
# NIBC BANK ANNUAL REPORT 2017

NIBC

# TABLE OF CONTENTS

# AT A GLANCE

## WHO WE ARE

### OUR HERITAGE

NIBC was founded in 1945 to finance the visionary entrepreneurs who helped rebuild the Netherlands after World War II. Overtime, we evolved into an enterprising bank offering financing, advisory, and co-investing solutions to our clients. After we came out of the 2008 financial crisis, we have reinvented ourselves: being flexible and agile, with a THINK YES mentality and matching our clients' can-do attitude. We have seen many milestones since, with the launch of NIBC Direct and Beequip, the acquisitions of Gallinat Bank in Germany and SNS Securities, now NIBC Deutschland AG and NIBC Markets respectively and more recently our steps into the fintech space by acquiring minority stakes in Ebury and Finleap. Backed by our supportive and long term shareholder we have continued to build on our entrepreneurial DNA and have become the bank that we are today; best suited to help entrepreneurs at their decisive moments. Now and in the future.

### OUR PURPOSE

**Making a difference**
at decisive moments

### OUR VALUES

#### Professional

Our in-depth sector knowledge, expert financial solutions and tailored risk and portfolio management are the foundation of our success.

#### Entrepreneurial

We are a sound, enterprising bank focused on decisive moments in our clients' business and in life. Our clients require a bank that can respond to their needs in an agile way.

#### Inventive

We provide bespoke solutions and encourage our people to think creatively to meet clients' financial needs. Structuring is part of our DNA.

### OUR BUSINESS MODEL

NIBC serves around 700 mid-market businesses, 1000 investor relations and more than 400,000 retail clients from offices in The Hague, Amsterdam, Frankfurt, London and Brussels.

#### CORPORATE CLIENT OFFERING

We offer advice and debt, mezzanine and equity financing solutions to entrepreneurs across select sectors and sub-sectors in which we have strong expertise and market positions among mid-sized businesses.

#### RETAIL CLIENT OFFERING

We offer mortgages, brokerage products and online savings that are accessible, easy to understand and fairly priced. The mortgage offering includes value added products like Buy-to-Let and products tailored for self-employed entrepreneurs and small businesses.

### OUR DIFFERENTIATED APPROACH

- Client orientated franchise, present at clients' decisive moments
- Focus on products in client-led (sub) sectors
- Complete insight and overview through corporate portfolio size and limited number of clients
- Efficient, entrepreneurial and agile culture, driven by THINK YES approach
- No current accounts, no branch network and no flow business

# OUR STRATEGY

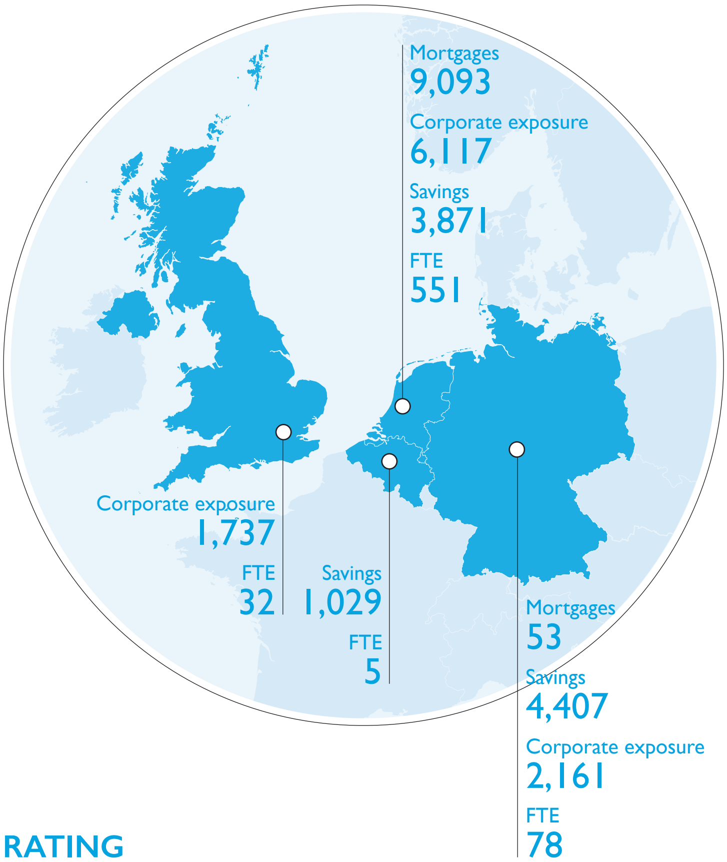
We continue to drive profitable growth through our differentiated market approach. We focus on building client relationships in profitable niches and (sub)sectors in North Western Europe – where we can leverage our local expertise, while maintaining a lean organisation with disciplined cost control and no branch network.

This means:
- We strive for continuous evolution of our client franchise, expertise and propositions
- We aim to grow our asset portfolio in core markets
- We aim to diversify our income streams
- We build on the existing agile and effective organisation
- We continue to invest in our people, culture and innovation
- We strive to further optimise our capital structure and diversify our funding base

# OUR MARKETS

Focus on North Western Europe

in EUR millions




## Profit after tax 2017

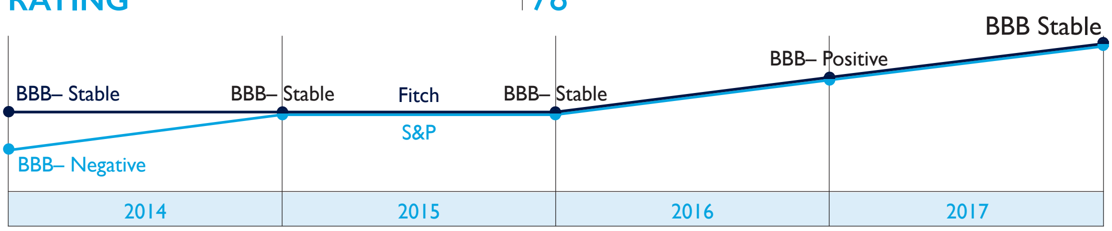
in EUR millions

210

## Commercial assets

in EUR millions

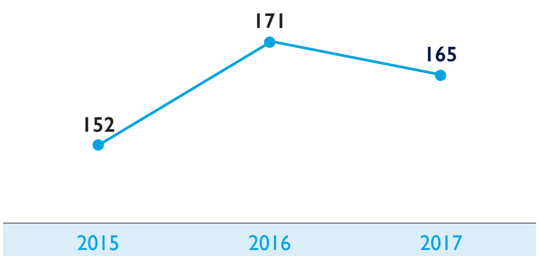

## RATING



# NON FINANCIAL HIGHLIGHTS

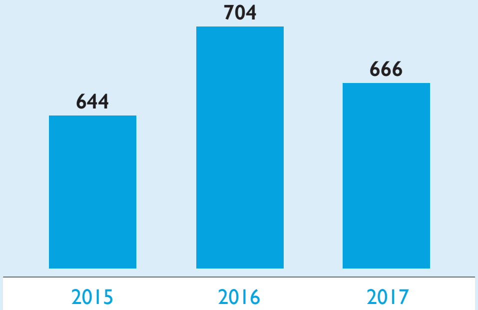
## Transparency Benchmark 2017

total out of 200 points




## Number of employees

(FTEs)

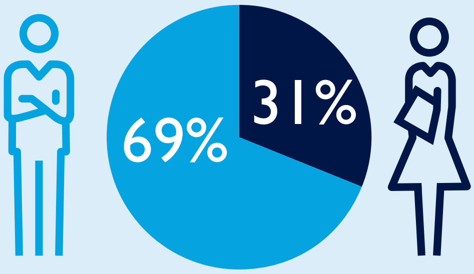



## Corporate lending NPS score 2017

+64%

2016: +37% 2015: +40%

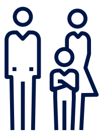
## Male female ratio 2017




2016: 73 / 27 2015: 70 / 30

## NIBC Direct Customer Survey score 2017

7.9



2016: 7.6 2015: 7.7

## Employee engagement 2016

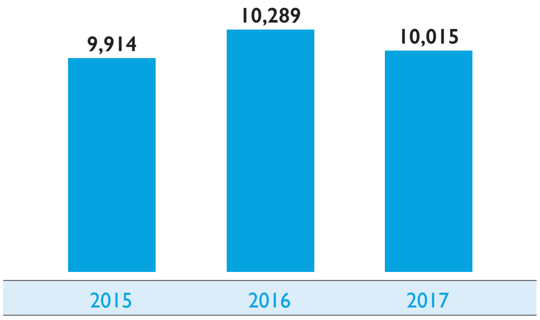
80%

2015: 84%

# FINANCIAL HIGHLIGHTS

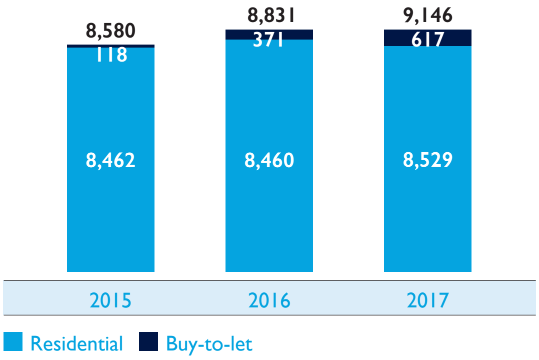
## Corporate client Assets

in EUR millions



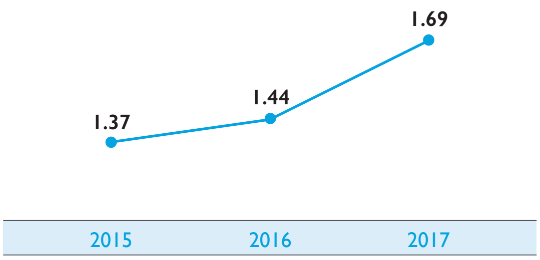

## Retail client assets

in EUR millions



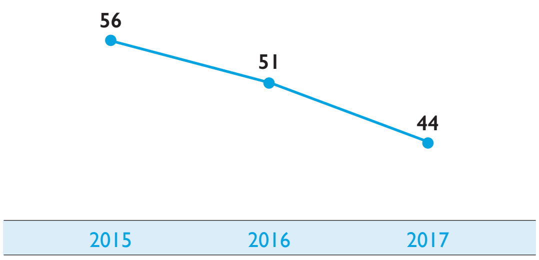

## Net interest margin

in %



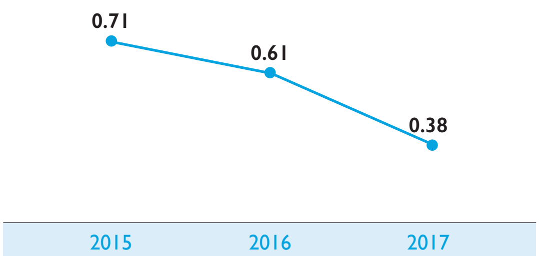

## Cost / income ratio

in %



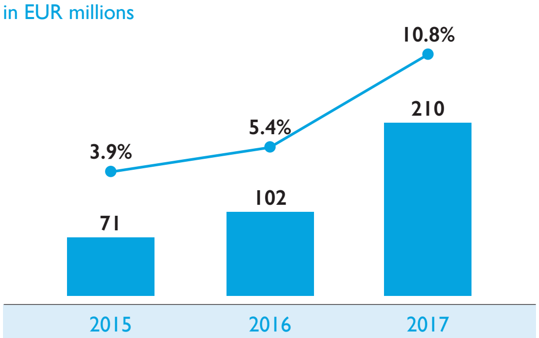

## Cost of Risk

in %



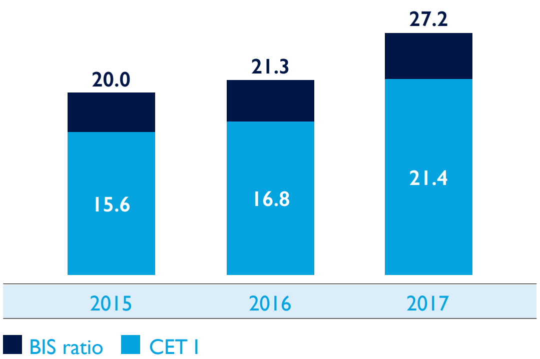

## Profit after tax and Return on equity

in EUR millions



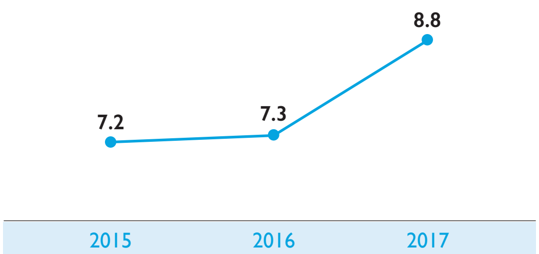

## Solvency ratios

in %




## Leverage ratio

in %



# KEY FIGURES

| in EUR millions | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Earnings** | | | |
| Operating income | 512 | 381 | 316 |
| Operating expenses | 223 | 194 | 177 |
| Profit after tax attributable to shareholder of the company | 210 | 102 | 71 |
| Profit after tax before special items | 213 | 104 | 71 |
| | | | |
| **Net interest margin[1]** | **1.69%** | **1.44%** | **1.37%** |
| Dividend payout ratio | 45% | 25% | 0% |
| Cost/income ratio | 44% | 51% | 56% |
| **Return on equity[2]** | **10.8%** | **5.4%** | **3.9%** |
| | | | |
| **Earnings per share basic (NIBC Holding)** | **1.46** | **0.71** | **0.48** |
| **Earnings per share diluted (NIBC Holding)** | **1.46** | **0.71** | **0.48** |
| | | | |
| **Corporate & retail client offering** | | | |
| **Corporate client assets (drawn & undrawn)** | | | |
| Commercial Real Estate (CRE) | 1,391 | 1,375 | 1,293 |
| Food, Agri, Retail & Health (FAR&H) | 1,216 | 1,149 | 896 |
| Industries & Manufacturing (I&M)[3] | 1,730 | 1,514 | 1,266 |
| Infrastructure & Renewables (I&R) | 1,626 | 1,618 | 1,990 |
| Offshore Energy (OE) | 934 | 1,233 | 1,282 |
| Shipping & Intermodal (S&I) | 1,297 | 1,512 | 1,537 |
| Telecom, Media, Technology & Services (TMT&S) | 1,198 | 1,257 | 968 |
| **Total corporate loans (drawn & undrawn)** | **9,393** | **9,658** | **9,232** |
| Lease receivables (closed book) | 60 | 123 | 221 |
| Investment loans | 220 | 246 | 161 |
| Equity investments | 343 | 262 | 300 |
| **Total corporate client assets (drawn & undrawn)** | **10,015** | **10,289** | **9,914** |
| **Corporate client assets (drawn & undrawn) per region** | | | |
| Netherlands | 4,415 | 3,849 | 3,304 |
| Germany | 2,161 | 2,378 | 2,229 |
| United Kingdom | 1,737 | 1,678 | 1,700 |
| Other | 1,702 | 2,384 | 2,681 |
| **Total corporate client assets (drawn & undrawn)** | **10,015** | **10,289** | **9,914** |
| **Retail client assets** | | | |
| Owner occupied Mortgage loans - Netherlands | 8,476 | 8,376 | 8,345 |
| Buy-to-Let Mortgage loans | 617 | 371 | 118 |
| Owner occupied Mortgage loans - Germany (closed book) | 53 | 84 | 117 |
| **Total retail client assets** | **9,146** | **8,831** | **8,580** |
| **Retail client savings** | | | |
| Netherlands | 3,871 | 3,950 | 4,129 |
| Germany | 4,407 | 4,542 | 4,687 |
| Belgium | 1,029 | 1,229 | 1,200 |
| **Total retail client savings** | **9,307** | **9,721** | **10,016** |
| | | | |
| **Asset quality** | | | |
| Risk-weighted assets | 8,546 | 10,109 | 10,162 |
| Cost of risk[4] | 0.38% | 0.61% | 0.71% |
| Impairment ratio[5] | 0.20% | 0.34% | 0.39% |

| in EUR millions | 2017 | 2016 | 2015 |
|---|---|---|---|
| NPL ratio[6] | 2.5% | 3.8% | 3.7% |
| Impaired exposure | 321 | 629 | 507 |
| Impairment coverage ratio[7] | 46% | 33% | 34% |
| Top-20 exposure / Common Equity Tier 1 | 62% | 79% | 86% |
| Exposure corporate arrears > 90 days | 1.6% | 2.0% | 0.7% |
| Exposure residential mortgage loans arrears > 90 days | 0.5% | 0.6% | 0.7% |
| Loan to value Dutch residential mortgage loans[8] | 75% | 78% | 80% |
| Loan to value BTL mortgage loans[8] | 57% | 59% | 61% |
| **Solvency information[9]** | | | |
| Equity attributable to shareholder of the company | 2,059 | 1,969 | 1,886 |
| AT1 and Subordinated liabilities | 482 | 398 | 400 |
| Group capital base | 2,544 | 2,367 | 2,286 |
| Balance sheet total | 22,209 | 23,580 | 23,229 |
| Common Equity Tier 1 ratio | 21.4% | 16.8% | 15.6% |
| Tier 1 ratio | 23.7% | 16.8% | 15.6% |
| BIS ratio | 27.2% | 21.3% | 20.0% |
| Leverage ratio | 8.8% | 7.3% | 7.2% |
| **Funding & liquidity[10]** | | | |
| LCR | 196% | 124% | 201% |
| NSFR | 117% | 112% | 113% |
| Loan-to-deposit ratio | 150% | 148% | 143% |
| Asset encumbrance ratio[11] | 26% | 29% | 29% |
| Retail savings / total funding | 44% | 46% | 48% |
| Secured funding / total funding | 19% | 23% | 24% |
| ESF / total funding | 6% | 6% | 6% |
| S&P rating & outlook | BBB / Stable | BBB- / Positive | BBB- / Stable |
| Fitch rating & outlook | BBB / Stable | BBB- / Positive | BBB- / Stable |
| **Other information** | | | |
| Assets under management for third parties | 2,185 | 1,538 | 1,703 |
| **Non-financial key figures[12]** | | | |
| Client & product responsibility | | | |
| NPS score Corporate Lending clients[13] | +64% | +37% | +40% |
| NIBC Direct customer survey score | 7.9 | 7.6 | 7.7 |
| % of new corporate loans screened against sustainability policy | 100% | 100% | 100% |
| Number of new clients with increased sustainibility risk assessment | 23 | 28 | 14 |
| Fines or sanctions for non-compliance with laws and regulations[14] | 1 | 0 | 1 |
| **Employees** | | | |
| Total number of FTEs end of financial period | 666 | 704 | 644 |
| Male / female ratio | 69% / 31% | 73% / 27% | 70% / 30% |
| Male / female ratio top management | 87% / 13% | 91% / 9% | 90% / 10% |
| Training expenses per employee (EUR) | 2,377 | 2,070 | 2,540 |
| Absenteeism (trend total)[15] | 2.2% | 2.4% | 2.2% |
| Employee turnover (employees started) | 14.5% | 24.3% | 15.2% |
| Employee turnover (employees left) | 19.8% | 14.9% | 15.2% |

1 12 months net interest income / 12 months average interest-bearing assets.
2 Profit after tax attributable to parent shareholder/total equity at the beginning of the year minus proposed dividend.
3 Industries and Manufacturing exposure includes facilities for BEEQUIP (2017: 300m and 2016: 150m)

4 Impairments & credit losses mortgages in net trading income / average total RWA.
5 Impairments / average carrying value of Loans & Mortgages.
6 Total non-performing exposure (corporate and consumer loans) / total exposure (corporate and consumer loans). Non-performing exposure determined at customer level.
7 Impairment amounts recognised on corporate and retail exposures / impaired corporate and retail exposures. Impairment amounts include amounts recognised as IBNR.
8 Loan-to-Indexed-Market-Value (LTIMV) excluding NHG guaranteed mortgages.
9 The solvency information is based on the CRR / CRD IV regulation, calculated for NIBC Bank consolidated on a fully loaded base and including the full year profit after tax and taking into account proposed dividend payment.
10 All funding & liquidity ratios with exception of loan-to-deposit are calculated at a NIBC Holding level, loan-to-deposit ratio is calculated at a NIBC Bank level.
11 Encumbered assets & total collateral received re-used / total assets & total collateral re-used.
12 For further information on the scoping of the Non-Financial Key Figures, please refer to the Definitions for the non-financial key figures in our annual report
13 The definition of NPS has changed to corporate lending clients compared to portfolio clients in previous years. The score is not comparable to prior years as a result of this change.
14 The fine reported in 2017 is for about 11k and was issued by Bafin at the end of November is related to 2013 and Gallinat. In 2015, non-punitive fee (EUR 50k) agreed with German tax authorities as part of settlement of regular tax audit.
15 The 2016 absenteeism (trend total) figure is based on the trend 1st year and trend 2nd year. This is further explained in the Defintions for the non-financial key figures.

# LETTER FROM THE CEO

Dear reader,

2017 was an extremely strong year for NIBC. Our culture based on our three core values, Professional, Entrepreneurial and Inventive, is thriving and propelled by the 'Think YES' attitude we are moving full steam ahead with our client-focused strategy. We have the agility to continuously re-invent ourselves and proactively manage the relationship with a growing number of mid-market businesses and retail clients that we serve.

Paulus de Wilt,
Chief Executive Officer
Chairman of the Board

## Business are driving growth

On the back of healthy economic growth, we continue to harvest the benefits from the rebalancing of our businesses over the past years. Driven also by our new business lines such as Buy-to-Let, *Originate-to-Manage* (**OTM**), BEEQUIP (leasing) and Receivables Finance, which we all started as greenfields in recent years, we have shown growth in various parts of our core markets in 2017 and delivered another year of improved financial performance. In addition, the bank's current state and the way we are viewed by the market was reflected in the credit upgrades to 'BBB' that both S&P and Fitch announced in the fourth quarter of 2017.

Saskia Hovers,
Member Executive Committee

## Full year 2017

Net profit of NIBC more than doubled from EUR 102 million in 2016 to EUR 210 million in 2017, backed by the further expansion of our client franchise and including a EUR 47 million positive effect from the sale of the German commercial real estate legacy portfolio of Vijlma. Overall *Return on Equity* (**ROE**) reached 10.8% although we feel the ROE excluding this positive legacy effect of 8.4% provides a better reflection of the real performance.

Net Interest Income continued to improve, strongly supported by further lowered funding costs. Income from Fees and Equity Investments was exceptionally high reflecting the strong economic environment and quality of the portfolio. At the same time, the low interest rate environment and abundant liquidity continue to put pressure on volumes as well as margins. As we have a strategy of 'margin over volume' we remain prudent and disciplined in our origination to selectively 'pick and choose', as is also visible in our Corporate franchise. Despite a continued solid origination of over EUR 3 billion, total outstanding volume decreased in 2017 as origination was more than offset by a combination of (p)repayments, the sale of the German CRE legacy portfolio and FX effects resulting from the strong Euro.

Reinout van Riel,
Chief Risk Officer
Member of the Board

The mortgage market also experiences fierce price competition from non-banks and traditional players defending market share. Margins are under pressure in all terms and consumer preference is moving to the longer fixed interest rates. Nevertheless, origination was very strong and almost doubled to EUR 1.9 billion, thanks to the addition of our new OTM proposition. The (on-balance) mortgage loan portfolio grew by more than 3% in 2017 to EUR 9.1 billion at year end, including a EUR 220 million portfolio acquisition.

Costs for the company were up considerable due to extra investments in IT, regulatory projects like the *Markets in Financial Instruments Directive* II (**MIFID II**) and IFRS 9, the reorganisation of NIBC Markets, and the review of the strategic options that is ongoing. Nevertheless, the cost / income ratio for NIBC improved from 51% in 2016 to 44% in 2017 (excluding positive effect of legacy CRE sale 47%).


Herman Dijkhuizen,
Chief Financial Officer
Vice-Chairman of the Board

## Regulatory
On the regulatory front, more clarity was obtained on Basel IV; though we cannot be sure yet of the exact translation of the new Basel Accord into local legislation, we will manage the effects and remain solidly capitalised above our desired levels.

Although IFRS 9 will only affect us as from 2018, we are pleased to see that the effect resulting from an amended expected loss calculation can be absorbed within the bandwidth mentioned in our H1 2017 report; more importantly we have now, as from 1 January 2018, classified all our mortgage loans at amortised cost, which treatment is in line with market practice for mortgage loans. The transition to IFRS 9 results in an overall negative impact of approximately 4%-points on our CET 1 ratio of 19.3%.


Caroline Oosterbaan,
Member Executive Committee

## Revised medium-term objectives
In 2014, we embarked on a journey to revitalise the bank and improve the profitability and resilience of the bank by focusing firmly on our clients and on the future. Looking back at the past few years, we are pleased to report that we achieved all of our 2015-2017 targets. We therefore announced new medium-term objectives, which are a reflection of our improved performance and our solid foundation for continued growth going forward.

For the coming period, we target a sustainable Return on Equity of 10-12% and a cost/income ratio structurally below 45%, as we maintain an agile organisation with disciplined cost control. In addition, we aim for a CET 1 capital ratio above 14%, a dividend pay-out of at least 50% of net profit and a long-term BBB+ credit rating.


Michel Kant,
Member Executive Committee

## Moving ahead
To sustain and further improve the performance of the bank going forward, we focus on the following strategic priorities.

- **Continuous evolution of our client franchise, expertise and propositions** as we anticipate on trends and adapt our offering to the future. Not only by introducing new products but also by partnering to leverage platforms, facilitating and investing in FinTech businesses and doing acquisitions to either strengthen our footprint or broaden our product offering. Furthermore, we actively seek further **diversification of income** with non-interest income such as fees from value adding services as well as income from equity investments.

- **Focus on growth of our asset portfolio in core markets** through a differentiated market approach. We focus on building long-standing client relationships in chosen and profitable niches and sub-sectors in North-western Europe. Contrary to many banks, we do not offer routine services such as current accounts or payment services and without the distractions and costs of operating a large branch network, we are able to serve our clients in a focused and dynamic way. We are not volume driven and as such have no market share target leaving room to be flexible and to anticipate changing market conditions and be among the first movers in our sub-sectors and profitable niches.

- **Building on our existing agile and effective organisation** to drive customer satisfaction. Helped by the 'Think YES' mentality of our people, we are relentlessly looking for opportunities to better serve our clients. As a validation of the efforts on this front, our Net Promoter Score for corporate clients increased to 64% in 2017. This score firmly underpins the growth of the corporate client business as almost two-third of our new clients come through referrals of existing clients. Meanwhile, the retail client satisfaction rose to 7.9, up from the already high level of 7.6 in the preceding year. **Ongoing investment in people, culture and innovation** will ensure we remain well positioned to attract and retain the right talent, and develop our employees. Furthermore our Innovation Lab is fostering a culture of openness to change and is making sure we stay at the forefront of new developments.

- **Further optimising the capital structure and diversifying the funding base** to ensure that we will be around to support our clients not only today, but also tomorrow. The proactive balancing of our funding profile over the past few years has increased the overall resilience of the bank, as validated by the credit upgrades to BBB. To us, these new credit ratings more accurately reflect the bank's current state and the way we are viewed by the market. In September, strong investor demand for our *Additional Tier I* (**AT 1**) bond showed the market's confidence in the strategy and performance of the bank.

At the H1 2017 results in August 2017, we announced that, backed by our current shareholder, we commenced a review of our strategic alternatives, which may include an *Initial Public Offering* (**IPO**). This process is ongoing and preparations are progressing well. A final decision will be made at a later date and amongst others will be dependent upon market circumstances.

In closing, I want to express my sincere gratitude to our employees for their tireless dedication and enthusiasm. They are the reason why we are trusted by an increasing number of clients to support them at the moments that matter most in business and life. I'm fully confident that we can continue to make a difference at our clients' most decisive moments and build profitable growth well into the future.

I also want to take this opportunity to thank our clients, who are the driving force behind everything we do. I look forward to working with all of you in 2018 and beyond, and I appreciate your continued support.

The Hague, 26 February 2018

Paulus de Wilt
Chief Executive Officer,
Chairman of the Managing Board

# REPORT OF THE MANAGING BOARD

The following chapters, Corporate Governance, Risk Management and In Control Report are also considered part of the Report of the Managing Board, as mentioned in Part 9 of Book 2 of the Dutch Civil Code.

## VISION AND STRATEGY

### About NIBC

NIBC was established in 1945 to finance the visionary entrepreneurs who helped rebuild the Netherlands after World War II. Over time, we evolved to being an enterprising bank offering financing, advisory, and co-investing to our clients. After we came out of the 2008 financial crisis, we have reinvented ourselves. We have seen many milestones since, with the launch of NIBC Direct and BEEQUIP, the acquisitions of Gallinat Bank AG in Germany and SNS Securities, now NIBC Bank Deutschland AG and NIBC Markets, respectively, and more recently our steps into the fintech space by acquiring minority stakes in Ebury and Finleap. Backed by our supportive and long term shareholder we have continued to build on our entrepreneurial DNA and have become the bank that we are today; best suited to help entrepreneurs at their decisive moments. Now and in the future. We aim to create a sustainable franchise for the future, so we can continue to fulfill our purpose, which is to make a difference for clients by focusing on their most decisive moments in business and in life.

#### Embedding our corporate values

As a bank built for entrepreneurs, we are committed to cultivating our 'Think YES' mentality by being flexible and agile and by matching our clients' can-do attitude. Our everyday decisions and actions are guided by three corporate values, which differentiate us in the market:

1. **Professional**: Our in-depth sector knowledge, expert financial solutions and agile execution are the foundation of our success.
2. **Entrepreneurial**: We are a sound, enterprising bank focused on our clients' most decisive moments. Our clients require a bank that can respond quickly to their needs.
3. **Inventive**: We provide bespoke solutions and encourage our people to think creatively to meet our clients' financial needs.

## Products and markets

NIBC serves around 700 mid-market businesses and nearly 400,000 retail clients from our offices in The Hague, Amsterdam, Frankfurt, London and Brussels. In this section, we provide an overview of the most important dynamics in the markets in which we operate.

### Corporate clients

Operating in the Netherlands, Germany and the UK, our Corporate clients business offers advice and debt, mezzanine and equity financing solutions to entrepreneurs across select sectors and sub-sectors in which we have strong expertise and market positions.

We mainly serve the dynamic mid-market, which includes companies with an annual turnover of between EUR 50 million and EUR 500 million. There are an estimated 3,000 businesses within this category in the Netherlands, while in Germany there are about 11,000 businesses with these characteristics as part of the country's *Mittelstand*.

Many of our corporate clients are private or family-owned businesses and include corporations, family offices and entrepreneurial investors, as well as financial institutions, institutional investors and financial sponsors. These companies are usually participants in major national and international supply chains within their respective sectors, and are often disruptors in their markets, challenging the spaces of larger corporations and enabling innovation to take hold.

The mid-market is dynamic by nature and requires a bank that can respond quickly and in a highly flexible way. Our aim is to meet the market's requirements at decisive moments such as mergers and acquisitions, management buy-outs, investments and strategic financings and re-financings. Mid-market businesses are usually long-term oriented and not overly leveraged, which reflects the type of banking relationships they desire.

Within the mid-market, our focus is on the supply chain economies of selected industries, in which our expertise is strongest. These include *Commercial Real Estate* (**CRE**), *Food, Agri, Retail & Health* (**FAR&H**), *Industries & Manufacturing* (**I&M**), *Infrastructure & Renewables* (**I&R**), *Offshore Energy* (**OE**), *Shipping & Intermodal* (**S&I**) and *Telecom, Media, Technology & Services* (**TMT&S**).

### Retail clients

Through our Retail clients operations, we support clients in the Netherlands, Germany and Belgium by offering mortgages, online savings and brokerage products that are accessible, easy to understand and fairly priced. In mortgages, we provide a full range of mainstream products – from 1 to 30 year maturities – and target clients in underserved market segments with tailored solutions such as buy-to-let, mortgages for the self-employed and the negative equity mortgage. In savings, we offer flexible and fixed term products under the NIBC Direct brand, which is known for its straightforward client-centric features and unambiguous terms and conditions.

## Trends in the world around us

Demand for our products and services is closely linked to the various stages of the economic cycle and developments in the sectors in which we operate. Below we present a quick overview of the most important trends in 2017, on which we will elaborate in the sections dedicated to our Corporate and Retail client activities.

### Corporate clients:

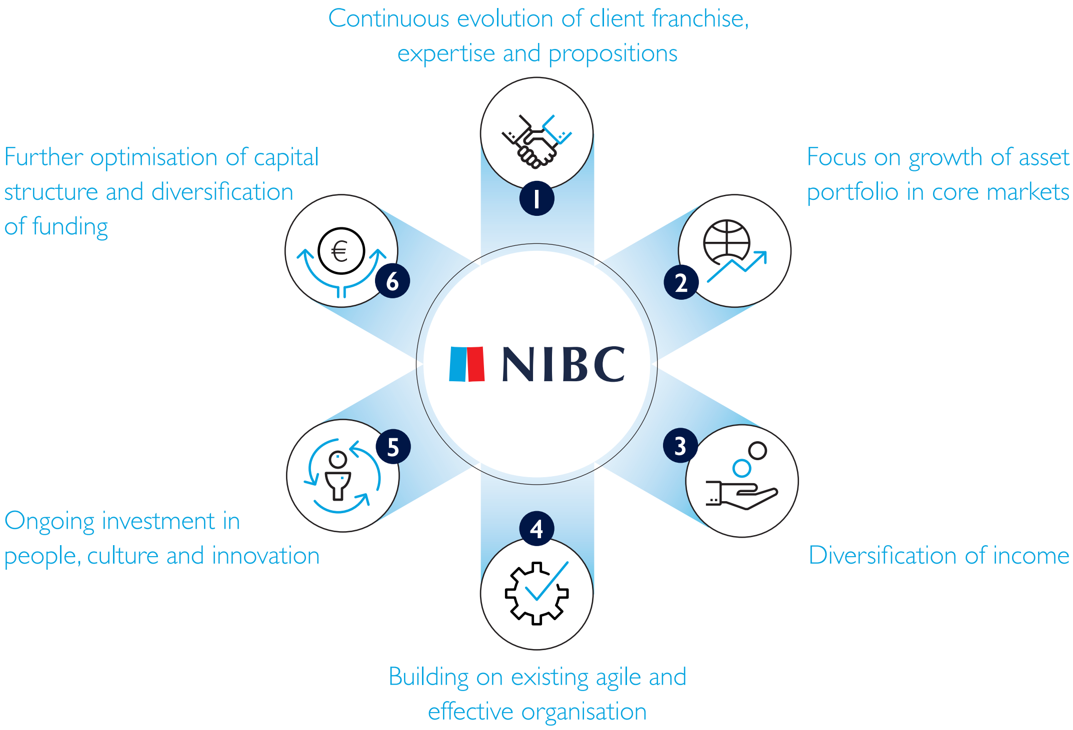
- The impact of digitalisation on sectors ranging from Infrastructure & Renewables to Telecom, Media, Technology & Services;
- The shift from bricks to clicks in the retail world;
- The healthcare and life sciences sector that is on a transformative journey and simultaneously building a patient centric culture;
- The transformation from fossil fuel to green energy.

### Retail clients:

- The competition from new market entrants, which is putting additional pressure on spreads for mainstream mortgages in the Netherlands;
- The increased demand for mortgages with longer maturities, on the back of the persistently low interest rates;
- The accelerated recovery of the Dutch housing market.

