2019 Annual Report

Nationale-Nederlanden Bank N.V.

nationale nederlanden

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 2019 was as follows:

Management Board

Composition as at 31 December 2019

A.J.M. (Marcel) Zuidam (1970), CEO and chair [1]

C.H.A. (Kees) van Kalveen (1971), CFO [2]

P.C.A.M. (Pieter) Emmen (1969), CRO [3]

D.C. (Dennis) Brussel (1973), CTO [4]

Resigned in 2019

E. (Erik) Muetstege (1960), CEO and chair [5]

J.E. (Sandra) van Eijk (1971), CFO [6]

M.E. (Monique) Tailor-Hemerijck (1960), CRO [7]

Supervisory Board

Composition as at 31 December 2019

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

D. (Delfin) Rueda (1964)

A.A.G. (André) Bergen (1950)

J.H. (Jan-Hendrik) Erasmus (1980) [8]

Resigned in 2019

D.E. (David) Knibbe (1971) [9]

Resigned in 2020

J.H. (Jan-Hendrik) Erasmus (1980) [8]

1 Appointment as Chief Executive Officer (CEO) and chair as at 15 March 2019 by the general meeting on 5 March 2019.
2 Appointment as member of the Management Board and Chief Finance Officer (CFO) ad interim as at 19 August 2019 by the general meeting on 14 August 2019. Subsequent appointment as CFO as at 13 December 2019 by the general meeting.
3 Appointment as member of the Management Board and Chief Risk Officer (CRO) by the general meeting on 1 November 2019.
4 Non statutory Board member as defined by Company Internal Governance in line with IAS 24, Chief Transition Officer (CTO) as at 1 November 2019.
5 Resignation as at 15 March 2019 by resignation letter.
6 Resignation as at 19 August 2019 by resignation letter.
7 Resignation as at 1 November 2019 by resignation letter.
8 Resignation as at 1 January 2020 by resignation letter.
9 Resignation as at 1 October 2019 by resignation letter.

NN Group and NN Bank at a glance

NN Bank is part of NN Group N.V.

NN Bank

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

NN Bank has three fully owned subsidiaries:

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

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

Woonnu B.V., which was founded on 13 August 2019 with statutory seat in The Hague, Via Woonnu B.V., NN Bank intends to originate mortgage loans under a new label. NN Bank has obtained an AFM licence for Woonnu B.V.

On 1 December 2019, a legal merger between NN Bank and Amstelhuys N.V. (Amstelhuys) became effective. As a result of this merger, Amstelhuys ceased to exist as a separate legal entity and NN Bank acquired all of Amstelhuys' assets and liabilities under universal title of succession. On the same date, a legal merger between NN Bank and OHRA Hypotheken Fonds N.V. (OHF) became effective. As a result of this merger, OHF ceased to exist as a separate legal entity and NN Bank acquired all of OHF's assets and liabilities under universal title of succession.

NN Group

NN Group N.V. (NN Group) is an international financial services company, active in 18 countries, with a strong presence in a number of European countries and Japan. It is NN Group's ambition to be a company that truly matters in the lives of its stakeholders, for example by living its values: 'care, clear, commit'.

NN Group is committed to helping people secure their financial futures, with strong products and services, and long-term relationships. With all its employees, NN Group offers retirement services, pensions, insurance, investments and banking products to approximately 18 million customers. NN Group's main brands are Nationale-Nederlanden, NN, NN Investment Partners, Movir, AZL, BeFrank and OHRA. NN's roots lie in the Netherlands, with a rich history that stretches back more than 170 years. NN Group became a standalone company on 2 July 2014. Since that date, its shares are listed and traded on Euronext Amsterdam under the listing name 'NN Group'.

Integration Delta Lloyd

In 2017, NN Group acquired Delta Lloyd Group and started integrating activities in the Netherlands and Belgium. Since then NN Group has reached a number of important milestones in the integration of Delta Lloyd's asset management, banking and insurance businesses. NN Group has further integrated teams, systems and processes, has increased efficiency, and introduced new products and services to meet customers' needs. In addition, the rebranding of Delta Lloyd's products and services to Nationale-Nederlanden was completed in 2018 (except for mortgages) and the separate Collective Labour Agreements were harmonised into one new agreement in 2019.

The successful integration of Delta Lloyd in the Netherlands and Belgium is one of NN Group's priorities.

Key figures NN Bank

Financial

Return on equity

11.7%

(2018: 8.1%)

Cost/income ratio

54.6%

(2018: 65.3%)

Net result

116.2m

(2018: 75.8m)

Net portfolio growth

0.6bn
Savings

1.5bn
Mortgages

NIM

1.1%

(2018: 1.0%)

TCR (total capital ratio)

17.2%

(2018: 17.9%)

Risk costs (IFRS9)

–1.1m

(2018: –5.4m)

Mortgage origination

7.9bn

(2018: 6.1bn)

Non Financial

Net promotor score

+11.0

(2018: +8.4)

Employee Engagement

7.5

(2018: 7.3)

Number of employees

total 1,159 FTE

(2018: total 1,134 FTE)

Number of customers

980,000

(2018: 946,000)

Sustainability

25%*

of the mortgageportfolio in newly built homes has an A energy label.

18% of the Dutch housing market has an A energy label.

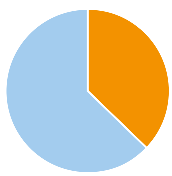
* NN Group

Diversity

Male – Female ratio in MT NN Bank

Male 63%

Female 37%



(2018: MT: male 55% – female 45%)

Who we are

Our heritage

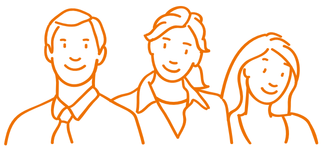
NN Bank is a Dutch retail bank, founded on 26 April 2011. In 2013, NN Bank merged with WestlandUtrecht Bank, making NN Bank a fully-fledged mortgage and savings bank. In 2018, it merged with Delta Lloyd Bank. NN Bank now occupies a significant position on the Dutch retail savings and mortgage market with relevance for customers and stakeholders. NN Bank is a fully-owned subsidiary of NN Group, and its broad range of banking products is complementary to Nationale-Nederlanden's (NN's) individual life and non-life insurance products for retail customers in the Netherlands.

Our purpose

NN Bank's purpose is to help retail customers secure their financial futures. Helping them manage and protect their assets and income through mortgage loans, (internet) savings, bank annuities, consumer lending and retail investment products. We do this by taking the situation and wishes of our customers as our starting point. We take a personal approach to our interactions with our customers and are relevant in terms of our range of products and services. As much as possible, we operate digitally, enabling customers to manage their finances easily and quickly.

Number of customers NN Bank in 2019

980,000



Our values

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

Our Bank today

NN Bank has been operating in the Dutch retail market for eight years. NN Bank has experienced significant growth and has become a bank with a significant position in the Netherlands.

NN Bank serves almost one million customers in the Dutch market. We help customers manage and protect their assets and income through mortgage loans, internet-savings, bank annuities, consumer lending and retail investment products. In addition, NN Bank provides administration and management services to other NN Group entities and institutional investors.

NN Bank distributes its services via the direct channel and via distribution partners (intermediaries). NN Bank puts the needs of its customers first and ensures that customers are happy to stay with NN, purchase more of their financial products from NN and also recommend NN to others.

NN Bank offers a motivating and healthy workplace, where talent can develop, colleagues enjoy their work and where their efforts are valued and respected. We firmly believe that we can better serve our customers and achieve our business goals if all our people are encouraged to use their different talents, skills and knowledge.

Based on our frequent interactions with customers, NN Bank supports NN's strategy to boost customer relevance and value for all our customers. NN Bank is also an important supplier of mortgages as an asset class for NN Group.

At NN Bank, conditions are in place to allow more growth over the coming years and to build further on the bank's success.

Our future Bank

Following the migration of the Delta Lloyd Bank portfolios, NN Bank is starting a new phase of growth. This will involve investing in even more relevant services for our customers. That includes investing in more relevant contact with our customers, together with the other NN business units and our business partners. In addition, NN Bank will expand its administration and management services for third parties. This means that NN Bank will continue to play a significant role in the Dutch market for both its customers and stakeholders.


NN Bank will continue to play a significant role in the Dutch market for both its customers and stakeholders.

'With our solutions, we want to be relevant to our customers.'

NN Bank performed well in 2019

> We see it as our greatest challenge to stand out from the competition by excelling in customer experience and service.

Marcel Zuidam
NN Bank CEO

Marcel Zuidam, CEO of NN Bank since March 2019, is satisfied with the Bank's performance in 2019. The integration of Delta Lloyd Bank is almost complete, and with almost one million retail customers, NN Bank is the fifth-largest retail bank in the Netherlands. NN Bank wants to be relevant to all these customers and help them make the right financial decisions at all the important milestones in their lives. Combining the roles of bank and insurer within NN Group means that we can make life easier across the board for customers as they make these important decisions.

Is the path we have mapped out already reflected in our performance in 2019? Marcel: "We've performed well, underpinned by record mortgage new business. In 2019, we grew our retail customer base (from 946,000) to almost 1 million. Our mortgage origination increased from EUR 6.1 billion in 2018 to EUR 7.9 billion in 2019. We are a healthy bank, with a balanced earnings model with two important pillars: a retail bank on the one hand, and a mortgage-servicing business for other NN Group business units and NN Dutch Residential Mortgage Fund business units on the other. High levels of new mortgage business have driven up our fee income. In terms of interest rates, we have been able to maintain our net interest margin in spite of the low interest rate environment."

Comprehensive customer solutions

How do you view NN Bank's role within NN Group? Marcel: "Within NN, we are collaborating even more intensively than ever before. This is increasingly leading to relevant solutions for customers. It's an important upside that services are provided by a single integrated financial institution, a bank and an insurance company. More and more, we are working with a comprehensive customer profile and a full service provision. If you respond to customer requirements with good solutions, advice and products, then you are truly relevant for customers. And we're getting better and better at mastering this."

Excelling in customer experience and service

How do you view NN Bank's position and role, given the market trends? Marcel: "We see it as our greatest challenge to stand out from the competition by excelling in customer experience and service. We want to be a data driven relationship bank with high levels of customer satisfaction, providing full-service solutions to customers as they make important financial decisions in their lives. Our size alone makes us an important financial services provider in a lot of people's lives. We want to support our customers. Including when they face financial difficulties. Their life events are the times that we can genuinely provide added value. Buying a house, having children, getting divorced, changing jobs: for each event there are different questions with different solutions. We have the knowledge to offer the right advice and effective solutions via our direct channel and with our intermediary partners."

New platforms

Which initiatives have contributed to this ambition in 2019? Marcel: “We have improved our customer portals, the digital mijn.nn.nl environment and the app. The online customer experience has to be of high quality, because a great number of our customer contacts are via our platform. As a relatively young bank, we don’t have a big legacy when it comes to our IT systems. We have utilised the integration of Delta Lloyd to totally renew our platforms. We’ve opted for state-of-the-art, cloud-based platforms that enable us to provide our customers with faster and more efficient service.

Customer service has also improved. At the start of last year, customer queries about savings or investments were still handled by separate departments. We merged these departments into one, called Contact and Service. As a result of this merger, customers receive faster and more accurate answers to their questions. Another good example of improved services is the launch of a new system of risk-based pricing for mortgages.”

Direction and culture

You have also launched an important internal initiative. Marcel: “In forging this new direction, we have also simultaneously introduced a culture change: Change is Now. We need to change the way we think and work to ensure that we stay relevant to our customers and to fulfil our role in society properly. As a Management Board, we have set the direction to a data driven relationship bank (the ‘what’). The responsibility for the ‘how’ has been delegated to the managers and staff, so that people also have a sense of responsibility for shaping our path to becoming ‘the bank you prefer’. We use stories to share the personal impact of this path. I tell the story of how I, growing up in an entrepreneurial family, experienced that your customers determine your success, and no-one else. I built a career in the financial world, but that conviction was instilled in me from an early age. As was the conviction that you can’t do it alone, but that you need to work together.”

> “
> **We want to be a data driven relationship bank with high levels of customer satisfaction, providing full-service solutions to customers when they make important financial decisions in their lives.**

Fulfilling our role in society

In the political and media landscape, a bank’s role in society and duty of care are important issues. Marcel: “We also took our duty of care seriously in 2019, with campaigns related to interest-only mortgages, for example. In addition, we actively approached customers who had taken out consumer credit to ask them whether in the light of their situation, it wouldn’t be more sensible to repay their loan. Another example: we’re members of the ‘Nederlandse Schuldhulproute’ (NSR, the Dutch Debt Relief Route). We work alongside municipalities, businesses and debt counsellors to identify customers with financial problems as early as possible and help them. We do this in a way that has proven to be effective. We want to be there for our customers when they experience difficulties.”

Measuring and improving

How do you know whether you’re on the right path? Marcel: “You need to continuously measure and improve performance. We collect information on all our customer processes. These processes need to be efficient and simple. That results in lower costs and higher customer satisfaction. The Net Promoter Score (NPS) is an important progress check for us. Our new customer journeys and solutions to customer life events are designed to lead to greater customer satisfaction.
We also measure employee engagement, which rose from 7.3 to 7.5 in 2019. This is good performance in a year’s time. Twice a year, we measure how we are performing as an employer and we use the feedback from our employees to be an even more attractive employer for our people.”

> “
> **We’ve opted for state-of-the-art, cloud-based platforms that enable us to provide our customers with faster and more efficient service.**

Shifting into the next gear

And the ambitions for 2020? Marcel: “I’m a passionate mountain biker. Once you’re familiar with a course, you get around it faster. We’ve got a lot of experience in improving customer experiences because we are constantly talking to our customers. We also have excellent customer solutions that we continue to improve. All our employees are committed to this path and are motivated to contribute. With all this experience, we’ll be stepping up our efforts in 2020, shifting into the next gear to be ‘the bank you prefer’.”

On 15 March 2019, Marcel Zuidam succeeded Erik Muetstege as CEO of NN Bank, becoming a member of Nationale-Nederlanden’s Management Team. Since NN Group’s acquisition of Delta Lloyd in 2017, as Chief Transition Officer, Zuidam has been a member of the NN Bank Management Board. In this role, he led the integration of NN Bank and Delta Lloyd Bank. From 2015 until the acquisition, Zuidam was CEO of Delta Lloyd Bank. Prior to this, he was CEO of Quion Group and held various management roles at ABN-AMRO.

Our operating environment

NN Bank operates in a dynamic environment. We keep a close eye on what is going on around us, and we focus on developments that can have an impact on our general strategic direction, our financial performance and the manner in which we help our customers and business partners.

We take account of the numerous developments that impact our operational environment. These are developments that often affect the entire financial sector. Having an understanding of this environment helps us to manage the risks and opportunities that we face, so that we can better meet our stakeholders' expectations.

Data and privacy

Data plays a crucial role in financial services and more. Or, more specifically, data analysis and the value it creates, are becoming increasingly important. By making intelligent use of and sharing data, with the explicit consent of our customers, we can create new products and services and substantially improve the quality of existing products. However, the intensive use of this data also poses privacy, ethics and security risks.

In recent years, Dutch consumers have become accustomed to sharing a lot of personal information online. Customers are willing to share their data, provided there is a genuine advantage in doing so, such as convenience or faster service.

In the financial services sector, data plays a crucial role in simplifying things like application processes. When developing predictive models, data can be used to give customers a greater understanding of their financial situation or to better predict customer behaviour. In turn, this information can be used to better align services to the customer.

NN Bank is working on data driven initiatives that will contribute to improve customer services on the one hand, and greater efficiency for the Bank on the other. Our guiding principles are legislation and regulation, and the needs of our customers. In that context, NN Bank continuously applies the General Data Protection Regulation (GDPR/AVG), introduced in 2018.

Consumer needs

Our customers' expectations, in terms of financial services and managing their financial affairs conveniently, are driven by their experiences in other sectors. Customers expect to be able to manage their affairs through any channel or device, without barriers. They expect financial service providers to offer propositions targeted at core needs, such as specific life events, and not just around traditional financial services. All this, of course, brings challenges and opportunities for banks.

The new customer requirements call for different expertise, technical skills and ways of working. This requires our organisation's sustained focus, including from the perspective of staff development. Continuing to understand and anticipate our customers' needs remains crucial if we are to strengthen our relationship with them.

Constantly improving the customer experience is important in order to build and retain long-term customer relationships. That is why in 2019, as in previous years, NN Bank focused strongly on improving our services, and in doing so, improving the customer experience. It is important for NN Bank to listen to the views of our customers and our business partners so that we are genuinely responsive to their needs.

Sustainability

Dutch consumers are focusing increasingly on sustainability. For example, as they determine how they live, invest and choose a financial services provider. Topical issues include climate change, resource scarcity, social inequality, working conditions, ethical trade, the environment, waste and energy consumption.

In recent years, there has been a clear shift in the business community. Today, non-financial value is very important, in addition to financial value.

More and more often, consumers judge businesses on their integrity. The majority of people are driven by the belief in a brand's aim. They switch, avoid and buy brands based on their social attitudes. Younger generations only want to do business with companies that have a positive impact on society, and 38% would end a relationship with a company if their products or services have a negative impact on the environment or society[1].

Responsibility to the consumer

The risks in relation to societal themes like healthcare costs and supplementary pensions are shifting gradually towards the consumer. Customers need to bear in mind that robust financial protection requires careful planning and saving. However, it is doubtful whether everyone understands this and is sufficiently able to respond to it. Financial service providers bear responsibility, along with other stakeholders, to respond and to help consumers increase their awareness of these issues and to support them in making choices with a view on their future financial well-being.

NN Bank's mission to secure financial futures aligns seamlessly with this. NN Bank wants to make a significant contribution to the financial awareness of our customers and help customers make the right financial decisions.

Brexit

The United Kingdom left the European Union on 31 January 2020. The UK will no longer be a member of the EU, but will enter a transition period that expires on 31 December 2020. During the transition period, EU rules will still apply to the UK, and a new trade agreement will be negotiated that outlines the future relationship between the EU and the UK.

In 2020 NN Bank will continue to safeguard its clearing access and ensure readiness for the potential transfer of the derivatives portfolio from the UK to the EU.

Percentage of younger people who would end a relationship with a company if their products or services have a negative impact on the environment or society

38%

1 Source: Global Millennial Survey 2019, Deloitte

Market developments

Economic conditions
Following a period of strong economic growth of at least 2% per year, economic growth in the Netherlands fell to 1.7% in 2019[2]. Unemployment fell to 3.4% in 2019[2]. A shortage of skilled workers is one of the bottlenecks for economic growth.

There was solid growth in household disposable income, which had a positive effect on consumer spending. In 2019, growth was fuelled by the strong rise in employment.

Housing market
In 2019, there was an housing shortage in the Netherlands. In 2019, 14.8% fewer houses were available to buy than in 2018. However, an equal number of existing homes were sold as in the previous year. Average prices rose by 8.0%.

The current housing market is largely dependent on the number of homes for sale. Although the number of newly built homes on the market is similar to previous quarters, the NVM statistics show that fewer newly built homes were sold due to high prices[3]. In addition, first-time buyers are confronted with the costs associated with the purchase of a home.

Mortgage market
In recent years, the mortgage market has been characterised by various new entrants. Since 2014, several new players have entered the market. New entrants are focusing on new target groups, offering innovative services and propositions. Half of active lenders (and almost all newcomers) are mortgage orchestrators – funds that originate mortgage loans. Via mortgage orchestrators, institutional investors (such as pension funds) can invest in the Dutch mortgage market, where they can find a high yield with a limited risk.

Banks are still the largest mortgage providers in the Netherlands. The concentration of Dutch banks remains very high, with a few dominant large players. Nevertheless, the smaller banks have gained market share in the last few years[4].

For consumers, there are a few important themes in the Dutch mortgage market, including the potential risks of interest-only mortgages. A portion of the interest-only mortgages will mature around the year 2035. Homeowners will then need to pay off their mortgages or refinance, precisely at the time when some people will be retiring and will lose their entitlement to mortgage interest relief. Consumers can reduce these potential risks when they still have a long existing term on their mortgage. This is why it is important for mortgage providers and consumers to take prompt action if needed. This calls for banks to approach customers with a high-risk profile to provide insight into the situation. Approximately two million Dutch households have interest-only mortgages. Approximately 10% of these may run the risk of payment difficulties if their income falls, for example after retirement[5]. Banks have launched the 'Aflossingsblij' campaign to highlight the potential risks of this kind of mortgage and to encourage customers to repay their debts.

2 Source: Netherlands Bureau for Economic Policy Analysis (CPB)
3 Source: Dutch Association of Real Estate Brokers and Real Estate Experts (NVM)
4 Source: Dutch Central Bank (DNB)
5 Source: Association of Home Owners (VEH)

Digitalisation is also an important theme in the market. The mortgage process is becoming more and more efficient. If they want to, customers can do more digitally. For example, application processes based on source data are being developed, so that a mortgage offer can be made 'instantly'. The new PSD2 legislation plays an important role here. Artificial intelligence, big data, virtual assistants and robo-advisers mean that complex mortgage applications can be reviewed more efficiently and effectively. This development requires banks to develop and market new initiatives.

The issue of climate change is having an impact on the mortgage market. The Netherlands is not expected to meet the government target to reduce CO_2 emissions by 49% by 2030, in spite of the additional measures agreed in the Climate Agreement[6].

To ensure that the climate target is met, the government is offering more subsidies for solar panels and heat pumps, according to the Ministry of Economic Affairs and Climate.

Before it was clear what government financial schemes could be expected, 57% of homeowners were already considering making their homes more sustainable. The preference is for savings (68%), but 18% are thinking of paying off their mortgages[7]. This means that the demand for new propositions is now in the hands of providers.

Savings market
The Dutch savings market has been characterised by low interest rates in recent years. In spite of these low interest rates, taxes levied on returns and rising inflation, the savings market has been growing for some years now. In addition, consumer spending is limited by declining consumer confidence, which is encouraging the savings trend[8].

According to the DNB, most people save to create buffers, and for unexpected or expected expenses. Research has shown that the popularity of saving is growing predominantly among younger households. The amount people save each month is also increasing, and the majority of younger households expect their savings to increase over the next year[8].

The bank annuities scheme for tax-efficient savings market grew more strongly in 2019, primarily as a result of accrued interest, an ageing population and regular payments. Consumer awareness about the pension gap is also growing, partly owing to current reports about the inadequate funding ratio of pension funds and impending reductions. As a result, individual consumers are choosing to saving more.

The total savings market grew by 3.5% in 2019, meaning that the market grew more strongly than in 2018 (2.0%).

Investment market
Consumers believe that investing generates a higher return than saving in the long term. The number of households that invest, however, is not increasing. This is because, for the consumer, a potential loss outweighs the chance of a higher return. It appears that younger households do not know enough about investing, while older consumers do not think that they have enough capital9.

Providers are trying to make investing more accessible to consumers with new technology, combined with smart propositions. Several providers are offering the option of investing a small amount at a regular frequency. This engages a wider audience, creating new target groups. In addition, consumers are looking for alternatives to investing. In their quest for stable returns, some consumers are deciding to invest in real estate. Currently, 15% of house purchases are used as an investment.

6 Source: Netherlands Environmental Assessment Agency (PBL)
7 Source: Nibud
8 Source: Statistics Netherlands (CBS)

Between 2002 and 2016, the penetration rate of investors among households decreased from 25% to 12%, according to Ipsos. The penetration rate of investing households has recovered somewhat and has fluctuated around 20% over the past three years[9]. In line with this flat trend in the number of investor households, market growth in 2019 has stagnated. The invested capital of households in funds shrunk by 0.4% in Q3 2019 compared with Q3 2018.

Consumer lending

As a result of economic growth in recent years, the number of consumers with debts has fallen[10]. In 2019, new consumer lending declined by 1.3%. Another important development is the change in the car finance market. More consumers are opting for personal car leasing instead of consumer credit. The private lease market grew by 22.8% in 2019[11].

The personal loans market nevertheless, grew as a result of a shift away from revolving credit, but also as a result of housing and mortgage market trends. Increasingly, consumers are opting to renovate their homes or make sustainable improvements. In many cases, consumers are choosing a personal loan, because it is cheaper than taking out a new mortgage.

Outlook

In 2020, economic growth is expected to decline further to 1.3%. Unemployment is expected to remain low as well. In 2020, wage growth will be the most important reason for an increase in disposable income, according to the CPB. In addition, there are increasing uncertainties abroad that will have a negative impact on the economy. Trade tensions are having a negative impact on export growth, but also on producer confidence, which has a knock-on effect on business investments.

The shortage in the housing market is expected to continue in the coming years. There will still be a shortage of new builds, which is having a negative impact on the market for existing housing. The supply is dwindling and prices will rise further, according to TU Delft. ABF Research estimates a total shortage of 296,000 homes in 2020, and a significant shortage will have to be taken into account until 2030. The National Housing Agenda of the Ministry of the Interior and Kingdom Relations has an ambition to build 75,000 houses per year until 2025, and the government announced a tax incentive of EUR 2 billion to encourage house construction. This incentive is intended to bolster the position of first-time buyers and middle-income groups in areas with a large housing shortage. The nitrogen problem is a threat to this ambition because it can prevent the construction of new homes.

As a result of the shortage of homes and the limited affordability of a home, NN Bank expects new mortgage business to shrink in the short term. NN Bank expects the market to shrink by more than 3% in 2020, as result of the cooling off of the economy and the housing market. However, after 2020, growth is expected, but it will not be as strong as in previous years. The market is expected to grow annually by around 2%.

The savings market is expected to continue growing, although not as strongly as in recent years, owing to the slight downward trend in the economy. The labour market shortage and higher inflation are pushing up contractual pay, while growth in consumer spending is falling due to declining consumer confidence. This is fuelling the savings trend. NN Bank expects the market to grow by 1.8% in 2020.

In the near future, NN Bank expects the retail investment market to grow further. But for various reasons, growth will not be strong. A combination of limited economic growth, low inflation and low bond yields are putting pressure on returns.

NN Bank expects the consumer lending market to grow over the next few years. A significant part of this growth will be supported by mortgage and housing market trends (including a shortage of homes, more renovation and consumer focus on sustainable home improvements). NN Bank expects average annual growth of 6.5%.

The coronavirus (COVID-19) has a substantial impact on financial markets, global trade, manufacturing and travel and is also having a negative impact on the markets in which NN Bank is active. This in particular pertains to the mortgage market and the wholesale funding market. Also the actual operations of NN Bank itself are impacted as NN Bank is following the recommendations of the Dutch government and currently all work is done from home rather than our office locations.

