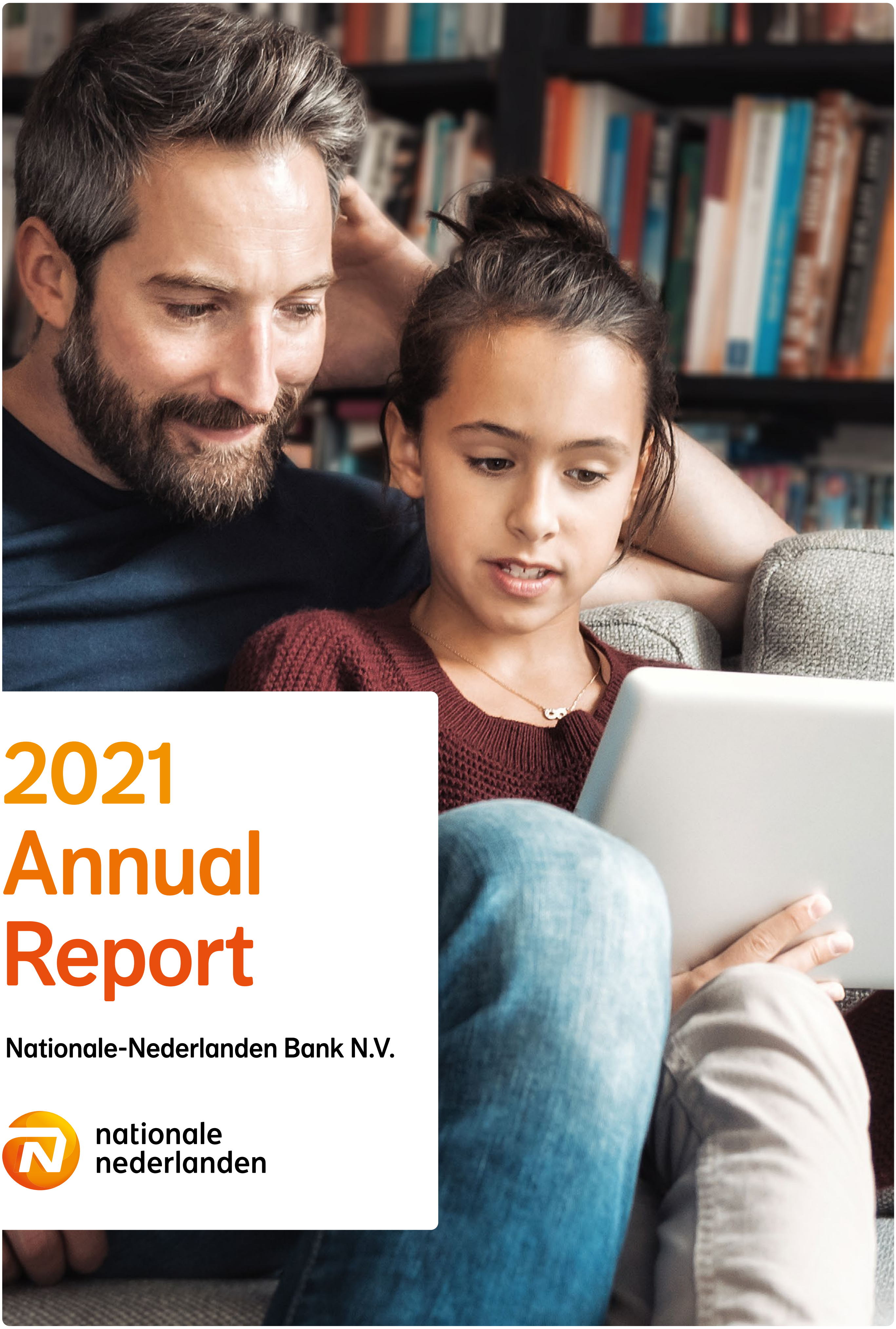


2021 Annual Report

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 2021 was as follows:

Management Board

Composition as at 31 December 2021

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

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

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

D.C. (Dennis) Brussel (1973), CIO/CTO[1]

Supervisory Board

Composition as at 31 December 2021

A.A.G. (André) Bergen (1950), chair[2]

D. (Delfin) Rueda (1964)

T. (Tjeerd) Bosklopper (1975)

A.M. (Anne) Snel-Simmons (1968)[3]

Resigned in 2021

H.G.M. (Hein) Blocks (1945), chair[4]

1 Non-statutory Board member as defined by Company Internal Governance. The Management Board includes both the statutory and non-statutory members, which is required by IAS 24. Part 9 of Book 2 of the Dutch Civil Code requires NN Bank to present only the statutory members of the Management Board.

2 Mr Bergen has been a member of the Supervisory Board since 1 January 2018. He was appointed chair of the Supervisory Board as at 1 June 2021 by the general meeting on 31 May 2021.

3 Appointment as at 1 January 2021 by the general meeting on 16 December 2020.

4 Resignation as at 1 June 2021 by resignation letter.

NN Group and NN Bank at a glance

NN Bank is part of NN Group N.V.

NN Group profile

NN Group N.V. (NN Group) is an international financial services company, active in 19 countries, with a strong presence in a number of European countries and Japan.

Led by our purpose and ambition, guided by our values and brand promise, and driven by our strategic commitments, we are committed to creating long-term value for all our stakeholders: customers, shareholders, employees, business partners and society at large.

With all our employees, we provide retirement services, pensions, insurance, investments and banking products to approximately 18 million customers. We are a leading financial services provider in the Netherlands. We provide our products and services under the following brand names: Nationale-Nederlanden, OHRA, Movir, AZL, Woonnu and BeFrank, as well as via our joint venture, ABN AMRO Verzekeringen.

Our roots lie in the Netherlands, with a rich history that stretches back 175 years. NN Group is listed on Euronext Amsterdam (NN).

NN Group strategy

Our purpose is to help people care for what matters most to them. Because what matters to them, matters to us.

Our ambition is to be an industry leader, known for our customer engagement, talented people and contribution to society. All parts of our business contribute to the delivery of our ambition.

NN is committed to creating long-term value for all our stakeholders. Our strategy aims to address the interests of all stakeholders, which is why we have both financial and non-financial targets. Our five strategic commitments will help us achieve our ambition.

1. Customers and distribution – We see our customers as the starting point of everything we do
2. Products and services – We develop and provide attractive products and services
3. People and organisation – We empower our colleagues to be their best
4. Financial strength – We are financially strong and seek solid, long-term returns for shareholders
5. Society – We contribute to the well-being of people and the planet

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.

Key figures NN Bank

Financial

Return on equity

9.1%

(2020: 11.7%)

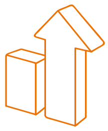
Cost/income ratio

59.5%

(2020: 52.1%)

Net result

EUR 101.8m



(2020: EUR 125.3m)

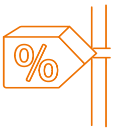
Net portfolio growth

EUR 0.2bn
Savings

EUR 0.1bn
Mortgages

NIM

0.98%



(2020: 1.10%)

TCR (total capital ratio)

18.7%

(2020: 18.9%)

Risk costs (IFRS9)

EUR −9.7m

(2020: EUR 3.5m)

Mortgage origination

EUR 9.9bn

(2020: EUR 8.2bn)

Non Financial

Net promotor score

+21.4

(2020: +18.9)

Employee Engagement

7.5

(2020: 7.7)

Total number of employees

total 1,246 FTE

internal and external employees

(2020: total 1,179 FTE)

Total number of customers

959,000

(2020: 1,047,000)

Sustainability

24%

of NN Bank's mortgage portfolio has an A energy label

(2020: 23%)

Diversity

Male – Female ratio in MT NN Bank

(2020: MT: male 56% – female 44%)

NN Bank

NN Bank is 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 has two fully owned subsidiaries:

Woonnu B.V., which was founded on 13 August 2019 with registered office in The Hague. Through Woonnu B.V., NN Bank originates mortgage loans under a new label and via a third-party mortgage servicer. Woonnu B.V. has a separate AFM licence.

HQ Hypotheken 50 B.V., which was founded on 21 August 2012 with registered office in Rotterdam. Through this subsidiary, NN Bank offered mortgage loans to customers via a third-party mortgage servicer until April 2020.

Our Bank today

NN Bank has experienced strong growth over the past ten years. The Bank accounts for 7% of NN Group's 2021 operating result and is a Top 5 retail bank in the Netherlands. We continuously improve our services to become more efficient, more innovative, more personal and more relevant. We have also taken major steps in the field of digitalisation.

NN Bank serves close to one million customers in the Dutch market. Our purpose is to help people care for what matters most to them. We help customers manage and protect their assets and income through mortgage loans, savings, bank annuities, consumer lending and retail investment products. In addition, we provide 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).

Based on our frequent interactions with customers, we support NN's strategy to boost relevance and value for all our customers. We are also an important supplier of mortgages as an asset class for NN Group.

NN Bank offers a motivating, healthy and inclusive workplace, where our 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.

We have created a strong foundation for our future, and our strategic commitments guide us towards this future.

Our future Bank

In recent years, the world has evolved rapidly. Covid-19 has turned our lives upside down, and has led to an accelerated expansion of the digital capabilities of mobile banking.

The banking market is not standing still, either. Our customers' expectations are changing. Customers have become accustomed to digital conveniences and engagement. They expect an acceleration of digitalisation and we want to meet those expectations.

NN Bank helps people take care of what matters most to them. We help our customers make conscious choices about their finances. Because we want to understand our customers' goals and the particular challenges of every phase of their lives. In addition, we help our customers contribute to society by helping them make sustainable choices.

We have created a strong foundation for our future, and our strategic commitments guide us towards this future.

We are developing into a digital and data-driven bank with industry-leading customer experience and personalised services. This will allow us to lead our sector in terms of customer focus, our talented colleagues and our contribution to society.

NN Group's five strategic commitments are highly relevant to NN Bank and are the foundation of our strategy. To realise NN Bank's ambitions, we have translated NN Group's strategic commitments into four strategic priorities.

1. Strong customer relationships

In order to be able to do even more for our customers, we aspire to establish strong customer relationships through personal customer interaction. Collecting customers' data, with their consent, will be crucial to enabling us to offer relevant and personalised services. Together with our knowledge of the customer, we will be able to use these data to help customers make conscious choices that have a positive impact on their lives and the world around them. In doing so, we focus on the important moments in the lives of our customers, most notably those related to housing, money matters and carefree retirement.

2. Digitalisation & data-driven way of working
In the coming years, NN Bank will continue to invest in digital products and propositions and in our secure and reliable banking platform, which support our colleagues in serving our customers as personally as possible. We digitise and automate processes for customers, intermediaries and our colleagues. We also further simplify our system landscape and work with as much standardised, cloud-based software as we are able, so that our systems are always up to date.

3. Sustainable company & society
NN Bank's responsibility is about people, society, reliability and professionalism. As a Bank, we want – and need – to be compliant and in control. We will also help our customers to live more sustainably, based on the knowledge we have and the data we collect. In addition, we will translate our Environmental, Social and Governance (ESG) ambitions into a climate ambition and reflect this in our products and services. This also makes us attractive to institutional investors who invest in the green bonds we issue and the mortgage loans we offer. In this way, we strive for sustainable value creation for our customers, shareholders and society. We strive to be a stable and strong Bank for all our stakeholders and continue to broaden our investor base both for mortgage loans and for funding instruments.

4. Learning & agile organisation
The digital transformation requires an investment from all employees. Technology helps us, but our colleagues are crucial to realising our ambition. That is why, as an employer, we want to be the bank employees choose. As a company, we will become more and more at home in the world of data and technology. We are a learning organisation, and it is our task to gain the competencies that belong to a digital bank. NN Bank helps employees by offering a wide range of development options, so that employees can continue to contribute to the acceleration of our digitalisation with their knowledge, competencies and behaviour. With our agile transformation, we help teams work more and more autonomously, and therefore put employees at the helm of our digitalisation. NN Bank stimulates employees to be actively involved in their own development.

Marcel Zuidam, CEO of NN Bank:

‘Sustainable Growth through Customer Focus’

> At NN Bank, we’re working hard to make further improvements to our services by digitising and automating customer processes. This will allow us to better help our customers while being more competitive at the same time.
>
> **Marcel Zuidam**
> CEO of NN Bank

Marcel Zuidam, NN Bank CEO, reflects on a successful 2021 for the Bank. Of course, it was a year marked by tough market conditions, a competitive market and circumstances in which many colleagues still worked mostly from home. But it was also a year in which the Bank was able to achieve its commercial, financial and strategic ambitions. We saw record numbers of mortgage origination in 2021. We successfully implemented strategic initiatives, new propositions and improvements to various customer processes through digitisation and automation. And that delivered rising customer satisfaction across the board for the Bank. It’s a great step on NN Bank’s chosen path to further strengthen its relationship with its customers.

How do you look back on 2021?

Marcel: ‘We’ve got a challenging market, with a low interest rate environment and a competitive mortgage market. In spite of these market conditions, our performance has been strong and we’ve also made some great improvements to our services. We’ve seen record mortgage origination and rising customer satisfaction across the board, which is reflected in the increase in the NPS. I’m proud of our colleagues, who have largely been working from home, sometimes in personally challenging situations.’

The market is changing rapidly. How is NN Bank responding?

Marcel: ‘At NN Bank, we’re working hard to make further improvements to our services by digitising and automating customer processes. This will allow us to better help our customers while being more competitive at the same time. We’ve put this into effect over the past year, including the launch of our new mortgage mid-office system. We also launched the new NN retail app, in which the Bank played an important role. The app makes it easy for customers to view and manage their Nationale-Nederlanden products and helps us to improve the customer experience. Woonnu, which completed its first full year as a mortgage provider, has made a great start with almost a 1% market share. We're always putting ourselves in our customers' shoes to see how we can improve our processes, while also checking in with the customer, along with the intermediary and notary to find out what they think of our solutions. We were already doing this, but it's increasingly becoming our standard way of working.'

How has Covid played a role in accelerating digitalisation?

Marcel: 'Of course we've been digitalising and automating our services for some time now. But we're seeing that worldwide, so also in the Netherlands, the Covid-19 pandemic has led to an accelerated adoption of mobile banking. As a result, customers have become used to digital application processes and services. They experience the benefits of digital – as opposed to manual – processes. Customers expect to receive rapid and personal service from us, and we want to make that as easy as possible. We've put this into practice in our new app, but also by digitising other customer processes, such as for (early) redemption of mortgages, and the improved Bank Annuity application process. We're receiving higher satisfaction scores from customers and intermediaries alike.'

These developments also call for investment from employees. What steps has NN Bank taken in this area in 2021?

Marcel: 'We want to be a learning and agile organisation that can respond rapidly to changing market trends, as we've seen with Covid-19. Of course, it's important for our colleagues to develop and grow with us. Over the past few years, we've embedded the Agile way of working in our organisation, and we're gradually getting better at it. The most important success factor is to root responsibilities as deeply as possible in the organisation, encouraging ownership and cooperation to achieve results.

'The Change is NOW Next Level culture programme has created awareness among colleagues of the importance of continuous learning. We worked on the programme largely from home last year, with a whole host of different learning methods to encourage individuals and teams to learn. We want learning to be a permanent feature of our way of working. Through the programme, we invested in this and offered scope. We'll continue to do that in the future too, rooted in the company's culture.'

Sustainability is also becoming more and more important, isn't it?

Marcel: 'As part of NN Group's ambition, we've said that we want to be a leader in sustainability. For us, that means that we want to focus on our customers' future challenges. Sustainability is therefore firmly embedded in NN, in our purpose and in our ambition. And within the Bank, we've also translated this into our customer promise. We help customers to make conscious choices that have a positive impact on their lives and the world around them. We believe that NN Bank has a responsibility when it comes to our climate ambitions in the Netherlands. And we're supporting this in various ways, such as with Woonnu, our new mortgage label that helps customers to make their homes more sustainable. And the Gezond Wonen proposition that raises awareness among customers of the importance of a healthy indoor environment. And the start-up Powerly that helps to make homes more sustainable in an accessible, affordable and convenient way. Our customers really value all of these initiatives.

> **"As part of NN Group's ambition, we've said that we want to be a leader in sustainability. For us, that means that we want to focus on our customers' future challenges. Sustainability is therefore firmly embedded in NN, in our purpose and in our ambition.**

But we're also looking at sustainability on the financing side of the Bank. For example, last year, we made it possible for investors to invest in green bonds. In addition, there's also more and more sustainability legislation and regulation that requires our compliance as a Bank. But what will make us stand out above all is delivering on that ambition. Now, but also in the future.'

How do you see the role of NN Bank within NN Group, and how did NN Bank put this into practice in 2021?

Marcel: 'NN Group's strategic focus is to be more relevant to our customers. NN Bank's services involve a lot of customer contact, and as such, they have a major impact for the group on the overall customer experience. We made a positive contribution to this overall customer experience in the past year. Another important role is the origination of mortgages, the majority of which we're transferring to other NN Group business units. Last year, we were also successful in achieving record mortgage origination. Our financial performance also contributes to NN Group's capital generation ambition. NN Bank has an attractive return on equity, one of the targets for shareholders. We performed very well as a Bank in all these areas in 2021.'

Shifting to the coming year: what are the ambitions for 2022?

Marcel: 'Our ambition for 2022 is to continue along the path of strengthening customer relationships by digitising and automating our customer processes. With more – and higher quality – data, we can also better respond to our customers' needs. In addition, we'll continue to work on reinforcing the foundations of our Bank, for example, by preparing for application of the A-IRB capital model. And by strengthening the activities linked to our gatekeeper role. You can barely open a newspaper these days without reading an article about it, and this is all part of a changing world. We're not just driven by statutory obligation, we also genuinely want to take responsibility. We'll also be investing more in this. In order to achieve our ambitions, we need to be a learning and agile organisation. So, we plan to invest more in our colleagues and the competencies we need for the Bank of the future. Because we want to continue to grow and further strengthen our position as a retail bank.'

Changes in our operating environment

We keep a close eye on what is going on around us, and we focus on those developments that can have an impact on the way in which we help our customers and business partners, on our general strategic direction and/or on our financial performance.

We take account of numerous developments that impact our operational environment. These are often developments that affect the entire financial sector. The key developments in 2021 were as follows:

Covid-19

Covid-19 had global consequences again in 2021. The Covid-19 pandemic, and the measures taken by the Dutch government to contain it, had an impact on healthcare, participation in work or education, social contacts and leisure activities. It affected everyone in our society.

NN Bank management is extremely proud of how all employees have dealt with this for the second year in a row. Not least because, this year, most of our employees worked from home for the majority of the year.

Consumer needs

Worldwide, so also in the Netherlands, we see that the Covid-19 pandemic has led to accelerated adoption of mobile banking. Digital and mobile banking services continued to be the predominant banking model, as banks were still not able to open their doors, or open them for very long. As a result, consumers have become more accustomed to digital application processes and services, sometimes supported by Artificial Intelligence (AI), and they are experiencing the advantages of digital over old-fashioned manual processes. Advances in technology, big data and AI mean that customers are willing to say goodbye to old habits, and that the willingness to switch to Fintech banks is increasing.

There is an absolute need for banks to embrace data and AI and use them to enable personal customer relationships and offer desirable products. For customers, the bank is not a building, but an app. There is a greater willingness to switch to other financial service providers, due to greater transparency and comparability between products and providers.

In 2021, NN Bank continued to improve the fulfilment of its role as gatekeeper for the financial system, and to prevent NN Bank from becoming involved in financial and economic crime. Furthermore, we continue to find the right balance between fighting financial and economic crime and accessibility of NN Bank's banking services. In this context, we consider it of great importance that NN Bank does not exclude customers categorically, but that we apply tailor-made solutions based on the integrity risks of an individual customer. To optimise our execution, NN Bank decided to centralise its first-line Financial Economic Crime and Anti-Money Laundering organisation in 2022 as one shared service and knowledge centre.

Furthermore, NN Bank continued to invest in strengthening its compliance function. On the basis of laws and regulations (including the EBA Guidelines on Internal Governance) and due to the size, complexity and activities of NN Bank (and its compliance function), it was no longer considered proportionate – and therefore no longer permissible – to combine the position of Head of Compliance with that of Head of Legal & Tax. NN Bank has therefore separated the compliance function from the legal & tax function in its organisation. NN Bank has created the position of Head of Compliance, who is solely responsible for the compliance function. In order to guarantee the independence of the compliance function, the Head of Compliance has also been given a reporting line to the CRO of NN Bank.

ESG

Banks have an important role to play on the road to a sustainable world. Environmental, Social and Governance (ESG) considerations therefore touch the foundation, the business model, of banks. While financial institutions currently revolve around market risks, credit risk and operational risks, there is a growing need to address and manage sustainability risks. In order to do that, and do it in a timely manner, it is important that financial institutions take these risks into account in their strategy, governance, risk management and reporting. This may mean, for example, that banks will not only provide credit on the basis of financial criteria in the coming years, but also on the basis of CO_2 emissions or other factors.

In particular, the European Commission and the ECB have published far-reaching guidelines and regulations in both 2020 and 2021, obliging banks to integrate ESG risks into their strategy and business operations. For the time being, the focus is on climate change. By March 2022, for example, the ECB-supervised banks should be ready for an ECB stress test on climate-related risks.

The Sustainable Finance Disclosure Regulation (SFDR) came into effect on 10 March 2021. SFDR contains new requirements related to ESG disclosures for financial market participants and financial advisors. The aim of SFDR is to provide investors with insight into sustainability risks and to improve the comparability of financial products with respect to sustainability.

NN Bank has disclosed how sustainability risks are integrated into its investment policy, and has described the likely effects of sustainability risk on the returns of the products involved. This means that NN Bank has implemented changes with regard to the pre-contractual disclosure for relevant financial products, its (product) website disclosures and product disclosures in periodic reports to its customers.

To underline our ambitions, NN Group endorses various commitments, such as the commitment of the financial sector to the Dutch Climate Agreement (Klimaatakkoord). As a bank, we can make a contribution to reducing carbon emissions. One of the ways in which we do this is by offering support to make our customers' real estate more sustainable. Customers are encouraged to reduce their CO_2 emissions wherever possible, and we will help them to do so with propositions and services such as Woonnu and Powerly.

The European Commission is in the process of further developing the EU Taxonomy framework. A delegated act on sustainable activities for climate change adaptation and mitigation objectives was adopted in June 2021. Another delegated act was adopted in July 2021, setting out concrete standards for the information that financial and non-financial companies must disclose about how sustainable their activities are, based on Article 8 of the EU Taxonomy.

In addition, in June 2021, the European Commission published a European Green Bond Standard proposal. This will create a high-quality, voluntary standard for bonds that finance sustainable investment. The EU Green Bond Standard will be a 'gold standard' for how companies and public authorities can use green bonds to raise funds on capital markets to finance ambitious investments, while meeting stringent sustainability requirements and protecting investors from greenwashing.

Banks have an important role to play on the road to a sustainable world.

Niek Allon:

‘New Funding Sources for Sound and Sustainable Growth’

“

The success of the switch may have inspired other banks with the same structure as well, as they have already followed us or are taking this step.

Niek Allon has been Head of reasury at NN Bank since 1 June 2020. Treasury is responsible for attracting long- and short-term wholesale funding, management of the Bank’s liquidity position and hedging of interest rate risks.

In 2021, NN Bank completed two new funding transactions that both marked important milestones in realising sound and sustainable financing. First, a successful 20-year covered bond was issued under NN Bank’s Soft Bullet Covered Bond Programme. Also, in response to the increasingly important theme of sustainability, a Green Bond Framework was published. The proceeds of bonds issued under the programme will be used to fund sustainable residential mortgages. In September, NN Bank entered into its first successful public green bond transaction. NN Bank also won GlobalCapital’s award for ‘Most Pioneering Covered Bond of the Year’ for the introduction of the Soft Bullet Covered Bond Programme and the subsequent transactions. The introduction not only gives the Bank long-term, sound funding, but it also attracted great interest from institutional investors.

Why did we establish a new covered bond programme?

Niek: ‘NN Bank has reported strong growth in recent years, mainly due to the growth in our mortgage portfolio. Mortgage borrowers also prefer long, fixed-term mortgages. To support mortgage portfolio growth, it’s not just a matter of the Bank attracting more funding, but also with longer maturities. Covered bonds are ideal for this. We already had a Covered Bond Programme, but the market for this structure was smaller. We realised that a more traditional (so-called ‘Soft Bullet’) structure was a better fit for our funding needs. In addition to the larger market, the option to attract longer maturities is another important benefit. This is how we keep our risks low and meet the needs of our customers. The market for covered bonds is large, has existed for a long time and is very robust. Our bonds have a triple-A rating, which means that they are attractive to investors because they are low risk. And for NN Bank, it's not only appealing that we attract long maturities, but also that we do so at relatively low rates. The 20-year funding was the longest under the new programme, and was very well received by investors.'

You won GlobalCapital's Most Pioneering Covered Bond of the Year award with your product.
Niek: 'Yes, we received the award for the switch to the new structure. It's a recognition of the step we were bold enough to take. In what is a fairly traditional market, you do need to have a bit of courage. It starts with good preparations. We made our intentions for the new programme clear to investors, who really appreciated our transparency. We also considered the 'old' bonds in our communications. There was nothing wrong with them: they helped fund NN Bank's operations in the early phase, the structure is very robust and we're continuing to do what we need to do to maintain the same quality. As a Treasury team, we're at the heart of the financial markets. So, we follow them closely. And when we identify opportunities, we also want to embrace them. We do that by directing our focus. The launch of the new programme was quick and smooth. Ultimately, we were able to attract a much larger group of investors and issue a number of successful covered bonds, including the 20-year transaction. The success of the switch may have inspired other banks with the same structure as well, as they have already followed us or are taking this step.'

> **"Investors invest in you as a company: how you operate as a business and how you fulfil your role in society.**

And the issuance of green bonds is another important milestone?
Niek: 'Sustainability is a theme that's growing in importance. There's a lot of demand for green, sustainable investments, so it's a logical step for NN Bank to offer our investors green bonds and therefore to establish a Green Bond Framework. The proceeds of bonds we issue under the framework are used to finance mortgage loans for sustainable homes in the Netherlands. Put simply, these are relatively new homes with an A energy label. The framework helps to promote NN Bank's sustainability strategy within the Bank's ESG policy. The Green Bond Programme complies with all the market standards and we're also embracing the developments in this area. The programme will therefore continue to develop. Following the publication of the framework, we had a lot of engagement with existing and new investors because they're also looking at the Bank's ESG targets. As a company, you need to show progress and development when it comes to these targets. Investors are asking: "What makes you sustainable? And what are your long-term targets?" They are investing in the company, how the company operates, with a lot of focus on our role in society. Increasingly, investors are including ESG criteria in their analysis. Our investors really appreciate NN Bank initiatives, such as Woonnu, in which we help our customers to make their current or new home more sustainable, and Powerly, in which we give our customers honest, tailor-made sustainability advice.'

How did investors react to the launch of the green bonds?
Niek: 'As I've mentioned, sustainability is an increasingly important factor and green bonds are also in high demand. We were able to set up this structure in a relatively short amount of time, with the appropriate focus. It was also important that investors were properly informed before we launched the first transaction. In the period following publication of the framework in June, we were able to put NN Bank firmly on the map. The Treasury team already speaks with lots of investors during the year, but in this process, we also spoke to lots of new

> **"The proceeds of bonds we issue under the framework are used to finance mortgage loans for sustainable homes in the Netherlands.**

investors. NN Bank's performance is also very robust and we've got a strong credit rating, which has sparked a lot of interest from investors. Ultimately, this led to the issuance of a seven-year bond with a size of EUR 500 million in September. The keen interest from investors was obvious from the large oversubscription.'

How were these milestones important in the sustainable funding of NN Bank?
Niek: 'First of all, as a bank, it's of course important that we have sufficient funding in place. If we provide mortgage loans, we also need the money to fund them. But what's especially important is having access to funding at all times and in all circumstances. This means sustainable funding in the long term, always with access to various sources, a good match in terms of maturities and at the lowest possible costs. Because this is how we remain competitive and can offer our customers attractive client rates. Diversification of funding sources therefore plays an important role. The green bonds have allowed us to tap into a new source. And the new Covered Bonds Programme has enabled us to generate 20-year financing. This is important because, more and more often, NN Bank's mortgage borrowers want to fix the current low interest rates for longer reset tenors. And, last but not least, we're responding to market demand. We know that not just because of our conversations with investors; we also see it ourselves. It's not only the green bonds that were vastly oversubscribed. Since our first covered bond transactions, we've come back to the market four times. And all four deals were significantly oversubscribed.'

Market developments

Economic conditions
The Netherlands experienced a strong economic recovery in 2021, with an annual growth of 4.8% and a drop in unemployment in the fourth quarter to 3.8% (Source: CBS), providing a positive backdrop for NN Bank's business.

Although the ECB kept interest rates at low levels, long-term interest rates increased in 2021, due to high levels of inflation. This resulted in steeper interest rate curves.

Housing market
In 2021, there continued to be a housing shortage in the Netherlands. Currently, there is a shortage of 279,000 homes (Source: Ministerie BZK, Ministry of the Interior and Kingdom Relations). Home construction in 2022 is expected to be slightly lower than in previous years. From 2023 onwards, home construction is expected to increase. The housing shortage is expected to peak in 2024 at 316,000: 3.9% of the Dutch housing stock (Source: ABF Research, Primos 2021). The continued increase in house prices in the Netherlands has gained momentum since the beginning of 2021. In the first three quarters of 2021, house prices rose by double digits for the first time since 2001, by 11.2%, 13.0% and 17.5% respectively, compared with 2020 (Source: CBS).