## Our client-focused growth strategy

NIBC is a client-oriented bank. We aim to make a difference for our corporate and retail clients at their most decisive moments – today and tomorrow. We have made clear choices to advance that mission, which are summarized in our six strategic priorities for growth.

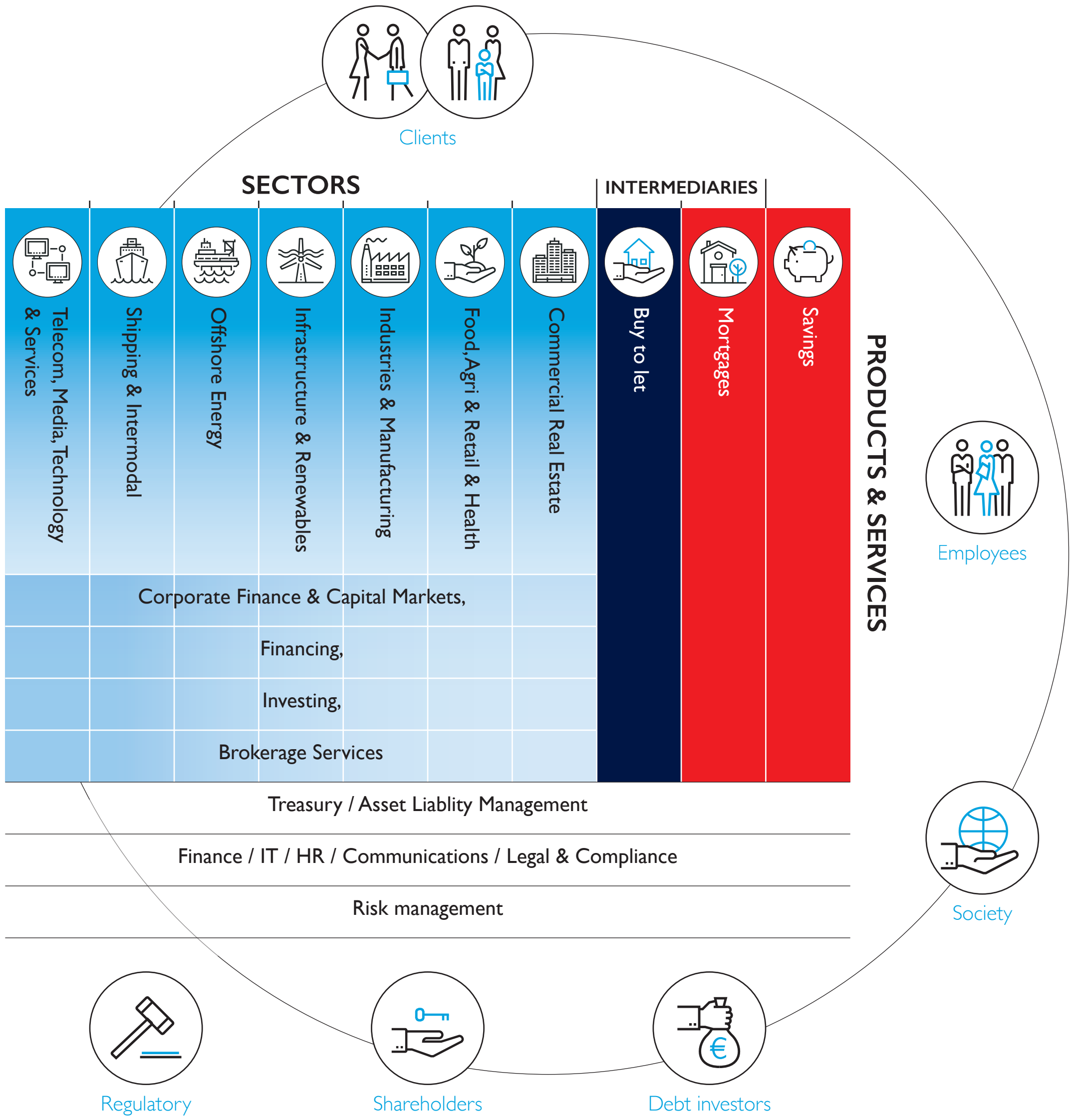



1. We strive for **continuous evolution of our client franchise, expertise and propositions**;
2. We aim to **grow our asset portfolio in core markets** by focusing on profitable niches and (sub)sectors in Northwestern Europe - where we can leverage our local expertise and market positions.
3. We aim to **diversify our income** streams. A good example is our fee-generating originate-to-manage mortgage business line, which we started in 2016.
4. **Building on existing agile and effective organisation.** We are firmly focused on the future and work hard to anticipate trends and the impact they could have on our clients and their needs.
5. We continue to **invest in our people, culture and innovation** to ensure that we stay ahead of the curve and deliver the best possible experience to our clients.
6. We strive to **further optimise of capital structure and diversify our funding base**, so we can continue to support our clients well into the future.

### Business model

Our business model provides insight into our environment and the processes and relationships that help us execute on our client-focused strategy and achieve our mission. In the section Stakeholder engagement we provide more information about our stakeholders and how we engage them.

## NIBC and its environment




Through the Corporate client activities, we provide a wide range of customised products and solutions to mid-sized companies and entrepreneurs. We do this either by deploying our own balance sheet or by raising funds in the capital markets. Within the mid-market, we focus on seven sectors where we can best leverage our expertise and relationships.

Retail client offering provides mortgage loans, including Buy-to-Let, online retail saving deposits via NIBC Direct and brokerage services (in Germany). In 2016, we started a dual-track strategy for mainstream mortgages that focuses on both origination for our own balance sheet and for institutional investors via OTM mandates.

**Treasury** and **Asset Liability Management** operate the treasury function and manage our balance sheet with strong focus on interest, liquidity and capital risks. There is a close cooperation between Treasury and Risk Management, and also with the operations to ensure that NIBC's overall risk appetite is aligned with its strategy and capital requirements.

**Risk Management** is the cornerstone of our sustainable growth strategy. Our risk management framework helps us implement and execute our strategy, and provides guidance with regards to client interests, product suitability and compliance with laws and regulations. NIBC works with a 'three lines of defence' model, which begins with the responsibility that each employee must take within the risk management framework. Our risk appetite, as determined by the Managing Board, defines the amount and type of risk the organisation is willing to accept.

The **Corporate Centre** consists of HR & Corporate Communications, Internal Audit, Legal, Compliance, Sustainability, Operations & Facilities, Technology, Finance & Tax and Strategy & Development:

- **HR** aims to foster a culture that supports our 'Think YES' approach and helps to ensure that NIBC is within the top quartile of the employer benchmark. **Corporate Communications** is responsible for engaging with our external and internal stakeholders.

- **Internal Audit** performs operational audits based on their annual audit plan, which is approved by the Supervisory Board and reports to the *Chief Executive Officer* (**CEO**).

- **Legal** provides legal support to the organisation, including managing the group's legal risks and NIBC's reputation. **Compliance** is responsible for independent oversight of policies, procedures and core processes to ensure that NIBC and its employees act in conformity with all applicable laws and regulations, while **Sustainability** focuses on the embedding of sustainable practices across the core processes of the Bank.

- **Operations & Facilities** and **Technology** focus on supporting the Bank's operational and IT requirements. These departments work closely alongside the operations to further improve the clients' experience when doing business with NIBC.

- **Finance & Tax** focuses on the preparation of financial statements, regulatory reports and management information for internal and external stakeholders.

- **Strategy & Development** plays an active role in challenging the business with regard to new opportunities and important decisions and advises the Managing Board on strategic issues.

## 2017 in a nutshell

2017 was an extremely strong year for NIBC. As CEO Paulus de Wilt said in his introductory letter: "Our culture based on our three core values, Professional, Entrepreneurial and Inventive, is thriving and we are moving full steam ahead with our client-focused strategy."

Here is an overview of the most important highlights for 2017, about which you can read more in the Letter from the CEO and various other sections throughout this Annual Report, including Financial Performance, Corporate Clients and Retail Clients.

- Net profit for 2017 more than doubled to EUR 210 million (FY 2016: EUR 102 million)
- Return on Equity doubled to 10.8% for the full year 2017, compared to 5.4% full year 2016;
- Corporate client offering added substantial revenues from fee and investment income on the back of increased client activity;
- Retail client offering realised strong growth in mortgage origination for own book as well as for third parties;
- Cost/income ratio for the bank improved to 44%;
- The full year 2017 was positively influenced by the sale of a German CRE legacy portfolio (EUR 47 million);

- Solid solvency ratios, with the fully loaded CET 1 ratio increasing to 21.4% from 16.8%;
- Both Fitch and S&P updated their rating for NIBC Bank to 'BBB';
- NIBC has paid a second interim dividend of EUR 66 million totalling EUR 96 million (pay-out 45%).

## Outlook

In 2018, we will continue to add value to our expanding client base with innovative solutions, speed and reliability that our clients can count on. This includes our integrated offering through NIBC Markets, which strengthens our position as the go-to partner for decisive moments. We will increase our attention on promising sectors and sub-sectors where we see good opportunities to add value for clients. Overall, market conditions have improved in the light of the positive economic climate, however, we expect the opportunities in Offshore Energy and Shipping & Intermodal sectors to remain limited in the near future. We will continue to help our clients navigate the challenging environment of these sectors. In addition, we foresee that the prolonged low interest rate climate is putting more pressure on the risk/reward balance in both corporate and retail markets. Especially in this environment, we continue to actively manage the composition of our portfolios to ensure sustainable profitability within our risk appetite.

Throughout the year, we will further strengthen our product teams, particularly in mezzanine equity capabilities, supporting our combined senior debt with mezzanine funding offering.

We will also continue to build on our asset management expertise and focus on further expanding our 'Originate-to-Manage' activities for institutional investors.

We expect retail market conditions in 2018 to remain volatile, with consumers willing to be more open towards alternative investment opportunities and consumption. Our approach will be to continue exploring opportunities in underserviced areas of the market with new propositions, while expanding our product portfolio and striking new partnerships. Our focus will also be on removing remaining frictions from our customer journey and to improve the overall experience.

In the coming months, we will continue to work on our strategic alternatives, which may include an IPO. This process is ongoing and preparations are progressing well, however a final decision will be made at a later date and amongst others will be dependent upon market circumstances.

## FINANCIAL PERFORMANCE

| in EUR millions | 2017 incl. Vijlma | Vijlma | 2017 excl. Vijlma | *2017 vs 2016* | 2016 |
|---|---|---|---|---|---|
| Net interest income | 366 | 17 | 349 | *14%* | 306 |
| Net fee and commission income | 54 | 0 | 54 | *69%* | 32 |
| Investment Income | 67 | 0 | 67 | *116%* | 31 |
| Net trading income | 24 | 25 | (1) | *-108%* | 12 |
| Other operating income | 0 | 0 | - | - | - |
| **Operating income** | **512** | **42** | **470** | ***23%*** | **381** |
| Personnel expenses | 109 | 0 | 109 | *14%* | 96 |
| Other operating expenses | 95 | 0 | 95 | *23%* | 77 |
| Depreciation and amortisation | 5 | 0 | 5 | *-29%* | 7 |
| Regulatory charges | 14 | 0 | 14 | *-7%* | 15 |
| **Operating Expenses** | **223** | **0** | **223** | ***15%*** | **194** |
| **Net operating income** | **289** | **42** | **247** | ***32%*** | **187** |
| Impairments of financial assets | 34 | -20 | 55 | *-4%* | 57 |
| Tax | 42 | 16 | 26 | *4%* | 25 |
| **Profit after tax** | **213** | **47** | **166** | ***60%*** | **104** |
| Profit attributable to non-controlling interest | (3) | 0 | (3) | - | - |
| **Profit after tax attributable to shareholder of NIBC Bank** | **210** | **47** | **163** | ***60%*** | **102** |

The income statement in the previous table differs from that presented in the consolidated financial statements 2016 due to the treatment of 'Special items', explained further in this section. This only affects the presentation of the income statement and not the bottom-line net profit figures. See note 1 to the (condensed) consolidated financial statements for more information and a full reconciliation between the two presentations of the income statement.

As of 30 June 2016, the acquired NIBC Markets is fully accounted for in the NIBC figures. The impact of NIBC Markets on the net profit in 2017 amounts to a net loss of EUR 7 million (2016: net loss of EUR 2 million), mainly as a result of the discontinuation of the non-core part of the business and related reorganisation expenses of nearly EUR 5 million.

The column 'Vijlma' in the table above displays a net result totaling EUR 47 million impacting net interest income, net trading income, impairments of financial assets and tax. Vijlma relates to a specific German commercial real estate legacy exposure of which the underlying assets (investment property) were sold in 2017 and for which the final settlement will take place in 2018. In the remainder of this paragaph we will mainly assess the performance in 2017 against that of 2016, excluding the results from the Vijlma transaction in 2017.

Small differences are possible in this table due to rounding.

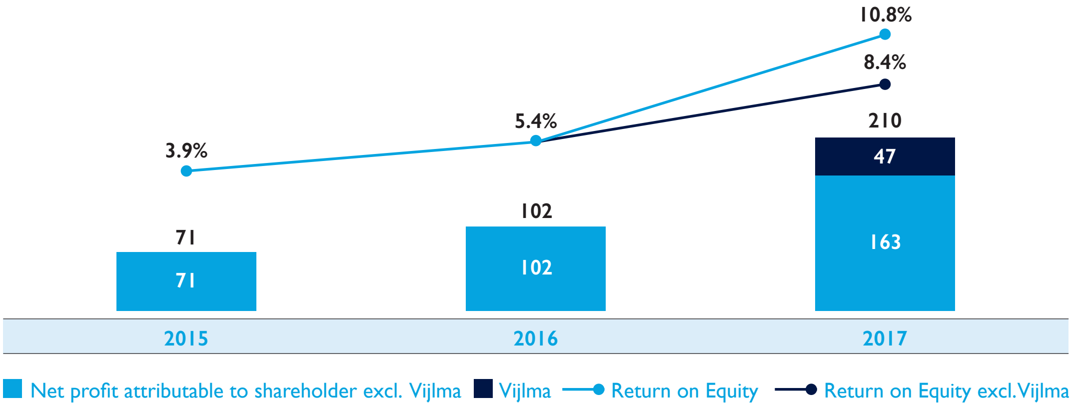
## Key figures

| in EUR millions | 2017 incl. Vijlma | 2017 excl. Vijlma | 2016 |
|---|---|---|---|
| Return on equity | 10.8% | 8.4% | 5.4% |
| Net interest margin | 1.69% | 1.61% | 1.44% |
| Cost / income ratio | 44% | 47% | 51% |
| Risk weighted assets | 8,546 | | 10,109 |
| Cost of risk | 0.38% | 0.60% | 0.61% |
| Loan to deposit ratio | 150% | | 148% |
| Asset encumberance ratio | 26% | | 29% |
| **Fully loaded solvency ratios** | | | |
| CET1 ratio | 21.4% | | 16.8% |
| BIS ratio | 27.2% | | 21.3% |
| **Liquidity ratios** | | | |
| LCR | 196% | | 124% |
| NSFR | 117% | | 112% |
| Number of FTEs | 666 | | 704 |
| **Rating** | | | |
| Standard & Poor's | BBB / Stable | | BBB- / Positive |

Profitability continued to improve in 2017, with both net profit and return on equity displaying substantial growth. Excluding Vijlma, net profit attributable to the shareholder of the company increased to EUR 163 million (+60%) and return on equity increased to 8.4% (+56%). Including Vijlma, net profit attributable to the shareholder of the company more than doubled to EUR 210 million (+106%) and return on equity increased to 10.8% (+100%).

## Profit after tax and Return on equity

in EUR millions




The driving force behind the improved performance lies in the Corporate and Retail client activities, which continued to develop the client franchise, supported by the continued decrease of the funding spreads. This positive development is also reflected in increased net interest income, net fee and commission income and the development of the equity investment portfolio on the back of the positive sentiment in the equity markets.

Origination of corporate loans in 2017 excluding the funding line to BEEQUIP amounted to EUR 3.1 billion, the same level as in 2016. Corporate client assets decreased slightly by nearly 3% in 2017, with origination being more than offset by (p)repayments, which include a decrease of the commercial real estate legacy portfolio by nearly EUR 0.3 billion and foreign currency effects of nearly - EUR 0.4 billion, mainly due to the weakening of the USD and to a lesser extent the GBP. Excluding these currency effects and the decrease of the commercial real estate legacy portfolio the corporate client assets would have increased in 2017 by more than 3%.

Mortgage loan origination volumes reached EUR 1.9 billion in 2017 (2016: EUR 1.1 billion) of which EUR 0.3 billion Buy-to-Let and EUR 0.7 billion related to an Originate-to-Manage mandate for institutional investors. After pre- and repayments, the total mortgage loan portfolio for own book increased by more than 3% in 2017 from EUR 8.8 billion at year end 2016 to EUR 9.1 billion at year end 2017, including the acquisition of a mortgage loan portfolio of EUR 0.2 billion in Q3 2017 (+2%).

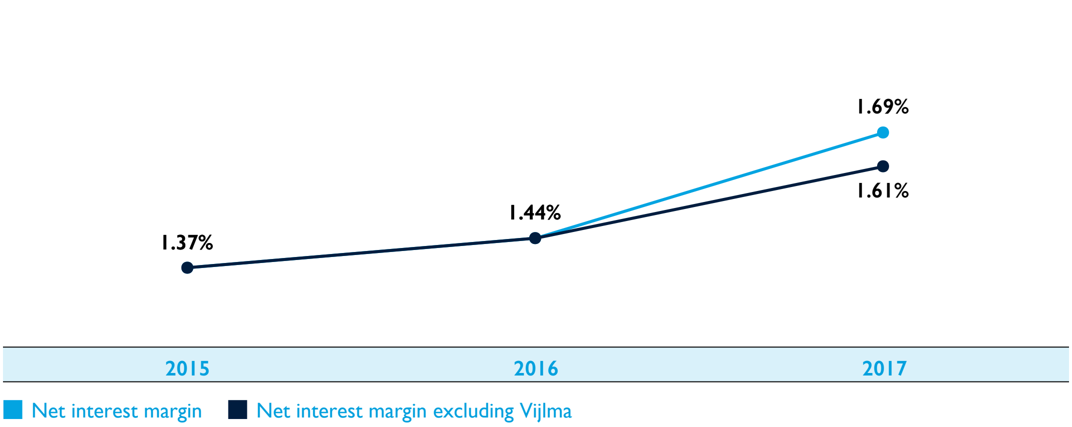
We continued to decrease our average funding rate in 2017, driving a further improvement of the net interest margin, while maintaining solid short and long term liquidity ratios, well above the minimum appetite. Furhtermore, the solvency ratio (CET 1) is strong at year-end 2017 with 21.4%, able to absorb the effects of IFRS 9 and potential effects of Basel IV, well above the SREP requirement.

The following section describes the financial developments and analyses the performance of NIBC in 2017.

## Operating income

Operating income further increased in 2017 from EUR 381 million to EUR 512 million, an increase of 34%. Of this increase EUR 42 million relates to Vijlma and EUR 4 million to NIBC Markets, which generated EUR 13 million of revenues in 2017 and EUR 9 million in H2 2016. Excluding these two items operating income displayed an increase of 23% from EUR 372 million in 2016 to EUR 457 million in 2017. The increase of operating income was driven by the strong underlying performance of the corporate and retail franchises, with operating income from corporate activities increasing by 29% and from retail activities by 14%, as well as by the continued improvement of NIBC's funding curves.

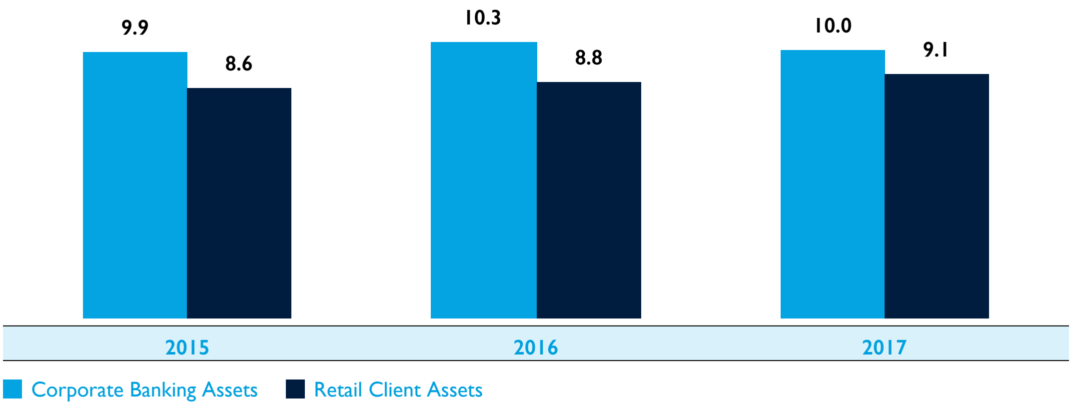
### Net interest margin




Excluding Vijlma, net interest income continued to increase in 2017 to EUR 349 million from EUR 306 million in 2016, an increase of 14%. This increase supported the improvement of the net interest margin from 1.44% for 2016 to 1.61% for 2017. The growth of net interest income was driven by the improvement of the funding profile and related reduction of funding expenses, also supported by the increase of the client business in both the Corporate and Retail client offering:

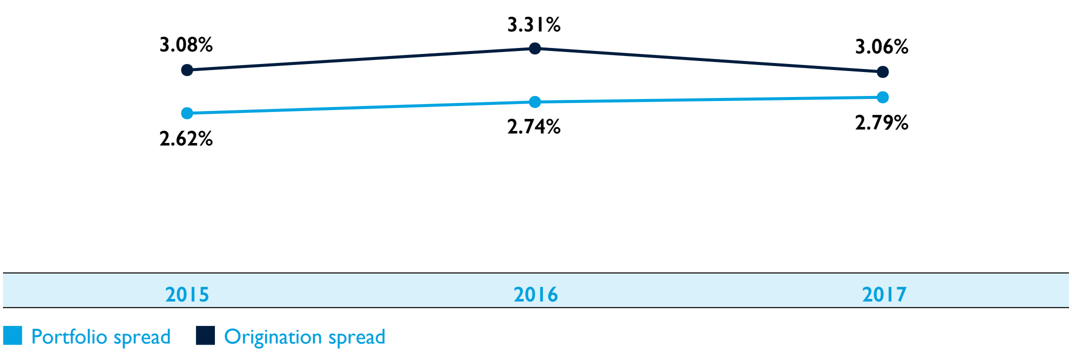
### Corporate and retail client assets

in EUR millions

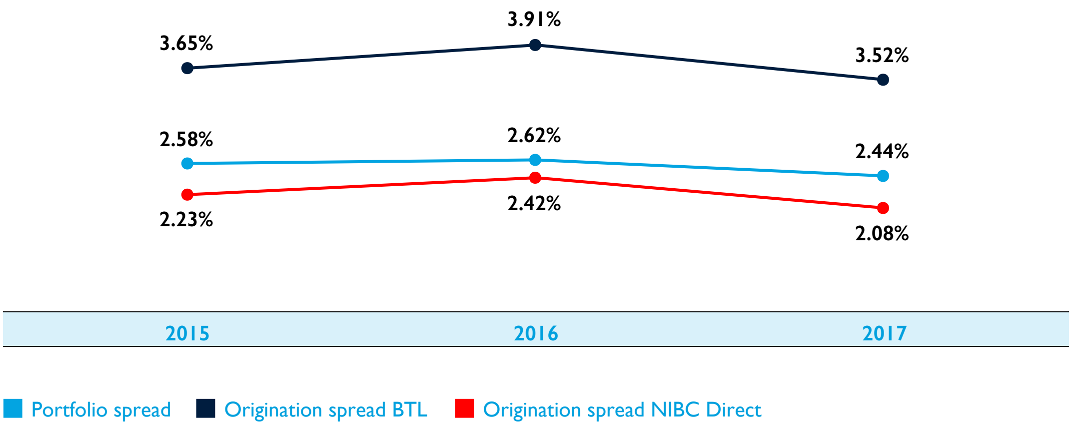



- Although the drawn corporate loan portfolio decreased in 2017, the average level of this portfolio in 2017 was roughly equal to the average level in 2016. Net interest income from the corporate loan portfolio increased in 2017 among others from the higher average portfolio spread in 2017 compared to 2016;
- The mortgage loan portfolio increased in 2017 by more than 3% to EUR 9.1 billion. The average mortgage loan portfolio in 2017 was nearly 7% above the average level in 2016. This includes the Buy-to-Let portfolio, that increased to EUR 617 million in 2017, coming from EUR 371 million at year-end 2016;
- The funding profile of the bank combined with, on average, significantly lower funding costs, contributed to the increase of net interest income in 2017. The average funding spread above base decreased by 14 basis points in 2017, following a decrease of 21 basis points in 2016;
- The strong EUR to the USD and GBP had a negative impact on net interest income of approximately EUR 8 million in 2017.

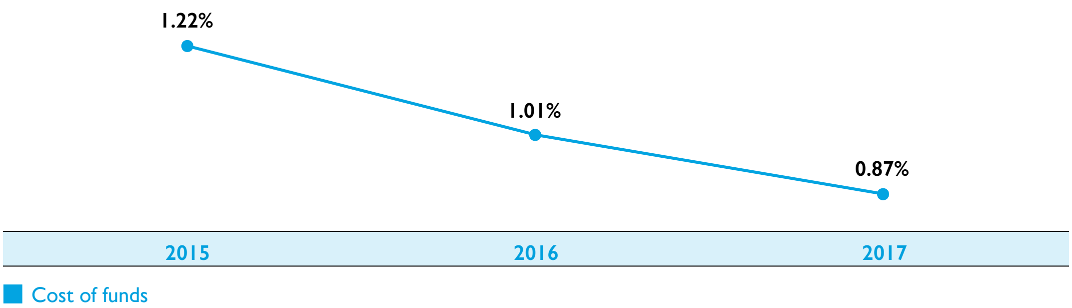
### Corporate loan portfolio spreads above base



## Retail assets spreads above base




## Funding spread above base




### Net fee and commission income

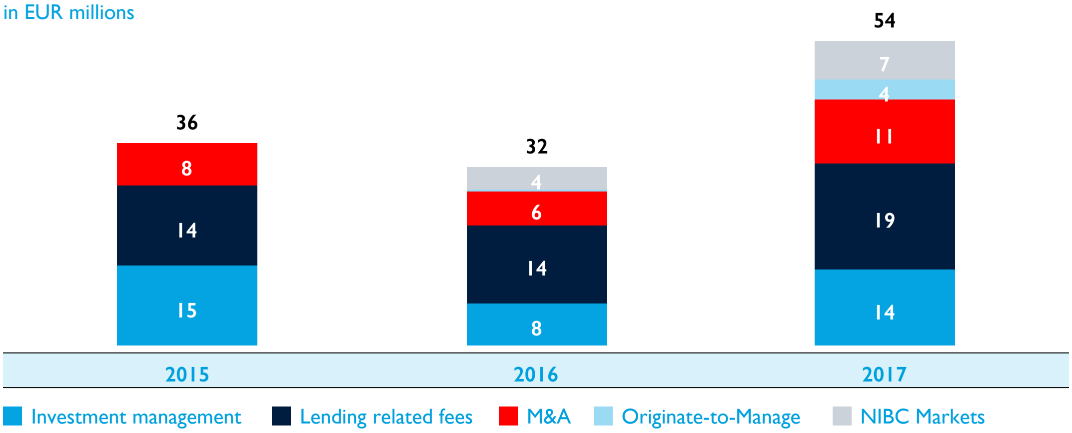
In 2017 net fee and commission income increased by 69% to EUR 54 million from EUR 32 million in 2016. The increase of EUR 22 million includes EUR 3 million from NIBC Markets. Excluding the fees from NIBC Markets of EUR 7 million in 2017 and EUR 4 million in 2016 net fee and commission income increased by 68%, reflecting our continuous investments in client relationships.

All fee categories improved:

- The increase of investment management fees by 75% to EUR 14 million in 2017 from EUR 8 million in 2016 predominately resulted from higher performance fees from strong results on our equity investment stakes, partially on the back of the improved sentiment in the equity markets;
- M&A and advisory fees nearly doubled to EUR 11 million in 2017 from EUR 6 million in 2016, partially driven by the successful execution of one large client transaction;
- Lending related fees increased by 36% to EUR 19 million in 2017 from EUR 14 million in 2016, displaying the continued growth of the corporate client franchise;
- The mortgage loan 'Originate-to-Manage' activities - started in 2016 - contributed nearly EUR 4 million to fee income in 2017 (2016: nil).

### Net fee and commission income

in EUR millions




### Investment income

Investment income is sensitive to the sentiment in the equity markets and can therefore be more volatile year on year. In 2017 the equity investment portfolio performed well on the back of the economic upturn of the economics of North Western Europe, leading to an increase of investment income from EUR 31 million in 2016 to EUR 67 million in 2017. The improvement in investment income was mainly driven by a higher valuation of the portfolio. The total equity investment portfolio increased in 2017 by 31% to EUR 343 million, which is mainly the result of new investments of EUR 35 million, sales of EUR 15 million and revaluation of EUR 51 million.

### Net trading income

Net trading income increased to EUR 24 million in 2017 compared to EUR 12 million in 2016. Excluding gains in 2017 of EUR 25 million from Vijlma net trading income decreased by EUR 13 million to a loss of EUR 1 million in 2017:

- In 2017 the revaluation of residential mortgage loans amounted to +EUR 14 million in net trading income compared to +EUR 9 million in 2016. This revaluation includes credit losses of EUR 2 million, an improvement from the EUR 4 million in 2016. Please be aware that as of 1 January 2018 this revaluation will no longer be in our income statement as - following the implementation of IFRS 9 - these mortgage loans will be reclassified from Fair Value through Profit or Loss to Amortised Costs. As of 1 January 2018 credit losses will be booked in the 'Impairments of financial assets' line-item of the income statement;
- NIBC Markets contributed EUR 7 million to net trading income in 2017 compared to EUR 5 million in 2016;
- The 2016 revenues included EUR 9 million of revaluation gains on corporate loans at Fair Value through Profit or Loss, mainly from the repayment on a loan that was previously valued at below par;
- Hedges of the mortgage loan pipeline and hedging ineffectiveness led in 2017 to EUR 7 million higher losses than in 2016. Furthermore net trading income includes a EUR 4 million loss from a prepayment penalty related to the early redemption of a funding transaction.

## Operating expenses

Operating expenses in 2017 of EUR 223 million increased by EUR 29 million (+15%), from EUR 194 million in 2016. The increase mainly relates to 4 items:

1. Operating expenses of NIBC Markets amounted to EUR 21 million in 2017 (2016: EUR 11 million), of which EUR 5 million reorganisation expenses. These reorganisation expenses reflect the discontinuation of the non-core (asset management related) part of the business of NIBC Markets (as announced in January 2017) enabling us to focus on the integration of the

Equity Capital Markets / Debt Capital Markets part of the business into our corporate client offering. This integration was concluded in 2017. The operating expenses of NIBC Markets for 2016 relate to H2 2016;
2. Operating expenses include a provision in payroll expenses with respect to the review of our strategic alternatives and related process and preparations, further elaborated on in the CEO-letter of this document;
3. External servicing expenses in the retail client offering increased in 2017 by EUR 5 million, of which EUR 2 million expenses for the transition of a part of the mortgage loan portfolio to another service provider (which will lead to more efficiency and lower servicing expenses in the future) and EUR 3 million for the substantially higher origination level of mortgage loans, including the Originate-to-Manage offering;
4. IT related expenses increased by EUR 12 million in 2017 compared to 2016. This increase mainly relates to the strengthening of the current infrastructure, improvements of business platforms, including phasing out of some legacy systems, regulatory projects such as MIFID II and IFRS 9 and an IT transition programme started in H2 2016.

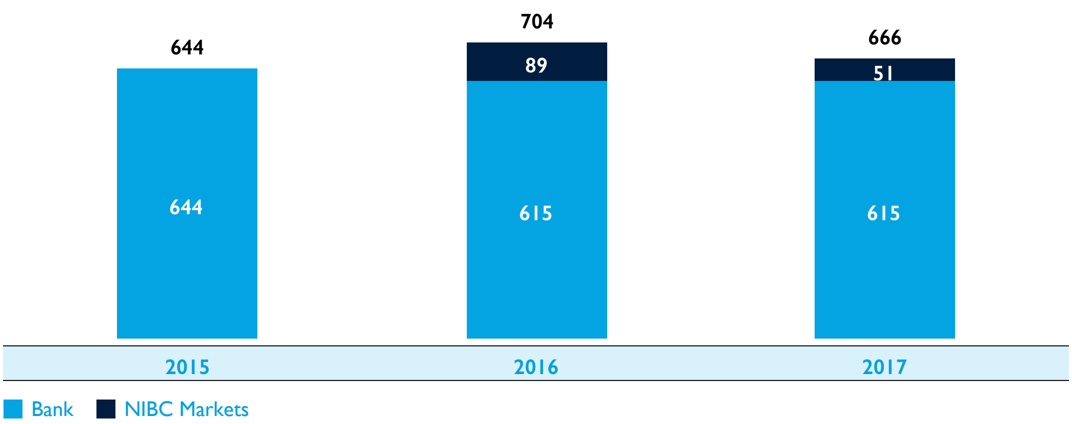
With the exception of the 4 items explained above, operating expenses remained relatively stable in 2017 compared to 2016.

## Payroll expenses

Excluding the payroll expenses of NIBC Markets of EUR 16 million in 2017 (which includes the reorganisation expenses of EUR 5 million) and EUR 7 million in 2016 and the payroll expenses related to strategic alternatives mentioned under item 2 above, payroll expenses remained relatively stable in 2017 at a level of EUR 88 million.

Total FTEs decreased in 2017 from 704 at the end of 2016 to 666 at the end of 2017, driven by the integration of NIBC Markets and the IT transition programme.

## FTE Development




## Other operating expenses

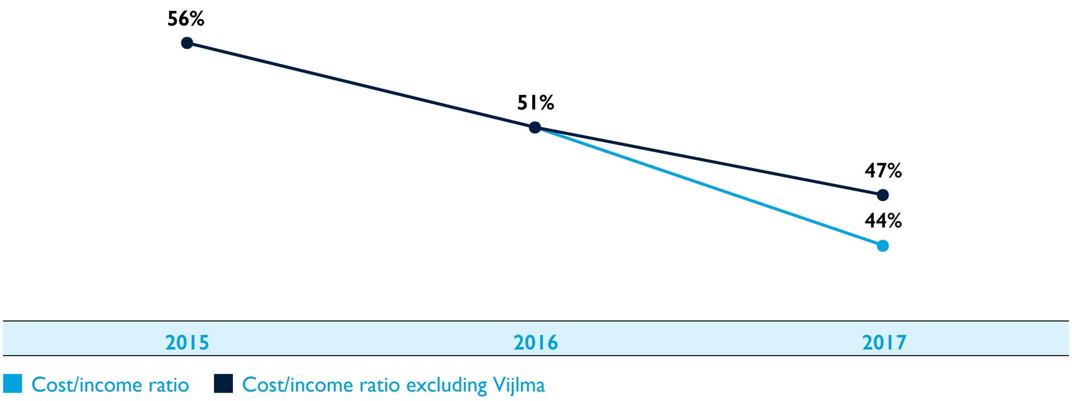
With the exception of the other operating expenses in 2017 of NIBC Markets of EUR 6 million in 2017 and EUR 4 million in 2016, the increase in external servicing expenses in our retail client offering and the EUR 12 million increase in 2017 in IT expenses mentioned under 1, 3 and 4 above, other operating expenses remained stable in 2017 at a level of EUR 73 million.