NN Bank expects refinancing spreads in the wholesale markets to rise and arrears and defaults with our mortgage and consumer credit clients to increase from the currently low levels. This will likely have a negative impact on the operating result of NN Bank in 2020, however, the extent of the impact on results cannot be reliably estimated at this moment. In addition, for the foreseeable future NN Bank expects no significant difficulties in refinancing it's funding positions and liquidity positions which are expected to remain above internal limits.

As circumstances are changing rapidly, the actual impact on NN Bank will become more clear over time and might deviate from current expectations.

9 Source: EY VODW Capital Trend Monitor
10 Source: EY VODW
11 Source: Association of Dutch Leasing Companies (VNA)

Our strategic and business developments

From a financial perspective, NN Bank can look back on a successful year in terms of integration, business improvements and improvements in the services we provide to our customers.

In line with developments in 2018, NN Bank focused on five key priorities in 2019.

- Growth in mortgages and savings
- Integration of Delta Lloyd Bank
- Optimisation of existing services
- Innovation & Transformation
- Determining of the Bank's future direction

Growth in mortgages and savings

NN Bank can look back on a very successful commercial year on the mortgage market. For the second year in a row, NN Bank reported the highest inflow of new mortgage business since the Bank was founded. Compared with 2018, NN Bank generated 30% more new mortgage business: EUR 7.9 billion, compared with EUR 6.1 billion in 2018. NN Bank's mortgage portfolio grew by EUR 1.5 billion to 19.4 billion in 2019[12].

This success is the result of further excellent collaboration with NN Bank's most important business partners, the independent intermediaries. In addition, NN Bank launched several mortgage propositions in 2018 in response to market developments, the benefits of which were reaped in 2019.

The customer savings portfolio remained the main funding source for NN Bank. In 2019, NN Bank also grew its savings portfolio. The net inflow of retail savings amounted to EUR 0.6 billion in 2019. The Bank's savings portfolio increased by 4.2% to EUR 15.1 billion in 2019, accounting for approximately 4.1% of the total savings balance of Dutch households.

NN Bank's market share of new consumer loans decreased in 2019 (0.5% in 2018 and 0.3% in 2019).

Integration of Delta Lloyd Bank

Important milestones were reached in 2019. For example, NN Bank migrated the first Delta Lloyd customers with a Delta Lloyd Bank mortgage or consumer credit to NN Bank.

The migrations of the internet savings, bank annuities and investment portfolios to the target platforms were finalised in 2019. This marks the completion of the integration of the Delta Lloyd Bank's savings and investment operations. The NN Bank platform now provides services to all former Delta Lloyd Bank savings and investment customers on the NN Bank platform.

Mortgage origination in 2019

7.9bn

12 Mortgage portfolio at book value excluding trading portfolio

> “Contact centre employee was very customer centric, helped to find the right solutions for me, with good results. A great job.
>
> **Customer**

All former Delta Lloyd Bank and OHRA Bank customers now have savings, investment and consumer credit products in NN house style and have access to the digital mijn.nn.nl environment and the NN app.

The credit risk models and financial reporting processes for the merged bank were also integrated in 2019. The integrated model is now in operation and was used for the first time in NN Bank's 2018 Annual Report to calculate loan loss provisions.

Optimisation of existing services

NN Bank believes it is vital to continuously improve its services. The Bank closely monitors changes in customer needs and responds to these changes by improving or adapting existing products, services and customer processes. By offering an exceptional experience, we want to strengthen our relationship with our customers and attract customers who buy more products and services from us and ultimately want to remain an NN customer for longer. The customer and the Bank's business partners are actively involved in many of these improvements.

In 2019, NN Bank introduced a new risk-based pricing system for NN Bank mortgages, under which mortgage rates charged to customers are automatically lowered during the fixed rate period if the loan is eligible for a lower risk premium as a result of repayments. The mortgage interest rate will be adjusted upon request of the customer if an increase in the value of the house leads to a lower risk premium. NN Bank can match a new mortgage to the customer's personal situation even better than before. It allows us to provide even better services to existing customers when it comes to their current NN Bank mortgage. In 2020, customers with a Delta Lloyd mortgage will switch to this new risk-based pricing system.

Also in 2019, NN Bank made various improvements to the customer experience during the digital customer journey. For example, the web pages were restructured and redesigned, and communication improved based on customer feedback.

In the digital mijn.nn.nl environment, NN Bank customers have been able to request a proposal to pay off their mortgage since 2019. This is an important process for the customer, with NN Bank offering the customer a convenient solution while enhancing efficiency.

The call channel is important for NN Bank customers. It is important that employees are able to offer the best possible customer service. This is why NN Bank has made it easier for its call centre agents to handle a call, so that conversations with customers are improved. To provide an even better and faster service to NN Bank's savings and investment customers, in 2019, NN Bank began integrating the Contact & Service department. All employees can provide full service to customers in relation to a specific savings and investment products.

> “I have good interactions with my team and NN Bank does what it promises.
>
> **Intermediary**

Net portfolio growth mortgages in 2019

1.5bn

At the end of 2018, NN mortgages were migrated to a new back office system. In 2019, NN Bank improved the system, making it more robust and improving the processes. As a result, the processing times in 2019 were significantly improved, which has made a substantial contribution to even better mortgage services and to the customer experience. The migration of the Delta Lloyd mortgages will be completed in 2020.

Responding to changes in the market creates significant demands on the internal organisation. To respond optimally to these changes, NN Bank has modified its organisation in a number of areas. For example, further steps have been taken to work in an Agile way by expanding the number of Agile teams at the Bank. NN Bank aims to create more value for customers by making these organisational changes.

The efforts made to further improve the level of service, along with the customer experience, led to us receiving the highest independent intermediary rating for our bank annuities product in 2019.

“

Excellent mortgage provider, very responsive to its intermediaries.

Intermediary

In 2019, NN Bank received five-star product ratings from MoneyView for its annuity (or capital and interest mortgage) and straight-line mortgage products and for its “Aanvullend PensioenSparen” (Supplementary Pensions Saving) product. Finally, the Bank received the ‘Cashcow Award 2019’ in the category ‘Best online asset manager’.

The work undertaken by NN Bank has led to a further improvement in the customer experience in 2019 compared with 2018. The NPS in 2019 was 11.0 (2018: 8.4).

“

We’re very satisfied with the service NN provided. Keep up the good work! The contact centre employee was very calm and friendly and was really helpful.

Customer

Innovation & Transformation

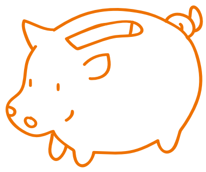
NN Bank is constantly looking for innovative ways to meet the needs of our customers. By focusing on innovating our business and our sector, we are identifying new customer segments and services, and developing a customer experience that is as personalised and relevant as possible. The use of new technologies plays an important role in our approach. New technologies allow NN Bank to work faster and more effectively, often at a lower cost.

In 2019, NN Bank launched or completed the following initiatives.

- The acceptance of the income for a mortgage application based on data provided by UWV (the Dutch employee employment agency) was implemented. This is the first step towards accepting mortgages based on source data. The use of external source data enables NN Bank to make the mortgage process more efficient and offers customers a better experience by simplifying the application process.
- Automated monitoring of the mortgage value chain has been improved significantly over the past year. This allows NN Bank to identify system outages more quickly, and in some cases to avoid them altogether.
- NN Bank is developing a predictive machine-learning fraud detection model that helps us better manage our fraud detection processes.
- NN Bank has implemented a predictive model for operational personnel management. The new model allows NN Bank to better predict new mortgage applications, which leads to more efficient workforce planning and an even higher level of service for customers and advisers.
- NN Bank uses a marketing automation tool for communication with our intermediaries. The tool offers NN Bank data-guided insights, adding more relevance and value to commercial communications.

Net portfolio growth savings in 2019

0.6bn



- NN Bank is a key partner in the Dutch Blockchain Coalition, a public-private consortium that aims to apply blockchain technology to advance Dutch society. Within the Dutch Blockchain Coalition, NN Bank is leading the development of a project that would allow a customer to instantly deliver verified financial and other information to a bank, using a Digital Identity. This solution is based on blockchain technology. The project team actively cooperates and engages with public institutions. Many customers across all banks see the delivery of financial documents as a time-consuming and difficult step in the mortgage application process, making this a potentially impactful application.
- To better balance its business model, NN Bank will expand its services for external institutional investors from its role as mortgage orchestrator.

NN Bank is increasingly taking initiatives to improve core services. The important focus for the Bank is to improve the speed at which these initiatives are developed and implemented.

Our financial developments

Analysis of results

Amounts in millions of euros	2019	2018
Interest income	631.2	600.3
Interest expenses	383.3	383.2
Interest result	**247.9**	**217.1**
Gains and losses on financial transactions and other income	**41.4**	**15.4**
Fee and commission income	**96.8**	**86.5**
Valuation results derivatives	**-6.5**	**-3.7**
Total income	**379.6**	**315.3**
Impairment charges on financial instruments	-1.1	-5.4
Staff expenses	113.3	111.0
Regulatory levies	17.3	16.8
Other operating expenses	93.8	95.0
Total expenses	**223.3**	**217.3**
Result before tax	**156.3**	**97.9**
Taxation	40.1	22.1
Net result	**116.2**	**75.8**

Key figures

Amounts in millions of euros	2019	2018
Loans	20,004	18,443
Customer deposits and other funds on deposit	15,079	14,476
Net interest margin[1]	1.1%	1.0%
Cost/Income ratio[1]	54.6%	65.3%
Return on assets[1]	0.5%	0.4%
Return on equity[1]	11.7%	8.1%
Total assets	24,663	21,602
CET1 capital[2]	926	906
CET1 ratio[2]	15.7%	16.3%
Total capital[2]	1,011	991
Total capital ratio[2]	17.2%	17.9%
Leverage ratio	3.7%	4.1%
Liquidity Coverage Ratio (LCR)	173%	171%
Average number of internal FTE	839	824

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 18 'Interest result').
- Cost/Income ratio: the cost/income ratio is calculated as staff expenses plus other expenses minus regulatory levies divided by total income.
- Return on assets: the return on assets is calculated as net result divided by the average total assets in a year.
- Return on equity: the return on equity is calculated as net result divided by the average equity in a year.

2 These are not final until filed with the regulators. If DNB approves the addition of the net result, then the Total capital ratio is 18.3% and CET1 ratio is 16.8%.

Profit and loss

In the mortgage market, NN Bank faced ongoing competition. The low interest rate environment continues to make mortgages an attractive investment for non-banks, such as pension funds, insurance companies and investment funds. New competitors with less capital-intensive business models are active in the market, driving the margins further downward.

Other developments at NN Bank that characterised the year 2019 financially are:

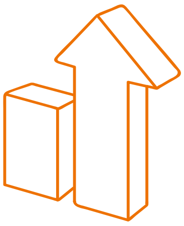
- introducing the amended interest rate pricing for mortgages
- refinancing a part of the wholesale funding portfolio
- taking an important step in completing the integration of Delta Lloyd Bank
- improving the proposition for internet savings product in Spain

NN Bank's 2019 net result increased compared with 2018 on the back of both internal and external factors. This higher net result is also the main driver of the increase in return on equity from 8.1% in 2018 to 11.7% in 2019. Non-recurring gains and losses contributed largely to the increase in net result. Net result was positively impacted by fair value gains of EUR 53.4 million on transfers of mortgages to other NN Group entities and the NN Dutch residential mortgage fund caused by declining interest rates. Items that negatively impacted the net result in 2019 include EUR 17.0 million premium paid on the repurchase of Hypenn I and EUR 14.8 million expenses related to the integration of Delta Lloyd. In 2018, non-recurring items included the financial impact of the risk-based pricing system (EUR 21.6 million) and expenses related to the integration (EUR 16.9 million).

Interest result increased from EUR 217.1 million in 2018 to EUR 247.9 million in 2019, largely driven by the 2018 initial modification charge for the new risk-based pricing methodology, causing a one-off impact of EUR 21.6 million, while EUR 6.1 million was released in 2019.

Net result 2019
in millions of euros

116.2



This resulted in an increase of the net interest margin from 1.0% to 1.1%.

Fee and commission income strongly increased. A high volume of mortgage origination resulted in a higher volume of mortgage sales to other NN parties and the NN Dutch Retail Mortgage Fund and the service portfolio increased. Other income also increased as NN Bank benefited from declining interest rates resulting in fair value gains on mortgage sales.

To maximise the synergy benefits of the Delta Lloyd acquisition, NN Bank is actively integrating processes and systems. NN Group committed to an expense reduction, around 10% of which is to be contributed by NN Bank. Until the end of 2019, NN Bank reduced expenses by 10.8% to EUR 209.6 million (from EUR 235.1 million 2016 cost baseline), including levies and excluding integration expenses and severance payments.

Staff and other operating expenses increased by EUR 1.1 million to EUR 207.1 million. This increase is related to the higher mortgage origination, partly offset by realised cost savings. The Cost/Income ratio improved to 54.6%, compared with 65.3% in 2018, mainly reflecting higher total income driven by the impact of the risk-based pricing methodology change in 2018 and fair value gains on transfers of mortgages.

Customer portfolios

The NN Bank mortgage portfolio increased by EUR 1.5 billion to EUR 19.4 billion in 2019[13]. The mortgage market was favourable but market competition was strong, NN Bank managed to increase its volume of originations to EUR 7.9 billion compared with EUR 6.1 billion in 2018.

Of the EUR 7.9 billion origination, EUR 3.9 billion was transferred to NN Leven, EUR 0.8 billion to the NN Dutch Residential Mortgage Fund, EUR 0.6 billion to Belgium and other NN Group entities purchased EUR 0.1 billion in mortgages.

The customer savings portfolio remained the main funding source for NN Bank. The net inflow of retail savings amounted to EUR 0.6 billion in 2019.

Capital & liquidity

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

NN Bank has continued its presence in the secured market with the issuance of two public benchmark Conditional Pass Through Covered Bonds (CPTCB) of EUR 500 million in February 2019 and September 2019 with maturities of 5 and 10 years, respectively. On the other hand NN Bank called both the Arena NHG 2014-I and the Hypenn II RMBS transactions at their respective first optional redemption dates. Further, in July the Hypenn I A3 outstanding notes were repurchased. These notes are retained on NN Bank's balance sheet as a part of NN Bank's liquidity buffer.

In the unsecured market NN Bank issued EUR 1,565.8 million under its Debt Issuance Programme (DIP) in 2019. In May 2019 NN Bank completed its inaugural public transaction for a total amount of EUR 500 million with a tenor of 4 years which represents an important step in the development of the funding profile of NN Bank. In November 2019 a second public transaction for a total amount of EUR 500 million with a tenor of 5.25 years was issued. Further, Floating Rate Notes for a total of EUR 545.8 million have been issued under the DIP.

13 Mortgage portfolio at book value excluding trading portfolio

2018 full-year dividend paid in June 2019

55.9 mln

In addition, NN Bank has been active in the private placement market for both secured and unsecured funding with a wide range of national and European counterparties. In March NN Bank issued two CPTCB private placements for a total amount of EUR 45 million with a tenor of 20 years.

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

NN Bank maintained a solid liquidity position with an LCR of 173%. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2019, NN Bank had external credit facilities in place: two committed loan facilities secured by mortgages and credit facilities with NN Group, one of which secures NN Bank's liquidity needs related to variation margin calls.

NN Bank has maintained a solid capital position, with a Capital Requirement Regulation (CRR) transitional total capital ratio of 17.2% (2018: 17.9%) and a CRR transitional CET1 ratio of 15.7% at year-end 2019 (2018: 16.3%). The growth in capital, driven by internal capital generation in the form of retained profits did not fully compensate the growth in risk weighed assets.

NN Bank paid a 2018 full-year dividend of EUR 55.9 million in June 2019, following adoption of the 2018 Annual Report by the general meeting of NN Bank (General Meeting). Further, a 2019 interim dividend of EUR 26.2 million was paid in September 2019. At the 2020 annual general meeting, no final dividend over 2019 will be proposed. NN Bank follows the guidance received from DNB in view of the current coronavirus COVID-19 that will ease the Dutch banking sector's capital requirements to support lending, combined with a restraint on dividend pay-out and share buyback.

In 2019, the EUR 15.0 million and EUR 25.0 million subordinated loans with NN Group with maturity dates June 2024 and September 2024 have been restructured to ensure 100% Tier 2 eligibility of these loans.

Non-financial statement

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

Our role in society

NN Bank wants to play a positive role in the lives of our customers. We believe that this involves taking responsibility for the well-being of society as a whole and supporting the communities in which we are active.

We focus on improving financial well-being of people. This includes offering products and services that are suitable and transparent, and developing products that address societal challenges. We manage the assets that our customers entrust to us, as well as our own assets, responsibly. Furthermore, we contribute to society by buying goods and services from (local) suppliers and by managing our direct footprint.

To underline our ambition, NN Group endorsed various commitments, such as the Commitment of the financial sector to the Dutch Climate Agreement (Klimaatakkoord). We are also a member of the UN Principles for Sustainable Insurance and the UN Global Compact.

Regarding carbon emissions, the aim of the Climate Agreement is to roughly halve these by 2030 compared with 1990. For the Dutch financial sector this includes setting up CO_2 footprint monitoring of financing and drawing up action plans to limit this. Also clients will be encouraged where possible to reduce their CO_2 emissions and helped to do so with products and services.

As a mortgage provider, we want to contribute to the reduction of greenhouse gas emission stemming from houses we finance. NN Bank offers financing options to make homes more sustainable and has the ambition to issue green bonds and to source green mortgages for ourselves but also for third parties. We will also encourage our customers to reduce emission by making their homes more sustainable.

Looking towards the future we will engage with our clients to facilitate them in dealing with climate change related impacts and to support them to make their lives more sustainable. As we further explore this important topic we will further optimise out strategy, risk management and measurement. The NN Bank mortgage portfolio has grown strongly since 2014 and growth has predominantly been in newly built homes. Approximately 25% of the NN Group mortgage portfolio has an A energy label, while roughly 18% of the Dutch housing market has an A energy label.

Consumers are actively looking for solutions to make their lives more sustainable, but struggle to find a reliable partner to help them to cut their energy bills, reduce their carbon footprint and to enhance their standard of living. Research conducted by NN reveals that consumers are looking for reliable content, technical expertise and financial support, but have difficulty finding it. And what they find is often not transparent.

With its positioning and brand, NN is able to play an active role in the transition to a sustainable economy by offering financial and other product and services. NN recently launched ‘Powerly’, a platform that offers support to users, from orientation to implementation in boosting the sustainability of their houses in the Netherlands. NN Bank is closely involved in this initiative. We aim to expand this initiative to a sustainability platform that offers a reliable starting point for consumers, benefits customers, partners and NN, and contributes to the UN Sustainable Development Goals

Furthermore, we provide coaching and tools intended to generate more income, reduce costs, reduce monthly mortgage payments or a combination of all of these. NN Bank is involved in a coalition of creditors, the ‘Schuldeisercoalitie’. Large Dutch businesses work together in this coalition to combat poverty in the Netherlands. The participating businesses abide by an ethical manifesto about how to deal with customers who encounter payment difficulties. NN Bank also takes part in the ‘Nederlandse schuldhulproute’ (NSR, the Dutch Debt Relief Route). Various organisations are part of the NSR, whose aim is to identify people with potentially problematic debts at an early stage. Companies such as banks, health and other insurers, telecoms businesses, energy companies and housing corporations can identify actual or imminent payment arrears.

To promote financial education, our employees visited primary schools during ‘Week van het Geld’ (Money Week), giving guest lectures about money and risks. Employees can also spend time doing volunteer work, for example at LEF Coaching, a programme aimed at coaching people to help them find a job. Furthermore, employees have the option of requesting a donation for a charity that they support, through our foundation ‘Wij en de Maatschappij’ (Together for Society). NN Bank employees are given the opportunity to get involved in people’s financial well-being outside of their own role at the Bank.

Going forward, NN Bank will continue to work on its role in society. It will continue to develop its products and services, and align them with societal challenges, such as climate change and financial well-being.

Our employees

At NN Bank, people really matter. We firmly believe that we can better serve our customers and achieve our business goals if our people are encouraged to use their different talents, personalities and expertise. We know that we can only be the business we want to be if our people are skilled, motivated and engaged. This calls for a culture that welcomes and respects everyone and focuses on empowerment and entrepreneurship.

We want to be an attractive employer for current and new colleagues, which means that we offer more than just favourable financial conditions. We offer a motivating and healthy workplace where talent can develop, colleagues enjoy their work and where their efforts are valued and respected. This is conveyed in how we communicate with the jobs market. In 2019, we improved our online labour market communication and we are using vlogs and blogs to promote our vacancies.

The number of NN Bank employees rose slightly during 2019, from 1,169 employees (1,134 FTEs) to 1,195 employees (1,159 FTEs). Of these 1,195 employees, there were 865 (839 FTEs) internal employees and 330 (320 FTEs) external employees at year-end 2019.

A new CLA was agreed with the trade unions in 2019. NN wants to be an attractive employer and that means having an attractive remuneration policy. This will allow NN not only to attract the right talent, but also retain the right talent for the future. Talent retention is important for the success of the organisation, because our colleagues determine the future of our business and the future of our customers. In addition to fixed remuneration, we also want to have different ways of rewarding our employees for exceptional performances. A mature employment relationship means offering various reward options, such as providing development opportunities, engendering trust, greater freedom, personal attention and appreciation.

NN Bank wants to be a bank that genuinely helps its customers to secure their financial futures. This calls for employees who want to constantly improve for the customer. Employee engagement is crucial, which is why NN Bank conducted employee engagement surveys in 2019. The engagement score in 2019 was 7.5, an increase since 2018 (7.3).

The employee engagement surveys revealed that effectiveness and impact, warmth and a readiness to help are in our DNA. Many colleagues also use their 'orange heart' in addition to their heads to find solutions. Many employees feel driven to genuinely help customers to get ahead, as well as to support and help their immediate colleagues. Customers tell us that they value our expertise, friendliness and clear explanations. Customers also feel that we are genuinely interested in them.

Engagement score November 2019

7.5

NN Bank automatically reduces mortgage risk premium

Strong collaboration results in new risk-based pricing system

Sander Doolaard
Product Owner within NN Bank

How easy do you want it to be? If redemption means that a customer's house increases in value in relation to the mortgage they owe, and the customer is thereby placed into a new risk premium category, the risk premium is automatically lowered. If customers end up in a new risk premium category because their home has increased in value, they simply need to upload an assessment under the Dutch Valuation of Immovable Property Act (WOZ) to benefit. In a nutshell, that's the system that NN Bank successfully introduced in 2019. Transparent, simple and customer-friendly.

NN Bank worked hard to develop a simple and transparent system for the various risk-based pricing categories. The system became operational in 2019, and the results speak for themselves. Sander Doolaard, product owner within NN Bank, looks back: "Becoming the bank you prefer was the starting point from which we developed this new system for our customers."

Making it easy with the digital mijn.nn.nl environment

There are now nine risk premium categories. The ratio between the mortgage amount and the value of a property determines the premium. Today, customers redeem all new mortgage loans. NN Bank automatically reduces the risk premium if customers enter a lower risk category. This means that customers immediately pay less interest on their mortgage.

Service to the customer goes even further. Sander: "In the digital customer environment mijn.nn.nl, customers can upload their WOZ assessment if the increase in the value of their property means that they qualify for a lower risk category. Customers can use the interest rate tool on our website to quickly calculate whether this is the case."

Taking on the challenge

Sander: "It was an extremely challenging process. Several NN departments were involved. A full-service package from a customer perspective requires us to be able to work together throughout the organisation to optimise our customer services. Ultimately, we launched the new system in the summer of 2019. This year, customers with a Delta Lloyd mortgage will switch to this new risk-based pricing system. This isn't just a case of 'copy and paste', because these mortgages have their own terms and conditions. But since we are so well integrated as a team, I expect us to also be able to introduce this successfully."

Relevant for the customer

NN Bank employees confident about our direction

Niels Toussaint
IT manager within NN Bank

"In an ever-more rapidly changing world, it's crucial to ensure that everyone continues to keenly focus on added value for customers and stakeholders. And that's exactly what we accelerated in 2019." These are the words of Niels Toussaint, IT manager, now in his role as one of the initiators of the 'Change is Now' programme. This change programme will ensure that NN Bank continues to innovate and improve. It has just one goal: happy customers and happy employees.

NN Bank's primary goal is to be the bank you prefer. If people choose us, it means we're truly relevant and that we add value. The aim of Change is Now is to make every employee feel like they are contributing to that goal. Niels: "Of course, essentially we want to be proud of our bank and we want people to choose our bank. That's our point on the horizon, our vision. And everyone is enthusiastic about it. With Change is Now, we want to convert this engagement into action. At every level of the organisation, we've shared our vision for desired behaviour that will get us there, the roadblocks in our way, and the essential action that we need to continue: start, stop, continue. That's how we ensure that everyone takes the strategy to heart and is involved in its realisation.

Stories that stimulate motion

"By sharing stories about what the vision means to you, we create the space to talk about improvements. Our CEO, Marcel Zuidam, also told us his personal story at the start of the Change is Now sessions, which all employees worked on with their managers. His story was about the importance of hospitality. It made an impression and set the tone."

Communication that creates change

"We collected and categorised all the input from the sessions. All employees were subsequently able to vote on what they felt was most important. Gaining and taking ownership proved to be an important theme. This creates a lot more scope for initiatives that really benefit the customer. What we are doing works and really empowers us."

How do you make sure that you keep the momentum? Niels: "Communication is key. We continue to share the positive and negative stories, and to exchange experiences. We carry on learning from one another. We regularly monitor whether our employees are feeling the winds of change. This is how we consistently build a better framework for the bank we want to be. With new products and services that customers want from us."

Conclusions for 2019 and looking ahead

NN Bank can look back on a successful 2019. The bank is proud of its record mortgage sales. The customer rating of our services has increased, giving us a higher NPS. This is the result of the many efforts to further improve services around customer life events. Finally, NN Bank can look back on the successful migration of a large part of operations following the merger with Delta Lloyd Bank.

Outlook for 2020

Following a successful 2019, NN Bank looks forward to a year with new challenges.

In 2020, we expect to complete the integration of Delta Lloyd Bank with the last portfolio migration, the Delta Lloyd mortgage portfolio to the NN mortgage platform.

This also marks a new phase for NN Bank; developing the Bank's future growth. NN Bank will enter a new phase focused at strengthening customer relationships. NN Bank will do this by offering relevant solutions and services at relevant times in a customer's life. Data will play an important role here.