The average price of a home in the Netherlands rose to EUR 410,131 in the third quarter of 2021. This amount is a combination of the average price of existing homes (EUR 400,935) and the average price of newly built homes (EUR 471,787). As of the date of publication of this Annual Report, figures for the fourth quarter are only known for existing homes. The average price of existing homes increased in this quarter to EUR 402,726. With this, the average sales price of existing homes for the full year 2021 amounted to EUR 386,714 (Source: CBS, Kadaster). A high latent demand for houses, an insufficient supply of newly built and existing homes and increased financing capacity are the underlying causes of this continued increase in house prices.

The number of homes for sale has been declining for quite some time. According to real estate association NVM, there have not been so few homes for sale since 1995 (start of measurements) as there were in the fourth quarter of 2021. The number of homes for sale is one-third lower than in 2020 (Source: NVM).

The total number of homes sold still grew by 29.2% in the first quarter of 2021, as compared to 2020. However, a decline began in the second quarter (-3.9%), and continued to decline to -13.4% in the third quarter and -21.0% in the fourth quarter compared to 2020 (Source: Kadaster).

Mortgage market
In 2021, 515,164 Dutch mortgages were sold, 39,200 more than in 2020 (8.2%). Compared to 2020, new mortgage business in the market grew by EUR 24.2 billion to EUR 162.2 billion (+17.4%). In line with the number of homes sold, growth in mortgage origination was strongest in the first quarter. The number of mortgages for the purchase of a home decreased from the second quarter onwards.

Competition in the Dutch mortgage market was fierce in 2021, which put further pressure on mortgage rates. Despite interest rates showing an upward trend, mortgage rates in the market decreased further. For example, our 10-year non-NHG mortgage rates decreased, on average, by 12 bps during 2021. Driven by the low mortgage rates, a significant number of our clients have refinanced their mortgage loans.

Due to low interest rates, the mortgage production in the refinancing market has increased by an average of 25% every year over the past five years. Today, refinancers are the largest group of new mortgage borrowers.

In December 2021, the formation of the new Dutch cabinet was finalised. Tackling the housing shortage is a priority for the new cabinet. The plan is to accelerate the construction of new homes 'to around 100,000 homes per year'. Special attention will be paid to the construction of housing for starters, seniors and middle-income households. The rental sector is also being considered. The rental rates will be reduced for socially subsidised housing for lower-income households. In the meantime, the rent for people with a higher income is gradually increasing. In addition, homes with a mid-level rate of rent will receive protection. The intention is to keep these homes affordable for middle-income households. In the meantime, it must also remain attractive for investors to invest in these types of homes. In the new cabinet's plans, the mortgage interest deduction will not be further reduced.

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 fixed assumed yield and rising inflation, the savings market has been growing for some years now. Due to the Covid-19 measures, some households saved more in 2021.

The majority of consumers no longer save for returns, but for concrete goals or (un) expected costs. Economic uncertainty is driving people to maintain a buffer, and the purchase of luxury goods is being postponed. Money is also put aside for buying a house.

The savings balance in Dutch households increased by 4.4% to EUR 407 billion in 2021. This amount is largely in freely withdrawable savings accounts. DNB Research shows that the vast majority of the extra savings were involuntary. The increase in savings is mainly due to the decline in household consumption during the Covid-19 pandemic (Source: DNB).

Domestic spending and exports have shown resilience in times of Covid-19. However, a number of potential and actual headwinds can have a negative impact on the Dutch economy, and consequently on the housing and mortgage market.

Interest rates have been very low for some time, from a historical point of view. This has structural causes, such as the aging population and large savings against insufficient investments. The ECB interest rate is negative, and banks have to pay to deposit their money at the ECB. Banks are increasingly passing on these negative interest rates to their customers. The threshold for negative interest is gradually being adjusted, and currently rests at EUR 100,000 at most banks. This affects 3% of bank accounts, meaning 97% of savings accounts in the Netherlands contain less than EUR 100,000.

Consumer lending market

The consumer lending market is characterised by crowding out and increasing competition. The most common purpose for a loan is car purchase. This has been partly replaced by the growth of private lease in the past years.

There is also a new lending market emerging: Buy Now, Pay Later. In the Netherlands, mail-order shops previously utilised this market. Today, it is quickly becoming increasingly popular, driven by smart fintech solutions and the increasing popularity of online shopping. This market segment mainly competes with credit cards payments.

Personal loans are replacing revolving credits, and only a few lenders still offer revolving credit. In 2021, the majority of lenders, including NN Bank, announced a compensation scheme for contracts with variable interest (revolving credit) following several rulings by the Dutch Institute for Financial Disputes (Kifid).

Retail investments

For the sixth consecutive year in the Netherlands, 2021 was a year of growth in the number of households that invest. The penetration rate of investors among households reached 25%. The low interest environment is still an important reason (77%) to start investing. The number of households that invest grew by 12% to 1.96 million. One in three investing households also invests in cryptocurrency, a strongly growing market, despite the extreme high volatility of these investments. High expected returns and easy accessibility via apps are the main drivers. The number of execution-only investors grew especially strongly, but the average invested amount declined, indicating that a lot of (new) investors invested only small amounts. The market for discretionary management is also growing rapidly. In general, non-investors' intention to start investing is higher (13%) than ever.

Outlook

Domestic spending and exports have shown resilience in times of Covid-19. However, a number of potential and actual headwinds can have a negative impact on the Dutch economy, and consequently on the housing and mortgage market. In particular, the Russian invasion of Ukraine has increased uncertainty and has made continued high inflation, a loss of economic confidence and a potential recession more likely.

On balance, NN Bank expects the mortgage volume in the market to shrink by approximately 2% in 2022. Due to the economic conditions caused by Covid-19, the shortage of homes and the limited affordability of homes, NN Bank expects new mortgage business to shrink in 2022 for the first time in seven years. NN Bank expects that rising long-term interest rates in particular might have an impact on mortgage rates going forward.

Despite the low interest rates, economic uncertainty continues to motivate people to maintain a buffer in freely withdrawable accounts. How much they choose to save will depend on the overall economic circumstances. They might prefer to use these savings for postponed major purchases, home renovations and sustainability, once confidence increases again. The growth of the fiscal savings market will decrease compared to previous years.

In recent years, the market for consumer lending has shrunk. From this low point, the market has now started growing. The need for home renovation, already fuelled by Covid-19, may lead to additional financing. Awareness of the climate crisis is stimulating home sustainability measures, which will also be partly financed with consumer loans.

The outlook for retail investments remains positive. Although inflation is rising and volatility is increasing, interest rates are expected to stay relatively low for the time being. For that reason, investing remains attractive to consumers.

Despite the low interest rates, economic uncertainty continues to motivate people to maintain a buffer in freely withdrawable accounts.

Change is NOW Next Level and Scaling Exellence:

Building an Agile and Learning Organisation

Laura Hikke is Business Manager at NN Bank and responsible for the Change is NOW Next Level culture programme

As a Manager at NN Bank Savings and Investment, **Jasper Hendriks** is involved in the Change is NOW Next Level culture programme

Leontine Dekker is Domain Lead at NN Bank Mortgages & Consumer Loans and responsible for the Scaling Excellence workforce initiative

We find ourselves in an ever-changing world that is also becoming increasingly digital. In order to keep up with it, we need to become an agile, learning organisation that can respond to existing developments – and future ones. This is meaningful for NN Bank as an organisation, but also for our colleagues. We're asking them to adopt a growth mindset, focused on continuous learning. A positive frame of mind that enables them to think in possibilities. A 'get it done' attitude based on experimentation and gradual improvement. These are key attributes for NN Bank, in order to ensure that we're the bank you prefer to choose, now and in the future.

What initiatives has NN Bank developed in 2021 when it comes to the learning organisation?

Laura: 'At the end of 2020, we launched a culture programme at the Bank that aims to open up the discussion about our need to continuously learn. We rolled out the programme in 2021, and it's all about behaviour. About how you approach change, why it's important, but above all that it can also be fun. Continuous development also has to be part of your behaviour. And for that, you need a growth mindset. We've rolled out an innovative – and well-received – programme for all NN Bank colleagues.'

Leontine: 'At NN Bank, we're working on making further improvements to our services by digitising and automating customer journeys. Scaling Excellence aims to strengthen (digital) knowledge and expertise within existing teams. It's about attracting engineering and UX design talent and adding them to our existing expertise. At NN Bank, we've got lots of experienced people who have a very good understanding of the products and customer services. However, we didn't have the knowledge, expertise and mindset to view things through the lens of a new, digital service offering. We're consciously integrating the new knowledge and expertise into the existing teams, so that we learn from one another. Together, the teams can continue to grow, and create a sustainable organisation.'

What form does this learning take?

Laura: 'We consciously chose to not make it an activity that you tick off of a list, but rather a longer-term programme that enables employee engagement. Managers played an important role in this from the start. Since learning wasn't a topic we discussed by nature, we offered a learning cycle to provide guidance. By doing this, we engaged colleagues by taking small steps each time, built up from the phases of the learning cycle, and so the behaviour spread gradually. More and more colleagues took up their role, put forward suggestions for implementation or called with feedback. And that's ultimately what you want.'

Jasper: 'As a manager, I noticed at the beginning that I was trying to strictly stick to the programme. But later, once you've discussed it more with your team, you find your own way. And you also start to integrate it into existing discussion opportunities. It doesn't take a lot of extra time and it becomes a logical topic of discussion.'

Leontine: 'The new way of working in Scaling Excellence is fuelling the mindset that had already made its way into the organisation through the culture programme. All our people engaged in product development, from marketeers to policy people to IT professionals and designers, are working together in an autonomous team. We're combining existing knowledge about what our customers need with digital knowledge and opportunities. These are new engineers with a different mindset, who are inspiring a new way of working. They aren't asking us what we need to code, but what's important to customers and what customers are asking about. We're also adding this experience to the teams that have all been working this way for years and for whom it's automatic. And by mixing this up, on the foundation of the culture programme, we are able to realise a great deal.'

> **We consciously chose to not make it an activity that you tick off of a list, but rather a longer-term programme that enables employee engagement.**

What are the most significant outcomes?

Leontine: 'It starts with the people we're actually doing it for, our customers. We've built better solutions for them. Take notaries in the repayment process, for example. They used to have to go to a website, download a PDF, complete it and send it off, after which it had to be retyped into the system. We created a web form that's uploaded into our CRM application straight away, with a track-and-trace function for notaries. Colleagues are now carrying out the full improvement path: from problem to design to launch to asking for feedback and improvement. And it's making people – in this case, notaries – very happy. In addition, it's a workforce initiative, and we're seeing that colleagues in the teams genuinely support this step. And the talent we want to keep also says: "this is what I want, I can learn from this, discover and genuinely make a difference".'

Laura: 'A lot of focus has been directed at the learning organisation on three levels: on a safe learning environment, on the learning processes and on leadership. We can see movement has been created at all three levels. The dialogue has started and it's genuinely become a topic of conversation – not just for managers but for all colleagues. And for me, this dialogue is also the most important outcome of the programme. In addition to actually doing it, of course. And experimentation, an important part of the programme, has made a really big contribution. Start small and don't let things get too big. Everything we do doesn't have to be the biggest, most compelling thing ever, because learning is also about the small things.'

Jasper: 'We notice that what we've practised in experiments is actually happening. Things like giving feedback, which is something I'm seeing more and more. I'm also noticing that people are given equal time to speak at our meetings, for example. Topics from the programme are genuinely becoming part of our DNA. For example, we spend a lot of time evaluating and reflecting in our MT. On one occasion, there was a threat of it disappearing from the agenda because of a lack of time. There was an immediate reaction to this. And rightly so, because learning is just as important as the other agenda items. Since then, it's become part of our weekly agenda and nobody's asked for it to be dropped. It's become the new normal.'

> **We notice that what we've practised in experiments is actually happening. Topics from the programme are genuinely becoming part of our DNA.**

And the most important lesson?

Leontine: 'We started with one team and have gradually expanded, so we started small there, too. And what I've learnt is that change takes time. But the most important lesson: stick to the plan. If you've given it enough thought, just go for it. It's also a question of perseverance and allowing things to snowball.'

Laura: 'Exactly, stick to the plan and build in time to learn and then adjust the plan accordingly. Keep that view on the horizon, but do it by looking closely at your environment and continuing to learn and adjust as you go.'

Jasper: 'It's also a question of repetition and making the programme your own. Over the next few weeks and months, we'll continue to evaluate and reflect within our chain. And most importantly, share those insights. Here, too, we'll start small by integrating it into a single process first and going from there, and by making it a topic of conversation.'

Leontine: 'For me, learning goes hand-in-hand with positivity. It's ultimately about a positive frame of mind, that you as a person can make a difference, that change is important but it's above all also fun. It's about personal leadership, being curious and being open to dialogue. And these are key elements to delivering better and better services and ensuring that we make the customer happy. The status quo isn't good enough for the future. Customers expect other things, and that's also really fun.'

Our strategic and business developments

NN Bank can look back on a successful year in terms of execution of the Bank's strategy, improvements to the services we provide to our customers, business improvements, commercial results and financial results.

Mortgage market

For NN Bank, 2021 was a very successful year on the mortgage market. For the fourth year in a row, we reported the highest level of new mortgage origination since the Bank was founded. Compared with 2020, NN Bank generated 21% more new mortgage business: EUR 9.9 billion, compared with EUR 8.2 billion in 2020. NN Bank transferred EUR 7 billion mortgages to NN Group entities, which is an increase of 21% compared with EUR 5.6 billion in 2020.

Woonnu mortgages

As part of this growth in origination, 2021 was the first full year for Woonnu originated mortgages. Since its start in August 2020, Woonnu has originated EUR 1.4 billion in mortgages and has secured its place as a sustainable mortgage lender in the Netherlands. Woonnu makes an important contribution to broadening NN Bank's business model, by generating more fee income through internal and external institutional investors. With Woonnu, NN Bank offers a mortgage label and enables external investors to invest in the Dutch housing market while making it more sustainable. The success on the mortgage market with NN mortgages, and the success of Woonnu, is the result of further excellent collaboration with NN Bank's most important business partners, the independent intermediaries.

NN Bank's market share of new originated mortgage loans increased from 6.6% in 2020 to 7.1% in 2021, including Woonnu. With this achievement in 2021, NN became the fourth-largest mortgage player in the Netherlands.

Customer savings portfolio

The customer savings portfolio remained the main funding source for NN Bank. In 2021, NN Bank also grew its savings portfolio. The net inflow of retail savings amounted to EUR 0.2 billion in 2021. The Bank's savings portfolio increased by 2.9% to EUR 15.9 billion in 2021, accounting for approximately 3.4% of the total savings balance of Dutch households.

In 2021, NN became the fourth-largest mortgage player in the Netherlands.

New mortgage business in euro's

9.9bn

Retail investment portfolio

NN Bank's retail investment portfolio increased by 7.7% to EUR 1,163 million.

NN Bank's share of newly opened discretionary mandate accounts decreased from 8.0% in 2020 to 6.8% in 2021 (Source: Ipsos TOF Tracker).

New administration system

In 2021, NN Bank finalised the migration to a single Savings and Investments system. The goal of this initiative is to simplify the NN application landscape. Previously, Savings and Investments accounts were administrated in two different systems. The migration contributed to the Bank's strategic priorities in multiple ways. Apart from a direct cost saving, the single (rather than duplicated) change, maintenance, operational and audit activities enable NN Bank's Savings and Investments to speed up change and focus on enhancing the Bank's relationship with customers.

In December 2021, the first mortgage applications were processed in our new mid-office system. This was an important milestone for NN Bank. NN Bank has connected a select number of mortgage advisors to the mid-office for this. Following this, NN Bank will connect more advisors to the new mid-office system. In addition, the more complex mortgage applications will also be connected to the new system in 2022. The aim is to process all mortgage applications from all mortgage advisers via our new mid-office system in the first half of 2022.

Definition of default

Per 1 January 2021, the new guidelines issued by the European Banking Authority on the definition of default became effective. With regards to the new definition of default, NN Bank has made several steps:

- The new definition was already included in the provisions at year-end 2020. From the beginning of 2021, it was also included in the capital figures and all other reporting.
- In 2022, NN Bank moved the default definition towards the mortgages domain by building it into the Risk Module of our mortgage administration system
- During 2021, improvements were made to NN's definition of default to further align it with regulation. The new definition of default was also applied historically, in order to prepare a dataset that can be used for modelling.

Strong data foundation

Data have become vital for customer-oriented and efficient banking. NN Bank continues to invest in a strong data foundation that ensures compliance with regulatory requirements, and strong data and AI capabilities to accelerate the growing number of data-driven projects in our value chains.

NN Bank has continued to work on completing its 360° Customer View, which provides key customer insights, and allows for more personalised solutions for the customer. NN Bank has broken down data silos to enable a true 360° Customer View across value chains and product lines. This will allow for improved view of the customer's (financial) situation, more satisfying chatbot interactions and more personalised cross-sell. For example, chatbots that 'know' about the customer's situation allow more customer contacts to be automated and are available even outside of office hours. A deeper understanding of the customer's points of (dis)satisfaction in a customer journey will allow for process optimisation, with a higher NPS as a result. The 360° Customer View is set up in compliance with the General Data Protection Regulation (GDPR/AVG).

> **In 2021, NN Bank finalised the migration to a single Savings and Investments system.**

In addition to our strong data foundation and the 360° Customer View, NN Bank continues to apply predictive AI models in existing operations and new propositions. Projects include developing AI models, for example to assist our operational teams in preventing mortgage fraud and to assist our arrears teams in predicting mortgage defaults.

Further improvement in customer experience

NN Bank believes it is vital to continuously improve our services and offer new ones. The Bank closely monitors changes in customer needs and responds to these changes by improving or adapting products, services and customer processes. The customer and the Bank's business partners are actively involved in many of these improvements. By offering an exceptional experience, we want to strengthen our relationship with our customers and attract customers who choose NN products and services, and ultimately want to remain an NN customer for the long term. NN Bank's efforts led to a further improvement in customer experience. The transactional NPS in 2021 was 21.4 (2020: 18.9).

> **The NN app works great, and NN works with good advisors.**
>
> **Customer**

Business improvements
In 2021, NN introduced the new NN app. The new app has a fresh look and feel and a new technology platform. It is designed from a customer-centric viewpoint to create a great user experience. It allows NN's business units to use their deep product knowledge to deliver the best experience for NN's customers.

Engineering and design capabilities are essential to build customer solutions and to further strengthen our customer relationship, improve our NPS and minimise administrative processing time. In 2021, these new capabilities focused on improving the full redemption process of mortgage loans and, as such, delivering better-suited solutions for our customers and notaries. A fully paper-based process has been redesigned in conjunction with a group of notaries. It has resulted in a digital solution that minimises the work for both the notary and NN Bank's operational teams.

NN Bank introduced NOVA in November 2020. NOVA is a digital housekeeping app that provides direct insight into customers' financial matters. With NOVA, the user can see exactly where, when and what purchases have been made. In 2021, the NOVA app functionality was extended to support the aggregation of multiple banks. NOVA enables NN Bank to be more relevant for customers and further strengthen the customer relationship.

For our customers
In 2021, NN Bank continued to support its customers with mortgage payment holidays when appropriate. NN Bank offered a tailor-made approach, in which the customer's circumstances were the primary focus. Since the start of the pandemic, the consequences for the majority of our customers, and for us, remained limited. In 2021, clients who contacted NN Bank regarding financial problems due to Covid-19 made up 1.0% of the active mortgage portfolio. From the active mortgage portfolio, 0.7% was granted a payment holiday. For the consumer lending portfolio, 0.4% of the portfolio was granted a payment holiday. The majority (92%) of clients who were granted a payment holiday have recovered, showing that the impact of Covid-19 on the credit quality of our mortgage portfolio was limited in 2021.

At NN, we know that clarity and transparency are important. For that reason, NN tightened up its brand language in 2021. For example, a project was started to convert all information on nn.nl to reading level 'B1' (intermediate). In this way, we make nn.nl more clear and more inclusive.

Through a virtual assistant, we enable clients to ask questions when it suits them, 24/7. In 2021, NN finished a migration to the new chatbot, which is based on artificial intelligence. We improved the chatbot by adding more data, and we constantly analyse the data to improve the quality of responses.

Awards in 2021
In 2021, NN Bank received several awards. These include the 'Most Pioneering Deal' award for its Soft Bullet Covered Bond Programme. This award was given by investors, issuers and investment banks for NN Bank's achievement in the Covered Bond space. As the first issuer, NN changed from a Conditional Pass-Through Covered Bond programme to a Soft Bullet programme. For the third year in a row, NN Bank won the 'Cashcow Award 2021' in the category 'Best Online Asset Manager' for the online investment proposition 'Beheerd Beleggen'. 'Beheerd Beleggen' received a 5-star (out of 5) rating from comparison site Finner.nl. Finner rates all suppliers and their investment propositions. In Spain, NN Bank received an award, for the second year in a row, for our excellent customer service in relation to NN Bank's savings products. Furthermore, in the IG&H intermediary satisfaction survey for 2021, NN Bank Savings and Investments was rated best with a score of 7.7. NN Mortgages and Consumer Loans finished in second place in this survey with a score of 7.8.

> **What a great idea to introduce 'Gezond Wonen'. This is new, remarkable and relevant for our shared clients.**
>
> **Intermediary**

Our financial developments

Analysis of results

Amounts in millions of euros	2021	2020
Interest income	573.5	618.5
Interest expenses	329.0	343.2
Interest result	**244.4**	**275.3**
Gains and losses on financial transactions and other income	**1.6**	**19.2**
Net fee and commission income	**129.8**	**102.1**
Valuation results derivatives	**3.8**	**6.5**
Total income	**379.7**	**403.1**
Impairment charges on financial instruments	-9.7	3.5
Staff expenses	128.4	116.5
Regulatory levies	27.2	20.4
Other operating expenses	97.6	93.4
Total expenses	**243.5**	**233.8**
Result before tax	**136.2**	**169.3**
Taxation	34.4	44.0
Net result	**101.8**	**125.3**

Key figures

Amounts in millions of euros	2021	2020
Loans	21,228	21,255
Customer deposits and other funds on deposit	15,904	15,743
Net interest margin[1]	0.98%	1.10%
Cost/Income ratio[1]	59.5%	52.1%
Return on assets[1]	0.4%	0.5%
Return on equity[1]	9.1%	11.7%
Total assets	24,363	25,498
CET1 capital[2]	1,062	1,047
CET1 ratio[2]	17.3%	17.4%
Total capital[2]	1,147	1,132
Total capital ratio[2]	18.7%	18.9%
Leverage ratio	4.3%	4.0%
Liquidity Coverage Ratio (LCR)	165%	168%
Average number of internal FTE	936	883

1 These ratios are calculated as follows:
- Net interest margin: calculated as interest result divided by the average total assets in a year (for reference, see Note 18 'Interest result').
- Cost/income ratio: calculated as staff expenses plus other operating expenses divided by total income.
- Return on assets: calculated as net result divided by the average total assets in a year.
- Return on equity: calculated as net result divided by the average equity in a year.

2 These capital ratios are not final until filed with the regulators. They exclude net result for the year 2021, for which approval of inclusion has not yet been obtained. If DNB approves the addition of the net result after payment of the proposed final cash dividend, the Total capital is EUR 1,042 million, with a Total capital ratio of 17.0% and CET1 ratio of 15.6%.

Targets and regulatory requirements

On 24 June 2020, during its Capital Markets Day, NN Group announced financial targets for NN Bank: a cost/income ratio below 55% in 2023 and a net operating return on equity of 9% or higher a statutory basis[1]. In addition to these financial targets, NN Bank also has targets on capital:

- Total capital ratio: NN Bank aims to have a total capital ratio of around 15.5% over time
- Leverage ratio: NN Bank aims to maintain or exceed the regulatory minimum of 3%

Profit and loss

NN Bank's 2021 net result was EUR 101.8 million, a decrease of EUR 23.5 million compared with 2020. This lower net result led to a return on equity of 9.1% in 2021, down from 11.7% in 2020.

The lower net result reflects both lower income and higher expenses in 2021 compared to 2020.

Interest result decreased from EUR 275.3 million in 2020 to EUR 244.4 million in 2021, reflecting the EUR 17.4 million provision to compensate consumer credit customers for excess interest paid.

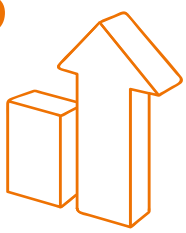
In line with the Kifid ruling regarding interest claims in revolving consumer credit loans, NN Bank will compensate clients for excess interest paid. This has led to a total provision of EUR 22.9 million, of which EUR 5.5 million relates to the expected operational handling of the claims.

Other effects are a decrease in average client rates on the mortgage portfolio, a decrease in client rates on the savings portfolio and an increase in the number of customers refinancing their mortgages, leading to higher income from prepayment compensation. The lower interest result led to a decrease in net interest margin from 1.1% in 2020 to 1.0% in 2021.

1 A net operating return on equity of 9% on statutory basis equals a return on equity of approximately 12% on Group reporting basis.

Net result 2021
in millions of euros

101.8



'Gains and losses on financial transactions and other income' decreased to EUR 1.6 million, compared with EUR 19.2 million in 2020. This 2020 amount included mortgage origination fees from the NN IP Dutch Residential Mortgage Fund, which are now reported under 'Net fee and commission income'.

Fee and commission income increased by EUR 27.7 million, as NN Bank transferred more mortgages to different investors in NN mortgage loans. Furthermore, due to changes in the transfer mechanism, mortgage origination fees from the NN IP Dutch Residential Mortgage Fund are now reported as 'Fee and commission income'. Up to and including the first half of 2020, these fees were reported under 'Gains and losses on financial transactions and other income'.

Total Expenses increased by EUR 9.7 million. Staff and other operating expenses increased by EUR 16.1 million to EUR 226.0 million. This increase was mainly caused by higher mortgage origination and the operational part of the revolving consumer credit loans provision of EUR 5.5 million. In addition, NN Bank has continued to invest in its strategic priorities. The cost/income ratio was 59.5%, compared with 52.1% in 2020, mainly reflecting higher expenses and lower income.

Customer portfolios

The second year of the Covid-19 pandemic had a minimal impact on NN Bank's operating result. A full 92% of the clients in our active NN Group portfolio who were granted a payment break due to Covid-19 have resumed paying.

The NN Bank mortgage portfolio increased by EUR 0.1 billion to EUR 20.7 billion in 2021. The mortgage market was favourable, but market competition is still very strong. NN Bank increased its volume of mortgage origination to EUR 9.9 billion, breaking last year's record by EUR 1.7 billion.

Of the EUR 9.9 billion in origination, EUR 4.9 billion was transferred to NN Life, EUR 1.4 billion to the NN Dutch Residential Mortgage Fund and EUR 0.7 billion to NN Non-life.

The customer savings portfolio remained the main funding source for NN Bank. The net inflow of retail savings amounted to EUR 0.2 billion in 2021, bringing the total savings portfolio to EUR 15.9 billion at the end of 2021.

Capital, funding & liquidity

Attracting funding and liquidity from institutional and professional investors is key to the financing of NN Bank's balance sheet. NN Bank aims to have access to diversified funding sources, in terms of investors, markets and maturities. Funding activities in 2021 included the following:

- In March 2021, NN Bank raised EUR 500 million in secured funding by issuing a 20-year Soft Bullet Covered Bond. This transaction contributed to further reducing NN Bank's funding costs, extending its maturity profile and optimising the matching of its long-tenor mortgage portfolio. This transaction was completed in order to refinance the Hypenn RMBS V and Arena NHG 2016-I transactions, both redeemed at their first optional redemption dates in April and June 2021, respectively;

NN Bank issued a EUR 500 million, 7-year, senior non-preferred bond under the Green Bond Framework.

- In June 2021, NN Bank launched its Green Bond Framework and communicated it to the market. The framework enables the issuance of green bonds as an integral part of NN Bank's funding strategy. The issuance of green bonds supports NN Bank's sustainability strategy, in that we promote improving sustainability of our customers' homes and also promote further disclosure and transparency of enhanced energy-efficiency data going forward. Moreover, NN Bank joined the Energy Efficient Mortgage Initiative and the Energy Efficient Mortgage Label in 2021. The objective of these initiatives is to stimulate and finance investment in energy-efficient buildings and energy-saving renovations; and

- In September 2021, NN Bank issued a EUR 500 million, 7-year, senior non-preferred bond under the Green Bond Framework. From a resolution perspective, the bond meets the criteria of Minimum Requirements for Own Funds and Eligible Liabilities (MREL).

To manage the Liquidity Coverage Ratio (LCR), NN Bank has a large portfolio of retained RMBS notes, in addition to the on-balance-sheet High Quality Liquid Assets (HQLA) portfolio and cash. NN Bank currently has three RMBS programmes outstanding, that jointly provide for sufficient contingent liquidity if and when needed (Hypenn I and VII, and part of Hypenn VI). NN Bank maintained a solid liquidity position, with an LCR of 165% at year-end 2021. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2021, NN Bank had credit facilities in place 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) total capital ratio of 18.7% (2020: 18.9%) and a CRR CET1 ratio of 17.3% at year-end 2021 (2020: 17.4%). The growth in capital, driven by internal capital generation in the form of retained profits, exceeds the growth in risk weighted assets. NN Bank manages its capital based on its total capital ratio and meeting all capital targets. In line with NN Group's policy to manage excess capital at Group level, dividend is paid if NN Bank's total capital ratio exceeds its target total capital ratio.

NN Bank currently has a total capital ratio target of 15.5%, which is lower than the previous total capital ratio target of 16.8% following an equivalent reduction in the Total SREP Capital Requirement.

NN Bank followed ECB's recommendation in view of the Covid-19 pandemic to refrain from dividend payments. In 2021, NN Bank resumed dividend payments in line with the ECB and DNB recommendations, resulting in the payment of a final dividend of EUR 12 million over 2020 and an interim dividend of EUR 124.5 million in October 2021. NN Bank proposed a final dividend of EUR 111.6 million. Going forward, we will again manage our actual capital towards our capital targets.