Depreciation decreased from EUR 7 million in 2016 to EUR 5 million in 2017, reflecting certain renovation and software investments from the past now being fully depreciated.

Regulatory expenses decreased in 2017 by 7% to EUR 14 million in 2017, driven by a lower resolution levy and a lower DGS-charge due to the lower level of our savings volume.

Our cost / income ratio improved from 51% for the full year 2016 to 44% in 2017 and 47% excluding Vijlma. This fully loaded (including regulatory expenses) cost / income ratio is at the lower end of what is currently displayed in the European banking industry, allowing us to continuously invest in the NIBC organisation, both in innovation and product development as well as in the Think YES culture of NIBC.

## Cost/income ratio

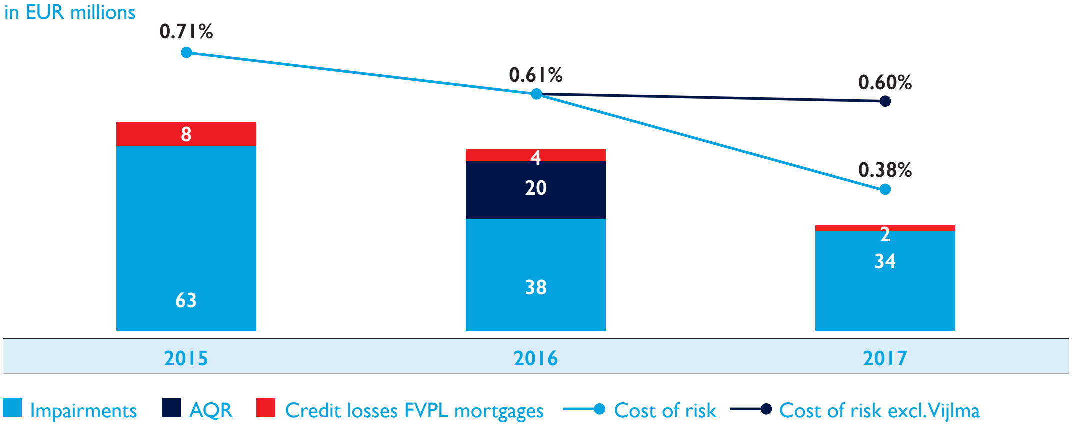



## Impairments on financial assets

Impairments decreased by 40% to EUR 34 million in 2017 from EUR 57 million in 2016. Excluding impairment releases related to Vijlma impairments decreased by 4% in 2017.

## Impairments and credit losses

in EUR millions




## Tax

Including Vijlma, tax in 2017 amounts to EUR 42 million, implying an effective tax rate of 16% of the profit before tax. The effective tax rate lies below the Dutch corporate tax rate of 25%. This mainly relates to the impact of income not subject to tax, predominately from equity investments and investments in associates. Income from these investments is tax exempt under Dutch tax law if NIBC has a stake of more than 5%.

## Special items 2016

A net loss of EUR 2 million displayed as a separate line-item in the income statement of 2016 mainly relates to the following special items:

- A one-off gain (badwill) of EUR 22 million followed from the acquisition of NIBC Markets (former SNS Securities) per 30 June 2016. This discount on the acquisition price partly reflects the future investments needed for development of this franchise;
- We incurred EUR 18 million after tax credit loss on resolving pre-crisis retail exposure; and
- After tax operating expenses of EUR 6 million relate to the outsourcing of our technical IT-environment during 2016 and 2017 and to the alignment of NIBC Markets to our business model and further development of this franchise. The outsourcing of the technical IT-environment concerns outsourcing the network and infrastructure services, technical application management, client support (service desk) and digital workplace.

## Profit attributable to non-controlling interest

In September 2017 NIBC issued an AT1 instrument amounting to EUR 200 million with a 6% coupon and a 7 years non-call. Under IFRS, the AT1 instrument is classified as equity. The interest paid on this AT1 instrument is accounted for under this heading, but classified as interest for tax purposes.

## Net profit

NIBC's net profit attributable to the shareholder of the company more than doubled from EUR 102 million in 2016 to EUR 210 million in 2017. Excluding Vijlma , profitability also displayed a substantial improvement, with net profit attributable to the shareholder of the company at a level of EUR 163 million (+60%) and return on equity at 8.4% (+56%).

This substantial improvement, among others driven by both the growth of the operating income and the improvement of the credit quality of the portfolios, reflects the continued strong foundations of our client franchise. This development is displayed in 2017 by an increase of net interest income, net fee income and investment income, as well as the decrease of impairments. The improvement was achieved whilst managing operating expenses that in 2017 - with the exception of some specific expense categories discussed earlier - remained stable.

The cost/income ratio improved from 51% in 2016 to 47% (excluding Vijlma) and 44% in 2017.

## Balance sheet

### Assets

| in EUR millions | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cash and banks | 2,566 | 2,346 | 2,491 |
| Loans | 7,871 | 8,380 | 7,790 |
| Lease receivables | 60 | 123 | 212 |
| Residential mortgage loans | 9,332 | 9,020 | 8,767 |
| Debt investments | 913 | 1,375 | 1,377 |
| Equity investments | 330 | 252 | 277 |
| Derivatives | 1,021 | 1,817 | 2,151 |
| All other assets | 117 | 267 | 165 |
| **Total assets** | **22,209** | **23,580** | **23,229** |

## Liabilities and equity

| in EUR millions | 2017 | 2016 | 2015 |
|---|---|---|---|
| Retail funding | 9,307 | 9,721 | 10,016 |
| Funding from securitised mortgage loans | 267 | 1,337 | 2,062 |
| Covered bonds | 2,008 | 2,028 | 1,513 |
| ESF | 1,350 | 1,230 | 1,127 |
| All other senior funding | 5,751 | 4,650 | 3,735 |
| Tier 1 and subordinated funding | 283 | 398 | 400 |
| Derivatives | 863 | 2,006 | 2,350 |
| All other liabilities | 119 | 241 | 139 |
| **Total liabilities** | **19,947** | **21,611** | **21,343** |
| Equity attributable to shareholder of the company | 2,059 | 1,969 | 1,886 |
| Capital securities | 203 | 0 | 0 |
| Equity attributable to non-controlling interests | - | - | - |
| **Total liabilities and shareholder's equity** | **22,209** | **23,580** | **23,229** |

## Assets

The drawn corporate loan book (including lease receivables) decreased by nearly 7% in 2017, with new origination of EUR 3.1 billion being offset by (p)repayments, a partial repayment of a commercial real estate legacy portfolio of EUR 260 million and USD and GBP exchange rate effects of -EUR 340 million. Excluding these last two items, the drawn corporate loan book would have remained stable in 2017.

The risk profile of the corporate loan book improved in line with our objectives, driven by both new origination and further repayments and sales of several larger exposures. The average expected loss on the performing loan portfolio improved from 35 bps at year-end 2016 to 31 bps. The defaulted exposure decreased in 2017 from 6.6% to 4.3% of the total loan exposure and the impaired exposure from 6.3% to 3.3%.

The mortgage loan portfolio (netted with the related savings from endowment policies) grew in 2017 by more than 3% to EUR 9.1 billion from EUR 8.8 billion, supported by origination for own book of EUR 1.2 billion and a portfolio acquisition of EUR 0.2 billion. NIBC's mortgage loan portfolio consists of three parts: Buy-to-Let mortgage loans originated since 2015, owner occupied mortgage loans originated since 2013 and owner occupied mortgage loans originated before the crisis.

- Since the crisis, we have made significant choices regarding our business model and mortgage loans originated since 2013 - both owner occupied and Buy-to-Let - are held to maturity and accounted for at amortised cost;
- The mortgage loans originated before the crisis are valued at *fair value through profit or loss* (**FVtPL**). This valuation method was chosen when IFRS was first adopted, reflecting the 'originate to distribute' business model NIBC had at that time. As since the crisis we have made other choices regarding our business model for mortgage loans, these loans, although still accounted for at FVtPL, are in practice now also hold to maturity. At the end of 2017, a EUR 97 million (31 December 2016: EUR 98 million) positive revaluation before tax on the outstanding mortgage loans and related hedges was accounted for in our balance sheet due to credit spread movements. This revaluation amount can be broken down into a before tax revaluation gain on the mortgage loans of EUR 321 million and a before tax revaluation loss on the related hedging swaps of EUR 224 million.

Derivative balances have decreased significantly in 2017. Part of the decrease is driven by market developments. As the positions mainly relate to hedges of interest rate risks, the interest rate movements of 2017 have affected the balances. In addition to these regular developments, two separate actions have led to an additional reduction of the derivative balances. During 2017, NIBC has reviewed its hedging positions and has closed out many offsetting positions and replaced off-market derivatives with new derivatives at current market rates. NIBC has also been able to apply netting to more derivative positions. As settlement processes and systems have been adjusted following the implementation of central clearing, more positions are eligible for netting. This has led to an additional reduction of the reported derivative balances.

### Impact of IFRS 9 with respect to assets

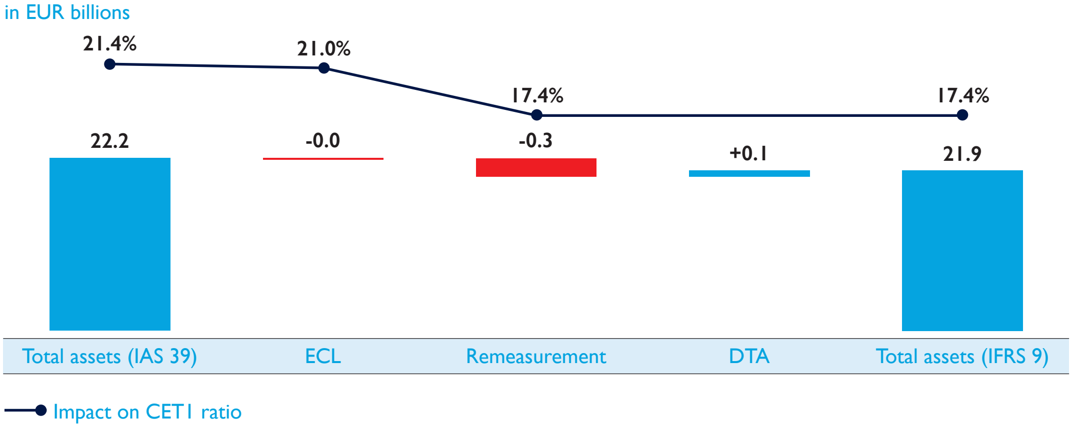
For NIBC the main impact of IFRS 9 per 1 January 2018 is the reclassification of the mortgage loan portfolio at FVtPL to amortised cost, in line with the hold to maturity business model and with general market practice. This reclassification will result in a one-off loss of the revaluation amount on the mortgage loans amounting to EUR 321 million before tax. The net of tax amount will be charged directly through shareholders' equity. The magnitude of this loss at 1 January 2018 has a negative impact on NIBC's CET 1 ratio of 3.6%-points. As this reduction of equity at transition date includes the one-sided effect of interest rates with the associated hedges remaining unadjusted, the impact is materially larger than only the underlying credit revaluation of the related mortgage loans. This one-sided effect will result in a future positive pull-to-par effect through operating income for an estimated amount equal to the before tax revaluation loss on the related hedging swaps over the remaining life of the reclassified portfolio. Based on the interest rate maturity and characteristics of the underlying seasoned mortgage loans and hedges, we estimate that approximately 85% of this positive effect on operating income will be realised in the period 2018 to 2024. We expect that the majority of this amount will be realised through net interest income.

In addition to the reclassification of the FVtPL mortgage loan portfolio, the change from an incurred loss impairment model to an *expected credit loss* (**ECL**) impairment model will impact the required level of loan provisions. We have developed new models to comply with the new requirements of ECL under IFRS 9. In H1 2018 further testing will be performed. Based on the current calculations, we estimate a downward transition impact of 0.4%-points on 1 January 2018 on the Bank's CET 1 ratio.

Overall, there will be a reduction of capital following the transition to IFRS 9, but as at 1 January 2018 we expect both NIBC Bank and NIBC Holding to display a solid CET 1 ratio of 17.4% and 15.3% respectively, above both our current SREP level requirements and our medium-term objectives.

The following graph illustrates the transition impact of IFRS 9 on total assets and the CET 1 ratio of NIBC.

## IFRS 9 transition impact per 1 January 2018

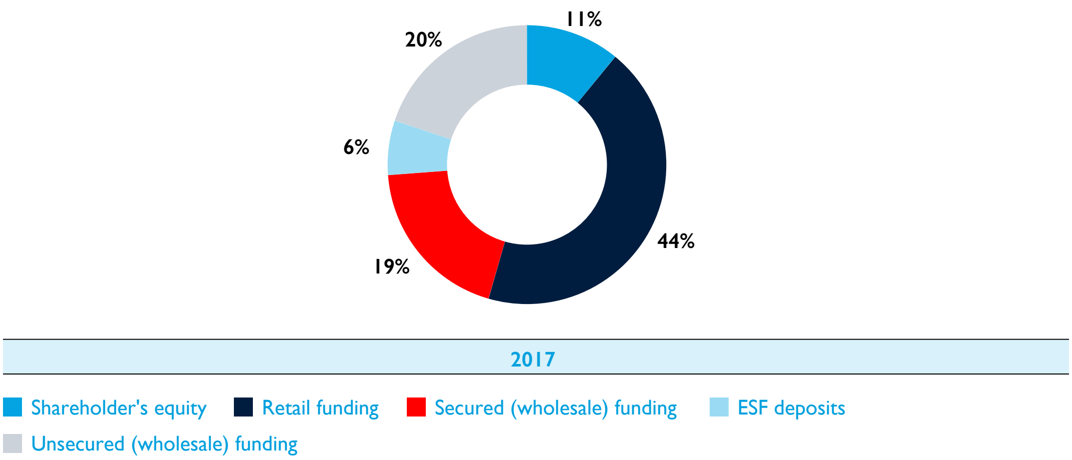



## Funding and liquidity

Diversification of funding has been a key part of our strategy since early 2008, when we started to build the retail savings franchise. We continued to diversify our funding sources in 2017. Overall, the funding mix mid 2017 shows a healthy balance between wholesale and retail:

- Retail savings decreased by 4% to EUR 9.3 billion, displaying a managed outflow of EUR 0.4 billion. The share of retail savings in term deposits decreased to 42% (end of year 2016: 44%), in line with our internal appetite.
- With respect to wholesale funding we issued a total of nearly EUR 1.7 billion in 2017:
  - A EUR 500 million senior unsecured bond was issued in January 2017 at a maturity of 5 years, paying interest of 1.50% above the 3 months swap rate;
  - In March 2017 we participated in TLTRO-issuance totaling nearly EUR 450 million at a maturity of 4 years;
  - In September 2017, a EUR 200 million perpetual AT1 transaction was issued with a coupon of 6.00%. Please note that from an IFRS perspective this transaction is treated as capital and the coupon as dividend;
  - We raised EUR 535 million in privately placed senior funding in various currencies and maturities during 2017, at an average maturity of 2 years.
- Institutional deposits attracted in Germany under the *Einlagensicherungsfonds* (**ESF**) increased by 10% in 2017 to nearly EUR 1.4 billion (FY 2016: EUR 1.2 billion), following an increase of 9% in 2016. Our current limit under the ESF amounts to EUR 1.7 billion.

## Funding composition



The healthy funding and liquidity position at year end 2017 is evidenced by the following ratios:

- A Liquidity Coverage Ratio of 196% (versus 124% at year-end 2016) and Net Stable Funding Ratio of 117% (112% at year-end 2016);
- An asset encumbrance ratio of 26% (2016: 29%), which meets our objective to maintain this ratio below 30%; and
- A loan-to-deposit ratio of 150% (2016: 148%), which is in line with our objective to maintain this ratio at a level between 140% -160%.

## Impact of IFRS 9 with respect to liabilities

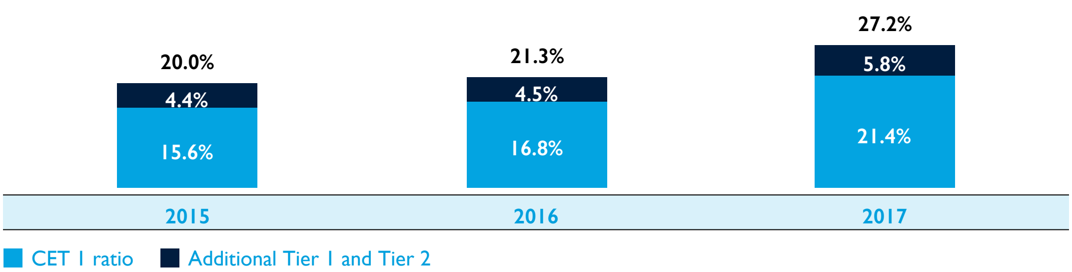
Part of the unsecured funding portfolio is classified at FVtPL. As of 1 January 2016, following the early application of 'IFRS 9 - own credit requirements', the fair value changes from liabilities designated at Fair Value through Profit or Loss are accounted for as comprehensive income directly to shareholder's equity. At year-end 2017 a debit of EUR 86 million (31 December 2016: EUR 171 million debit) on the financial liabilities at fair value through profit or loss is accounted for in the balance sheet due to own credit spread movements. As NIBC has already applied IFRS 9 for these liabilities, no further impact is expected at the full transition to IFRS 9 on 1 January 2018.

## Solvency

NIBC Bank's solvency ratios were maintained at a solid level in 2017, with the fully loaded CET 1 ratio increasing in 2017 from 16.8% in 2016 to 21.4% and the fully loaded BIS ratio from 21.3% in 2016 to 27.2% in 2017.

As of 2015, we took into consideration in the calculation of the regulatory solvency ratios the full RWAs of a commercial real estate transaction in which we had only a partial stake. This exposure was fully sold in H1 2017 lowering the RWAs by EUR 1.0 billion and with a positive impact on the CET 1 ratio of 1.7%-points.

### Total capital ratio




The solvency ratio levels are comfortably above the required SREP-levels set by DNB for NIBC Holding in July 2017. Excluding the applicable combined buffer requirement (of 1.25% for 2017) and the Pillar II guidance (which is not disclosed and not relevant for the Maximum Distributable Amount), the required SREP-level for NIBC Holding's minimum own funds amounts to 12.0%. This requirement consists of an 8% Pillar 1 requirement and a 4% Pillar 2 requirement. The total CET 1 minimum requirement is 8.5% consisting of the minimum Pillar 1 requirement (4.5%) and the Pillar 2 requirement (4.0%).

In addition, NIBC Holding should comply with phasing in the combined buffer requirements, consisting of a Capital Conservation Buffer (1.25%) and a Countercyclical Buffer (0.0%) in 2017. This translates into an aggregate 9.75% CET 1 requirement for 2017. In the years 2018 and 2019 the CET 1 requirement will increase, as the Capital Conservation Buffer is further phased-in (by 0.625%-point per annum). This results in an expected aggregate CET 1 requirement of 11.0% in 2019 based on current SREP. NIBC Holding's near-term objective for its minimum CET 1 ratio is 14.0%.

Taking into account the removal of an add-on in SREP capital the moment that we no longer have residential mortgage loans at Fair Value through Profit or Loss and a further phase-in of the Capital Conservation Buffer, our SREP levels at 1 January 2018 compared to the actual solvency ratios at that date are displayed below.

| SREP requirement per 1 January 2018 (set for NIBC Holding) | CET 1 | Tier 1 | Total Capital |
|---|---|---|---|
| Pillar 1 | 4.50% | 6.00% | 8.00% |
| Pillar 2[1] | 3.25% | 3.25% | 3.25% |
| **Subtotal** | **7.75%** | **9.25%** | **11.25%** |
| Capital Conservation Buffer (CCB) | 1.88% | 1.88% | 1.88% |
| **SREP requirement** | **9.63%** | **11.13%** | **13.13%** |
| *Pillar 2 guidance* | | *not disclosed* | |
| **Actual 31 December 2017** | | | |
| NIBC Bank transition | 21.5% | 24.5% | 27.2% |
| NIBC Bank fully loaded | 21.4% | 23.7% | 27.2% |

1 based on RWAs at 1 January 2018

The already comfortable leverage ratio of NIBC improved in 2017 to 8.8% (2016: 7.3%.).'Basel IV

## Basel IV

An agreement was reached on the Basel III reforms Basel IV in December 2017. While certain elements still require more clarity, based on a current assessment and interpretation of the Basel IV regulation we expect the impact to be in a range of 20-30% of *risk-weighted assets* (**RWA**) by 2027, which implies an impact of -2.5 to -3.5%-points on the post IFRS 9 CET 1 ratio. This does not take into account possible management actions, nor potential changes to Pillar 2 requirements. Note this also assumes the current portfolio to be the same in 2027, as well as RWA based on the current economic environment.

An uncertainty for banks is that the new framework will have to be incorporated into legislation within the European Union based on the European Commission proposal. This entire process is expected to take several years. Please be aware that during this process of endorsement by the EU and subsequent transfer to local law, certain adjustments to the regulation may be implemented

We will meet the final requirements and as before we will continue executing our strategy for our clients and delivering growth at good returns.

## Dividend pay-out

The Managing Board proposes an interim dividend pay-out of EUR 66 million in addition to the interim dividend of EUR 31 million already paid out based on the H1 2017 performance. This second interim dividend amounts to EUR 1.06 per share (after the EUR 0.49 per share at H1 2017), leading to a total dividend per share of EUR EUR 1.55 for the full-year 2017. The full-year 2016 dividend amounted to EUR 0.40 per share.

The total pay-out ratio in 2017 amounts to 45% of the net profit attributable to the shareholder of the company. The calculation of the maximum distributable amount, as set out in article 2.2.1 of the Regulation 'specific provisions CRDIV and CRR' of De Nederlandsche Bank N.V. of 9 December 2013, containing requirements to the maximum distributable amount and the calculation thereof, provides enough head room to pay out this dividend.

### Medium-term objectives

The targets for the period 2015 to 2017 were articulated in our Annual Report 2014. These were based on the outcome of the annual Strategy Day of the Supervisory Board and Managing Board, which was held in June 2014. In H1 2017 we assessed NIBC's performance against these and other relevant targets, and found that overall, we were ahead of plan. At the Strategy Day held in June 2017, new objectives for the near term were proposed and discussed. These objectives were presented in our H1 2017 Interim Report. Further discussions in the past months on the back of the improved performance in the second half of 2017 have led to further adjustments of our objectives for NIBC Holding.

These adjusted medium-term objectives for NIBC Holding are displayed below and have been set on the basis of certain assumptions in respect of the future impact on NIBC Holding's capital position from the implementation of Basel IV and other regulatory developments, considering in particular the anticipated capital requirements which may arise, and taking into account NIBC Holding's current dividend policy.

| | Actual 2017 | Targets 2015-2017 | Near-term objectives[1] | Medium-term objectives |
|---|---|---|---|---|
| ROE (Bank/Holding) | 10.8% / 11.9% | > 8-10% | >10% | >10-12% |
| Cost/income Bank | 44% | 47-54% | <50% | <45% |
| CET 1 (Bank/Holding) | 21.4% / 19.3% | >12% | >14% | >14% |
| Leverage ratio (Bank/Holding) | 8.8% / 7.7% | >5% | >4.5% | |
| Rating Bank | BBB | BBB | BBB+ | BBB+ |
| Dividend pay out ratio | | | | > 50% |

1 As disclosed in the condensed imterim report 2017.

## CORPORATE CLIENTS

2017 was a succesful year for NIBC corporate client offering, It succesfully closed a large number of high-profile client deals as sector and product teams worked increasingly closely together. Good results have been achieved in almost all sectors and sub-sectors, and customer satisfaction has never been higher.

NIBC corporate client offering is further transforming into a full-service, mid-market bank that has the capability to advise its clients on capital market transactions, among other things, and to invest in and lend to clients from its own balance sheet. In other words, NIBC is equipped to add value on the entire liability side of the client's balance sheet.

### Seven sectors

Our focus is on mid-market corporates across seven sectors - divided into sub-sectors - in which we have deep-seated knowledge and strong positions that enable us to provide clear solutions for our clients at decisive moments. NIBC corporate client offering operates from three countries: The Netherlands, Germany and the UK. The seven sectors are:

- Commercial Real Estate;

- Food, Agri, Retail & Health;
- Industries & Manufacturing;
- Infrastructure & Renewables;
- Offshore Energy;
- Shipping & Intermodal;
- Telecom, Media, Technology & Services.

## Product offering

NIBC corporate client offering serves clients in all matters relating to the liability side of the client's balance sheet (from loans and equity participations to capital market access) and provides them with bespoke advice. Our product portfolio comprises Balance sheet products and Advisory/Capital Market products, which are subdivided into the following seven main categories:

## Balance sheet products

### Leveraged Finance

We finance acquisitions of midcap companies by private equity funds. We focus primarily on companies with an enterprise value of EUR 50-500 million. Leveraged Finance operates from The Hague, London and Frankfurt. In the mid-market we are one of the three largest players in the Benelux, and among the largest five players in the German midmarket.

The total loan portfolio at year-end 2017 was EUR 1.6 billion (2016: EUR 1.7 billion).

### Receivables Finance

We develop tailor-made financing solutions based on contracted cash flows. Receivables Finance operates to a large extent in the Telecom, Media, Technology & Services sector and increasingly in the Industries & Manufacturing sector.

The total loan portfolio at year-end 2017 was EUR 0.8 billion (2016: EUR 0.7 billion).

### Mezzanine and Equity Solutions

We offer flexible risk-bearing solutions to support successful companies at their most decisive moments, e.g. at management buy-outs and acquisitions. We provide flexible capital solutions including minority equity participations (20-50%, participation, capital at EUR 5-25 million) and mezzanine loans.

The total mezzanine and equity portfolio at year-end 2017 was EUR 0.6 billion (2016: EUR 0.5 billion).

### Corporate Lending

Since 1945, NIBC has supported clients requiring medium to long-term financing through its corporate lending solutions. These range from loans for general corporate use and working capital solutions, to corporate acquisitions and changing shareholder structures.

The total loan portfolio at year-end 2017 was EUR 1.9 billion (2016: EUR 1.7 billion).

### Asset and Cash Flow Financing

We provide financing products based on cash flow combined with collateral value, which can combine both project and corporate elements.

The total loan portfolio at year-end 2017 was EUR 5.1 million (2016: EUR 5.6 billion).

## Advisory and Capital Market Products

### Capital Markets

NIBC's Capital Markets has been helping clients access capital markets since June 2016, offering a wide range of tailor-made solutions for capital market financing.

### Corporate Finance

Our multidisciplinary advisory team across Debt Advisory, *Equity Capital Market* (**ECM**) and *Mergers and Acquisitions* (**M&A**) advises on and executes a wide range of buy-side and sell-side M&A transactions for public and private mid-market corporates and financial sponsors.

## Approach and strategy in the market

NIBC is a mid-sized bank that focuses on a number of niche markets, i.e. the sectors and sub-sectors listed above. As a result, we are well versed in these niche markets and are very familiar with our clients, with whom we build long-lasting relationships.

Unlike the larger banks, we focus mainly on the middle segment of these markets, providing tailored solutions that are often unavailable elsewhere, and we aim to think and act like entrepreneurs. An example that sets us apart is our capability to combine senior debt with mezzanine funding and equity.

We have the sector expertise and wide product range to develop truly tailor-made solutions swiftly and at decisive moments for our clients. We have clearly chosen not to offer routine daily banking services such as current accounts or payments. We lack the scale to benefit from such services, preferring instead to serve our clients with products we excel at.

As in the past, we still focus on mid-sized and usually family-owned companies in the Netherlands, Germany and the UK. Our growing product range also serves other relevant client groups such as private equity investors, institutional investors, financial sponsors and large corporate clients.

The ease with which NIBC's diversity of product and sector teams find each other and collaborate closely to develop bespoke solutions for a client within a short time span is inherent in the bank's values (professional, entrepreneurial and inventive) and size.

Over the past years, we have been focusing more and more on short-term financing solutions rather than large long-term loans. However, our close ties with institutional investors enable us to offer excellent long-term solutions for clients with high-volume capital needs. In 2017 we made further progress in developing our 'Originate-to-Manage' strategy. We are working with a growing number of institutional investors, our role being to originate and manage mid-market leveraged loans. These partnerships allow investors to benefit from our unique mid-market franchise and enhance our offering to corporate clients with larger senior and mezzanine tickets.

## Trends and challenges in the world around us

NIBC corporate client offering operates in seven sectors. The choices we make within these sectors and the propositions we offer tie in with trends we notice or expect in the world around us. Some major trends we responded to in recent years:

- **Digitalisation**. In 2017 the Infrastructure & Renewables and Telecom, Media, Technology & Services teams responded powerfully to this trend. For example: Infrastructure & Renewables was traditionally strong in providing long-term financing for prisons, schools, toll roads, etc. Over the past two years, they shifted their focus to financing digital infrastructure (e.g. data centres and optical fibres);
- **E-commerce**. The retail world is transforming from bricks to clicks. This often calls for different methods of financing, including financing based on cash flows and contract portfolios rather than collateral;
- **Healthcare & life sciences**. This progressive sector is on a transformative technological journey and simultaneously building a patient centric culture. Both trends are driving the need for cash to invest in innovation, R&D and new therapeutic or diagnostic products, creating opportunities in advisory and capital markets finance solutions;
- **The energy transformation.** The transition from fossil fuels to green and electric gained momentum in 2017. In response, our Offshore Energy sector (previously known as the Oil & Gas Services sector) has redirected its strategy to actively enable our clients in their transition towards clean energy. Of course, the energy transition also has an impact on our Shipping & Intermodal sector, which is going through a transformation as well. Together with two other Dutch banks, NIBC has been among the first banks in Europe to set more strict standards for ship financing by drawing up the *Responsible Ship Recycling Standards* (**RSRS**). Although NIBC is not directly involved in the financing of ship recycling, we recognize that ship recycling is part of the shipping industry supply chain in which we are active. Our initiative has proven to be effective, as throughout the year 2017 several other prominent European ship finance banks joined the RSRS initiative.

Identifying and addressing trends is in NIBC's DNA and is what drives all of our product and sector teams. As a result, transformation is an ongoing process within NIBC corporate client offering, seeking new opportunities to support clients.

### Challenges

In 2017 competition in NIBC's corporate markets intensified due to the widespread availability of liquidity, which was partly the result of the continued low interest rate environment and the European Central Bank's large-scale asset purchases. This put some of our margins under pressure, particularly for Corporate Lending. We responded by focusing more on our merchant banking product suite and less on traditional medium to long-term loans. Our strong performance in 2017 reflects the success of this gradual transformation. The imminent Brexit also posed a challenge for banks in 2017 and beyond. NIBC has analysed the consequences of Brexit for the bank. The different scenarios have revealed that this is manageable for the Bank.

## Developments and performance

In 2017, the corporate client offering experienced solid growth driven by higher demand across most activities of the franchise: debt, investing and advice.

We have been able to grow our client franchise in 2017, providing solutions to both new and existing clients, meeting increasing demand for financing and investments, resulting in newly originated loans totalling EUR 3.1 billion (excluding financing of BEEQUIP), equal to the level in 2016. Our total corporate client assets decreased by 3% in 2017, with our origination being more than offset by (p)repayments, which include a decrease of the commercial real estate legacy portfolio by nearly EUR 0.3 billion and foreign currency effects of nearly EUR -0.4 billion, mainly due to the weakening of the USD and to a lesser extent the GBP. Excluding these currency effects and the decrease of the commercial real estate legacy portfolio our corporate client assets would have increased in 2017 by more than 3%.

Our corporate client exposure of EUR 10.0 billion at 31 December 2017 consists of:

- EUR 9.4 billion corporate loans;
- EUR 0.1 billion lease receivables;
- EUR 0.2 billion investment loans;
- EUR 0.3 billion equity investments.

The corporate loan book developed in line with our ambitions, and improved its risk profile. The average expected loss on the performing loan portfolio improved from 35 bps to 31 bps at year-end 2017. Our defaulted exposure decreased in 2017 to 4.3% from 6.6% of the total loan exposure and our impaired exposure to 3.3% from 6.3%. The improvement of both defaulted and impaired exposures is amongst others the result of a partial sale of a legacy Commercial Real Estate portfolio.

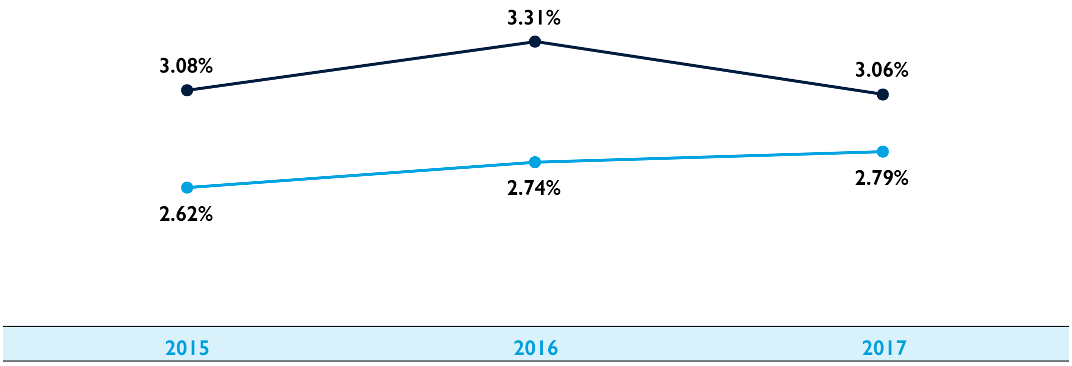
## Income statement corporate client offering

| in EUR millions | 2017 incl. Vijlma | Vijlma | 2017 excl. Vijlma | 2016 |
|---|---|---|---|---|
| Net interest income | 204 | 17 | 187 | 162 |
| Net fee and commission income | 50 | | 50 | 32 |
| Investment Income | 66 | | 66 | 33 |
| Net trading income | 37 | 25 | 12 | 16 |
| Other operating income | - | - | - | - |
| **Operating income** | **357** | **42** | **315** | **244** |
| Personnel expenses | 74 | | 74 | 71 |
| Other operating expenses | 43 | | 43 | 42 |
| Depreciation and amortisation | 4 | | 4 | 5 |
| Regulatory charges | - | - | - | - |
| **Operating expenses** | **121** | **0** | **121** | **118** |
| **Net operating income** | **235** | **42** | **193** | **126** |
| Impairments of financial assets | 34 | (20) | 54 | 57 |
| Tax | 35 | 16 | 19 | 12 |
| **Profit after tax** | **166** | **47** | **119** | **58** |
| Special items (after tax) | - | - | - | (18) |
| **Profit after tax corporate client offering** | **166** | **47** | **119** | **39** |

With respect to the financial performance, operating income improved in 2017 by EUR 113 million (+46%) to EUR 357 million. Of this increase, EUR 42 million relates to a commercial real estate exposure of which the underlying assets (investment property) were sold in 2017, and EUR 4 million to NIBC Markets, which generated EUR 13 million of revenues in 2017 and EUR 9 million in H2 2016. Excluding these two items, operating income displayed an increase of 29% from EUR 235 million in 2016 to EUR 302 million in 2017. This increase of operating income was driven by the strong underlying performance of the corporate franchise.