NN Bank initiated a programme in 2019 to migrate from the current more scattered landscape to the NN Bank Data Ecosystem (Decos), one central data warehouse which will be the basis for all reporting. In order to increase efficiency and flexibility to adapt to continuously changing regulatory reporting requirements, the decision has been made to restructure and further automate NN Bank's regulatory reporting processes and organisation. After a thorough selection procedure NN Bank selected the SaaS regulatory reporting solution. Also NN Bank wants to further professionalise by improving our Data Governance, data quality and Data management processes, capabilities and tooling. All these improvements are combined in the project, which will focus first on the regulatory reporting.

In this way NN Bank is building a future proof solution for its data quality and reporting requirements, all in one place with one truth for all users of the data we will collect within Decos.

To balance our business model, NN Bank will expand its services for external institutional investors from our role as mortgage orchestrator.

At the same time it is important to balance our commercial ambitions with our efforts to further maturing our organisation and keeping it resilient, in the interest of all our stakeholders. In the coming year we will continue to improve our finance, risk management and compliance practices.

The coronavirus (COVID-19) has a substantial impact on financial markets, global trade, manufacturing and travel and is also having a negative impact on the markets in which NN Bank is active. This in particular pertains to the mortgage market and the wholesale funding market. Also the actual operations of NN Bank itself are impacted as NN Bank is following the recommendations of the Dutch government and currently all work is done from home rather than our office locations.

As circumstances are changing rapidly, the actual impact on NN Bank will become more clear over time and might deviate from current expectations.

Appreciation for former members of the Management Board and Management Team

In 2019 a number of Management Board and Management Team colleagues left NN Bank to pursue careers either within NN Group or elsewhere. These colleagues made an important contribution to the growth of NN Bank in recent years. The Management Board would like to thank them for their commitment and support in the past years.

Appreciation for NN Bank employees

The Management Board would like to thank all employees for their dedication and hard work. Important integration results have been achieved thanks to the efforts of all employees. In addition, we have further improved our service to customers, which has resulted in higher customer satisfaction. The Board and all employees look forward to bringing the Bank's growth plans to fruition in 2020.

Corporate governance

General

NN Bank has a two-tiered Board system, which is comprised of a Supervisory Board and a Management Board. In 2019 the Supervisory Board appointed an Audit & Risk Committee from among its members, responsible for preparing matters delegated to this committee. The Management Board determines and is responsible for NN Bank's mission, strategy, policy and objectives. It focuses on business continuity, taking into account a balanced assessment of the interests of customers, investors, employees and shareholders. The Supervisory Board advises the Management Board and supervises Management Board's pursuit of policy, the Management Board's performance of its duties and the company's course of affairs, taking into account the interests of the company's stakeholders.

The General Meeting appoints the Management Board members.

The NN Bank Management Board consists of three members: a CEO, CFO and CRO. In 2019, a new CTO was added to the NN Bank Management Team. The CTO is not a member of the Management Board as per NN Bank's Articles of Association and as such has no statutory role within the Management Board.

The governance and control structure for NN Bank forms the basis for its sound management and is founded on the following principles:

- A governance structure based on a Management Board, with support committees authorised to establish policies, set limits and organise checks and balances within the strategic mandate of NN Group
- An independent risk management function, responsible for implementing an adequate framework for risk and control policy, directly anchored in the Management Board via the Chief Risk Officer (CRO)
- An adequate policy framework that guides the mechanics involved in placing the organisation on an operational footing, set out in the NN Group policy framework, unless waived by NN Group
- The embedding of the policy framework, guidelines and procedures in the Three Lines of Defence model

In order to preclude potential legal sanctions, financial losses and reputational damage, NN Bank's policy guidelines are regularly reviewed and adjusted. 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. Until 1 November 2019, the composition of the Management Board met the aforementioned gender balance. As a result of Monique Tailor-Hemerijck stepping down as of 1 November 2019 and the appointment of Pieter Emmen as her successor, the gender balance of at least 30% men and at least 30% women amongst the members of the Management Board is currently not met. In 2019, the composition of the Supervisory Board did not meet the aforementioned gender balance. In addition to the Management Board, the daily operations of NN Bank are managed by its Management Team. The Management Team is comprised of 37% female and 63% male members. NN Bank needs to weigh several relevant selection criteria when composing the Management Board, Supervisory Board and Management Team. 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 29 May 2019, the general meeting of NN Group reappointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2020 through 2022. On 3 June 2019, the general meeting of NN Bank (General Meeting) reappointed KPMG Accountants N.V. as external auditor of NN Bank for the financial years 2020 through 2022. The external auditor attended the meetings of the Supervisory Board on 17 January, 2 April and 29 August 2019.

More information on NN Group's policy on external auditor independence is available on the Nationale-Nederlanden website www.nn.nl.

Legislation and regulations
NN Bank adheres to the legislation and regulations by which it is governed. For NN Bank, this includes the Dutch Civil Code, the Financial Supervision Act, the Capital Requirements Directive/ Capital Requirements Regulation, Basel III, the General Data Protection Regulation, the Competitive Trading Act, the Telecommunications Act, the (Anti-) Money Laundering and Terrorist Financing (Prevention) Act, the Consumer Lending Act and the further regulation based on this legislation.

On 30 August 2019 the AFM imposed a fine of EUR 1.25 million on NN Bank for over-crediting with regard to consumer credit. NN Bank deplores the violation of consumer credit rules. NN Bank has taken good notice of the decision and considerations of the AFM and has taken further measures to ensure compliance with laws and regulations for the offering of consumer credit.

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

Banking Code
NN Bank has implemented the Banking Code and applies it. The Code helps to increase awareness of the role of banks and their responsibilities towards society. NN Bank devotes a great deal of attention to the Code in our operations, risk management and in our dealings with customers and other stakeholders. The Code 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 publishes its full report regarding the 'Application of Banking Code' on the Nationale-Nederlanden website www.nn.nl.

Remuneration policy
As a subsidiary of NN Group, NN Bank falls within the scope of the NN Group Remuneration Framework.

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. It also aims at supporting the long-term objectives of NN Group.

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 mostly non-financial.

NN Group's Code of Conduct
All individual employees of NN Group are obliged to observe NN Group's Code of Conduct and the NN statement of Living our Values. NN Group, and subsequently NN Bank, expects exemplary behaviour from its entire staff, irrespective of their job function. Effective business contacts, both within and outside NN Group, should be based on honesty, integrity and fairness. NN Group's Code of Conduct also includes a whistle-blower procedure, which ensures anonymity when reporting irregularities, albeit violations of laws and regulations.

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

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

NN Bank is exposed to various financial and non-financial risks. For a more detailed description of these risks and the way in which they are managed, reference is made to Note 39 'Risk management'.

Risk Appetite Framework

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

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

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

Within the Management Board, the CRO is responsible for drawing up an RAS proposal in close consultation with the CFO. The risk management organisation and compliance function assists the CRO, including providing analyses of the current risk positions and risk tolerances. The Management Board and Supervisory Board approve the proposed risk appetite as part of the input for the annual business plan.

Internal capital and liquidity adequacy

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

Financial reporting process

As NN Bank is part of NN Group, the policies and procedures for establishing and maintaining adequate internal control over financial reporting are similar to those applied by NN Group for its Consolidated financial statements.

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

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, 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, Loan Loss Provisioning (LLP) is a quarterly process, carefully executed and well monitored and controlled. This process encompasses the following key phases:

- Identification: assets that, based upon the IFRS business model test, require the determination of a Loan Loss Provision – are selected for further processing
- Determination of significant increase of credit risk (SICR) and provisions: NN Bank's credit risk exposure models are used to calculate the level of 12-month Expected Loss (for Stage 1) and the Lifetime Expected Loss (for Stage 2 and Stage 3 exposures), as well as the provision for Purchased Other Credit Impaired (POCI) assets. The LLP is the sum of Stage 1, 2, 3 and POCI provisions.
- Approval: The NN Bank Impairment and Provisioning Committee (IPC) reviews the figures for approval
- Reporting: The figures are booked in the NN Bank General Ledger and used for internal and external reporting (e.g. DNB)

The Hague, 24 March 2020

The Management Board

Report of the Supervisory Board

Duties
The Supervisory Board is responsible for supervising and advising the Management Board on its conduct and general management of the business, as well as on NN Bank's strategy, also within the context of the NN Group's strategy. Supervisory Board approval is required for important business-related decisions, such as strategic decisions, transfer of a significant part of the business, entering into or terminating a long-term partnership, major participations and investments, and the termination of employment of a large number of employees.

Meetings
In 2019, the Supervisory Board convened six times. Five ordinary meetings and one extra meeting were held. NN Bank's Audit & Risk Committee convened once. Important items on the Supervisory Board's agenda were the full-year and half-year figures, progress on implementation of strategy, the status of strategic projects – such as the introduction of a payment system, capital and funding plans, the Bank's ICAAP/ILAAP submissions, risk appetite, balance sheet transactions and the strengthening of the internal organisation. In addition, the Supervisory Board discussed the future strategic options for the Bank as well as the functioning of the external auditor, including its independence, with the Management Board. Supervisory Board members also attended permanent education sessions.

Committees
Until the establishment of an Audit & Risk Committee, the Supervisory Board, as a whole, performed the activities of said committee. In 2019, the Supervisory Board decided to establish a separate Audit & Risk Committee. This committee met in 2019 for the first time. The Audit & Risk Committee is composed of two members of the Supervisory Board. The Executive Board, Internal Audit and the external auditor attended the first meeting. The Audit & Risk Committee, and the Supervisory Board in its former role, discussed several topics: risk analysis, risk policies, risk appetite, market risk, capital and liquidity adequacy, operational risk, compliance risk and strategic risk. The internal and external audit plan was also approved and monitored and the progress made in the resolution of audit issues, including IT and compliance-related matters, was discussed. Furthermore, key financials, financial reporting, reports of the specific audits of the internal auditors and the external auditor and reports of DNB and AFM were discussed.

The primary purpose of an Audit & Risk Committee is to provide oversight of the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations. Setting up a separate Audit & Risk Committee removes the inherent difficulty of the Supervisory Board being both a mentor as well as an assurer. Both roles are integral to a healthy risk management culture. It provides the auditor with an independent point of reference. The Audit & Risk Committee reports to the Supervisory Board and provides appropriate advice and recommendations on matters related to NN Bank's corporate reporting processes and risk-management and compliance framework, in order to facilitate decision-making by the Supervisory Board.

Risk
At each regular meeting of the Supervisory Board, the financial risk and the non-financial risk reports were discussed and monitored against the Risk Appetite Statements (RAS). Furthermore, the Supervisory Board approved NN Bank's RAS and its ICAAP/ILAAP submissions.

Functioning of the Management Board
The Supervisory Board performed its annual review of the functioning of the Management Board in 2019. The Supervisory Board concluded that the Management Board was capable and effective. The Management Board met the Supervisory Board's expectations.

Composition of the Management Board
In 2019 the composition of the NN Bank Management Board changed considerably. Please refer to page 3 of this Annual Report for the current composition.

Composition of the Supervisory Board
Members of the Supervisory Board are selected based on a profile that includes the required professional background, education, international experience, skills, diversity and independence. The composition of the Supervisory Board is such that its members can perform their duties properly because of the appropriate mix of experience and expertise. In 2019, two members of the Supervisory Board resigned. The Supervisory Board now consists of three members, including its chair, Mr Hein Blocks.

Please refer to page 3 of this Annual Report for the current composition of the Supervisory Board.

Annual Report, Banking Code and dividend
The Management Board has prepared the Annual Report and discussed this with the Supervisory Board. The Annual Report will be submitted for adoption at the 2020 annual general meeting. At the 2020 annual general meeting, no final dividend over 2019 will be proposed.

Appreciation for the Management Board and NN Bank's employees
We would like to express our thanks to the Management Board and to all staff for their hard work, personal dedication and ongoing commitment, as well as for their achievements in 2019. Special thanks go to Erik Muetstege, Monique Hemerijck and Sandra van Eijk, who have left the Bank's Management Board in 2019, for their long-standing contribution to NN Bank's development and growth.

The Hague, 24 March 2020

The Supervisory Board

Conformity statement

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

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

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

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

- The Nationale-Nederlanden Bank N.V. 2019 Annual accounts, as referred to in section 2:361 of the Dutch Civil Code including the relevant additional information as referred to in section 2:392 paragraph 1 of the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of Nationale-Nederlanden Bank N.V. and the entities included in the consolidation taken as a whole
- The Nationale-Nederlanden Bank N.V. 2019 Report of the Management Board, as referred to in section 2:391 of the Dutch Civil Code, gives a true and fair view of the position at the balance sheet date, and the development and performance of the business during the financial year 2019 of Nationale-Nederlanden Bank N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks Nationale-Nederlanden Bank N.V. is confronted with

The Hague, 24 March 2020

The Management Board

A.J.M. (Marcel) Zuidam, CEO and chair
C.H.A. (Kees) van Kalveen, CFO
P.C.A.M. (Pieter) Emmen, CRO

Consolidated annual accounts

Consolidated balance sheet

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

	notes	2019	2018
Assets			
Cash and balances at central banks	2	1,660,465	1,314,956
Amounts due from banks	3	658,432	481,883
Financial assets at fair value through profit or loss:			
– non-trading derivatives	4	88,198	125,597
Investment securities	5	2,027,326	1,068,417
Loans	6	20,003,922	18,442,939
Intangible assets	7	13,683	8,056
Other assets	8	210,778	160,169
Total assets		**24,662,804**	**21,602,017**
Liabilities			
Amounts due to banks	9	314,053	264,500
Customer deposits and other funds on deposit	10	15,078,921	14,476,439
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives	11	335,183	243,647
Other borrowed funds	12	1,273,000	330,000
Other liabilities	13	273,652	225,579
Deferred tax liabilities	25	14,806	18,142
Provisions	14	5,705	5,889
Debt securities issued	15	6,274,411	4,968,112
Subordinated debt	16	85,000	97,000
Total liabilities		**23,654,731**	**20,629,308**
Equity			
Shareholders' equity		1,008,073	972,709
Total equity	17	**1,008,073**	**972,709**
Total equity and liabilities		**24,662,804**	**21,602,017**

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

Consolidated profit and loss account

Amounts in thousands of euros, unless stated otherwise

Consolidated profit and loss account

	notes	2019		2018	
Interest income		631,165		600,300	
Interest expenses		383,309		383,212	
Interest result	18		247,856		217,088
Gains and losses on financial transactions and other income	19		41,398		15,428
– gross fee and commission income		111,313		102,389	
– fee and commission expenses		14,464		15,921	
Net fee and commission income	20		96,849		86,468
Valuation results on non-trading derivatives	21		-6,457		-3,731
Total income			**379,646**		**315,253**
Impairment charges on financial instruments			-1,108		-5,430
Staff expenses	22		113,355		110,977
Regulatory levies	23		17,315		16,808
Other operating expenses	24		93,759		94,978
Total expenses			**223,321**		**217,333**
Result before tax			**156,325**		**97,920**
Taxation	25		40,154		22,134
Net result			**116,171**		**75,786**

Consolidated statement of comprehensive income

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of comprehensive income

		2019		2018[1]
Net result		**116,171**		**75,786**
– unrealised revaluations investment securities at fair value through other comprehensive income	4,329		238	
– realised gains or losses transferred to the profit and loss account	-5,801		-2,369	
Items that may be reclassified subsequently to the profit and loss account		-1,472		-2,131
Total other comprehensive income		**-1,472**		**-2,131**
Total comprehensive income		**114,699**		**73,655**
Comprehensive income attributable to:				
Shareholder of the parent		114,699		73,655
Total comprehensive income		**114,699**		**73,655**

1 For purposes of comparison, amounts from 2018 have been reclassified relating to the gross presentation of 'unrealised revaluations' and 'realised gains and losses'.

Consolidated statement of cash flows

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of cash flows

	notes	2019	2018
Result before tax		156,325	97,920
Adjusted for:			
– amortisation of intangible assets	7	1,511	77
– amortisation of mortgage premium	6	44,391	50,183
– modifications	6	-6,057	21,601
– net impairment charges on financial instruments		-1,108	-5,430
– net addition to provisions	14	5,756	4,781
– fair value change on hedged mortgages	6	-393,473	-90,037
– accrued interest	8/13	-2,367	10,955
– amortisation premium investment securities	5	20,974	13,081
– increase (decrease) deferred tax	25	-2,945	-10,532
– movement employee share plan	17	141	237
– other	17	37	51
Taxation paid		-32,065	-14,007
Changes in:			
– amounts due to banks	9	49,553	-167,915
– non-trading derivatives	4/11	128,936	95,371
– loans	6	-2,152,762	-959,360
– sale of mortgages	6	947,979	821,112
– other assets	8	-48,484	-51,979
– customer deposits and other funds on deposit	10	602,482	305,571
– other liabilities	13	34,284	107,028
Net cash flow from operating activities		**-646,892**	**228,708**
Investments and advances:			
– investment securities	5	-1,720,414	-591,213
– intangible assets	7	-7,138	-3,654
Disposals and redemptions:			
– investment securities	5	738,715	324,554
Net cash flow from investing activities		**-988,837**	**-270,313**
Proceeds from issuance of subordinated debt	16	40,000	0
Proceeds from repayment of subordinated debt	16	-52,000	0
Proceeds from issuance of debt securities	15	2,687,884	1,043,218
Repayments of debt securities	15	-1,381,584	-905,672
Proceeds from other borrowed funds	12	1,183,000	235,000
Repayments of other borrowed funds	12	-240,000	-390,000
Capital contribution	17	2,587	0
Dividend paid	17	-82,100	-8,000
Net cash flow from financing activities		**2,157,787**	**-25,454**
Net cash flow		**522,058**	**-67,059**

Interest included in net cash flow from operating activities

	2019	2018
Interest received	629,042	601,576
Interest paid	-383,865	-349,142
Interest received and paid	**245,177**	**252,434**

Cash and cash equivalents

		2019	2018
Cash and cash equivalents at beginning of the period		1,796,839	1,863,898
Net cash flow		522,058	-67,059
Cash and cash equivalents at end of the period	2/3	**2,318,897**	**1,796,839**

		2019	2018
Cash and balances at central banks	2	1,660,465	1,314,956
Amounts due from banks	3	658,432	481,883
Cash and cash equivalents at end of the period		**2,318,897**	**1,796,839**

Consolidated statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of changes in equity (2019)

	Share capital	Share premium	Reserves	Total equity
Equity – 1 January 2019	**10,000**	**481,000**	**481,709**	**972,709**
Unrealised revaluations investment securities at fair value through other comprehensive income	0	0	4,329	4,329
Realised gains or losses transferred to the profit and loss account	0	0	-5,801	5,801
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-1,472**	**-1,472**
Net result	0	0	116,171	116,171
Total comprehensive income	**0**	**0**	**114,699**	**114,699**
Dividend paid	0	0	-82,100	-82,100
Amstelhuys and OHF merger 1 December 2019	0	0	2,587	2,587
Employee share plans	0	0	141	141
Other	0	0	37	37
Equity - 31 December 2019	**10,000**	**481,000**	**517,073**	**1,008,073**

Consolidated statement of changes in equity (2018)

	Share capital	Share premium	Reserves[1]	Total equity
Equity - 1 January 2018	**10,000**	**481,000**	**415,766**	**906,766**
Unrealised revaluations investment securities at fair value through other comprehensive income	0	0	238	238
Realised gains or losses transferred to the profit and loss account	0	0	-2,369	-2,369
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-2,131**	**-2,131**
Net result	0	0	75,786	75,786
Total comprehensive income	**0**	**0**	**73,655**	**73,655**
Dividend paid	0	0	-8,000	-8,000
Employee share plans	0	0	237	237
Other	0	0	51	51
Equity - 31 December 2018	**10,000**	**481,000**	**481,709**	**972,709**

1 For purposes of comparison, amounts from 2018 have been reclassified relating to the gross presentation of 'unrealised revaluations' and 'realised gains and losses'.

Notes to the Consolidated annual accounts

Amounts in thousands of euros, unless stated otherwise

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

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

Legal mergers with Amstelhuys N.V. and OHRA Hypotheken Fonds N.V.

In 2018, the decision was made to legally merge Amstelhuys N.V. (Amstelhuys) and OHRA Hypotheken Fonds N.V. (OHF) into NN Bank. These mergers were effectuated on 1 December 2019. These mergers were between companies with the same parent (under common control). IFRS 3 'Business combinations' is not applicable for common control transactions. As a result of these mergers, Amstelhuys and OHF ceased to exist as separate entities, and NN Bank acquired all assets and liabilities of Amstelhuys and OHF under universal title of succession as at 1 December 2019. The accounting took place on the basis of existing Amstelhuys and OHF carrying amounts, whereby their accounting policies were harmonised with those of NN Bank. The impact on assets, liabilities and shareholder's equity is stated in the table below. The mergers did not have a significant impact on the operating and regulatory ratios.

Impact of legal mergers	Amstelhuys	OHF	Eliminations[1]	1 December 2019 Total
Loans secured by mortgages	2,082	31,397	0	33,479
Other assets Group companies	484,568	203	-483,294	1,476
Other assets	7,333	477	0	7,810
Total assets	**493,983**	**32,077**	**-483,294**	**42,766**
Liabilities Group companies	487,496	31,100	-405,933	112,662
Other liabilities	4,869	8	0	4,877
Total liabilities	**492,365**	**31,108**	**-405,933**	**117,540**
Shareholder's equity	**1,618**	**969**	**0**	**2,587**
Total equity and liabilities	**493,983**	**32,077**	**-405,933**	**120,127**
Total income recognised in the profit and loss account in 2019 until merger	-634	514	0	-120
Net result recognised in the profit and loss account in 2019 until merger	-288	311	0	23

1 Only the eliminations within Amstelhuys and OHF are presented in the table. The corresponding eliminations on the balance sheet of NN Bank are not included in the table. When these eliminations are considered, the total assets and the total equity and liabilities are in balance.

1 Accounting policies

NN Bank prepares its Consolidated annual accounts in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU) and Part 9 of Book 2 of the Dutch Civil Code. In the Consolidated annual accounts, the term IFRS-EU is used to refer to these standards, including the decisions NN Bank made with regard to the options available under IFRS-EU. NN Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve-out' of IFRS-EU.

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

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

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

Upcoming changes in IFRS-EU

Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2019 and are relevant to NN Bank mainly relate to the interest rate benchmark reform. In September 2019 the IASB issued an amendment to IAS 39, IFRS 9 and IFRS 7 in relation to the interest rate benchmark reform. This amendment eliminates the impact, if any, of the interest rate benchmark reform on derivatives qualifying for hedge accounting under IFRS. The amendment has been endorsed by the EU and became effective as of 2020. The hedge accounting applied by NN Bank relates to interest rate risk based on Euribor. The calculation method of Euribor changed during 2019 and Euribor will continue to be used after the benchmark reform. As a result, NN Bank expects that Euribor will continue to exist as a benchmark and does not anticipate replacing Euribor in its interest rate risk management and related hedge accounting. Therefore, the implementation of the amendment is not expected to have a significant impact on NN Bank.

Notes to the Consolidated annual accounts Continued

Change in accounting policies
NN Bank has adopted IFRS 16 'Leases' as from 1 January 2019. In 2019, no other changes to IFRS-EU became effective that had an impact on the NN Bank Consolidated annual accounts.

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

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

Reference is made to Note 39 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

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

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

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

Impairments
IFRS 9 contains multiple impairment models for different portfolios. These are applied to all financial assets measured at amortised cost and at fair value through 'Other comprehensive income' (Equity). The expected-loss impairment model requires accounting for expected credit losses within the 12 months following the time when financial instruments are first recognised, and recognising full lifetime expected losses in case of a significant credit deterioration.

General accounting policies
Consolidation
NN Bank comprises Nationale-Nederlanden Bank N.V. and all its subsidiaries. The Consolidated annual accounts of NN Bank comprise the accounts of Nationale-Nederlanden Bank N.V. and all entities over which NN Bank has control. NN Bank has control over an entity when NN Bank has existing rights that give it the ability to direct the relevant activities, and is exposed to, or has rights to, variable returns from its involvement with the entity. NN Bank 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.

Notes to the Consolidated annual accounts Continued

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

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

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

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

NN Bank does not conduct transactions in foreign currency.

Recognition and derecognition of financial instruments

Financial assets and liabilities are generally (de)recognised at trade date, which is the date on which NN Bank commits to purchasing or selling the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Bank receives or delivers the asset.

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

Realised gains and losses on investments are determined as the difference between the sales proceeds and (amortised) cost. For debt securities, the cost is determined by specific identification (generally FIFO).Classification and measurement financial assets

IFRS 9 contains a classification and measurement approach for financial assets that reflect the business Model in which assets are managed, as well as their cash flow characteristics. The standard contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL).

Impairment

Measurement of expected credit losses

The recognition and measurement of impairments under IFRS 9 is forward-looking. The IFRS 9 impairment requirements of apply to all financial assets measured at amortised cost and at fair value through 'Other comprehensive income' (Equity). Initially, a provision is required for expected credit losses resulting from default events that are expected within the next 12 months. This is referred to as 'Stage 1'. If there is a significant increase in credit risk between the moment of origination and the moment of reporting, but the exposure is not in default, the exposure is in 'Stage 2'. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected remaining lifetime of the financial asset. This is referred to as 'Stage 3' if the exposure is in default. These expected credit losses are calculated based on different macro-economic scenarios (stress, base-case, positive) with individual weights for the probability that these scenarios will occur. These probabilities are set at 80% for the base case scenario and at 10% for both the stress and the positive scenario.

Inputs into measurement of expected credit losses

As a starting point, NN Bank uses the components of an Internal Ratings-Based Approach, to calculate minimum required capital bases on requirements for regulatory purposes:

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

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

Notes to the Consolidated annual accounts Continued

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

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

The amount past due is calculated on a First In First Out (FIFO) basis. This means that if a client misses one payment and continues with regular and full payments of single monthly terms, it is assumed that the last payment is used to catch up on the delinquent amount. For 90 days past due, we look at the total of unpaid amounts of three terms or more. The calculation of the amount past due includes missed payments on secondary collateral, such as pledged savings or insurance policies

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

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

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

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

For these lifetime PDs, a relative threshold of 7.5% and an absolute threshold of 50% are determined. Both the absolute and relative differences are monitored. When both thresholds are breached, the loan is placed in Stage 2.