Wholesale funding strategy
NN Bank aims to further optimise its funding costs by integrally managing retail saving products and wholesale funding solutions. As a consequence, NN Bank expects to remain an active issuer in the wholesale markets going forward.

Non-financial statement
NN Bank is a direct subsidiary of NN Group. NN Group includes the non-financial information as per the Decree disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie) in its consolidated Report of the Management Board for NN Group. For the financial year 2021, financial undertakings subject to the Decree will have to disclose the proportion in their total assets of exposures to Taxonomy-eligible and Taxonomy non-eligible economic activities and certain other disclosures. For this non-financial information, NN Bank will not appeal for the consolidation exemption pursuant to the Decree, but make its EU Taxonomy eligibility disclosure in the next paragraph, 'Our role in society'.

Our role in society

It is our purpose to help people care for what matters most to them, now and in the years ahead. 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.

Sustainability

To underline our ambition, NN Group endorses 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. NN Bank's commitment to the Climate Agreement involves four deliverables:

- We have insight into our carbon footprint and publish it. Insight into both the CO_2 emissions of our own operations and the emissions of our proprietary investments, including the mortgage portfolio.
- We set concrete goals and draw up an action plan to contribute to the Dutch Climate Agreement
- We offer and develop services and financial solutions for our customers, to facilitate making homes sustainable
- We evaluate our progress periodically and at least annually

By being future-oriented and focused on creating long-term value for our customers, employees and society, we aim to be a leading financial services provider in the markets in which we operate. In this chapter, NN Bank reports on the progress it is making in implementing its ESG ambitions.

ESG goals and governance

ESG is one of the cornerstones of our strategy and strategic decision-making. NN Bank has implemented ESG in its governance with the establishment of an ESG Centre of Excellence, which will help NN Bank to achieve its goals by facilitating and monitoring the ESG strategy. The CEO is accountable for ESG, and the Management Team is responsible for strategic direction and implementation of NN Bank's ESG strategy.

Looking ahead, NN Bank will focus on two key ESG topics that will have a profound impact on the lives of our customers and the way they make financial decisions:

Customer empowerment:
- NN Bank belongs to the top-performing financial services providers on customer empowerment. Customer empowerment is defined as NN Bank providing customers with the tools and resources they need to make better informed financial choices and exercise greater control over their personal financial situation.

Climate change & environment:
- NN Bank steers its mortgage and its HQLA investment portfolio towards Net Zero by 2050, or sooner, to become Paris Agreement-compliant. We will set intermediate emissions reduction targets for 2030 for both our mortgage and investment portfolio. NN Bank's retail investment portfolio will adequately respond to changes in customers' preferences on ESG investing.
- We aim to reach Net Zero in our own operations by 2040, or sooner, in accordance with NN Group's ambition

To enhance our positive impact on society, NN Bank collaborates with other key stakeholders (e.g. academia, peers, governments) to make a joint impact on climate and customer empowerment.

Carbon footprint

We contribute to society by managing our carbon footprint and made a start in the 2020 Annual Report by publishing our mortgage portfolio's carbon footprint.

The aim of the Dutch Climate Agreement is to roughly halve the carbon emissions by 2030 compared with 1990. For the Dutch financial sector, this includes setting up carbon footprint monitoring of financing activities, and drawing up action plans to help reduce it. Customers are also be encouraged to reduce their CO_2 emissions where possible, and helped to do so with products and services.

The gross mortgage portfolio on NN Bank's balance sheet – EUR 20.4 billion, 95,378 houses – was included in the carbon footprint analysis.

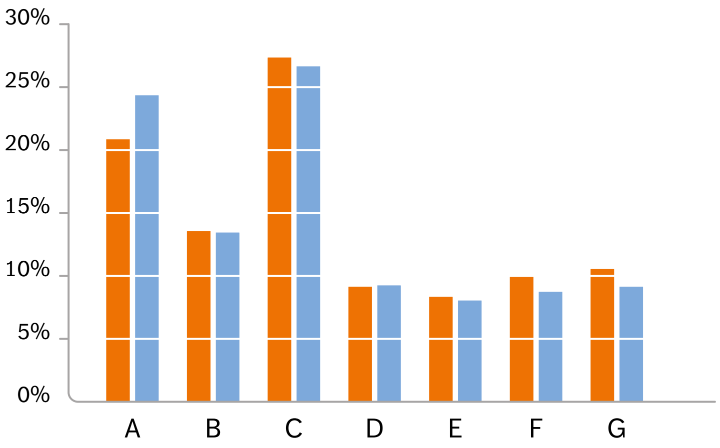
We account for the scope 1 and 2 emissions of each house (i.e. the natural gas used to heat the house and the purchased electricity by the occupant of the house = the energy consumed by the building occupant). In 2021, we have updated the carbon footprint methodology to align with the global Partnership for Carbon Accounting Financials (PCAF) Standard to include a new attribution approach in calculating financed emissions. This means that from reporting year 2021 onwards we attribute the emissions associated with a residential mortgage to NN Bank using a loan-to-value (LTV) ratio. Previously, we attributed the associated emissions in full. We have adjusted last year's reported financed emissions to ensure comparability.

The figure below shows the energy label distribution of NN Bank's mortgage portfolio. Compared to our first measurement in 2019, the share of label A in our portfolio increased from 21% to 24%, labels B, C, D and E remained unchanged, and labels F and G (taken together) declined from 21% to 18%. In our Woonnu portfolio, the percentage of houses with an energy label A is 86%.

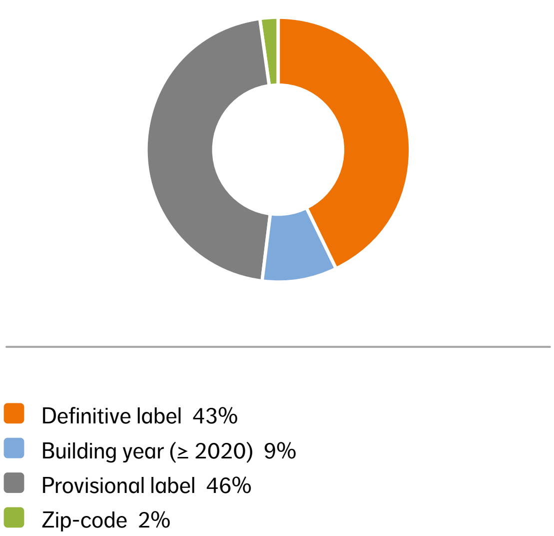
Since the start of 2021, the energy performance of a building is determined using the new NTA8800 determination method. The method is based on the European CEN standards. An energy label can only be obtained if an energy consultant visits the house to inspect the specifications for an energy label. Because of these changes, the RVO has stopped reporting the so-called 'provisional labels' and is currently investigating possibilities to report new provisional labels that are more aligned with NTA8800 methodology. Approximately half of the houses in the Netherlands currently have a definitive energy label, and removing the provisional energy labels from our analysis would result in a major loss of data and insights. Therefore, we have kept the provisional labels in our analysis as best estimate to ensure a complete overview of our mortgage portfolio.

As shown in the graph below, about 43% of matched addresses have a definitive energy label. If no definitive energy label is present, we looked at the building year of the property. For houses with a building year of 2002 or later, we assume the energy label is A. For the rest of the mortgage portfolio, we matched the addresses with a provisional label, as this currently is the best estimate available. If no label exists, we assumed that the energy label is the same as the average of the postal code. For a very small number of properties (0.1%), we could not make a match at all due to missing information[1].

NN Bank portfolio – Energy label distribution (based on number of houses)



NN Bank portfolio – Basis of label choice



1 These mortgages were not assessed in this analysis.

As a next step, we obtained the average gas and electricity consumption per energy label in the Dutch market from the WoonOnderzoek Netherlands, an initiative from the Dutch government. These figures can be converted into CO_2 emissions using emission factors as published by www.co2emissionfatoren.nl. For 2021, the following emission factors are used: 0.369 kg CO_2/kWh for electricity of unknown origin, and 1.788 kgCO_2/m³ for natural gas.

We calculate the emissions associated with the NN Bank mortgage portfolio by multiplying the number of houses with each energy label by the average CO_2 emissions per energy label. In 2021, the absolute portfolio emissions amounted to a total of 384,357 tonnes CO_2, which is 3% lower than in 2020. This is mainly due to a decline in the electricity grid factor.

The portfolio 'financed emissions' are calculated by multiplying the calculated emissions with the LTV attribution factor to align with the global PCAF Standard. The LTV used is the portfolio's weighted average current loan-to-value ratio, which is the net outstanding mortgage amount divided by the indexed property market value. In 2021, the attribution factor was 57%, resulting in financed emissions of 220,986 tonnes CO_2. This was 15% lower than the financed emissions in 2020, which we calculated based on an attribution factor of 66%. Evidently, introducing an LTV ratio in the attribution approach brings volatility in the financed emission figures which may reflect changes in outstanding loans and/or house prices, which are not related to the underlying emissions of the houses in our portfolio.

We also calculated relative portfolio emissions. Compared to 2019, these declined from 13 to 11 tonnes CO_2 per EUR million invested, reflecting the aforementioned methodology change.

The method we used is based on theoretical average consumption data and not on actual consumption data. The PCAF prefers that institutions work with actual consumption data. The Dutch financial institutions that are part of the PCAF including NN are presently exploring ways to obtain this actual consumption data.

Looking towards the future, we will further engage with our customers to facilitate them in dealing with climate change-related impacts and to support them as they make their lives more sustainable. As we continue to explore this important topic, we will further optimise our strategy, risk management and measurement.

Sustainable services and financial solutions

To better serve our clients, optimise our profitability and enhance our positive impact on sustainable services and sustainable financial solutions, we use climate and social factors to better segment our customers across all our businesses.

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 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.

As a mortgage provider, we want to contribute to the reduction of greenhouse gas emission in the houses we finance. We encourage our customers to reduce emissions by making their homes more sustainable. NN Bank offers financing options for this purpose, and has issued green bonds to source green mortgages for ourselves, and also for third parties.

In 2020, NN Bank established Woonnu, a 100% subsidiary of NN Bank. Woonnu is a mortgage provider on the Dutch housing market with the aim of helping consumers make their homes more sustainable. Woonnu believes that sustainable living should be possible and affordable for everyone. Woonnu takes care of the implementation and rewards sustainable living. Woonnu aims to do so by improving and seamlessly integrating the process and financing required to make the housing market sustainable.

Furthermore, with Powerly, NN Bank offers a platform that supports users – from orientation to implementation – as they improve the sustainability of their homes in the Netherlands. Powerly provides online home improvement advice, under its own label as well as through the NN brand, for energy-efficiency measures such as insulation, solar panels, heat pumps and more. Affiliated partners offer and execute these measures. Powerly is growing towards becoming a sustainability platform that offers a reliable starting point for consumers, creating benefits for customers, partners and NN, contributing to the UN Sustainable Development Goals and fulfilling NN Bank's 'Sustainable company & society' strategic priority.

In addition to improving sustainability of our customers' homes, good ventilation is one of the most important considerations when making homes more sustainable. It ensures that homes have a healthy indoor climate. Research among more than 1,000 Dutch people (September 2021) shows that awareness about the indoor climate is limited. Therefore, NN Bank has launched the platform nn.nl/gezondwonen (in Dutch only). Here, the consumer can use the 'Gezond Wonen Check' (Living Healthily Check), developed in collaboration with the Netherlands Organisation for Applied Scientific Research (TNO). The check gives consumers insight into the air quality in their homes. NN Bank offers information and useful tips to improve this. In 2021, NN Bank raised awareness for this platform – and the importance of a healthy indoor climate – through a campaign. NN Bank will also pay a lot of attention to this in 2022. In addition, NN has recently become a partner of 'Gezond Binnen' (Healthy Inside), a partnership of various companies that are committed to a healthy indoor climate. 'Healthy Inside' is again an example of how we fulfil NN Bank's 'Sustainable company & society' strategic priority.

In 2021, NN Bank published its Green Bond Framework with a focus on green buildings. The framework allows NN Bank to issue green bonds and to raise sustainable financing that meets regulatory criteria and market best practices with respect to sustainability. It is fully aligned with the ICMA Green Bond Principles, the CBI Low Carbon Buildings Standards and recommendations on the EU taxonomy. It also mitigates the 'Do Not Significantly Harm' elements associated with the residential mortgage portfolio. It is NN Bank's intention to align with the EU Green Bond Standard when it becomes applicable. The framework further aligns the Bank's funding strategy with its ESG strategy; we fund assets that mitigate climate change by reducing emissions, and thereby make a positive impact. The framework reflects NN's commitment to sustainability and contributes to the Dutch Climate Agreement and the development of sustainable markets.

NN Bank focuses on helping people care for what matters most to them.

In 2021, NN Bank and Woonnu joined 'EEMI/ EEM Label' and are two of the initiators of the 'EEM NL Hub'. The Energy-Efficient Mortgage Initiative (EEMI) is a European initiative, originally launched to make the European housing stock more sustainable. EEMI also consults on European legislative and regulatory initiatives. In February 2021, the European Mortgage Federation introduced the Energy Efficient Mortgage Label (EEML), which aims to identify energy-efficient mortgages and provide greater transparency regarding climate risks and resilience. The EEML's objectives are to maximise portfolio regulatory alignment with the main legal and policy developments and is intended as a global benchmark.

The Energy Efficient Mortgage [EEM] NL Hub was established as an association by a diverse group of stakeholders in the Dutch residential housing and mortgage market, including lenders, investors, service providers and other institutions. The members of the EEM NL Hub have committed to supporting and promoting the acceleration and adaptation of energy-efficient housing in the Netherlands by interpreting the EU regulations for sustainable financing and energy efficient mortgages, specifically.

Social responsibility

NN Bank focuses on helping people care for what matters most to them. Including people who have financial difficulties. The Bank provides coaching and tools intended to generate more income, reduce living expenses, reduce monthly mortgage payments or a combination of all of these.

NN Bank is involved in a coalition of creditors, the 'Schuldeisercoalitie'. In the coalition, large Dutch businesses work together 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' (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, telecom businesses, energy companies and housing corporations can identify actual or imminent payment arrears.

NN Bank employees are given the opportunity to get involved in people's financial well-being outside of their role at the Bank. Employees can do volunteer work, for example, at LEF, a programme aimed at teaching young people to handle their money matters. Furthermore, employees have the option of requesting a donation to a charity that they support, through our foundation 'Stichting Wij en de Maatschappij' (Together for Society).

In 2021, NN Bank actively participated in the Dutch National Mortgage Guarantee's initiative 'Krachten bundelen voor hypotheekklanten' (Joining Forces for Mortgage Customers), in collaboration with Purpose and in co-creation with many organisations within the sector. The goal was to create a plan for Covid-related problems in different scenarios. Knowledge, challenges, options and proposed solutions to specific mortgage-related issues were shared and presented to the Mortgages platform.

Going forward, NN Bank will continue to work on its role in society through NN Future Matters, NN Group's global community investment programme, focused on promoting financial empowerment, creating economic opportunities and alleviating financial distress.

NN Bank will continue to develop its products and services, and align them with societal challenges, such as climate change and financial well-being.

EU Taxonomy

The Taxonomy Regulation is a unified classification system for sustainable economic ('green') activities, which was established by the European Commission as part of the 2018 EU Green Deal. Only NN Bank's activities directed towards providing retail clients with mortgage loans are linked with Taxonomy-eligible economic activities as described in the Taxonomy Regulation and its Delegated Acts. The exposures (amounts in thousands of euros) to Taxonomy-eligible and Taxonomy non-eligible activities and the related proportion of total assets (percentages) are shown in the following table:

Exposures to	Amount in thousands of euros	Proportion of GAR assets	Proportion of total assets
Taxonomy-eligible economic activities	21,274,756	88%	87%
Taxonomy non-eligible economic activities	974,268	4%	4%
Non-NFRD counterparties	265,996	1%	1%
Derivatives	9,599	0%	0%
On demand interbank loans	63,394	0%	0%
Other	1,559,395	7%	7%
Total GAR assets	**24,147,409**	**100%**	**99%**
Trading portfolio	0		0%
Sovereigns & central banks	227,699		1%
Total assets	**24,375,107**		**100%**

At year-end 2021, EUR 21,275 million of our total EUR 24,375 million assets on the balance sheet are EU Taxonomy-eligible. This corresponds to 87% of total assets on the balance sheet being exposed to EU Taxonomy-eligible economic activities. The disclosed exposures are based on actual information from the Bank's books and can further be explained as follows:

- 'Non-NFRD counterparties' comprise parties not subject to Taxonomy Regulation e.g. counterparties outside the EU, which are not subject to NFRD requirements
- 'Derivatives' relates to derivatives held for fair value hedge accounting, balanced guaranteed swaps and interest rate swaps not used in hedge accounting
- 'On demand interbank loans' comprises current account and accrued interest with banks
- 'Other' comprises cash balances at central banks, intangible assets, state government counterparties and other assets

Consequently, all assets are covered under the Green Asset Ratio (GAR) denominator in line with regulatory reporting. The 'Sovereigns' counterparties are defined as 'General government', supranational issuers and central banks in regulatory reporting and are excluded from both numerator and denominator, since there are not yet adequate eligibility calculation methods available. Local government counterparties are e.g. municipalities and are assessed as either 'Taxonomy-eligible' or 'Taxonomy non-eligible' activities. NN Bank did not use estimates and considers counterparties as non-eligible in the case where an underlying counterparty has not yet disclosed its taxonomy eligibility.

The link between EU Taxonomy and NN Bank's sustainability strategy is described in the paragraph 'Sustainability'. This disclosure does not provide any indication of possible taxonomy alignment. NN Bank 's Taxonomy-eligible economic activities maybe aligned in case it is evidenced that these activities substantially contribute to the taxonomy environmental objectives, without doing any significant harm to any of the other EU Taxonomy environmental objectives and while respecting minimum social safeguards. For evidence of this alignment, NN Bank is going to collect additional data. In the beginning of 2024, for the financial year 2023, NN Bank expects to disclose Taxonomy alignment of its eligible economic activities, such as disclosure of KPIs like the Green Asset Ratio (GAR).

Our employees

The different talents, personalities and expertise of our people ensure that we serve our customers excellently and that we achieve our business goals. At NN Bank, people really matter.

We want to be an attractive employer for current and new colleagues, which means that we offer more than just favourable financial remuneration. We also offer a motivating, healthy and inclusive 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 labour market.

The average number of NN Bank employees (internal and external) rose slightly during 2021, from 1,179 FTEs (2020) to 1,246 FTEs (2021). Of these 1,246 FTEs, there were 936 internal FTE employees and 310 external FTE employees at year-end 2021.

For NN Bank, the health and safety of our colleagues and customers are our highest priority. In the Netherlands, NN follows guidelines of Foreign Affairs and of the Dutch National Institute for Public Health and the Environment (RIVM). To limit the spread of Covid-19 as much as possible, all employees worked from home as much as they could in 2021. In 2021, NN Bank continued to prove its ability to manage the transition to working from home.

The next steps in NN Bank's agile transformation are part of the broader 'Change is NOW Next Level' culture programme, set up in 2020 and rolled out in 2021. With this programme, we want to ensure that NN Bank becomes a learning organisation. An organisation that enables employees to adapt their services to a constantly changing environment by stimulating training, development and initiative. We invest in our colleagues' craftsmanship, because we want to be known for our talented colleagues.

The Scaling Excellence programme kicked off within the mortgage department in 2021. The programme focuses on building and enhancing our engineering and design capabilities, and will allow us to build a digital mortgage-servicing platform. The programme has different pillars, including the 'Culture Starter' to modernise software architectures and strengthen the workforce and way of working. In the Culture Starter for mortgages, available teams were mixed with experienced engineers and designers to enable the learning and development of these capabilities, while building solutions directly for our customers in production.

NN Bank wants to be a bank that genuinely helps people care for what matters most to them. 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 2021. The engagement score in 2021 was 7.5, a decrease since 2020 (7.7). The engagement score and the underlying scores are important input for NN Bank to determine improvements in employee engagement.

Woonnu and Gezond Wonen:

Helping our customers make the step towards sustainability

"At NN Bank, we've got a huge intrinsic drive to make a success of this.

Patricia Plass is CEO of Woonnu

Miranda Schumacher is Customer Journey Specialist at NN Bank Mortgages & Consumer Loans

Hans Buursink is Domain Lead at NN Bank Mortgages & Consumer Loans

NN Bank believes it's important that our customers can live and work comfortably and healthily. We develop products and services that make a positive contribution to the environment and to society. And with the signing of the Climate Agreement, we commit to helping fund the energy transition. Woonnu is one of the initiatives that NN Bank has launched to bring this to life. Our aim is to make sustainable living attractive for everyone. And we're going even further. We want to help our customers take the first step towards sustainable living. By offering our customers something distinctive and relevant. We want to collaborate on issues that are really important to them. NN Bank aims to raise awareness of the Gezond Wonen (living healthily) proposition, because we believe that everyone has the right to a healthy indoor climate.

How can Woonnu put sustainability into practice?

Patricia: 'Woonnu is the mortgage that rewards more sustainable living and makes it attractive for everyone. If you live sustainably, we'll offer you a competitive interest rate straight away. If your home doesn't have an A or B energy label yet, we can help you make your home more sustainable. Our sustainability check shows the current state of your home and what you need to do to achieve the energy label you want to have. Our partners then visit your home and give you tailored advice. We offer guarantees on the amount you invest and the label you want to achieve, so that you know exactly where you stand. And once you've made your home more sustainable, we ensure that you get a new energy label and you receive an interest rate discount straight away on your full mortgage for the remaining term, from a B energy label upwards.'

Is NN Bank going a step further with the Gezond Wonen proposition?

Hans: 'Sustainability is a really important theme. At Mortgages & Consumer Loans, we want to add to the sustainability of homes through ventilation. Because insulation also means ventilation. For us, this is a very important aspect of sustainability. If you don't ventilate, your home becomes unhealthy. NN Bank wants to raise awareness of the importance of a healthy indoor climate with the Gezond Wonen proposition. We're doing this with our partners, such as TNO and the Gezond Binnen platform. The reality of Covid-19 has also helped us raise awareness about the importance of a healthy indoor climate.'

Miranda: 'NN Bank can differentiate by helping people care for what matters most to them. And what's more important than your health? The "How healthy is your house?" check was developed in cooperation with TNO, and is an important element of our awareness campaign. Consumers have completed the Gezond Wonen Check at nn.nl/gezondwonen more than 36,000 times. Our conversations with our customers tell us that they are inspired by this issue. Health and sustainability are absolutely issues that most people want to engage with. The question is: how do you go about it? We help our customers take the first step.'

How does this align with the Bank's strategy?

Miranda: 'We want to be relevant to our customers and strengthen our relationship with them. Not only by financing their home, but also during the term of the mortgage. A healthy indoor climate is a topic with which we can positively surprise our customers. It aligns fully with NN Bank's mission. After all, a house is a roof over your head, but it's also the place where you live.'

> “Health and sustainability are absolutely issues that most people want to engage with. The question is: how do you go about it? We help our customers take the first step.

Patricia: 'As NN, we want to be a leading financial player in this space. You do this by being enterprising and coming up with new, innovative propositions. Woonnu and Gezond Wonen are good examples of this.'

Hans: 'We often talk about sustainability as if it's something that should happen in the distant future. Whereas, if you look at today's reality, there's no time to lose. So, our ambition is to help a large group of customers make their homes sustainable and healthier today. At NN Bank, we've got a huge intrinsic drive to make a success of this.'

How do we help customers make the step towards sustainability?

Patricia: 'The main reason for making your home sustainable is to save on your energy bills. But you don't know in advance how much you'll actually be saving. And that's a barrier for many customers and also for mortgage advisers. At Woonnu, you can calculate exactly what you'll save for each energy label. It offers the customer financial security, in that if they progress through the labels, they'll actually receive a discount on their interest rate.'

Miranda: 'Translating facts and figures is also important. NN Bank always wants to ensure that the information we share is scientifically supported. TNO is our technology partner and the source of this information. As NN Bank, we're an important driver in making this knowledge available. We make scientific knowledge accessible to a much wider audience. And together, we make the difference.'

And the advisers?

Hans: 'We spend a lot of time talking to mortgage advisers about Gezond Wonen. The impact of an unhealthy indoor climate, in particular, is something that affects them. After all, they are also consumers with a family and a home. "What's the air quality like in my home? Or in my office?" Gezond Wonen is a topic that affects us all.'

Patricia: 'In the past year, we've invested a lot in building up sustainability knowledge among mortgage advisers. And we've looked at what the adviser needs in order to conduct effective conversations about sustainability with customers. We're now seeing that advisers are happy to come back to us, which has resulted in revenue of EUR 1.4 billion in loans in the first year, capturing almost 1% of the market. But the biggest compliment for us was winning the Golden Lotus award in the category of mortgage providers that have been in business for less than three years, which shows how much advisers value the Woonnu proposition. Advisers voted for us because of our good product terms and conditions, processing times and how Woonnu helps make homes more sustainable. But also because of attractive interest rates and the interest rate discount when moving up an energy label.'

> “With Woonnu, we offer guarantees on the amount you invest and the label you want to achieve, so that you know exactly where you stand.

What's the ambition for 2022 and beyond?

Patricia: 'To be successful in sustainability, you need all the players in the chain, from mortgage adviser to energy savings adviser, and from mortgage lender to installation companies. Sustainability is a complicated issue and, as far as I'm concerned, we'll need to join forces even more. And that's also necessary if you look at our ambitions and challenges in this area.'

Hans: 'We want everyone to be able to live sustainably and healthily, and we see that NN Bank can play an important role in this as a financial services provider. Over the next few years, we'll therefore be launching lots of (sustainable) propositions to make sure that the mission succeeds.'

Conclusions for 2021 and looking ahead

Despite the fact that the Covid-19 pandemic again played an important role in 2021, NN Bank looks back on a year of solid performance. NN Bank has once again achieved a record mortgage origination. In addition, customer satisfaction has risen again, which is the result of many efforts by NN Bank's employees.

We have made progress on our funding ambitions and sustainability deliverables and will continue to do so in order to realise our ESG ambition in the coming years.

For 2022, we will continue to implement our strategy. Continued growth, strengthening the customer relationship, further development of digitalisation and data-driven way of working, sustainable company & society and our learning & agile organisation will continue to be important to us.

Appreciation for NN Bank employees

Finally, 2021 was a year in which we again had to deal with the circumstances related to the Covid-19 pandemic. NN Bank's Management Board is extremely proud of how all employees have contributed to our success from home in 2021. The Management Board would like to thank all employees for their hard work, dedication, commitment and results achieved in 2021. The Management Board looks forward to continuing to work with all employees in 2022 on the Bank's growth and relevance for customers, society and other stakeholders.

Corporate governance

General

NN Bank has a two-tiered Board system, which comprises a Supervisory Board and a Management Board. The Audit & Risk Committee has been appointed from among the members of the Supervisory Board. Its task is to prepare the decisions of the Supervisory Board on audit issues, risk management and financial reporting. 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 the Management Board's pursuit of policy and performance of its duties and the company's course of affairs, taking into account the interests of the company's stakeholders.

The general meeting of NN Bank (General Meeting) appoints the Management Board members.

The NN Bank Management Board consists of three members: a CEO, CFO and CRO. The CIO/CTO is not a statutory member of the Management Board as per NN Bank's Articles of Association and has as such 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 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. The specific policy guidelines also give attention to how they relate to existing NN Group policy in the areas concerned.

Board composition

NN Bank aims to have an adequate and balanced composition of the Management Board and Supervisory Board (Boards). Annually, the Supervisory Board assesses its composition and functioning of the Boards. In appointments, all applicable laws and regulations and relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment are taken into account.

For the management boards and supervisory boards of all large entities within the group, NN Group aims to have a gender balance of at least 40% of both women and men. Should the current state and group size of a management board and/or a supervisory board give reason thereto, NN Group may (initially) aim to have a gender balance of at least one-third men and at least one-third women for each management board and/or supervisory board.

Given the fact that NN Bank's Management Board consists of only three members, the target requires this board to consist of at least one female and one male. In 2021, the composition of the Management Board did not meet the target, consisting of three male members. The composition of the Supervisory Board did not meet the target in 2021, either. However with Annemiek van Melick's intended succession of Delfin Rueda, following her intended appointment as Executive Board member of NN Group, effective as from 1 July 2022, the composition of the NN Bank Supervisory Board will be 50% female and 50% male.

NN Group has also set a target to have at least 40% women in senior management positions by 2023. In 2021, these positions included the Management Board of NN Group and managerial positions reporting directly to an NN Group Management Board member. In 2022 NN Group will extend the scope of the target group by including more positions in the Dutch and Insurance International business units to further improve and strengthen the impact of our gender diversity ambition. The target group will therefore be extended to include all managerial positions reporting directly to the business unit CEOs. Talent management, succession planning and the NN Group Statement on Diversity and Inclusion are key instruments in our approach and are part of the Human Capital Development processes of NN Group.

External auditor

On 3 June 2019, the General Meeting reappointed KPMG Accountants N.V. as external auditor of NN Bank for the financial years 2020 through 2022. It is intended to propose to the General Meeting of NN Group to reappoint KPMG as external auditor of NN Group, with the instruction to audit the annual accounts for the financial years 2023 through 2025 at the 2022 annual general meeting of NN Group on 19 May 2022. If reappointed, the General Meeting of NN Bank intends to reappoint KPMG as external auditor of NN Bank for the financial years 2023 through 2025.

The external auditor attended the meetings of the Audit & Risk Committee of the Supervisory Board on 18 March and 19 August 2021 and 17 March 2022.