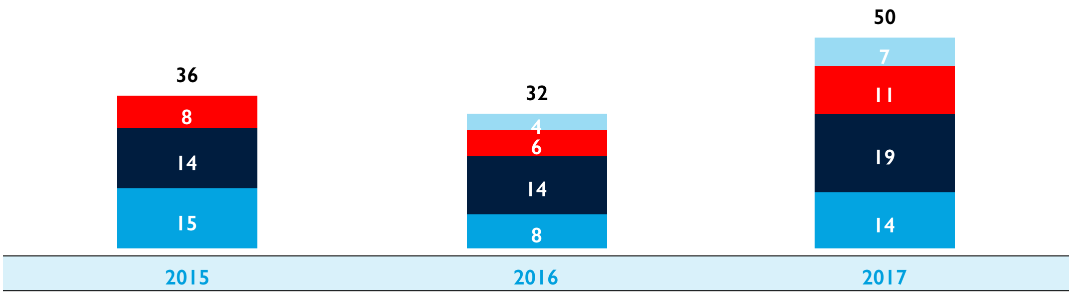
Net interest income increased by 26% of which an increase of 10% relates to the commercial real estate exposure mentioned earlier. The remaining increase was mainly driven by a higher average portfolio spread in 2017 and lower funding costs. Although - as displayed above - our corporate loan portfolio decreased in 2017, the average size of the drawn loan portfolio in 2017 was roughly equal to that for 2016, implying that the decrease of the portfolio did not have a negative impact on net interest income in 2017.

## Corporate Loan portfolio spreads




## Net fee and commission income

in EUR millions




In 2017 net fee and commission income increased by 56% to EUR 50 million from EUR 32 million in 2016. The increase of EUR 18 million includes EUR 3 million from NIBC Markets. Excluding fees from NIBC Markets of EUR 7 million in 2017 and EUR 4 million in 2016, net fee and commission income increased by 54%. All fee categories improved:

- The increase of investment management fees by 75% to EUR 14 million in 2017 from EUR 8 million in 2016 was mainly driven by higher performance fees, partially on the back of the improved sentiment in the equity markets;
- M&A and advisory fees nearly doubled to EUR 11 million in 2017 from EUR 6 million in 2016;
- Lending related fees increased by 36% to EUR 19 million in 2017 from EUR 14 million in 2016, displaying the continued growth of the corporate client franchise.

Investment income is sensitive to the sentiment in the equity markets and can therefore be volatile year on year. In 2017 the underlying equity investment portfolio performed well on the back of the economic upturn of the North-Western economies, leading to an increase of investment income from EUR 33 million in 2016 to EUR 66 million in H1 2017. The improvement in investment income was mainly driven by higher valuation of the portfolio. The total equity investment portfolio increased in 2017 by 31% to EUR 343 million, which is mainly the result of new investments of EUR 35 million, sales of EUR 15 million and revaluation of EUR 51 million.

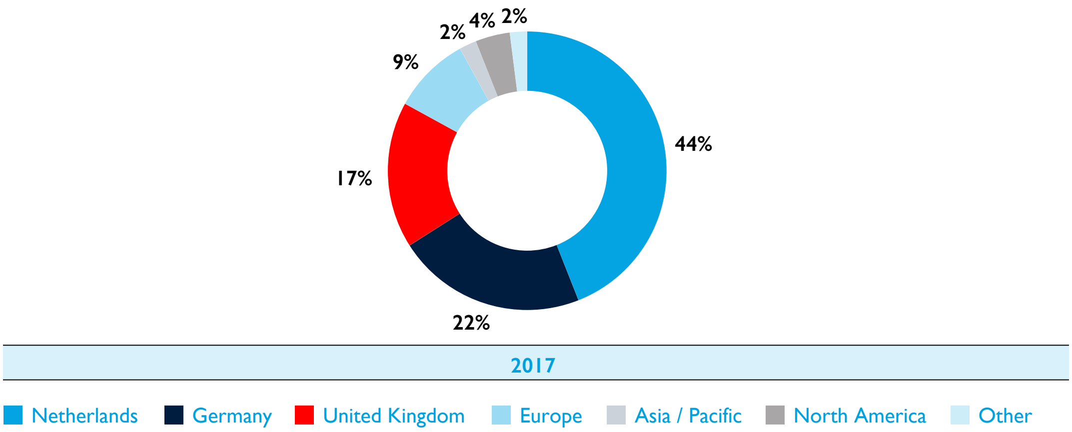
Net trading income increased to EUR 37 million in 2017 compared to EUR 16 million in 2016. Excluding gains in 2017 of EUR 25 million related to the commercial real estate exposure mentioned earlier, net trading income decreased by EUR 4 million to EUR 12 million in 2017. This decrease mainly relates to revaluation gains in 2016 on corporate loans at Fair Value through Profit or Loss, predominately from the repayment on a loan that was previously valued at below par, partially compensated by increased net trading income from NIBC Markets by EUR 2 million to EUR 7 million in 2017 from EUR 5 million in 2016.

Operating expenses increased by nearly 3% to EUR 121 million, of which EUR 6 million relates to NIBC Markets. Excluding NIBC Markets, operating expenses decreased by 3% to 104 million.

Impairments decreased by 40% to EUR 34 million in 2017 from EUR 57 million in 2016. The decrease mainly relates to the release of EUR 20 million of impairments on a commercial real estate exposure mentioned earlier. Excluding this release impairments decreased by 5% in 2017. The impairment coverage ratio for our impaired corporate loan book amounts to 46%.

Corporate client offering's profit after tax increased to EUR 166 million in 2017. Excluding EUR 47 million of net profit related to the commercial real estate exposure mentioned earlier, profit after tax more than doubled to EUR 119 million compared to EUR 58 million in 2016.

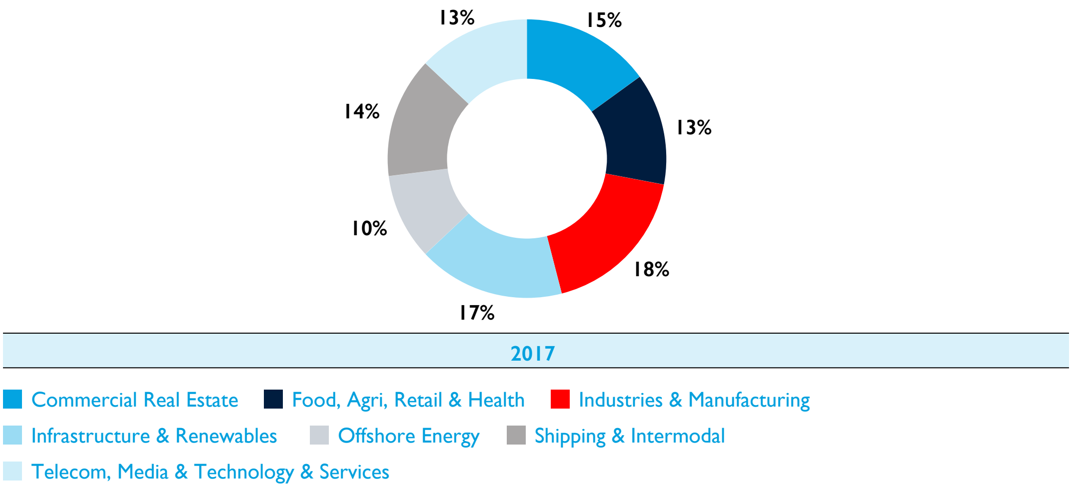
## Corporate loans per region




Our operations in Germany continued to perform well as we continued to increase our market share and generate new clients. This success was the result of our focused sector and sub-sector approach combined with our product expertise. The origination level in Germany amounted to EUR 0.6 billion by the end of the year, slightly below the EUR 0.7 billion in 2016. The closed leasing portfolio was reduced (via repayments) according to plan.

In the Netherlands, origination levels were at EUR 2.4 billion, 9% above the level of EUR 2.2 billion in 2016.

### Corporate loans per sector




On a sector level, the main developments in 2017 were the following:

- Our portfolios in Offshore Energy and Shipping & Intermodal decreased by respectively 24% and 14% to a combined level of EUR 2.2 billion. In H1 2017, portfolios suffered from seasonality effects and a negative USD forex effect. Business improved in the second half-year, due to stabilized oil prices and a rise in contracting activity. Overcapacity in parts of the shipping sector remains a challenge;
- The portfolios continued to increase in our three corporate sectors: a) Industries & Manufacturing; b) Food, Agri, Retail & Health and c) Telecom, Media, Technology & Services, which displayed a combined portfolio increase of 6% to EUR 4.1 billion. We are continuing to diversify our portfolio and further sharpening our focus on promising sub-sectors such as telecom, data centres, FinTech and business software;
- The Commercial Real Estate portfolio remained stable in 2017 at EUR 1.4 billion. As the transformation of the portfolio has progressed well, the sector now focuses on smaller deals for a larger number of clients;
- The Infrastructure & Renewables portfolio remained stable in 2017 EUR 1.6 billion. Growth is being achieved in two sub-sectors: Digital Infrastructure and Renewable Energy. This growth is being compensated by prepayments and our efforts to decrease the traditional infrastructure portfolio that has longer maturities and generates lower returns.

We are not only proud of the strong results we achieved in almost all of our sector and product categories, but also of the very high customer satisfaction level in 2017, several new activities including participations in FinTech companies, and our agreement with the European Investment Bank.

## Agreement with European Investment Bank

In 2017, NIBC entered into a guarantee agreement with the *European Investment Bank* (**EIB**) that will enable NIBC to provide up to EUR 500 million of loans to innovative mid-sized enterprises in the Dutch and German markets. The Guarantee improves access to finance for companies with up to 3,000 employees and enables NIBC to offer larger amounts of senior debt financing. The operation is supported by 'InnovFin – EU Finance for Innovators' and has the financial backing of the European Union under Horizon 2020 Financial Instruments.

## FinTech partnerships

The financial services landscape is evolving. NIBC would like to be a part of the disruption caused by FinTech companies by taking strategic minority equity stakes in leading European FinTech companies, enabling partnerships in various fields in order to capitalise on emerging FinTech solutions.

### Ebury

At the end of May, NIBC acquired a strategic stake in the fast growing fintech company Ebury. Ebury is one of the fastest-growing FinTech companies globally, employing over 500 staff, with offices in ten European countries, focusing on corporate cross-border (FX) payments and growth lending. The partnership between NIBC and Ebury will open up opportunities in cross-border trade for small and mid-sized companies based in Europe. Ebury provides an innovative and unique platform for payments, risk management, foreign exchange and trade financing.

### FinLeap

In the summer of 2017, NIBC took a minority stake in FinLeap, a 'company builder' specialising in FinTechs. In the past three years, FinLeap has established itself as one of Europe's leading FinTech platforms, whose ecosystem brings together the most prominent players of the financial services industry as well as investors and clients. Having launched multiple FinTech ventures so far, FinLeap is already active in ten European countries. Its expertise in developing business models will support NIBC in tailoring its client offering to today's dynamic financial business environment.

## Business developments

### NIBC Markets

In 2016 we broadened our offering through NIBC Markets to include debt and equity capital markets. Following the acquisition of SNS Securities, we have now fully integrated the Markets activities into our organisation, an illustration of our capacity to integrate acquisitions in a thorough and swift manner. We discontinued several activities, including Independent Asset Manager Services, Specialised Asset Management and Third Party Execution, ensuring a smooth transition to new service providers for 2,800 clients and allowing us to focus on the debt and equity capital markets product offering.

NIBC Markets provides an offering in the Dutch mid-cap market at a time when capital markets are becoming increasingly important to our clients. NIBC Markets extends the life cycle of our client relationships and has the potential to strengthen our franchise in the years to come.

In August, NIBC Markets relocated from Amsterdam city centre to the Amsterdam Zuid-As business district.

### BEEQUIP

Launched in July 2016, the new leasing venture BEEQUIP saw significant volumes in the first one and a half years of its existence. The leasing of new and used equipment proves to be a good fit with our Industries & Manufacturing client base, broadening the scope of its activities to smaller-ticket financing and offering our clients the possibility to lease their assets. BEEQUIP is a subsidiary of NIBC Holding N.V.

In December, BEEQUIP was voted the 2017 New Hero at the end-of-year event of Dutch employers' organisation VNO-NCW for the Rotterdam region. The New Hero prize is awarded once a year to the most innovative entrepreneur of Rotterdam. At year end the lease portfolio of BEEQUIP amounted to EUR 210 million compared to EUR 117 million in 2016

## Client deals

In 2017, corporate client offering secured mandates for a large number of high-profile deals across its markets, demonstrating its ability to provide tailor-made solutions swiftly, and at decisive moments for its clients. These included the following examples:

### Advicenne

In December 2017, NIBC, as Joint Global Coordinator, successfully completed the IPO of pharmaceutical company Advicenne on Euronext Paris. Advicenne raised EUR 28 million, which will enable the commercial launch of its lead drug candidate, ADV7103 in Europe for the treatment of distal Renal Tubular Acidosis, a pediatric kidney disease, as well as the phase III clinical development in the United States.

NIBC acted as joint global coordinator, joint lead manager and joint bookrunner in this landmark transaction. With this transaction, our new Life Sciences team achieved an important milestone and paved the way for many more capital market transactions to come. The success of this equity capital markets transaction reflects NIBC´s approach of serving its clients with inventive tailor-made advisory and financing solutions and contributes to our growth ambitions.

### RED Company: new head office for ASICS

RED Company (**REDC**) is a Rotterdam based real estate developer. In 2017, REDC was awarded the contract by ASICS to develop and construct its new European head office in Hoofddorp. ASICS is the world famous sport and footwear corporation. The new office building has a state-of-the-art design, is 100% sustainable and flexible in its use. NIBC provided a EUR 40 million construction financing. NIBC was further involved in structuring the transaction and in raising the equity. Key in this successful transaction was the swift execution and documentation.

### Vopak Terminal Eemshaven

Vopak Terminal Eemshaven is a strategic oil storage terminal based in Eemshaven, developed in a 50/50 joint venture between Royal Vopak and *NIBC European Infrastructure Fund I C.V.* (**NEIF**). Since commissioning in 2011, Vopak Terminal Eemshaven developed into a high quality asset with strong contractual protections and exceptional operational performance. NIBC was mandated to assist Royal Vopak and NEIF, as exclusive financial advisor, with the sale to large infrastructure manager Whitehelm Capital. This flagship port transaction, a cooperation between M&A and I&M, demonstrates NIBC's cross department advisory skills in addition to NIBC's investment strategy, being the preferred partner for growth capital in support of mid-market corporates at decisive moments.

## NPS of +64%

The *Net Promoter Score* (**NPS**) in 2017 of +64% (+37% for 2016) demonstrates the customer satisfaction, of both new and existing clients, with NIBC's 'Think YES' client approach. According to received survey responses, customers value us most, compared to peers, for our knowledge, speed, agility and account management. During 2017, our 'Think YES' client approach also compelled us to simplify our documentation and product development.

Our NPS is based on responses given by 165 clients to our survey in the Netherlands, Germany and the United Kingdom.

# RETAIL CLIENTS

2017 was a successful year for our retail client offering. We nearly doubled the mortgage loan origination volume, which increased to nearly EUR 2 billion in 2017. We are gaining market share in underserved segments with on-balance sheet products such as Buy-to-Let, while also originating more mainstream mortgage loans for institutional investors.

Meanwhile in savings, our newly introduced quarterly savings product was well received by the market, helping us to reduce our reliance on fixed-term savings and lower our funding costs. After the product launch in April 2017, clients shifted an additional EUR 150 million in deposits to our line-up of on-demand accounts.

## Product offering

Our retail client offering business serves approximately 400,000 clients in the Netherlands, Germany and Belgium through a wide range of quality mortgage, savings and brokerage products.

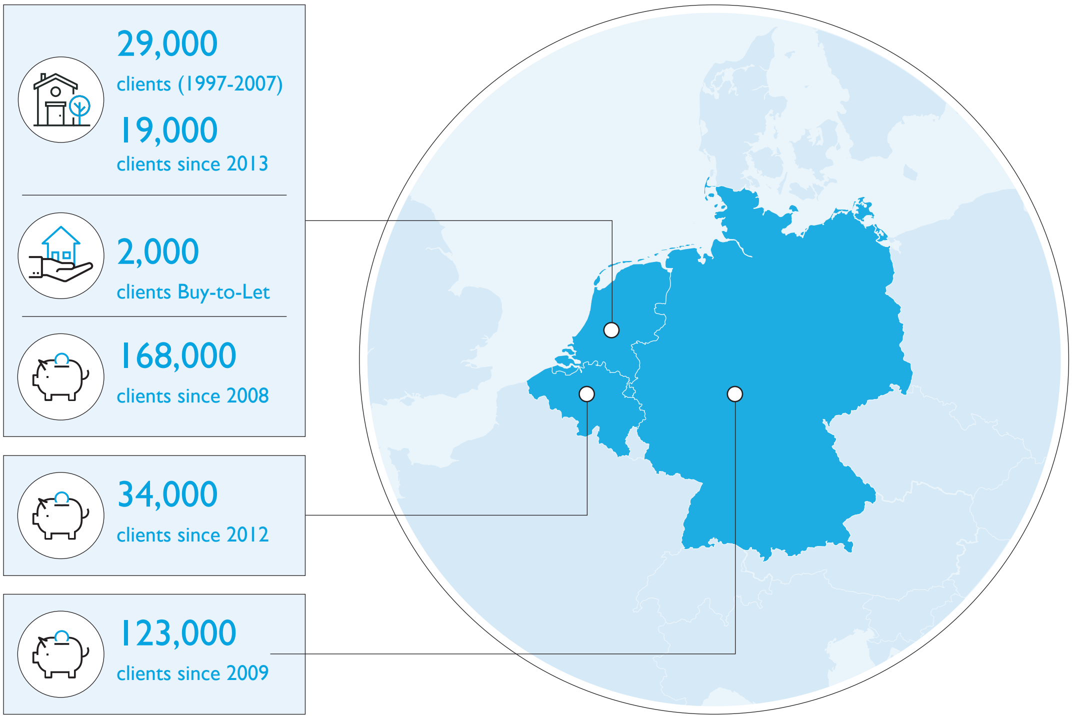
### Mortgage loans

NIBC Direct mortgage loans are provided through partnerships with mortgage brokers across the Netherlands. We offer mortgage loans from our own balance sheet and we partner with institutional investors using our Orginate-to-Manage mandates. This dual-track strategy enables us to offer a full product range – from short to long maturities – and also target clients in underserved segments with tailored products such as Buy-to-Let and mortgage loans for the self-employed.

### Retail savings

Under the NIBC Direct brand, we offer fairly-priced savings products to clients in the Netherlands, Germany and Belgium, ranging from fully flexible, on-demand deposits, to term deposits of up to 10 years. These award-winning products are known for their straightforward client-centric features and unambiguous terms and conditions.

In Germany, NIBC Direct provides products that enable clients to invest in equities as an alternative to savings. Launched in 2011, NIBC Direct brokerage is a retail focused execution only specialist for asset allocation for consumers. NIBC Direct brokerage focusses on traditional online-traders with higher ticket sizes offered via German stock markets.




*Note: Number of mortgage clients is defined as the number of mortgage contracts. When defined as the number of persons, total number of mortgage clients would increase to 84,000 as a mortgage loan can be provided to multiple borrowers.*

## Trends in the world around us

In 2017, our strategic decisions were largely driven by the following trends in the world around us:

- **Competition from new market entrants** in the Dutch mortgage market is putting additional pressure on spreads for mainstream mortgage loans. We continue to target clients in underserved segments with tailored products such as Buy-to-Let and mortgage loans for the self-employed;
- **The persistently low interest rates** have led to increased demand for mortgage loans with longer fixed interest terms (10-20 and even 30 years). Through our OTM mandates, we can tap into the growth of this crowded and price-competitive segment with no credit risk for NIBC;
- Driven by the low interest rates, **savings clients are favouring on-demand accounts** over fixed-term deposits. To guarantee a stable funding base, we are launching new features that make these on-demand savings stickier;
- The combination of strong economic growth and record-low interest rates have accelerated the **recovery of the Dutch housing market.** Transaction prices continue to rise and volumes have fully recovered from lows after the 2007-2008 financial crisis. We are active in this growing market through OTM and franchises such as Buy-to-Let, which taps into the increasing number of investors in rented residential real estate.

## Approach and strategy in the market

Operating under the NIBC Direct brand, we help clients realise their financial goals by offering products that are accessible, easy to understand and fairly priced. Below, we dig deeper into the strategy and market approach of our mortgage and retail savings businesses.

### Mortgage loans

We offer mortgage loans from our own balance sheet and we partner with institutional investors using our OTM mandates. This dual-track strategy enables us to offer a full product range – from short to long maturities – and also target clients in underserved segments with tailored products such as Buy-to-Let, mortgage loans for the self-employed and the negative equity mortgage.

The negative equity mortgage enables clients - in case sales proceeds of their house are below the previous mortgage loan - to finance this negative balance. The negative equity mortgage provides financing above a LTV of 100% (up to a maximum of 115%), however, the debt-to-income ratio criteria remain the same compared to a 'standard' mortgage loan.

With on-balance sheet mortgage loan products, we prioritise margin over volume by focusing on higher-yielding segments where we can make a difference for our clients. A good example is the mortgage loan for self-employed clients with a track record of less than three years, which we launched in 2016.

At the same time, the OTM business supports our strategy in many ways. We enhance income diversification by adding the fee-generating OTM business line, we create the flexibility to switch back and forth between on-balance sheet origination and OTM depending on market circumstances and we become a more relevant partner to brokers by supplying a full product range from niche solutions to long interest fixed terms.

In addition, we differentiate ourselves in the market through pricing and product features. For instance, we were the first to introduce automatic reduction of the mortgage rate during interest fixed term due to redemption.

### Retail savings

The broad range of savings products in the Netherlands, Germany and Belgium provides funding stability and flexibility to respond if market conditions change. Over the past few years, we have been focusing more on instant-access deposits by reducing the more expensive fixed-term savings, which has helped to diversify our funding sources and to lower costs.

## Developments and performance

2017 was a successful year for the retail client offering business. Since we returned to the mortgage market in 2013, our business has undergone a profound transformation. We have grown our existing mortgage and savings businesses and launched successful new franchises, leaving us with a diversified portfolio that perfectly supports our differentiated approach to the market well into the future.

### Improving the customer experience

The offering in both mortgage loans and savings is underpinned by a comprehensive digital strategy, which allows us to operate more efficiently while providing a client focussed experience to the customers. In 2017 we improved the functionality of the mortgage portal.

These and other efforts clearly translated into higher customer satisfaction, as evidenced by a NIBC Direct Customer Survey score of 7.9 in 2017, compared with 7.6 in 2016.

### Financial performance

Operating income from retail clients increased 14% to EUR 130 million, as the growth of the mortgage loan portfolio and lower funding costs led to increased net interest income.

Net fee and commission income of nearly EUR 4 million is related to income from the OTM mandate launched in 2016.

Operating expenses increased by EUR 6 million (+11%) to EUR 63 million, which nearly fully relates to the increase by EUR 5 million of external servicing expenses, of which EUR 2 million were expenses for the transition of a part of the Mortgage Loan portfolio to another service provider (which will lead to more efficiency and lower servicing expenses in the future) and EUR 3 million for the substantially higher origination level of mortgage loans, including the Originate-to-Manage offering;

Retail clients net profit increased by 19% to EUR 50 million.

## Income statement retail clients

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Net interest income | 127 | 117 |
| Net fee and commission income | 4 | - |
| Investment Income | - | - |
| Net trading income | (2) | (4) |
| Other operating income | - | 0 |
| **Operating income** | **130** | **114** |
| Personnel expenses | 18 | 16 |
| Other operating expenses | 35 | 29 |
| Depreciation and amortisation | 1 | 2 |
| Regulatory charges | 9 | 10 |
| **Operating expenses** | **63** | **57** |
| **Net operating income** | **67** | **57** |
| Impairments of financial assets | - | 1 |
| Tax | 16 | 14 |
| **Profit after tax** | **50** | **42** |
| Special items (after tax) | - | - |
| **Profit after tax retail client offering** | **50** | **42** |

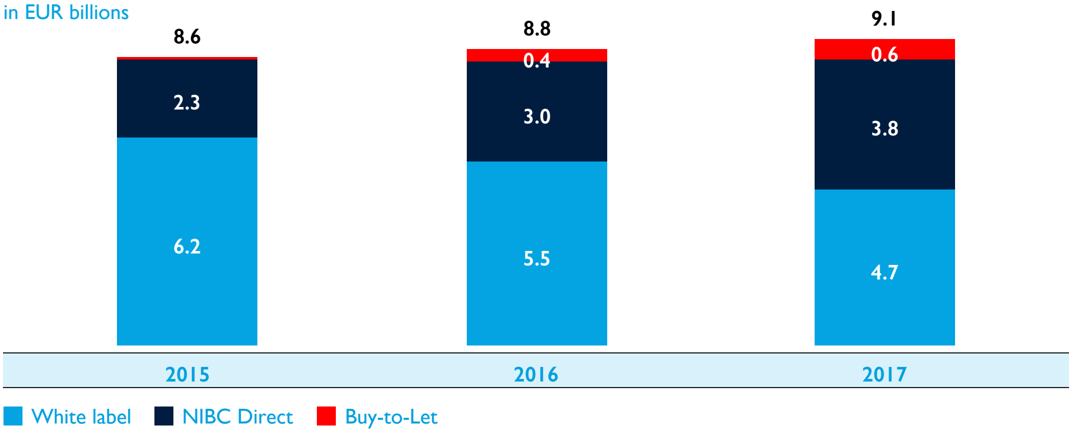
## Mortgage loans

Mortgage loan origination volumes reached EUR 1.9 billion in 2017 (2016: EUR 1.1 billion) of which EUR 0.3 billion was Buy-to-Let and EUR 0.7 billion related to an OTM mandate for an institutional investor. After pre- and repayments, the total mortgage loan portfolio for own book increased by more than 3% in 2017 from EUR 8.8 billion at year-end 2016 to EUR 9.1 billion at year-end 2017, of which 2% from the purchase of a portfolio owner-occupied mortgage loans of EUR 0.2 billion.

In line with the improving Dutch housing market and economic recovery, the mortgage loan portfolio has shown a further improvement in credit quality. In 2017, we managed to reduce the loss rates to pre-crisis levels. Both the defaulted and the non-performing exposure in the Mortgage Loan portfolio decreased by 17% in 2017 to a level of 0.46%

## Mortgage portfolio development

in EUR billions




The record growth in the mortgage loan origination volume shows that the dual-track strategy continues to pay off. Since securing our first mandate in 2016, we have attracted nearly EUR 2 billion in OTM commitments with related assets under management increasing to EUR 0.7 billion, which provides a great runway for growth in this asset class.

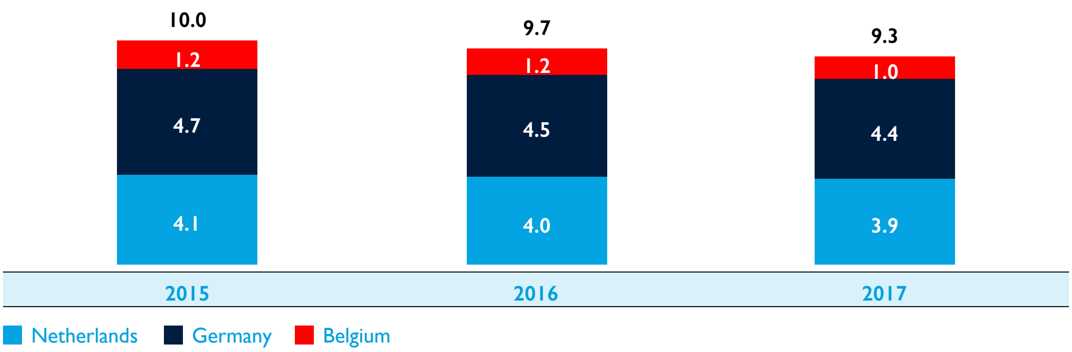
OTM allows us to diversify the income base by adding fee revenue and helps to become a more relevant partner to mortgage brokers because we offer a wide product range – from 1 year to 30 year maturities. As a result, our partner network expanded at the end of 2017, providing ample opportunity to keep growing our share of the Dutch mortgage market in the years to come.

Meanwhile, we continued to focus on profitable sub-sectors that are underserved, such as Buy-to-Let. Growth in Buy-to-Let continued at attractive margins, pushing the portfolio up to EUR 617 million from EUR 371 million at the end of 2016. Due to the increasing numbers of investors investing in rented residential real estate, Buy-to-Let has become an important part of our overall mortgage loan offering. We clearly focus on those clients that aim for tenants that do not rent for a short stay and our standard conditions include that the premises are not to be used for short stay rental (through for example Air B&B).

## Savings

Total client savings decreased by 4% to EUR 9.3 billion at the end of 2017, coming from EUR 9.7 billion at year-end 2016. Our continued efforts to increase the share of on-demand deposits with flexible rates versus more expensive fixed-term savings resulted in a controlled net outflow of EUR 0.4 billion in the year. On 31 December, on-demand deposits accounted for 58% of total client savings, up from 56% in 2016 and 45% in 2015.

**Retail savings development**
in EUR billions




The newly introduced quarterly savings product was well received by clients. The product, which was launched in April 2017 and provide compensation for those who have not withdrawn their on-demand savings during the quarter, attracted EUR 150 million in additional client deposits in the year. The product provides clients with the opportunity to earn higher interest without giving up any flexibility, which is exactly what they want in this low-interest environment.

### Brokerage

Launched in 2011 in Germany, NIBC Direct brokerage is a retail focused execution only specialist for asset allocation for consumers. NIBC Direct brokerage focuses on traditional online traders with higher ticket sizes offered via German stock markets. This activity continued to show a positive development. Assets under management increased 18% in 2017 to EUR 180 million. The number of accounts increased by 4% to around 6,500.

## TREASURY AND GROUP FUNCTIONS

Treasury and Group Functions includes the Treasury function, *Asset and Liability Management* (**ALM**), Risk Management and the bank's Corporate Centre which includes HR & Corporate Communications, Internal Audit, Legal, Compliance, Sustainability, Operations & Facilities, Technology, and Finance & Tax and Strategy & Development.

In Treasury, focus was on the various funding transactions that were successfully executed during the year, including a benchmark EUR 500 million senior unsecured transaction and issuance of EUR 200 million AT1 subordinated securities to further optimise NIBC's capital structure. In addition, Treasury spent considerable time and effort on regulatory developments that impact the bank's funding programmes as well as other Treasury activities. MiFID II in particular required significant resources to meet the 3 January 2018 compliance deadline.

NIBC has an ambitious project calendar. Apart from supporting all regular processes, the Group Functions coordinate and contribute to the realisation of these projects. Examples of the projects undertaken are the following:

- With respect to the IT environment the focus in 2017 was on strengthening the current infrastructure, improvements of business platforms, including phasing out of some legacy systems, executing regulatory projects such as MIFID II and IFRS 9 and on an IT transition programme started in H2 2016. In 2016 we entered into an outsourcing contract with a third party. The outsourcing comprised of a new framework for IT delivery, including a substantial part of the IT infrastructure, IT service desk and management of the IT infrastructure. In Q4 2017 it was decided

to terminate this contract and to retransition the IT organisation. Any outsourcing to this third party will be rolled back early 2018, after which new opportunities to achieve the intended goals will be evaluated. We believe that our existing stand alone IT platform is sustainable for current operations;
- An important milestone was reached in May 2017 with the go-live of NIBC's new Treasury back office system. With this achievement, many internal processes were improved or simplified, as the new system enables more straight-through processing and better integration with front office functionality;
- As of 3 January 2018 NIBC is MiFID II-compliant. The requirements of this regulation have a significant impact on transaction processes of Treasury and NIBC Markets;
- The initial application of IFRS 9 on 1 January 2018 required development of models, review and analysis of the bank's positions and adjustment of administrative processes. A multidisciplinary team has worked on the different elements to ensure operational readiness and will continue to work on further refinement and improvement of all related processes;
- To improve and modernise NIBC's payment processes, Operations and IT are executing a payment roadmap. This roadmap aims to replace legacy infrastructure with up-to-date solutions. In 2017, the IT footprint was reduced via outsourcing. A new, future proof payments hub is in preparation and will be implemented in 2018;
- In 2017, NIBC has reviewed its interest rate hedging strategy. A team involving Treasury, ALM, Operations, Finance and IT has been designing a more efficient hedging strategy, which is also more in line with common market practice. The bank has started to adjust its book structure and hedging positions. Target state is to manage all interest rate risks centrally, from where the net position will be hedged externally;
- To underpin the importance of data management and data quality, NIBC has formalised data management by including the associated responsibilities in its delegation model. With this governance in place, the organisation will use central targets and frameworks to define and execute the next steps in data management;
- A project team is preparing NIBC for the new AnaCredit reporting requirements. The first tests have been concluded successfully, and preparations are on going to ensure operational readiness. As of September 2018, financial institutions will have to report the new statistical datasets.

### Financial performance

The net result after tax of the segment Treasury and Group Functions, as reported in note 1 to the Consolidated Financial Report, equals a net loss of EUR 4 million. The loss is mainly driven by the reorganisation costs of NIBC Markets and the additional costs related to the transition of NIBC's IT organisation.

## OUR PEOPLE

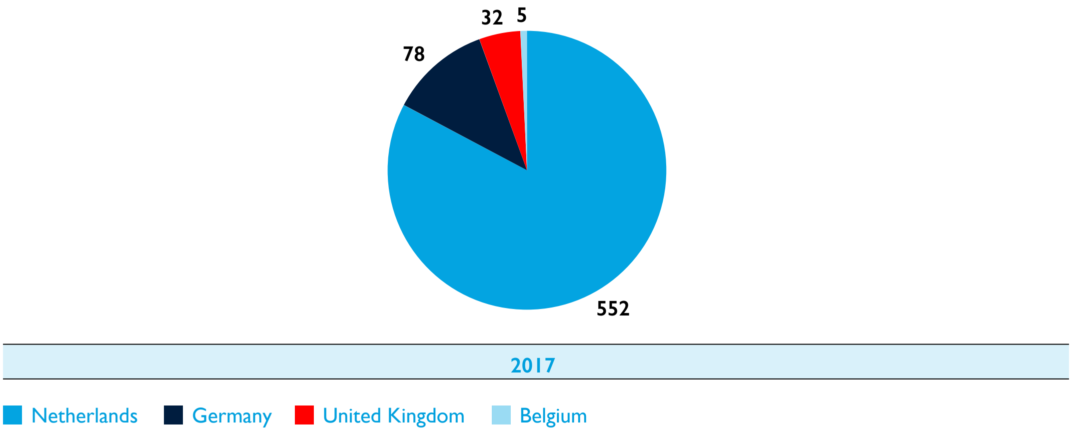
NIBC strives to make a difference at decisive moments for its clients. Consequently, the continuous development of employees' capabilities and commitment are pivotal. The NIBC3, our corporate values – professional, entrepreneurial and inventive - are the cornerstone for NIBC's organisation and culture. The values best sum up NIBC and the way we act. They not only define us in terms of our products and services, but are also the basis for our performance management framework, our development and training activities and our approach to recruitment and selection. These values are also reflected in our ongoing 'Think YES' campaign.