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

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

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

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

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

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

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

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

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

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

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

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

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

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

A contract regarding origination of mortgages contains a significant financing component, since the payment of the origination fee is done over the lifetime of mortgages even though the performance obligation is satisfied at a point in time. The fee is split into a consideration for

Notes to the Consolidated annual accounts Continued

the origination service and a consideration for the financing service. In the profit and loss account, both fees are presented separately. The consideration for the origination service in the line item 'Results from financial transactions' under 'Gains and losses on financial transactions and other income'; the fee for the financing service is presented under 'Interest result'.

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'. For the former Delta Lloyd Bank portfolio, these objectives are realised with help of sub-participation agreements. The mechanism is the same as described above, but the ownership is not transferred. NN Bank has a receivable when there are arrangements to transfer mortgage parts in an intercompany account; or NN Bank has a payable that represents the claim on related parties at the level of built-up savings premiums for the former Delta Lloyd Bank portfolio.

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

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

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

Reference is made to Note 26 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial assets and liabilities.

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 32 'Contingent liabilities and commitments' for these off-balance-sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. As a large part of the loans on NN Bank's balance sheet consists of loans secured by mortgages, the actual credit exposure is significantly lower. The manner in which NN Bank manages credit risk and determines credit risk exposures is explained in Note 39 'Risk management'.

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

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

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

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

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

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

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

Accounting policies for specific items
Financial assets and liabilities at fair value through profit or loss (Notes 4, 6 and 11)
A financial asset or liability is classified as at fair value through profit or loss if it is acquired principally for the purpose of selling in the short term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair-value basis. Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit or loss is recognised in the profit and loss account using the effective interest method.

Derivatives and hedge accounting
Derivatives are initially recognised and subsequently measured at fair value. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative. In general, NN Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments. NN Bank applies this fair value hedge accounting whereby the movement in measurement of derivatives is offset by the movement in measurement of the hedged item in profit and loss account. NN Bank has designated derivatives as fair value hedge accounting on the interest rate risk inherent in its mortgage portfolio (macro hedge), as well as on the interest rate risk related to debt securities issued (micro hedge). Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

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

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

Fair value hedge accounting
Changes in the fair value of derivatives that are designated and qualify as fair value hedge accounting are recognised in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets

Notes to the Consolidated annual accounts Continued

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

Investment securities (Note 5)

The investment securities portfolio is divided in two sub-portfolios. The objective of the 'hold-to-collect' sub-portfolio is to hold and maintain critical mass in high-quality liquid assets in order to meet liquidity and capital needs. This portfolio is measured at amortised cost. The other sub-portfolio is measured at Fair value through Other comprehensive income (Equity), since the objectives are both 'hold-to-collect' and selling investment securities.

Loans (Note 6)

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, loans are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans is recognised in 'Interest result' in the profit and loss account using the effective interest method. Mortgage loans sold to NN Dutch Residential Mortgage Fund and other NN entities are in the Selling business model, and the measurement is FVTPL.

Intangible assets (Note 7)

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

Intangible assets are reviewed for impairment at least annually if an impairment trigger is identified. They are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

Other assets (Note 8)

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

Customer deposits and other funds on deposit (Note 10)

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

Other borrowed funds, debt securities issued and subordinated debt (Note 12, 15 and 16)

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

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

Provisions (Note 14)

Provisions consist of restructuring provisions and other provisions. Restructuring 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 20)

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

	2019	2018
Amounts held at central banks	1,660,465	1,314,956
Cash and balances at central banks	**1,660,465**	**1,314,956**

'Amounts held at central banks' reflects the demand balances. 'Amounts held at central banks' includes a mandatory reserve deposit of EUR 84.9 million (2018: EUR 72.3 million), which is not freely disposable to NN Bank. Reference is made to Note 30 '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

	2019	2018
Bank balances	131,354	164,190
Collateral posted	527,078	317,693
Amounts due from banks	**658,432**	**481,883**

'Bank balances' comprises current accounts and accrued interest with banks.

'Collateral posted' concerns posted collateral regarding centrally cleared swaps. The increase in 'Collateral posted' from EUR 318 million to EUR 527 million includes a partial settlement as a result of the fact that during 2019, NN Bank converted its cleared interest rate derivative contracts with one clearing member from collateralised-to-market (CTM) to settled-to-market (STM). The impact per 31 December 2019 of this reduction amounts to EUR 244.7 million. Reference is made to Note 27 'Derivatives and hedge accounting'.

Reference is also made to Note 30 'Assets not freely disposable'.

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2019	2018
Derivatives held for fair value hedge accounting	33,757	37,640
Balanced guaranteed swaps	49,871	84,965
Other non-trading derivatives	4,570	2,992
Non-trading derivatives	**88,198**	**125,597**

The decrease in 'Derivatives held for fair value hedge accounting' to EUR 33.8 million has been impacted by the fact that during 2019, NN Bank converted its cleared interest rate derivative contracts with one clearing member from collateralised-to-market (CTM) to settled-to-market (STM). This impact per 31 December 2019 amounts to EUR 44.9 million. For further clarification, reference is made to Note 27 'Derivatives and hedge accounting'.

For 'Balanced guaranteed swaps', which are used in securitisation transactions, reference is made to Note 35 'Structured entities'.

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

5 Investment securities

Investment securities by type 31 December 2019

	AC[1]	FVOCI[2]	2019
Government bonds	227,928	441,854	669,782
Covered bonds	0	1,199,801	1,199,801
Corporate bonds	2,561	8,184	10,745
Financial institution bonds	62,097	57,768	119,865
Asset backed securities	27,610	0	27,610
Investment securities - before loss provisions	**320,196**	**1,707,607**	**2,027,803**
Investment securities loss provisions	-99	-378	-477
Investment securities - after loss provisions	**320,097**	**1,707,229**	**2,027,326**

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

Notes to the Consolidated annual accounts Continued

Investment securities by type 31 December 2018

	AC	FVOCI	2018
Government bonds	180,049	293,278	473,327
Covered bonds	0	482,905	482,905
Corporate bonds	2,672	12,200	14,872
Financial institution bonds	62,148	8,080	70,228
Asset backed securities	27,609	0	27,609
Investment securities - before loss provisions	**272,478**	**796,463**	**1,068,941**
Investment securities loss provisions	-38	-486	-524
Investment securities - after loss provisions	**272,440**	**795,977**	**1,068,417**

'Government bonds' include supranational and government bonds from member states of the European Union and Great Britain.

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

Changes in investment securities

	2019	2018
Investment securities – opening balance	1,068,941	818,171
Additions	1,720,414	591,213
Amortisation	-20,974	-13,081
Changes in unrealised revaluations	-1,863	-2,808
Disposals and redemptions	-738,715	-324,554
Investment securities – closing balance	**2,027,803**	**1,068,941**

The changes in the portfolio are caused by the purchase of government bonds and covered bonds investment securities. There were only sales from the FVOCI portfolio, and the sales did not have an impact on the business model classification.

6 Loans

Loans by type 31 December 2019

	AC	FVTPL[1]	2019
Loans secured by mortgages, guaranteed by public authorities	5,461,132	25,485	5,486,617
Loans secured by mortgages[2]	13,965,618	103,038	14,068,656
Consumer lending	181,064	0	181,064
Group companies	288,197	0	288,197
Loans – before loan loss provisions	**19,896,011**	**128,523**	**20,024,534**
Loan loss provisions	-20,612	0	-20,612
Loans	**19,875,399**	**128,523**	**20,003,922**

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

Loans by type 31 December 2018

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

1 Including purchased credit-impaired assets

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

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

Notes to the Consolidated annual accounts Continued

Loans by stage 31 December 2019

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	No allocated stage[1]	2019
Loans - before loan loss provisions	18,756,070	359,466	84,078	34,594	790,326	20,024,534
Loan loss provisions	-3,267	-3,912	-12,998	-435	0	-20,612
Loans - after loan loss provisions	**18,752,803**	**355,554**	**71,080**	**34,159**	**790,326**	**20,003,922**

Loans by stage 31 December 2018

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	No allocated stage[1]	2018
Loans - before loan loss provisions[2]	17,661,035	257,578	128,389	35,055	389,357	18,471,414
Loan loss provisions	-3,037	-3,896	-20,800	-741	0	-28,474
Loans - after loan loss provisions	**17,657,998**	**253,682**	**107,589**	**34,314**	**389,357**	**18,442,940**

1 'No allocated stage' relate mainly to mortgage premium and fair value changes of hedged items.
2 For purposes of comparison, amounts from 2018 have been reclassified.

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

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

Changes in loans by stage

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	No allocated stage[1]	2019	2018
Loans – opening balance[2]	17,661,035	257,578	128,389	35,055	389,357	18,471,414	18,319,594
Mortgage portfolio transfer	530,154	32,932	6,039	3,047	0	572,172	507,893
Partial transfer of mortgage loans	0	0	0	0	35,182	35,182	41,895
Origination	3,711,960	58,517	5,291	0	0	3,775,768	2,328,618
Sale of mortgages	-941,801	-6,178	0	0	0	-947,979	-821,112
Amstelhuys and OHF merger 1 December 2019	31,706	385	0	0	-1,779	30,312	0
Premium new mortgages	0	0	0	0	18,742	18,742	14,902
Amortisation mortgage premium	0	0	0	461	-44,852	-44,391	-50,183
Fair value change hedged items	0	0	0	0	393,473	393,473	90,037
Other changes	-55,890	3,603	-3,483	-34	-5,854	-61,658	0
Modifications	0	0	0	0	6,057	6,057	-21,601
Redemptions	-2,115,833	-66,313	-27,435	-3,935	0	-2,213,516	-1,929,179
Reclassifications to other assets	0	0	0	0	0	0	-10,292
Transfers to[3]:							
– Stage 1	0	-125,507	-33,182	0	0	-158,689	0
– Stage 2	-196,800	0	-27,641	0	0	-224,441	0
– Stage 3	-21,936	-15,007	0	0	0	-36,943	0
Transfers from[3]:					0		
– Stage 1	0	192,063	21,360	0	0	213,423	0
– Stage 2	123,064	0	14,740	0	0	137,804	0
– Stage 3	30,411	27,393	0	0	0	57,804	0
Changes in credit quality	0	0	0	0	0	0	842
Loans – closing balance	**18,756,070**	**359,466**	**84,078**	**34,594**	**790,326**	**20,024,534**	**18,471,414**

1 'No allocated stage' relate mainly to mortgage premium and fair value changes of hedged items.
2 For purposes of comparison, amounts from 2018 have been reclassified.
3 'Transfers to' shows the outflow from the stage in the column to the stage stated on row level. 'Transfers from' shows the inflow from stage on row level to the stage in the column.

In 2019, the mortgage portfolio transfer from ING Bank amounted to EUR 443 million. As at 31 December 2019, both parties had already determined to transfer EUR 70 million in mortgage loans for the first four months in 2020. As settlement date accounting is applied, these mortgages are not recognised in the balance sheet as at 31 December 2019.

NN Bank sold mortgage loans to securitisation entities that, in turn, issued notes to investors that are collateralised by the purchased assets. In addition, mortgage loans are structured through the Covered Bond Programme. These mortgage loans continue to be recognised on NN Bank's balance sheet, as NN Bank retained all or substantially all of the risks and rewards of the mortgage loans. Reference is made to Note 30 'Assets not freely disposable' and Note 35 'Structured entities'.

'Sale of mortgages' includes EUR 144 million of sales with related parties NN Schade and NN Belgium (2018: EUR 301 million).

'Modifications' relate to the estimated impact of the modification of the outstanding mortgage loans as a result of the amended interest rate pricing system for NN and former Delta Lloyd mortgage portfolios. The initial estimated impact of the modification charge was recognised in the first half-year 2018 and amounted to EUR 21.6 million. In July 2019, this amended interest rate pricing system was implemented for the NN mortgage portfolio. Subsequently the estimated modification charge was updated leading to a release 'modifications' amounting to EUR 6.1

Notes to the Consolidated annual accounts Continued

million. The actual impact for the Delta Lloyd mortgage portfolio may differ from the estimation, due to different actual prepayments, response rates and a more granular calculation.

Purchased or Originated Credit-Impaired loans (POCI)

	2019	2018
POCI - opening balance	35,055	32,685
Mortgage portfolio transfer	3,047	4,046
Amortisation value adjustment	461	551
Redemptions	-3,935	-5,797
Unfavourable changes in credit quality	-337	-395
Favourable changes in credit quality	303	1,237
POCI - closing balance	**34,594**	**32,327**

'Purchased or credit-impaired (POCI) loans are purchased from ING Bank and recognised initially at an amount net of impairments. They are measured at amortised cost using a credit-adjusted effective interest rate. In subsequent periods, any deteriorating changes to the estimated lifetime ECL are recognised in the profit and loss account.

Loan loss provisions by type

	2019	2018
Loans secured by mortgages	8,658	10,701
Consumer lending	11,954	17,773
Loan loss provisions by type	**20,612**	**28,474**

Changes in loan loss provisions by stage – Loans secured by mortgages

	Stage 1 12-month ECL non-credit impaired	Stage 2 Lifetime ECL non-credit impaired	Stage 3 Lifetime ECL credit impaired	Purchased credit-impaired	2019	2018
Loan loss provisions – opening balance	1,594	1,617	6,749	741	10,701	20,971
Addition to the loan loss provisions	469	-278	704	-306	589	-7,438
Release from the loan loss provisions	0	0	0	0	0	-1,352
Transfers to[1]:						
– Stage 1	0	-721	-3,198		-3,919	-3,173
– Stage 2	-47	0	-1,458		-1,505	-1,370
– Stage 3	-5	-92	0		-97	-433
Transfers from[1]:						
– Stage 1	0	700	1,162		1,862	1,677
– Stage 2	50	0	660		710	1,634
– Stage 3	69	248	0		317	185
Loan loss provisions – closing balance	**2,130**	**1,474**	**4,619**	**435**	**8,658**	**10,701**
Write-offs	0	0	1,578	0	1,578	1,304
Recoveries	0	0	-556	0	-556	-415

1 'Transfers to' shows the outflow from the stage in the column to the stage stated on row level. 'Transfers from' shows the inflow from stage on row level to the stage in the column.

Changes in loan loss provisions by stage – Consumer lending

	Stage 1 12-month ECL non-credit impaired	Stage 2 Lifetime ECL non-credit impaired	Stage 3 Lifetime ECL credit impaired	2019	2018
Loan loss provisions – opening balance	1,443	2,279	14,051	17,773	17,914
Addition to the loan loss provisions	-263	-512	-7,292	-8,067	-1,600
Changes in models and methodologies	47	496	302	845	-1,622
Transfers to[1]:					
– Stage 1	0	-631	-85	-716	-728
– Stage 2	-83	0	-211	-294	-258
– Stage 3	-56	-398	0	-454	-209
Transfers from[1]:					
– Stage 1	0	1,161	874	2,035	3,247
– Stage 2	44	0	740	784	1,006
– Stage 3	5	43	0	48	23
Loan loss provisions – closing balance	**1,137**	**2,438**	**8,379**	**11,954**	**17,773**
Write-offs	0	0	6,864	6,864	1,535
Recoveries	0	0	-683	-683	-532

1 'Transfers to' shows the outflow from the stage in the column to the stage stated on row level. 'Transfers from' shows the inflow from stage on row level to the stage in the column.

Notes to the Consolidated annual accounts Continued

In 2019, the loan loss provision decreased despite the slight portfolio growth, because of increasing housing prices and a decrease in delinquencies. Write-offs were higher compared with 2018, due to a one-time write-off for consumer loans that were in default for a prolonged period and were not expected to be recovered.

Modified financial assets

	2019	2018
Financial assets modified during the period		
Amortised cost before modification	0	2,271,660
Net modification loss	0	21,601
Financial assets modified since initial recognition		
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period	39,668	40,429

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

7 Intangible assets

Intangible assets

	2019	2018
Intangibles	**13,683**	**8,056**

	2019	2018
Intangibles – opening balance	8,056	4,479
Additions	7,138	3,654
Amortisation	-1,511	-77
Intangibles – closing balance	**13,683**	**8,056**
Gross carrying value	20,292	13,154
Accumulated amortisation	-6,609	-5,098
Net carrying value	**13,683**	**8,056**

The additions to the intangible assets relate to a new back-office system for mortgages, as well as for strategic projects such as the introduction of a payment system. Part of the gross carrying value relates to projects in progress (EUR 7.8 million). The amortisation period is generally five years from the date of full implementation of the new systems.

8 Other assets

Other assets

	2019	2018
Accrued interest mortgages	32,206	34,642
Accrued interest other	12,446	7,886
Current account NN Insurance Eurasia N.V.	115,539	78,810
Current account other group companies	9,217	7,441
Other accrued assets	7,219	3,063
Other	34,151	28,327
Total other assets	**210,778**	**160,169**

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

The line item 'Other' includes receivables in relation to fees and commissions, amounts to be settled and other receivables. The deposit guarantee scheme balance of EUR 4.2 million is also included in the line item 'Other'.

9 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

	2019	2018
Interest-bearing	310,700	264,500
Collateral received	3,353	0
Amounts due to banks	**314,053**	**264,500**

The increase in 'Amounts due to banks (interest-bearing)' of EUR 46 million relates mainly to an increase of EUR 236 million of new contracted loans with third parties, offset by repayments of loans of EUR 190 million.

Notes to the Consolidated annual accounts Continued

As at 31 December 2019, NN Bank had unused lines of credit available of EUR 654 million (31 December 2018: EUR 606 million).

10 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by type

	2019	2018
Savings	6,708,147	6,617,874
Bank annuities	6,754,430	6,413,447
Bank annuities related to mortgages	1,477,296	1,369,782
Corporate deposits	0	5,000
Group companies	139,048	70,336
Customer deposits and other funds on deposit	**15,078,921**	**14,476,439**

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

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

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

	2019	2018
Customer deposits and other funds on deposit – opening balance	14,476,439	14,170,868
Deposits received	3,877,090	3,796,359
Withdrawals	-3,274,608	-3,490,788
Customer deposits and other funds on deposit – closing balance	**15,078,921**	**14,476,439**

11 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

	2019	2018
Derivatives held for macro fair value hedge accounting	264,880	150,279
Balanced guaranteed swaps	49,871	84,965
Other non-trading derivatives	20,432	8,403
Non-trading derivatives	**335,183**	**243,647**

The increase in 'Derivatives held for macro fair value hedge accounting' from EUR 150.2 million to EUR 264.9 million includes a partial settlement as a result of the fact that during 2019, NN Bank converted its cleared interest rate derivative contracts with one clearing member from collateralised-to-market (CTM) to settled-to-market (STM). The impact per 31 December 2019 of this reduction amounts to EUR 286.3 million. For 'Derivatives held for macro fair value hedge accounting', reference is made to Note 27 'Derivatives and hedge accounting'.

For 'Balanced guaranteed swaps', which are used in securitisation transactions, reference is made to Note 35 'Structured entities'.

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

12 Other borrowed funds

Other borrowed funds

	2019	2018
NN Group	493,000	0
Other borrowed funds	780,000	330,000
Other borrowed funds	**1,273,000**	**330,000**

	2019	2018
Other borrowed funds – opening balance	330,000	485,000
Issuances	1,183,000	235,000
Redemption	-240,000	-390,000
Other borrowed funds – closing balance	**1,273,000**	**330,000**

In 2019, new loans amounting to EUR 690 million (2018: EUR 235 million) were contracted with third parties, and EUR 493 million (2018: EUR 0) with NN Group.

Notes to the Consolidated annual accounts Continued

NN Group provided a revolving credit facility commitment to NN Bank up to an amount of EUR 250 million (2018: EUR 250 million). In addition, NN Group provided a Central Clearing Borrowing Facility up to an amount of EUR 1,300 million (2018: EUR 0 million) for the funding of variation margin calls regarding centrally cleared interest rate derivatives contracts.

At 31 December 2019 EUR 1,057 million was not drawn by NN Bank.

13 Other liabilities

Other liabilities

	2019	2018
Income tax payable	19,379	11,290
Other taxation and social security contributions	13,528	9,999
Accrued interest non-trading derivatives	40,060	39,940
Accrued interest other	13,655	14,019
Current account other group companies	131,343	107,100
Costs payable	7,843	9,143
Other	47,844	34,088
Other liabilities	**273,652**	**225,579**

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

14 Provisions

Provisions

	2019	2018
Restructuring provisions	4,505	4,689
Other provisions	1,200	1,200
Provisions	**5,705**	**5,889**

Restructuring provisions

	2019	2018
Restructuring provisions – opening balance	4,689	6,033
Additions	5,586	4,071
Releases	-955	-490
Charges	-4,761	-4,925
Other	-54	0
Restructuring provisions – closing balance	**4,505**	**4,689**

In 2019, various additions have been made with a total amount of EUR 4.6 million which are related to the Delta Lloyd Bank and NN Bank integration (2018: EUR 3.6 million). As a result of the integration activities, there have also been withdrawals from the restructuring provision for a total amount of EUR 4.8 million.

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

Notes to the Consolidated annual accounts Continued

15 Debt securities issued

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

Debt securities issued – maturities 31 December 2019

	Less than 1 year	1-2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
Fixed rate debt securities	125,000	100,000	0	0	0	0	225,000
Floating rate debt securities	551,633	523,002	440,169	0	0	0	1,514,804
Subtotal RMBS securitisation programmes	**676,633**	**623,002**	**440,169**	**0**	**0**	**0**	**1,739,804**
Covered bond issues	0	0	0	0	1,009,207	1,605,376	2,614,583
Fixed rate unsecured debt securities	0	19,004	0	772,046	0	582,977	1,374,027
Floating rate unsecured debt securities	330,927	190,208	0	0	0	24,862	545,997
Debt securities issued	**1,007,560**	**832,214**	**440,169**	**772,046**	**1,009,207**	**2,213,215**	**6,274,411**

Debt securities issued – maturities 31 December 2018

	Less than 1 year	1-2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
Fixed rate debt securities	380,000	522,853	100,000	0	0	0	1,002,853
Floating rate debt securities	328,145	665,388	631,735	493,268	0	0	2,118,536
Subtotal RMBS securitisation programmes	**708,145**	**1,188,241**	**731,735**	**493,268**	**0**	**0**	**3,121,389**
Covered bond issues	0	0	0	0	0	1,499,662	1,499,662
Fixed rate unsecured debt securities	0	0	18,995	0	270,663	57,403	347,061
Floating rate unsecured debt securities	0	0	0	0	0	0	0
Debt securities issued	**708,145**	**1,188,241**	**750,730**	**493,268**	**270,663**	**1,557,065**	**4,968,112**

Secured debt securities

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

	FORD	2019	2018
Arena NHG 2014-I	17-4-2019	0	384,873
Arena NHG 2014-II	17-4-2020	335,327	400,627
Arena NHG 2016-I	17-7-2021	289,120	348,868
Hypenn RMBS I A3	17-11-2020	0	397,853
Hypenn RMBS II	17-5-2019	0	323,272
Hypenn RMBS IV	17-7-2020	341,306	389,761
Hypenn RMBS V	17-4-2021	333,882	382,867
Hypenn RMBS VI	17-12-2022	440,169	493,268
Total		**1,739,804**	**3,121,389**

The Arena NHG 2014-I and Hypenn RMBS II notes have both been redeemed on the FORD. On 17 July 2019, NN Bank repurchased Hypenn RMBS I B.V. notes for a consideration of EUR 417 million. The outstanding notes of this SPV are fully held (retained) by NN Bank.

	Maturity date	2019	2018
Covered bond October 2017	10-10-2024	498,667	498,164
Covered bond June 2018	11-9-2025	496,880	496,418
Covered bond September 2018	25-9-2028	493,918	493,376
Covered bond February 2019	27-2-2024	498,243	0
Covered bond March 2019 - 1	18-3-2039	24,819	0
Covered bond March 2019 - 2	21-3-2039	19,917	0
Covered bond July 2019	25-9-2028	53,309	0
Covered bond September 2019	24-9-2029	498,396	0
Fair value change hedged items		30,434	11,704
Total		**2,614,583**	**1,499,662**

In the first quarter of 2019, NN Bank issued its fourth public covered bond of EUR 500 million notional and two covered bond private placements for a total amount of EUR 45 million notional. In the third quarter of 2019, NN Bank issued its fifth public covered bond of EUR 500 million notional and one covered bond private placement for a an amount of EUR 50 million notional.

Notes to the Consolidated annual accounts Continued

Unsecured debt securities

	Maturity date	2019	2018
Debt Issuance Programme May 2019	31-5-2023	497,727	0
Debt Issuance Programme August 2019	3-9-2029	19,978	0
Debt Issuance Programme November 2019	26-2-2025	496,919	0
Other unsecured debt securities	n/a	356,164	346,185
Fair value change hedged items		3,239	876
Fixed rate unsecured debt securities		**1,374,027**	**347,061**
Floating Rate Note June 2019 - 1	11-12-2020	250,064	0
Floating Rate Note June 2019 - 2	1-7-2021	35,020	0
Floating Rate Note July 2019 - 1	11-12-2020	80,863	0
Floating Rate Note July 2019 - 2	10-7-2026	24,862	0
Floating Rate Note July 2019 - 3	15-7-2021	100,073	0
Floating Rate Note August 2019	3-9-2021	55,115	0
Floating rate unsecured debt securities		**545,997**	**0**

In 2019, NN Bank updated its Debt Issuance Programme and executed its inaugural unsecured issuance of EUR 500 million notional. NN Bank concluded another public issuance of EUR 500 million notional and a series of private placements for a total amount of EUR 566 million notional.

'Debt securities issued' includes the Residential Mortgage Backed Securities under the Arena NHG and the Hypenn RMBS securitisation programmes held by third and related parties, the bonds issued under the Covered Bond Programme and 'Schuldschein' securities. The debt securities issued to third parties amounted to EUR 6,274 million as at 31 December 2019 (31 December 2018: EUR 4,868 million), of which EUR 2,615 million relates to the Covered Bonds (31 December 2018: EUR 1,500 million) and EUR 1,920 million relates to unsecured debt securities (31 December 2018: EUR 347 million). The notes issued to related parties amounted to EUR 0 million as at 31 December 2019 (31 December 2018: EUR 100 million).

For the Arena NHG and Hypenn RMBS securitisation programmes and the Covered Bond Programme, reference is made to Note 35 'Structured entities'.

The notes issued by the Arena NHG and Hypenn RMBS entities that are held by NN Bank are not presented in the table above. The notes issued to NN Bank amounted to EUR 1,734 million as at 31 December 2019 (31 December 2018: EUR 1,649 million) and consist of EUR 491 million junior notes (31 December 2018: EUR 614 million) and EUR 1,243 million senior notes (31 December 2018: EUR 1,035 million senior notes).