More information on NN Group's policy on external auditor independence is available on the NN Group website (www.nn-group.com).

Legislation and regulations

NN Bank adheres to the legislation and regulations by which it is governed. For NN Bank, this includes – amongst others – the Dutch Civil Code, the Financial Supervision Act, the Capital Requirements Directive/Capital Requirements Regulation, Basel III, the General Data Protection Regulation, Sustainable Finance Disclosure Regulation, the Competition 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.

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 and the Code of Conduct for Mortgage Loans.

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 the Bank's operations, risk management and in its dealings with customers and other stakeholders. The Code, which applies to all banks that have been granted a banking license under the Financial Supervision Act, can be downloaded from the Dutch Banking Association's website (www.nvb.nl). NN Bank publishes its full report regarding the 'Application of the 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. The NN Group Remuneration Framework supports NN Group's overall ambition to be an industry leader, known for our customer engagement, talented people, and contribution to society.

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 including risk management of Environmental, Social, and Governance (ESG) risks
- 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 limited variable remuneration remaining is predominantly linked to non-financial targets.

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 are 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 or 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.

Within the Management Board, the CRO is responsible for drawing up an RAS proposal in close consultation with the CFO. The risk management organisation including the compliance function assist 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, 23 March 2022

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 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 2021, the Supervisory Board convened five times. Four ordinary meetings and one extra meeting were held. NN Bank's Audit & Risk Committee convened twice. Important items on the Supervisory Board's agenda were the full-year and half-year results, progress on implementation of the strategy, the status of strategic projects, the Bank's Internal Capital Adequacy Assessment (ICAAP) and Liquidity Adequacy Assessment (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.

Risk

At each regular meeting of the Supervisory Board, all the key risk and position reports were discussed and monitored against the Risk Appetite Statements (RAS), as well as the required actions, as appropriate. The Supervisory Board also approved NN Bank's RAS and ICAAP/ILAAP submissions.

Committees

Until the establishment of an Audit & Risk Committee in 2019, the Supervisory Board performed the activities of said committee.

The primary purpose of the 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. An Audit & Risk Committee removes the inherent difficulty of the Supervisory Board acting as both a mentor and 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 the Supervisory Board's decision-making.

In 2021, the Audit & Risk Committee, which is composed of two members of the Supervisory Board, met twice. The Bank's Management Board, Internal Audit (CAS) and the external auditor attended these meetings. The Audit & Risk Committee, discussed in depth and monitored the key risk topics covering all risk types, including the functioning of the internal governance, the risk framework and the functioning of the Second Line of Defence. The internal and external audit plans were approved and monitored, and the progress made in the resolution of audit issues, including IT, compliance and legal-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.

Functioning of the Management Board

The Supervisory Board performed its annual review of the functioning of the Management Board in 2021. 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

The composition of the NN Bank Management Board did not change in 2021. 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 an appropriate mix of experience and expertise.

In December 2020 and January 2021, two new members of the Supervisory Board were appointed. In June 2021, the chair of the Supervisory Board resigned. The Supervisory Board now consists of four members, including its new chair, Mr André Bergen, with Ms Anne Snel presiding over the Audit & Risk Committee.

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 it with the Supervisory Board. The Annual Report will be submitted for adoption at the 2022 annual General Meeting. At the 2022 annual General Meeting, a final dividend over 2021 of EUR 111.6 million will be proposed.

Appreciation for the Management Board and NN Bank's employees

The Supervisory Board would, last but not least, like to express our gratitude to the Management Board and to all employees for their hard work, personal dedication and ongoing commitment, as well as for their achievements in 2021, especially in view of the continuing challenges that the Covid-19 pandemic creates.

The Hague, 23 March 2022

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 knowledge:

- The Nationale-Nederlanden Bank N.V. 2021 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. 2021 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 2021 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

- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis

- The Nationale-Nederlanden Bank N.V. 2021 Report of the Management Board includes those material risks and uncertainties that are relevant to the expectation of Nationale-Nederlanden Bank N.V.'s continuity for the period of 12 months after the preparation of the report

The Hague, 23 March 2022

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 statement of financial position

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of financial position

	notes	2021	2020[1]
Assets			
Cash and balances at central banks	2	1,324,778	2,585,528
Amounts due from banks	3	267,969	423,195
Financial assets at fair value through profit or loss:			
– non-trading derivatives[1]	4	8,353	25,217
Investment securities	5	1,271,432	933,334
Loans	6	21,227,558	21,255,396
Intangible assets	7	23,690	24,689
Other assets	8	239,678	217,691
Total assets		**24,363,458**	**25,465,050**
Liabilities			
Amounts due to banks	9	0	438,583
Customer deposits and other funds on deposit	10	15,904,147	15,742,735
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives[1]	11	12,571	140,877
Other borrowed funds	12	638,000	1,260,000
Other liabilities[1]	13	76,006	259,767
Deferred tax liabilities	25	8,142	11,603
Provisions	14	25,761	6,402
Debt securities issued	15	6,519,192	6,384,373
Subordinated debt	16	85,000	85,000
Total liabilities		**23,268,819**	**24,329,340**
Equity			
Shareholders' equity		1,094,639	1,135,710
Total equity	17	**1,094,639**	**1,135,710**
Total equity and liabilities		**24,363,458**	**25,465,050**

1 The comparative information is restated on account of correction of errors. See Note 1.

References relate to the notes starting on page 45. These form an integral part of the Consolidated annual accounts.

Consolidated statement of profit or loss

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of profit or loss

	notes		2021		2020
Interest income		573,470		618,471	
Interest expenses		329,045		343,149	
Interest result	18		244,425		275,322
Gains and losses on financial transactions and other income	19		1,609		19,167
– gross fee and commission income		144,793		116,894	
– fee and commission expenses		14,979		14,750	
Net fee and commission income	20		129,814		102,144
Valuation results on non-trading derivatives	21		3,842		6,496
Total income			**379,690**		**403,129**
Impairment charges on financial instruments			-9,693		3,511
Staff expenses	22		128,429		116,557
Regulatory levies	23		27,162		20,377
Other operating expenses	24		97,639		93,385
Total expenses			**243,537**		**233,830**
Result before tax			**136,153**		**169,299**
Taxation	25		34,386		44,041
Net result			**101,767**		**125,258**

Consolidated statement of comprehensive income

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of comprehensive income

		2021		2020
Net result		**101,767**		**125,258**
– unrealised revaluations investment securities at fair value through other comprehensive income	-5,205		10,721	
– realised gains or losses transferred to the statement of profit or loss	-1,245		-8,411	
Items that may be reclassified subsequently to the statement of profit or loss		-6,450		2,310
Total other comprehensive income		**-6,450**		**2,310**
Total comprehensive income		**95,317**		**127,568**
Comprehensive income attributable to:				
Shareholder of the parent		95,317		127,568
Total comprehensive income		**95,317**		**127,568**

Consolidated statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of changes in equity (2021)

	Share capital	Share premium	Reserves	Total equity
Equity - 1 January 2021	**10,000**	**481,000**	**644,710**	**1,135,710**
Unrealised revaluations investment securities at fair value through other comprehensive income	0	0	-5,205	-5,205
Realised gains or losses transferred to the statement of profit or loss	0	0	-1,245	-1,245
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-6,450**	**-6,450**
Net result	0	0	101,767	101,767
Total comprehensive income	**0**	**0**	**95,317**	**95,317**
Dividend paid	0	0	-136,466	-136,466
Change in employee share plans	0	0	78	78
Equity - 31 December 2021	**10,000**	**481,000**	**603,639**	**1,094,639**

Consolidated statement of changes in equity (2020)

	Share capital	Share premium	Reserves	Total equity
Equity - 1 January 2020	**10,000**	**481,000**	**517,073**	**1,008,073**
Unrealised revaluations investment securities at fair value through other comprehensive income	0	0	10,721	10,721
Realised gains or losses transferred to the statement of profit or loss	0	0	-8,411	-8,411
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**2,310**	**2,310**
Net result	0	0	125,258	125,258
Total comprehensive income	**0**	**0**	**127,568**	**127,568**
Dividend paid	0	0	0	0
Change in employee share plans	0	0	69	69
Equity - 31 December 2020	**10,000**	**481,000**	**644,710**	**1,135,710**

Consolidated statement of cash flows

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of cash flows

	notes	2021	2020
Result before tax		136,153	169,299
Adjusted for:			
– amortisation and disposals of intangible assets	7	7,570	2,051
– amortisation of mortgage premium	6	39,593	39,586
– amortisation premium investment securities	5	10,791	20,680
– modifications	6	-1,985	-3,399
– net impairment charges on financial instruments		-9,693	3,511
– net addition to provisions	14	22,713	6,284
– fair value change on hedged items	6	364,745	-292,917
– increase (decrease) deferred tax	25	-1,242	-3,939
– change in employee share plans	17	78	69
Taxation paid		-41,885	-51,924
Changes in:			
– amounts due to banks	9	-438,583	124,530
– non-trading derivatives	4/11	-111,442	-166,244
– loans	6	-461,601	-2,099,326
– sale of mortgages	6	0	1,135,220
– other assets	8	-21,987	-6,915
– customer deposits and other funds on deposit	10	161,412	663,813
– other liabilities	13	-179,617	23,333
Net cash flow from operating activities		**-524,980**	**-436,288**
Investments and advances:			
– investment securities	5	-772,165	-688,613
– intangible assets	7	-6,571	-13,057
Disposals and redemptions:			
– investment securities	5	414,605	1,765,364
Net cash flow from investing activities		**-364,131**	**1,063,694**
Proceeds from issuance of subordinated debt	16	0	30,000
Repayments of subordinated debt	16	0	-30,000
Proceeds from issuance of debt securities	15	997,272	1,256,609
Repayments of debt securities	15	-765,671	-1,181,189
Proceeds from other borrowed funds	12	150,000	672,000
Repayments of other borrowed funds	12	-772,000	-685,000
Dividend paid	17	-136,466	0
Net cash flow from financing activities		**-526,865**	**62,420**
Net cash flow		**-1,415,976**	**689,826**

Interest included in net cash flow from operating activities

	2021	2020
Interest received	580,331	608,369
Interest paid	-385,581	-337,102
Interest received and paid	**194,750**	**271,267**

Cash and cash equivalents

	2021	2020
Cash and cash equivalents at beginning of the period	3,008,723	2,318,897
Net cash flow	-1,415,976	689,826
Cash and cash equivalents at end of the period	**1,592,747**	**3,008,723**

	2021	2020
Cash and balances at central banks	1,324,778	2,585,528
Amounts due from banks	267,969	423,195
Cash and cash equivalents at end of the period	**1,592,747**	**3,008,723**

Notes to the Consolidated annual accounts

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

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., Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life), Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Non-life), NN Insurance Belgium N.V. (NN Belgium), the NN Dutch Residential Mortgage Fund and other entities.

1 Accounting policies

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

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

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

NN Bank has refined its application of effective interest regarding a change in the interest rate of the client during the fixed interest period (interest mediation). The gross carrying amount is adjusted reflecting a revised estimate of receipts of cashflows in the original effective interest calculation including a receivable based on the estimated future penalty cash flows. This refinement is treated as a change in an accounting estimate and prospectively applied as of 2021 with an impact of EUR 1.9 million on the 2021 result.

The presentation of, and certain terms used in, the Consolidated statement of financial position, Consolidated statement of profit or loss, 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

There are no upcoming changes in IFRS-EU that were issued by the IASB, are effective after 2021 and are material to NN Bank.

Changes in accounting policies

Except as described below, no changes to IFRS-EU became effective that had any impact on the NN Bank annual accounts.

Restatement of prior year figures

As part of the transition to settled-to-market, NN Bank presents the non-trading derivatives position including accrued interest on a net basis as of 2021, from a gross basis (excluding accrued interest) in 2020. Consequently, the prior period presentation has been adjusted for 'Other liabilities' (decrease EUR 34.9 million), 'Financial assets FVTPL' (decrease EUR 32.8 million) and 'Financial liabilities FVTPL' (increase EUR 2.1 million). There is no impact on the Bank's equity and net result for the year ended 31 December 2020.

Additional amendments to IAS 39, IFRS 9 and IFRS 7

Additional amendments to IAS 39, IFRS 9 and IFRS 7 in relation to the interest rate benchmark reform are effective as of 1 January 2021. The implementation of these amendments as at 1 January 2021 did not have a significant impact on Shareholder's equity at that date, and did not impact NN Bank's net result.

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 impairments, the determination of the fair value of financial assets and liabilities and the Covid-19 pandemic. 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 could produce significantly different results. All valuation techniques used are subject to internal review and approval. For further details on 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.

Notes to the Consolidated annual accounts Continued

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 at balance sheet date 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 increase in credit risk. For further details on the accounting policy pertaining to this estimate, reference is made to 'General accounting policies' under the heading 'Impairment'.

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. For further details on the accounting policy pertaining to this estimate, reference is made to 'General accounting policies' under the heading 'Fair value of financial assets and liabilities'.

Covid-19 pandemic

Since early 2020, the Covid-19 pandemic has been causing significant disruption to society and the global economy, impacting NN Bank, its employees, its customers and its suppliers. Financial markets have been severely impacted by significant volatility in interest rates, equity prices and spreads. Governments and central banks worldwide are responding to this crisis with aid packages and further supportive measures. At the date of this report, the depth and length of this crisis is unknown. NN Bank is constantly monitoring the developments and the (potential) impact on the Bank. The most significant risks that NN Bank is facing in this context are related to funding risk in the wholesale funding markets (including interest rates, inflation and spreads), credit risk in the retail mortgage and consumer lending market and operational risk (continuity of business processes). The Notes to the Consolidated annual accounts include extensive disclosure on the exposure to such risks and the risk management thereof. In order to mitigate these risks, NN Bank issued Soft Bullet Covered Bonds and has a retained RMBS, Hypenn VII, which can be used as collateral for ECB funding and/or alternative secured funding transactions. 'Payment holidays' (postponement of interest and/or principal payments) are being offered on an individual basis to retail borrowers who face temporary payment difficulties with regard to their mortgage loans or consumer loans. The number of cases is limited and the financial impact for NN Bank is not significant. NN Bank has put into operation a business continuity plan to help ensure the continuity of its businesses, the well-being of its staff and its ability to support its customers, whilst maintaining financial and operational resilience. In 2021, the Covid-19 pandemic continued, but the impact on NN Bank's financial reporting in 2021 was limited. The preparation of the Consolidated annual accounts requires management to make judgements, estimates and assumptions that impact the application of the accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Due to the Covid-19 pandemic, the assumptions in expected credit losses on loans, e.g. macro-economic scenarios, were updated to reflect the credit risk impact. Reference is made to Note 6 'Loans'. Management has assessed that the Covid-19 pandemic has no impact on other judgements, estimates and assumptions.

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.

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 Programmes. 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.

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 in its role of managing mortgage assets.

The net result of the operations and the net assets of subsidiaries are included in the statement of profit or loss and the statement of financial position 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'.

Notes to the Consolidated annual accounts Continued

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 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.

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.

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 First In First Out [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. Financial assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any impairment losses. Transaction costs (including qualifying fees and commissions) are part of the amortised cost. Subsequent measurement of financial assets depends on the classification, driven by cash flow characteristics and the business model in which an asset is held. 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).

A financial asset is measured at amortised cost only if both of the following conditions are met:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows
- The contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any impairment losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

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 (FVOCI)', since the objectives are both 'hold-to-collect' and selling investment securities.

Mortgage loans sold to NN Dutch Residential Mortgage Fund and other NN entities are in the Selling business model, and the measurement is FVTPL.

Financial liabilities are initially recognised at fair value incurred and are subsequently measured at amortised cost. Any difference between the proceeds (transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the financial liability using the effective interest method.

Impairment

Measurement of expected credit losses

The recognition and measurement of impairments under IFRS 9 is forward-looking. The IFRS 9 impairment requirements apply to all financial assets measured at amortised cost and at fair value through 'Other comprehensive income' (Equity). Initially, a provision is required for credit losses 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 reporting date, but the exposure is not in default, the exposure is in 'Stage 2'. If the exposure is in default, this is referred to as 'Stage 3'. For both 'Stage 2' and 'Stage 3', a provision is required for expected credit losses over the remaining lifetime of the financial asset.

The lifetime expected credit losses are calculated based on different macro-economic scenarios (up, neutral, down) with individual weights for the probability that these scenarios will occur. The recurrence of lockdowns across different countries in Europe following the emergence of new variants of the Covid-19 virus remains a concern. Due to this uncertainty, the weights of the macro-economic scenarios were updated with a higher weight for the downturn scenario (up from 10% to 40%), while the neutral decreases from 80% to 50%. The up scenario remains at 10% in line with previous years.

Notes to the Consolidated annual accounts Continued

Inputs into measurement of expected credit losses
NN Bank uses the following components to calculate the expected credit losses:

- 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.

Definition of default
Per 1 January 2021, the new guidelines on the definition of default (European Banking Authority (EBA) GL/2016/07) became effective. The new definition of default was effective for expected credit losses calculation and stage classification at year-end 2020. The new definition of default is applied as of 1 January 2021 in the delinquency bucketing and forbearance classification.

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 refer to 'Non-performing exposures' (NPE). In order to align definitions, NN Bank has implemented these three definitions in exactly the same way. In line with the new regulations, a client at NN Bank is credit-impaired, non-performing and in default if:

- The client is more than 90 days past due, or
- The client was in default the previous month, and the minimum holding period (MHP) is active, or
- The client is deemed to be unlikely to pay

As of 2021, NN Bank's definition of unlikely to pay has been adjusted following ECB guidance. Under the old definition a second forbearance measure resulted in the unlikely to pay status. With the new definition a second forbearance measures only results in the unlikely to pay status when the first measure also resulted in the unlikely to pay status.

The Days Past Due (DPD) counter is based upon the EBA 'Regulatory Technical Standards on the materiality threshold for credit obligations past due under Article 178 of Regulation (EU) No 575/2013' as well as the EBA Q&A. The DPD counter is based on the number of days between the reporting period and the date the arrears amount breached the threshold.

The conclusion of NN Bank is that DPD is calculated differently for two purposes:

- For the default classification, the Days Past Due counter starts counting when the arrears amount is greater than or equal to EUR 100 and the arrears amount is greater than 1% of the carrying value
- For all other purposes, the Days Past Due counter starts on the first day after any amount has not been paid that is greater than or equal to EUR 100

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. The calculation of the amount past due includes missed payments on secondary collateral, such as pledged savings or insurance policies.

The main criterion for lifting the default status will be that no arrears greater than EUR 250 occurred during the MHP. For defaulted clients that are classified as 'distressed restructuring', the MHP is 12 months. For all other defaulted clients, the MHP is 3 months.

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 statement of profit or loss. 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:

Notes to the Consolidated annual accounts Continued

- 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 50% and an absolute threshold of 7.5 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. For consumer lending, no forbearance measures are currently in place, with the exception of the Covid-related payment holiday.

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 ECL 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 forecast is used to estimate the future development of PD and LGD. The following macro-economic time series are taken into consideration:

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

Unemployment rate

The unemployment rate is defined as the unemployed labour force as a percentage of the total labour force. NN Bank has chosen to follow 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 housing price index is based on the house price index of existing homes. The house price index of existing homes is based on the Dutch Land Registry Office's (Kadaster) registration of sales of homes in the Netherlands. The house price index is corrected for various characteristics of the homes, such as size and location.

Consumer lending

NN Bank's consumer lending includes the following product types:

- 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) or lower as a result of the increasing house prices. 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 lending. Unemployment rate has been used to project PDs, and GDP has been used to project LGDs. The relationship between the macro-economic factors and PD respectively 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 ECL for its investments in bonds, securitisations and other similar publicly traded securities. 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 ECLs 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 ECL is calculated for assets in the non-retail portfolio.

Loan loss provisions do not apply to derivatives. The rationale is that all interest rate swaps are cleared through a Qualified Central Clearing Party, through two separate clearing brokers. In addition, the total credit risk exposure has regulatory risk weight of 2%. Hence, the risk on this exposure is deemed to be very low. The calculations for the credit risk exposure have changed as a result of the new Credit Risk Regulation (CRR II) coming into effect as of June 2021. This new regulation resulted in a lower credit risk exposure as it takes over-collateralisation into account leading to initial margins posted no longer being considered as exposure.

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 related 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 and presented in the line item 'Service management fee' under 'Net fee and commission income'.

Revenue related to origination of mortgage loans is recognised as soon as the origination of mortgage loans has been completed. The criteria for over time recognition are not met. The origination fees are presented in the line item 'Brokerage and advisory fees' under 'Net fee and commission income'.

In certain contracts, NN Bank is allocates the agreed transaction price to origination and servicing as performance obligations. In line with the Bank's allocation objectives, subsequent changes in the transaction price following behaviour in the underlying portfolio are assigned to servicing fees and recognised as 'Service management fee' or as a reduction of this fee.

Certain contracts regarding origination of mortgages contain a significant financing component, since the payment of the origination fee is done over the lifetime of mortgages, even though the performance obligation is satisfied at a point in time. The fee is split into a consideration for the origination service and a consideration for the financing service. In the statement of profit or loss, 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 when mortgages are sold leading to the situation that mortgage and savings are at different parties. 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.

Notes to the Consolidated annual accounts Continued

Offsetting of financial assets and financial liabilities
Financial assets and liabilities with the same party are offset, and the net amount is reported in the statement of financial position, 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 assets and liabilities are 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. 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. When an exchange price is not available, market prices may be obtained from external 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 the basis of determination of the fair value of financial assets and liabilities.

Maximum credit risk exposure
The maximum credit risk exposure for items in the statement of financial position 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 statement of financial position 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'.

Leases
The accounting model for lessees is not applicable, since NN Bank has no significant contracts with group companies and external parties that qualify for lease accounting.

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 statement of profit or loss, 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 statement of financial position. 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 together with the intention to do so and the deferred taxes relate to income taxes levied by the same taxation authority on the same entity or on the same fiscal unity.

Notes to the Consolidated annual accounts Continued

Employee benefits

Defined contribution pension plans

For defined contribution plans, NN Bank pays contributions to the NN CDC Pensioenfonds 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 statement of profit or loss when they are due.

Share-based payments

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

Interest income and expenses

Interest income and expenses are recognised in the statement of profit or loss 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. Interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the statement of profit or loss, except for interest income and expenses on derivatives for which no hedge accounting is applied. The latter is classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these 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 statement of profit or loss, and changes in items in the statement of financial position, 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 statement of financial position, 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 statement of profit or loss 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 statement of profit or loss. NN Bank has designated derivatives as fair value hedge accounting on the interest rate risk inherent in its mortgage portfolio (macro hedge), as well as on the interest rate risk related to debt securities issued (micro hedge). Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

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

Notes to the Consolidated annual accounts Continued

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 macro 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 statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest-bearing instruments, amortised through the statement of profit or loss 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 statement of profit or loss.

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.

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 statement of profit or loss using the effective interest method.

NN Bank has refined its application of effective interest regarding extension of fixed interest tenors prior to the end of the current interest period (interest rate averaging). A receivable under 'Loans' based on the change in net present value of the contract is now accrued at the time of change of interest tenor. This refinement is treated as a change in an accounting estimate and prospectively applied as of 2021.

Intangible assets (Note 7)
Intangible assets consist mainly 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'.

At each reporting period, NN Bank assesses whether there is an indication that an intangible asset may be impaired. Irrespective of whether there is an indication of impairment, intangible assets with an indefinite useful life and intangible assets not yet available for use are tested annually for impairment. This is done by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset. Impairment, if applicable, is included in the statement of profit or loss under 'Other operating expenses'.

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 statement of profit or loss using the effective interest method.

Other borrowed funds, debt securities issued and subordinated debt (Notes 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 statement of profit or loss 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.

Notes to the Consolidated annual accounts Continued

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

	2021	2020
Amounts held at central banks	1,324,778	2,585,528
Cash and balances at central banks	**1,324,778**	**2,585,528**

'Amounts held at central banks' reflects the demand balances. 'Amounts held at central banks' includes a mandatory reserve deposit of EUR 85.1 million (2020: EUR 87.1 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

	2021	2020
Bank balances	63,395	87,275
Collateral posted	204,574	335,920
Amounts due from banks	**267,969**	**423,195**

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

'Collateral posted' concerns posted collateral regarding centrally cleared swaps. The decrease in 'Collateral posted' from EUR 335.9 million to EUR 204.6 million includes a partial settlement as a result of the fact that during 2021, NN Bank converted its centrally cleared interest rate derivative contracts with one clearing member from collateralised-to-market (CTM) to settled-to-market (STM). The impact of this conversion to STM amounts to EUR 113.5 million. 'Collateral posted' is not freely disposable.

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2021	2020
Derivatives held for fair value hedge accounting[1]	0	1,409
Balanced guaranteed swaps	8,353	21,916
Other non-trading derivatives	0	1,892
Non-trading derivatives	**8,353**	**25,217**

For further clarification on 'Derivatives held for 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'.

5 Investment securities

Investment securities by type 31 December 2021

	AC[1]	FVOCI[2]	2021
Government bonds	207,242	205,174	412,416
Covered bonds	0	753,513	753,513
Corporate bonds	1,947	14,037	15,984
Financial institution bonds	61,993	0	61,993
Asset backed securities	27,612	0	27,612
Investment securities - before loss provisions	**298,794**	**972,724**	**1,271,518**
Investment securities loss provisions	-46	-40	-86
Investment securities - after loss provisions	**298,748**	**972,684**	**1,271,432**

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 2020

	AC	FVOCI	2020
Government bonds	225,299	0	225,299
Covered bonds	0	603,358	603,358
Corporate bonds	2,450	0	2,450
Financial institution bonds	62,046	12,654	74,700
Asset backed securities	27,611	0	27,611
Investment securities - before loss provisions	**317,406**	**616,012**	**933,418**
Investment securities loss provisions	-48	-36	-84
Investment securities - after loss provisions	**317,358**	**615,976**	**933,334**

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

Changes in investment securities

	2021	2020
Investment securities – opening balance	933,418	2,027,803
Additions	772,165	688,613
Amortisation	-10,791	-20,680
Changes in unrealised revaluations	-8,669	3,046
Disposals and redemptions	-414,605	-1,765,364
Investment securities – closing balance	**1,271,518**	**933,418**

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 2021

	AC	FVTPL[1]	2021
Loans secured by mortgages, guaranteed by public authorities	5,382,377	0	5,382,377
Loans secured by mortgages[2]	15,322,073	0	15,322,073
Consumer lending	104,341	0	104,341
Other loans	152,583	0	152,583
Group companies	277,079	0	277,079
Loans – before loan loss provisions	**21,238,453**	**0**	**21,238,453**
Loan loss provisions	-10,895	0	-10,895
Loans	**21,227,558**	**0**	**21,227,558**

1 FVTPL = Fair Value through Profit and Loss
2 Including Purchased or Originated Credit-Impaired loans

Loans by type 31 December 2020

	AC	FVTPL	2020
Loans secured by mortgages, guaranteed by public authorities	5,620,012	496	5,620,508
Loans secured by mortgages[1]	14,931,859	3,151	14,935,010
Consumer lending	136,620	0	136,620
Other loans	306,749	0	306,749
Group companies	281,773	0	281,773
Loans – before loan loss provisions	**21,277,013**	**3,647**	**21,280,660**
Loan loss provisions	-25,264	0	-25,264
Loans	**21,251,749**	**3,647**	**21,255,396**

1 Including Purchased or Originated Credit-Impaired loans

'Other loans' relates to a short-term receivable from NN Dutch Residential Mortgage Fund for mortgages sold, but not yet transferred.

'Group companies' relates to a receivable, following arrangements to transfer mortgage parts in a current account for the former Delta Lloyd Bank portfolio.

Notes to the Consolidated annual accounts Continued

Loans by stage 31 December 2021

	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit-Impaired	No allocated stage[1]	2021
Loans - before loan loss provisions	19,931,845	614,481	103,383	31,483	557,261	21,238,453
Loan loss provisions	-1,482	-1,846	-7,322	-245	0	-10,895
Loans - after loan loss provisions	**19,930,363**	**612,635**	**96,061**	**31,238**	**557,261**	**21,227,558**

1 'No allocated stage' relates mainly to mortgage premium and fair value changes of hedged items.

Loans by stage 31 December 2020

	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit-Impaired	No allocated stage[1]	2020
Loans - before loan loss provisions	19,531,229	331,844	263,124	35,783	1,118,680	21,280,660
Loan loss provisions	-2,313	-3,092	-19,279	-580	0	-25,264
Loans - after loan loss provisions	**19,528,916**	**328,752**	**243,845**	**35,203**	**1,118,680**	**21,255,396**

1 'No allocated stage' relates mainly to mortgage premium and fair value changes of hedged items.