By evaluating ourselves and each other according to how professional, entrepreneurial and inventive we are, we are linking our external promise to the internal culture and capacity to deliver. These values are being applied consistently throughout the organisation in both the front and back offices and at all levels as part of the performance management framework.

## Employee base

In 2017, our total headcount decreased to 689 employees, from 716 in 2016. This decrease mainly relates to the reorganisation of the IT department and the discontinuation of the NIBC Markets Vermogensbeheer Services, including supporting activities.

### FTE's by country




Absenteeism remained low at 2.2% in 2017, a small decrease from 2016 (2.4%). Absenteeism frequency also remained low at 1.0 (2016: 0.9).

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Male/female ratio top management | 87% / 13% | 91% / 9% | 90% / 10% |
| Training expenses per employee (EUR) | 2,377 | 2,070 | 2,540 |
| Absenteeism | 2.2% | 2.4% | 2.2% |
| Employee turnover (employees started) | 14.5% | 24.3% | 15.2% |
| Employee turnover (employees left) | 19.8% | 14.9% | 15.2% |

## Employee engagement

Our aim is to lead by example by continuously improving and safeguarding our levels of employee engagement. We believe that our continued good NPS from corporate clients and client satisfaction of the retail offering are a result of having people that are highly engaged.

In 2017, we selected a new supplier for the Employee Engagement Survey, with a different methodology than our previous supplier. We decided to start a more extensive engagement survey among our employees in order to better understand the results. This more extensive survey will be conducted for the first time in the summer of 2018.

## Development

To compete effectively in our industry, we must develop ourselves at a faster pace and to a higher standard than many of our (larger) peers. Competition is tough within the financial services industry as a whole and in the labour market the banking sector is still perceived as less attractive than before 2008. But, as a mid-sized bank, we have a, in some ways, more compelling offer for employees than our larger peers; one in which they will have greater responsibilities, influence and impact from the start. Our 'Think YES' campaigns have helped positioning NIBC in the highly competitive labour market.

In 2017, we spent over EUR 2,300 per employee on training and educational programmes. This is close to the top quartile when benchmarked with financial services, and close to the top decile compared to general industries. These investments increase the professional capabilities and competences of our people.

### NIBC Introduction Program

The NIBC Introduction Program was organised on a regular basis in 2017 to enhance the onboarding of new employees. Besides presentations on the strategy of the bank and on various parts of organisation, special attention was paid to the importance of our corporate values, the NIBC3. All new employees have taken the Bankers' Oath.

### NIBC Academy

We have a solid training and learning offering in the NIBC Academy, our virtual centre for continuous training and learning, enabling us to offer development in a more customised and effective way. It ran a total of 25 modular courses in 2017. The Academy's approach is to empower employees to take responsibility for their own development, through a range of channels, including on-demand online workshops and classroom courses. Staff can also create their own learning initiatives.

Besides developing professional skills we increasingly focus on skills that make our staff more inventive and entrepreneurial. Our newest program, Dare2Develop, is a clear example. This invitation-only program is geared to our talented young professionals at associate and vice-president level. The program is developed in close cooperation with the participants and enhances personal effectiveness in influencing, consulting, negotiation and innovation. The connection with NIBC's strategy is made by deep dive cases and the active involvement of senior management through mentoring and coaching.

Other examples of NIBC's efforts to support its staff to continuously develop are the following:
- To build on our basic financial and lending skills, in 2017 we offered a number of professional training courses such as Financial & Cashflow Analysis and a Fitch Credit Course.
- We continue to support new ways of working through a high number of IT and application related courses that are available to all personnel.
- The Management Development Programme and 'Influencing with Impact' training courses have continued to help us develop employees' personal and management skills.
- A total of 21 participants completed our dedicated Talent Programme in 2017. This Talent Programme for young bankers has been designed to appeal to a new generation of bankers. One of the challenge projects conducted in the Programme delivered a renewed set-up, which will start to run in January 2018. The modular and flexible approach of this renewed set-up is even more tailored to the needs and demands of the new generation.

## Recruitment and Young NIBC

Recruitment efforts have continued to include engagement with selected student associations, for which we organised several in-house days and attended various recruitment events. By organising an event for recent interns and their friends we were able to attract and hire new talents who match our ambitions and culture.

At the same time, we have become significantly more inventive in our other recruitment efforts and are using new and more dynamic channels, such as gamification, social media and other online platforms. These can provide better engagement prospects for diverse talent and help to convey what working at NIBC is really like.

### Young NIBC
The Young NIBC network is focused on connecting younger NIBC staff to each other and the bank. Young NIBC identifies their needs and facilitates matching events, with a focus on personal development, learning about NIBC's organisation and culture and creating a professional network.

One of the Young NIBC activities in 2017 was a visit to a client in Madrid, a fintech company. Thirty of our young colleagues learned about their way-of-working and how to apply this at NIBC.

Social responsibility is highly valued in Young NIBC. In 2017, eight young colleagues were given the opportunity to participate in the Face-the-Future Programme, directed to connect refugees in The Netherlands (or 'newcomers') to corporate employees. Moreover, Young NIBC organised the NIBC Challenge which entailed 25 young colleagues and the Voedselbank Haaglanden (Food Bank Haaglanden), working together to find a solution for optimising cash flows at the food bank.

## Banking on trust
At NIBC we are mindful of our responsibility towards helping build and maintain trust in the financial services industry. We believe trust is the foundation on which our sector must be based, and we have consistently looked to make it the basis of our own company's culture. To support this aim, we have continued to run our Banking on Trust programme and made concerted efforts through our focus on sustainable culture and behaviours.

During the year, we continued the Compliance & Integrity awareness programme that is based on our revised Code of Conduct, and reflects the most up-to-date standards in our industry. This dedicated programme has continued to raise employees' awareness about our Compliance & Integrity policy framework for dealing with integrity- related matters, e.g. through a mandatory Code of Conduct/Compliance e-learning. Compliance & Integrity training is also obligatory for all new employees when they join NIBC.

## Promoting diversity
We believe that diversity is critical to our ability to succeed and achieve sustainable success. We are committed to creating a stimulating work environment for people from all backgrounds, that is open to different ways of thinking. In 2017, we continued to pay close attention to all elements of our diversity goals, e.g. increasing inclusiveness, balancing age distribution, improving gender diversity and retaining and valueing differences in background.

Diversity across age segments showed balance in 2017. 18% of our employees were under 30 years of age and 23% of employees were age 50 or older.

The gender diversity for our organisation increased to 31% female staff (2016: 27%). Senior management reported an increase in gender diversity to 13% (2016: 9%). Although it may be too early to draw firm conclusions, we think this development shows the pay-off of our structural attention and efforts concerning gender diversity.

In 2016, we launched the Diversity Committee which is tasked with researching our current behaviours and recommending ways to achieve a more inclusive environment at NIBC. We took steps to increase diversity across the company through our recruitment processes. And diversity in general and the male-female balance specifically, are also explicitly taken into account in our talent programmes and performance management. To address gender imbalances specifically, we have introduced engagements aimed at helping to retain and further develop talented female employees.

Increasing diversity among senior managers was a key focus area in 2017. Our objective is at least one third of our Supervisory Board and Managing Board members to be female. NIBC's new Executive Committee, which became effective on 1 January 2017, meets this objective. NIBC is aware that it falls short of this goal with respect to the Supervisory Board and Managing Board (one woman on a total of eight and nil on a total of three, respectively) and the overall senior positions (director level and higher), although here the percentage increased to 12% (from 9% in 2016).

NIBC will continue to address this topic as high-priority. In the case of a vacancy in the Managing Board or the Supervisory Board, the regular policy is applied in which we ask the executive search to shortlist at least 50% female candidates.

## Pensions and benefits

Revisions in previous years have allowed us to operate a modern set of employee benefits, which are flexible and better aligned to the realities of our business. An important aspect was the switch to a discretionary approach to compensation and benefits, which takes into account a range of considerations, including KPIs and country-wide benchmarks. This has enabled us to continue rewarding our talented staff well and to retain them.

Similarly, in 2014 we revised our pension plan to a *collective-defined contribution* (**CDC**) scheme (applicable as of 2015) for salaries up to EUR 103,317, from a *defined benefit* (**DB**) pension plan applicable in the years before 2015. For the employer, the main benefit is that pension costs have become predictable by this revision.

## Health and safety

A healthy workforce is a key element in achieving the Company's objective. We executed a range of programmes and initiatives in 2017, to enhance our people's well-being.

We offered our employees a preventive health check, in which 175 colleagues participated. 62 collleagues made use of the free flu vaccinations that was offered to our staff.

We continued to promote a good work-life balance and to incorporate new ways to increase flexibility in how we work. In 2017, we successfully executed the recommendations of the 2016 Risk Assessment and Evaluation of our working conditions. This assessment, conducted by a certified third party, concluded that NIBC is generally well in control regarding safety, health and well-being.

With the health and safety programmes and initiatives, NIBC has contributed in a positive way to the low absenteeism rate of 2.2% in 2017.

## Works Council

NIBC's *Works' Council* (**Council**) represents the interests of all staff based in the Netherlands. It currently has 11 members from all departments and levels across the bank. As the voice of the employees, the Council regularly meets with the members of the Managing Board and HR team in both formal and informal settings. Twice a year, it meets with members of the Supervisory Board.

Since 2014 NIBC has opted not to be part of the collective labour agreement for banking institutions in the Netherlands. Therefore, the Council - as the representative of all NIBC's employees on the payroll in The Netherlands - became senior management's direct interlocutor for negotiations in this important area. The negotiations have led to revisions in our employee benefit scheme in 2017.

The Council advised on six subjects, including the reorganisation of NIBC Markets and the reappointment of Managing Board members. Furthermore, the Council gave its approval to seven subjects, including changes to the working conditions of the Retail Call Center ('Klant Contact Center'), changes to the Whistle Blowing Policy and multiple changes to the NIBC Pension Fund agreements and the Staff Manual.

Given the challenges facing NIBC and the banking sector, the Council remains focused on the employability of NIBC's staff and on NIBC's competitive position as an attractive employer. This was reflected in the Council's points of view regarding reorganisations, diversity, labour agreements, and pension agreements. In 2017, the Council successfully discussed and negotiated an employability policy with an initial set of instruments, such as an individual additional development budget, to support and stimulate employability for NIBC's employees.

## SUSTAINABILITY

At NIBC, we believe it is our responsibility to be a sustainable business for the benefit of future generations. We are convinced that as a business that takes its social and environmental responsibilities seriously, we are better able to manage our risks and tap promising opportunities in our markets.

We want to ensure that the services we provide are responsible and sustainable. Additionally, as a financial services provider, we are well aware of the enormous responsibility we have in helping to build and maintain trust in our industry.

Our day-to-day business decisions and interactions with clients are guided by established principles and policies set out in our Code of Conduct, Business Principles, Corporate Values, and Compliance Framework and Sustainability Framework. You can find these documents on our website. Since 2010, we have steadily developed our Sustainability agenda in close consultation with our stakeholders. Our governance revolves around a system of checks and balances that ensures stakeholders are also part of our decision-making processes.

### Core standards

We manage the sustainability impact of our financings through our Sustainability Framework, which can be found in the Sustainability section on our website. This Sustainability Framework describes governance, implementation, and the roles and responsibilities within our organisation in regard to sustainability risks. NIBC defines sustainability risks to include environmental, climate, social, human rights, and governance risks.

We ensure sustainability due diligence is performed on all clients and transactions. The Framework and its policies are based on internationally recognised conventions and standards. Our approach to certain sectors and activities is further elaborated in our sustainability sector policies. These standards provide the overarching principles and standards that form the basis for the **E&S** (*Environmental & Social* ) sustainability framework used by NIBC to consider its involvement with its clients. You can find these sector policies on our website.

In 2017, we revised and updated all our policy documents. We rechecked all our guidelines and conventions to be completely sure we are in compliance with international and national conventions, protocols and codes.

We also updated our Code of Conduct which underpins our purpose and corporate values. It guides us in the way we work at NIBC. Key themes are: doing the right thing, follow the letter and the spirit of rules and doing what we say. You can find the Code of Conduct on our website.

**UN Global Compact**

In 2017 NIBC reconfirmed its support to the ten principles of the UN Global Compact with respect to human rights, labour, environment and anti-corruption. These principles support the Sustainable Development Goals, providing an ethical and business framework to help companies generate value while reinforcing essential human values. This reconfirmation follows our original commitment from December 2010 and our annual ongoing commitment to advance the principles since that time.

**Equator Principles**

NIBC is also one of 92 financial institutions in 37 countries worldwide which have officially adopted the Equator Principles. The Equator Principles are a risk management framework for determining, assessing and managing environmental and social (E&S) risk in project finance transactions. NIBC has implemented the EPs in our sustainability policies and due diligence process for financing projects and will not provide Project Finance or Project-Related Corporate Loans to projects where the client will not, or is unable to, comply with the EPs. In 2017, seven transactions financed by NIBC were closed which qualified under these guidelines.

## How we manage sustainability

Our governance revolves around a system of checks and balances which ensures stakeholder views are taken into account in our decision-making processes. NIBC's Managing Board is ultimately responsible for all Sustainability matters.

ExCo members discuss and advise on sustainability strategy, targets, planning and budget. The ExCo is also responsible for policies that impact NIBC's culture and ethics, such as the Code of Conduct. Updates to the sustainability framework and underlying policies are reviewed and approved by NIBC's Risk Management Committee.

Responsibility for overseeing NIBC's sustainability agenda is delegated to our Sustainability Officer but is primarily managed by and embedded in each business unit. Processes, roles and responsibilities are defined to manage sustainability and take a precautionary approach.

### Sustainability Officer

The NIBC Sustainability agenda is overseen by a dedicated sustainability team, led by a dedicated fulltime Senior Sustainability Officer who is responsible for catalysing sustainability and corporate social responsibility within the organisation.

The sustainability team is responsible for the set-up and implementation of the sustainability strategy, including targets, planning and budget. It is up-to-date on all sustainability developments and is responsible for engaging with our external stakeholders. The team meets regularly with each business unit to discuss progress and evaluate activities. On a quarterly basis, it also reports on figures and progress to the Managing Board.

The NIBC Sustainability agenda is led by a dedicated fulltime Senior Sustainability Officer who is responsible for catalysing sustainability and corporate social responsibility within the organisation.

The Officer is responsible for the set-up and implementation of the sustainability strategy, including targets, planning and budget. It is up-to-date on all sustainability developments and is responsible for engaging with our external stakeholders. The Officer meets regularly with each business unit to discuss progress and evaluate activities. Sustainability matters are monitored and reported periodically to the ExCo and the *Risk Policy & Compliance Committee* (**RPCC**), a subcommittee of NIBC's Supervisory Board.

### Business units

NIBC's Sustainability agenda is aligned to our business strategy, and different departments are responsible for managing sustainability as part of their activities. For example, business teams apply the Sustainability Framework in their client interactions, Facilities & Services manages NIBC's energy efficiency programme, and Human Resources is responsible for sustainability in our human resource activities.

We ensure sustainability due diligence is performed on all corporate clients and transactions. New products and significant changes to existing products are assessed for any potential human rights and environmental impacts. Suppliers are required to meet our human rights, environment and anticorruption standards and are evaluated as part of our know your supplier process.

In addition to our headquarters in The Hague, our offices in Frankfurt, London and Amsterdam have a Sustainability representative who acts as a liaison for the sustainability team. The representatives help inform local staff on our sustainability policies and activities and report back on any relevant local sustainability initiatives or issues to head office. To find out more about our sustainability strategy and how it is managed, please visit our website.

## Non-financial reporting

The NIBC Annual Report 2017 has been drafted in accordance with the Dutch Decree disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie), which came into effect on 24 March 2017 as part of the transposition into Dutch law of the EU Non-Financial Reporting Directive (2014/95/EU, OJEU 201 330).

This Report also applies the *Global Reporting Initiative* (**GRI**) Standards. Our GRI content index and a Materiality Assessment can be found on the NIBC Annual Report website. Additional non-financial information and disclosures are published in the sustainability section of our website.

### Environment and natural capital

Climate change, biodiversity loss, and water scarcity are signs of unprecedented pressure on the environment and the planet's ecological limits. NIBC is committed to reducing negative impacts on the environment in our business activities and helping clients in their transition towards more responsible practices.

NIBC is carbon neutral with regards to direct emissions from its own operations. Since 2010, we have measured our direct emissions, realised substantial reductions and compensated for any remaining direct emissions. 100% of electricity powering NIBC's facilities is sourced from renewable energy. We manage our direct impact on the environment through an environmental sustainability programme. NIBC Markets was integrated into this program during 2017.

In 2017 a third party energy audit was performed for our headquarters in The Hague. The outcome confirmed the progress we have made to date and will help to further optimise energy efficiency through future maintenance and refurbishments. For more information about our environmental footprint and sustainable activities and performance in 2017, please visit our website.

NIBC supports its clients to achieve their transition towards more sustainable practices. The main environmental risk for NIBC is climate risk as a result of greenhouse gas emissions from traditional business sectors like Shipping and Offshore Energy.

During 2017, no severe environmental incidents related to NIBC's financings, own operations, or supply chain were reported. We mitigate potential risks through client and transaction due diligence, stakeholder engagement and by supporting companies in their transition toward more responsible business. For example, NIBC is supporting Offshore Energy services companies pursue emerging opportunities in renewables. By doing so we are helping companies to diversify their business, accelerate the transition towards a low carbon future and protect jobs.

**Climate Bond Certified green loan**

In January, NIBC announced that it successfully arranged Europe's very first climate bond certified 20-year green loan. The green loan was for German client MEP Werke and Dutch investor Delta Lloyd Asset Management. This innovative transaction meets the Climate Bonds Standards v2.0 and is certified by the *Climate Bonds Initiative* (**CBI**). MEP Werke is one of Germany's leading decentralised energy providers and specialises in leasing solar power systems which provide affordable renewable energy to German residential homeowners.

**Responsible Ship Recycling Standards**

NIBC is one of three founding members of the *Responsible Ship Recycling Standards* (**RSRS**), an initiative that aims to promote more responsible practices in the industry, particularly regarding environmental and human rights impacts. The Standards promote the use of inventories for hazardous materials and ensure responsible ship recycling at end of life.

Importantly, NIBC's shipping clients embraced this approach and have led its implementation. Several clients have taken further steps beyond the vessels financed by NIBC and have committed to this approach across their entire fleet. Additional leading shipping financiers have joined RSRS during 2017. The initiative was publicly launched in June at Nor Shipping, a leading shipping industry event. Civil society organisations have endorsed the initiative and are actively engaged in RSRS. This initiative is the first of its kind in the sector and is a example of how NIBC is working with clients and other stakeholders to address potential environmental and human rights risks in global value chains.

## Social aspects

NIBC believes that respect for human rights is a basic responsibility; towards our own employees, but also towards those people who are affected indirectly by our actions. NIBC endorses human rights as formulated in the Universal Declaration of Human Rights ('Ruggie framework') and UN Principles for Business and Human Rights.

Respecting people and their human rights is a foundation of NIBC's Code of Conduct which underpins our corporate values. Human rights due diligence is integrated into our sustainability due diligence and monitoring processes for financings and investments to identify and manage potential human rights risks.

During 2017 no severe human rights incidents related to NIBC's financings, own operations, and supply chain were reported. The main salient human rights risks for NIBC are labour conditions and worker safety in corporate client supply chains. NIBC mitigates these through stakeholder engagement, client and transaction due diligence and by raising awareness. Transparency into supply chains has proven to be a challenge for mid-market businesses but is gradually improving.

**IMVO agreement for the Dutch banking sector**

In December 2016, NIBC signed the IMVO agreement for the Dutch banking sector. The initiative aims to improve human rights practices related to project and corporate financings and is guided by the OECD Guidelines for multinational enterprises and UN Guiding Principles for Business and Human Rights. We use the IMVO platform to share knowledge and experience with civil society organisations, authorities, clients, and financial sector peers. During 2017, NIBC actively participating in working groups focused on knowledge sharing and enabling effective grievance and remedy mechanisms. Results from the working groups are expected to be published during 2018.

**Supporting vulnerable clients**

NIBC has for many years had in place an extensive support programme for mortgage clients whose payments are in arrears. NIBC Special Servicing Mortgages sets up debt repayment schemes together with these clients. If the scheme fails or cannot be implemented, we discuss the options for restructuring the loan with the client. We call in a mortgage advisor to help us assess whether the interest rate could be lowered by such actions as interest rate averaging or mobilising the client's savings or investments to enable early redemption of part of the loan. And if a mortgage client is unable to repay their debt due to unemployment, we can call in a job coach.

In 2017 NIBC Special Servicing Mortgages focused its efforts on further developing this approach. Our new business coaching programme for motivated self-employed entrepreneurs with payment problems is unique in the Netherlands. Some self-employed entrepreneurs are highly qualified professionals who lack expertise in marketing or administrative matters. The coach provides them with the help they need to permanently boost their income.

Special Servicing Mortgages has also implemented a new client-first way of working. Mortgage clients whose payments are in arrears are immediately assigned to a single point of contact who deals with their case – a client-friendly approach that speeds up the process of finding solutions. We also try to observe at an early stage that clients might run into problems, for example by encouraging clients to report to us in advance that they might be laid off soon.

To prevent future payment problems, we proactively review redemption-free mortgage loans, particularly when clients are a bit older or their mortgage interest tax relief will soon expire. In such cases, we inform the client about the imminent change in their financial situation and in some cases sit down with them to draw up a plan that will facilitate repayment of the loan.

These and other measures have in 2017 resulted in a substantial decrease in the number of long-term cases handled by Special Servicing Mortgages.

**Client privacy & data security**

When confidential or private information belongs to NIBC or a client, we handle it with the utmost care. Cybercrime is a risk for NIBC as well as for all of our financial sector peers. In 2017 we carried out a large number of tests, continuously assessing our data protections, as part of our efforts to strengthen NIBC's cybersecurity.

We do not leave such information unattended and we have policies such as a clear desk policy, information security policies, and additional security controls. Staff may not use non-secure communication channels or storage devices for sensitive or confidential information. Third parties may not use our equipment, software or databases unless authorised. Our approach is detailed in our *Corporate Information Security Policy* and our *Data Protection Policy*. We have a *Record Keeping Policy* in place to ensure we adhere to legal requirements with respect to data protection. During 2017, there were no complaints regarding breaches of customer privacy and losses of customer data, nor any reportable leaks, thefts, or losses of customer data.

**Human capital**
NIBC invests significantly in developing its people personally and professionally, and providing a stimulating work environment that values diversity and treats everyone with respect. NIBC has zero tolerance for all forms of discrimination with respect to employment and occupation and have systems in place to actively manage this.

We adhere to national employment legislation in the countries in which we are active and comply with best practices. Respecting and protecting human rights and embracing diversity are embedded in our Code of Conduct. To find out more about our human resources agenda please refer to the 'Our People' chapter in this Annual Report.

In this light, we are very pleased that our *Information Technology Director* (**CIO**) Artie Debidien won the Ethnic Business Woman Award (in the Managers category) in late 2017. These awards were introduced by Stichting EZVN, a foundation promoting ethnical business women in the Netherlands. The foundation was set up in 2004 to create a platform for talented female business people with an ethnical background.

## Anti-corruption and bribery measures
In 2017, NIBC fully revised its whistleblowing policy and procedure. Later that year, NIBC updated and relaunched its corporate Code of Conduct. All staff received mandatory training on the updated Code as well as on related compliance policies such as anti-corruption, anti-money laundering and anti-bribery. These updates demonstrate NIBC's ongoing commitment towards good corporate governance and to uphold the ten principles of the United Nations Global Compact.

In line with our commitment to the principles of the United Nations Global Compact, NIBC does not accept or tolerate any instance of bribery, corruption or fraud. Any NIBC employee found giving or accepting bribes, or committing any other acts of corruption, will face disciplinary action. NIBC also does not want to engage with clients who have consistently violated the principles of the UN Global Compact and do not provide any level of commitment to improve.\

In 2017, NIBC fully revised its whistleblowing policy and procedure. Later in the year NIBC updated and relaunched its corporate Code of Conduct. All staff received mandatory training on the updated Code as well as on related compliance policies such as anti-corruption, anti-money laundering and anti-bribery. These updates demonstrate NIBC's ongoing commitment towards good corporate governance and to uphold the ten principles of the *United Nations Global Compact* (**UN GC**).

In line with our commitment to the principles of the UN GC, NIBC does not accept or tolerate any instance of bribery, corruption or fraud. Any NIBC employee found giving or accepting bribes, or committing any other acts of corruption, will face disciplinary action. NIBC also does not want to engage with clients who have consistently violated the UN GC principles and do not provide any level of commitment to improve.

### Anti-fraud

Our anti-fraud framework emphasises prevention and timely detection. All staff are responsible for the prevention, detection and deterrence of fraud. We familiarise ourselves with the types of improprieties that might occur within our area of responsibility, and are alert to any indication of irregularity. We always report actual or suspected fraud or misconduct, after which a special investigation is launched, if appropriate. If fraud is established, action will be taken against violators. During 2017 no such irregularities were reported.

### Tax compliance

NIBC proactively communicates with tax authorities, evidenced by its ongoing agreement on horizontal supervision with the Dutch tax authorities. We consider tax risk in our decision making with regard to clients, transactions and investments. Our aim is to avoid possible risks of tax base erosion and profit-shifting activities. In November, NIBC published a *Tax Position Statement* on our website which summarises our approach.

We have established and implemented a *Tax Control Framework* (**TCF**) that includes an administrative organisation, procedures and internal controls, to meet tax compliance requirements. Our TCF is reviewed periodically in order to keep it up-to-date and in line with all relevant developments in rules and regulations, changes within the organisation and societal demands. We do not engage in transactions without economic substance or which are exclusively aimed at safekeeping or realising tax benefits for ourselves or our clients.

## Innovation lab

The Innovation Lab encourages employees to support the evolution to an even more inventive, entrepreneurial and client-oriented bank. NIBC started the Innovation Lab in January 2016.

In 2017 the focus of the Innovation Lab was on inspiring, connecting with partners and experimenting. We did this by organising several events, among which were 'Inspiration Mondays'.

Every month we hosted sessions in The Hague with inspiring guests from outside the bank, specialised in artificial intelligence, fintech, the energy transition, data security and other important developments and trends for NIBC and its clients. During 2017 the Inspiring Mondays were attended by 80 to 90 employees on average.

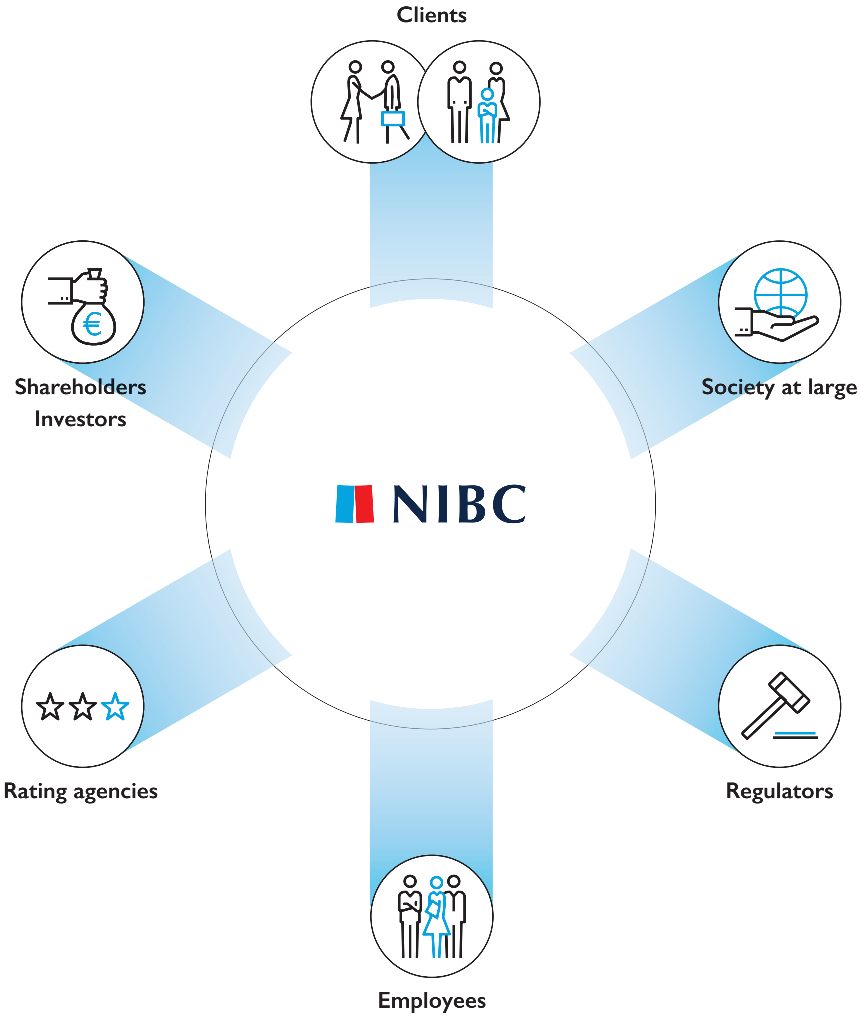
In addition to the Inspiring Mondays, the Innovation Lab organised special workshops aimed at experimenting and innovation. These workshops are empowering our staff to address inefficiencies and find solutions. Employees also frequently engaged with start-up incubators, acting as coaches and mentors to young entrepreneurs during the year.

Over the past two years, the Innovation Lab has resulted in several business opportunities for NIBC as well as increased awareness by employees in regard to business and societal developments.

# STAKEHOLDER ENGAGEMENT

We recognise our responsibilities towards stakeholders, and look to consider their interests in our day-to-day decisions and activities. Engaging with stakeholders in a proactive way and on a continuous basis is central to our strategy and ambition to achieve sustainable growth. To ensure our long-term success, we acknowledge the need to strike a careful balance between the interests of all our stakeholders.

We define stakeholders as any group or individual affected directly or indirectly by our activities. We have identified our main stakeholders to include clients, employees, investors, regulators, rating agencies and society at large. Our engagement with these groups takes place via different channels that range from ongoing dialogue to direct requests for feedback.

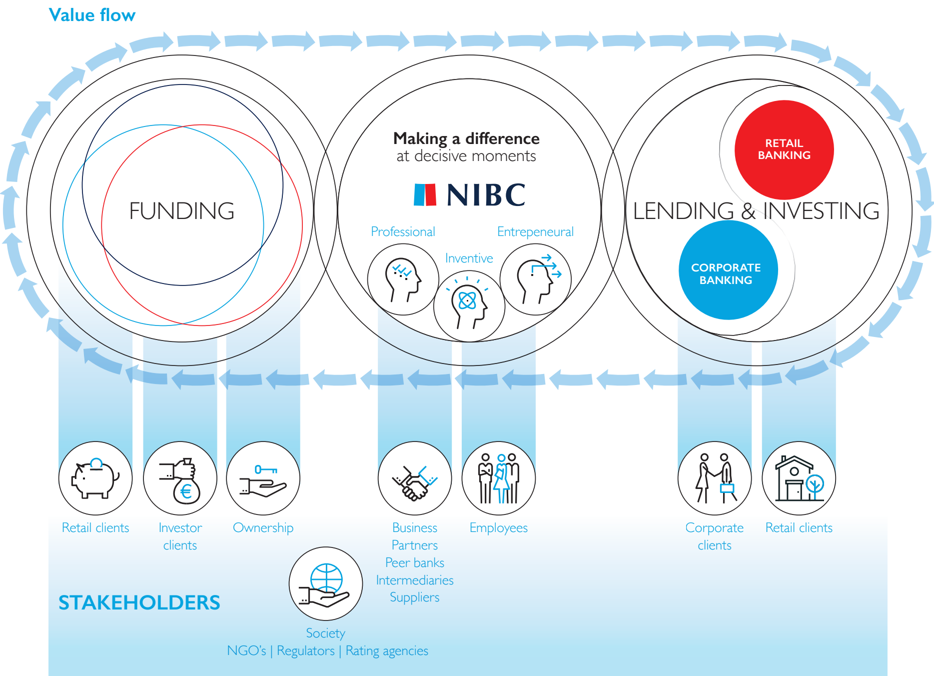



## Management and materiality

We engage with stakeholders to capture their views through a regular materiality assessment process carried out twice a year. This exercise provides critical clarity on the matters most important to our stakeholders, and offers valuable insights into how we should allocate our resources. The outcome of this process is described in this chapter.

As part of this process, we have assessed the different areas of the value we create and the capital we control. We did this not only in terms of our products and services to our clients, but also in terms of the value we deliver to those who invest in us and provide funding.

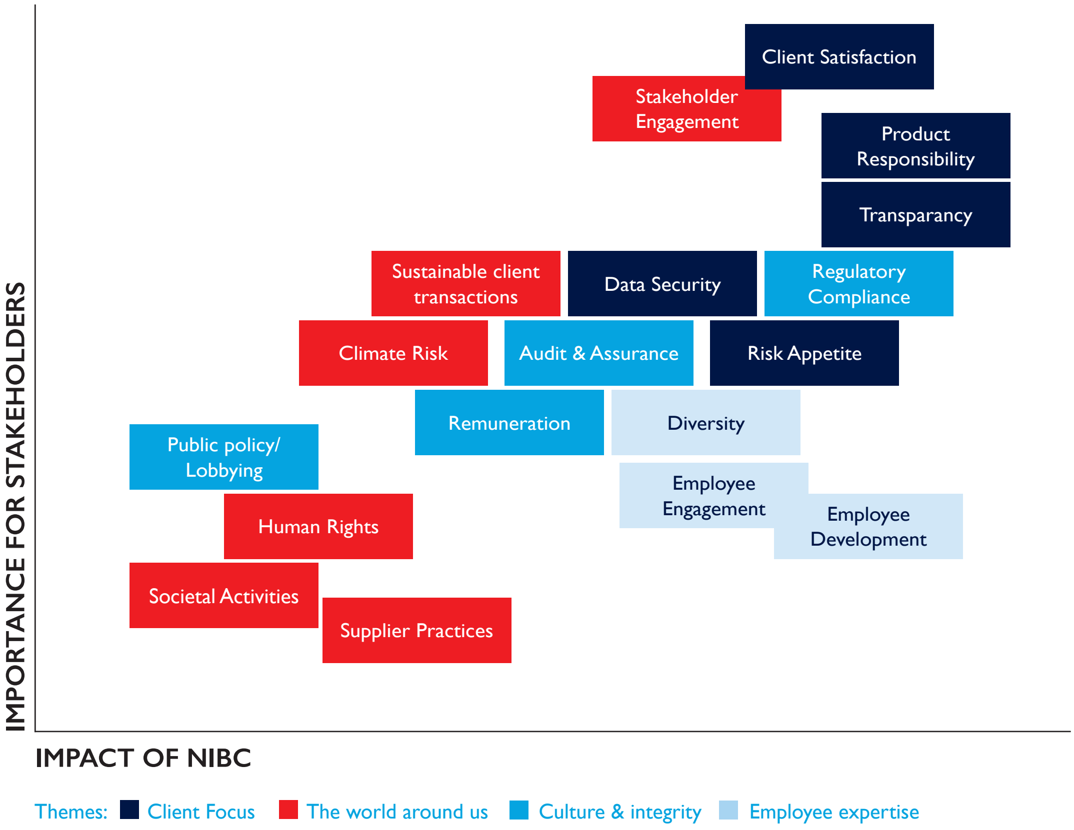
We have encapsulated the results into a 'value flow' diagram which provides clarity into our value creation model. While a simplified view, it reflects our client-first business agenda, our business principles which will enable our future financial and non-financial performance.