The cash inflow of the repayment of the mortgages is first used to redeem the noteholders of the senior notes. After the redemption of class A noteholders, repayment of the junior noteholders will take place. NN Bank is holder of all the class B and C notes of the Special Purpose Entities (SPEs). The cash inflow of the interest of the mortgages is used for the payment of interest of the notes and follows the same waterfall structure as described above.

16 Subordinated debt

Subordinated debt

				Notional amount		Balance sheet value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**2019**	**2018**	**2019**	**2018**
1.38%	2019	26 September 2029	26 September 2024	25,000	0	25,000	0
1.83%	2019	26 June 2029	26 June 2024	15,000	0	15,000	0
3.02%	2017	27 February 2027	27 February 2022	15,000	15,000	15,000	15,000
2.66%	2015	26 February 2025	26 February 2020	30,000	30,000	30,000	30,000
3.60%	2014	26 September 2024	26 September 2019	0	25,000	0	25,000
3.76%	2014	26 June 2024	26 June 2019	0	15,000	0	15,000
6.00%	2009	13 July 2019	-	0	12,000	0	12,000
Subordinated debt				**85,000**	**97,000**	**85,000**	**97,000**

NN Group provided four subordinated loans to NN Bank for an amount of EUR 85.0 million, which qualify as Tier 2 capital under the CRR. Under IFRS-EU, these debt instruments are classified as liabilities. They are considered capital for regulatory purposes. NN Bank has the right to pay off the debt at the call date.

The EUR 15.0 million subordinated loan issued in 2014 was restructured on 26 June 2019, and NN Group extended the maturity date by five years. The new interest rate is 1.83%. The EUR 25.0 million subordinated loan issued in 2014 was restructured on 26 September 2019, and NN Group extended the maturity date by five years. The new interest rate is 1.38%. Both restructured loans are considered to be new loans under IFRS.

The subordinated debt of EUR 12.0 million was redeemed in July 2019.

All subordinated debt is euro denominated.

Notes to the Consolidated annual accounts Continued

17 Equity

Total equity

	2019	2018
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	147	1,619
Retained earnings and unappropriated result	516,926	480,090
Shareholders' equity	**1,008,073**	**972,709**

Share capital

			Ordinary shares	
	Shares (in numbers)		Amount (in EUR thousand)	
	2019	2018	2019	2018
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 (2019)

	Share capital	Share premium	Reserves	Total shareholders' equity
Equity – opening balance	10,000	481,000	481,709	972,709
Net result for the period	0	0	116,171	116,171
Total amount recognised directly in equity (Other comprehensive income)	0	0	-1,472	-1,472
Dividend paid	0	0	-82,100	-82,100
Amstelhuys and OHF merger 1 December 2019	0	0	2,587	2,587
Employee share plans	0	0	141	141
Other	0	0	37	37
Equity – closing balance	**10,000**	**481,000**	**517,073**	**1,008,073**

Changes in equity (2018)

	Share capital	Share premium	Reserves	Total shareholders' equity
Equity – opening balance	10,000	481,000	415,766	906,766
Net result for the period	0	0	75,786	75,786
Total amount recognised directly in equity (Other comprehensive income)	0	0	-2,131	-2,131
Dividend paid	0	0	-8,000	-8,000
Employee share plans	0	0	237	237
Other	0	0	51	51
Equity – closing balance	**10,000**	**481,000**	**481,709**	**972,709**

Ordinary shares

All shares are in registered form. Shares may be transferred by means of a deed of transfer, subject to the approval of the General Meeting. At 31 December 2019, issued and fully paid ordinary share capital consists of 1,000,000 ordinary shares, with a par value of EUR 10.00 per share.

Distributable reserves

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

In addition to the legal and regulatory restrictions on distributing dividends, there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time. It is not possible to disclose a reliable quantification of these limitations. Reference is also made to Note 40 'Capital management'.

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

Notes to the Consolidated annual accounts Continued

Distributable reserves based on the Dutch Civil Code

		2019		2018
Total shareholders' equity		1,008,073		972,709
– share capital	10,000		10,000	
– revaluation reserve	147		1,619	
– intangible assets reserve	13,683		8,056	
Total non-distributable part of shareholders' equity		23,830		19,675
Distributable reserves based on the Dutch Civil Code		**984,243**		**953,034**

Proposed appropriation of result

The result is appropriated pursuant to article 21 of the NN Bank Articles of Association, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board. It is proposed to add the 2019 net result of EUR 116.2 million to the retained earnings.

Final dividend 2018

On 3 June 2019, following the adoption of the 2018 Consolidated annual accounts by the NN Bank General Meeting, the 2018 net result of EUR 75.8 million, less the proposed cash dividend of EUR 55.9 million, was added to the retained earnings.

Interim dividend 2019

NN Bank paid an interim dividend of EUR 26.2 million. The 2019 interim dividend was paid in cash and was deducted from the retained earnings in 2019.

Proposed final dividend 2019

At the 2020 annual general meeting, no final dividend over 2019 will be proposed. NN Bank follows the guidance received from DNB in view of the current coronavirus COVID-19 that will ease the Dutch banking sectors capital requirements to support lending, combined with a restraint on dividend pay-out and share buyback.

18 Interest result

Interest result

	2019	2018
Interest income on loans	556,651	558,049
Modifications	6,057	-21,601
Interest income on non-trading derivatives	67,675	63,428
Negative interest on liabilities	782	424
Total interest income	**631,165**	**600,300**
Interest expenses on amounts due to banks	212	5,643
Interest expenses on customer deposits and other funds on deposit	174,917	182,950
Interest expenses on debt securities issued and other borrowed funds	40,571	34,871
Interest expenses on subordinated loans	2,803	3,431
Interest expenses on non-trading derivatives	153,395	125,493
Negative interest on assets	7,438	24,818
Other interest expenses	3,973	6,006
Total interest expenses	**383,309**	**383,212**
Interest result	**247,856**	**217,088**

1 Interest income on loans includes interest on loans measured at FVTPL, as this amount is not material.

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

'Negative interest on assets' includes negative interest income charged by DNB of EUR 6.2 million (2018: EUR 5.6 million). The remainder mainly concerns interest on derivatives and interest on investment securities.

'Modifications' relate to the estimated impact of the modification of the outstanding mortgage loans as a result of the amended interest rate pricing system for NN and former Delta Lloyd mortgage portfolios. The initial estimated impact of the modification charge was recognised in the first half-year 2018 and amounted to EUR 21.6 million. Further reference is made to Note 6 'Loans'. In July 2019, this amended interest rate pricing system was implemented for the NN mortgage portfolio. Subsequently, the estimated modification charge was updated, leading to a release 'modifications' amounting to EUR 6.1 million.

Interest margin in percentages

	2019	2018
Interest margin	**1.1%**	**1.0%**

'Interest margin' is calculated by dividing the interest result by the average of the total assets for the year ending 2019 and 2018, respectively.

Notes to the Consolidated annual accounts Continued

19 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2019	2018
Realised gains or losses of debt securities	7,297	2,979
Results from financial transactions	40,254	15,476
Net income from loans measured at FVTPL	12,656	-6
Other income	-18,809	-3,021
Gains and losses on financial transactions and other income	**41,398**	**15,428**

'Results from financial transactions' and 'Net income from loans measured at FVTPL' mainly comprise the results on the sale of mortgages to NN Dutch Residential Mortgage Fund, NN Schade and NN Belgium. The related origination fee 2019 amounts to EUR 15.5 million (2018: EUR 11.9 million) and premiums amount to EUR 37.4 million (2018: EUR 3.0 million).

'Other income' includes certain other income and expenses. In 2019, it includes expenses of EUR 18.6 million resulting from the buy-back of Hypenn I.

20 Net fee and commission income

Net fee and commission income

	2019	2018
Service management fee	40,818	40,774
Brokerage and advisory fees	70,495	61,615
Gross fee and commission income	**111,313**	**102,389**
Asset management fees	11,084	11,520
Brokerage and advisory fees	3,230	3,609
Other	150	792
Fee and commission expenses	**14,464**	**15,921**
Net fee and commission income	**96,849**	**86,468**

NN Bank services a total loan portfolio of EUR 32.2 billion (2018: EUR 30.3 billion) for NN Leven, NN Belgium, NN Dutch Residential Mortgage Fund, ING Bank and other entities.

NN Bank originates mortgages directly on behalf of NN Leven and NN Belgium and receives an origination fee for this service. The origination fee for the NN Leven loan portfolio amounts to EUR 54.5 million (2018: EUR 48.0 million) and for the NN Belgium loan portfolio amounts to EUR 7.2 million (2018: EUR 0 million). It is included in 'Brokerage and advisory fees'.

21 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2019	2018
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	-390,575	-96,452
– the hedged items (mortgages/debt securities) attributable to the hedged risk	383,869	91,640
Gains or losses (fair value changes) in other non-trading derivatives	249	1,081
Valuation results on non-trading derivatives	**-6,457**	**-3,731**

Included in 'Valuation results on non-trading derivatives' are the fair value movements used to economically hedge exposures. Changes in market conditions, such as interest rates, influence the fair value movements on the derivatives. Gains and losses on hedged items and hedging instruments in 2019 increased compared with those of 2018, mainly due to the decrease of the medium- to long-term yield curves and due to the settlement of new derivatives for hedging purposes.

Included in the 'Valuation results on non-trading derivatives' are the results from balanced guaranteed swaps included in structured entities. Reference is made to Note 35 'Structured entities'.

Notes to the Consolidated annual accounts Continued

22 Staff expenses

Staff expenses

	2019	2018
Salaries	57,928	55,464
Pension and other staff-related benefit costs	11,701	11,483
Social security costs	8,538	7,543
Share-based compensation arrangements	60	151
External staff costs	33,551	33,313
Education	1,064	1,125
Other staff costs	513	1,898
Staff expenses	**113,355**	**110,977**

NN Personeel B.V. and Delta Lloyd Services B.V. (until 30 September 2019) employ NN Bank staff. These entities charge NN Bank for staff expenses, under a service level agreement. Although these costs are not paid out in the form of staff expenses by NN Bank, they do have the characteristics of staff expenses and they are therefore recognised as such. NN Personeel B.V. and Delta Lloyd Services B.V. (until 30 September 2019) recognise a provision for holiday entitlement and bonuses. Actual costs are charged to NN Bank when accrued. From 1 October 2019, Delta Lloyd Services B.V. ceased to exist, and all NN Bank staff are now employed by NN Personnel B.V.

Pension costs

Defined contribution plans

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

	2019	2018
Average number of employees on full-time equivalent basis	839	824

Remuneration of Management Board and Supervisory Board

Reference is made to Note 37 'Key management personnel compensation'.

Share plans

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

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

Share awards on NN Group shares

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

	Share awards (in numbers)		Weighted average grant date fair value (in euros)	
	2019	2018	2019	2018
Share awards outstanding – opening balance	6,675	8,777	33.27	29.61
Granted	3,573	4,893	39.10	36.00
Vested	-3,760	-6,995	35.64	32.35
Forfeited[1]	-2,899	0	33.26	0.00
Share awards outstanding – closing balance	**3,589**	**6,675**	**36.60**	**33.27**

1 Forfeited is due to change in the composition of the Management Board.

In 2019, 3,093 share awards on NN Group shares (2018: 4,398) were granted to the members of the NN Bank Management Board. To other employees of NN Bank, 480 share awards on NN Group shares (2018: 495) were granted.

As at 31 December 2019, the share awards on NN Group shares consist of 3,589 (2018: 6,675) 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 2019, total unrecognised compensation costs related to share awards amount to EUR 44 thousand (2018: EUR 81 thousand). These costs are expected to be recognised over a weighted average period of 1.5 years (2018: 1.4 years).

Notes to the Consolidated annual accounts Continued

23 Regulatory levies

Regulatory levies

	2019	2018
Regulatory levies	17,315	16,808
Regulatory levies	**17,315**	**16,808**

'Regulatory levies' represents contributions to Deposit Guarantee Schemes (DGS) and the Single Resolution Fund (SRF). The contributions to DGS were EUR 14.1 million (2018: EUR 13.5 million) and contributions to the SRF were EUR 3.2 million (2018: EUR 3.3 million).

24 Other operating expenses

Other operating expenses

	2019	2018
Computer costs	22,819	19,814
Office expenses	185	264
Travel and accommodation expenses	2,771	2,655
Advertising and public relations	3,669	4,681
Bank costs	338	62
Net addition to restructuring provisions	4,631	3,581
Amortisation of intangible assets	1,511	77
Other	8,225	9,533
Other operating expenses	**44,149**	**40,667**
Customer & Commerce	18,597	22,966
IT	16,175	16,094
Facility Management	6,642	6,045
General Management	3,982	4,679
Group HR	2,639	3,318
Shared Service Center Finance	1,575	1,209
Total Group Services	**49,610**	**54,311**
Total other operating expenses	**93,759**	**94,978**

For 'Addition/release of provision for restructuring', reference is made to the disclosure on the reorganisation provision in Note 14 'Provisions'.

'Other' mainly consists of audit fees and contributions to, amongst others, AFM, DNB and ECB.

Fees of auditors

Reference is made to Note 46 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees and audit-related fees. The services rendered by the auditor, in addition to the statutory audit, include an audit in relation to reporting to regulators, audit of annual accounts of subsidiaries, review of interim report, assurance on internal control reports provided to third parties and regulators, services in relation to prospectuses and issuance of debt and reports of factual findings to external parties and regulators.

25 Taxation

NN Bank is part of the Dutch fiscal unity of NN Group for corporate income tax purposes, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables from and payables to NN Group. Income tax payable amounts to EUR 19,379 thousand and concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 13 'Other liabilities'.

Deferred tax (2019)

	Net liability 2018[1]	Change through equity	Change through net result	Net liability 2019[1]
Investments	1,132	-528	0	604
Loans	-851	0	1,252	401
Provisions	-1,172	0	46	-1,126
IFRS ruling	19,033	0	-4,106	14,927
Deferred tax	**18,142**	**-528**	**-2,808**	**14,806**

1 Positive amounts are liabilities, negative amounts are assets.

Notes to the Consolidated annual accounts Continued

IFRS ruling

In 2017, Delta Lloyd Bank was added to the Dutch fiscal unity of NN Group. Within the Dutch fiscal unity, the former Delta Lloyd group entities operate under the general Dutch fiscal policies, whereas NN Bank operates under an IFRS ruling. As from 1 January 2018, after the legal merger, the IFRS ruling is applied for assets and liabilities of the former Delta Lloyd Bank. This resulted in a difference between fiscal and financial figures of the Delta Lloyd Day One premiums. These premiums are being amortised over a period of multiple years, thereby reducing the difference.

Impact of changes in tax regulation in the Netherlands

On 17 December 2019, changes in the Dutch corporate income tax rates were enacted. This implies that the corporate tax rate for 2020 will be 25.0% and for 2021 and subsequent years 21.7%. As most of NN Bank's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 21.7% rate that applies as of 2021.

Deferred tax (2018)

	Net liability 2017[1]	Change through equity	Change through net result	Net liability 2018[1]
Investments	1,580	-397	-51	1,132
Financial assets and liabilities at fair value through profit or loss	3,207	0	-3,207	0
Other liabilities	-680	0	-171	-851
Provisions	-1,637	0	464	-1,172
IFRS ruling	26,880	0	-7,847	19,033
Deferred tax	**29,351**	**-397**	**-10,812**	**18,142**

1 Positive amounts are liabilities, negative amounts are assets.

Taxation on result

	2019	2018
Current tax	42,962	32,947
Deferred tax	-2,808	-10,812
Taxation on result	**40,154**	**22,134**

Taxation in 2019 increased by EUR 18.1 million to EUR 40.2 million, from EUR 22.1 million in 2018.

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

	2019	2018
Result before tax	156,325	97,920
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**39,081**	**24,480**
Expenses not deductible for tax purposes	-35	-59
Tax rate changes	827	-2,286
Other	281	0
Effective tax amount	**40,154**	**22,134**
Effective tax rate	**25.7%**	**22.6%**

The statutory tax rate in 2019 was 25.0%, as in 2018. The effective tax rate in 2019 was 25.7% (2018: 22.6%).

Taxation on components of other comprehensive income

	2019	2018
Unrealised revaluations	528	397
Realised gains or losses transferred to the profit and loss account	0	0
Total income tax related to components of other comprehensive income	**528**	**397**

Notes to the Consolidated annual accounts Continued

26 Fair value of financial assets and liabilities

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2019	**2018**	**2019**	**2018**
Financial assets				
Cash and balances at central banks	1,660,465	1,314,956	1,660,465	1,314,956
Amounts due from banks	658,432	481,883	658,432	481,883
Financial assets at fair value through profit or loss:				
– non-trading derivatives	88,198	125,597	88,198	125,597
Investment securities	2,029,911	1,068,658	2,027,326	1,068,417
Loans	21,193,804	19,109,028	20,003,922	18,442,939
Financial assets	**25,630,810**	**22,100,122**	**24,438,343**	**21,433,792**
Financial liabilities				
Amounts due to banks	313,920	263,914	314,053	264,500
Customer deposits and other funds on deposit	15,964,207	15,000,590	15,078,921	14,476,439
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	335,183	243,647	335,183	243,647
Other borrowed funds	1,272,838	329,925	1,273,000	330,000
Debt securities issued	6,390,111	5,042,185	6,274,411	4,968,112
Subordinated debt	85,507	100,448	85,000	97,000
Financial liabilities	**24,361,766**	**20,980,709**	**23,360,568**	**20,379,698**

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

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

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

Cash and balances at central banks

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

Amounts due from banks

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

Financial assets and liabilities at fair value through profit or loss

Derivatives

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

Notes to the Consolidated annual accounts Continued

The exposure of derivative contracts has been reduced, since NN Bank has converted its cleared interest rate derivative contracts of a clearing member from collateralised-to-market (CTM) to settled-to-market (STM). Reference is made to Note 27 'Derivatives and hedge accounting'.

Investment securities

Debt securities

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

Loans

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

Amounts due to banks

'Amounts due to banks' consists of payables including accrued interest. The fair value is based on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits and other funds on deposit

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

Other borrowed funds

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

Subordinated debt and debt securities issued

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

Financial assets and liabilities at fair value and amortised cost

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

Notes to the Consolidated annual accounts Continued

Methods applied in determining the fair value of financial assets and liabilities (2019)

	Balance sheet value	Total fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value					
Non-trading derivatives	88,198	88,198	0	38,327	49,871
Investment securities - FVOCI	1,707,229	1,707,607	251,025	1,456,582	0
Loans - FVTPL	128,523	128,523	0	0	128,523
Financial assets not measured at fair value					
Cash and balances at central banks	1,660,465	1,660,465	1,660,465	0	0
Amounts due from banks	658,432	658,432	658,432	0	0
Investment securities - AC	320,097	322,304	122,187	200,117	0
Loans - AC	19,875,399	21,065,281	0	0	21,065,281
Financial assets	**24,438,343**	**25,630,810**	**2,692,109**	**1,695,026**	**21,243,675**
Financial liabilities measured at fair value					
Non-trading derivatives	335,183	335,183	0	285,312	49,871
Financial liabilities not measured at fair value					
Amounts due to banks	314,053	313,920	0	313,920	0
Customer deposits and other funds on deposit	15,078,921	15,964,207	9,325,359	6,607,736	31,112
Other borrowed funds	1,273,000	1,272,838	493,000	779,838	0
Debt securities issued	6,274,411	6,390,111	4,240,768	2,149,343	0
Subordinated debt	85,000	85,507	0	85,507	0
Financial liabilities	**23,360,568**	**24,361,766**	**14,059,127**	**10,221,656**	**80,983**

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

Level 1 – Quoted prices in active markets

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

Level 2 –Valuation technique supported by observable inputs

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

Level 3 –Valuation technique supported by unobservable inputs

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

Changes in Level 3 Financial assets

	Non-trading derivatives	Loans - FVTPL	2019	2018
Level 3 Financial assets – opening balance	84,965	32,351	117,316	285,225
Amounts recognised in the profit and loss account during the year	-35,094	33,202	-1,892	-42,208
Additions	0	732,228	732,228	382,391
Sale of assets	0	-669,258	-669,258	-508,092
Level 3 Financial assets – closing balance	**49,871**	**128,523**	**178,394**	**117,316**

Changes in Level 3 Financial liabilities

	2019	2018
Level 3 Financial liabilities – opening balance	84,965	146,367
Amounts recognised in the profit and loss account during the year	-35,094	-61,402
Level 3 Financial liabilities – closing balance	**49,871**	**84,965**

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

	2019	2018
Financial assets		
Non-trading derivatives	-35,094	-61,402
Loans - FVTPL	33,202	-6
Financial assets	**-1,892**	**-61,408**
Financial liabilities		
Non-trading derivatives	35,094	61,402
Financial liabilities	**35,094**	**61,402**

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

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

Level 3 financial assets and liabilities at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2019 of EUR 1,924.3 million (31 December 2018: EUR 954.4 million) include an amount of EUR 178.4 million (9.3%) that is classified as Level 3 (31 December 2018: EUR 117.3 million, 12.3%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2019 of EUR 335.2 million (31 December 2018: EUR 243.6 million) include an amount of EUR 49.9 million (14.9%) that is classified as Level 3 (31 December 2018: EUR 85.0 million, 34.9%)

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

Notes to the Consolidated annual accounts Continued

27 Derivatives and hedge accounting

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

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

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

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

	Positive value		Negative value		Balance	
	2019	2018	2019	2018	2019	2018
Derivatives held for macro fair value hedge accounting	14,687	24,795	535,082	150,279	-520,395	-125,484
Derivatives held for micro fair value hedge accounting	41,835	12,845	7,499	0	34,336	12,845
Balanced Guaranteed Swaps	49,871	84,965	49,871	84,965	0	0
Other non-trading derivatives	6,696	2,992	29,020	8,403	-22,324	-5,411
Interest rate swaps Settled-to-Market	-44,862	0	-286,289	0	241,427	0
Position to be settled STM	19,971	0	0	0	19,971	0
	88,198	**125,597**	**335,183**	**243,647**	**-246,985**	**-118,050**

The fair value of the non-trading derivatives increased in 2019 to EUR -247.0 million (31 December 2018: EUR -118.1 million). This increase has been reduced by the fact that during 2019, NN Bank converted its cleared interest rate derivative contracts of a clearing member from collateralised-to-market (CTM) to settled-to-market (STM). The impact of this reduction amounts to EUR 241.4 million. From an accounting perspective, this means that changes in the value of these contracts are no longer paid and received in a collateral posted account reflecting the total marked-to-market, but rather daily changes are settled in the cash account. This conversion leads to shortening the balance sheet.

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

NN Bank discontinues and restarts the hedging relationships with each change in its hedging instruments, but at least once per month. The main sources of ineffectiveness are the sensitivity to multiple interest rate curves, differences in payment frequencies, and maturity mismatches between the designated hedging instruments and hedged items. Any results on the discontinuation of hedge relations are included under 'Interest result'. Reference is made to Note 18 'Interest result'.

Gains and losses on derivatives designated included in fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result. The transition to STM does not impact the fair value movements in the designated hedging instruments, and consequently, there is no impact on the fair value movement in the hedged item.

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

	2019	2018
Fair value movements in hedging instruments	-412,065	-109,993
Fair value movements in hedged item attributable to hedged risks	404,962	105,068
Net effect macro fair value hedge	**-7,103**	**-4,925**

Notes to the Consolidated annual accounts Continued

Micro fair value hedge accounting

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

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

	2019	2018
Fair value movements in hedging instruments	21,491	13,541
Fair value movements in hedged item attributable to hedged risks	-21,094	-13,428
Net effect micro fair value hedge	**397**	**113**

Non-trading derivatives

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

Non-trading derivatives by type and maturity (2019)

	notionals, amounts in millions of euros				amounts in millions of euros	
	< 1 year	Between 1 and 5 years	> 5 years	Total	Positive fair value	Negative fair value
Interest rate swaps	1,305	3,124	7,539	11,968	38	285
Balanced Guaranteed Swaps	683	1,893	0	2,576	50	50
Interest rate caps	870	642	0	1,512	0	0
Total non-trading derivatives	**2,858**	**5,659**	**7,539**	**16,056**	**88**	**335**

Non-trading derivatives by type and maturity (2018)

	notionals, amounts in millions of euros				amounts in millions of euros	
	< 1 year	Between 1 and 5 years	> 5 years	Total	Positive fair value	Negative fair value
Interest rate swaps	64	3,774	6,431	10,269	41	159
Balanced Guaranteed Swaps	446	2,921	0	3,367	85	85
Interest rate caps	570	1,606	0	2,176	0	0
Total non-trading derivatives	**1,080**	**8,301**	**6,431**	**15,812**	**126**	**244**

28 Assets by contractual maturity

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

Assets by contractual maturity (2019)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,660,465	0	0	0	0	1,660,465
Amounts due from banks	131,354	527,078	0	0	0	658,432
Financial assets at fair value through profit or loss:						
– non-trading derivatives[2]	18,835	0	4,878	51,444	13,041	88,198
Investment securities	57,023	3,016	300,714	1,417,979	248,594	2,027,326
Loans	76,085	65,053	176,134	1,233,579	18,453,071	20,003,922
Intangible assets	0	0	0	10,658	3,025	13,683
Other assets	169,407	41,371	0	0	0	210,778
Total assets	**2,113,169**	**636,518**	**481,726**	**2,713,660**	**18,717,731**	**24,662,804**
Risk management derivatives:						
– inflow	437	960	12,151	36,261	39,183	88,992
– outflow	-7	-490	-1,784	-7,513	-13,103	-22,897

[1] Includes assets on demand.
[2] Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the interest rate swap curve per 31 December 2019.

Notes to the Consolidated annual accounts Continued

Assets by contractual maturity (2018)

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

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

29 Liabilities by maturity

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

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

Liabilities by maturity (2019)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Amounts due to banks	43,353	27,500	168,700	74,500	0	314,053
Customer deposits and other funds on deposit	9,276,004	122,002	570,495	2,174,872	2,935,548	15,078,921
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives[2]	0	164	7,628	58,874	268,517	335,183
Other borrowed funds	25,000	245,000	440,000	563,000	0	1,273,000
Debt securities issued	0	0	1,007,560	3,053,636	2,213,215	6,274,411
Subordinated debt	0	0	0	0	85,000	85,000
Financial liabilities	**9,344,357**	**394,666**	**2,194,383**	**5,924,883**	**5,502,279**	**23,360,568**
Other liabilities	53,715	152,714	67,223	0	0	273,652
Deferred tax liabilities	0	0	14,806	0	0	14,806
Other provisions	0	1,279	4,426	0	0	5,705
Non-financial liabilities	**53,715**	**153,993**	**86,455**	**0**	**0**	**294,163**
Total liabilities	**9,398,072**	**548,659**	**2,280,838**	**5,924,883**	**5,502,279**	**23,654,731**
Risk management derivatives:						
– outflow	8,457	16,235	79,345	303,557	479,474	887,068
– inflow	-35	-774	-1,232	-10,291	-269,250	-281,582
Coupon interest due on financial liabilities	-10,685	-369,740	-103,397	-71,770	-280,298	-835,890

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 2019.