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 or Originated Credit-Impaired	No allocated stage[1]	2021	2020
Loans – opening balance	19,531,229	331,844	263,124	35,783	1,118,680	21,280,660	20,024,534
Mortgage portfolio transfer	223,386	8,651	5,905	1,102	0	239,044	437,329
Partial transfer of mortgage loans	20,403	7,934	-3,435	0	0	24,902	13,895
Origination	2,942,604	64,777	5,470	0	0	3,012,.851	4,395,099
Sale of mortgages	0	0	0	0	0	0	-1,135,220
Premium new mortgages	0	0	0	0	14,056	14,056	20,517
Amortisation mortgage premium	0	0	0	243	-39,836	-39,593	-39,586
Fair value change hedged items	0	0	0	0	-461,527	-461,527	327,459
Other changes[2]	-163,448	187,611	2,749	317	-76,097	-48,868	30,204
Modifications[3]	0	0	0	0	1,985	1,985	3,399
Redemptions	-2,462,623	-254,302	-54,899	-5,962	0	-2,777,786	-2,774,770
Transfers to[4]:							
– Stage 1	0	-93,068	-11,065	0	0	-104,133	-167,997
– Stage 2	-247,081	0	-136,333	0	0	-383,414	-196,644
– Stage 3	-21,102	-12,476	0	0	0	-33,578	-201,041
Transfers from[4]:							
– Stage 1	0	238,899	19,986	0	0	258,885	325,260
– Stage 2	98,316	0	11,881	0	0	110,197	197,015
– Stage 3	10,161	134,611	0	0	0	144,772	21,205
Loans – closing balance	**19,931,845**	**614,481**	**103,383**	**31,483**	**557,261**	**21,238,453**	**21,280,660**

1 'No allocated stage' relates mainly to mortgage premium and fair value changes of hedged items.
2 'Other changes' mainly reflects the differences that result from 'Transfers to' / 'Transfer from', which are based on year to date (YtD) and other movements which are based on month to date (MtD). The transfers are based on the YtD methodology to avoid double counting movements where a loan can change stages multiple times a year. Additionally, it reflects changes in the drawn amounts of the construction deposits, and changes in 'Other loans'.
3 'Modifications' relates to the 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.
4 '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. Differences between 'Transfers to' and 'Transfers from' arise due to changes in balance amount between the moment of outflow and inflow.

In 2021, the mortgage portfolio transfer from ING Bank amounted to EUR 229 million and is presented under 'Mortgage portfolio transfer'. As at 31 December 2021, both parties had already determined to transfer EUR 24 million in mortgage loans for the first four months of 2022. As settlement date accounting is applied, these mortgages are not recognised in the statement of financial position as at 31 December 2021.

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 Programmes. These mortgage loans continue to be recognised on NN Bank's statement of financial position, 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'.

Notes to the Consolidated annual accounts Continued

In 2021, there were no 'Sales of mortgages'. All originations for other entities in 2021 are originations via production bridges. Reference is made to Note 20 'Net fee and commission income'.

In 2021, the percentage of the total loans to customers in Stage 3 decreased from 1.3% (EUR 263 million) to 0.5% (EUR 103 million) at the end of 2021.This was a result of low unemployment rates and further refinements to the default policy following ECB guidance on the definition of default (reference is made to page 48 on the definition of default). The new definition of default also led to an increase in Stage 2 from 1.6% to 2.9% at the end of 2021 (EUR 613 million), due to more clients being flagged as forborne as a result of the additional forbearance triggers and the extended probation period in which a client is flagged as forborne.

Purchased or Originated Credit-Impaired loans (POCI)

	2021	2020
POCI - opening balance	35,783	34,594
Mortgage portfolio transfer	1,102	3,984
Amortisation value adjustment	243	723
Redemptions	-5,962	-3,490
Unfavourable changes in credit quality	-465	-547
Favourable changes in credit quality	782	519
POCI - closing balance	**31,483**	**35,783**

'Purchased or Originated 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 statement of profit or loss.

Loan loss provisions by type

	2021	2020
Loans secured by mortgages	4,413	13,783
Consumer lending	6,482	11,481
Loan loss provisions by type	**10,895**	**25,264**

In 2021, the loan loss provisions decreased by EUR 14.4 million to EUR 10.9 million. For mortgages, the decrease in provisions was mainly driven by a sharp housing price increase in 2021 (17.5%) and a decrease in Stage 3 loans due to low unemployment and an update in the default policy following ECB guidance on the definition of default. For consumer loans, the provisions decreased by EUR 5.0 million due to a one-time, high write-off that resulted in a release of provisions of EUR 3.7 million. The remainder of the decrease is explained by a decrease in the size of the portfolio.

Covid-19
After an internal review, individual borrowers who face temporary payment difficulties on their mortgage loans are offered a 'payment holiday' for interest and principal payments for a maximum period of six months. The treatment of these payment holidays is in line with the impairment policies. The Bank has assessed that offering such payment holidays, taking into account the initial assessment conducted before the payment holiday is granted, qualifies as a Significant Increase in Credit Risk (SICR) under IFRS. Consequently, clients who are offered a payment holiday are classified in Stage 2. The number of new payment holidays offered in 2021 in relation to the mortgage portfolio is limited to 82, raising the total number to 591 since the start of the pandemic (of which 495 clients continue to have an outstanding mortgage, compared to 509 at the end of 2020). The loans that received a payment holiday represent around 0.7% of the total mortgage loans outstanding. At the end of 2021, 92% of these customers had recovered, 5% of those granted a payment holiday continue to have one, and 2% show structural payment problems for which the NN Bank Arrears Management Policy applies.

Macro-economic scenarios
Furthermore, NN Bank has updated its macro-economic scenarios. The assumptions on future macro-economic variables such as GDP, unemployment and housing prices are used as input in the calculation of the expected credit losses under IFRS 9, where it is required to use forward-looking information. Various institutions published adjusted economic outlooks and scenarios, which include the possible impacts of the Covid-19 pandemic on the economy. The Bank has taken into account the most recent scenarios as published by the CPB, DNB and other institutions. The recurrence of lockdowns across different countries in Europe following the emergence of new variants of the Covid-19 virus remains a concern. Due to this uncertainty, the weights of the macro-economic scenarios were updated with a higher weight for the downturn scenario (up from 10% to 40%). The scenario weights are assigned as follows (neutral scenario 50%, upside 10%, downside 40%). These assumptions will be assessed on a continuing basis and adjusted if necessary, based on the further developments of Covid-19 and other macro-economic developments. To provide an indication of the expected credit losses' sensitivity to the macro-economic environment, the table also shows the impact on mortgages and consumer lending ECL of applying a 100% weighting to each scenario.

In 2021, the Dutch economy bounced back from the initial impact of the Covid-19 pandemic. In the neutral scenario, NN Bank expects the economy to grow by 3.6% in 2022. In later years, NN Bank expects lower growth. The unemployment rate is expected to increase to 4.0% in 2022 in the neutral scenario. Despite the crisis, housing prices still increased in 2021, mainly due to low supply. As this will not change in the coming years, NN Bank expects housing prices to increase by 5.3% in the neutral scenario. In the years afterwards, NN Bank expects prices to increase at a lower rate.

Notes to the Consolidated annual accounts Continued

Scenario	Weighting	Macro-economic variable	2022	2023	2024	Long Term Rate	Unweighted ECL	Weighted ECL
		Unemployment	2.9%	2.0%	3.1%			
Up	10%	Housing Price index growth	17.2%	22.6%	12.2%		8,043	
		GDP growth	4.9%	7.5%	4.7%			
		Unemployment	4.0%	4.1%	4.1%	4.1%		
Neutral	50%	Housing Price index growth	5.3%	2.6%	1.9%	1.9%	9,064	10,895
		GDP growth	3.6%	1.9%	1.9%	1.9%		
		Unemployment	4.2%	5.1%	4.6%			
Down	40%	Housing Price index growth	5.3%	0.9%	1.4%		13,901	
		GDP growth	1.7%	-1.0%	0.4%			

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 or Originated Credit-Impaired	2021	2020
Loan loss provisions – opening balance	1,652	2,196	9,355	580	13,783	8,658
Addition (release from) to the loan loss provisions	-454	-1,110	-1,069	-335	-2,968	-950
Changes in models and methodologies	0	0	0	0	0	-411
Transfers to[1]:						
– Stage 1	0	-416	-475		-891	-1,134
– Stage 2	-43	0	-6,587		-6,630	-1,103
– Stage 3	-7	-113	0		-120	-350
Transfers from[1]:						
– Stage 1	0	170	305		475	6,841
– Stage 2	5	0	385		390	2,126
– Stage 3	1	373	0		374	106
Loan loss provisions – closing balance	**1,154**	**1,100**	**1,914**	**245**	**4,413**	**13,783**
Write-offs	0	0	860	0	860	719
Recoveries	0	0	-859	0	-859	-901

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. Differences between 'Transfers to' and 'Transfers from' arise because the provision changes as a result of the change in stage.

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	2021	2020
Loan loss provisions – opening balance	661	896	9,924	11,481	11,954
Addition (release from) to the loan loss provisions	-212	-344	-4,317	-4,873	-1,438
Changes in models and methodologies	31	112	-757	-614	-495
Transfers to[1]:					
– Stage 1	0	-167	-383	-550	-855
– Stage 2	-108	0	-397	-505	-99
– Stage 3	-52	-286	0	-338	-473
Transfers from[1]:					
– Stage 1	0	458	753	1,211	1,686
– Stage 2	5	0	585	590	1,166
– Stage 3	3	77	0	80	35
Loan loss provisions – closing balance	**328**	**746**	**5,408**	**6,482**	**11,481**
Write-offs	0	0	6,376	6,376	1,115
Recoveries	0	0	-1,426	-1,426	-1,280

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. Differences between 'Transfers to' and 'Transfers from' arise because the provision changes as a result of the change in stage.

In 2021, the loan loss provisions for mortgages decreased by EUR 9.4 million to EUR 4.4 million mainly due to a sharp housing price increase (17.5%). The provisions decreased further due to the limited impact of Covid-19 pandemic, low unemployment, and an update in the default policy following ECB guidance on the definition of default.

For consumer loans, the provisions decreased by EUR 5.0 million to EUR 6.5 million, mainly due to a one-time high, write-off that resulted in a release of provisions of EUR 3.7 million. The remainder of the decrease in provisions is explained by a decrease in the size of the portfolio and a slight improvement of the credit quality of the portfolio due to the limited impact of Covid-19 pandemic.

Notes to the Consolidated annual accounts Continued

The recurrence of lockdowns across different countries in Europe following the emergence of new variants of the Covid-19 virus remains a concern. Due to this uncertainty, the weights of the macro-economic scenarios were updated with a higher weight for the downturn scenario (up from 10% to 40%) which results in an increase in the provisions of EUR 1.8 million.

Write-offs minus reversals for mortgages were minimal (EUR 0.0 million) due to low unemployment and a strong housing price increase in 2021. For consumer lending, the write-offs minus reversals were high (EUR 5.0 million) due to one-time write-off of protracted defaulted loans (EUR 5.6 million).

7 Intangible assets

Intangible assets

	2021	2020
Intangibles	**23,690**	**24,689**

	2021	2020
Intangibles – opening balance	24,689	13,683
Additions	6,571	13,057
Amortisation	-2,284	-2,051
Disposals	-5,286	0
Intangibles – closing balance	**23,690**	**24,689**
Gross carrying value	33,133	33,349
Accumulated amortisation	-9,443	-8,660
Net carrying value	**23,690**	**24,689**

‘Additions to the intangible assets relate to renewal and expansion of our core banking platform and to strategic initiatives. A change in preferred operating model in a strategic initiative has led to disposal of a part of the intended configuration and related derecognition of EUR 5.3 million intangible assets in progress. Part of the gross carrying value relates to projects in progress (EUR 16.8 million). The amortisation period is generally five years from the date of full implementation of the new systems.

8 Other assets

Other assets

	2021	2020
Accrued interest mortgages	41,690	45,137
Accrued interest other	6,202	9,617
Current account NN Insurance Eurasia N.V.	72,682	54,547
Current account other group companies	2,589	11,698
Debtors	114,770	94,041
Other	1,745	2,651
Total other assets	**239,678**	**217,691**

‘Current account NN Insurance Eurasia N.V.’ is mainly used for daily settlement of mortgage flows and expenses.

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 issued, including accrued interest with banks.

Amounts due to banks by type

	2021	2020
Interest-bearing	0	437,984
Collateral received	0	599
Amounts due to banks	**0**	**438,583**

The decrease in ‘Amounts due to banks (interest-bearing)’ of EUR 438 million relates to repayments of loans with third parties. Part of this decrease is the early repayment of the participation in Targeted Longer-Term Refinancing Operations (TLTRO III)’, taking into account the decreasing eligible portfolio of consumer credit to households.

As at 31 December 2021, NN Bank had unused bank lines of credit available of EUR 137 million (31 December 2020: EUR 143 million).

Notes to the Consolidated annual accounts Continued

10 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by type

	2021	2020
Savings	7,357,477	7,269,894
Bank annuities	6,838,588	6,796,334
Bank annuities related to mortgages	1,581,230	1,541,276
Corporate deposits	3,500	3,500
Group companies	123,352	131,731
Customer deposits and other funds on deposit	**15,904,147**	**15,742,735**

'Group companies' relates to a payable, following arrangements to transfer mortgage parts in a current account 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

	2021	2020
Customer deposits and other funds on deposit – opening balance	15,742,735	15,078,921
Deposits received	4,848,716	4,276,806
Withdrawals	-4,687,304	-3,612,992
Customer deposits and other funds on deposit – closing balance	**15,904,147**	**15,742,735**

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

	2021	2020
Derivatives held for fair value hedge accounting[1]	4,218	116,648
Balanced guaranteed swaps	8,353	21,916
Other non-trading derivatives	0	2,313
Non-trading derivatives	**12,571**	**140,877**

The decrease in 'Derivatives held for fair value hedge accounting' from EUR 116.6 million to EUR 4.2 million includes a partial settlement as a result of the fact that during 2021, NN Bank converted its centrally cleared interest rate derivative contracts with clearing members from collateralised-to-market (CTM) to settled-to-market (STM). The impact of this conversion to STM amounts to EUR 61.7 million.

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

12 Other borrowed funds

Other borrowed funds

	2021	2020
NN Group	438,000	790,000
Other borrowed funds	200,000	470,000
Other borrowed funds	**638,000**	**1,260,000**

	2021	2020
Other borrowed funds – opening balance	1,260,000	1,273,000
Issuances	150,000	672,000
Redemption	-772,000	-685,000
Other borrowed funds – closing balance	**638,000**	**1,260,000**

In 2021, new loans amounting to EUR 150 million were contracted with third parties, while EUR 420 million was repaid, resulting in a decrease in 'Other borrowed funds' to EUR 200 million (2020: EUR 470 million).

NN Group provided a revolving credit facility commitment to NN Bank up to an amount of EUR 250 million (2020: EUR 250 million). The credit facility was fully undrawn in 2020 and 2021. In addition, NN Group provided a Central Clearing Borrowing Facility up to an amount of EUR 1,300 million (2020: EUR 1,300 million) for the funding of variation margin calls regarding centrally cleared interest rate derivatives contracts. NN Bank has to repay drawn amounts under this facility when the Euro Swap Rate exceeds a certain limit.

The drawdown under the Central Clearing Borrowing Facility provided by NN Group decreased to EUR 438 million (2020: EUR 790 million), due higher interest rates with consequently lower variation margin obligations.

On 31 December 2021, EUR 1,112 million of the Central Clearing Borrowing Facility was not drawn by NN Bank (2020: EUR 760 million).

Notes to the Consolidated annual accounts Continued

13 Other liabilities

Other liabilities

	2021	2020
Income tax payable	3,997	11,496
Other taxation and social security contributions	14,255	14,534
Accrued interest non-trading derivatives[1]	1,030	8,080
Accrued interest other	17,047	15,473
Current account other group companies	17,835	188,477
Costs payable	12,896	14,548
Other	8,946	7,159
Other liabilities	**76,006**	**259,767**

'Accrued interest other' mainly relates to accrued interest regarding other borrowed funds and debt securities issued.

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

14 Provisions

Provisions

	2021	2020
Interest compensation consumer credit provision	22,904	0
Restructuring provisions	2,827	6,375
Other provisions	30	27
Provisions	**25,761**	**6,402**

Changes in provisions

	Interest compensation consumer credit provision		Restructuring provisions		Other provisions	
	2021	2020	2021	2020	2021	2020
Provisions - opening balance	0	0	6,375	4,505	27	1,200
Additions	22,904	0	1,716	7,455	90	102
Releases	0	0	-1,910	-1,224	-87	-48
Charges	0	0	-3,354	-4,247	0	-27
Other	0	0	0	-114	0	-1,200
Provisions - closing balance	**22,904**	**0**	**2,827**	**6,375**	**30**	**27**

'Provision interest compensation consumer credit' is recognised for a compensation scheme regarding revolving consumer credit with a floating interest rate. In previous years, Kifid ruled that a number of banks did not sufficiently move in line with market rates when calculating the floating rate on revolving consumer credits. An NN Bank analysis revealed that certain clients, including clients from OHRA Bank and former Delta Lloyd Bank, have paid too much interest when applying the concepts underlying the Kifid rulings. NN Bank is going to compensate clients for too much charged interest. This compensation will apply to current clients and former clients. The details for the compensation scheme are expected to be published in the second half of 2022. A provision amounting to EUR 22.9 million was created for this compensation scheme. In the statement of profit or loss, an amount of EUR 17.4 million was recorded in net interest income (client compensation) and EUR 5.5 million in other expenses (handling costs).

'Restructuring provisions' are recognised for expected future redundancy costs, mainly as result of a reorganisation within NN Bank's internal account management department. The releases mainly resulted from staff that NN Bank was able to transfer to another internal position.

'Additions' or 'Releases' are recognised in the statement of profit or loss.

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 2021

	Less than 1 year	1-2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
Fixed rate debt securities	0	0	0	0	0	0	0
Floating rate debt securities	332,988		0	0	0	0	332,988
Subtotal RMBS securitisation programmes	**332,988**	**0**	**0**	**0**	**0**	**0**	**332,988**
Covered bond issuances	0	0	1,006,050	504,529	0	2,796,396	4,306,975
Fixed rate unsecured debt securities	0	772,279	0	497,395	0	584,650	1,854,324
Floating rate unsecured debt securities	0	0	0	0	24,905	0	24,905
Debt securities issued	**332,988**	**772,279**	**1,006,050**	**1,001,924**	**24,905**	**3,381,046**	**6,519,192**

Debt securities issued – maturities 31 December 2020

	Less than 1 year	1-2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
Fixed rate debt securities	100,000	0	0	0	0	0	100,000
Floating rate debt securities	405,014	384,966	0	0	0	0	789,980
Subtotal RMBS securitisation programmes	**505,014**	**384,966**	**0**	**0**	**0**	**0**	**889,980**
Covered bond issuances	0	0	0	1,012,806	510,428	2,365,677	3,888,911
Fixed rate unsecured debt securities	19,011	0	775,227	0	499,783	96,828	1,390,849
Floating rate unsecured debt securities	189,749	0	0	0	0	24,884	214,633
Debt securities issued	**713,774**	**384,966**	**775,227**	**1,012,806**	**1,010,211**	**2,487,389**	**6,384,373**

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 the First Optional Redemption Date (FORD). These dates for the debt securities issued are presented in the table below. The amounts are balance sheet amounts, excluding retained notes.

	FORD	2021	2020
Arena NHG 2016-I	17-6-2021	0	222,510
Hypenn RMBS I A3	17-11-2023	0	0
Hypenn RMBS V	17-4-2021	0	282,504
Hypenn RMBS VI	17-12-2022	332,988	384,966
Hypenn RMBS VII	17-9-2026	0	0
Total		**332,988**	**889,980**

Arena NHG 2016-I and Hypenn RMBS V were both redeemed at their respective first optional redemption dates.

The outstanding notes of Hypenn RMBS I and Hypenn RMBS VII are fully held (retained) by NN Bank.

	Maturity date	2021	2020
Covered bond October 2017	10-10-2024	499,308	498,991
Covered bond June 2018	11-9-2025	497,951	497,416
Covered bond September 2018	25-9-2028	495,282	494,601
Covered bond February 2019	27-2-2024	499,102	498,673
Covered bond March 2019 – 1	18-3-2039	24,833	24,823
Covered bond March 2019 – 2	21-3-2039	19,926	19,922
Covered bond July 2019	25-9-2028	52,300	52,646
Covered bond September 2019	24-9-2029	498,423	498,560
Soft Bullet Covered Bond July 2020	8-7-2030	501,031	501,286
Soft Bullet Covered Bond September 2020	24-9-2035	496,365	495,691
Soft Bullet Covered Bond November 2020	12-11-2040	247,038	247,202
Soft Bullet Covered Bond March 2021	4-3-2041	497,244	0
Fair value change hedged items		-21,828	59,100
Total		**4,306,975**	**3,888,911**

On 4 March 2021, NN Bank raised EUR 500 million in secured funding by issuing a 20-year Soft Bullet Covered Bond under the Soft Bullet Covered Bond Programme.

Notes to the Consolidated annual accounts Continued

Unsecured debt securities

	Maturity date	2021	2020
Debt Issuance Programme May 2019	31-5-2023	499,066	498,407
Debt Issuance Programme August 2019	3-9-2029	19,875	19,859
Debt Issuance Programme November 2019	26-2-2025	497,838	497,488
Debt Issuance Programme September 2021	21-9-2028	497,254	0
Other unsecured debt securities	n/a	347,029	365,980
Fair value change hedged items		-6,738	9,115
Fixed rate unsecured debt securities		**1,854,324**	**1,390,849**
Floating Rate Note June 2019 – 2	1-7-2021	0	35,012
Floating Rate Note July 2019 – 2	10-7-2026	24,905	24,884
Floating Rate Note July 2019 – 3	15-7-2021	0	100,031
Floating Rate Note August 2019	3-9-2021	0	54,706
Floating rate unsecured debt securities		**24,905**	**214,633**

In September 2021, NN Bank raised EUR 500 million in unsecured funding by issuing a 7-year, senior non-preferred green bond under the 2021 Debt Issuance Programme and NN Bank Green Bond Framework.

'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 Conditional Pass-Through Covered Bond Programme, the Soft Bullet Covered Bond Programme, the Debt Issuance Programme and 'Schuldschein' securities. The debt securities issued to third parties amounted to EUR 6,519 million as at 31 December 2021 (31 December 2020: EUR 6,384 million), of which EUR 4,307 million relates to the Covered Bonds (31 December 2020: EUR 3,889 million) and EUR 1,879 million relates to unsecured debt securities (31 December 2020: EUR 1,605 million). At 31 December 2021, no notes were issued to related parties (31 December 2020: EUR 0 million).

For the Arena NHG and Hypenn RMBS securitisation programmes and the Covered Bond Programmes, 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 2,722 million as at 31 December 2021 (31 December 2020: EUR 3,364 million) and consist of EUR 327 million junior notes (31 December 2020: EUR 469 million) and EUR 2,395 million senior notes (31 December 2020: EUR 2,895 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 junior notes issued by the Special Purpose Entities (SPEs). The cash inflows of the interest of the mortgages are used for the payment of interest on the notes and follow 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**	**2021**	**2020**	**2021**	**2020**
1.29%	2020	26 February 2030	26 February 2025	30,000	30,000	30,000	30,000
1.38%	2019	26 September 2029	26 September 2024	25,000	25,000	25,000	25,000
1.83%	2019	26 June 2029	26 June 2024	15,000	15,000	15,000	15,000
3.02%	2017	27 February 2027	27 February 2022	15,000	15,000	15,000	15,000
Subordinated debt				**85,000**	**85,000**	**85,000**	**85,000**

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.

All subordinated debt is euro denominated.

17 Equity

Total equity

	2021	2020
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	-4,747	2,457
Retained earnings and unappropriated result	608,386	642,253
Shareholder's equity	**1,094,639**	**1,135,710**

Notes to the Consolidated annual accounts Continued

Share capital

			Ordinary shares	
	Shares (in numbers)		Amount (in EUR thousand)	
	2021	2020	2021	2020
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 (2021)

2021	Share capital	Share premium	Reserves	Total shareholders' equity
Equity – opening balance	10,000	481,000	644,710	1,135,710
Net result for the period	0	0	101,767	101,767
Total amount recognised directly in equity (Other comprehensive income)	0	0	-6,450	-6,450
Dividend paid	0	0	-136,466	-136,466
Change in employee share plans	0	0	78	78
Equity – closing balance	**10,000**	**481,000**	**603,639**	**1,094,639**

Changes in equity (2020)

2020	Share capital	Share premium	Reserves	Total shareholders' equity
Equity – opening balance	10,000	481,000	517,073	1,008,073
Net result for the period	0	0	125,258	125,258
Total amount recognised directly in equity (Other comprehensive income)	0	0	2,310	2,310
Dividend paid	0	0	0	0
Change in employee share plans	0	0	69	69
Equity – closing balance	**10,000**	**481,000**	**644,710**	**1,135,710**

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. On 31 December 2021, 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:

Distributable reserves based on the Dutch Civil Code

		2021		2020
Total shareholders' equity		1,094,639		1,135,710
– share capital	10,000		10,000	
– revaluation reserve	-4,747		2,457	
– intangible assets reserve	23,690		24,689	
Total non-distributable part of shareholders' equity		28,943		37,146
Distributable reserves based on the Dutch Civil Code		**1,065,696**		**1,098,564**

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 General Meeting, having heard the advice of the Management Board and the Supervisory Board, shall determine the appropriation of result. It is proposed to reduce the retained earnings with the sum of the 2021 net result of EUR 101.6 million, less the paid interim dividend of EUR 124.5 million and the proposed final cash dividend of EUR 111.6 million.

Notes to the Consolidated annual accounts Continued

Appropriation of result 2020
On 21 May 2021, following the General Meeting's adoption of the 2020 Consolidated annual accounts, the 2020 net result of EUR 125.3 million, less the proposed final cash dividend of EUR 12.0 million, was added to the retained earnings.

Interim dividend 2021
NN Bank paid an interim dividend of EUR 124.5 million in October 2021.

18 Interest result

Interest result

	2021	2020
Interest income on loans[1]	522,663	563,281
Modifications	2,009	3,460
Interest income on non-trading derivatives	46,115	48,108
Negative interest on liabilities	2,683	3,622
Total interest income	**573,470**	**618,471**
Interest expenses on amounts due to banks	470	112
Interest expenses on customer deposits and other funds on deposit	134,742	156,373
Interest expenses on debt securities issued and other borrowed funds	38,485	37,160
Interest expenses on non-trading derivatives	137,946	137,895
Interest expenses on subordinated loans	1,459	1,526
Negative interest on assets	10,092	8,152
Other interest expenses	5,851	1,931
Total interest expenses	**329,045**	**343,149**
Interest result	**244,425**	**275,322**

1 Interest on loans at FVTPL is not separately presented, as this amount is not material.

'Interest income on loans' includes an addition to the 'Interest compensation consumer credit provision' amounting to EUR 17.4 million (2020: zero). Reference is made to Note 14 'Provisions'.

'Modifications' relates to the 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.

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

'Negative interest on liabilities' for the year 2021 included EUR 226 thousand (2020: EUR 170 thousand), which was related to government grants under the Targeted Longer-Term Refinancing Operations III programme. 'Negative interest on assets' includes negative interest income charged by DNB of EUR 8.2 million (2020: EUR 6.1 million). The remainder concerns interest on investment securities.

Interest margin in percentages

	2021	2020
Interest margin	**0.98%**	**1.10%**

'Interest margin' is calculated by dividing the interest result by the average of the total assets for the year ending 2021 and 2020, respectively.

19 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2021	2020
Realised gains or losses of investment securities	1,660	10,742
Results from financial transactions	66	12,214
Net income from loans measured at FVTPL	-46	-3,353
Other income	-71	-436
Gains and losses on financial transactions and other income	**1,609**	**19,167**

As from the second half-year 2020, DRMF purchases mortgage receivables as from mortgage application phase. Since all risk and rewards have been transferred to DRMF, the related origination fee is no longer presented under 'Results from financial transactions' but under 'Net fee and commission income'.

Notes to the Consolidated annual accounts Continued

20 Net fee and commission income

Net fee and commission income

	2021	2020
Service management fee	41,321	41,741
Brokerage and advisory fees	103,427	75,153
Other fees	45	0
Gross fee and commission income	**144,793**	**116,894**
Asset management fees	10,106	10,623
Brokerage and advisory fees	4,860	4,052
Other fees	13	75
Fee and commission expenses	**14,979**	**14,750**
Net fee and commission income	**129,814**	**102,144**

NN Bank services a total loan portfolio of EUR 35.3 billion (2020: EUR 33.3 billion) for NN Life, NN Non-life, NN Belgium, NN Dutch Residential Mortgage Fund (DRMF), ING Bank and other entities.

NN Bank originates mortgages directly on behalf of NN Life, NN Non-life and NN Belgium and receives an origination fee for this service. The origination fee for the NN Life loan portfolio amounts to EUR 62.0 million (2020: EUR 37.2 million), for the NN Non-life loan portfolio this amounts to EUR 8.1 million (2020: EUR 9.2 million) and for the NN Belgium loan portfolio this amounts to EUR 0.9 million (2020: EUR 7.8 million). The origination fee for DRMF amounts to EUR 20.7 million (2020: EUR 11.0 million). In 2020 the origination fee for DRMF was presented under 'Gains and losses on financial transactions and other income' for the first half-year 2020. The origination fees are included in 'Brokerage and advisory fees'.

21 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2021	2020
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	352,184	-299,686
– the hedged items (mortgages/debt securities) attributable to the hedged risk	-354,608	304,010
Gains or losses (fair value changes) in other non-trading derivatives	6,266	2,172
Valuation results on non-trading derivatives	**3,842**	**6,496**

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 2021 decreased compared with those of 2020, mainly due to movements in the underlying spreads.

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'.

22 Staff expenses

Staff expenses

	2021	2020
Salaries	67,736	62,458
Pension and other staff-related benefit costs	13,136	12,090
Social security costs	8,366	8,133
Share-based compensation arrangements	78	68
External staff costs	35,692	32,002
Education	1,238	912
Other staff costs	2,183	894
Staff expenses	**128,429**	**116,557**

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

Notes to the Consolidated annual accounts Continued

Pension costs

Defined contribution plans

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

	2021	2020
Average number of internal employees on full-time equivalent basis	936	883
Average number of external employees on full-time equivalent basis	310	296
Total	**1,246**	**1,179**

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)	
	2021	2020	2021	2020
Share awards outstanding – opening balance	2,715	3,589	28.01	36.59
Granted	2,099	2,996	40.32	20.09
Vested	-2,417	-3,372	35.04	28.84
Forfeited	-	-498	-	36.65
Share awards outstanding – closing balance	**2,397**	**2,715**	**31.70**	**28.01**

In 2021, 2,099 share awards on NN Group shares (2020: 1,948) were granted to the members of the NN Bank Management Board. To other employees of NN Bank, 0 share awards on NN Group shares (2020: 1,048) were granted.