## Materiality analysis 2017

In 2017, our stakeholder consultation was performed across seven stakeholder groups representing our clients, investors, regulators, civil society and employees. Stakeholder representatives were asked to rank each material topic on a scale of 1 to10 (1 = least important; 10 = most important).

We used this opportunity to ask for more specific feedback in regard to areas such as climate risk, diversity, data security and modern slavery. They were also invited to add material topics of their own. The location of each topic within the graph represents the result of their response.




The three most important aspects for stakeholders were client satisfaction, product responsibility and stakeholder engagement. Client satisfaction was seen by stakeholders as the most material aspect. They believe that high client satisfaction is an indicator of the strength of our franchise.

Product responsibility and stakeholder engagement are also very important and areas of strength for NIBC. Our online platform and clear terms and conditions in retail banking were appreciated by clients. Stakeholders appreciated the agility and sector expertise in NIBC's corporate offering.

Data security and privacy significantly increased in importance to stakeholders, likely due to increased public awareness of cyber incidents during the year. Retail and corporate clients mentioned that they need to have confidence that their information is protected. At the same time regulatory requirements (PSD2) are requiring increased external access to bank systems.

Regulatory compliance continued to rise in importance. This is due in part to MIFID II as well as increased non-financial regulatory reporting requirements. New EU and Dutch non-financial reporting directives took effect during 2017 and are required for the 2017 reporting period.

Sustainable client transactions and investments continued to be material in the eyes of stakeholders. NIBC has embraced sustainability in its financings and investments, particularly focusing on clients in the sub-sectors renewable energy, infrastructure, real estate, agriculture, and shipping. During our consultations, stakeholders told us they appreciated our efforts in this respect.

Diversity was also a material aspect reflecting increasing awareness of both external stakeholders and employees. As of 1 January NIBC formed a new ExCo of which 33% are women. During 2017, gender diversity improved at several levels within the bank, though further progress is needed to meet our goals.

## Clients

Our clients are our top priority and fundamental to our performance as a bank. We maintain long-term relationships with our clients; understanding their business, anticipating their needs and delivering the best possible service. We recognise that each client and situation is unique, and want to create lasting value for them.

As part of our duty of care towards our clients, we gather feedback from clients and customers at every opportunity. Our main client groups include:

- Corporate clients;
- Entrepreneurial investors;
- Institutional investors;
- Financial sponsors;
- Retail customers.

We measure satisfaction levels through formal channels such as NPS surveys of corporate clients directly after deals are closed and our NIBC Direct Customer Survey of retail customers. For more information about our engagement with clients, please refer to the Corporate Clients and Retail Clients sections in this Annual Report.

## Employees

Our focus on our people is part of our strategic commitment to being a sustainable and profitable banking franchise. We aim to be an attractive employer for people from all backgrounds. As part of our efforts to give back to local communities, we also encourage our people to volunteer their time and skills to help others.

ExCo members meet regularly with employees on an informal basis during which employees can raise any topics, concerns or other comments. Regular Town Hall sessions led by ExCo members, are held every two months, to cover topics such as financial results and strategy updates. As part of our Talent Programme, young trainees are offered the opportunity to present inventive and challenging business cases to the ExCo.

Over the past several years, employability has been a rising concern for our employees due in part to workforce reductions at larger peers in the financial sector. Therefore NIBC has continued to increase its investments in employees' personal and professional development. This is not only good business practice, but also helps to ensure NIBC will have the skills and knowledge to meet its clients' future needs.

As part of our efforts to give back to local communities, we also encourage our people to volunteer their time and skills to help others, as you can read in the Sustainability section of this report. For more information about diversity and our engagement with employees during the year, please refer to the Our People section in this Annual Report.

## Regulators

We maintain strong and open relationships with our regulators, governments and other supervisory bodies. We are committed to collaborating closely with relevant authorities, being transparent in our dealings, and meeting their expectations.

Our primary regulating entity is the *Dutch Central Bank* (**DNB**). In 2017, we had regular contact and maintained an open and ongoing dialogue with the DNB, most notably, in areas such as risk management, capital and liquidity, asset quality, and relevant developments in Europe.

We also maintained our relations with the Dutch financial markets regulator, the *Authority for the Financial Markets* (**AFM**), and with regulators abroad through our international offices.

Furthermore, NIBC proactively communicates with tax authorities, evidenced by its ongoing agreement on horizontal supervision with the Dutch tax authorities.

## Society at large

NIBC wants to play a role in addressing environmental and social issues in the communities where it is active by being a responsible corporate citizen. Our ambition to be a trustworthy, transparent and sustainable bank requires us to take action to minimise our impact on the environment and to contribute to building a sustainable society for future generations. We therefore look to proactively engage with relevant civil society, local and community organisations.

Dialogue with civil society organizations was frequent throughout 2017. Regular discussions with civil society organisations were important, particularly in light of the *UN Sustainable Development Goals* (**SDGs**), the Paradise Papers, the IMVO agreement for the Dutch banking sector, and the Berlin COP23 climate conference. For more information about our engagement with local and community organisations, please refer to the Sustainability chapter in this Annual Report.

### NIBC NGO Boulevard

In 2015, we launched the NIBC NGO Boulevard, an initiative to allow our offices and facilities to be used in support of good causes. In 2017, the NGO Boulevard grew to six Dutch civil society organisations: Maatschappelijke Alliantie, Missing Chapter, Sovic, SDG Nederlands, Stichting Vitalis and Buddy Network. One focus area for all of these organisations has been to contribute to Dutch efforts towards the SDGs through their activities and initiatives.

NIBC aims to help these civil society organisations to be effective and increase their impact. At the same time, since we share the same facilities, these organisations help to increase NIBC bankers' awareness of societal challenges and inspire us. Engagement with these civil society organisations has led to several joint workshops on societal challenges. Further joint initiatives focused on topics such as financial education, circular economy, and mobility are planned for 2018.

### Community engagement

NIBC wants to be a good corporate citizen by contributing to the well-being of the societies in which we operate. We encourage our employees to volunteer their time and expertise to community projects, and support their initiatives by matching the money they raise for good causes. In addition, NIBC runs its own social projects, some of which are focused on helping to educate youngsters about prudent money management. In this paragraph you'll find information about our social projects and community activities. Please visit our website for more information.

NIBC employees were active in a wide range of initiatives in our communities during 2017. In March 15 NIBC employees led by our CFO Herman Dijkhuizen again conducted financial education classes during the *Week van het Geld* (Global Money Week), an initiative whereby bankers provide fun lessons about money to primary school children. Approximately 700 primary school children participated in this *Bank voor de Klas* program with NIBC staff.

Young NIBC organised an 'NIBC Challenge' together with the Voedselbank Haaglanden (Foodbank Haaglanden). Over 25 enthusiastic colleagues together with volunteers from the Voedselbank worked to find solutions for optimising cash flows at Voedselbank Haaglanden. This 'Bank for a Bank' initiative resulted in five concrete ideas, varying from 'online supermarket customers donating money to the Voedselbank' to 'collecting leftover festival coins at the end of events'. Young NIBC plans to organise a comparable community event every year.

NIBC Markets held an employee fundraising drive to benefit Kika, the children's cancer charity. In December, employees in The Hague supported Stichting Vitalis in what has become an annual holiday tradition at the bank. Vitalis is a professional non-profit organisation that supports vulnerable children so they can avoid intensive professional youth counseling programmes. NIBC employees provided personalised holiday gifts for more than 100 children in an event that involved fun activities, cupcake decorating and refreshments.

## PERFORMANCE EVALUATION

### Performance against targets

In the following table, we measure NIBC's performance over the past few years against our 2015-2017 objectives, which were articulated in our Annual Report 2014.

| | TARGETS | PERFORMANCE |
|---|---|---|
| | **Franchise** | |
| + | Be a reliable and client-focused bank for both our corporate and retail clients. | Given the positive development of both NPS and NIBC Direct Customer survey, this target is met. |
| + | Maintain a positive NPS (above +20%) in Corporate Banking and high customer satisfaction with NIBC Direct (above 7.5) in Retail Banking and thus retain our position in the top quartile within the financial sector. | Current NPS is +64%, based on the response of 165 clients, while our customer satisfaction survey result for NIBC Direct is 7.9; both are well above target. |
| + | Achieve a medium-term average corporate loan portfolio above EUR 9 billion, drawn and undrawn, and origination levels above EUR 2.5 billion annually, in our home markets. | At year-end, the drawn and undrawn portfolio amounts to EUR 9.2 billion, with origination at EUR 3.1 billion; both are above target. |
| + | Grow our loan, equity and advisory business. | In 2017, operating income developed positively via growth in Net interest income (+14%), Net fee and commission income (+69%) and Investment income (+116%), illustrating growth in business activities. |
| + | Achieve a medium-term average mortgage portfolio above EUR 9 billion. | Our mortgage portfolio amounted to EUR 9.1 billion at year-end, supported by origination of EUR 1.2 billion on the back of our Buy- to-Let portfolio and the mortgages that we originate for own book. |

| | TARGETS | PERFORMANCE |
|---|---|---|
| +/- | Introduce two new retail client (mortgage or other) products annually according to customer demand and interest. | In Retail Banking, we launched the quarterly savings product, which provides a compensation for clients who have not withdrawn their on-demand savings during the quarter. The product was well received by the market. |
| + | Balance the growth of our retail savings over the three countries where NIBC is active. | Our continued efforts to increase the share of on-demand deposits with flexible rates versus more expensive fixed-term savings resulted in a controlled net outflow of EUR 0.4 billion. |
| | **Capital** | |
| + | Be a creditworthy partner for all our stakeholders, reflected in ratios such as a *Common Equity Tier 1 ratio* (**CET 1**) above 12% and *leverage ratio* (**LVR**) over 5%, all based on healthy growth of our client portfolios. | The fully-loaded CET 1 ratio increased from 16.8% in 2016 to 21.4% in 2017. The leverage ratio increased from 7.3% to 8.8%. Both ratios are well above target. |
| + | Continue to invest in our people and further develop our culture to support NIBC's corporate values: professional, entrepreneurial and inventive. In this context, we aim to keep client satisfaction and employee engagement levels, as measured by our annual survey, at a minimum of 85% over time. | Training costs amounted to approximately EUR 2,350 per employee, which is close to the top quartile of the financial services benchmark. In 2017, the new training programme Dare2Develop has been introduced. Employee engagement will be remeasured in 2018, following implementation of a new methodology. |
| - | Continue to create a more diverse workplace by increasing the number of women in senior management positions, with a medium-term target above 30%. | Women accounted for 31% of total staff at year-end 2017, up from 27% in 2016. Our Executive Committee consists of two women and four men. Of total senior management, 12% of the positions are held by women, up from 9% in 2016, but still below target level. |
| | **Sustainable profitability** | |
| + | The qualitatively and quantitatively sound growth of our corporate and retail portfolios, our private equity portfolios and our fee business will result in further sustainable growth in operating income in the coming years. | Key components of operating income have shown a strong increase in 2017: Net interest income (excluding Vijlma) has increased by 14%, Fee and commission income is 69% higher than last year and Investment income has increased by 116%. |
| + | In addition, we will keep our cost-to-income ratio between 47% and 54% and work to reduce our impairment levels and retain these in line with market developments. | Cost/income ratio equals 44% including Vijlma or 47% excluding Vijlma, well within the target bandwidth. |

| | TARGETS | PERFORMANCE |
|---|---|---|
| + | All the measures taken should result in sustainable growth of our net profit and restore return to shareholders to the range of 8-10%, with an intermediate net profit goal of EUR 100 million. | In 2017, return on equity improved to 10.8% including Vijlma or 8.4% excluding Vijlma, from 5.4% a year earlier. This is within the target range. |
| | **Liquidity / Funding** | |
| + | To further improve our *Standard & Poor's* (**S&P**) and Fitch rating from BBB- with a Positive Outlook to BBB flat in the medium term. | In October, S&P raised its long- and short-term counterparty credit ratings to 'BBB/A-2' with a stable outlook, while Fitch upgraded its long-term issuer Default Rating to 'BBB' with a stable outlook, leading to full realisation of the target. |
| + | Our liquidity is managed within the bandwidth of the LCR and NSFR being above 100%. Our internal appetite is set well above these external targets. For the coming years, we aim to further optimise funding diversification while managing interest rate risk. This will result in building a curve for both our pass-through covered bond and unsecured funding by issuing benchmark transactions. | At year-end, the LCR amounted to 196% and the NSFR to 117%, both well above the minimum level. In 2017, several funding transactions were successfully executed (a 5-year EUR 500 million senior unsecured transaction, a perpetual AT1 transaction of EUR 200 million and several private placements for a total of EUR 535 million). |
| + | The target loan-to-deposit ratio is between 160-140% with an asset encumbrance of below 30% at the end of 2016. | The loan to deposit ratio at year end was 150% (2016: 148%) and the asset encumbrance 26% (2016: 29%). |
| | **Asset Quality** | |
| + | Our business model for the Corporate Bank, with a focus on sub-investment grade clients but with well-structured and secured facilities, can lead to situations where temporary financial concessions are needed. We remain committed to our clients through downturns if we firmly believe in their underlying business and financial performance. We are working to reduce our impairment levels sustainably below 40 basis points. | Our impairment level in 2017 was 20 basis points. Our impairments in the income statement decreased by 4% (excluding Vijlma). Certain markets, specifically Offshore Energy and Shipping & Intermodal, will remain challenging in the near future. |
| + | We strive to keep our impairments on retail banking assets below our risk appetite level of 15 basis points. | In 2017, we saw impairments at a level of 2 basis points (2016: 6 basis points) on our total mortgage book. This is well within our agreed appetite. |

In the course of 2017, we announced new medium-term performance objectives. These objectives, underpinned by our six strategic growth priorities, as mentioned earlier in this Annual Report, are discussed in the Financial Performance section.

## SWOT analysis

As part of our annual planning cycle, we assess NIBC's position in relation to the opportunities and challenges in its markets by gathering input from a variety of stakeholders. In this section, we present an overview of our assessment of NIBC's main strengths, weaknesses, opportunities and threats as of year-end 2017.

### STRENGTHS

- Clear strategic focus and in-depth knowledge of specific market segments;
- Modest size allows for flexibility to adapt to a changing world and grasp the opportunities this presents;
- Employees who are professional, entrepreneurial, inventive and highly engaged (+80%);
- Strong client franchise as reflected in client satisfaction with a *Net Promoter Score* (**NPS**) of +64% for corporate clients and a retail customer satisfaction score of 7.9;
- Proven capability to extend the product range with the launch of BEEQUIP, Originate-to-Manage mortgage offering and integration of NIBC Markets;
- Superior cost/income ratio and strict cost control.

### WEAKNESSES

- Limited market shares reduces NIBC ability to influence pricing, with possible negative impact on the net interest margin;
- No direct access to USD funding and interdependency on cross currency swaps.

### OPPORTUNITIES

- Positive economic climate and return of client confidence especially in the Netherlands and Germany;
- Solid capital base and capital generation capability, sufficient to absorb IFRS 9 transition and anticipated Basel IV effects;
- Recent credit rating upgrades (to BBB) enable NIBC to continue to build its funding curves.;
- Given its size, NIBC is in a good position to use data management to its advantage. Combining developments in technology with its efficient internal organisation, NIBC can address increasingly grenular reporting requirements and demands regarding data quality in an effective way.

### THREATS

- The Offshore Energy and Shipping & Intermodal markets remain challenging. The exposure to these sectors is 10% and 14% respectively of the corporate loan exposure at year-end 2017;
- Geopolitical situation and its impact on global and regional economic developments;
- Prolonged low interest rate environment and the resulting unhealthy risk/reward balance;
- Complex regulatory environment and rapidly changing requirements continu to pressure the project calendar;
- An increasingly challenging labour market will make it difficult to recruit new talent.

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board is proud to present that 2017 was an extremely strong year for NIBC in all respects. We saw strong results in profit, product portfolio and client franchise in both Retail and Corporate client offering. For the Supervisory Board 2017 was also a year of in-depth discussions and deliberations on NIBC's strategic alternatives.

NIBC delivered an extremely strong performance in 2017. It did so by continuing its strategy of a focused approach to select market niches in the dynamic mid-sized segment. Hereby NIBC significantly strengthened its franchise and expanded its offering to clients. NIBC's net profit attributable to shareholders more than doubled from EUR 102 million in 2016 to EUR 210 million in 2017 (+106%). Our most important stakeholder, the customer, appreciated our efforts to serve his interests even more than before: our NPS for corporate clients rose to +64% in 2017 (2016: +37%) and our NIBC Direct Customer Survey rose to 7.9 (2016: 7.6). The Supervisory Board finds these scores very important, because the success of a mid-sized niche market bank and retail offering like NIBC stands or falls with an excellent customer experience.

The Supervisory Board notes with satisfaction that NIBC proves it has the agility to continuously reinvent itself. In 2017, NIBC more than ever showed it can make a difference at its clients' most decisive moments.

## Corporate client offering

In 2017, corporate client offering achieved strong results in almost all products and (sub)sectors. Initially a lending house for mostly medium-sized family businesses, NIBC corporate client offering has transformed into a full-service, mid-market bank that is equipped to deliver on the entire liability side of the client's balance sheet. NIBC corporate client offering primarily achieves this by leveraging its expertise in key (sub)sectors where it can add the greatest value through its tailored solutions and services. NIBC corporate client offering continued its gradual shift in client groups. It focuses on mid-sized and usually family-owned companies in the Netherlands, Germany and the UK, but because of the growing product range it more and more attracts other highly relevant client groups: private equity funds and parties, institutional investors, financial sponsors and large corporate clients.

## Retail client offering

In 2017, retail client offering nearly doubled its mortgage origination volume to nearly EUR 2 billion. The total mortgage book increased by more than 3%, including an acquisition of a mortgage portfolio of 0.2 billion. In savings, our newly introduced quarterly savings product was well received by the market. After the product launch in April 2017, clients shifted an additional EUR 150 million in deposits to our line-up of on-demand accounts. The Supervisory Board has gladly taken note of the fact that the NIBC Direct Customer Survey rose to 7.9, up from the already high level of 7.6 in the preceding year.

## New targets and review of strategic alternatives

The Supervisory Board is proud that NIBC achieved all of its 2015-2017 targets. We realize that good economic conditions in its home markets helped NIBC in this period, but the Board strongly believes that NIBC's delivery upon its clear strategy was key to the success.

The Supervisory Board has taken notice of and supports the newly announced medium-term objectives like a sustainable Return on Equity of 10-12% and a cost/income ratio structurally below 45%, the aim for a CET1 capital ratio above 14%, a dividend pay-out of at least 50% of net profit and a long-term BBB+ credit rating.

We believe the credit rating upgrades by S&P and Fitch and the strong investor demand for our AT1 bond in September 2017 reflect the market's confidence in our strategy, people and objectives.

In August 2017, NIBC announced that it commenced a review of its strategic alternatives, backed by its shareholders. The Supervisory Board was and is actively involved in this process.

## INSTALLATION OF THE EXECUTIVE COMMITTEE

As per 1 January 2017 an *Executive Committee* (**ExCo**) was installed. In 2017, the ExCo comprised of the three Managing Board members together with Saskia Hovers (Corporate clients sectors), Michel Kant (Retail clients) and Caroline Oosterbaan (Corporate clients products).

NIBC chose to amend its top structure by creating this ExCo to safeguard and strengthen the commercial and client-facing roles at executive level. The Supervisory Board is fully supportive that NIBC further strengthened its client focus as a pivotal element of its strategy with these appointments.

All ExCo members have been present at the meetings of the Supervisory Board. Through these meetings, in addition to the regular informal contacts, the Supervisory Board stays closely tuned with all developments throughout the focus areas of the individual ExCo members.

## COMPOSITION OF THE SUPERVISORY BOARD

Throughout the year, NIBC's Supervisory Board has performed its vital duties towards the company's stakeholders, and had full access to all necessary information and company staff members. We would like to extend our thanks to all our stakeholders for providing us this information.

As per 31 December 2017 the Supervisory Board comprised of one female and seven male members of many nationalities. Five members are independent members that meet the independence criteria laid out in the Dutch Corporate Governance Code. The other three are representatives of our shareholders.

## As per 31 December 2017

| Name | Year of birth | Nationality | Member since | End of term | Committee memberships[1] |
|---|---|---|---|---|---|
| Mr. W.M. van den Goorbergh (Chairman)[2] | 1948 | Dutch | 2005 | 2018[3] | AC, RNC, RPCC, RPTC |
| Mr. D.M. Sluimers (Vice-Chairman)[2] | 1953 | Dutch | 2016 | 2020 | AC, RNC |
| Mr. R. L. Carrión | 1952 | American | 2017 | 2021 | RPCC |
| Mr. M.J. Christner | 1972 | German | 2011 | 2019 | AC |
| Mr. J.C. Flowers | 1957 | American | 2012 | 2020 | - |
| Mr. A. de Jong[2] | 1954 | Dutch | 2005 | 2018 | RPCC, RPTC |
| Ms K.M.C.Z. Steel[2] | 1946 | Belgian | 2014 | 2018 | AC, RPCC, RPTC |
| Mr. A.H.A. Veenhof[2] | 1945 | Dutch | 2006 | 2018 | RPTC, RNC |

1 AC - Audit Committee; RNC – Remuneration and Nominating Committee; RPCC – Risk Policy and Compliance Committee; RPTC – Related Party Transaction Committee.
2 Meets the independence criteria of the Dutch Corporate Governance Code.
3 Re-appointed in January 2018 for maximum period of one year till May 2019.

## Changes in 2017

In 2017 new member Richard Carrión was appointed to the NIBC Supervisory Board. He started as per 29 September, and became member of the Risk Policy & Compliance Committee. Supervisory Board member Dick Sluimers was appointed vice chairman as per 1 July 2017. He succeeded David Morgan, who was a NIBC Supervisory Board member for seven years. Sally Rocker also resigned in 2017 as a NIBC Supervisory Board member, having been part of the Board for eight years. The Supervisory Board wishes to express its gratitude to both of them for their great and continuous input and efforts in recent years. Both were representatives of our shareholders.

Because 2018 will be a year of strategical importance, stability is key for NIBC's Supervisory Board. For this reason Adam de Jong, chairman of the Risk Policy & Compliance Committee, was reappointed for maximum one more year till December 2018, despite the expiration of his fourth term in 2017. In January 2018, Supervisory Board's chairman Wim van den Goorbergh, for the same reason, was reappointed for a maximum of one year till May 2019.

## Diversity and succession

In March 2017 the Remuneration and Nominating Committee of the Supervisory Board made a succession planning for the near future. The Supervisory Board is generally satisfied with its current composition and that of its Committees, but would strongly welcome greater diversity in terms of gender, age and skills. In the case of a vacancy, the regular policy is applied in which the Executive Search team is asked to provide a shortlist with at least 50% female candidates, although final selection is ultimately based on the suitability for a specific position.

The Supervisory Board realizes that one female member on a total of eight is far below our own wishes and goals. For that reason the Supervisory Board did its best to find a female successor for Sally Rocker. Unfortunately it appeared to be difficult to find female candidates that are interested to fulfil this position in the financial services industry, fit the profile and have not reached the maximum number of supervisory memberships (according to Dutch law).

Following the succession planning, the NIBC Supervisory Board will need at least two new members in 2018. With the support of an executive search firm we will start a new search, again with a preference for female candidates. The first new member is due to be appointed in April 2018, depending on the approval of the DNB.

The Supervisory Board has the intention to reduce its size to seven members in the coming years.

### The Dutch Corporate Governance Code

The charter of the Supervisory Board and its committees were updated in 2017 to reflect the new Dutch Corporate Governance Code that was revised in 2016.

All members of the Supervisory Board meet the criteria of the Dutch Corporate Governance Code relating to other positions, insofar as they are relevant to the performance of the Supervisory Board member's duties.

Since the Dutch Act on Management and Supervision came into force on 1 January 2013, we have been monitoring the number of supervisory functions held by our Supervisory Board members. When a Supervisory Board member is appointed or reappointed, compliance with this new law is verified. The profile for the Supervisory Board and their relevant ancillary positions can be found on our website.

### Meetings of the Supervisory Board

The Supervisory Board met on six occasions in 2017. This included three regular two-day meetings in March, August and November and two regular one-day meetings in June and December. An additional one-day meeting in June was held at which the Supervisory Board and the Executive Committee discussed NIBC's current and future strategy. All but one members of the Supervisory Board participated in all meetings in 2017; this one member was absent from one meeting. One of these meetings took place in our London office and one in our Amsterdam office.

The members of the Executive Committee attended all meetings of the Supervisory Board (illness was the only reason for absence). Additionally, three members of the Supervisory Board attended two consultation meetings between the Chief Executive Officer and the Works Council.

During the regular meetings, the Supervisory Board conducted extensive discussions relating to NIBC's future strategy; different strategic options were extensively discussed and weighed. Furthermore during the regular meetings the Supervisory Board discussed the Corporate and Retail client offering, the further integration of NIBC Markets, risk management, IT Forward, the funding profile, the regulatory environment and reporting, and new initiatives. The 2017 quarterly and interim results were discussed as well as the budget for 2018.

The Supervisory Board also continued its permanent education programme. During these meetings the UK market in combination with Brexit were discussed as well as governance issues around a potential strategic change.

There were no transactions in the year in which the members of the Supervisory Board had a conflict of interest. The financial statements and the findings of the external auditor were discussed in the external auditor's presence.

## THE FOUR SUPERVISORY BOARD COMMITTEES

Most of the discussions and decisions of the Supervisory Board were prepared in the four committees referred to below. The committees of the Supervisory Board each have an independent chairman.

## Audit Committee

The *Audit Committee* (**AC**) assists the Supervisory Board in monitoring NIBC's systems of financial risk management and internal control, the integrity of its financial reporting process and the content of its annual financial statements and reports. The Audit Committee also advises on corporate governance and internal governance.

The Audit Committee met on four occasions in 2017 (March, June, August and November) in presence of the Managing Board. One member of the Audit Committee was absent during one meeting. By mutual agreement the external auditor was represented at all meetings of the Audit Committee in 2017. The external auditor had one meeting with the Audit Committee without the members of the Managing Board.

The chairman of the Audit Committee prepared the meetings in advance by having meetings/calls with NIBC's CFO, the head of Finance and the head of Internal Audit. In between meetings NIBC also shared relevant information with the chairman.

In 2017, the Audit Committee extensively reviewed NIBC's quarterly financial highlights, half-yearly and annual financial reports and related press releases. It discussed the draft reports of the external auditor, including its Board Report, before the reports were discussed in the Supervisory Board meeting.

The Audit Committee had in depth discussions about NIBC's financial performance, including the development of the bank's net profit, business growth and the development of spreads and cost/income ratios. Furthermore, the Audit Committee reviewed NIBC's liquidity and its funding profile, including AT 1 issuance, and the development of related liquidity and solvency ratios.

Specific topics discussed with the auditor dealt with loan loss provisioning, sale of legacy portfolios, NIBC's change agenda, new developments on e.g. Basel IV and its impact on financial results and fraud risk. Specific topic on the 2017 agenda was the impact of IFRS 9, specifically the reclassification of the Mortgage Loan portfolio at FVtPL to amortised cost in line with industry standard.

The Audit Committee kept itself informed of the state and developments of NIBC's Information Technology, and more specifically the IT Forward programme. It also considered the integration of NIBC Markets, its activities and the alignment of policies and procedures.

The Audit Committee took note of and discussed NIBC's consultations with DNB, the Dutch central bank. The AC considered the (preliminary) results of the Supervisory Review and Evaluation Process. It also considered on-site examinations conducted by DNB, including examinations of AIRB models, data quality and the *asset quality review* (**AQR**) follow-up on NIBC's corporate loan portfolio.

The Audit Committee discussed the annual plan and quarterly reports of Internal Audit, and evaluated the functioning of Internal Audit. Both the internal and external auditor reported on the quality and effectiveness of governance, internal control and risk management.

## Remuneration and Nominating Committee

The *Remuneration and Nominating Committee* (**RNC**) advises the Supervisory Board on the remuneration of the members of the Supervisory Board, the Managing Board and certain other senior managers. In addition, it provides the Supervisory Board with proposals for appointments and reappointments to the Supervisory Board, its committees and the Managing Board.

The Remuneration and Nominating Committee also evaluates the performance of the other Supervisory Board committees, and assesses the performance of the members of the Managing Board and the Supervisory Board. As part of the annual evaluation process carried out by the RNC Mr. P. de Wilt (CEO) and Mr. H. Dijkhuizen (CFO) have been reappointed for their second term.

The Remuneration and Nominating Committee monitors the remuneration policy as well as the execution of it, which entails discussing the total available pool for variable compensation and defining the collective and individual performance targets that form the basis for the variable compensation of individual members of the Managing Board. Furthermore, the committee oversees the remuneration of the so-called Identified Staff employees whose professional activities have a material impact on NIBC's risk profile and determines the remuneration of the control functions.

In 2017, the Remuneration and Nominating Committee held six regular meetings and four additional conference calls in the presence of NIBC's head of Human Resources and, in appropriate cases, of NIBC's CEO. Additionally, a delegation of the Remuneration and Nominating Committee attended a meeting of the control functions. The Remuneration and Nominating Committee discussed the regular subjects regarding remuneration, risk and audit assessments, governance and variable income as well as the vacancies and nominations for the Supervisory Board and its committees. Due to the upcoming changes to the Supervisory Board and the extensive evaluation performed end of 2016, no specific evaluation of the Supervisory Board took place in 2017. The chairman of the Remuneration and Nominating Committee prepared the meetings in advance by having meetings/calls with the CEO and the head of Human Resources.

**Remuneration management**

The Remuneration and Nominating Committee reviewed the Remuneration Policy this year, taking into account relevant legislation and guidelines, amongst others the *European Banking Authority* (**EBA**) guidelines on sound remuneration policies. Besides legislation, the RNC has taken market circumstances and developments into consideration. The positioning of NIBC in relevant labour markets was monitored by means of benchmark surveys. Attention was also paid to broader developments in society, as the RNC is well aware of public concerns about remuneration in the financial industry. The Supervisory Board amended the remuneration policy, fulfilling all legislative changes as proposed by the Remuneration and Nominating Committee.

The Remuneration and Nominating Committee also discussed the performance of the Managing Board, the Executive Committee and its members and set financial and non-financial targets.

Given the importance of the subject, the Remuneration and Nominating Committee extensively discussed the overall available funding for variable compensation and determined the proposed distribution to Identified Staff. In this respect, the risk assessments (including malus and clawback assessments) were discussed and taken into account in the decision making. The surrounding governance and the developments in the area of governance and legislation were explicitly discussed in the Remuneration and Nominating Committee, given the sensibility of the subject of remuneration. The Committee also determined the obligatory disclosures on the Identified Staff and on the remuneration policy.

In line with the Remuneration Policy the RNC received information for a hybrid benchmark peer group reflecting the labour market of NIBC as well as a benchmark regarding post-employment benefits. Based on this information the Remuneration and Nominating Committee proposed to the Supervisory Board to adjust the salaries of the Managing Board members as per 1 January 2018, which proposal was approved by the Supervisory Board and the shareholders. Furthermore the

RNC discussed and developed scenarios for retention packages for the members of the Managing Board and Executive Committee in the light of potential strategic options.

**Succession management**
On proposal of the Remuneration and Nominating Committee the Supervisory Board installed the Executive Committee as of 1 January 2017. As mentioned earlier, the Executive Committee consists of three Managing Board members and three non-statutory members representing the commercial activities of NIBC.

The Remuneration and Nominating Committee also extensively discussed the succession management regarding the Supervisory Board in the light of the resignation of two members as well as of the expiring terms of appointment. On its proposal the Supervisory Board decided to appoint Mr. Carrión as representative of the shareholder, as mentioned earlier. Additionally, the Remuneration and Nominating Committee conducted a search process leading to the proposal of another appointment, which is now at the supervisory authority's discretion.

In its meetings the Remuneration and Nominating Committee has closely monitored management development and succession management throughout the bank. The Committee's chairman has continued to hold regular talks with senior managers to gain a deeper understanding of their professional development and of internal developments taking place within the bank.

## Risk Policy & Compliance Committee
The *Risk Policy & Compliance Committee* (**RPCC**) assists the Supervisory Board in supervising NIBC's risk appetite, risk profile and risk policy. It prepares issues in these areas for decision in the Supervisory Board by presenting proposals and recommendations on credit, market, investment, liquidity, operational and compliance/regulatory risks, and any other material risks to which NIBC is exposed. The Risk Policy & Compliance Committee met four times in 2017 in the presence of members of the Managing Board.

During 2017, the Risk Policy & Compliance Committee extensively discussed NIBC's assets, liquidity and funding, stress tests and risk profile. A topic that was on the agenda throughout 2017 was NIBC's risk appetite framework and the forward looking nature thereof. The Risk Policy & Compliance Committee discussed NIBC's long-term objectives, including the attainment and retention of a BBB credit rating, and appraised developments in the six defined pillars of risk appetite (franchise, solvency, profitability, liquidity, funding and asset quality). Updates to the risk appetite framework, involving new metrics, revised limits and a benchmark against EU banks, were reviewed and approved.

Besides risk appetite and the quarterly reporting on the subject received by the Risk Policy & Compliance Committee, the RPCC discussed in all of its meetings segments of NIBC's corporate and retail credit portfolios, including appropriate risk measurement parameters for portfolio performance, the bank's distressed portfolio, as well as specific distressed exposures.

Other topics the Risk Policy & Compliance Committee regularly reviewed included NIBC's market risk reports, liquidity risk reports and risks of the macroeconomic environment, such as the availability of FX-funding and the impact of Brexit.

On the non-financial risk side, the Risk Policy & Compliance Committee reviewed NIBC's franchise as reflected in the experience of its customers, the relation with the regulators, the views of the rating agencies and its operational risk profile and in-control environment, including specific risks such as information security, new product approvals and significant changes within the organisation (including certain IT related initiatives), as well as compliance and regulatory risk. The committee also reviewed the risk assessments of new business initiatives, evaluated how risk awareness is embedded in NIBC's organisation, as well as its own functioning. In addition, it regularly reviewed and discussed market and regulatory developments and their impact on NIBC, such as the implementation of MIFID II and GDPR (General Data Protection Regulation), the resolution plan, the DNB review of AIRB models and evolving solvency requirements as a result of new developments e.g. Basel IV.

### Related Party Transactions Committee

The *Related Party Transactions Committee* (**RPTC**) assists the Supervisory Board in assessing material transactions of any kind with a person or group of persons who hold, directly or indirectly, at least 10% of NIBC's issued and outstanding share capital, or of 10% of the voting rights at the Annual General Meeting of Shareholders. The same applies to any person affiliated with any such person(s) that meet(s) these criteria. A transaction will, in any event, be considered material if the amount involved exceeds EUR 10 million. The Supervisory Board has delegated the authority to approve such material transactions to the Related Party Transactions Committee.