Notes to the Consolidated annual accounts Continued

Liabilities by maturity (2018)

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

1 Includes deposits on demand, arranged by the earliest possible contractual maturity without taking into account expected client behaviour and other factors.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 31 December 2018.

30 Assets not freely disposable

Assets not freely disposable

	2019	2018
Loans	6,607,460	6,779,512
Cash and balances at central banks	84,914	72,290
Amounts due from banks	111,253	150,420
Collateral posted	527,078	317,693
Assets not freely disposable	**7,330,705**	**7,319,915**

The amount not freely disposable for 'Loans' reflects the securitised mortgages portfolios to Arena NHG 2014-2016 and Hypenn RMBS IV to VI and the mortgage loans structured through the Covered Bond Programme.

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

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

'Collateral posted' concerns the collateral accounts regarding centrally cleared swaps.

31 Transferred, but not derecognised financial assets

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

Mortgage loans transferred to consolidated securitisation entities are not included, as these related mortgage loans are not transferred from a consolidated perspective. Reference is made to Note 35 'Structured entities'.

Notes to the Consolidated annual accounts Continued

32 Contingent liabilities and commitments

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

Contingent liabilities and commitments (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	1,043	1,043
Irrevocable credit facilities	110,619	0	0	0	0	110,619
Mortgage and consumer lending offerings	259,510	559,753	297,066	0	0	1,116,329
Construction deposits	24,418	52,656	167,760	126,348	7	371,189
Contingent liabilities and commitments	**394,547**	**612,409**	**464,826**	**126,348**	**1,050**	**1,599,180**

Contingent liabilities and commitments (2018)

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

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

In 2018, NN Bank signed an amended contract with ING Bank with regards to NN-labelled mortgages held by ING Bank. In this amendment, the end date of 2020 has been replaced by the commitment of NN Bank to continue the purchase of resetting loans until all NN-labelled mortgages owned by ING have been transferred. This is expected to continue until approximately 2036. In addition, the resetting loans now also contain certain other loans with an adjustment in interest rates. As per 31 December 2019, the size of the portfolio of NN-labelled mortgages held by ING Bank was EUR 1.6 billion.

Tax liabilities

Together with the other group companies that are part of the fiscal unity, NN Bank is jointly and severally liable for income tax payable by NN Group. The income tax payable by NN Group at the end of 2019 amounted to EUR 45.6 million (2018: EUR 1.5 million receivable).

33 Legal proceedings

General

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

On 17 July 2018, two consumer organisations (Consumentenbond and Vereniging Eigen Huis) started proceedings as a test case against Amstelhuys, at that moment a sister company of NN Bank, claiming that prepayment penalties charged prior to 14 July 2016 should be recalculated and potentially be repaid to the borrowers. Amstelhuys has rejected these claims. On 15 January 2020, the Amsterdam District Court rejected all claims of the aforementioned consumer organisations against NN Bank (as a result of the legal merger between Amstelhuys and NN Bank as of 1 December 2019). The organisations may lodge an appeal with the Amsterdam Court of Appeal.

The outcome of this test case may impact financial institutions and, thus, impact NN Bank's financial position, business, revenues and result of operations and prospects.

AFM fine

On 30 August 2019, the AFM imposed a fine of EUR 1.25 million on NN Bank for over-crediting with regard to consumer credit. NN Bank deplores the violation of consumer credit rules. NN Bank has taken good notice of the decision and considerations of the AFM and has taken further measures to ensure compliance with laws and regulations for the offering of consumer credit.

Notes to the Consolidated annual accounts Continued

34 Principal subsidiaries

NN Bank has three 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.
- Woonnu B.V., which was founded on 13 August 2019 with statutory seat in The Hague. Via Woonnu B.V., NN Bank intends to originate mortgage loans under a new label. NN Bank has obtained an AFM licence for Woonnu B.V.

The Arena NHG entities (2014-II and 2016-I), Hypenn RMBS entities (I, IV - VI) and NN Conditional Pass-Through Covered Bond Company B.V. are not legal subsidiaries of NN Bank. Since NN Bank has control over the structured entities, these special-purpose entities (SPEs) have been consolidated as group companies. Reference is made to Note 35 'Structured entities'.

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

35 Structured entities

NN Bank's activities involve transactions with structured entities in the normal course of business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in determining who controls the entity. For example, when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. NN Bank uses structured entities for securitisation transactions of residential mortgages and in the Covered Bond Programme. NN Bank consolidates these entities in its financial statements on the basis of the economic relationship between NN Bank and the structured entities, as NN Bank has the power to control those entities.

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

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

	Due date	Notional amount	Fixed coupon
Covered bond October 2017	10-10-2024	500,000	0.500%
Covered bond June 2018	11-9-2025	500,000	0.625%
Covered bond September 2018	25-9-2028	500,000	1.000%
Covered bond February 2019	27-2-2024	500,000	0.250%
Covered bond March 2019 - 1	18-3-2039	25,000	1.400%
Covered bond March 2019 - 2	21-3-2039	20,000	1.432%
Covered bond July 2019	25-9-2028	50,000	1.000%
Covered bond September 2019	24-9-2029	500,000	0.125%
		2,595,000	

Securitisation transactions are used to diversify NN Bank's funding sources and to manage its liquidity profile. In these transactions, NN Bank sells a portfolio of mortgage receivables (e.g. mortgage loans) to a structured entity that issues notes. The notes are issued both to third parties and to NN Bank. With the proceeds of the notes, the SPE can finance the purchase of the mortgage receivables. With the received interest on the mortgage receivables, the SPE can pay the interest on the notes. The Bank services the assigned portfolio of mortgage receivables. All securitised assets are originated in the Netherlands by NN Bank. Noteholders only have recourse to the SPEs and not to NN Bank.

NN Bank uses derivative financial instruments in these securitisation transactions. These financial instruments relate to balanced guaranteed swap agreements between a swap counterparty, which have been structured in such a manner that NN Bank pays the swap counterparty the interest expenses on the notes and the swap counterparty pays NN Bank the interest received on the mortgage receivables less third-party operation expenses and additions to the Loan Loss Provision. The SPE also uses these derivative financial instruments, which are exactly the opposite of the financial instruments of NN Bank. The fair value of these balanced guaranteed swap transactions amounted to EUR 49.9 million as at 31 December 2019 (31 December 2018: EUR 85.0 million) and are presented gross. Offsetting is not applicable as it concerns separate contracts.

Notes to the Consolidated annual accounts Continued

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

	Maturity Year	Related mortgage loans		Notes / bonds issued	
		2019	2018	2019	2018
Arena NHG 2014-I	2019	0	461,929	0	384,873
Arena NHG 2014-II	2020	447,662	488,376	335,327	400,627
Arena NHG 2016-I	2021	412,832	463,393	289,120	348,868
Hypenn RMBS I	2020	1,304,067	1,447,574	0	397,853
Hypenn RMBS II	2019	0	378,413	0	323,272
Hypenn RMBS IV	2020	401,424	444,496	341,306	389,761
Hypenn RMBS V	2021	378,032	424,324	333,882	382,867
Hypenn RMBS VI	2022	699,977	770,258	440,169	493,268
Covered bonds	2024	2,963,467	1,790,765	2,584,149	1,487,958
Total		**6,607,461**	**6,669,527**	**4,323,953**	**4,609,347**

36 Related parties

In the normal course of business, NN Bank enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Transactions between related parties have taken place on an arm's length basis, and include rendering and receiving of services, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised in outstanding balances with related parties.

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

- The management of financial instruments takes place via a management agreement with NN Investment Partners Holdings N.V. (NN IP). Reference is made to the table 'Transactions with Other group companies'.
- Sale of mortgages to other NN Group companies. Reference is made to Note 6 'Loans'.
- As part of arrangements regarding the issuance of savings mortgages. NN Bank transfers mortgage parts to related parties. In certain arrangements, NN Bank receives mortgage parts; in other arrangements, NN Bank pays the mortgage parts. All transfers of mortgage parts take place against their nominal value and are recorded in the current accounts with other group companies. These current accounts are classified under Note 6 'Loans' for received mortgage parts and classified under Note 10 'Customer deposits and other funds on deposit' for paid mortgage parts. Reference is also made to Note 1 'Accounting policies' in the paragraph 'Partial transfer of mortgage loans'.
- Transactions with NN Group concerning financing arrangements and the payment of taxes, as NN Group heads the fiscal unity. Reference is made to Notes 16 'Subordinated debt' and 32 'Contingent liabilities and commitments'.
- Asset management services to group companies, carried out by NN Bank. For more details reference is made to the tables that follow.
- Facility and other services carried out by group companies
- Transactions relating to the remuneration of Board members. Reference is made to Note 37 'Key management personnel compensation'.

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

Parent company

Parent company	2019	2018
Assets	0	0
Liabilities	555,010	86,714
Income received	-2,504	-3,496
Expenses paid	22,314	24,315

'Liabilities' mainly consist of unsecured loans from NN Group amounting to EUR 493 million and subordinated loans from NN Group amounting to EUR 85 million. Reference is made to Note 12 'Other borrowed funds' and Note 16 'Subordinated debt'.

The interest paid on loans from NN Group is included in 'Interest result' as part of 'Total income' in the Consolidated profit and loss account. 'Expenses paid' includes mainly expenses charged by staff departments on behalf of NN Group, especially for IT, Human Resources and facility management services. Reference is also made to Note 24 'Other operating expenses'.

Other group companies

Other group companies	2019	2018
Assets	65,070	123,136
Liabilities	36,685	339,903
Income received	84,104	85,424
Expenses paid	32,199	38,384

Notes to the Consolidated annual accounts Continued

'Assets' mainly comprises the current account with NN Insurance Eurasia N.V. of EUR 88 million (2018: EUR 52 million) and positions resulting from partial transfer of mortgage loans with NN Leven. With ING Insurance (Belgium), loans mortgage savings amount to EUR 74 million (2018: EUR 0).

NN Bank transfers mortgage parts as part of certain arrangements. The net amount of partial mortgages loans transferred to NN Leven amounted to EUR 62 million as at 31 December 2019 (2018: EUR 141 million).

'Liabilities' mainly consists of payables to ING Insurance Belgium of 22 million (2018: EUR 0). In 2018, this consisted of Hypenn notes, owned by NN Leven and totalling EUR 100 million, which were paid back, payables to Amstelhuys N.V. of EUR 99 million and repos of EUR 75 million, which were paid back. For more details, reference is made to Note 13 'Other liabilities'.

'Income received' mainly reflects fee income on mortgage origination and servicing on behalf of NN Leven of EUR 72 million (2018: EUR 64 million) and on behalf of ING Insurance (Belgium) of EUR 19 million (2018: EUR 1 million). Interest expenses on transfer of mortgage parts amount to EUR 7 million (2018: EUR 10 million). Income from loan portfolio servicing fees and negative income on asset management fees to NN IP are also included.

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

37 Key management personnel compensation

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

Management Board

	2019[2]	2018
Fixed compensation:		
- base salary	759	929
- pension costs[1]	87	107
- termination benefit	581	0
- individual savings allowance[1]	104	138
Variable compensation:		
- up-front cash	79	90
- up-front shares	79	90
- deferred cash	79	90
- deferred shares	79	90
Other benefits	219	232
Fixed and variable compensation	**2,066**	**1,766**

1 The pension costs consist of an amount of employer contribution (EUR 87 thousand) and an individual savings allowance (EUR 104 thousand, which is 28,4% of the amount of base salary above EUR 107,593 for the period between January and June 2019 and 23.3% of the amount of base salary above EUR 107.593 for the period between July and December 2019).
The Management Board members were eligible for a range of other emoluments, such as health care insurance, lifecycle saving scheme and expat allowances. The Management Board members were also able to obtain banking and insurance services in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands

2 The Management Board includes both the statutory and non-statutory members, which is required by IAS 24. Reference is made to Composition of the Boards on page 3. Part 9 of Book 2 of the Dutch Civil Code requires to present only the statutory members of the management board. This is not separately disclosed, else the compensation is traceable to one individual person.

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The NN Bank Supervisory Board members do not receive any compensation for their activities, except for two Supervisory Board members who are not employees of NN Group (2018: two external Supervisory Board members). The remuneration of EUR 62,770 (2018: EUR 61,300) is recognised in the profit and loss account in 'Operating expenses'. Some Supervisory Board members hold remunerated (Board) positions within NN Group, but not within NN Bank. Their remuneration is part of the allocation of headquarter 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 2019 and 2018. NN Bank does not provide the Supervisory Board with a pension arrangement, termination arrangements (including termination of retirement benefits) or variable remuneration in cash or in stock.

The total remuneration of EUR 2,066 thousand, as disclosed in the table above, includes all variable remuneration related to the performance year 2019. 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 2019 and therefore included in 'Total expenses' in 2019, relating to the fixed expenses of 2019 and the vesting of variable remuneration of 2019 and earlier performance years, is EUR 1,888 thousand (2018: EUR 1,755 thousand).

Notes to the Consolidated annual accounts Continued

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

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

- Enhance focus on the long-term interest of NN Group and the interest of customers
- Align with company values, business strategy and risk appetite
- 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
- Enforce Claw-back and hold-back arrangements
- Attract and retain talented personnel

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2019	2018	2019	2018	2019	2018
Management Board members	394	0	4.1%	0.0%	16	0
Supervisory Board members	0	495	0.0%	5.0%	0	82
Loans and advances to key management	**394**	**495**			**16**	**82**

The total amount of outstanding loans in 2019 was EUR 394 thousand (2018: EUR 495 thousand.) The total amount of redemptions of these mortgage loans during 2019 was EUR 16 thousand (2018: EUR 82 thousand).

38 Subsequent and other events

Subsequent events

Brexit
NN Bank Treasury has a number of transaction-related parties that are UK (-based) firms, and transaction documentation under English Law. With the impending withdrawal of the UK from the EU, a response plan for NN Bank is being implemented. The primary objective for NN Bank is to safeguard the ability to hedge its interest rate position via new transactions through an EU-based setup, regardless of any Brexit scenario. On 23 December 2019, the European Commission published in the *Official Journal* its amended implementation decision in relation to the equivalence of UK CCPs, ensuring an extension to the temporary equivalence decision in order to ensure that there will be no disruption in central clearing. Temporary equivalence for UK CCPs now will apply for one year from the date of the UK's exit from the EU in the event of a 'no deal'. Uncertainty remains over access to UK-based parties after this. As such, the need to ensure NN Bank has access to an EU-based clearing framework remains. Therefore, NN Bank is still preparing the process of actively transferring positions from LCH to Eurex, in case this becomes a requirement.

Arena NHG 2014-II
On 19 February 2020, NN Bank announced that it will repurchase mortgages from the Arena NHG 2014-II BV transaction. As a result, NN Bank will facilitate the full redemption of the current outstanding EUR 210 million Class A2 notes, EUR 125 million Class A3 notes, EUR 87 million Class B notes on 17 April 2020.

Coronavirus COVID-19
The coronavirus (COVID-19) has a substantial impact on financial markets, global trade, manufacturing and travel and is also having a negative impact on the markets in which NN Bank is active. This in particular pertains to the mortgage market and the wholesale funding market. Also the actual operations of NN Bank itself are impacted as NN Bank is following the recommendations of the Dutch government and currently all work is done from home rather than our office locations.

NN Bank expects refinancing spreads in the wholesale markets to rise and arrears and defaults with our mortgage and consumer credit clients to increase from the currently low levels. This will likely have a negative impact on the operating result of NN Bank in 2020, however, the extent of the impact on results cannot be reliably estimated at this moment. In addition, for the foreseeable future NN Bank expects no significant difficulties in refinancing it's funding positions and liquidity positions which are expected to remain above internal limits.

As circumstances are changing rapidly, the actual impact on NN Bank will become more clear over time and might deviate from current expectations.

Notes to the Consolidated annual accounts Continued

39 Risk management

Introduction
Risk management is a fundamental part of the banking business that must be addressed appropriately to enable NN Bank to successfully meet its obligations towards customers, regulators and other stakeholders. Accepting risk is an integral part of NN Bank's business: having the right functions and systems in place to manage risks is important. NN Bank has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Through its risk management practices, NN Bank seeks to meet its obligations to customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

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

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

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

Risk management system and governance
NN Bank's organisational risk management structure comprises the governance and policy measures designed to manage all the risks associated with the business of NN Bank, as effectively as possible, for all relevant parties involved. At all times, we aim to avoid a situation in which the risk position and the ensuing potential losses seriously threaten NN Bank's profitability, solvency or liquidity. This involves an independent risk management function – in accordance with the relevant regulatory requirements (Wft, CRR and EBA) and the policy frameworks of NN Group and NN Bank.

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

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

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

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

Notes to the Consolidated annual accounts Continued

The NN Bank Management Board committees are as follows:

Committees	Responsibilities	Chairperson
Asset & Liability Committee (ALCO)	Policy and management of interest-rate risk, liquidity risk and customer behaviour risk, determination of funding and capital instruments to be deployed and overseeing the implementation of (new) funding and capital instruments	CRO
Credit Risk Committee (CRC)	Policy and management of all credit risks incurred by NN Bank for existing credit portfolios, assigned or acquired credit portfolios and new loans	CRO
Crisis Committee (CC)	Management of financial and non-financial risk-related crises	CEO
Data Governance Committee (DGC)	Maintenance and implementation of the Data Governance & Quality Management Policy	CTO
Impairment & Provisioning Committee (IPC)	Establishing the level of the provisions formed by NN Bank in accordance with its credit risk policy	CFO
Model Committee (MoC)	Management of model risk, which is the risk of incorrect model design, implementation and usage. Approval authority for the models, methodologies and parameters	CRO
Non-Financial Risk Committee (NFRC)	Policy and identification, measurement and monitoring of significant non-financial risks and the adequate mitigation thereof by (line) management	CEO
Product Approval & Review Committee (PRC)	Periodic review of existing products and review for approval of new products	CEO
Disclosure Committee (DC)	Advising on relevant disclosures. Ensures that all disclosures are accurate, complete and appropriate, and that they fairly present NN Bank's condition in all material respects	CFO
Balance Sheet Management Committee (BMC)	Management of the pricing of savings and mortgages to ensure that they at least meet ROE/profitability targets, while striving for economic profit per product. Decisions made in the BMC are mandatory guidance for the pricing committees	CEO
Accounting Committee (AC)	Management of accounting policies for financial reporting in accordance with IFRS-EU	CFO

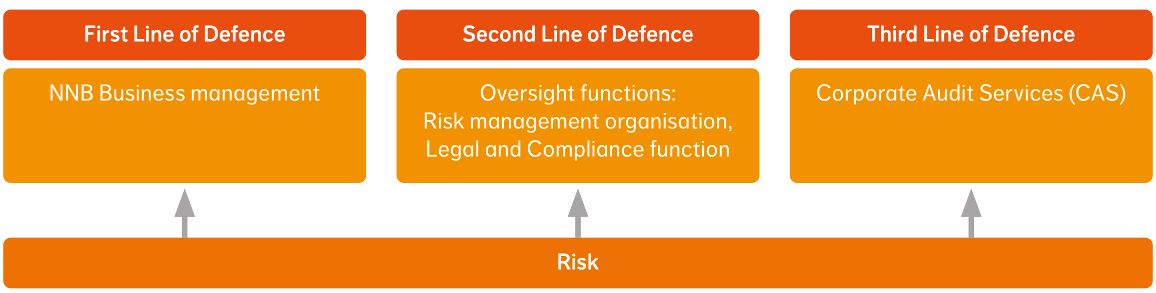
Any sub-committees are not included above.

Risk policy framework

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

Three Lines of Defence concept

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



Notes to the Consolidated annual accounts Continued

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

Independent risk management function (Second Line of Defence)
The CRO is a member of NN Bank's Management Board and functionally reports to the NN Group CRO 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

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

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

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

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

Emerging and strategic risks
In general, strategic and emerging risks are identified using a scenario analysis approach. Strategic initiatives are developed and executed to mitigate these risks as part of strategic planning. NN Bank recognises the following emerging and strategic risks. Strategic initiatives to mitigate these risks are being executed.

Risk of not meeting strategic objectives due to:

- margin pressure and lack of diversification caused by environmental changes
- prolonged low/negative interest rates caused by environmental changes
- regulatory change caused by growing concerns over the implications of climate change
- lack of operational effectiveness in dealing with changes in the banking value chain and operating requirements

Solvency and liquidity risks
- Credit risk: the risk of potential loss due to default of NN Bank's debtors
- Interest rate risk in the banking book: the exposure of a bank's financial condition to adverse movements in interest rates originated from positions in the banking book
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customer behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such, strategic risks and emerging risks are included in business risk.
- Liquidity risk: the risk that NN Bank cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner

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

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

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

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

Within NN Bank, the CRO is responsible for advising on the risk appetite, in close consultation with the CFO and the Head of Legal, Compliance & FJA. NN Bank's Management Board reviews the advised risk appetite for approval at least annually. The risk appetite set by NN Bank's Management Board needs to be consistent with NN Group's risk appetite and must be endorsed by NN Bank's Supervisory

Notes to the Consolidated annual accounts Continued

Board. The Supervisory Board supervises NN Bank's execution of the risk policies and verifies that they are in accordance with the set risk appetite.

Qualitative risk appetite metrics

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

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

Quantitative risk appetite metrics

For financial risks, NN Bank expresses its risk appetite as the tolerance to allow key metrics to deviate from their target levels. The following key risk metrics have tolerance levels set at Bank level, and are monitored on a monthly basis. These metrics are shown below, along with their levels at year-end:

Key risk metrics

	Level end of	
	2019	2018
Common Equity Tier 1 ratio1	15.7%	16.3%
Total capital ratio1	17.2%	17.9%
Leverage ratio	3.7%	4.1%
Liquidity Coverage Ratio (LCR)	173%	171%

1 These are not final until filed with the regulators. If DNB approves the addition of the net result, then the Total capital ratio is 18.3% and CET1 ratio is 16.8%.

The increase in the balance sheet notwithstanding, NN Bank has maintained a solid capital position with a Total capital ratio of 17.2% and a CET1 ratio of 15.7% at year-end 2019. The leverage ratio stands at 3.7%. At the end of December 2019, NN Bank had an LCR of 173%. This is well above the regulatory and internal minimums. It shows a solid liquidity position, given our liquidity risks.

Risk Assessment & Control

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

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

Notes to the Consolidated annual accounts Continued

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

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

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

Stress tests focus on topical issues and the sensitivity of NN Bank's capital and liquidity position to certain risks. A stress test can cover a single risk type or multiple risk types. It can include the entire balance sheet, but it can also be used to analyse the potential impact on certain asset classes or certain activities. These analyses determine risk appetite and provide input that helps to steer strategic direction and support decision-making to ensure that NN Bank can survive severe but plausible stress. In addition, this information is important input for the annual Supervisory Review and Evaluation Process (SREP) performed by the regulator, resulting in capital requirements for NN Bank.

Stress-testing approaches include the following:

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

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

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

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

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

Regulatory environment
Basel III revisions, CRRII/CRDV and upcoming regulations
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 specific issues, through the implementation of Basel III.

For European banks, the Basel III requirements are implemented through the Capital Requirement Regulation (CRR/CRDIV) effective per 1 January 2014 with full implementation as of 1 January 2019 and through the CRRII/CRDV formalised on 7 June 2019, with most changes to be made applicable from mid-2021. The CRRII/CRDV requirements contain the final set of rules for the Leverage Ratio and the Net Stable Funding Ratio, along with some other implementation issues that were either pending or subject to review some years after the CRR entered into force.

Notes to the Consolidated annual accounts Continued

In December 2017, the Basel Committee on Banking Supervision (BCBS) announced Basel III revisions. These consist of a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches, changes to the use of advanced internal ratings-based approach and the introduction of a standardised measurement approach for operating risk, amongst others. BCBS members agreed to full, timely and consistent implementation of all elements of the reform package by 1 January 2022 as the main implementation deadline, with some revisions including the output floor to be phased in until 1 January 2027. The European Commission has stated that it is committed to this agreement and its faithful implementation in the EU, taking into account European specificities and the objective stated by co-legislators for the reforms not to result in a significant increase in the overall capital requirements for the banking sector. The public consultation, started by EC for implementing the final Basel III reforms in the EU, was closed on 3 January 2020.

NN Bank monitors regulatory developments closely and, as appropriate, seeks opportunities for the public to comment and to ensure timely compliance. NN Bank complies with current CRR liquidity and capital requirements and is well prepared for any upcoming changes.

Business environment developments 2019

Mortgage market

As a Dutch bank, NN Bank is influenced by the developments in the Dutch markets, including the political and economic climate. According to the Centraal Plan Bureau (CPB), the Dutch GDP grew by 1.7% over 2019, reflecting slowing down of the economy (CBS: 2.6% in 2018), due to the decline in global growth and, to a lesser extent, the issues around nitrogen and PFASs. Consumer purchasing power increased on balance, buoyed by a combination of rising wages and decreasing unemployment. The economy is in a late growth phase, with unemployment reaching its lowest level in 2019[1],

1 Source: CPB

Increasing scarcity, predominantly in the larger cities, has caused an increase in housing prices. Buying a house has become more attractive for those who can afford to do so. Rental houses are increasingly scarce and expensive. This also applies to expats. Their number is growing, as more and more international organisations settle in the Netherlands. As a result of market circumstances, first-time homebuyers face increasing difficulties in buying a house (again, predominantly in the larger cities). The number of homeowners switching to a new home has increased in 2019. This is largely driven by the historically low interest rates. The rise in homeowners switching homes and taking on a new mortgage has outweighed the decline in mortgages for first-time buyers. As a result, the Dutch mortgage market has grown again in 2019.