As at 31 December 2021, the share awards on NN Group shares consist of 2,397 share awards (2020: 2,715) 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 2021, total unrecognised compensation costs related to share awards amount to EUR 28 thousand (2020: EUR 23 thousand). These costs are expected to be recognised over a weighted average period of 1.3 years (2020: 1.3 years).

23 Regulatory levies

Regulatory levies

	2021	2020
Regulatory levies	27,162	20,377
Regulatory levies	**27,162**	**20,377**

'Regulatory levies' represents contributions to Deposit Guarantee Schemes (DGS) and the Single Resolution Fund (SRF). The contributions to DGS were EUR 19.2 million (2020: EUR 15.5 million) and contributions to the SRF were EUR 8.0 million (2020: EUR 4.9 million).

Notes to the Consolidated annual accounts Continued

24 Other operating expenses

Other operating expenses

	2021	2020
Computer costs	28,305	22,580
Office expenses	329	251
Travel and accommodation expenses	1,138	2,280
Advertising and public relations	2,461	2,621
Bank costs	250	201
Net release from (addition to) restructuring provisions	-194	6,231
Amortisation of intangible assets	2,284	2,051
Other	14,542	8,788
Other operating expenses	**49,115**	**45,003**
Customer & Commerce	16,577	18,198
IT	10,577	13,685
Facility Management	6,459	6,508
General Management	11,250	6,436
Group HR	2,534	2,228
Shared Service Centre Finance	1,127	1,327
Total Group Services	**48,524**	**48,382**
Total other operating expenses	**97,639**	**93,385**

For ‘Net release from (addition to) restructuring provisions’, reference is made to the disclosure on the restructuring provisions in Note 14 ‘Provisions’.

‘Other’ mainly consists of an addition to the ‘Interest compensation consumer credit provision’, audit fees and contributions to, amongst others, AFM, DNB and ECB.

Fees of auditors

Reference is made to Note 50 ‘Fees of auditors’ in 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 audits 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 3,997 thousand and concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 13 ‘Other liabilities’.

Deferred tax (2021)

	Net liability 2020[1]	Change through equity	Change through net result	Net liability 2021[1]
Investments	1,359	-2,219	-128	-988
Loans	-1,209	0	676	-533
Intangible assets	0	0	-48	-48
Provisions	-1,622	0	915	-707
IFRS ruling	13,075	0	-2,657	10,418
Deferred tax	**11,603**	**-2,219**	**-1,242**	**8,142**

1 Positive amounts are liabilities, negative amounts are assets.

IFRS ruling

In 2017, Delta Lloyd Bank was added to the Dutch fiscal unity of NN Group. Within the Dutch fiscal unity, the former Delta Lloyd group entities operate under the general Dutch fiscal policies, whereas NN Bank operates under an IFRS ruling. As from 1 January 2018, after the legal merger, the IFRS ruling is applied for the former Delta Lloyd Bank’s assets and liabilities. 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.

Notes to the Consolidated annual accounts Continued

Deferred tax (2020)

	Net liability 2019[1]	Change through equity	Change through net result	Net liability 2020[1]
Investments	604	755	0	1,359
Loans	401	0	-1,610	-1,209
Provisions	-1,126	0	-496	-1,622
IFRS ruling	14,927	0	-1,852	13,075
Deferred tax	**14,806**	**755**	**-3,958**	**11,603**

1 Positive amounts are liabilities, negative amounts are assets.

Taxation on result

	2021	2020
Current tax	35,628	47,999
Deferred tax	-1,242	-3,958
Taxation on result	**34,386**	**44,041**

Taxation in 2021 decreased by EUR 9.4 million to EUR 34.6 million, from EUR 44.0 million in 2020.

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

	2021	2020
Result before tax	136,153	169,299
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**34,038**	**42,325**
Expenses not deductible for tax purposes	20	17
Tax rate changes	328	1,719
Other	0	-20
Effective tax amount	**34,386**	**44,041**
Effective tax rate	**25.3%**	**26.0%**

The statutory tax rate in 2021 was 25.0%, as in 2020. The effective tax rate in 2021 was 25.3% (2020: 26.0%).

Taxation on components of other comprehensive income

	2021	2020
Unrealised revaluations	1,791	-3,506
Realised gains or losses transferred to the statement of profit or loss	428	2,751
Total income tax related to components of other comprehensive income	**2,219**	**-755**

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	
	2021	2020	2021	2020
Financial assets				
Cash and balances at central banks	1,324,778	2,585,528	1,324,778	2,585,528
Amounts due from banks	267,969	423,195	267,969	423,195
Financial assets at fair value through profit or loss:				
– non-trading derivatives	8,353	25,217	8,353	25,217
Investment securities	1,271,381	935,096	1,271,432	933,334
Loans	22,335,777	22,508,948	21,227,558	21,255,396
Financial assets	**25,208,258**	**26,477,984**	**24,100,090**	**25,222,670**
Financial liabilities				
Amounts due to banks	0	438,512	0	438,583
Customer deposits and other funds on deposit	16,599,460	16,736,835	15,904,147	15,742,735
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	12,571	140,877	12,571	140,877
Other borrowed funds	637,901	1,260,403	638,000	1,260,000
Debt securities issued	6,582,205	6,545,042	6,519,192	6,384,373
Subordinated debt	85,154	86,241	85,000	85,000
Financial liabilities	**23,917,291**	**25,207,910**	**23,158,910**	**24,051,568**

Notes to the Consolidated annual accounts Continued

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.

The exposure of derivative contracts has been reduced, since NN Bank has converted its centrally 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.

Notes to the Consolidated annual accounts Continued

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 issued is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments listed on the market place.

Financial assets and liabilities at fair value and amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities (2021)

	Balance sheet value	Total fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value					
Non-trading derivatives	8,353	8,353	0	0	8,353
Investment securities - FVOCI	972,684	972,724	217,865	754,859	0
Loans - FVTPL	0	0	0	0	0
Financial assets not measured at fair value					
Cash and balances at central banks[1]	1,324,778	1,324,778	1,324,778	0	0
Amounts due from banks[1]	267,969	267,969	267,969	0	0
Investment securities - AC	298,748	298,657	140,987	157,670	0
Loans - AC	21,227,558	22,335,777	0	0	22,335,777
Financial assets	**24,100,090**	**25,208,258**	**1,951,599**	**912,529**	**22,344,130**
Financial liabilities measured at fair value					
Non-trading derivatives	12,571	12,571	0	4,218	8,353
Financial liabilities not measured at fair value					
Amounts due to banks	0	0	0	0	0
Customer deposits and other funds on deposit[1]	15,904,147	16,599,460	9,983,455	6,586,659	29,346
Other borrowed funds	638,000	637,901	438,000	199,901	0
Debt securities issued	6,519,192	6,582,205	6,164,610	417,595	0
Subordinated debt	85,000	85,154	0	85,154	0
Financial liabilities	**23,158,910**	**23,917,291**	**16,586,065**	**7,293,527**	**37,699**

1 Financial assets and liabilities measured at amortised cost that are on demand are classified in Level 1 in the table above. Their fair value approximates the carrying value.

Notes to the Consolidated annual accounts Continued

Methods applied in determining the fair value of financial assets and liabilities (2020)

	Balance sheet value	Total fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value					
Non-trading derivatives	25,217	25,217	0	3,301	21,916
Investment securities - FVOCI	615,976	616,012	0	616,012	0
Loans - FVTPL	3,647	3,647	0	0	3,647
Financial assets not measured at fair value					
Cash and balances at central banks[1]	2,585,528	2,585,528	2,585,528	0	0
Amounts due from banks[1]	423,195	423,195	423,195	0	0
Investment securities - AC	317,358	319,084	149,606	169,478	0
Loans - AC	21,251,749	22,505,301	0	0	22,505,301
Financial assets	**25,222,670**	**26,477,984**	**3,158,329**	**788,791**	**22,530,864**
Financial liabilities measured at fair value					
Non-trading derivatives	140,877	140,877	0	118,961	21,916
Financial liabilities not measured at fair value					
Amounts due to banks	438,583	438,512	0	438,512	0
Customer deposits and other funds on deposit[1]	15,742,735	16,736,835	9,980,172	6,725,611	31,052
Other borrowed funds	1,260,000	1,260,403	790,000	470,403	0
Debt securities issued	6,384,373	6,545,042	5,652,866	892,176	0
Subordinated debt	85,000	86,241	0	86,241	0
Financial liabilities	**24,051,568**	**25,207,910**	**16,423,038**	**8,731,904**	**52,968**

1 Financial assets and liabilities measured at amortised cost that are on demand are classified in Level 1 in the table above. Their fair value approximates the carrying value.

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

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

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

Level 1 – Quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Bank can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

Level 2 –Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable, the instrument is still classified in this category, provided that the impact of those unobservable input elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices, but for which there was insufficient evidence of an active market.

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

Notes to the Consolidated annual accounts Continued

Changes in Level 3 Financial assets

	Non-trading derivatives	Loans - FVTPL	2021	2020
Level 3 Financial assets – opening balance	21,916	3,647	25,563	178,394
Amounts recognised in the statement of profit or loss during the year	-13,563	33	-13,530	-20,431
Additions	0	782	782	623,702
Sale of assets	0	-4,462	-4,462	-756,102
Level 3 Financial assets – closing balance	**8,353**	**0**	**8,353**	**25,563**

Changes in Level 3 Financial liabilities

	2021	2020
Level 3 Financial liabilities – opening balance	21,916	49,871
Amounts recognised in the statement of profit or loss during the year	-13,563	-27,955
Level 3 Financial liabilities – closing balance	**8,353**	**21,916**

Level 3 – Amounts recognised in the statement of profit or loss during the year

	2021	2020
Financial assets		
Non-trading derivatives	-13,563	-27,955
Loans - FVTPL	33	7,524
Financial assets	**-13,530**	**-20,431**
Financial liabilities		
Non-trading derivatives	13,563	27,955
Financial liabilities	**13,563**	**27,955**

'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 2021 of EUR 981.1 million (31 December 2020: EUR 677.7 million) include an amount of EUR 8.4 million (0.9%) that is classified as Level 3 (31 December 2020: EUR 25.6 million, 3.8%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2021 of EUR 12.6 million (31 December 2020: EUR 138.7 million) include an amount of EUR 8.4 million (66.4%) that is classified as Level 3 (31 December 2020: EUR 21.9 million, 15.8%).

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

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 statement of profit or loss. 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 statement of profit or loss may be higher than would be expected from an economic point of view.

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

Notes to the Consolidated annual accounts Continued

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

	Positive value		Negative value		Balance	
	2021	2020	2021	2020	2021	2020
Derivatives held for macro fair value hedge accounting	46,099	549	428,706	832,909	-382,607	-832,360
Derivatives held for micro fair value hedge accounting	29,227	68,538	58,428	0	-29,201	68,538
Balanced Guaranteed Swaps	8,353	21,916	8,353	21,916	0	0
Other non-trading derivatives	23,601	13,601	63,521	59,958	-39,920	-46,357
Interest rate swaps Settled-to-Market	-98,927	-79,387	-550,655	-776,046	451,728	696,659
Position to be settled STM	0	0	4,218	2,140	-4,218	-2,140
	8,353	**25,217**	**12,571**	**140,877**	**-4,218**	**-115,660**

The fair value of the non-trading derivatives decreased in 2021 to EUR -4.2 million (31 December 2020: EUR -115.7 million).

This decrease has primarily been caused by the fact that during 2021, NN Bank converted its centrally cleared interest rate derivative contracts with clearing members from collateralised-to-market (CTM) to settled-to-market (STM). The impact of this conversion to STM amounts to EUR 31.8 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 without impact on the statement of profit or loss.

As part of the transition to settled-to-market, NN Bank decided to present the non-trading derivatives position including accrued interest on a net basis. To better align with this presentation, the prior period presentation of 'Other liabilities' (decrease EUR 34.9 million), 'Financial assets FVTPL' (decrease EUR 32.8 million) and 'Financial liabilities FVTPL' (increase EUR 2.1 million) have been adjusted.

The 'Position to be settled STM' comprises mainly the last day of the annum marked-to-market change not yet settled with the clearing member.

Interest rate benchmark reform

The hedge accounting applied by NN Bank relates to interest rate risk based on Euribor. Euribor's calculation method changed in 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 in the near future. NN Bank follows market developments with respect to Euribor and has fallback provisions in place in case Euribor will permanently cease to exist, in accordance with the recommendations of the Dutch regulator.

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 statement of profit or loss. The effective portion of the fair value change on the hedged item is also recognised in the statement of profit or loss. 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:

	2021	2020
Fair value movements in hedging instruments	449,923	-334,035
Fair value movements in hedged item attributable to hedged risks	-451,390	338,553
Net effect macro fair value hedge	**-1,467**	**4,518**

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 statement of profit or loss.

Notes to the Consolidated annual accounts Continued

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

	2021	2020
Fair value movements in hedging instruments	-97,739	34,349
Fair value movements in hedged item attributable to hedged risks	96,782	-34,543
Net effect micro fair value hedge	**-957**	**-194**

Non-trading derivatives

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

Non-trading derivatives by type and maturity (2021)

	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	660	3,959	9,855	14,474	0	4
Balanced Guaranteed Swaps	925	0	0	925	8	8
Interest rate caps	0	0	0	0	0	0
Total non-trading derivatives	**1,585**	**3,959**	**9,855**	**15,399**	**8**	**12**

Non-trading derivatives by type and maturity (2020)

	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	459	3,768	8,106	12,333	3	119
Balanced Guaranteed Swaps	565	1,070	0	1,635	22	22
Interest rate caps	600	0	0	600	0	0
Total non-trading derivatives	**1,624**	**4,838**	**8,106**	**14,568**	**25**	**141**

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 (2021)

	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	1,324,778	0	0	0	0	1,324,778
Amounts due from banks	63,395	204,574	0	0	0	267,969
Financial assets at fair value through profit or loss:						
– non-trading derivatives[2]	0	0	8,353	0	0	8,353
Investment securities	1,466	102,253	77,642	1,082,458	7,613	1,271,432
Loans	149,927	110,595	220,781	1,551,971	19,194,284	21,227,558
Intangible assets	190	381	1,656	3,359	18,104	23,690
Other assets	123,163	116,222	293	0	0	239,678
Total assets	**1,662,919**	**534,025**	**308,725**	**2,637,788**	**19,220,001**	**24,363,458**
Risk management derivatives:						
– inflow	1,297	39,097	14,517	663	138,535	194,109
– outflow	-3,280	-24,785	-11,871	-175	-50,842	-90,953

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 2021.

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Assets by contractual maturity (2020)

	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	2,585,528	0	0	0	0	2,585,528
Amounts due from banks	87,275	335,920	0	0	0	423,195
Financial assets at fair value through profit or loss:						
– non-trading derivatives[2]	0	0	1,535	20,381	3,301	25,217
Investment securities	18,020	15,064	78,008	814,631	7,611	933,334
Loans	277,742	50,312	172,301	1,523,536	19,231,505	21,255,396
Intangible assets	190	381	1,713	5,163	17,242	24,689
Other assets	120,999	96,324	368	0	0	217,691
Total assets	**3,089,754**	**498,001**	**253,925**	**2,363,711**	**19,259,659**	**25,465,050**
Risk management derivatives:						
– inflow	424	3,401	19,648	74,464	18,972	116,909
– outflow	0	-556	-2,892	-13,851	-15,528	-32,827

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 2020.

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 (2021)

	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	0	0	0	0
Customer deposits and other funds on deposit	10,110,810	146,634	588,957	2,105,095	2,952,651	15,904,147
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives[2]	4,218	0	8,353	0	0	12,571
Other borrowed funds	25,000	125,000	50,000	438,000	0	638,000
Debt securities issued	0	0	332,988	2,805,158	3,381,046	6,519,192
Subordinated debt	0	0	0	0	85,000	85,000
Financial liabilities	**10,140,028**	**271,634**	**980,299**	**5,348,253**	**6,418,697**	**23,158,911**
Other liabilities	16,233	52,051	7,505	0	0	75,789
Deferred tax liabilities	0	0	8,360	0	0	8,360
Other provisions	37	75	7,399	18,115	135	25,761
Non-financial liabilities	**16,270**	**52,126**	**23,263**	**18,115**	**135**	**109,909**
Total liabilities	**10,156,298**	**323,760**	**1,003,561**	**5,366,368**	**6,418,832**	**23,268,819**
Risk management derivatives:						
– outflow	16,043	292,959	82,789	9,929	458,115	859,835
– inflow	-6,740	-43,612	-9,382	0	-211,690	-271,424
Coupon interest due on financial liabilities	-5,285	-6,945	-21,806	-251,601	-244,774	-530,411

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 2021.

Notes to the Consolidated annual accounts Continued

Liabilities by maturity (2020)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Amounts due to banks	15,599	178,000	135,000	109,984	0	438,583
Customer deposits and other funds on deposit	9,934,881	124,965	581,622	2,146,007	2,955,260	15,742,735
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives[2]	2,140	0	1,535	22,985	114,217	140,877
Other borrowed funds	0	125,000	295,000	840,000	0	1,260,000
Debt securities issued	0	0	713,774	3,183,210	2,487,389	6,384,373
Subordinated debt	0	0	0	0	85,000	85,000
Financial liabilities	**9,952,620**	**427,965**	**1,726,931**	**6,302,186**	**5,641,866**	**24,051,568**
Other liabilities	23,553	217,558	18,656	0	0	259,767
Deferred tax liabilities	0	0	11,603	0	0	11,603
Other provisions	0	27	6,375	0	0	6,402
Non-financial liabilities	**23,553**	**217,585**	**36,634**	**0**	**0**	**277,772**
Total liabilities	**9,976,173**	**645,550**	**1,763,565**	**6,302,186**	**5,641,866**	**24,329,340**
Derivative management derivatives:						
– outflow	9,094	16,571	86,683	394,085	443,984	950,417
– inflow	-35	-91	-1,375	-4,806	-49,361	-55,668
Coupon interest due on financial liabilities[1]	-5,305	-5,302	-17,784	-313,662	-258,208	-600,261

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 2020.

30 Assets not freely disposable

Assets not freely disposable

	2021	2020
Loans	8,060,287	8,915,374
Cash and balances at central banks	85,144	87,141
Amounts due from banks	51,055	73,470
Assets not freely disposable	**8,196,486**	**9,075,985**

The amount not freely disposable for 'Loans' reflects the securitised mortgages portfolios to Hypenn RMBS I,VI and VII and the mortgage loans structured through the (Soft Bullet and Conditional Pass-Through) Covered Bond Programmes.

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

'Amounts due from banks' reflects the money held by the Hypenn RMBS entities and the Covered Bond companies.

31 Transferred, but not derecognised financial assets

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

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'.

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 (2021)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	656	656
Irrevocable credit facilities	51,224	0	0	0	0	51,224
Mortgage and consumer lending offerings	34,435	359,667	414,730	0	0	808,832
Construction deposits	54,462	72,757	189,547	123,240	0	440,006
Contingent liabilities and commitments	**140,121**	**432,424**	**604,277**	**123,240**	**656**	**1,300,718**

Notes to the Consolidated annual accounts Continued

Contingent liabilities and commitments (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	892	892
Irrevocable credit facilities	129,385	0	0	0	0	129,385
Mortgage and consumer lending offerings	191,735	364,301	175,246	0	0	731,282
Construction deposits	23,062	50,714	156,777	73,406	0	303,959
Contingent liabilities and commitments	**344,182**	**415,015**	**332,023**	**73,406**	**892**	**1,165,518**

'Irrevocable credit facilities' relates 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 2021, NN Bank adhered to the contractual agreement with ING Bank. In this contract, NN Bank commits to 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 2021, the size of the portfolio of NN-labelled mortgages held by ING Bank was EUR 658 million (2020: EUR 1.0 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 receivable by NN Group at the end of 2021 amounted to EUR 73.9 million (2020: EUR 51.8 million payable).

33 Legal proceedings

General

NN Bank could be, and 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. It is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings. At the date of this Annual Report, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NN Bank is aware) that may have, or have in the recent past had, a significant effect on the financial condition or profitability of NN Bank and its subsidiaries.

Interest compensation consumer credit

In previous years, Kifid ruled that a number of banks did not sufficiently move in line with market rates when calculating the floating rate on revolving consumer credits. An NN Bank analysis revealed that certain clients, including clients from OHRA Bank and former Delta Lloyd Bank, have paid too much interest when applying the concepts underlying the Kifid rulings. Although NN Bank is not involved in any civil, Kifid or arbitration proceedings in this respect, NN Bank issued a press release on 23 December 2021 communicating that clients will be compensated for too much charged interest. NN Bank is currently drawing up the compensation scheme and expects to announce its details in the second half of 2022. For the creation of a 'Provision interest compensation consumer credit', reference is made to Note 14 'Provisions'.

34 Principal subsidiaries

NN Bank has two fully owned subsidiaries:

- HQ Hypotheken 50 B.V. was founded on 21 August 2012 and has its official seat and registered offices in Rotterdam. Via this subsidiary, NN Bank offered mortgage loans to customers via a third-party mortgage servicer (Quion Hypotheekbemiddeling B.V.).
- Woonnu B.V., which was founded on 13 August 2019 with official seat in The Hague. Via Woonnu B.V., NN Bank originates mortgage loans under a new label via a third-party mortgage servicer (Quion Hypotheekbemiddeling B.V.). Woonnu B.V. has a separate AFM licence.

The Hypenn RMBS entities (I, VI, VII), NN Conditional Pass-Through Covered Bond Company B.V. and NN Covered Bond Company B.V. are not legal subsidiaries of NN Bank. As 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 retail activities abroad (apart from a limited savings activity 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 Programmes. 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 and a 7.5 billion Soft Bullet Covered Bond Programme. Under these programmes, the payment of interest and principal on the bonds issued by NN Bank is guaranteed by NN Bank-

Notes to the Consolidated annual accounts Continued

administered structured entities, NN Conditional Pass-Through Covered Bond Company B.V. (CBC) and NN Covered Bond Company B.V. (SB). In order for the CBC and SB to fulfil its guarantees, NN Bank legally transfers Dutch prime residential mortgage loans originated by NN Bank to the CBC and SB. Economically, the mortgages are on the NN Bank balance sheet. The CBC and SB are consolidated by NN Bank.

NN Bank issued the following bonds under the Conditional Pass-Through Covered Bond Programme and Soft Bullet 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%
Soft Bullet Covered Bond July 2020	8-7-2030	500,000	0.010%
Soft Bullet Covered Bond September 2020	24-9-2035	500,000	0.050%
Soft Bullet Covered Bond November 2020	12-11-2040	250,000	0.050%
Soft Bullet Covered Bond March 2021	4-3-2041	500,000	0.375%
		4,345,000	

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 for selected securitisation transactions. These financial instruments relate to balanced guaranteed swap agreements with 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 8.4 million as at 31 December 2021 (31 December 2020: EUR 21.9 million) and are presented gross. Offsetting is not applicable, as it concerns separate contracts.

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	
		2021	2020	2021	2020
Arena NHG 2016-I	2021	0	336,967	0	222,510
Hypenn RMBS I	2023	1,168,575	1,304,481	0	0
Hypenn RMBS V	2021	0	306,600	0	282,504
Hypenn RMBS VI	2022	502,779	577,654	332,988	384,966
Hypenn RMBS VII	2026	1,563,000	1,918,442	0	0
Covered Bonds	2024-2039	2,925,396	2,923,190	2,587,125	2,585,631
Soft Bullet Covered Bonds	2030-2041	1,900,537	1,548,040	1,741,678	1,244,180
Total		**8,060,287**	**8,915,374**	**4,661,791**	**4,719,791**

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 is part of NN Group and conducts transactions with its parent company and its subsidiaries. The following categories of transactions are conducted on terms equivalent to those prevailing in an arm's length transaction:

- The management of financial instruments via a management agreement with NN Investment Partners Holdings N.V. (NN IP). Reference is made to the table 'Other group companies'.
- Sale of mortgages to other NN Group companies. Reference is made to Note 6 'Loans'.

Notes to the Consolidated annual accounts Continued

- 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. 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 12 'Other borrowed funds', 16 'Subordinated debt', 25 'Taxation' and 32 'Contingent liabilities and commitments'.
- Asset management services to group companies, carried out by NN Bank. Reference is made to 'Income received' in the table 'Other group companies'.
- 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'.
- For defined contribution plans, NN Bank pays contributions to the NN CDC Pensioenfonds on a contractual basis. Reference is made to Note 22 'Staff expenses' for further details.

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

NN Group	2021	2020
Assets	0	0
Liabilities	458,387	810,396
Income received	-911	-829
Expenses paid	21,769	22,370

'Liabilities' mainly consists of unsecured loans from NN Group amounting to EUR 438 million and subordinated loans from NN Group amounting to EUR 85 million.

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

Other group companies

Other group companies	2021	2020
Assets	409,706	384,245
Liabilities	141,287	320,275
Income received	118,419	96,465
Expenses paid	29,368	33,613

'Assets' mainly comprises the current account with NN Insurance Eurasia N.V. of EUR 67 million (2020: EUR 92 million) and positions resulting from partial transfer of mortgage loans with NN Life of EUR 260 million (2020: EUR 205 million). With NN Belgium, loans mortgage savings amount to EUR 71 million (2020: EUR 72 million).

'Liabilities' mainly consists of paid mortgage parts to NN Life of EUR 123 million (2020: 132 million).

'Income received' mainly reflects fee income on mortgage origination and servicing on behalf of NN Life of EUR 92 million (2020: EUR 57 million), on behalf of NN Non-life of EUR 10 million (2020: EUR 11 million) and on behalf of NN Belgium of EUR 5 million (2020: EUR 12 million). Interest result on received and paid mortgage parts amounts to EUR 3 million (2020: EUR 1 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 and Facility Management for work done by these entities on behalf of NN Bank.

Notes to the Consolidated annual accounts Continued

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[1]

	2021	2020
Fixed compensation:		
- base salary	924	891
- pension costs[2]	98	96
- termination benefit	0	0
- individual savings allowance[2]	116	110
Variable compensation:		
- up-front cash	38	38
- up-front shares	38	38
- deferred cash	38	38
- deferred shares	38	38
Other benefits	179	222
Fixed and variable compensation	**1,469**	**1,471**
Internal pay ratio[3]	4:1	4:1

1 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 NN Bank to present only the statutory members of the Management Board. This is not separately disclosed, as otherwise the compensation is traceable to one individual person.
2 'Pension costs' consists of an amount of employer contribution (EUR 98 thousand) and an individual savings allowance (EUR 116 thousand, which is 23.3% of the amount of base salary above EUR 112,189).
3 The pay ratio compares the total CEO compensation and the remuneration of all staff ('Pay ratio'). For the CEO, the total remuneration used in the pay ratio is the total amount of fixed and variable compensation as disclosed above. For the staff members, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Consolidated annual accounts Note 22 'Staff expenses'. In order to provide a meaningful comparison, the total remuneration of the staff population excludes external staff costs and the remuneration of the CEO of NN Bank.

The Management Board members were eligible for a range of other emoluments, such as health care insurance. 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.

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 (2020: two external Supervisory Board members). The remuneration of EUR 65,416 (2020: EUR 62,404, including VAT) 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. 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 shares.

The total remuneration of EUR 1,469 thousand (2020: EUR 1,471 thousand), as disclosed in the table above, includes all variable remuneration related to the performance year 2021. 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 2021 and therefore included in 'Total expenses' in 2021, relating to the fixed expenses of 2021 and the vesting of variable remuneration of 2021 and earlier performance years, is EUR 1,420 thousand (2020: EUR 1,398 thousand).

Remuneration policy

As a direct subsidiary of NN Group, NN Bank is in scope of the NN Group Remuneration Framework. NN Bank is well aware of the public debate about pay in the financial industry and the responsibility the industry is taking in that light. The remuneration policies of NN Group take into account all applicable regulations and codes, including the Banking Code and the recommendations of the ECB and DNB under the current Covid-19 pandemic. 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 interests of customers
- Align with company values, business strategy and risk appetite
- Promote and align risk management
- Comply with and support the spirit of the (inter)national regulations on remuneration policies

Notes to the Consolidated annual accounts Continued

- Aim to avoid improper treatment of customers and employees
- Create a balanced compensation mix with a reduced emphasis on variable compensation
- Claw-back and hold back arrangements
- Attract and retain talented personnel

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2021	2020	2021	2020	2021	2020
Management Board members	651	380	2.69%	3.97%	29	14
Supervisory Board members	0	0	-	-	0	0
Loans and advances to key management	**651**	**380**			**29**	**14**

The total amount of outstanding loans to key management personnel in 2021 was EUR 651 thousand (2020: EUR 380 thousand.) The total amount of redemptions of these mortgage loans during 2021 was EUR 29 thousand (2020: EUR 14 thousand).

38 Subsequent and other events

Subsequent events

Repayment Facility NN Group
On 11 February 2022, NN Bank repaid the remaining drawn amount under the Central Clearing Borrowing Facility with NN Group.

Replacement subordinated loan
On 27 February 2022, NN Bank repaid the EUR 15.0 million subordinated loan issued in 2017 on its first call date and simultaneously entered into a new subordinated loan for an equivalent amount. The due date for the new loan is 27 February 2032 with a first call date on 27 February 2027. The new interest rate is 2.55%.