In the Supervisory Board meeting of 7 June 2017, it was approved that NIBC would perform an advisory role to JC Flowers & Co. in the HSH transaction. End of June 2017 the Related Party Transactions Committee agreed that in the HSH bidding document, mention would be made of JC Flowers & Co.'s intention to have NIBC as a participant in this investment. On 23 October 2017, the Related Party Transactions Committee gave its approval to the Managing Board's decision to indirectly participate up to a certain maximum amount in the HSH transaction, which was reported to the Supervisory Board in its November meeting.

## FINANCIAL STATEMENTS

The company and consolidated financial statements have been drawn up by the Managing Board and audited by Ernst & Young Accountants LLP, who issued an unqualified opinion dated 26 February 2018. The Supervisory Board recommends that shareholders adopt the 2017 Financial Statements at the General Meeting of Shareholders on 26 February 2018. The Supervisory Board also recommends that the General Meeting of Shareholders discharge the Managing Board and Supervisory Board for their respective management and supervision during the financial year 2017.

The Supervisory Board would like to express its gratitude to all our stakeholders who helped to make 2017 the big success it was, most notably to our nearly 700 highly professional, entrepreneurial and inventive employees. Thanks to their skills, expertise, agility and dedication NIBC could achieve these great results.

The Hague, 26 February 2018

**Supervisory Board**
Mr. W.M. van den Goorbergh, *Chairman*
Mr. D.M. Sluimers, *Vice-Chairman*
Mr R.L. Carrión
Mr. M.J. Christner
Mr. J.C. Flowers
Mr. A. de Jong
Ms. K.M.C.Z. Steel
Mr. A.H.A. Veenhof

# REMUNERATION REPORT

The Supervisory Board reviewed and amended NIBC's remuneration policy in 2017. The review took account of all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code; the Dutch Banking Code; the *DNB Principles on Sound Remuneration Policies* (**DNB principles**), EBA Guidelines on Sound Remuneration; and CRDIV and the Dutch remuneration legislation for financial services companies (Wet beloningsbeleid financiële onderneming, Wbfo).

NIBC's remuneration policy and Managing Board remuneration for 2017 are outlined in this chapter. An overview of the remuneration of other staff and the Supervisory Board is also presented. Please see our website for further information about the remuneration policy.

To avoid unnecessary duplication, we refer to note 7 and 55 of the Consolidated Financial Statements in this Annual Report for all relevant tables. These are considered to be an integral part of this Remuneration Report.

## Remuneration principles

NIBC's remuneration policy is sustainable, balanced and in line with our chosen strategy and risk appetite. It revolves around these five key principles: remuneration is (i) aligned with NIBC's business strategy and risk appetite; (ii) appropriately balanced between short and long term; (iii) differentiated and linked to the achievement of performance objectives and the results of the Bank; (iv) externally competitive and internally fair; and (v) managed in an integrated manner that takes into account total compensation.

## Managing Board remuneration in 2017

In order to determine appropriate market levels of remuneration for the Managing Board, the Supervisory Board has identified a hybrid benchmark peer group, consisting of all AEX and AMX (both Euronext) listed companies. The composition of this peer group reflects the labour market in which NIBC competes for talent. As such, it is an objective measure outside NIBC's control.

Throughout the cycle, total compensation for the CEO and members of the Managing Board is targeted just below the median of their peers in the peer group, based on benchmark data provided by external independent compensation consultants.

## Base salaries

In 2017, the base salary for the CEO was EUR 800,000 gross per year (equal to 2016). The base salary for the two other members of the Managing Board was EUR 550,000 gross per year (also equal to 2016). Base salaries are paid in 12 equal monthly payments.

## Variable compensation

According to the remuneration policy, the variable income component in 2017 for the Managing Board is set at 15% of base salary at target achievement (with a maximum of 20% of the base salary). Over 2017 the following incentive compensations of base salary were granted: Chief Executive Officer 20%, Chief Financial Officer 20% and *Chief Risk Officer* (**CRO**) 20%, being the maximum. The Supervisory Board decided to award the maximum variable income given the extremely strong results in 2017.

For all members of the Managing Board (and Identified Staff) this variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in *phantom share units* (**PSUs**) and 20% in unvested PSUs. In this way, NIBC complies with regulations (EBA/Wbfo) that require Identified Staff to receive 50% of all variable compensation in the form of equity or equity-linked instruments and for at least 40% of both the cash and equity component to be deferred. For the Managing Board, the holding period of the equity-linked instruments is set to five years as required by the Dutch Corporate Governance Code.

## Pension

The CEO and other Managing Board members participate in the NIBC pension plan, in line with the arrangements available to all other employees. In 2017, the pension plan consisted of a) a *collective defined-contribution pension arrangement* (**CDC arrangement**) up to a pensionable salary of EUR 103,317 maximum salary, and; b) an additional (gross) contribution up to their respective base salaries. The retirement age for the CEO and members of the Managing Board was 67 in 2017. There are no contractual early retirement provisions.

For the CDC arrangement NIBC pays a standard flat-rate contribution of 26% into the pension fund (for the Managing Board as well as for all other employees). All employees are required to make a personal contribution of 4% of their pensionable salary in the CDC arrangement.

## Other key benefits

The CEO and members of the Managing Board are entitled to a company car up to a certain price limit or, if they prefer, the equivalent value of the lease car limit as a gross cash allowance.

As is the case with all our employees, the members of the Managing Board are entitled to a contribution towards their disability insurance, accident insurance and permanent travel insurance.

## Employment contracts

The CEO and members of the Managing Board all have indefinite employment contracts, which are fully compliant with the Dutch Corporate Governance Code. Their appointment to the Managing Board is for a maximum term of four years. The term can be renewed.

Any severance payment is limited to 12 months' base salary.

## Amendments in 2018

The Supervisory Board reviews the level of base salaries against the market each year and may decide to adjust it. In 2017, the Remuneration and Nominating Committee of the Supervisory Board thoroughly reviewed the Managing Board remuneration. Hereby it took into account all relevant benchmarks, such as the hybrid benchmark peer group in the relevant environment for NIBC, as well as a benchmark regarding the post-employment benefits. Based on this information the Remuneration and Nominating Committee proposed to the Supervisory Board to adjust the salaries of the CEO and the other members of the Managing Board as per 1 January 2018. The Supervisory Board has decided that the CEO will receive an annual base salary of EUR 825,000 as per 1 January 2018 (2017: EUR 800.000), while the other members of the Managing Board will receive a base salary of EUR 600.000 (2017: EUR 550.000).

Because of past arrangements NIBC still has various remuneration instruments, that are derived from equities. To simplify the administration of these instruments the last tranches of Conditional *Restricted Depository Receipts* (**CRDRs**) will vest (partly accelerated) into *Conditional Common Depository*

*Receipts* (**CCDRs**) per 1 January 2018. All CCDRs will be converted into *Common Depository Receipts* (**CDRs**) in January 2018 in line with the NIBC plan rules variable compensation.

## Other staff remuneration

In line with the DNB Principles, employees whose professional activities have a material impact on NIBC's risk profile are designated Identified Staff. Specific remuneration conditions may apply to Identified Staff (other than Managing Board members). The outlines of the remuneration policies for Identified Staff and other staff are given below. For further details on the policies for Identified Staff, please see our website.

## Total compensation funding

Each year, based on a proposal by the Managing Board, the Supervisory Board decides, at its discretion, on the overall amount of money available for total compensation, the amount of money available for variable compensation and the specific forms in which variable compensation may be awarded. The 2017 compensation ratio (total compensation costs as percentage of operating income) was 20.9%.

## Variable compensation

All employees with a function contract have a pre-agreed set of financial and non-financial (at least 50%) performance targets. Their performance assessments take into account the achievement of pre-agreed targets, how they have behaved according to NIBC's corporate values, as well as their contributions towards the bank's longer-term objectives. Non-financial performance aspects include client satisfaction, employee satisfaction, transparency, and sustainability. The Dutch Banking Code serves as a guideline for all employees.

Whether or not an employee actually receives a variable compensation for his performance, is wholly discretionary and depends on the overall financial and non-financial performance of the bank, of his respective business unit, his personal performance and the relevant market levels of remuneration. Employees do not qualify for variable remuneration if their performance has been inadequate or poor, if they have failed to meet duty-of-care or compliance requirements, if they have displayed behaviour contrary to NIBC's policies and corporate values, or if they were subject to disciplinary action.

As for the Managing Board, the variable compensation, if any, for employees, is delivered in various components:
1. cash;
2. deferred cash;
3. vested phantom share units;
4. unvested PSUs.

The Managing Board determines the precise split between cash and equity or equity-linked components, the proportion of deferred compensation and the form in which this is distributed (such as cash or unvested equity), whether a threshold applies for the deferred component and, if so, how high that threshold is.

For Identified staff, no threshold applies and any variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in PSUs and 20% in unvested PSUs. In this way, NIBC complies with regulations that require Identified Staff to receive 50% of all variable compensation in the form of equity or equity-linked instruments and for at least 40% of both the cash and equity component to be deferred.

For employees with a scale contract (in the Netherlands) it has been agreed upon that they will receivea fixed amount of EUR 1,000 over 2017, which qualifies as variable compensation. It has also been (conditionally) agreed upon to award all employees with a package in the light of potential strategic options. This amount qualifies as variable remuneration in 2017.

## Special situations

Only in exceptional cases and only in the first year of employment the Managing Board can offer sign-on or guaranteed minimum bonuses to new employees and retention bonuses to existing employees. In the unlikely event that these bonuses amount to more than 100% of the base salary of the individual employee concerned, procedures will be followed in accordance with the regulations; the maximum ratio between fixed and variable remuneration will be respected. This has not occured in 2017.

Any severance payment made if NIBC terminates employment without cause, is subject to local legislation. For the Netherlands, the prevailing business court guidelines (transition formula) and, in the case of reorganisation, NIBC's Social Protocol, are applicable. Special compensation plans for specific groups of employees are subject to prior approval by the Managing Board, which annually informs the Remuneration and Nominating Committee and Supervisory Board about these arrangements.

## Pension amendments in 2018

The pension scheme for employees is amended per 2018. The retirement age will become 68 year (2017: 67 years) to fulfill the 2018 fiscal legislation. This is also applicable for all members of the Managing Board. The financial agreement has been renewed for the coming three years (2018-2020). NIBC pays a standard flat rate contribution of 27.2% (2017: 26.0%) into the pension fund for the CDC arrangement. All employees (including the Managing Board) are required to make a personal contribution of 4.2% (2017: 4.0%) of their pensionable salary into the CDC arrangement as per 1 January 2018.

The gross contribution for pensions above the fiscal maximum is now set at 25% (until 2017 this contribution was age dependent).

## Supervisory Board remuneration in 2017

The Supervisory Board remuneration had been stable for years. A review of the Supervisory Board remuneration showed that some Dutch banks had adjusted their remuneration for the Supervisory Board in recent years. Based on the comparison with other financial institutions, NIBC's shareholders amended the remuneration of the Supervisory Board per 1 January 2017 as described below.

The chairman of the Supervisory Board is as per 1 January 2017 entitled to an annual fee of EUR 75,000 (2016: EUR 60,000), the vice-chairman of the Supervisory Board is entitled to an annual fee of EUR 60,000 (2016: EUR 50,000) and the other members of the Supervisory Board are entitled to an annual fee of EUR 50,000 (2016: EUR 40,000).

In addition, all chairmen of the AC, RPCC and RNC of the Supervisory Board are, as of 1 January 2017, entitled to an annual fee of EUR 15,000 (in 2016 there was no distinction in fee between chairmen and members). The other members of the committees received a lower fee than in the years before as the reassessment led to an amended remuneration structure. Members of the Audit Committee are as per 1 January 2017 entitled to an annual fee of EUR 10,000 (2016: EUR 15,000). The members of the Risk Policy & Compliance Committee are also entitled to an annual fee of EUR 10,000 (2016: EUR 11,500). The members of the Renumeration and Nominating Committee are entitled to an annual fee of EUR 7,500 (2016: EUR 10,000). The members of the Related Party Transaction Committee are entitled to an annual fee of nil (2016: nil).

All members of the Supervisory Board are entitled to reimbursement of genuine business expenses incurred in fulfilling their duties.

## Remuneration governance

In line with the various recommendations and guidelines issued by regulators, NIBC has strengthened governance around the annual remuneration process and agreed upon key roles for the Human Resources, Risk Management, Compliance, Audit and Finance functions (control functions).

The Supervisory Board discussed the performance and remuneration of Identified Staff, as well as the performance and remuneration of control functions. The Supervisory Board also discussed the highest proposed variable compensations in 2017. Scenario analyses were conducted by Risk Management to assess the possible outcomes of the variable remuneration components on an individual and collective basis. The internal annual report 'Harrewijn' is discussed in the RNC as well as with the Works Council. Amongst others the report covers an internal pay ratio analysis. As from 2018 onwards NIBC will disclose the relevant elements related to the pay ratios in line with Dutch Corporate Governance Code.

## Adjustments

Any vested amounts of variable remuneration are subject to clawback by the Supervisory Board in the event they have been based on inaccurate financial or other data, fraud, or when the employee in question is dismissed ‘for cause’. Moreover, in exceptional circumstances, the Supervisory Board has the discretion to adjust downwards any or all variable remuneration if, in its opinion, this remuneration could have unfair or unintended effects. In assessing performance against pre-agreed performance criteria, financial performance shall be adjusted to allow for estimated risks and capital costs. In addition to clawbacks, the concept of ‘malus’ is part of the remuneration policy. This is an arrangement that permits NIBC to prevent vesting of all or part of the amount of deferred compensation in relation to risk outcomes of performance. Malus is a form of ex-post risk adjustment, one of the key requirements in addition to ex-ante risk adjustments.

If an employee resigns, any unvested amounts of compensation are forfeited.

## Conclusion

The Renumeration and Nominating Committee and the Supervisory Board believe NIBC’s remuneration policy responsibly links performance and reward and is compliant with the applicable laws, regulations and guidelines. The Supervisory Board continues to believe in prudent management of remuneration whilst recognising that NIBC operates in a competitive market place where it needs to be able to attract, motivate and retain sufficient talent.

NIBC is determined to make a positive contribution towards fair compensation practices in the banking sector in consultation with its stakeholders. Furthermore, we aim to create the level playing field that regulators envisage with regard to variable compensation.

## Disclosure on Dutch Remuneration Legislation for Financial Services Companies

The total amount of variable income granted in 2017, with respect to the performance over 2016, amounts to EUR 8.1 million. This grant consists of (direct and deferred) cash and (vested and unvested) share based instruments. In 2017 one employee was awarded a total compensation of more than EUR 1.0 million (in 2016 also one employee).

# CORPORATE GOVERNANCE

At NIBC, we endeavour to maintain a sound, transparent and efficient governance system that is broadly aligned to best practices in our industry. The Dutch Corporate Governance Code and Dutch Banking Code form the base of our governance system and guide the way we work at NIBC.

This chapter contains some highlights of our governance structure in 2017. The structures and processes we have developed provide an effective basis for making and implementing decisions across our organisation, with its hierarchical and functional reporting lines.

Our website contains our articles of association, charters, relevant policies and other information on corporate governance and the compliance statements with respect to the Dutch Banking Code and the Dutch Corporate Governance Code. To the extent applicable, NIBC also adheres to international governance standards such as the EBA Guidelines on Internal Governance.

NIBC maintains a two-tier board structure consisting of a Managing Board and a Supervisory Board. The Managing Board is responsible for the day-to-day management, which includes, among other things, formulating NIBC's strategy and policies and setting and achieving NIBC's objectives. The Supervisory Board supervises and advises the Managing Board.

## MANAGING BOARD

In 2017, NIBC had three Managing Board members. These members have thorough and in-depth knowledge of the financial sector in general and the banking sector in particular.

For the composition of the Managing Board as per 31 December 2017, see the following table:

| Name | Year of birth | Nationality | Member since | End of term[1] |
|---|---|---|---|---|
| Mr. P.A.M. de Wilt (Chairman, CEO) | 1964 | Dutch | 2014 | 2022 |
| Mr. H.H.J. Dijkhuizen (Chief Financial Officer) | 1960 | Dutch | 2013 | 2021 |
| Mr. R.D.J. van Riel (Chief Risk Officer) | 1970 | Dutch | 2016 | 2020 |

1 These are the dates until which the appointment as statutory director runs. They do not refer to the expiry of employment contracts.

In case of a vacancy in the Managing Board, the regular policy is applied and the Executive Search team is asked to provide a shortlist with at least 50% female candidates, although final selection is ultimately based on the suitability for the position. NIBC will continue to strive for a good gender balance in the Managing Board and enhance the chance of the appointment of one or more female candidates in future.

### Executive Committee

As per 1 January 2017 an Executive Committee was formed consisting of the three Managing Board members and three non-statutory members representing commercial roles. The Executive Committee consists of two female members and four male members. The Managing Board and the Executive Committee, which meet weekly, represent and balance the interests of all stakeholders.

The non-statutory members of the Executive Committee are invited to attend meetings of the Managing Board, unless otherwise decided by the chairman of the Managing Board. The non-statutory Executive Committee members may participate in the discussions in meetings of the Managing Board, but are not entitled to a vote.

In 2017 there were no transactions in which the members of the Managing Board or the members of the Executive Committee had a conflict of interest. More information about the Managing Board and the Executive Committee, including short biographies, can be found on our website.

### Managing Board Germany

NIBC Bank Deutschland AG is a full subsidiary of NIBC Bank N.V. At 31 December 2017 the Vorstand (Management Board) of NIBC Bank Deutschland AG comprised of Mr. M. Buncsak, Mr. T.A. Rasser and Mr. J.B. Spanjersberg. Mr. Buncsak was appointed CEO of NIBC Bank Deutschland AG as per 1 February 2017. Members of the Aufsichtsrat (Supervisory Board) of NIBC Bank Deutschland AG are Mr. H.H.J. Dijkhuizen, Mrs. S.M. Hovers and Mr. P. Zippro.

## SUPERVISORY BOARD

On 31 December 2017, the Supervisory Board of NIBC consisted of eight people with extensive and international expertise in fields such as banking and finance, corporate governance and corporate management.

As per 21 June 2017 Mrs. Rocker and Mr. Morgan resigned from NIBC's Supervisory Board. As per 1 July 2017 Mr. Sluimers was appointed vice-chairman of the Supervisory Board. As per 29 September 2017 Mr. Carrión was appointed Supervisory Board member and member of the Risk Policy & Compliance Committee.

Because 2018 will be a year of strategical importance, stability is key for NIBC's Supervisory Board. For this reason, Mr. de Jong, chairman of the Risk Policy & Compliance Committee, was reappointed for maximum one more year till December 2018 during an Extraordinary General Meeting of shareholders in September 2017 (Mr. de Jong's term would expire in 2017). In January 2018, Supervisory Board's chairman Wim van den Goorbergh, for the same reason, was reappointed for maximum one more year till May 2019.

For more information on our Supervisory Board, including a complete list of all members and Committees, please see the Report of the Supervisory Board in this Annual Report or visit our website.

## DUTCH CORPORATE GOVERNANCE CODE

NIBC supports and voluntarily applies the principles of the Dutch Corporate Governance Code. This Code has been revised in December 2016. The most important revision is the focus on long-term value creation and the introduction of culture as part of good corporate governance. In addition, the Code has been updated on many other points. NIBC supported the revision and applied the revised Dutch Corporate Governance Code in 2017.

NIBC partly deviates from best practices and principles as laid out in the Code. The main deviation is that we do not comply with best practice provision 2.1.7 (iii), that requires that there is at most one supervisory board member who can be considered to be affiliated with a shareholder, or group of affiliated shareholders, who holds more than 10 per cent of the shares in a company.. Five out of eight members of NIBC's Supervisory Board qualify as formally independent. The other three members are formally not independent, because they are representatives of our shareholder. This principle in the Dutch Corporate Governance Code deviates from the policy of the Dutch central bank (DNB) that came into force in 2012. DNB's policy is that at least 50% of the members of a Supervisory Board should be formally independent. NIBC complies with the DNB policy.

In addition, NIBC is not in compliance with best practice provision 2.2.2 that requires that supervisory board members are reappointed for a period of two years in the event of a reappointment after an eight-year period. The Company's Supervisory Board members can be appointed for a period of four years after an eight-year period, provided that no Supervisory Board member shall hold office for more than three four-year terms or twelve years, as the case may be.

NIBC is not in compliance with best practice provision 3.4.1 iv that requires the Remuneration Report to include a discussion of the internal pay ratio. In 2017 the internal annual report 'Harrewijn' was discussed in the RNC as well as with the Works Council, the report covers internal pay ratios. As from 2018 onwards NIBC will disclose the relevant elements related to the pay ratios in line with Dutch Corporate Governance Code.

## DUTCH BANKING CODE

The updated Dutch Banking Code came into effect as legislative on 1 January 2015, after a decree by the Dutch Minister of Finance. The Banking Code is part of a package called 'Future-oriented banking'. In addition to the Banking Code, Future-oriented banking introduces a Social Charter and rules of conduct associated with the Bankers' Oath and disciplinary rules for employees of banks in the Netherlands. Before 1 January 2015 the Dutch Banking Code was a form of self-regulation.

The Dutch Banking Code, together with the introduction of the Social Charter and the implementation of the Bankers' Oath, is applicable to all employees of financial institutions in the Netherlands. NIBC supports the principles of the Banking Code to regain trust, ensure stability and protect the interests of our stakeholders.

NIBC has implemented all procedural and operational measures required under the Dutch Banking Code. Our governance is fully aligned with the Banking Code. We also aligned our remuneration policies for staff and Managing Board with the Banking Code. Ever since 2010, we are running a programme for lifelong learning and hold regular training sessions for the Managing Board and the Supervisory Board, as is required by the Banking Code.

Among other things the Banking Code requires banks to operate in a sound and ethical way. Our mission, strategy and objectives reflect this; they can be found on our website. Being in line with this are the NIBC3, our three corporate values: professional, entrepreneurial and inventive. The NIBC3 are the foundation of all our company's activities, including our products and services, as well as our general performance, behaviour, attitude and the targets we set for our employees. Integrity is considered an essential part of the core value 'professional'.

In line and spirit with the Dutch Banking Code, we updated our Code of Conduct in 2017. The Code of Conduct guides us in the way we work at NIBC. Key themes are: doing the right thing, following the letter and the spirit of rules and doing what we say. You can find the Code of Conduct including a one page abbreviation for daily use on our website.

A detailed explanation of the Dutch Banking Code and an overview of NIBC's compliance with it can be found on our website.

NIBC Bank N.V., has voluntarily adopted the Large Company Regime (structuurregime). The Supervisory Board supervises and advises the Managing Board. It is the Board's priority to protect the interests of the company and its operations, rather than the interests of any particular stakeholder.

# RISK MANAGEMENT

NIBC believes that risk management is at the core of its business culture. NIBC believes that its approach to risk management results in fast decision-making through an experienced, client-focused origination team with detailed knowledge of its client portfolio, which allows NIBC to manage its risk exposure through carefully structured facilities and client-focused restructuring. NIBC's origination philosophy is focused on the client relationship, understanding the client's cash flow and the availability of collateral. In its corporate client offering, NIBC applies an integrated approach to managing credit risk by focusing on risk-adjusted returns: NIBC assesses whether a new opportunity falls within its risk appetite, evaluates commercial and compliance issues prior to engagement with any particular client, considers credit risk and financial market risk as part of the decision process and conducts risk assessments prior to making the final lending decision. The ultimate lending decision is dependent on NIBC's comfort with the particular client. In its retail client offering, NIBC applies a conservative approach to new products, such as Buy-to-Let, and uses programme lending for regular mortgage loans. NIBC also has a highly experienced *Restructuring and Distressed Assets* (**RDA**) department, which is typically engaged at an early stage of client financial distress to limit NIBC's potential losses. In addition, NIBC utilises sophisticated modelling tools, such as an internally developed methodology under the *Advanced Internal Ratings Based* (**AIRB**) approach, to model credit risk.

The primary risk management objective for NIBC is to ensure it takes only well-judged risks, while ensuring solid capital and liquidity positions. NIBC is primarily exposed to credit and investment risk in the course of its lending and investment operations, and seeks to manage its interest rate, market, currency, operational and liquidity risks. NIBC's risk appetite has been formalised in NIBC's risk appetite framework, which consists of a structured approach for managing the risks inherent in NIBC's business, taking into account NIBC's risk-bearing capacity and is subject to approval by the Supervisory Board. NIBC's risk management is fully integrated into its planning and control cycle and its day-to-day business activities at the operational level.

NIBC's risk appetite framework is comprised of six core values, or pillars:
- **Franchise**: it seeks to be a reliable and client-focused bank;
- **Solvency**: it seeks to be a creditworthy partner for its clients and other stakeholders;
- **Profitability**: its profitability is dependent on its business model and on maintaining its risk profile;
- **Liquidity**: it seeks to maintain sufficient and appropriate liquidity at all times;
- **Funding**: it seeks to maintain a stable and diverse funding base; and
- **Asset quality**: it seeks to align its asset quality with its business objectives.

NIBC measures its performance across these pillars by means of the quantitative and qualitative elements of its risk appetite framework. This framework helps NIBC to implement and execute its strategy for sustainable growth.

NIBC's risk appetite framework has been established across its organisation and incorporated in its policies, procedures, limits and action plans. NIBC has adopted certain key risk and performance indicators and other early warning signals that are used by NIBC's business units to monitor and control developments in key risk areas.

| Franchise | Solvency | Profitability | Liquidity | Funding | Asset quality |
|---|---|---|---|---|---|
| Franchise value<br>Operational assessment (e.g. IT, compliance, legal)<br>Downside risk / wind-down consequences | Risk appetite aligned with capital planning process<br>Solid capital position to absorb stress scenarios | Risk vs return<br>No market share based selling | Liquidity position to cater for prepayments and allow room for growth | Funding base aligned with tenors and composition of assets | Granular portfolio with guidelines towards lower ticket sizes<br>Monitoring and steering of trends at sector and product level<br>Risk forecasts effects on total portfolio |
| **Be a reliable and client focused bank** | **Be a credit-worthy partner for our clients and other stake-holders** | **Aligned with business model and risk profile** | **Sufficient and appropriate at all times** | **Stable and diverse funding base** | **Aligned with our business objectives** |

**Risk appetite framework is rolled out throughout the organisation and incorporated in our policies, procedures, limits and action plans**

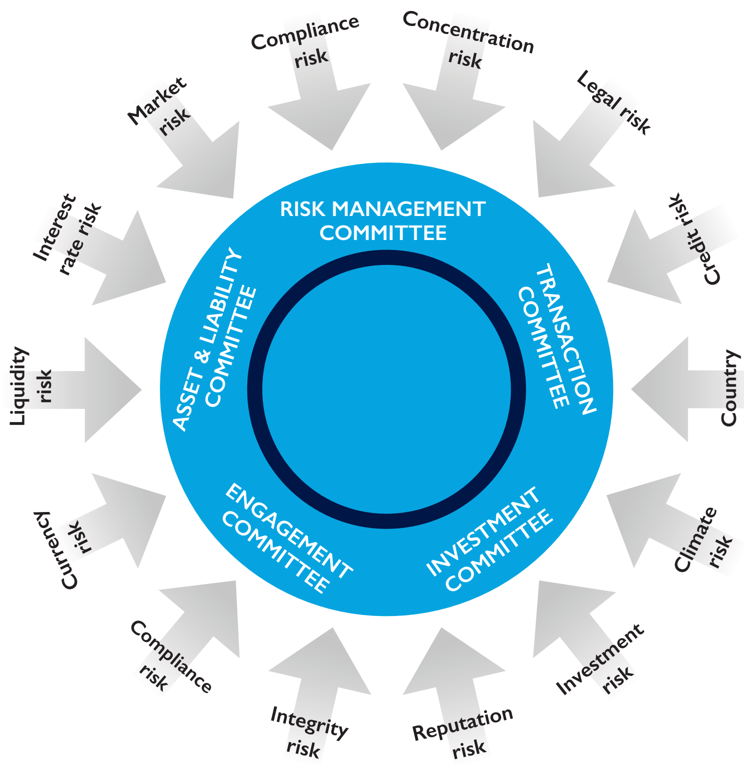
## FRAMEWORK

NIBC relies on a 'three lines of defence' risk management governance model, which provides a structure to assign risk management activities and responsibilities at various levels throughout its organisation. Day-to-day responsibility for risk management is assigned to the front office and/or operational departments and constitutes the first line of defence. The risk control functions (consisting of Risk Management, Legal, Compliance & Regulatory Affairs and other functions) form the second line of defence and are responsible for initiating risk policy and supervision of risk control within NIBC. Internal audit forms the third line and is responsible for, among other things, performing independent audits on the risk appetite framework.

| 1st Line of Defence<br>Business | 2nd Line of Defence<br>Risk Control Functions | 3rd Line of Defence<br>Internal Audit |
| --- | --- | --- |
| Operational Management<br>Risk & Control Self Assessment<br>Internal Controls | Risk Management<br>Compliance<br>Others | |
| The Management of the Business is primary responsible for the results, the execution, the compliance and effectiveness of risk management | Risk Control functions are responsible for setting policies and advising as well as objectively controlling and reporting on the execution, management, control and reporting of risks | Internal Audit is responsible for the independent assurance on the set up and functioning of the internal control framework. |
| **Risk Ownership** | **Risk Control** | **Risk Assurance** |

To support effective decision-making, the Managing Board has delegated decision-making authority regarding key risk management focus areas to the following committees, each of which includes at least two Executive Committee members:

- The *Engagement Committee* (the **Engagement Committee**) is responsible for decision-making with regard to client engagement and conflicts of interest. This ensures a transparent, ethical and accurate decision-making process with regard to NIBC's engagement of clients.
- The *Transaction Committee* (the **Transaction Committee**) is responsible for decision-making on senior debt transactions, lending and underwriting strategies, and impairments and write-offs.
- The *Investment Committee* (the **Investment Committee**) is responsible for decision-making on equity, mezzanine and subordinated debt transactions and impairments and revaluations, with a separate Strategic Investment Committee responsible for strategic investments.
- The *Risk Management Committee* (the **Risk Management Committee**) monitors NIBC's overall risk appetite and risk profile. It approves NIBC's risk management policies and methodologies, sets portfolio, sub-portfolio and concentration limits, sets programme lending limits for its retail client offering segment, oversees model validation and monitors model risk, monitors operational, IT, legal, compliance, regulatory and sustainability risks, approves new product approval requests and is responsible for monitoring compliance with NIBC's corporate social responsibility policy.
- The *Asset and Liability Committee* (the **Asset and Liability Committee**) sets and monitors economic capital and market risk limits, oversees liquidity management and manages NIBC's interest rate and currency risk exposures in its banking book.




The Supervisory Board supervises, monitors and advises the Managing Board on the risks inherent in NIBC's business activities, including the structure and operation of the internal risk management and control systems and compliance with legislation, regulations and NIBC's code of conduct. The Supervisory Board has set up two committees for this purpose: the *Risk Policy and Compliance Committee* (the **Risk Policy & Compliance Committee**) and the *Audit Committee* (**Audit Committee**). The Risk Policy & Compliance Committee advises the Supervisory Board on its responsibilities relating to NIBC's risk appetite, risk profile, risk management policies, as well as on compliance matters. It presents proposals and recommendations, at the request of the Managing Board or Supervisory Board, or otherwise in accordance with the mandates, on credit, market, investment, liquidity, operational and compliance/regulatory risks, and any other material risks NIBC is exposed to. The Audit Committee advises the Supervisory Board on financial reporting and internal and external audits. One of the elements of NIBC's risk framework is the application of thorough anti-money laundering, client due diligence and know-your-client procedures and policies. NIBC places particular emphasis on active client monitoring on an ongoing basis. Individual client officers are primarily responsible for the execution of client due diligence onboarding in accordance with NIBC's procedures; however, the day-to-day activities relating to onboarding have been outsourced to the KYC department, which is a separate department within the corporate client offering segment.

NIBC's risk management committees are supported by a robust risk management organisation, which focuses on the daily monitoring and management of the risks NIBC is exposed.

## PORTFOLIO AND MAIN RISK TYPES

Within its risk management framework, NIBC identifies the following key risk categories: credit risk, investment risk, interest rate risk, market risk, currency risk, operational risk and liquidity risk. NIBC is primarily exposed to credit and investment risk and seeks to manage other risk types in line with its business strategy. In addition, ensuring sufficient capital adequacy is a key focus area for NIBC.

The table below provides a breakdown of NIBC's primary risk exposures (representing both drawn and undrawn amounts) and the primary type of risk present in each of these portfolios for the periods indicated.

## Overview of main risk types

| in EUR millions | Main risk types | 2017 | 2016 |
|---|---|---|---|
| Corporate / investment loans | | 9,612 | 9,904 |
| Corporate loans | Credit risk | 9,393 | 9,658 |
| Investment loans | Credit risk | 220 | 246 |
| Lease receivables | Credit risk | 60 | 123 |
| Mortgage loans | Credit risk | 9,146 | 8,831 |
| Equity investments | Investment risk | 343 | 262 |
| Debt investments | | 822 | 1,232 |
| Debt from financial institutions and corporate entities | Credit risk / Market risk | 324 | 459 |
| Securitisations | Credit risk / Market risk | 498 | 773 |
| Cash management | Credit risk | 2,021 | 1,371 |
| Derivatives[1] | Credit risk / Market risk | 1,021 | 1,817 |
| Funding | Liquidity Risk | 21,227 | 21,333 |
| Capital (incl. Tier 2 as per Basel III) | Capital Adequacy Risk | 2,328 | 2,155 |

1 2017 is based on a combination of netting and positive replacement values. 2016 is based on positive replacement values only.

## CREDIT RISK

NIBC defines credit risk as the current or potential threat to NIBC's earnings and capital as a result of its counterparties' failure to make payments on time or to otherwise comply with its financial obligations to NIBC. Credit risk is present in NIBC's corporate loans, investment loans, lease receivables, mortgage loans, debt from financial institutions and corporate entities, securitisations, cash management and derivatives.

Within the corporate client offering, credit risk is monitored by and transaction proposals are reviewed and approved by the Transaction Committee and the Investment Committee, as applicable. Within NIBC's retail client offering, individual loan exposures that fall within NIBC's programme lending criteria are not subject to individual approval and credit review, and the credit risk of the overall portfolio, including portfolio and concentration limits, is monitored by the Risk Management Committee. The Risk Management Committee determines the programme lending criteria for the retail client offering and the business teams are authorised to originate retail mortgage loans and Buy-to-Let mortgage loans in compliance with those programme lending criteria.

## Overview of credit risk exposures

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Corporate loans portfolio | | |
| Commercial Real Estate | 1,391 | 1,375 |
| Food, Agri, Retail & Health | 1,216 | 1,149 |
| Industries & Manufacturing | 1,730 | 1,514 |
| Infrastructure & Renewables | 1,626 | 1,618 |
| Offshore Energy | 934 | 1,233 |
| Shipping & Intermodal | 1,297 | 1,512 |
| Telecom, Media, Technology & Services | 1,198 | 1,257 |
| **Total corporate loan exposures** | **9,393** | **9,658** |
| **Investment loans portfolio** | | |
| Commercial Real Estate | 22 | 20 |
| Food, Agri, Retail & Health | 98 | 116 |
| Industries & Manufacturing | 28 | 6 |
| Infrastructure & Renewables | 22 | 19 |
| Offshore Energy | 17 | 16 |
| Shipping & Intermodal | - | - |
| Telecom, Media, Technology & Services | 32 | 69 |
| **Total investment loan exposures** | **220** | **246** |
| **Retail loans portfolio** | | |
| Owner occupied Mortgage loans - Netherlands | 8,476 | 8,376 |
| Buy-to-Let Mortgage loans | 617 | 371 |
| Owner occupied Mortgage loans - Germany (closed book) | 53 | 84 |
| **Total retail loan exposures** | **9,146** | **8,831** |
| **Debt investment portfolio** | | |
| Financial institutions & Corporate credits | 324 | 459 |
| Securitisations | 498 | 773 |
| **Total debt investment exposures** | **822** | **1,232** |
| Lease receivables exposure | - | 123 |
| Derivatives[1] | 1,021 | 1,817 |
| Cash Management | 2,021 | 1,371 |
| **Total** | **22,622** | **23,278** |

1 2017 is based on a combination of netting and positive replacement values. 2016 is based on positive replacement values only.