Housing affordability depends, amongst others, on mortgage interest rates. These rates have continued to decline in 2019. This made home loans more accessible, but put more upward pressure on the housing prices. Historically, the Dutch mortgage market has been characterised by high income tax deductibility of interest on mortgages and tax-driven mortgage products. However, tax rules have changed regarding mortgages. Interest paid on new mortgages is only tax deductible if there is at least an annuity repayment schedule. Rate deductibility was capped at 49.5% in 2018, reduced to 49.0% in 2019. From 2020 onwards, the deductible percentage would decrease at a higher pace, until reaching a final 37.05% ceiling in 2023. Furthermore, regulation on minimum mortgage underwriting criteria has been tightened in order to reduce the overall loan-to-value (LTV) ratio in the Dutch mortgage market. The maximum LTV for new mortgages stayed at 100% in 2019. Newly originated mortgages will have their interest-only component capped at 50%, with the remainder following an annuity or stricter repayment scheme over a maximum period of 30 years.

Risk developments 2019

Integration Delta Lloyd Bank

The merger of NN Bank and Delta Lloyd Bank was largely completed in 2019, through an integration programme. The operational integration is planned to be finalised in 2020. Through the integration programme, integration risks were continuously monitored and mitigated at workstream level and integration programme management level.

Brexit

NN Bank Treasury has a number of transaction-related parties that are UK (-based) firms, and transaction documentation under English Law. With the impending withdrawal of the UK from the EU, a response plan for NN Bank is being implemented to safeguard its ability to hedge its interest rate position via new transactions through an EU-based set-up, regardless of any Brexit scenario.

On 23 December 2019, the European Commission published in the *Official Journal* its amended implementing decision in relation to the equivalence of UK CCPs ensuring an extension to the temporary equivalence decision. Temporary equivalence for UK CCPs now will apply for one year from the date of the UK's exit from the EU in the event of a 'no deal'. Uncertainty remains over access to UK-based parties after this, and as such, the need to ensure NN Bank has access to an EU-based clearing framework remains. Therefore, NN Bank is still preparing the process of actively transferring positions from LCH to Eurex in case this becomes a requirement.

Credit risk

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

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,

Notes to the Consolidated annual accounts Continued

commitments. As the distribution of the exposures is of great importance in correctly managing the credit risk exposure, NN Bank has established a Credit Risk Appetite Framework that is derived from the overall NN Bank risk appetite.

- Retail credit risk: arises when NN Bank grants a loan to a retail counterparty, or issues guarantees on behalf of a retail counterparty. This includes term loans, mortgages, revolving credits, and construction deposits.
- Non-retail credit risk: is the credit default and risk-rating migration risk that is associated with NN Bank's investments in bonds, securitisations and other similar publicly traded securities. This can be viewed as the worst-case scenario loss that NN Bank may incur as a result of holding a position in underlying securities whose issuer's credit quality deteriorates or defaults. The sole purpose of NN Bank's investments in the banking book is for liquidity management. Within NN Bank, (pre)settlement risk, money market risk, counterparty lending risk and issuer risk on investment are categorised under counterparty credit risk and are part of the non-retail credit risk framework. Within NN Bank, the pre-settlement credit risk category is currently associated with OTC derivatives. The interest rate swap portfolio is transferred to mandatory central clearing through a Central Clearing Counterparty (CCP) under the European Market Infrastructure Regulation (EMIR).

Credit risk portfolio & credit quality

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

Net exposure on mortgages

Amounts in thousands of euros	2019	2018
Balance amount[1]	19,053,051	17,849,557
Indexed market value primary cover	30,963,302	27,415,390
Secondary cover value	1,327,619	1,292,494
NHG guarantee value	5,486,243	5,160,609
Total cover value + NHG guarantee capped at balance amount	19,002,949	17,763,798
Remaining exposure at risk[2]	50,102	85,760

1 Total amount reconciles to stage 1-3 and purchased credit-impaired loans, excluding the category 'no allocated stage'. Reference is made to note 6 'Loans'.
2 'Remaining exposure at risk' is calculated as 'Balance amount' minus 'Total cover value + NHG guarantee capped at balance amount'

The table above shows the credit risk mitigants (covers and NHG guarantee, or national mortgage guarantee) related to NN Bank's mortgage book. In addition to the total value of the different covers and guarantees, the net exposure is also calculated. This risk measure is calculated at loan level without double-counting any cover value or guarantee value. The value is capped at the carrying value. The Net exposure can be seen as credit without any type of cover or guarantee. This amount decreased in 2019, due to an increase in housing price index and the development of secondary covers. Furthermore, new production shows a low net exposure. The reason is that for new loans, the maximum LTV is 100% and most loans have an annuity or linear redemption scheme (because of tax deduction).

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

Loan-to-value

As at the end of 2019, NN Bank's mortgage book had a weighted average loan-to-value ratio of 70% (2018: 73%), and 34% (2018: 34%) of the outstanding mortgage amounts are guaranteed under NHG. Effective in 2019, new residential mortgage loans below EUR 290,000 were eligible for coverage by public mortgage loan 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.

Mortgage portfolio by LTV segment

	2019	2018
<80%	46%	41%
80% – 90%	10%	12%
>90% – 100%	7%	7%
> 100%	3%	6%
NHG <= 90%	29%	29%
NHG > 90%	5%	5%
Total	**100%**	**100%**

Increasing house prices resulted in a migration towards lower LTV buckets.

Credit approval process

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

Notes to the Consolidated annual accounts Continued

Past-due loans

As can be seen in the table below, the number of delinquencies >30 days in NN Bank's portfolio slightly decreased in 2019, despite the slight growth of the mortgage portfolio. This is the result of the slightly improved macro-economic conditions.

- The mortgage portfolio is of good quality because of strict underwriting criteria and favourable macro-economic circumstances (low unemployment rate and increasing housing prices). Furthermore, the portfolio grew relatively quickly in the past few years because of a substantial level of own production (which has a low number of delinquencies).

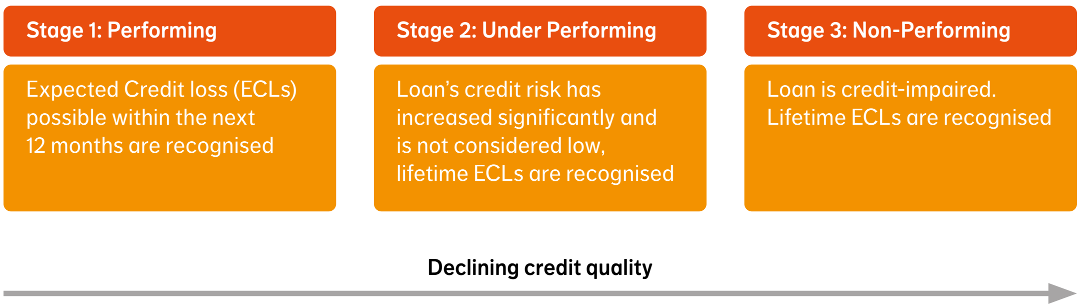
Delinquency

	Mortgages		Consumer lending		Total	
	2019	2018	2019	2018	2019[1]	2018[1/2]
0 days	18,751,347	17,510,054	161,152	203,608	18,912,499	17,713,662
1 – 30 days	174,478	193,352	5,039	7,849	179,517	201,201
31 – 60 days	50,981	72,830	1,924	5,644	52,905	78,474
61 – 90 days	32,532	21,793	808	1,394	33,340	23,187
> 90 days	43,713	51,528	12,234	14,004	55,947	65,532
Total	**19,053,051**	**17,849,557**	**181,157**	**232,499**	**19,234,208**	**18,082,056**

1 Total amount reconciles to stage 1-3 and purchased credit-impaired loans, excluding the category 'no allocated stage'. Reference is made to note 6 'Loans'.
2 For purposes of comparison, amounts from 2018 have been reclassified.

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, a loan is considered 'past due' if a payment of interest or principal is more than one day late. When this happens, a specialised team contacts the customer to explore the possibilities of getting the customer back into financial health as soon as possible.

IFRS 9: Three Stages of Impairment



IFRS 9 Stage 1 and 2

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

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

- Loans that are >30 days past due
- Forborne performing customers (discussed more thoroughly later in this paragraph). All performing forborne customers receive a fixed PD of 38% to reflect the elevated risk profile, when compared with performing customers that are not forborne.

IFRS 9 Stage 3

Stage 3 loans are qualified as non-performing (NPL) and receive a PD of 100%, a lifetime expected loss is calculated under IFRS 9. As can be derived from the table below, 0.4% (EUR 84 million) of the total loans to customers as at the end of 2019 (0.7% at the end of 2018), are classified as Stage 3. Stage 3 decreased for both mortgages and consumer loans due to improvements in the macroeconomic conditions.

A client flows into Stage 3 (and becomes non-performing) when one of his/her loans is at least 90 days past due, when the client is deemed to be unlikely to pay or in specific forbearance situations (see more explanation later this paragraph). This status remains until the delinquency amount has been fully repaid and no default triggers apply.

Notes to the Consolidated annual accounts Continued

Loans exposed to credit risk (Stages by exposure)[1]

	Stage 1		Stage 2		Stage 3		POCI assets		Total	Total
	2019	2018	2019	2018	2019	2018	2019	2018	2019[1]	2018[1/2]
Mortgages	18,595,699	17,457,820	351,433	247,087	71,325	109,595	34,594	35,055	19,053,051	17,849,557
Consumer loans	160,371	203,215	8,033	10,490	12,753	18,794	0	0	181,157	232,499
Total	**18,756,070**	**17,661,035**	**359,466**	**257,577**	**84,078**	**128,389**	**34,594**	**35,055**	**19,234,208**	**18,082,056**

1 Total amount reconciles to stage 1-3 and purchased credit-impaired loans, excluding the category 'no allocated stage'. Reference is made to note 6 'Loans'.
2 For purposes of comparison, amounts from 2018 have been reclassified.

Risk costs

Risk costs are defined as net additions to the loan loss provisions, plus write-offs, minus recoveries. NN Bank's total risk costs over 2019 were negative (i.e. a release from Loan Loss Provisions) and amounted EUR -1.1 million (-0.6 bps), compared with EUR -5.4 million (-3.0 bps) at the end of 2018. Risk costs are low because of the increase in housing prices in combination with the slightly decreasing unemployment rate.

For the mortgage, consumer loans and bonds portfolio together, the stock of provisions as at year-end amounted to EUR 21.1 million. Write-offs minus recoveries in 2019 amounted to EUR 7.2 million compared with EUR 1.9 million at the end of 2018. Write-offs for consumer loans were higher as a result of a policy update. Loans that were in default for a prolonged period and were not expected to be recovered were written off. For mortgages, write-offs minus recoveries were low in 2019 (EUR 1.0 million).

Provisions by stage

	Stage 1		Stage 2		Stage 3		POCI assets		Total	Total
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Mortgages	2,130	1,594	1,474	1,617	4,619	6,749	435	741	8,658	10,701
Consumer loans	1,137	1,443	2,438	2,279	8,379	14,051	0	0	11,954	17,773
Total	**3,267**	**3,037**	**3,912**	**3,896**	**12,998**	**20,800**	**435**	**741**	**20,612**	**28,474**

Note: Under IFRS 9, NN Bank also calculates provisions for bonds (non-retail), which amounts to EUR 0.5 million per year-end 2019.

The following remarks can be made:

- During 2019, the provisions decreased because of favourable economic circumstances
- For consumer loans, the provisions further decreased as a result of the high write-offs
- While the loan loss provisions have been determined with due care, NN Bank observes that the current loan loss provisions are at a historically low level

Forbearance

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

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

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

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

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

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

- The contract is considered to be 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 2019 amounted to EUR 57 million (0.3% of mortgage exposure). This percentage decreased because few forbearance measures were used, while the probation period of existing forbearance measures ended. Additionally the forbearance policy was updated resulting in some measures no longer leading to forbearance.

Credit Risk Management monitors the performance of clients with modified loans at least on a monthly basis. The (re)modified loans are segregated from the other parts of the loan portfolio for collective impairment assessment to reflect the possibility of higher losses in this segment and to recognise the financial loss that already has occurred – e.g. the contractually agreed interest rate reduction for a period of time.

Forbearance category in percentage of total lending exposure

	2019	2018
Restructuring	0.17%	0.23%
Terms & conditions	0.13%	0.18%
Total forbearance	**0.30%**	**0.41%**

Interest rate risk in the banking book

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

Business risk
Business risk for NN Bank is predominantly interest rate-related customer behaviour risk that influences volumes and margins. Business risk may manifest itself due to internal, industry or wider market factors. Business risk is covered under Pillar II. Customer behaviour risk is a part of business risk. Market Risk Management models the customer behaviour in relation to mortgages, loans and savings. Models and parameters are reviewed at least annually and updated when deemed necessary. In the modelling of savings, different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses result in an investment rule for the various portfolios. With respect to mortgages and consumer loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled, if applicable.

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

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

Notes to the Consolidated annual accounts Continued

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

Both of these measures are based on the NPV, sometimes also referred to as market value. The NPV is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. The NPV is defined as the current value of all future cash flows, given the current market circumstances. The NPV is calculated by discounting the expected cash flows using the relevant current interest rates. For the measurement of interest rate risk, risk-free discounting is applied in line with EBA GL/2018/02.

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

The duration and key rate duration are interest rate risk measures for small changes in interest rates. To determine the impact of large changes in interest rates, the NPV at Risk (NPVaR) measure is used. This risk figure measures the impact of changing interest rates on the market value of NN Bank's balance sheet. In the table below, the impact of a 2% interest rate shock on the market value of the balance sheet is presented. The NPVaR is mainly impacted by the interest rate sensitivity of the investments of own funds. The NPVaR is expressed as a percentage of regulatory capital, taking the worst-case impact of the up-and-down 200 basis points parallel shock scenarios. A negative percentage means a negative impact on the market value of equity. NN Bank measures NPVaR for both parallel and non-parallel scenarios.

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

NPVaR

Percentage of total equity	2019	2018
Parallel shift 200 basis points	-0.40%	-1.65%

Exposure to NPVaR per end-of 2019 is well below regulatory and internal minimums.

Earnings at Risk

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

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

Earnings at Risk

Percentage of interest result	2019	2018
Parallel shift – 100 basis points	-4.1%	-10.6%
Parallel shift + 100 basis points	1.8%	5.5%

Exposure to EaR per year-end 2019 is at a lower level than per year-end 2018 due to the adoption of the flooring assumption (as defined in the 2018 EBA guidelines) for down scenarios and to smoothening of the repricing gap mismatch in the balance sheet.

Liquidity risk

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

Risk profile

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

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

Notes to the Consolidated annual accounts Continued

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

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

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

Also on a monthly basis, NN Bank reports a number of stress scenarios, based on regulatory requirements, including those based on CRR regulation, such as:

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

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

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

Liquidity position
Liquidity measures

	2019	2018
LCR	173%	171%
NSFR	132%	127%

At the end of December 2019, NN Bank had an LCR of 173% and an NSFR of 132%. This is well above the regulatory and internal minimums. It shows a solid liquidity position given our liquidity risks. In addition to the available liquidity as captured by the LCR and the NSFR, NN Bank has other sources of liquidity available. In 2019, NN Bank had external credit facilities in place. Two committed loan facilities secured by mortgages and a credit facility with NN Group.

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

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

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 held on strategic level and business level and are forward-looking. Based on the identified risks, measures have been implemented to mitigate them within risk appetite. NN Bank conducts regular risk and control monitoring to evaluate the risks and the effectiveness of the controls. 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 non-financial risk and control framework.

Notes to the Consolidated annual accounts Continued

Business conduct risk

Risk profile

Business conduct risk is the risk of impairment of NN Bank's integrity. It is the risk of failure (or perceived failure) to comply with NN Group's business principles and 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 Bank is committed to upholding its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which the company operates. All employees are expected to adhere to these laws, regulations and ethical standards, and management is responsible for ensuring such compliance. Compliance is therefore an essential ingredient of good corporate governance.

NN Bank's compliance function has developed a framework that governs the process of identifying, assessing, mitigating, monitoring and reporting business conduct risks. The compliance function supports the businesses to effectively manage their business conduct risks. NN Bank continuously enhances its business conduct risk management programme to ensure that NN Bank and its subsidiaries comply with international standards and laws.

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

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

40 Capital management

Regulatory requirements

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

NN Bank publishes risk-weighted assets (RWA), Common Equity Tier 1, Total capital and accompanying capital ratios based on CRR, as applicable. For the calculation of RWA, NN Bank applies the Standardised Approach for Credit Risk and the Basic Indicator Approach for Operational Risk. NN Bank does not have a trading book, and therefore Market Risk RWA is not applicable.

Capital management process

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

Important inputs to the capital and liquidity planning and management process are provided by stress testing that is performed on a regular basis as part of the ICAAP and ILAAP processes. These stress tests focus on topical issues and the sensitivity of NN Bank's capital position to certain risks. These analyses determine risk appetite and provide input that help to steer strategic direction. In addition, this information is important input for the annual Supervisory Review and Evaluation Process (SREP) performed by the regulator, resulting in capital requirements for NN Bank.

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

Capital adequacy

During 2019, NN Bank maintained a solid capital position, both on a CRR transitional and fully phased-in basis.

Notes to the Consolidated annual accounts Continued

Transitional capital position

Amounts in millions of euros	2019	2018
Common Equity Tier 1 Capital1	926	906
Total capital1	1,011	991
Risk Weighted Assets	5,894	5,545
Common Equity Tier 1 ratio1	15.7%	16.3%
Total capital ratio1	17.2%	17.9%

1 These are not final until filed with the regulators. If DNB approves the addition of the net result, then the Total capital ratio is 18.3% and CET1 ratio is 16.8%.

Despite the balance sheet increase, NN Bank has maintained a solid capital position with a Capital Requirements Regulation (CRR) total capital ratio of 17.2% (31 December 2018: 17.9%) and a CRR CET1 ratio of 15.7% as of 31 December 2019 (31 December 2018: 16.3%). Common Equity Tier 1 Capital amounts to EUR 926 million (31 December 2018: EUR 906 million) and has increased mainly due to internal capital generation in the form of retained profit.

Liquidity adequacy

During 2019, NN Bank maintained an adequate liquidity position.

	2019	2018
Liquidity Coverage Ratio (LCR)	173%	171%
Net Stable Funding Ratio (NSFR)	132%	127%
Loan-to-Deposit ratio (LDR)	128%	127%

On 31 December 2019, NN Bank had an LCR ratio of 173%. This is well above regulatory and internal minimums. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. NN Bank has retained RMBS, which can be used for ECB standing facilities (excl. emergency facilities) and commercial repo transactions. Further, NN Bank had external credit facilities in place for use when necessary: two committed loan facilities secured by mortgages and a credit facility with NN Group.

Next to its liquidity ratio, NN Bank uses two ratios to measure and monitor the Bank’s funding position. The NSFR ratio is defined as the amount of available stable funding relative to the amount of required stable funding. The objective of the NSFR is to incentivise banks to fund their activities from stable sources of funding on an ongoing basis. On 31 December 2019, NN Bank had a NSFR ratio of 132%. This is well above regulatory and internal minimums.

The LDR ratio is a statistic for assessing a bank's deposit funding gap by dividing the bank's total volume of commercial loans by its retail deposits. This ratio is used for a diversified funding base and gives an indication of the bank’s dependence on wholesale funding for financing client loans. On 31 December 2019, NN Bank has a LDR ratio of 128% which is well within the internal limit.

Dividend policy

NN Bank aims to pay dividends on a semi-annual basis to its shareholder, while ensuring that the capital ratios show stable development that remains well within NN Bank’s risk appetite and the regulatory required capital ratios.

In June 2019, after the adoption of the 2018 Consolidated annual accounts by the General Meeting, NN Bank paid a dividend of EUR 55.9 million for 2018.

In the second half of 2019, NN Bank paid an interim dividend of EUR 26.2 million relating to the profit for the first half of 2019. The 2019 interim dividend was paid in cash, and was deducted from the retained earnings. At the 2020 annual general meeting, no final dividend over 2019 will be proposed. NN Bank follows the guidance received from DNB in view of the current coronavirus COVID-19 that will ease the Dutch banking sector’s capital requirements to support lending, combined with a restraint on dividend pay-out and share buyback.

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Bank for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the NN Bank Management Board on 24 March 2020.

The Hague, 24 March 2020

The Management Board

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

C.H.A. (Kees) van Kalveen, CFO

P.C.A.M. (Pieter) Emmen, CRO

The Supervisory Board

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

A.A.G. (André) Bergen

D. (Delfin) Rueda

Confirmed and adopted by the General Meeting, dated 29 May 2020.

Parent company annual accounts

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	2019	2018
Assets			
Cash and balances at central banks		1,660,465	1,314,956
Amounts due from banks	2	547,018	330,691
Financial assets at fair value through profit or loss:			
– non-trading derivatives		88,198	125,591
Investment securities		2,027,326	1,068,417
Loans	3	19,066,106	17,336,928
Receivables from group companies	4	1,184,461	1,171,331
Other assets	5	97,658	81,618
Investments in group companies	6	93,667	74,171
Intangible assets		13,683	8,056
Total assets		**24,778,582**	**21,511,759**
Liabilities			
Amounts due to banks		314,053	264,500
Customer deposits and other funds on deposit		15,078,921	14,476,439
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives	7	285,313	158,682
Other borrowed funds		780,000	330,000
Other liabilities	8	89,050	66,713
Deferred tax liabilities		14,813	18,145
Provisions		5,705	5,889
Debt securities issued	9	4,534,607	1,846,899
Loans from group companies	10	2,583,047	3,274,784
Subordinated debt		85,000	97,000
Total liabilities		**23,770,509**	**20,539,051**
Equity			
Share capital		10,000	10,000
Share premium		481,000	481,000
Revaluation reserve		147	1,619
Retained earnings		400,755	404,304
Unappropriated result		116,171	75,786
Shareholders' equity	11	**1,008,073**	**972,709**
Total equity and liabilities		**24,778,582**	**21,511,759**

References relate to the Notes starting on page 92. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account

Amounts in thousands of euros, unless stated otherwise

Parent company profit and loss account

For the year ended 31 December	notes		2019		2018
Interest income		647,448		612,867	
Interest expenses		489,656		522,072	
Interest result	12		157,792		90,795
Income from group companies	6		19,496		22,226
Gains and losses on financial transactions and other income	13		135,739		167,998
– gross fee and commission income		111,313		102,389	
– fee and commission expenses		9,690		9,733	
Net fee and commission income	14		101,623		92,656
Valuation results on non-trading derivatives	15		-41,546		-65,681
Total income			**373,104**		**307,994**
Impairment charges on financial instruments			-1,117		-5,280
Staff expenses			113,344		110,977
Regulatory levies			17,315		16,808
Other operating expenses			93,739		94,977
Total expenses			**223,281**		**217,482**
Result before tax			**149,823**		**90,512**
Taxation			33,652		14,726
Net result			**116,171**		**75,786**

Parent company statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Parent company statement of changes in equity (2019)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Equity – 1 January 2019	**10,000**	**481,000**	**1,619**	**480,090**	**972,709**
Unrealised revaluations after taxation	0	0	4,329	0	4,329
Realised gains or losses transferred to the profit and loss account	0	0	-5,801	0	-5,801
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-1,472**	**0**	**-1,472**
Net result	0	0	0	116,171	116,171
Total comprehensive income	**0**	**0**	**-1,472**	**116,171**	**114,699**
Dividend paid	0	0	0	-82,100	-82,100
Amstelhuys and OHF merger 1 December 2019	0	0	0	2,587	2,587
Employee share plans	0	0	0	141	141
Other	0	0	0	37	37
Equity - 31 December 2019	**10,000**	**481,000**	**147**	**516,926**	**1,008,073**

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

Parent company statement of changes in equity (2018)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Equity – 1 January 2018	**10,000**	**481,000**	**3,750**	**412,016**	**906,766**
Unrealised revaluations after taxation	0	0	-2,131	0	-2,131
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-2,131**	**0**	**-2,131**
Net result	0	0	0	75,786	75,786
Total comprehensive income	**0**	**0**	**-2,131**	**75,786**	**73,655**
Dividend paid	0	0	0	-8,000	-8,000
Employee share plans	0	0	0	237	237
Other	0	0	0	51	51
Equity - 31 December 2018	**10,000**	**481,000**	**1,619**	**480,090**	**972,709**

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

Notes to the Parent company annual accounts

Amounts in thousands of euros, unless stated otherwise

1 Accounting policies for the Parent company annual accounts

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

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

2 Amounts due from banks

	2019	2018
Bank balances	19,939	12,998
Collateral posted	527,079	317,693
Amounts due from banks	**547,018**	**330,691**

3 Loans

Loans analysed by type

Loans analysed by type	2019	2018
Loans secured by mortgages, guaranteed by public authorities	4,668,318	4,347,303
Loans secured by mortgages	13,949,059	12,535,555
Consumer lending, other	181,064	229,474
Group companies	288,197	253,015
Loans – before loan loss provisions	**19,086,638**	**17,365,347**
Loan loss provisions	-20,532	-28,419
Loans	**19,066,106**	**17,336,928**

Structured entities

Reference is made to Note 35 'Structured entities' in the Consolidated annual accounts. As these securitisation transactions did not transfer substantially all the risk and rewards, NN Bank continues to recognise mortgage receivables. For the same reason, with reference to the balance sheet item 'Derivatives', the non-trading derivative transactions of EUR 50 million are recognised.

Changes in loans

	2019	2018
Loans to third parties – opening balance	17,365,347	17,229,986
Mortgage portfolio transfer	572,172	507,893
Partial transfers of mortgage loans	35,182	41,895
Origination	3,756,897	2,312,160
Sale of mortgages	-947,979	-821,113
Amstelhuys and OHF merger 1 December 2019	30,312	0
Change in mortgage premium	-25,648	-35,281
Fair value change hedged items	393,473	90,037
Other changes	2,766	0
Modifications	6,057	-21,601
Redemptions	-2,090,899	-1,929,179
Reclassification to other assets	0	-10,292
Changes in credit quality	-11,042	842
Loans to third parties – closing balance	**19,086,638**	**17,365,347**

4 Receivables from group companies

Changes in receivables from group companies

	2019	2018
Receivables from group companies – opening balance	1,171,331	1,100,212
Additions	13,130	71,119
Receivables from group companies – closing balance	**1,184,461**	**1,171,331**

'Receivables from group companies' consists of loans to HQ Hypotheken 50 B.V. for the funding of the third-party loans as serviced by Quion. The interest for 2019 is the same as 2018, and is based on Euro Interbank Offered Rate (EONIA) with an add-on of 0.6%.