Other events
On 31 July 2021, NN Bank entered into a legal merger with Nationale-Nederlanden Beleggingsrekening N.V. (NN Beleggingsrekening), a fully-owned subsidiary of NN Bank. On 1 August 2021, the legal merger between NN Bank and NN Beleggingsrekening became effective. As a result of this merger, NN Beleggingsrekening ceased to exist as a separate legal entity and NN Bank acquired all assets and liabilities of NN Beleggingsrekening under universal title of succession. In accordance with the deed of merger, the financial data of NN Beleggingsrekening have been included in the annual accounts of NN Bank as from 1 January 2021.

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, risk culture 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 follow 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 rests with the CRO, in accordance with EBA guidelines on internal governance. 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

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	CDO
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	CRO
Product Approval & Review Committee (PRC)	Periodic review of existing products and review for approval of new products	CEO
Disclosure Committee (DISCOM)	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	CFO
Accounting Committee (AC)	Management of accounting policies for financial reporting in accordance with IFRS-EU	CFO
Client Acceptance Review Committee (CARC)	Review and decision-making regarding the Customer Risk Ratings in terms of our customers	CEO

The 'CARC' was established in March 2022. 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 clear segregation of the 'Three Lines of Defence' concept, on which NN Bank's risk management structure and governance are based, NN Bank 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 and all risks of the business, operations, compliance and effective control of risks affecting their business. This includes responsibility for tracking control effectiveness. Finance and Treasury departments are part of the First Line of Defence.
- Second Line of Defence: Oversight performed by the internal control functions of NN Bank i.e. the NN Bank risk management functions and compliance function. The CRO steers a functional independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted 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. The following departments report to the CRO: Asset & Liability Management Risk, Credit Risk Management, Non-Financial Risk Management, Compliance and Data Management Office.

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 the behavioural supervisor Autoriteit Financiële Markten (AFM), and that they are compliant with the frameworks set by the NN Group Policy House and NN Group's business principles.

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' and other stakeholders' confidence in NN Bank as a reliable financial service provider
- To generate sustainable profitability and stable shareholder value
- To comply with all relevant laws and regulations

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 their 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 proactively 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

NN Bank is exposed to various risks because of its business model. We provide mortgages to customers, and so we are exposed to credit risks, since it is uncertain whether customers will be able to pay their mortgages in the future. As we use savings to fund our activities, we are exposed to liquidity risk, since it is uncertain when customers will withdraw these savings. In addition, unforeseen regulatory changes may affect the positions on the balance sheet. In this section, we give an overview of the various risks that can affect NN Bank.

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

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. This includes customer behaviour risk.
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as due to the design of products from a financial perspective
- 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

- Emerging and strategic risks: Risks related to future external uncertainties that could pose a threat to NN Bank and risks arising from making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment
- 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
- Compliance risk is the risk of impairing our company's integrity and reputation through a failure to comply with either our own values and/or our obligations under applicable laws, regulations and standards. A failure to comply might not only damage our reputation and the trust put in our organisation and its services, it could also lead to legal and/or regulatory sanctions and financial losses through for instance claims.

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

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

Notes to the Consolidated annual accounts Continued

Qualitative risk appetite metrics

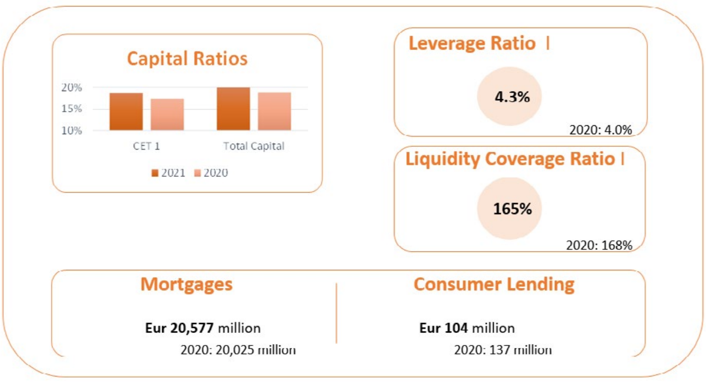
NN Bank key qualitative risk appetite statements are as follows:

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)	Operational and Compliance Risks	We do not accept breaches of applicable laws and regulations, or material breaches of 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	
	2021	2020
Total capital ratio	18.7%	18.9%
Common Equity Tier 1 ratio	17.3%	17.4%
Leverage ratio	4.3%	4.0%
Liquidity Coverage Ratio (LCR)	165%	168%

NN Bank has maintained a solid capital position with a Total capital ratio of 18.7% and a CET1 ratio of 17.3% at year-end 2021. The leverage ratio stands at 4.3%. At the end of December 2021, NN Bank had an LCR of 165%. This is well above the regulatory target of 100% and internal minimum. It shows a solid liquidity position, given our liquidity risks.

Notes to the Consolidated annual accounts Continued

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, monitoring & management of emerging and strategic risks against risk appetite.
Strong Balance Sheet (Running the business – financially)	Solvency Risk	Financial risk assessments, ICAAP, monitoring & management of retail & non-retail credit risk , interest rate risk in the banking book and business/customer behaviour risk against risk appetite, using models as appropriate
	Liquidity Risk	Financial risk assessments, ILAAP, monitoring & management of liquidity risks against risk appetite, using models as appropriate
Sound Business Performance (Running the business – operationally)	Operational and Compliance Risks	Non-financial risk assessments, recovery and resolution planning, monitoring & management of operational and compliance risks against risk appetite. First Line non-financial risk monitoring and key control testing and independent Second Line reviews, PARP

Some of the risk assessments mentioned in the table above will be further described below.

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.

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 monthly basis, the Non-Financial Risk Committee monitors non-financial risks, i.e. emerging, strategic, operational and compliance risks. At least on a quarterly basis, the NN Bank Management Board monitors the integrated risk profile across all risk types. All risk reporting and monitoring is performed in a forward-looking manner.

Notes to the Consolidated annual accounts Continued

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.

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 operational risk, amongst others. This year it was announced that the implementation date will be delayed from 1 January 2023 to 1 January 2025. With some revisions, including the output floor to be phased in until 1 January 2030. 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.

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.

Risk developments 2021

Brexit

On 1 January 2021 a new trade agreement between the United Kingdom and the European Union came into effect. The agreement contains very limited provisions with regard to financial services and the UK and EU have continued negotiations regarding further arrangements for financial services. One of the main topics under negotiation relates to clearing services provided by UK Central Clearing Counterparties (CCPs). In September 2020, the European Commission and the European Securities and Markets Authority (ESMA) granted temporary equivalence and recognition for UK CCPs until 30 June 2022 to safeguard financial stability within the EU in the run-up to Brexit. Due to the limited nature of the provisions in the trade agreement, clearing with UK CCPs is still governed by these temporary equivalence and recognition decisions.

An assessment by ESMA concluded that, i.a. London Clearing House Ltd. (LCH) as UK CCP is of substantial systemic importance to the financial stability of the EU. Nonetheless ESMA did not recommend the derecognition of LCH as the risks and cost associated with derecognition would not outweigh the benefit to the EU. Likewise, the European Commission has indicated that it considers the EU parties' over-reliance on UK CCPs a source of financial stability risk and strives to reduce the over-reliance in the medium term. In order to address possible short-term financial stability risks, the European Commission announced it will propose an extension of the temporary equivalence for UK CCPs of three years, until June 2025. The derivatives portfolio of NN Bank is cleared via two clearing houses, LCH (UK) and Eurex (EU). Given the temporary nature of the decisions by the European Commission and ESMA, NN Bank actively manages the distribution of exposures between both clearing houses.

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 in this section, 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 (including) construction depots, savings, accrued interest and mortgage premiums.

Covid-19

NN Bank continued to offer a payment holiday (up to six months) for clients facing financial difficulties in response to the Covid-19 pandemic and government lockdown in European countries in general, and in the Netherlands in particular. The EBA guidelines enables institutions to leave the reported customer's credit quality unchanged in the event that a Covid-19-related payment holiday is offered (referred to as 'payment holiday'). However, these agreements must be offered to a large group of customers without specific acceptance criteria in order to be eligible for such an exemption. NN Bank customers who are offered a payment holiday are classified as forborne and placed in Stage 2, as is the case with regular (not Covid-19-specific) payment holidays.

Since the start of the pandemic, clients who contacted NN Bank regarding financial problems due to Covid-19 made up 1.0% of the mortgage portfolio (most of which were in 2020), and in total 0.7% of the mortgage portfolio was granted a payment holiday. The majority of clients (92%) who were granted a payment holiday have recovered, showing that the impact of Covid-19 on the credit quality of our mortgage portfolio remains very limited. Today, 5% of those granted a payment holiday continue to have one, and 2% show structural payment problems for which the NN Bank arrears management policy applies. It is worth mentioning that around 73% of the customers who received a payment holiday are self-employed. For the consumer lending portfolio, 0.4% of the portfolio was granted a payment holiday (most of which were offered in 2020), and with no active payment holiday remaining at the end of 2021.

In 2021, the impact of the Covid-19 pandemic on NN Bank and its clients was limited, and even lower than that in 2020. However, uncertainty surrounds the full extent of the impact of Covid-19 on the Dutch economy, with the emergence of new variants of the virus as well as the return to lockdowns in different parts of Europe.

Notes to the Consolidated annual accounts Continued

Credit risk profile
Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties (including bond issuers). Credit risks arise in NN Bank's lending and investment activities. Credit risk exposure is the total amount of outstanding, plus the unused portion of, commitments. 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

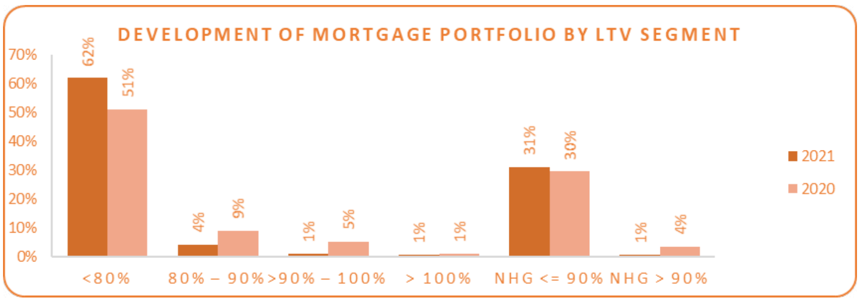
Amounts in thousands of euros	2021	2020
Balance amount[1]	20,576,851	20,025,360
Indexed market value primary cover	41,477,528	34,792,604
Secondary cover value	1,830,970	1,812,951
NHG guarantee value	5,382,377	5,620,508
Total cover value + NHG guarantee capped at balance amount	20,565,437	20,006,175
Remaining exposure at risk[2]	11,414	19,184

1 Total amount reconciles to Stages 1-3 and Purchased or Originated 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) of NN Bank's mortgage book. In addition to the total value of the different covers and guarantees, the 'Remaining exposure at risk' is 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. 'Remaining exposure at risk' is exposure without any type of cover or guarantee. This amount decreased in 2021, mainly due to the strong increase in the housing prices. The low 'Remaining exposure at risk', in combination with a low number of clients with payment problems, results in negative risk costs over 2021 (EUR -9.7 million). For more information on risk costs, reference is made to page 93 'Risk Costs'.

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 originated 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 2021, NN Bank's mortgage book had a current loan to indexed market value ratio of 57% (2020: 66%), while 32% (2020: 33%) of the outstanding mortgage amounts are guaranteed under NHG. Effective in 2021, new residential mortgage loans below EUR 325,000 were eligible for coverage by public mortgage loan insurance under the NHG in the Netherlands. That amount can be up to EUR 344,500 when taking into account the possibility to receive an extra budget of 6% for energy-saving work. The NHG guarantees, to a large extent, the repayment of a loan in case of a forced property sale. The relative NHG coverage is decreasing in NN Bank's portfolio mostly due to the high house prices, so overall less mortgages are eligible for NHG coverage.



The increasing housing prices resulted in a migration towards lower LTV buckets compared with previous year(s).

Notes to the Consolidated annual accounts Continued

Credit approval process

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

Past-due loans

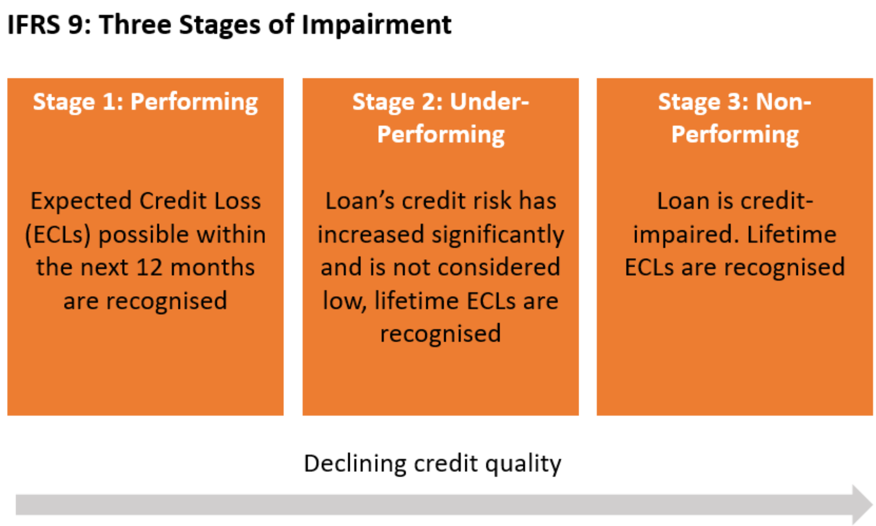
Despite the negative consequences of Covid-19 pandemic, the outstanding loans with a delinquency decreased in 2021 by EUR 40 million to EUR 215 million (1.0% of total outstanding). The portfolio is of good quality because of strict underwriting criteria and adequate problem loan management. Furthermore, the mortgage portfolio grew relatively quickly in the past few years because of a substantial level of newly originated loans (which typically have fewer delinquencies).

Delinquency

	Mortgages		Consumer lending		Total	
	2021[1]	2020[1]	2021[1]	2020[1]	2021[1]	2020[1]
0 days	20,369,193	19,787,210	96,556	119,418	20,465,749	19,906,628
1 – 30 days	32,260	117,994	830	3,673	33,090	121,667
31 – 60 days	19,190	35,308	521	1,434	19,711	36,742
61 – 90 days	30,494	40,744	203	435	30,697	41,179
> 90 days	125,714	44,104	6,231	11,660	131,945	55,764
Total	**20,576,851**	**20,025,360**	**104,341**	**136,620**	**20,681,192**	**20,161,980**

1 'Total' reconciles to Stages 1-3 and Purchased or Originated Credit-Impaired loans, excluding the category 'no allocated stage'. Reference is made to Note 6 'Loans'.

NN Bank measures its portfolio in terms of payment arrears on a continuous basis. Generally, a loan is considered 'delinquent' if a payment of interest or principal is more than one day late and the arrears amount is greater than or equal to EUR 100. When this happens, a specialised team contacts the customer to explore the possibilities to get the customer back into financial health as soon as possible. Within the delinquent portfolio we observe a migration to higher delinquency buckets, because the methodology of counting days past due has been adjusted following the new definition of default. For consumer lending, the impact of this change is offset by a one-time write-off of protracted defaults.



IFRS 9 Stages 1 and 2

Under IFRS 9, most of the loans in the portfolio fall in Stage 1. Loans that show a significant 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 non-performing) 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 TTC (Through-the-Cycle) 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, 0.5% (EUR 103 million) of the total loans to customers as at the end of 2021 (1.3% at the end of 2020), are

Notes to the Consolidated annual accounts Continued

classified as Stage 3. As a result of the low unemployment rates and further refinements to the default policy following ECB guidance on the definition of default (reference is made to page 48 for the definition of default) have all led to a significant drop in the number of mortgage loans qualified as Stage 3. Furthermore, the drop in Stage 3 balance for consumer lending can be attributed to a one-time write-off of protracted defaulted loans (EUR 5.6 million).

Purchased and Originated Credit-Impaired (POCI) loans

POCI loans are financial assets (i.e. mortgages) transferred from Westland Utrecht Bank (WUB) while being in default at the moment of transfer. Therefore, a discount is applied to the carrying amount that equals the expected loss. Unlike the regular mortgages, which can change from one stage to another over different reporting dates, POCI loans never return to Stage 1. Instead, they remain in IFRS9 Stage 2 or Stage 3, depending on their status due to their initial impairments. For its internal processes, NN Bank reports the POCI assets separately. As can be derived from the table below, 0.2% (EUR 31 million) of the total exposure is classified as POCI loans at the end of 2021 (0.2%, EUR 36 million at the end of 2020).

Loans exposed to credit risk (Stages by exposure)

		Stage 1		Stage 2		Stage 3		POCI assets	Total	Total
	2021	2020	2021	2020	2021	2020	2021	2020	2021[1]	2020[1]
Mortgages	19,839,296	19,412,782	609,488	327,758	96,584	249,037	31,483	35,783	20,576,851	20,025,360
Consumer loans	92,549	118,447	4,993	4,086	6,799	14,087	0	0	104,341	136,620
Total	**19,931,845**	**19,531,228**	**614,481**	**331,844**	**103,383**	**263,124**	**31,483**	**35,783**	**20,681,192**	**20,161,980**

1 'Total' reconciles to Stages 1-3 and Purchased or Originated Credit-Impaired loans, excluding the category 'no allocated stage'. Reference is made to Note 6 'Loans'.

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 2021 were negative (i.e. a decrease in Loan Loss Provisions) and amounted EUR -9.7 million (-4.7 bps), compared to EUR 3.5 million (1.7 bps) over 2020.

Provisions by stage

		Stage 1		Stage 2		Stage 3		POCI assets	Total	Total
	2021	2020	2021	2020	2021	2020	2021	2020	2021[1]	2020[1]
Mortgages	1,154	1,652	1,100	2,196	1,914	9,355	245	580	4,413	13,783
Consumer loans	328	661	746	896	5,408	9,924	0	0	6,482	11,481
Total	**1,482**	**2,313**	**1,846**	**3,092**	**7,322**	**19,279**	**245**	**580**	**10,895**	**25,264**

Note: Under IFRS 9, NN Bank also calculates provisions for bonds (non-retail), which amounts to EUR 0.1 million per year-end 2021 (2020: EUR 0.1 million).

For the mortgage, consumer loans and bonds portfolio together, the stock of provisions as at year-end amounted to EUR 10.9 million (2020: EUR 25.3 million). The following remarks can be made:

- For mortgages, the provisions decreased due to a sharp housing price increase in 2021 (17.5%). The provisions decreased further due to low unemployment and an update in the default policy following ECB guidance on the definition of default.
- For consumer loans, the provisions mainly decreased due to a one-time, high write-off that results in a release of provisions of EUR 3.7 million. The remainder in the decrease of provisions is explained by a decrease in the size of the portfolio.
- The impact of Covid-19 on the risk costs was very limited in 2021. However, the recurrence of lockdowns across different countries in Europe following the emergence of new variants of the Covid-19 virus remains a concern. Due to this uncertainty, the weights of the macro-economic scenarios were updated with a higher weight of 40% chance for a downturn scenario (up from 10%). This results in an increase in the provision of EUR 1.8 million.
- Write-offs minus reversals were EUR 4.9 million, of which EUR 0.0 million for mortgages. Write-offs were low for mortgages due to low unemployment and a strong housing price increase in 2021, while they were high for consumer lending due to one-time write-off of protracted defaulted loans (EUR 5.6 million).

Forbearance

According to NN Bank's definition, forbearance occurs when the customer is considered to be unable to meet their 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 in place to ensure the total or partial repayment of an existing loan, with which the debtor is unable to comply

Examples of forbearance measures are: reduction of loan principal or interest payments, temporary payment holiday 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.

Notes to the Consolidated annual accounts Continued

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

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

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

- From performing to non-performing: if the performing loan, after forbearance measures have been granted, becomes more than 30 days past due or, under certain conditions, receives additional forbearance measures during the probation period
- From non-performing to performing: the non-performing loan, after forbearance measures have been granted, may receive performing status, only when:
  - One year has passed since the forbearance measures were granted
  - There is no past due amount or no concerns regarding full repayment of the exposure, according to the post-forbearance conditions

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

- The loan is considered to be performing and has been reported as 'performing forbearance' for a minimum of two years
- The loan 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 2021 amounted to EUR 349 million (1.7% of mortgage exposure). The loans with a 'Terms & Conditions' forbearance measure have sharply increased as a result of the new definition of default, in which additional forbearance triggers have been introduced and clients remain flagged as forborne longer due to an extended probation period.
The drop in the 'Restructuring' category is the result of the reclassification to 'Terms & Conditions' category following further guidance on the interpretation of the regulation.

Forbearance category in percentage of total lending exposure

	2021	2020
Restructuring	0.00%	0.13%
Terms & Conditions	1.70%	0.84%
Total forbearance	**1.70%**	**0.97%**

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 economic value. These two perspectives are complementary, and both are necessary to comprehensively capture interest rate risk. Interest rate risk in the banking book, including interest rate-related customer behaviour risk, is covered under Pillar II. ALM Risk Management is responsible for determining adequate policies and procedures for managing interest rate risk and for monitoring the compliance with these guidelines.

Customer behaviour modelling

NN Bank is exposed to interest rate risk arising from embedded options in products like mortgages and savings. Customer behaviour towards these options influences future volumes and margins. Behaviour modelling is applied in the Bank's key interest rate risk measurements. 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 under various interest rate scenarios, outstanding and expected volumes, and the level of the yield curve. The analyses result in replication rules 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.

Risk profile

At least annually, NN Bank conducts a financial risk assessment aimed at the identification and assessment of key interest rate risks. The outcomes are used as input to the ICAAP and risk appetite reviews. The Bank has a high inherent exposure to interest rate gap risk which it mitigates by attracting funding that matches the repricing tenors of its mortgages. Further, the position is steered by closure of interest rate swaps. Exposure to risk from embedded behavioural options is accounted for in the computation of economic capital. 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. Exposures are monitored by the NN Bank ALCO.

Notes to the Consolidated annual accounts Continued

Value perspective
Value-based interest rate risk measures quantify the uncertainty in the future economic 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 economic 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 and in line with EBA GL/2018/02, risk-free discounting is applied with exclusion of commercial margins and spreads from cash flows.

Duration measures the sensitivity of the 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. These duration measures are the key instrument in the steering of the interest rate risk position of the Bank.

The duration and key rate durations 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 economic value of NN Bank's balance sheet. It is measured for both parallel and non-parallel scenarios. In the table below, the impact of a 2% interest rate shock on the economic value of the balance sheet is presented. The NPVaR captures 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 value of equity. NN Bank measures NPVaR for both parallel and non-parallel scenarios. The NPVaR metric is based on unconditional cash flow modelling with an add-on for automatic options. Scenario-dependent execution of behavioural options is accounted for in the computation of economic capital that is reported under ICAAP.

The loss of economic 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 statement of financial position or statement of profit or loss.

NPVaR

Percentage of total equity	2021	2020
Parallel shift 200 basis points	-0.4%	-1.6%

Exposure to NPVaR per end-of 2021 is well below regulatory and internal limits.

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

In the table below, the EaR figure for a 1% parallel shock with a one-year horizon is shown under a constant balance sheet assumption. The EaR is expressed as a percentage of the interest result, taking the worst-case impact of the up-and-down 100 basis points parallel shock scenarios. 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	2021	2020
Parallel shift 100 basis points	-3.8%	-4.1%

EaR exposure remained at the same level as per year-end 2020, with a positive net repricing gap on the one-year horizon creating earnings sensitivity to scenarios. The exposure has been well within appetite during 2021.

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

Notes to the Consolidated annual accounts Continued

survival period. For the long term, the funding profile is managed in such a way that long-term compliance to both internal and external targets is ensured. This implies that the maturities of the assets and the corresponding funding should be matched as well as possible. Given the profile of NN Bank, the long-term mortgage portfolio and the ability to attract long-term funding are the main causes of funding liquidity risk. For the short term, the main liquidity risk is caused by the potential outflow of customer savings.

Strategic liquidity risk profile

NN Bank manages its balance sheet prudently, whereby the Bank aims to fund the longer-term assets with stable and longer-term liabilities. Monitoring and control of the funding is achieved through a dedicated funding and liquidity framework. Each year, the business strategy is translated into a funding plan for a minimum of three years. The funding plan and corresponding liquidity gap are monitored in the ALCO on a monthly basis. In 2021, NN Bank has issued long-term covered bonds to manage the long-term mismatch between assets and liabilities. Furthermore, NN Bank has issued 'Minimum Requirements for Own Funds and Eligible Liabilities' (MREL) eligible paper to anticipate for MREL regulatory requirements. The notes of the RMBS (Hypenn I and VII) are still included in NN Bank's liquidity buffer. These serve as a backup in case of a prolonged Covid-19 scenario or other (liquidity) crisis.

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, stress tests are performed in which the time-to-survival is calculated given internal stress scenarios. The scenarios assume stress like severe outflow of savings and unavailability of additional funding sources.

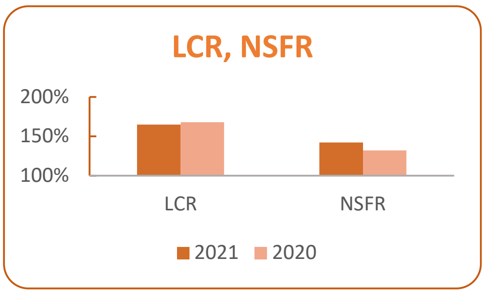
Contingency liquidity risk

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. Due to the uncertainties in the markets following the Covid-19 outbreak, NN Bank activated the crisis team in 2020. The meeting frequency decreased as markets recovered. 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

	2021	2020
LCR	165%	168%
NSFR	141%	132%



At the end of December 2021, NN Bank had an LCR of 165% and an NSFR of 141%. 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.

Non-financial risk management

Emerging, strategic, operational, compliance, legal and related second-order risks – such as reputational risks – are monitored. To ensure that these risks are controlled and proactively managed, NN Bank has a framework in place to govern the process of identifying, assessing, mitigating, monitoring and reporting non-financial risks.

Emerging and strategic risks

Risk profile

Risks related to future external uncertainties that could pose a threat to the sustainability and viability of NN Bank's business model and risks arising from making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating

Notes to the Consolidated annual accounts Continued

environment. Emerging and strategic risks encompass disruptive technology risk, political and regulatory risk, societal risk, business model risk, algorithm/model risk from a decision-making perspective and HR risk.

Risk mitigation

NN Bank's strategy and strategic initiatives are emerging and strategic risk mitigants. These mitigants aim to with to deal with emerging and strategic risk to further ensure the sustainability and viability of NN Bank's business model. Emerging and strategic risk identification and mitigation is supported by business environment scenario planning, strategic risk assessments and through monitoring and management of emerging and strategic risks. Emerging and strategic risks are first managed by the NN Bank MB itself, supported by its NN Bank Management Team. The Board committees manage non-financial risks, either in a dedicated manner, as with the Non-Financial Risk Committee and Model Committee, a specific manner, as through the Data Governance Committee, or as part of a committee with a broader risk management mandate, such as through the Product Approval & Review Committee and Crisis Committee.

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, for instance, IT risk, outsourcing risk, fraud risk and legal risk, but excludes strategic and reputational risk for the purpose of a minimum regulatory operational risk capital charge. Operational risk concerns NN Bank's ability to execute its chosen strategy while meeting stakeholder expectations.

Risk mitigation

For operational risk, NN Group has developed an Enterprise Control Framework (ECF) that governs the risk cycle: i.e. the process of identifying, assessing, mitigating, monitoring and reporting financial and non-financial risks. Non-financial risk assessments are conducted on a strategic level (strategic risk assessments) and a business level, and are forward-looking. Based on the identified risks, measures have been implemented to mitigate them within the risk appetite. NN Bank conducts regular risk and control monitoring to evaluate the risks and the effectiveness of the controls. The business owners are responsible for the actual execution of the controls, and for assessing the adequacy of their internal controls.

Business conduct risk

Risk profile

Business conduct risk is the risk of impairment of NN Bank's integrity. It is the risk of failure (or perceived failure) to comply with NN Group's business principles and 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 applicable standards and laws and regulations.

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 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.

When developing products, NN Bank performs product reviews and implements 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. Given the macro-economic uncertainty due to Covid-19, the outcome of the SREP process was that the capital requirements were kept unchanged.

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

Capital position

Amounts in millions of euros	2021	2020
Common Equity Tier 1 Capital[1]	1,062	1,047
Total capital[1]	1,147	1,132
Risk Weighted Assets	6,120	6,001
Common Equity Tier 1 ratio[1]	17.3%	17.4%
Total capital ratio[1]	18.7%	18.9%

1 These capital ratios are not final until filed with the regulators and exclude net result for the year 2021, for which approval of inclusion is not yet obtained. If DNB approves the addition of the net result after payment of the proposed final cash dividend, the Total capital is EUR 1,042 million, with a total capital ratio of 17.0% and CET1 ratio of 15.6%.

NN Bank has maintained a solid capital position with a Capital Requirements Regulation (CRR) total capital ratio of 18.7% (31 December 2020: 18.9%) and a CRR CET1 ratio of 17.3% as of 31 December 2021 (31 December 2020: 17.4%). Common Equity Tier 1 Capital amounts to EUR 1,062 million (31 December 2020: EUR 1,047 million) and has increased mainly due to internal capital generation in the form of retained profit.

Liquidity adequacy

During 2021, NN Bank maintained an adequate liquidity position.

	2021	2020
Liquidity Coverage Ratio (LCR)	165%	168%
Net Stable Funding Ratio (NSFR)	141%	132%
Loan-to-Deposit ratio (LtD)	129%	127%

On 31 December 2021, NN Bank had an LCR ratio of 165%. 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 previously issued RMBSs for which the notes are included in NN Bank's liquidity buffer. These can be used for ECB standing facilities (excl. emergency facilities) and commercial repo transactions. Further, NN Bank had intra-group facilities in place for use when necessary.

