centrally cleared Interest Rate Swap positions, EUR 3.5 million to a back-to-back swap position with ING Bank, EUR 3.0 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.

Additional information

Continued

Net exposure on mortgages

Amounts in thousands of euros	2016	2015
Carrying value	12,458,526	10,518,636
Indexed collateral value of real estate	16,997,774	12,700,445
Savings held	932,194	801,598
NHG guarantee value	3,094,456	2,480,851
Total cover value + NHG guarantee capped at carrying value	12,271,357	10,074,721
Net exposure	**187,169**	**443,915**

The table above 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 has decreased in 2016, due to the increasing housing price index. 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.

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	142,536	12,581,745	38,020	12,686,261
Debt Securities	-	-	-	-
Off-balance sheet exposures	-	1,091,457	543	1,090,914
Total	**142,536**	**13,673,202**	**38,563**	**13,777,175**

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

Amounts in thousands of euros	Mortgages	Consumer loans
NPL beginning of year	128,119	17,261
NPL inflow	56,715	4,828
NPL cure	-28,733	-4,665
NPL write-offs	-29,046	-1,943
NPL end of year	**127,055**	**15,481**

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	260,052	12,820,557	12,594,650	3,417,756	36,997
Debt securities	-	-	-	-	-
Total	**260,052**	**12,820,557**	**12,594,650**	**3,417,756**	**36,997**
Of which defaulted	15,481	127,055	124,816	33,871	367

Additional information

Continued

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	RWA density
Sovereigns and their central banks	1,938,170	0	5,032,670	0	0	0%
Non-central government public sector entities	5,340	0	5,340	0	0	0%
Multilateral development banks	2,520	0	2,520	0	0	0%
Banks	76,538	0	76,538	0	15,308	20%
Securities firms	0	0	0	0	0	0%
Corporates	0	0	0	0	0	0%
Regulatory retail portfolios	244,571	58,244	244,526	28,360	204,665	75%
Secured by residential property	12,693,503	1,033,121	8,860,707	125,911	3,587,551	40%
Secured by commercial real estate	0	0	0	0	0	0%
Equity	0	0	0	0	0	0%
Past-due loans	115,730	0	86,740	66	86,972	100%
Higher-risk categories	0	0	0	0	0	0%
Other assets	93,715	0	86,255	0	87,375	101%
Total	**15,170,087**	**1,091,365**	**14,395,296**	**154,337**	**3,981,871**	**27%**

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	5,032,670	0	0	0	0	0	0	0	5,032,670
Non-central government public sector entities (PSEs)	5,340	0	0	0	0	0	0	0	5,340
Multilateral development banks (MDBs)	2,520	0	0	0	0	0	0	0	2,520
Banks	0	76,538	0	0	0	0	0	0	76,538
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	272,886	0	0	0	272,886
Secured by residential property	0	0	7,881,640	0	1,104,005	973	0	0	8,986,618
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	86,475	331	0	86,806
Higher-risk categories	0	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	85,509	0	746	86,255
Total	**5,040,530**	**76,538**	**7,881,640**	**0**	**1,376,891**	**172,957**	**331**	**746**	**14,549,633**

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)	56,804	64,911	0	1.4	114,502	44,449
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						**44,449**

[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	22,054	6,486
Total subject to the CVA capital charge	**22,054**	**6,486**

Additional information

Continued

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

Amounts in thousands of euros	0%	2%	20%	50%	100%	Total credit exposure
Sovereigns	1,946,030	0	0	0	0	1,946,030
Non-central government public sector entities (PSEs)	0	0	0	0	0	0
Multilateral development banks (MDBs)	0	0	0	0	0	0
Banks	0	55,597	15,137	6,917	0	77,651
Securities firms	0	0	0	0	0	0
Corporates	0	0	0	0	36,852	36,852
Regulatory retail portfolios	3,094,501	0	0	0	0	3,094,501
Other assets	0	0	0	0	0	0
Total	**5,040,531**	**55,597**	**15,137**	**6,917**	**36,852**	**5,155,034**

CCR5 Composition of collateral for CCR exposure (Basel requirement)

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
Amounts in thousands of euros	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash – domestic currency	n/a	n/a	53,160	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**	**53,160**	**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	2,710,798
Credit options	n/a	n/a
Other credit derivatives	n/a	n/a
Total notionals	**n/a**	**2,710,798**
Fair values	**0**	**0**
Positive fair value (asset)	**n/a**	**n/a**
Negative fair value (liability)	**n/a**	**-346,618**

Additional information

Continued

CCR8 Exposures to central counterparties (Basel requirement)

Amounts in thousands of euros	EAD (post-CRM)	RWA
Exposures to QCCPs (total)		
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	55,597	1,112
(i) OTC derivatives	55,597	1,112
(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	50,986	1,020[1]
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.[2]
Exposures to non-QCCPs (total)		
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	
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.

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 trust of customers, the housing market, consumer saving/spending, wholesale funding, funding requirements of other banks and government/regulatory measures related to these areas.

The largest part of NN Bank's funding consists of retail funding. NN Bank has, in addition to savings deposits, two major funding sources available: Whole loan sales and Long-term secured/unsecured funding. In the table below, the composition of the funding mix per ultimo 2016 is shown.

Additional information

Continued

Funding mix

	2016	2015
Retail funding (consist of savings/deposits and bank annuities)	68%	67%
Wholesale funding (long-term)	25%	24%
Equity	4%	5%
Other liabilities	3%	4%
Total	**100%**	**100%**

Non-financial risk

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

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

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

- *Compliance Risk:* 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)

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Actual results, performance or events may differ materially from those in such statements due to, without limitation:(1) changes in general economic conditions, in particular economic conditions in NN Bank's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations, (13) changes in the policies of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Bank's ability to achieve projected operational synergies and (18) 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.