Notes to the Parent company annual accounts Continued

5 Other assets

Other assets by type

	2019	2018
Accrued assets	32,480	31,039
Other receivables	65,178	50,579
Other assets	**97,658**	**81,618**

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

6 Investments in group companies

Investment in group companies

	Interest held 2019	Balance sheet value 2019	Interest held 2018	Balance sheet value 2018
HQ Hypotheken 50 B.V.	100%	93,544	100%	74,047
Nationale-Nederlanden Beleggingsrekening N.V.	100%	123	100%	124
Woonnu B.V.	100%	0	0%	0
Investments in group companies		**93,667**		**74,171**

Changes in investments in group companies

	2019	2018
Investments in group companies – opening balance	74,171	51,945
Results from group companies	19,496	22,226
Investments in group companies – closing balance	**93,667**	**74,171**

7 Non-trading derivatives

Non-trading derivatives

	2019	2018
Derivatives held for macro fair value hedge accounting	264,880	150,279
Other non-trading derivatives	20,433	8,403
Non-trading derivatives	**285,313**	**158,682**

8 Other liabilities

Other liabilities

	2019	2018
Income tax payable	17,803	9,373
Accrued interest	12,226	10,680
Costs payable	7,562	8,703
Other taxation and social contribution	13,524	9,990
Other amounts payable	37,935	27,967
Other liabilities	**89,050**	**66,713**

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

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

9 Debt securities issued

	2019	2018
Covered bond issues	2,614,583	1,499,523
Unsecured debt securities	1,920,024	347,376
Total	**4,534,607**	**1,846,899**

Reference is made to Note 35 'Structured entities' in the Consolidated annual accounts, specifically the Covered Bond Programme.

Notes to the Parent company annual accounts Continued

10 Loans from group companies

Reference is made to Note 35 'Structured entities' in the Consolidated annual accounts and specifically, the derivative that is in place in the SPE structure. These positions are matched on a consolidated basis. In the parent company financial statements, NN Bank applies fair value hedge accounting on the funding positions related to the SPE. The commitments by NN Bank to make payments to the SPE are considered to be the hedged item. The effective part of the hedge on NN Bank is presented in the line item 'Loans from group companies'. This position reflects a liability towards the SPE.

11 Equity

Equity

	2019	2018
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	147	1,619
Retained earnings	400,755	404,305
Unappropriated result	116,171	75,786
Total equity	**1,008,073**	**972,709**

Share capital

			Ordinary shares	
	Shares in number		Amount (in EUR thousand)	
	2019	2018	2019	2018
Authorised share capital	5,000,000	5,000,000	50,000	50,000
Unissued share capital	4,000,000	4,000,000	40,000	40,000
Issued share capital	**1,000,000**	**1,000,000**	**10,000**	**10,000**

Changes in revaluation reserve, retained earnings and unappropriated result (2019)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Revaluation reserve, retained earnings and unappropriated result – opening balance	1,619	404,304	75,786	481,709
Net result for the period	0	0	116,171	116,171
Dividend paid	0	-82,100	0	-82,100
Amstelhuys and OHF merger 1 December 2019	0	2,587	0	2,587
Unrealised revaluation	-1,472	0	0	-1,472
Transfers to/from retained earnings	0	75,786	-75,786	0
Employee share plans	0	141	0	141
Other	0	37	0	37
Revaluation reserve, retained earnings and unappropriated result – closing balance	**147**	**400,755**	**116,171**	**517,073**

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

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Revaluation reserve, retained earnings and unappropriated result – opening balance	3,750	327,020	84,996	415,766
Net result for the period	0	0	75,786	75,786
Dividend paid	0	-8,000	0	-8,000
Unrealised revaluation	-2,131	0	0	-2,131
Transfers to/from retained earnings	0	84,996	-84,996	0
Employee share plans	0	237	0	237
Other	0	51	0	51
Revaluation reserve, retained earnings and unappropriated result – closing balance	**1,619**	**404,304**	**75,786**	**481,709**

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

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

The Distributable reserves based on the Dutch Civil Code in the Parent company annual accounts is equal to the Distributable reserves included in the Consolidated annual accounts, except for the Positive components of Share of associates reserve which is EUR 0.1 million. The total Distributable reserves based on the Dutch Civil Code in the Parent company annual accounts is EUR 984.1 million.

Notes to the Parent company annual accounts Continued

12 Interest result

Interest result

	2019	2018
Interest income on loans	574,059	572,870
Modifications	6,057	-21,601
Interest income on non-trading derivatives	66,550	61,174
Negative interest on liabilities	782	424
Total interest income	**647,448**	**612,867**
Interest expenses on amounts due to banks	12,790	5,643
Interest expenses on customer deposits and other funds on deposit	167,653	180,606
Interest expenses on debt securities issued and other borrowed funds	17,236	12,423
Interest expenses on subordinated loans	2,803	3,431
Interest expenses on non-trading derivatives	112,881	64,319
Negative interest on assets	1,282	24,818
Other interest expenses	10,236	4,358
Interest expenses on structured entities	164,775	226,474
Total interest expenses	**489,656**	**522,072**
Interest result	**157,792**	**90,795**

'Negative interest on assets' includes negative interest income charged by DNB of EUR 6.2 million (2018: EUR 5.6 million). The remainder concerns interest on non-trading derivatives and investment securities.

Interest margin in percentages

	2019	2018
Interest margin	**0.7%**	**0.5%**

The interest margin is calculated by dividing the interest result by the average of the total assets for year-end 2019 and 2018, respectively.

13 Gains and losses on financial transactions and other income

	2019	2018
Realised gains or losses of debt securities	7,297	2,979
Results from financial transactions	99,499	105,224
Net income from loans measured at FVTPL	12,656	-6
Other income	16,287	59,801
Gains and losses on financial transactions and other income	**135,739**	**167,998**

14 Net fee and commission income

Net fee and commission income

	2019	2018
Service management fee	40,818	40,774
Brokerage and advisory fees	70,495	61,615
Gross fee and commission income	**111,313**	**102,389**
Asset management fees	5,770	5,192
Brokerage and advisory fees	3,364	3,748
Other	556	793
Fee and commission expenses	**9,690**	**9,733**
Net fee and commission income	**101,623**	**92,656**

15 Valuation results on non-trading derivatives

	2019	2018
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	-390,575	-96,452
– the hedged items (mortgages) attributable to the hedged risk	383,869	91,640
Gains or losses (fair value changes) in other non-trading derivatives	-34,840	-60,869
Valuation results on non-trading derivatives	**-41,546**	**-65,681**

Notes to the Parent company annual accounts Continued

16 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,660,465	0	0	0	0	1,660,465
Amounts due from banks	19,939	527,079	0	0	0	547,018
Loans	75,257	61,568	158,273	1,132,047	17,638,961	19,066,106
Liabilities						
Amounts due to banks	43,353	27,500	168,700	74,500	0	314,053
Customer deposits and other funds on deposit	9,276,005	122,002	570,495	2,174,872	2,935,547	15,078,921
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	164	3,259	13,372	268,518	285,313
Debt securities issued	0	0	330,927	1,990,466	2,213,214	4,534,607

Analysis of certain assets and liabilities (2018)

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

17 Contingent liabilities

Contingent liabilities and commitments (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	1,043	1,043
Irrevocable credit facilities	110,619	0	0	0	0	110,619
Mortgage and consumer lending offerings	259,113	559,271	297,026	0	0	1,115,410
Construction deposits	23,975	52,265	167,530	126,348	7	370,125
Contingent liabilities and commitments	**393,707**	**611,536**	**464,556**	**126,348**	**1,050**	**1,597,197**

Contingent liabilities and commitments (2018)

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

18 Related parties

NN Bank has entered into transactions with its principal subsidiary, HQ Hypotheken 50 B.V. 'Receivables from group companies' comprises a loan for funding purposes of the mortgage origination by Quion Hypotheekbemiddeling B.V. on behalf of NN Bank's subsidiary. The interest expenses for 2019 amount to EUR 2.2 million (2018: EUR 2.6 million). There have been no material transactions with Woonnu B.V.

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

Notes to the Parent company annual accounts Continued

19 Other

Fiscal unity

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

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Bank for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Management Board on 24 March 2020.

The Hague, 24 March 2020

The Management Board

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

C.H.A. (Kees) van Kalveen, CFO

P.C.A.M. (Pieter) Emmen, CRO

The Supervisory Board

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

A.A.G. (André) Bergen

D. (Delfin) Rueda

Confirmed and adopted by the General Meeting, dated 29 May 2020.

Other information

Independent auditor's report

KPMG

Independent auditor's report

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

Report on the audit of the annual accounts 2019 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2019 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying parent company annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the annual accounts 2019 of Nationale-Nederlanden Bank N.V. ('the Company' or 'NN Bank') based in The Hague. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1 the consolidated balance sheet as at 31 December 2019;

2 the following consolidated statements for 2019: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and

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

The parent company annual accounts comprise:

1 the parent company balance sheet as at 31 December 2019;

2 the parent company profit and loss account for 2019;

3 the parent company statement of changes in equity for 2019; and

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Independent auditor's report Continued

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

Audit approach

Summary

Materiality

- Materiality of EUR 6 million
- 3.8% of result before tax
- 4.0% of normalised result before tax

Group audit

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

Key audit matters

- Financial impact of the modification of the mortgage interest rate pricing system
- Estimation uncertainty with respect to impairment losses on mortgage loans
- IT migration risk

Opinion

Unqualified opinion

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Independent auditor's report Continued

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 6 million (2018: EUR 5 million). The materiality is determined with reference to normalised result before tax and amounts to 4.0% (2018:4.2%). We consider result before tax as the most appropriate benchmark given the nature and the operations of NN Bank. Furthermore, result before tax is an important driver for (changes in) the regulatory capital of the Company. We have normalised result before tax for the financial impact of the modification of the mortgage interest rate pricing system amounting to EUR 6.1 million (positive) as we consider its impact as an isolated event (refer also to the key audit matter related to this topic). Without normalisation, materiality would be 3.8% of the result before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 0.24 million (2018: EUR 0.20 million) which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NN Bank has three fully owned subsidiaries: HQ Hypotheken 50 B.V., Nationale-Nederlanden Beleggingsrekening N.V. and Woonnu B.V. Through HQ Hypotheken 50 B.V., NN Bank offers mortgage loans to customers via a business partner. Nationale-Nederlanden Beleggingsrekening N.V. is a dormant entity, currently not conducting any business or other activities. Woonnu B.V., was founded on 13 August 2019 and while this entity conducted no activities in 2019, NN Bank intends to originate mortgage loans under a new label via Woonnu B.V. in the future.

The financial information of these subsidiaries is included in the annual accounts of NN Bank. We are ultimately responsible for the opinion on these annual accounts and therefore we are responsible for directing, supervising and performing the group audit. In addition, part of the portfolios and accounts included in the consolidated accounts of NN Bank are serviced by external business partners or service providers within NN Group. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group purposes.

We have:

- performed audit procedures ourselves at NN Bank;
- made use of the work of other auditors, appointed by the business partners (service organisations) of NN Bank, for the account balances of HQ Hypotheken 50 B.V. and the mortgage portfolio of former Delta Lloyd Bank (that legally merged with NN Bank as of 1 January 2018). We furthermore made use of the work of auditors of loan portfolios administered by service providers within NN Group in respect of investment securities and personnel related accounts and disclosures;
- sent audit instructions to the aforementioned auditors (hereafter also referred to as 'component auditors'), covering significant areas including the relevant risks of material misstatements and set out the information required to be reported to us.

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Independent auditor's report Continued

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

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated annual accounts.

The items audited by the group audit team include, but are not limited to, the consolidation of the group, the disclosures in the annual accounts and certain accounting topics that are dealt with at group level, such as the assessment of the impairment losses on mortgages and consumer loans, the assessment of the tax position and the assessment of the use of the going concern assumption.

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

Audit scope in relation to fraud

In accordance with the Dutch standards on auditing we are responsible for obtaining a high (but not absolute) level of assurance that the annual accounts taken as a whole are free from material misstatement, whether caused by fraud or error.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit.

We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at group level.

In accordance with the auditing standard we evaluated the following presumed fraud risk that is relevant to our audit:

— fraud risk in relation to management override of controls.

Based on our risk assessment we did not identify a presumed fraud risk in relation to revenue recognition.

Furthermore, we identified and evaluated the following other inherent fraud risk which could have a material impact on the annual accounts:

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

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Independent auditor's report Continued

Our audit procedures in relation to the risk of management override included an evaluation of the design, implementation as well as operating effectiveness of internal controls relevant to mitigate these risks and substantive audit procedures, including detailed testing of high risk journal entries, evaluation of management bias and inspecting Supervisory and Management Board minutes and communication with the 'Autoriteit Financiële Markten' and 'De Nederlandsche Bank'. In determining the audit procedures we made use of the Company's evaluation in relation to fraud risk management (prevention, detection and response), including the set-up of ethical standards to create a culture of honesty.

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

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

As part of our evaluation of any instances of fraud, we inspected the incident register/whistle blowing reports and follow up by management.

We communicated our risk assessment and audit response to the Management Board and Supervisory Board.

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

Our procedures to address fraud risks did not result in significant findings or the identification of a key audit matter.

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

We have evaluated facts and circumstances in order to assess laws and regulation relevant to the company.

We identified laws and regulations that could reasonably be expected to have a material effect on the annual accounts based on our general understanding and sector experience, through discussion with relevant management and evaluating the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

— Firstly, the Company is subject to laws and regulations that directly affect the annual accounts including taxation, financial reporting (including related company legislation) and regulatory reporting based on the Capital Requirements Directive IV and Capital

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Independent auditor's report Continued

Requirements Regulation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the annual account items and disclosures.

— Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the annual accounts, or both, for instance through the imposition of fines or litigation.

We have identified the following areas as most likely to have such an indirect effect: the Financial Supervision Act ('Wet financieel toezicht'), the General Data Protection Regulation (GDPR) and the (Anti-)Money Laundering and Terrorist Financing (Prevention) Act.

Auditing standards limit the required audit procedures to identify non-compliance with laws and regulations that have an indirect effect to inquiring of relevant management and inspection of regulatory and legal correspondence.

In this respect we refer to note 33 Legal proceedings of the annual accounts. On 30 August 2019 the AFM imposed a fine of EUR 1.25 million on NN Bank for over-crediting with regard to consumer credit. NN Bank has accepted the fine and the fine has been paid.

Through our procedures, we did not identify any additional actual or suspected non-compliance other than those previously identified by the Company in each of the above areas. We considered the effect of actual or suspected non-compliance as part of our procedures on the related annual account items.

Our procedures to address compliance with laws and regulations did not result in the identification of a key audit matter.

We do note that our audit is not primarily designed to detect non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matters

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

In line with last year we considered the financial impact of the modification of the mortgage interest rate pricing system, the estimation uncertainty with respect to impairment losses on mortgage loans under IFRS 9 and IT migration risk as key audit matters. These matters were

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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.

In comparison to our 2018 audit we no longer consider the integration of Delta Lloyd Bank a separate key audit matter given the progress of the integration in terms of alignment of processes and accounting practices, model and system integration resulting in a reduce risk compared to last year. For the IT migrations stemming from the integration reference is made to the key audit matter IT migration risk.

Financial impact of the amended mortgage interest rate pricing system

Description

After the legal merger of Delta Lloyd Bank with NN Bank as per 1 January 2018, the mortgage portfolio of NN Bank consists of former NN Bank mortgage loans and former Delta Lloyd mortgage loans. In relation to this mortgage portfolio NN Bank publicly announced in May 2018 its intention to change the interest rate pricing system. In this policy interest rates are based on the ratio between the unpaid principal balance of the mortgage loan compared to the (estimated) collateral value, also referred to as the loan-to-value (LtV). This results in a lower interest rate for the client if the LtV improves and is below certain thresholds.

Since the aforementioned policy change was announced in 2018, NN Bank created a constructive obligation to its mortgage loan clients as per 31 December 2018. This obligation represents NN Bank's commitment to lower the client's interest rate as of the (initially) expected date of the implementation of the new policy for both the former NN mortgage loans and the former Delta Lloyd mortgage loans. Following a delay in the scheduled implementation date for former NN mortgage loans, this obligation included a retrospective compensation for the period 1 January 2019 – until the implementation date.

At the end of July 2019, the amended interest rate pricing policy was implemented for the former NN mortgage portfolio. For the former NN mortgages, an automated process has been implemented within the mortgage administration system for loans where the LtV improves as a result of (scheduled) redemptions. Furthermore, clients can request a revision of the interest rates based on formal appraisals by external valuators (or WOZ assessment) of the value of the collateral.

For mortgage loans originated by the former Delta Lloyd Bank N.V. the implementation of the amended interest rate pricing system will commence at the moment that the servicing of these mortgage loans will be transferred to NN Bank. This implementation is expected to take place in the course of 2020. Whilst this implementation date has been postponed, NN Bank has publically communicated via its website, that former Delta Lloyd mortgage clients will receive a retrospective compensation for the period 1 November 2019 – until the actual implementation date.

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Independent auditor's report Continued

The financial impact of the revised interest rate pricing system was updated as at 31 December 2019 and includes a constructive obligation pertaining to the implementation and retrospective compensation of Delta Lloyd mortgage clients. Over time the modification impact accounted for in the balance sheet (a downward adjustment of the book value of the mortgage loan to reflect the lower future interest proceeds) will amortise over the remaining term of the mortgage portfolio to reflect the original effective interest rate of the mortgage in the profit and loss account.

The implementation of the model inherently requires judgement from management and is complex resulting in a risk of error. Furthermore, estimation uncertainty is present as the implementation for the Delta Lloyd portfolio is planned in 2020. As such there is not yet historical data available with respect to the response rate of clients requesting an adjustment of their interest rate based on recent appraisal reports. Due to the significance of mortgage loans (EUR 19.9 billion) to the balance sheet of the bank, the cumulative financial impact of the amended mortgage interest rate pricing system of EUR 15.5 million and the aforementioned estimation uncertainty stemming from a complex model that inherently requires significant judgement from management, we consider the accurate and complete accounting for the financial impact of the modification a key audit matter.

Our response

Our audit approach included both testing the effectiveness of internal controls, as well as substantive audit procedures for both the former NN Bank mortgage loans and the former Delta Lloyd mortgage loans.

Our procedures over internal controls focused on controls around the accuracy of mortgage loan and collateral data used to calculate the expected LtV during the life of the loan, and the process of transferring the data to the IT application that includes the model that NN Bank has developed to calculate the financial impact. Our testing of controls also included the related General IT Controls of the systems involved.

Our substantive procedures included the following:

- Assessment whether the financial impact of the modification is accounted for in accordance with IFRS. Compared to 2018 the accounting has not changed. In 2018 we involved financial instruments accounting specialists in this assessment.
- We assessed the model design and challenged the judgements made by management to develop the model and the parameters used in the model, such as the client response rate.
- We involved IT specialists in our audit to inspect both the functional documentation of the model implemented in the mortgage application for the former NN mortgage portfolio and the program code of the application used to calculate the impact for the former Delta Lloyd portfolio.
- We tested for a sample selected from both the former NN and former Delta Lloyd mortgage portfolio whether the data used in the model reconciles to the source documentation. Important data for calculating the impact of the modification includes the collateral value,

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interest rate and remaining time to the interest reset. Furthermore, we tested whether source data reconciles to the data captured in risk systems and the general ledger.

- We recalculated for each unique combination of mortgage type and client situation, for both the former NN Bank and former Delta Lloyd Bank mortgage portfolio, the modification impact and compared the results from the mortgage back-office system and the journal entries in the financial administration with our expectation. We also recalculated the retrospective compensation for a selection of former NN Bank mortgages.
- We assessed whether the disclosures appropriately address the nature of the accounting impact and the estimation uncertainty that exists given the current status of implementation of the amended mortgage interest rate pricing system.

Our observation

As outlined in our 2018 long-form auditors report, as per 31 December 2018 there was significant estimation uncertainty in the determined financial impact of the modification. Following the implementation of the amended interest rate pricing system for the former NN mortgage portfolio, a further refinement of the model and the announcement to retrospectively compensate the former Delta Lloyd clients till 1 January 2019, the financial impact as per 31 December 2019 was determined by management.

The overall modification impact of the amended mortgage interest rate pricing system is EUR 6.1 million lower and arrives at EUR 15.5 million as per 31 December 2019 compared to EUR 21.6 million as per 31 December 2018. The main drivers of this difference with the estimated modification impact as per year-end 2018, were the development (and implementation) of a permanent more granular model and a lower response rates of clients. Whilst estimates have been made for the former Delta Lloyd mortgage portfolio, the estimation uncertainty is lower compared to 31 December 2018 as the impact has been calculated via a model that replicates the implemented model and knowledge obtained from the implementation for the former NN mortgage portfolio. It is however noted that for both the former NN and former Delta Lloyd mortgage portfolio over time differences compared to the determined impact can occur if clients make additional (unscheduled) prepayments on their mortgage, thereby lowering the impact.

Based on our procedures performed, we determined that NN Bank has estimated the (cumulative) financial impact of the modification of the interest rate pricing system as per 31 December 2019 within an acceptable range and adequately disclosed information on the status of implementation (of the model) and the uncertainty stemming from the deferral of the actual implementation for the former Delta Lloyd mortgages. This information is disclosed in note 1, note 6 and note 18. Furthermore, NN Bank has disclosed information on the loan-to-value for the mortgage portfolio in note 39.

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Independent auditor's report Continued

Estimation uncertainty on impairment losses on mortgage loans

Description

The largest part of the portfolio loans secured by mortgages ('mortgage loans') of NN Bank is classified at as held to collect and therefore measured at amortised cost. The mortgage loans measured at amortised cost amount to EUR 19.4 billion. The amortised cost is determined by subtracting the provision for loan losses from the outstanding balance of the mortgage loans. In accordance with IFRS 9, NN Bank applies an expected credit loss approach to determine the provision for loan losses. Certain aspects of the determination of expected credit losses require significant judgement of management, such as the definition of significant increase in credit risk and definition of default, the determination of the probability of default using migration matrices and estimating the recoverable amount to determine the loss given default.

Due to the significance of loans secured by mortgages and the related estimation uncertainty we consider the estimation uncertainty around the valuation of mortgages loans a key audit matter.

Our response

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

Our procedures over internal controls focused on controls around the accuracy of mortgage loan and collateral data, and the process for identifying increases in credit risk, such as arrears, and the management thereof and included assessment of the relevant General IT Controls of the systems involved.

In our substantive procedures:

- we recalculated the Probability of Default, Loss Given Default and Exposure at Default for a sample of mortgage loans and determined that the provision is calculated as the product of these elements. As the models used for the determination of the loan loss provision for mortgages were identical to year-end 2018 no new validation reports have been inspected. The existing validation reports have been issued by an independent department within NN Group.
- we tested the accuracy and completeness of the data used for the calculations. As part of that we tested whether the source data reconciles to the data captured in risks systems and the general ledger.
- we inspected for a selection of loans from the mortgage portfolio whether the data administered reconciled with source documentation. Important data to determine the provision for loan losses includes the collateral value and income of the mortgage client.
- we performed procedures on the non-performing and forbearance classification of mortgage loans, in respect of the staging of loans, and therefore inspected for a selection of loans whether their classification is in line with source documentation.
- we performed analytical procedures, which apart from the general assessment of the provision for loan losses, also focussed on the risks stemming from the interest-only

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mortgage portfolio. Due to the absence of contractual repayments these loans are expected to have a higher loan-to-value at maturity.

— we assessed whether the disclosures appropriately address the uncertainty that exists when determining the expected credit losses and whether the disclosure of the key judgements and assumptions made was sufficiently clear.

Our observation

Based on our procedures performed, we concluded that, NN Bank has determined an expected credit loss for its portfolio of loans secured by mortgages within an acceptable range and adequately disclosed information on the estimation uncertainty in note 1, note 6 and note 39 to the annual accounts. To further increase the robustness of the expected credit loss models used, we have made recommendations to management to enhance the documentation of data lineage and (historical) data quality and to further embed model development and model validation in the process.

IT migration risk

Description

NN Bank has performed data migrations for various source systems in 2019. Every data transfer entails the inherent risk that data is not accurately and completely transferred. Proper data migration requires data originated from one source to be delivered to its final destination without any loss of data and/or inappropriate modifications. Furthermore, data potentially has to be converted to fit to the data requirements of the new source system. Errors in transferred data in the target source administration could lead to inaccurate or incomplete financial reporting. Considering the potential pervasive impact on the annual accounts, we have identified this as a key audit matter.

Our response

We have performed the following procedures:

— Corroborative inquiry with management and the employees involved in data migrations regarding the progress, outcomes and potential incidents during the migrations.

— Inspection of the general migration frameworks, specific migration plans, management approval provided and reports on the outcomes of the migrations. For instance with respect to the complete and accurate transfer of data.

— Tested the design, implementation and operating effectiveness of IT General Controls of the relevant source systems involved.

— Inspection of suspense accounts used by NN Bank as part of data migrations, to assess unexplained outstanding balances.

— Reconciliation of the relevant data elements between the former source system and new source system.

In our procedures we have involved IT specialists.

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Independent auditor's report Continued

Our observation

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

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

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

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

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

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

Report on other legal and regulatory requirements

Engagement

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

We have been reappointed by the General Meeting of Shareholders on 29 May 2019 to continue to serve as NN Bank's external auditor for the financial years 2020 up to and including 2022.

No prohibited non-audit services

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

KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Independent auditor's report Continued

Description of responsibilities regarding the annual accounts

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

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

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

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the annual accounts

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

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

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

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

Amstelveen, 24 March 2020

KPMG Accountants N.V.

E.D.H. Vinke-Smits RA

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Appropriation of result

The result is appropriated pursuant to article 21 of the NN Bank Articles of Association, 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 17 'Equity' of the Consolidated annual accounts, for the proposed appropriation of result, and the (proposed) dividend payments.

Contact and legal information

Contact us

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

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

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

Disclaimer

Small differences are possible in the tables due to rounding.

Certain of the statements in this 2019 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Bank's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit and capital markets generally, (5) changes affecting interest rate levels, (6) changes affecting currency exchange rates, (7) changes in investor and customer behaviour, (8) changes in general competitive factors, (9) changes in laws and regulations and the interpretation and application thereof, (10) changes in the policies and actions of governments and/or regulatory authorities, (11) conclusions with regard to accounting assumptions and methodologies, (12) changes in ownership that could affect the future availability to NN Bank of net operating loss, net capital and built-in loss carry forwards,(13) changes in credit and financial strength ratings, (14) NN Bank's ability to achieve its strategy, including projected operational synergies, (15) operational risks, such as system disruptions or failures, breaches of security, cyber-attacks, human error, or inadequate controls including in respect of third parties with which we do business, (16) the inability to retain key personnel, (17) catastrophes and terrorist-related events, (18) adverse developments in legal and other proceedings and (19) the other risks and uncertainties detailed in the Risk management section and/or 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 purchase, any securities.

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