In addition 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 2021, NN Bank had a NSFR ratio of 141%. This is well above regulatory and internal minimums.

The LtD 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 2021, NN Bank had an LtD ratio of 129%, which is well within the internal threshold.

Notes to the Consolidated annual accounts Continued

Besides these ratios, stress tests are performed in which the time-to-survival is calculated given internal stress scenarios. The scenarios assume stressors such as severe outflow of savings and unavailability of additional funding sources.

Dividend policy

NN Bank aims to pay dividends to its shareholder on a semi-annual basis, 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 the first half of 2021, NN Bank paid a final dividend of EUR 12.0 million relating to the profit of 2020. The 2020 final dividend was paid in cash, and was deducted from the retained earnings.

NN Bank paid an interim dividend over 2021 of EUR 124.5 million in October 2021. With the proposed payment of EUR 111.6 million as final dividend for 2021, NN Bank will move closer towards its target capital level.

Authorisation to the Consolidated annual accounts

The Consolidated annual accounts of NN Bank for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the NN Bank Management Board on 23 March 2022.

The Hague, 23 March 2022

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

A.A.G. (André) Bergen, chair

T. (Tjeerd) Bosklopper

D. (Delfin) Rueda

A.M. (Anne) Snel-Simmons

Confirmed and adopted by the General Meeting, dated ....

Parent company annual accounts

Parent company statement of financial position

Amounts in thousands of euros, unless stated otherwise

Parent company statement of financial position

As at 31 December before appropriation of result	notes	2021	2020[1]
Assets			
Cash and balances at central banks		1,324,778	2,585,528
Amounts due from banks	2	216,008	349,088
Financial assets at fair value through profit or loss:			
– non-trading derivatives[1]		8,353	25,217
Investment securities		1,271,432	933,334
Loans[1]	3	20,515,243	20,404,402
Receivables from group companies[1]	4	649,285	813,792
Other assets	5	151,086	131,855
Investments in group companies	6	130,053	107,961
Intangible assets		23,106	23,755
Total assets		**24,289,344**	**25,374.932**
Liabilities			
Amounts due to banks		0	438,583
Customer deposits and other funds on deposit		15,904,147	15,742,735
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives[1]	7	4,218	118,961
Other borrowed funds		200,000	470,000
Other liabilities	8	56,862	65,350
Deferred tax liabilities		8,191	11,609
Provisions		25,761	6,402
Debt securities issued	9	6,186,203	5,494,393
Loans from group companies[1]	10	724,323	1,806,189
Subordinated debt		85,000	85,000
Total liabilities		**23,194,705**	**24,239,222**
Equity			
Share capital		10,000	10,000
Share premium		481,000	481,000
Revaluation reserve		-4,747	2,457
Retained earnings		506,619	516,995
Unappropriated result		101,767	125,258
Shareholders' equity	11	**1,094,639**	**1,135,710**
Total equity and liabilities		**24,289,344**	**25,374,932**

1 The comparative information is restated on account of correction of errors. See Note 1 'Accounting policies for the Parent company annual accounts'.

References relate to the notes starting on page 104. These form an integral part of the Parent company annual accounts.

Parent company statement of profit or loss

Amounts in thousands of euros, unless stated otherwise

Parent company statement of profit or loss

For the year ended 31 December	notes		2021		2020
Interest income		603,819		650,278	
Interest expenses		446,400		471,010	
Interest result	12		157,419		179,268
Income from group companies	6		24,343		16,930
Gains and losses on financial transactions and other income	13		74,482		112,128
– gross fee and commission income		135,799		118,772	
– fee and commission expenses		13,841		11,793	
Net fee and commission income	14		121,958		106,979
Valuation results on non-trading derivatives	15		-9,722		-21,459
Total income			**368,480**		**393,846**
Impairment charges on financial instruments			-9,644		3,536
Staff expenses			126,222		114,554
Regulatory levies			27,162		20,377
Other operating expenses			96,700		91,722
Total expenses			**240,440**		**230,189**
Result before tax			**128,040**		**163,657**
Taxation			26,273		38,399
Net result			**101,767**		**125,258**

Parent company statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Parent company statement of changes in equity (2021)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Equity - 1 January 2021	**10,000**	**481,000**	**2,457**	**642,253**	**1,135,710**
Unrealised revaluations after taxation	0	0	-5,205	0	-5,205
Realised gains or losses transferred to the statement of profit or loss	0	0	-1,245	0	-1,245
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-6,450**	**0**	**-6,450**
Net result	0	0	0	101,767	101,767
Total comprehensive income	**0**	**0**	**-6,450**	**101,767**	**95,317**
Dividend paid	0	0	0	-136,466	-136,466
Change in employee share plans	0	0	0	78	78
Other	0	0	-754	754	0
Equity - 31 December 2021	**10,000**	**481,000**	**-4,747**	**608,386**	**1,094,639**

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

Parent company statement of changes in equity (2020)

	Share capital	Share premium	Revaluation reserve	Other reserves[1]	Total equity
Equity - 1 January 2020	**10,000**	**481,000**	**147**	**516,926**	**1,008,073**
Unrealised revaluations after taxation	0	0	10,721	0	10,721
Realised gains or losses transferred to the statement of profit or loss	0	0	-8,411	0	-8,411
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**2,310**	**0**	**2,310**
Net result	0	0	0	125,258	125,258
Total comprehensive income	**0**	**0**	**2,310**	**125,258**	**127,568**
Dividend paid	0	0	0	0	0
Change in employee share plans	0	0	0	69	69
Other	0	0	0	0	0
Equity - 31 December 2020	**10,000**	**481,000**	**2,457**	**642,253**	**1,135,710**

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 statement of financial position and Consolidated statement of profit or loss are also applicable to the Parent company statement of financial position and statement of profit or loss, 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

Restatement of prior year figures

During 2021, the Bank determined that two intercompany positions with group companies were not eliminated. As a consequence, 'Loans', 'Receivables from group companies' and 'Loans from group companies' have been overstated in the 2020 annual accounts. The errors have been corrected by restating each of the affected annual account line items for the prior period. 'Loans' has been adjusted from EUR 20,566.8 million to EUR 20,404.4 million, 'Receivables from group companies' from EUR 1,085.8 million to EUR 813.8 million and 'Loans from group companies' from EUR 2,275.5 million to EUR 1,841.1 million in the parent company annual accounts. There is no impact on the Bank's equity and net result for the year ended 31 December 2020.

Reference is made to Note 1 'Accounting policies' in the Consolidated annual accounts for the restatement of non-trading derivatives positions.

2 Amounts due from banks

	2021	2020
Bank balances	11,434	13,168
Collateral posted	204,574	335,920
Amounts due from banks	**216,008**	**349,088**

3 Loans

Loans analysed by type

Loans analysed by type	2021	2020
Loans secured by mortgages, guaranteed by public authorities	4,756,024	4,871,816
Loans secured by mortgages	15,236,105	14,832,650
Consumer lending, other	104,341	136,620
Other loans	152,583	306,749
Group companies	277,079	281,773
Loans – before loan loss provisions	**20,526,132**	**20,429,608**
Loan loss provisions	-10,889	-25,207
Loans	**20,515,243**	**20,404,402**

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 8.4 million are recognised (2020: EUR 21.9 million).

Changes in loans

	2021	2020
Loans to third parties – opening balance	20,429,608	19,024,170
Mortgage portfolio transfer	239.044	437,329
Partial transfers of mortgage loans	24,902	13,895
Origination	3,010,137	4,391,029
Sale of mortgages	0	-1,135,220
Change in mortgage premium	-24,985	-18,679
Fair value change hedged items	-461,527	327,459
Other changes	-50,172	33,519
Modifications	1,985	3,399
Redemptions	-2,635,588	-2,625,092
Changes in staging	-7,272	-22,201
Loans to third parties – closing balance	**20,526,132**	**20,429,608**

Notes to the Parent company annual accounts Continued

4 Receivables from group companies

Changes in receivables from group companies

	2021	2020
Receivables from group companies – opening balance	813,792	1,070,225
Movement	-164,507	-256,433
Receivables from group companies – closing balance	**649,285**	**813,792**

'Receivables from group companies' mainly consists of a loan to HQ Hypotheken 50 B.V. for the funding of the third-party loans as serviced by Quion. The interest rate for 2021 is the same as 2020, and is based on Euro OverNight Index Average (EONIA) with an add-on of 0.6%. The related interest expenses for 2021 amount to EUR 0.6 million (2020: EUR 1.1 million).

5 Other assets

Other assets by type

	2021	2020
Accrued assets	39,073	33,327
Other receivables	112,013	98,528
Other assets	**151,086**	**131,855**

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

6 Investments in group companies

Investment in group companies

	Interest held 2021	Balance sheet value 2021	Interest held 2020	Balance sheet value 2020
HQ Hypotheken 50 B.V.	100%	124,569	100%	107,838
Nationale-Nederlanden Beleggingsrekening N.V.	0%	0	100%	123
Woonnu B.V.	100%	5,484	100%	0
Investments in group companies		**130,053**		**107,961**

Changes in investments in group companies

	2021	2020
Investments in group companies – opening balance	107,961	88,903
Results from group companies	24,343	16,930
Value adjustment group companies	-2,128	2,128
Changes in the composition of the group and other changes	-123	0
Investments in group companies – closing balance	**130,053**	**107,961**

7 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2021	2020
Derivatives held for fair value hedge accounting	4,218	116,648
Other non-trading derivatives	0	2,313
Non-trading derivatives	**4,218**	**118,961**

Notes to the Parent company annual accounts Continued

8 Other liabilities

Other liabilities

	2021	2020
Income tax payable	1,775	10,460
Accrued interest	16,229	14,283
Costs payable	11,995	13,906
Other taxation and social contribution	14,255	14,529
Other amounts payable	12,608	12,172
Other liabilities	**56,862**	**65,350**

'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

	2021	2020
Covered bond issues	4,306,975	3,888,911
Unsecured debt securities	1,879,228	1,605,482
Total	**6,186,203**	**5,494,393**

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

10 Loans from group companies

This position reflects mainly liabilities towards SPE's. Reference is made to Note 35 'Structured entities' in the Consolidated annual accounts. The securitised mortgage portfolios do not qualify for derecognition, since NN Bank retains substantially all risk and rewards. As a consequence, the SPE accounts a loan to NN Bank and NN Bank accounts a loan to SPE, which is included in the line item 'Loans from group companies'.

11 Equity

Equity

	2021	2020
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	-4,747	2,457
Retained earnings	506,619	516,995
Unappropriated result	101,767	125,258
Total equity	**1,094,639**	**1,135,710**

Share capital

			Ordinary shares	
	Shares in number		Amount (in EUR thousand)	
	2021	2020	2021	2020
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 (2021)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Revaluation reserve, retained earnings and unappropriated result – opening balance	2,457	516,995	125,258	644,710
Net result for the period	0	0	101,767	101,767
Dividend paid	0	-136,466	0	-136,466
Unrealised revaluation	-6,450	0	0	-6,450
Transfers to/from retained earnings	0	125,258	-125,258	0
Change in employee share plans	0	78	0	78
Other	-754	754	0	0
Revaluation reserve, retained earnings and unappropriated result – closing balance	**-4,747**	**506,619**	**101,767**	**603,639**

Notes to the Parent company annual accounts Continued

Changes in revaluation reserve, retained earnings and unappropriated result (2020)

	Revaluation reserve	Retained earnings	Unappropriated result	Total
Revaluation reserve, retained earnings and unappropriated result – opening balance	147	400,755	116,171	517,073
Net result for the period	0	0	125,258	125,258
Dividend paid	0	0	0	0
Unrealised revaluation	2,310	0	0	2,310
Transfers to/from retained earnings	0	116,171	-116,171	0
Change in employee share plans	0	69	0	69
Other	0	0	0	0
Revaluation reserve, retained earnings and unappropriated result – closing balance	**2,457**	**516,995**	**125,258**	**644,710**

'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 (2020: EUR 0.1 million). The total Distributable reserves based on the Dutch Civil Code in the Parent company annual accounts is EUR 1,066.3 million (2020: EUR 1,099.4 million).

12 Interest result

Interest result

	2021	2020
Interest income on loans	553,012	595,521
Modifications	2,009	3,460
Interest income on non-trading derivatives	46,115	47,675
Negative interest on liabilities	2,683	3,622
Total interest income	**603,819**	**650,278**
Interest expenses on amounts due to banks	470	112
Interest expenses on customer deposits and other funds on deposit	134,742	155,186
Interest expenses on debt securities issued and other borrowed funds	37,597	34,891
Interest expenses on non-trading derivatives	122,883	109,134
Interest expenses on subordinated loans	1,459	1,526
Negative interest on assets	9,638	7,413
Other interest expenses	5,660	1,815
Interest expenses on structured entities	133,951	160,933
Total interest expenses	**446,400**	**471,010**
Interest result	**157,419**	**179,268**

'Negative interest on assets' includes negative interest income charged by DNB of EUR 7.7 million (2020: EUR 5.4 million). The remainder concerns interest on investment securities.

Interest margin in percentages

	2021	2020
Interest margin	**0.63%**	**0.71%**

'Interest margin' is calculated by dividing the interest result by the average of the total assets for year-end 2021 and 2020, respectively.

13 Gains and losses on financial transactions and other income

	2021	2020
Realised gains or losses of investment securities	1,660	10,742
Results from financial transactions	59,396	76,759
Net income from loans measured at FVTPL	-46	-3,353
Other income	13,472	27,980
Gains and losses on financial transactions and other income	**74,482**	**112,128**

Notes to the Parent company annual accounts Continued

14 Net fee and commission income

Net fee and commission income

	2021	2020
Service management fee	45,366	43,622
Brokerage and advisory fees	90,387	75,150
Other fees	46	0
Gross fee and commission income	**135,799**	**118,772**
Asset management fees	11,607	7,662
Brokerage and advisory fees	2,222	4,056
Other fees	12	75
Fee and commission expenses	**13,841**	**11,793**
Net fee and commission income	**121,958**	**106,979**

15 Valuation results on non-trading derivatives

	2021	2020
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	352,184	-299,686
– the hedged items (mortgages) attributable to the hedged risk	-354,608	304,010
Gains or losses (fair value changes) in other non-trading derivatives	-7,298	-25,783
Valuation results on non-trading derivatives	**-9,722**	**-21,459**

16 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities (2021)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,324,778	0	0	0	0	1,324,778
Amounts due from banks	11,434	204,574	0	0	0	216,008
Loans	148,589	108,223	208,900	1,477,655	18,571,876	20,515,243
Liabilities						
Amounts due to banks	0	0	0	0	0	0
Customer deposits and other funds on deposit	10,110,810	146,634	588,957	2,105,095	2,952,651	15,904,147
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	4,218	0	0	0	0	4,218
Debt securities issued	0	0	0	2,805,158	3,381,046	6,186,204

Analysis of certain assets and liabilities (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	2,585,528	0	0	0	0	2,585,528
Amounts due from banks	13,168	335,920	0	0	0	349,088
Loans	278,611	47,461	157,080	1,439,417	18,481,833	20,404,402
Liabilities						
Amounts due to banks	15,599	178,000	135,000	109,984	0	438,583
Customer deposits and other funds on deposit	9,934,881	124,965	581,622	2,146,007	2,955,260	15,742,735
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	2,140	0	0	2,605	114,216	118,961
Debt securities issued	0	0	208,760	2,798,244	2,487,389	5,494,393

Notes to the Parent company annual accounts Continued

17 Contingent liabilities

Contingent liabilities and commitments (2021)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	656	656
Irrevocable credit facilities	51,224	0	0	0	0	51,224
Mortgage and consumer lending offerings	30,646	320,847	370,197	0	0	721,690
Construction deposits	53,633	72,472	189,445	122,810	0	438,360
Contingent liabilities and commitments	**135,503**	**393,319**	**559,642**	**122,810**	**656**	**1,211,930**

Contingent liabilities and commitments (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	892	892
Irrevocable credit facilities	129,385	0	0	0	0	129,385
Mortgage and consumer lending offerings	191,057	363,507	175,192	0	0	729,756
Construction deposits	22,535	50,117	156,736	73,406	0	302,794
Contingent liabilities and commitments	**342,977**	**413,624**	**331,928**	**73,406**	**892**	**1,162,827**

18 Related parties

NN Bank has entered into transactions with its principal subsidiary, HQ Hypotheken 50 B.V. and Woonnu 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 related interest income for 2021 amount to EUR 0.6 million (2020: EUR 1.1 million).

Woonnu B.V. originates mortgages directly on behalf of NN Bank and receives an origination fee for this service. The related origination fee amounts to EUR 2.9 million (2020: EUR 1.1 million).

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

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 2021 were authorised for issue in accordance with a resolution of the Management Board on 23 March 2022.

The Hague, 23 March 2022

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

A.A.G. (André) Bergen, chair

T. (Tjeerd) Bosklopper

D. (Delfin) Rueda

A.M. (Anne) Snel-Simmons

Confirmed and adopted by the General Meeting, dated ....

Other information

Independent auditor's report

Independent auditor's report

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

Report on the audit of the annual accounts 2021 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 2021 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 2021 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 2021 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 statement of financial position as at 31 December 2021;
2 the following consolidated statements for 2021: the statement of profit or loss and 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 statement of financial position as 31 December 2021;
2 the parent company statement of profit or loss for 2021;
3 the parent company statement of changes in equity; and
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).

Our audit procedures were determined in the context of our audit of the annual accounts as a whole. Our observations in respect of going concern, fraud and non-compliance with laws and regulations and the key audit matters should be viewed in that context and not as separate opinions or conclusions.

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 — 4.4% of result before tax

Group audit
— Audit coverage of 100% of total assets — Audit coverage of 100% of revenue

Going concern and Fraud/Noclar
— Going concern: no significant going concern risks identified — Fraud & Non-compliance with laws and regulations (Noclar): management override of controls

Key audit matters
— Estimation uncertainty with respect to impairment losses on mortgage and consumer credit loans — Reliability and continuity of electronic data processing

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 6 million (2020: EUR 6 million). The materiality is determined with reference to the result before tax (4.4%). We consider result before tax as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts and given the fact that NN Bank is a profit-oriented entity. 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 identified during our audit in excess of EUR 300 thousand (2020: 300 thousand) would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NN Bank has two fully owned subsidiaries: HQ Hypotheken 50 B.V. and Woonnu B.V. Through HQ Hypotheken 50 B.V., NN Bank offers mortgage loans to customers via a business partner. Woonnu B.V. serves as a mortgage loan originator under the label 'Woonnu' for and on behalf of NN Bank and other entities.

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 account balances included in the consolidated annual 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 level;

— 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 originated by Woonnu for and on behalf of NN Bank. We furthermore made use of the work performed by auditors of certain 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.

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 responses

Independent auditor's report Continued

KPMG

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 about the annual accounts.

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

Audit response to going concern – no significant going concern risks identified

The Management Board has performed its going concern assessment and has not identified any significant going concern risks. To assess the Management Board's assessment, we have performed, inter alia, the following procedures:

— we considered whether the Management Board's assessment of the going concern risks includes all relevant information of which we are aware as a result of our audit;

— we analysed the company's financial position as at year-end and compared it to the previous financial year in terms of indicators that could identify significant going concern risks;

— we inspected regulatory correspondence and the minutes of board meetings, and performed substantive audit procedures to obtain an understanding of the Company's minimum regulatory and internal capital and liquidity position respectively and the related adequacy assessment of all capital targets, that underpins management's assessment of the going concern assumption for financial reporting.

The outcome of our risk assessment procedures on the going concern assessment, including our consideration of findings from our audit procedures on other areas, did not give reason to perform additional audit procedures on management's going concern assessment.

Audit response to the risk of fraud and non-compliance with laws and regulations

In the risk management paragraph of the annual accounts, the Management Board describes its procedures in respect of the risk of fraud and non-compliance with laws and regulations and the Supervisory Board reflects on this.

As part of our audit, we have gained insights into the Company and its business environment, and assessed the design and implementation of the Company's risk management in relation to fraud and non-compliance. Our procedures included, among other things:

— assessing the Company's code of conduct, whistleblowing procedures, incidents register and its procedures to investigate indications of possible fraud and non-compliance;

— performing relevant inquiries with management, those charged with governance and other relevant functions, such as Internal Audit, Legal and Compliance.

Independent auditor's report Continued

As part of our audit procedures, we:

- evaluated internal reports from Internal Audit and Compliance on indications of possible fraud and non-compliance;
- evaluated correspondence with relevant supervisory authorities and regulators; and
- assessed other positions held by management board members and/or other employees and paid special attention to procedures and governance/compliance in view of possible conflicts of interest.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Company and identified the following areas as those most likely to have a material effect on the annual accounts:

- 'Wet op het financieel toezicht' (Wft, Act on Financial Supervision);
- Banking-specific regulatory requirements as imposed by the prudential regulator DNB;
- Regulations related to data privacy (GDPR, General Data Protection Regulation);
- Laws and regulations on Anti Money Laundering ('AML') and Financial Economic Crime ('FEC') (i.e. the 'Wet ter voorkoming van witwassen en financieren van terrorisme (Wwft, Anti-Money Laundering and Anti-Terrorist Financing Act)); and
- Capital Requirements Directive IV (CRD IV).

We evaluated the fraud and non-compliance risk factors to consider whether those factors indicate a risk of material misstatement in the annual accounts.

Revenue recognition (a presumed fraud risk)

We assessed the presumed fraud risk on revenue recognition to be irrelevant, because the accounting of interest income and commission income is based on automatically generated accruals based on static data taken from the loan source system and therefore concerns routine transactions not subject to management judgment.

Based on the above and on the auditing standards, we identified the following fraud risk that is relevant to our audit and responded as follows:

Management override of controls (a presumed fraud risk)

Risk:

- Management is by definition in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent annual accounts by overriding controls that otherwise appear to be operating effectively, such as via fictitious journal entries or estimates such as the impairment losses on mortgage and consumer credit loans.

Responses:

- We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, such as processes related to journal entries and estimates related to the impairment losses on mortgage and consumer credit loans.
- We performed a data analysis of high-risk journal entries and evaluated key estimates and judgments for bias by the Company's management, including retrospective reviews of prior year's estimates with respect to impairment losses on mortgage and consumer credit loans Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk, including testing of transactions back to source information.
- We incorporated elements of unpredictability in our audit by making use of random sampled items for substantive testing.

Our procedures to address the identified risk of fraud did not result in a key audit matter.

We communicated our risk assessment, audit responses and results to management and the Audit and Risk Committee of the Supervisory Board. Our audit procedures did not reveal indications and/or reasonable suspicion of fraud and non-compliance that could have a material effect on amounts recognised or disclosures provided in the annual accounts.

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.

Estimation uncertainty with respect to impairment losses on mortgage and consumer credit loans

Description

The loan portfolio of NN Bank is classified as 'hold to collect' and therefore measured at amortised cost. The mortgage and consumer credit loans measured at amortised cost amount to EUR 20.8 billion. The amortised cost is determined by subtracting the provision for loan losses from the outstanding balance of the loans.

In accordance with IFRS 9, NN Bank applies an expected credit loss approach to determine the provision for loan losses. The loan loss provision is determined using complex models on a portfolio basis using expert judgement. There is a risk that the models do not reflect the accurate or complete loan loss provision. This could stem from incorrect underlying assumptions, insufficient control over the modelling process or insufficient data (quality) used to develop the model or as input in the model. Certain aspects of the determination of expected loan losses require significant judgement of management, such as the definition of significant increase in credit risk and the definition of default, the determination of the

Independent auditor's report Continued

probability of default using migration matrices, the application of macro-economic scenarios and estimating the recoverable amount to determine the 'Loss Given Default'. Therefore we consider the estimation uncertainty with respect to impairment losses on mortgage and consumer credit loans a key audit matter.

Our response

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

As part of our risk assessment procedures we obtained an understanding of management's process, systems and controls implemented. Our procedures over internal controls focused on controls around the accuracy of loan and collateral data, and the process for identifying increases in credit risk, such as arrears and the management thereof, and included an 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 and consumer credit loans, and determined that the provision is calculated as the product of these elements;
- We inspected model monitoring reports for the mortgage provision models and performed reperformance testing on these reports. The models used for the determination of the loan loss provision for the portfolio of consumer credit loans have been updated in 2021. We inspected the updated technical model documentation and model validation report.

  In our audit we challenged management's assessment whether the models are still 'fit-for-purpose' and considered the need for post model adjustments to accurately capture credit risk developments. We involved credit risk specialists from KPMG Corporate Finance to assist us in these procedures;
- We tested the accuracy and completeness of the data used for the calculations. As part of that, we tested whether the source data could be reconciled with the data captured in risk systems and the general ledger;
- We inspected for a selection of loans whether the data administered could be reconciled to source documentation. Important data to determine the provision for loan losses includes among others the collateral value and the payment history of the client;
- We performed procedures on the non-performing and forbearance classification of mortgage and consumer credit loans, in respect of the staging of loans. Therefore, we inspected for a selection of loans whether their classification is in line with source documentation.

  The procedures on non-performing loans include the assessment of the correct application of the 'new definition of default'. In our procedures with regard to the stage classification we also assessed the treatment of payment holidays granted in response to the Covid-19 pandemic;

Independent auditor's report Continued

KPMG

- We assessed whether the macro-economic scenarios and scenario weights used in the determination of the provision for loan losses are a fair reflection of the macro-economic data and forecasts (GDP, unemployment and house price index) as at 31 December 2021;
- We performed sensitivity analyses for several parameters applied in the loan loss provision models and performed a peer bank benchmarking analysis; and
- We assessed whether the disclosures appropriately address the uncertainty that exists when determining the expected credit losses, including the impact of applying different macro-economic scenarios, and whether the disclosure of the key judgements and assumptions made was sufficiently clear. This was in particular relevant given the changed conditions and increased estimation uncertainty resulting from the Covid-19 pandemic.

Our observation

Based on our procedures performed, we conclude that the expected credit losses for the portfolio of mortgage and consumer credit loans as determined by NN Bank is within an acceptable range and that NN Bank adequately disclosed information in accordance with IFRS-EU on the estimation uncertainty in note 1, note 6 and note 39 to the annual accounts. We have made recommendations to management to enhance the documentation of data quality and consistent data flows between NN Bank's source systems and to further strengthen the model development and model validation process.

Reliability and continuity of electronic data processing

Description

NN Bank and its financial reporting process are highly dependent on the reliability and the continuity of information technology due to the significant number of transactions that are processed on a daily basis. An adequate IT infrastructure ensures the reliability and continuity of the Company's business processes and the accuracy of financial reporting.
As the reliability and continuity of IT systems may have an impact on automated data processing and given the pervasive nature of the IT general control environment, we consider this a key audit matter.

Our response

- We obtained an understanding of the IT organisation and developments in the IT infrastructure to determine how it impacts the Company's processes.
- We assessed the impact of changes to the IT environment during the year, either from ongoing internal process optimisation initiatives or in order to meet external reporting requirements.
- We tested the design, implementation and operating effectiveness of General IT Control related to user access management and change management across applications, databases and operating systems.

Independent auditor's report Continued

- In some areas where we had observations in terms of the effectiveness of internal controls we performed additional procedures over the remedial control actions taken by management on access and change management for the related systems.
- We tested application controls over automated data processing, data feeds and interfaces when relevant for financial reporting.
- We assessed the reliability and continuity of automated data processing only to the extent necessary within the scope of the audit of the annual accounts.
- We inquired with management on their initiatives and processes to address cybercrime.

Our observation

Based on the testing of General IT Controls, we obtained sufficient and appropriate audit evidence to support our IT-driven audit approach.
The results of the procedures performed regarding user access management and change management, including the testing of remedial control actions, were satisfactory in relation to our audit. Based on the procedures performed, we noted points for improvement in these areas that we have shared with the Management Board and the Supervisory Board.

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 for the management report and other information.

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.

Independent auditor's report Continued

KPMG

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of NN Bank on 28 May 2015, as of the audit for 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.

Services rendered

For the period to which our statutory audit relates, in addition to this audit, we have provided agreed-upon procedures and assurance engagements to NN Bank or its controlled undertakings. These services were rendered for the benefit of external users, largely driven by regulatory reporting requirements.

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. In that respect the Management Board, under supervision of the Supervisory Board, is responsible for the prevention and detection of fraud and non-compliance with laws and regulations, including determining measures to resolve the consequences of it and to prevent recurrence.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Independent auditor's report Continued

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 eng_oob_01.pdf (nba.nl). This description forms part of our auditor's report.

Amstelveen, 23 March 2022

KPMG Accountants N.V.

B.M. Herngreen RA

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 General Meeting, having heard the advice of the Management Board and the Supervisory Board, shall determine the appropriation of result. Reference is made to Note 17 'Equity' of the Consolidated annual accounts, for the proposed appropriation of result, and the proposed dividend payment.

Contact and legal information

Contact us

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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 2021 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) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which NN Bank operates, on NN Bank's business and operations and on NN Bank's employees, customers and counterparties, (3) changes in performance of financial markets, including developing markets, (4) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit and capital markets generally, (6) changes affecting interest rate levels, (7) changes affecting currency exchange rates, (8) changes in investor and customer behaviour, (9) changes in general competitive factors, (10) changes in laws and regulations and the interpretation and application thereof, (11) changes in the policies and actions of governments and/or regulatory authorities, (12) conclusions with regard to accounting assumptions and methodologies, (13) changes in ownership that could affect the future availability to NN Bank of net operating loss, net capital and built-in loss carry forwards, (14) changes in credit and financial strength ratings, (15) NN Bank's ability to achieve its strategy, including projected operational synergies, (16) 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, (17) the inability to retain key personnel, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) 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.