## Development of Credit Quality

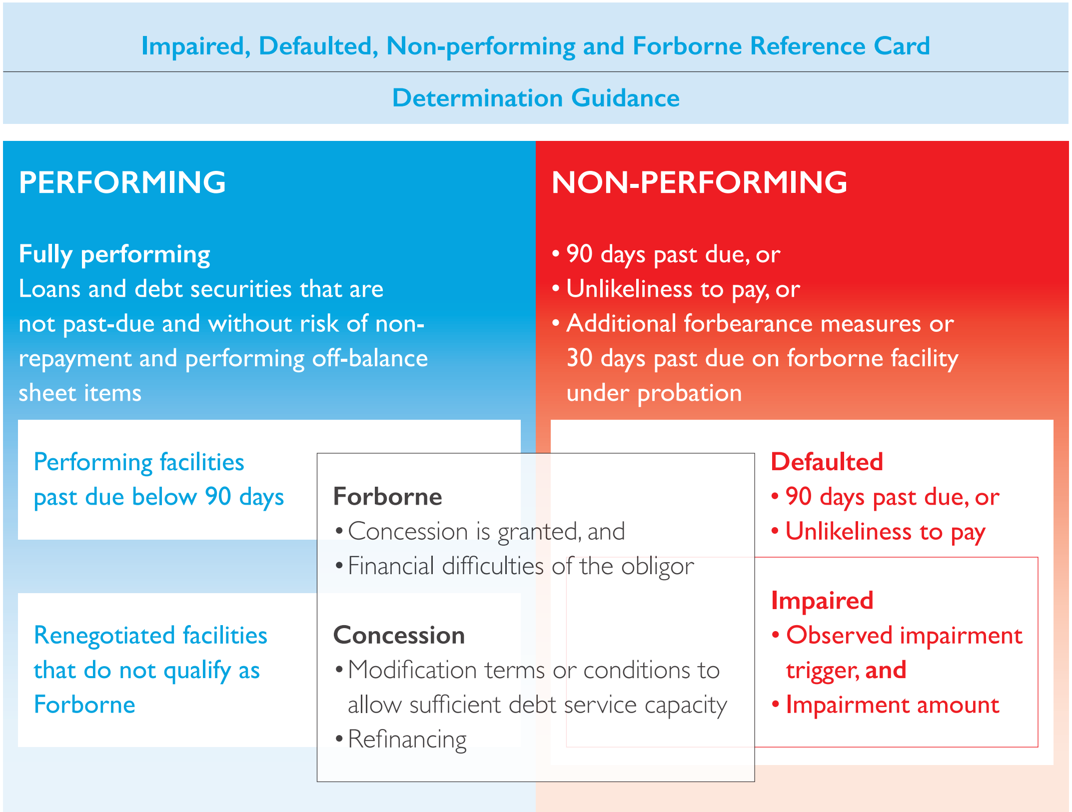
NIBC monitors the credit quality of its loan portfolio on an ongoing basis, which NIBC believes enables it to take prompt and proactive action to address potentially problematic exposures. NIBC applies different risk management procedures depending on how credit and counterparty exposures are categorised:

- *Non-performing exposure*: in line with the *European Banking Authority* (**EBA**) definition, a borrower or facility is considered non-performing if that particular borrower is in default or if a performing forborne facility is extended additional concessions or such forborne facility becomes more than 30 days past due. NIBC's non-performing portfolio contains the defaulted portfolio and forborne exposures that have been granted further concessions.
- *Forborne exposure*: in line with the EBA definition, a facility is considered to be forborne if the borrower is facing financial difficulties and NIBC grants a concession to the borrower in respect of that particular facility, including loans and debt securities. Concessions may only be granted on individual facilities and include modifications to the terms of a facility to allow the borrower sufficient debt service capacity to satisfy its obligations without defaulting, or the partial refinancing

of a particular facility. Due to the structured nature of NIBC's credit facilities, NIBC has historically been willing to grant its borrowers temporary financial concessions in the face of financial difficulties, which NIBC believes has resulted in NIBC having a larger forborne exposure portfolio than some of its peers.

- *Defaulted exposure*: in line with the CRR/CRD IV definition, NIBC considers a borrower to be in default when a credit review determines that the borrower is unlikely to pay its obligations in full or is more than 90 days past due on a material obligation. At that point the entire EAD of the borrower's outstanding facilities are classified as defaulted.
- *Impaired exposure*: in line with the IFRS definition, facilities are considered impaired if the Transaction Committee decides to take an impairment charge on a particular facility, at which point the entire EAD of that particular facility is classified as impaired.

The figure below presents an overview of NIBC's defaulted, impaired, non-performing and forborne exposure assessment methodology.



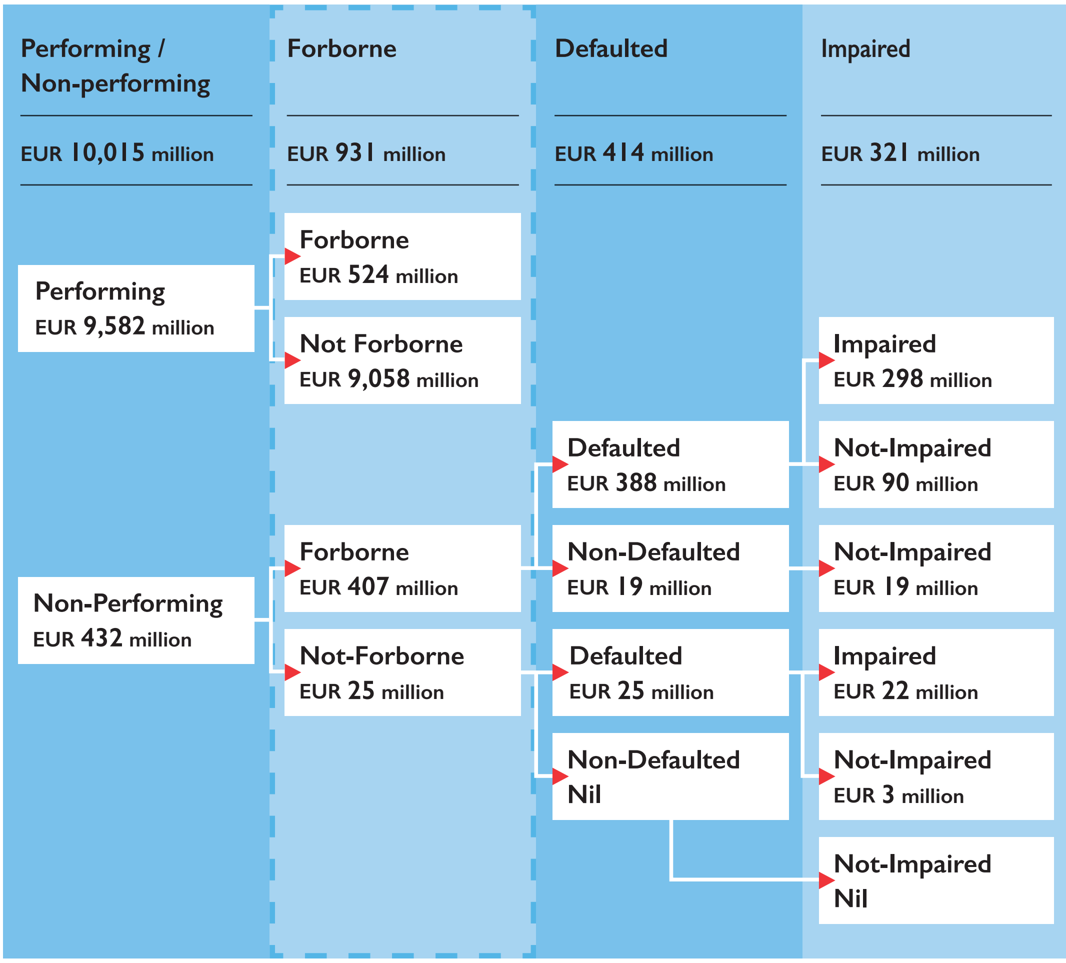

These exposure categories assist NIBC in identifying exposures that require additional attention. NIBC monitors certain early warning signals, including poor financial performance that has led to a request for a covenant waiver or other form of forbearance, in the case of corporate credit facilities, or the tenor of arrears, in the case of mortgage loans, which allow NIBC to identify and work with its clients to resolve credit issues early and avoid further deterioration of the relevant asset. The table below provides an overview of the corporate loans and Dutch residential mortgage loan exposures that are classified within one or more of the credit quality measures as at 31 December 2017 and 2016.

## Overview of credit quality measures

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Corporate exposure | Retail exposure | Total exposure | | Corporate exposure | Retail exposure | Total exposure | |
| | in EUR millions | | | % | in EUR millions | | | % |
| Defaulted exposure | 414 | 42 | 456 | 2.4% | 658 | 49 | 707 | 3.8 |
| Impaired exposure | 321 | - | 321 | 1.7% | 629 | - | 629 | 3.4 |
| Non-performing exposure | 432 | 42 | 474 | 2.5% | 658 | 49 | 707 | 3.8 |
| Forborne exposure | 931 | 41 | 972 | 5.2% | 975 | 38 | 1,013 | 5.4 |

| | 2017 | | | FY 2016 | | |
|---|---|---|---|---|---|---|
| | Non-performing exposure | Impaired exposure | Impairment coverage ratio[1] | Non-performing exposure | Impaired exposure | Impairment coverage ratio |
| | in EUR millions | | % | in EUR millions | | % |
| Corporate client exposures | | | | | | |
| Commercial Real Estate | 98 | 98 | 40% | 363 | 363 | 21% |
| Food, Agri, Retail & Health | 28 | 16 | 21% | 30 | 30 | 55% |
| Industries & Manufacturing | 6 | 6 | 54% | 31 | 28 | 53% |
| Infrastructure & Renewables | 51 | 51 | 30% | 52 | 52 | 28% |
| Offshore Energy | 173 | 92 | 54% | 113 | 87 | 36% |
| Shipping & Intermodal | 48 | 48 | 32% | 58 | 58 | 48% |
| Telecom, Media, Technology & Services | 28 | 9 | 29% | 12 | 12 | 53% |
| **Total corporate client exposures** | **432** | **321** | **40%** | **658** | **629** | **30%** |
| | | | | | | |
| **Retail client exposures** | | | | | | |
| Mortgage loans | 41 | 0 | 3% | 49 | - | - |
| Buy-to-Let mortgages | 0 | - | - | - | - | - |
| **Total retail client exposures** | **42** | **0** | **3%** | **49** | **-** | **-** |
| | | | | | | |
| **Total exposures** | **474** | **321** | **40%** | **707** | **629** | **30%** |

1 Impairment coverage ratio excludes IBNR amounts.




## INVESTMENT RISK

Investment risk, as it relates to NIBC's equity investments, is the risk that the value of NIBC's investment will deteriorate. NIBC's investments include private equity, infrastructure equity and real estate equity investments, which can be divided into direct and indirect investments. Indirect investments are those made through funds and direct investments are all other investments and consist of investments in private and listed common equity securities, preference shares, warrants and interests in funds managed by NIBC or by third parties over which NIBC does not exercise control.

NIBC's investment process is based on the following investment risk management principles:

- NIBC seeks to ensure that investment risk exposures are authorised independently from the business originators.
- NIBC performs systematic risk analysis of the investment, with a view to identifying, measuring, and evaluating all risks.
- NIBC embeds 'know your customer' principles, corporate social responsibility and customer due diligence as integral parts of the overall investment process.

### Management of investment exposures

Direct equity investments and commitments to third-party funds are required to be approved by the Investment Committee, while indirect investments are approved by the investment committees of the relevant funds, subject to the investment guidelines stipulated in the agreements between the manager of the fund and the investors. NIBC's equity investment portfolio generally consists of illiquid investments. As the size of NIBC's investment portfolio is limited, NIBC assesses concentration risk for each individual asset before the investment is made, as well as the market, sector and geographical exposure profiles. All investment exposures are reviewed by the investment manager on a quarterly basis, and the results are reported and approved by the Investment Committee. The investment manager drafts a review document and prepares a valuation of the investment in accordance with the *International Private Equity and Venture Capital Valuation Guidelines* (Edition December 2015) and IAS 39. All valuations are approved by the Investment Committee and Risk Management. The exit strategy for each particular investment is reviewed and updated in each quarterly review. Divestment proposals for direct investments are submitted for approval to the Investment Committee while divestment proposals for indirect investments are submitted for approval to the investment committee of the relevant fund.

### Composition of investment exposure

The following table presents the total amounts and the breakdown of the equity investments portfolio by industry sector and geographic region. NIBC's off-balance commitments amounted to EUR 12 million at year-end 2017 (2016: EUR 19 million).

### Breakdown of equity investments per sector

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Commercial Real Estate | 39 | 19 |
| Food, Agri, Retail & Health | 57 | 13 |
| Industries & Manufacturing | 16 | 14 |
| Infrastructure & Renewables | 129 | 116 |
| Offshore Energy | 3 | - |
| Shipping & Intermodal | - | - |
| Telecom, Media, Technology & Services | 98 | 101 |
| **Total** | **343** | **262** |

### Breakdown of equity investments per region

| in EUR millions | 2017 | 2016 |
|---|---|---|
| The Netherlands | 268 | 200 |
| Germany | 10 | - |
| United Kingdom | 24 | 15 |
| Rest of Europe | 4 | 6 |
| North America | 37 | 42 |
| **Total** | **343** | **262** |

## INTEREST RATE RISK

Interest rate risk refers to the sensitivity of NIBC's interest income and/or market value to adverse interest rate movements. When interest rates rise or fall, interest cash flows and/or their present value also change. Movements in interest rates can therefore have a major impact on both interest income and NIBC's market value.

NIBC defines *interest rate risk in the banking book* (**IRRBB**) as the risk of losses from interest rate sensitive positions in non-trading activities due to movements in interest rates. IRRBB is measured and monitored by the risk management function. NIBC has developed an IRRBB framework, which is used to measure and monitor IRRBB from both an economic value perspective (impact on economic value) and from an earnings perspective (impact on net interest income). Any significant breach of IRRBB limits is required to be reported to the *chief risk officer* (**CRO**) immediately.

To monitor the impact on economic value, NIBC calculates interest *basis point value* (**BPV**) and interest *value at risk* (**VaR**) measures on a daily basis and for review by the market risk department.

To monitor the impact on net interest income, NIBC uses a combination of static and dynamic (changes to the current portfolio composition) analyses. The dynamic analyses consider NIBC's strategy by modelling the development of the balance sheet in line with NIBC's business plan and taking into account both refinancing and reinvestments. *Earnings at risk* (**EatR**) are calculated as the 12-month earnings impact due to a 200 bps gradual upwards or downwards interest rate shift per currency.

As part of NIBC's interest rate risk analysis, NIBC considers a set of possible scenarios, including scenarios intended as stress testing and vulnerability identification, based on historical events and on possible future events.

NIBC accepts a certain economic value risk exposure in its mismatch book to stabilise earnings, referred to as the strategic mismatch exposure. Without the strategic mismatch exposure, NIBC would hedge all of its interest bearing assets to three-month EURIBOR/LIBOR, leading to NIBC's non-interest bearing capital effectively financing very short-term assets and the interest return on NIBC's non-interest bearing capital fluctuating with these short-term rates earned on those assets. The mismatch book exclusively contains swaps in EUR, USD and/or GBP. Apart from the mismatch book, interest rate risk is also present in the remaining banking book: liquidity portfolio, collateral portfolio, debt investments portfolio, mortgages book and corporate treasury book. The liquidity portfolio, collateral portfolio and debt investments portfolio consist mostly of investments in financial institutions and securitisations, while the corporate treasury book contains mainly the funding and the corporate loans of the bank. The mortgage loan book consists of the 'old' (white label) mortgage loan portfolio and the closed German residential mortgage loans accounted on fair value and mortgages originating under the NIBC Direct label accounted on amortised cost.

## MARKET RISK

Market risk is the risk of loss as a result of changes in market variables, including interest rates, exchange rates and share prices, as well as other variables that are not directly observable, such as volatilities and correlations. NIBC defines market risk as:
- The risk of losses in the trading book arising from adverse movements in market rates;
- The risk of losses in the banking book from NIBC's credit spread risk position and equity positions (exclusively non-tradable securities);
- The risk of losses in both the banking and trading book from adverse movements in foreign currencies.

In the trading book, excluding NIBC Markets, NIBC takes short-term positions in the EUR, GBP and USD yield curves. The limits for the trading book are moderate and are monitored on a daily basis and reported to the Asset and Liability Committee on a bi-weekly basis. NIBC's policy is not to take any active currency positions. When currency positions exceed small facilitating limits, NIBC's policy is to enter into hedging transactions. NIBC's overall open foreign currency position was EUR 3 million as at 31 December 2017 (2016: EUR 18 million).

The predominant market risk drivers for NIBC are interest rate risk (in the trading book only) and credit spread risk (in both the trading and banking books). The capital requirement for market risk is based on internal models for the trading book, excluding NIBC Markets, and on the Standardised

Approach for NIBC Markets. The capital requirement for the overall foreign currency position of the bank is calculated in accordance with the Standardised Approach.

The objectives of the market risk function are to measure, report and limit the market risk of NIBC in accordance with NIBC's market risk framework. NIBC has defined interest rate risk, credit spread risk and traded equity risk limits and monitors their positions on a daily basis, reporting to the Asset and Liability Committee once every two weeks. The risk management and control function is independent of any trading activities. Any significant breach of market risk limits is required to be reported to the CRO for immediate action. Market risk analyses all 'overshootings' (i.e. occasions where either the hypothetical or actual profit and loss account exceeds the VaR) in the trading book and reports them to both the CRO and the DNB in accordance with Article 366 point 5 of the CRR.

NIBC uses multiple risk metrics to monitor and manage market risk. These include interest BPV, credit BPV, interest VaR and credit VaR. These metrics are calculated on a daily basis and are reviewed by the market risk department.

In addition to the VaR, NIBC has developed a number of stress tests. These stress tests consist of both historical events and potential extreme market conditions. Market risk stress tests are conducted and reported regularly, both at portfolio level and on a consolidated basis.

## CURRENCY RISK

NIBC manages its overall currency position based on the currency positions in the monthly balance sheets. The main exposures in foreign currencies for NIBC are USD, GBP and JPY. NIBC uses matched funding and other measures to apply its policy of not taking any currency positions. Any currency position open at month-end as a result of movements in the fair value of assets or liabilities or interest income in foreign currencies is typically hedged by entering into foreign exchange rate spot transactions.

## OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes or systems, from human error, fraud, or external events including legal risk, compliance risk and reputational risk.

NIBC's operational risk management function monitors and controls operational risk, develops policies and processes to manage operational risk and provides methodology and tools. These tools enable NIBC to assess whether the operational risk profile of NIBC fits within its operational risk appetite and provide an integrated view of the operational risk and control self-assessments performed by all business units and countries, action planning, and event and loss registration and support the constant process of evaluating and reducing operational risk, and planning mitigation measures. Furthermore, the operational risk department also coordinates the development of forward-looking scenario analysis and supports business continuity and information security.

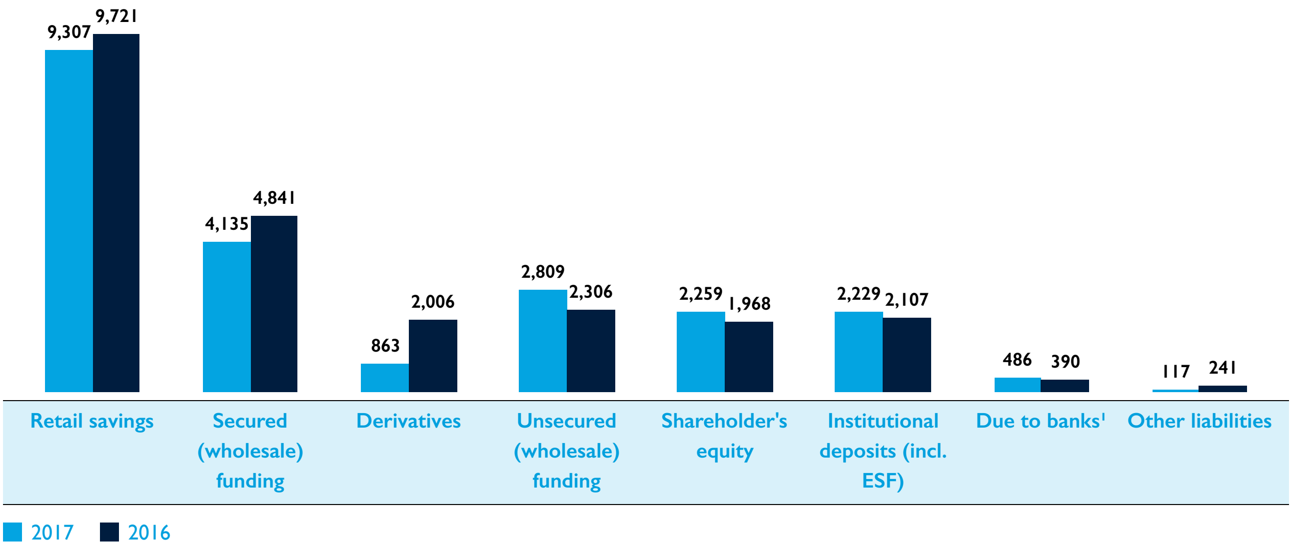
## LIQUIDITY RISK

Liquidity risk is an entity's inability to fund its assets and meet its obligations as they become due, at an acceptable cost. In order to maintain an adequate liquidity position, NIBC has developed a comprehensive liquidity management framework, which it reviews on an annual basis. In recent years, new regulatory requirements have influenced NIBC's liquidity policies. NIBC aims to be an early adopter of such regulatory developments.

NIBC monitors its liquidity position on an ongoing basis. The funding profile is analysed by aggregating all assets and liabilities based on their maturities. NIBC prepares and presents several liquidity stress tests to the Asset and Liability Committee once every two weeks. The stress tests are amongst others based on projections prepared by the business units, the current asset and liability maturity profiles and a liquidity stress policy, which is reviewed by the Asset and Liability Committee on a yearly basis.

**Breakdown of total liabilities**

in EUR millions




## CAPITAL ADEQUACY

The principal ratios for reviewing NIBC's capital adequacy are the CRR/CRD IV capital ratios: the Common Equity Tier 1 ratio, the Tier 1 ratio and the Total Capital/BIS ratio. CRR/CRD IV standards are in effect as of January 2014.

As in previous years, NIBC is solidly capitalised at 31 December 2017, displayed by our solid regulatory ratios. The fully-loaded Common Equity Tier 1 ratio stood at 21.4% (Common Equity Tier 1 ratio 31 December 2016: 16.8%); the Tier 1 ratio at 23.7% (31 December 2016: 16.8%); and the Total Capital / BIS ratio at 27.2% (31 December 2016: 21.3%). These are well above the minimum capital requirements imposed by the CRR/CRD IV, which require a minimum Tier 1 ratio of 6% and a minimum Total Capital / BIS ratio of 8%, excluding capital buffers. The ratios increased compared to 2016 because of increase in the Common Equity Tier 1 capital and substantial decrease in Risk Weighted Assets (RWA). Of the total capital requirement, 88% relates to credit risk, 9% to operational risk, 2% to market risk and 1% credit value adjustment. The following table shows the summary of capital ratios and RWA for NIBC. The increase in 2017 of RWAs relating to operational risk is based on the calculation by means of the standardised approach and mainly reflects the improved profitability of NIBC.

## NIBC (fullly loaded) capital ratios, CCR / CRD IV

| | 2017[1] | 2016[1] |
|---|---|---|
| Capital ratios (in %) | | |
| Common equity Tier 1 ratio | 21.4% | 16.8% |
| Tier 1 ratio | 23.7% | 16.8% |
| Total capital / BIS ratio | 27.2% | 21.3% |
| | | |
| **Risk weighted assets (in EUR millions)** | | |
| Credit risk | 7,587 | 9,299 |
| Market risk | 130 | 203 |
| Operational risk | 747 | 482 |
| Credit value adjustment | 83 | 125 |
| **Total risk weighted assets** | **8,546** | **10,109** |

1 Based on CRR / CRD IV standards.

## Economic capital

In addition to regulatory capital, NIBC also calculates *Economic Capital* (**EC**). EC is the amount of capital that NIBC needs as a buffer against potential losses from business activities, based on its own assessment of risks. It differs from Basel's regulatory capital, as NIBC assesses the specific risk characteristics of its business activities in a different manner than the required regulatory method. At NIBC, EC is based on a one-year risk horizon with a 99.9% confidence level. This confidence level means that there is a probability of 0.1% that losses in a period of one year will be larger than the allocated EC.

# IN CONTROL REPORT

The responsibilities of the Managing Board are anchored in the principles of the Dutch Financial Supervision Act (*Wet op het financiële toezicht*) and other regulations. These responsibilities include compliance with relevant legislation and the implementation and operation of risk management and control systems. These management and control systems aim to ensure reliable financial reporting and to control downside risk to the operational and financial objectives of NIBC.

## RISK MANAGEMENT AND CONTROL

Managing Board has made an assessment of the effectiveness of NIBC's internal control and risk management systems. Based on this assessment and to the best of its knowledge, the Managing Board states that:

- there have been no material failings in the effectiveness of NIBC's internal risk management and control systems;
- NIBC's internal risk management and control systems provide reasonable assurance that NIBC Bank N.V.'s Annual Report does not contain any errors of material importance;
- there is a reasonable expectation that NIBC Bank N.V. will be able to continue in operation and meet its liabilities for at least twelve months, as evidenced by the details included in 'performance evaluation', therefore, it is appropriate to adopt the going concern basis in preparing the financial statements;
- there are no material risks or uncertainties that could reasonably be expected to have a material adverse effect on the continuity of NIBC Bank N.V.'s enterprise in the coming twelve months.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations. Nor can they provide certainty that we will achieve our objectives.

In view of the above, the Managing Board of NIBC believes it is in compliance with the requirements of best pratice provision 1.2.2 of the Dutch Corporate Governance Code.

## RESPONSIBILITY STATEMENT

In respect of Article 5:25c, Section 2 (c) (1 and 2) of the Dutch Financial Supervision Act, the members of the Managing Board of NIBC hereby confirm, to the best of their knowledge, that:

- The annual company and consolidated financial statements give a true and fair view of the assets, liabilities, financial position and income statement of NIBC and its consolidated group companies;
- The report of the Managing Board gives a true and fair view of the situation on the balance sheet date and developments during the financial year of NIBC and its consolidated group companies;
- The report of the Managing Board describes the material risks which NIBC faces.

**The Hague, 26 February 2018**

**Managing Board**
Paulus de Wilt, Chief Executive Officer and Chairman
Herman Dijkhuizen, Chief Financial Officer
Reinout van Riel, Chief Risk Officer

# CONSOLIDATED FINANCIAL STATEMENTS

# TABLE OF CONTENTS

# CONSOLIDATED INCOME STATEMENT

## for the years ended

| in EUR millions | note | 2017 | 2016 |
|---|---|---|---|
| Interest and similar income | | 548 | 547 |
| Interest expense and similar charges | | 182 | 241 |
| **Net interest income** | **2** | **366** | **306** |
| | | | |
| Fee and commission income | | 54 | 32 |
| Fee and commission expense | | - | - |
| **Net fee and commission income** | **3** | **54** | **32** |
| | | | |
| Investment income | 4 | 67 | 23 |
| Net trading income | 5 | 25 | 12 |
| Other operating income | 6 | - | 22 |
| **Operating income** | | **512** | **395** |
| | | | |
| Personnel expenses and share-based payments | 7 | 109 | 101 |
| Other operating expenses | 8 | 95 | 80 |
| Depreciation and amortisation | 9 | 5 | 7 |
| Regulatory charges and levies | 10 | 14 | 15 |
| **Operating expenses** | | **223** | **203** |
| | | | |
| Impairments of financial assets | 11 | 34 | 70 |
| Impairments of non-financial assets | 11 | - | 2 |
| **Total expenses** | | **257** | **275** |
| | | | |
| **Profit before tax** | | **255** | **120** |
| | | | |
| Tax | 12 | 42 | 18 |
| **Profit after tax** | | **213** | **102** |
| | | | |
| **Attributable to:** | | | |
| Shareholders of the parent company | | 210 | 102 |
| Holders of capital securities | | 3 | - |
| Non-controlling interests | | - | - |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## for the years ended 31 December

| in EUR millions | note | 2017 Before tax | 2017 Tax charge/ (credit) | 2017 After tax | 2016 Before tax | 2016 Tax charge/ (credit) | 2016 After tax |
|---|---|---|---|---|---|---|---|
| **Profit for the year** | | **255** | **42** | **213** | **120** | **18** | **102** |
| **Other comprehensive income** | | | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | | | |
| Revaluation of property, plant and equipment | 28 | 2 | - | 2 | - | - | - |
| Own credit risk reserve | | (67) | (16) | (51) | (16) | (4) | (12) |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | | |
| Movement in the cash flow hedge reserve | | (18) | (5) | (13) | (8) | (2) | (6) |
| **Available-for-sale financial assets:** | | | | | | | |
| Revaluation of loans and receivables | 18 | (4) | (1) | (3) | 4 | 1 | 3 |
| Revaluation of equity investments | 19 | (1) | - | (1) | (4) | (1) | (3) |
| Revaluation of debt investments | 20 | 6 | 1 | 5 | (1) | - | (1) |
| **Total other comprehensive income** | | **(82)** | **(21)** | **(61)** | **(25)** | **(6)** | **(19)** |
| **Total comprehensive income** | | **173** | **21** | **152** | **95** | **12** | **83** |
| **Total comprehensive income attributable to:** | | | | | | | |
| Shareholder of the parent company | 42 | 170 | 21 | 149 | 95 | 12 | 83 |
| Holders of capital securities | 43 | 3 | - | 3 | - | - | - |
| Non-controlling interests | | - | - | - | - | - | - |
| **Total comprehensive income** | | **173** | **21** | **152** | **95** | **12** | **83** |

# CONSOLIDATED BALANCE SHEET

## as at 31 December

| in EUR millions | note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Financial assets at amortised cost** | | | |
| Cash and balances with central banks | 13 | 1,604 | 918 |
| Due from other banks | 14 | 962 | 1,428 |
| Loans and receivables | | | |
| Loans | 15 | 7,749 | 8,269 |
| Mortgage loans own book | 16 | 4,412 | 3,346 |
| Debt investments | 17 | 59 | 287 |
| **Financial assets available-for-sale** | | | |
| Loans on group companies | 18 | - | 24 |
| Equity investments | 19 | 36 | 41 |
| Debt investments | 20 | 823 | 1,028 |
| **Financial assets at fair value through profit or loss (including trading)** | | | |
| Loans | 21 | 181 | 210 |
| Mortgage loans own book | 22 | 4,581 | 4,124 |
| Securitised mortgage loans | 23 | 338 | 1,550 |
| Equity investments (including investments in associates) | 24 | 287 | 204 |
| Debt investments | 25 | 31 | 60 |
| Derivative financial assets | 26 | 1,021 | 1,817 |
| **Other** | | | |
| Investments in associates and joint ventures (equity method) | 27 | 10 | 7 |
| Property, plant and equipment | 28 | 44 | 44 |
| Current tax | 29 | 1 | - |
| Deferred tax | 30 | 8 | - |
| Other assets | 31 | 62 | 223 |
| **Total assets** | | **22,209** | **23,580** |

For the liquidity order of the financial instruments on the consolidated balance sheet at 31 December 2017 reference is made to maturity tables included in the notes of the different line items.

## as at 31 December

| in EUR millions | note | 2017 | 2016 |
|---|---|---|---|
| **Liabilities and equity** | | | |
| **Financial liabilities at amortised cost** | | | |
| Due to other banks | 32 | 1,835 | 1,290 |
| Deposits from customers | 33 | 11,535 | 11,827 |
| Own debt securities in issue | 34 | 4,392 | 3,855 |
| Debt securities in issue related to securitised mortgages and lease receivables | 35 | 267 | 1,337 |
| **Financial liabilities at fair value through profit or loss (including trading)** | | | |
| Own debt securities in issue | 36 | 38 | 37 |
| Debt securities in issue structured | 37 | 616 | 620 |
| Derivative financial liabilities | 26 | 863 | 2,006 |
| **Other** | | | |
| Other liabilities | 38 | 111 | 235 |
| Current tax | 29 | 1 | - |
| Deferred tax | 30 | 4 | 3 |
| Employee benefits | 39 | 3 | 3 |
| **Subordinated liabilities** | | | |
| Amortised cost | 40 | 115 | 122 |
| Fair value through profit or loss | 41 | 167 | 276 |
| **Total liabilities** | | **19,947** | **21,611** |
| **Equity** | | | |
| Share capital | 42 | 80 | 80 |
| Share premium | 42 | 238 | 238 |
| Other reserves | 42 | 93 | 156 |
| Retained earnings including profit for the period | | 1,648 | 1,495 |
| **Equity attributable to the parent company** | | **2,059** | **1,969** |
| Capital securities | | 203 | - |
| **Total equity** | | **2,262** | **1,969** |
| **Total liabilities and equity** | | **22,209** | **23,580** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in EUR millions | Attributable to: Share capital | Share premium | Revaluation reserves[1] | Retained earnings | Profit after tax | Distribution charged to profit after tax | Attributable to: Equity of the parent company | Capital securities (non-controlling interests)[2] | Equity attributable to other non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **80** | **238** | **156** | **1,393** | **102** | **-** | **1,969** | | **-** | **1,969** |
| Impact of application IFRS 9 Own credit risk at 1 January 2017 | - | - | - | - | - | - | - | - | - | - |
| **Restated balance at 1 january 2017** | **80** | **238** | **156** | **1,393** | **102** | **-** | **1,969** | | **-** | **1,969** |
| Transfer of profit after tax 2016 to retained earnings | - | - | - | 102 | (102) | - | - | - | - | - |
| Total comprehensive income for the period ended 31 December 2017 | - | - | (61) | - | 210 | - | 149 | 3 | - | 152 |
| Transfer of realised depreciation revalued property, plant and equipment | - | | (2) | 2 | - | - | - | | - | - |
| Issue of capital securities | - | - | - | - | - | - | - | 200 | - | 200 |
| Cost of capital securities | - | - | - | (2) | - | - | (2) | - | - | (2) |
| Paid coupon on capital securities | - | - | - | - | - | - | - | - | - | - |
| Other | - | | - | (1) | - | - | (1) | - | - | (1) |
| Final and interim dividend[3] | - | - | - | (25) | - | (31) | (56) | - | - | (56) |
| **Balance at 31 December 2017** | **80** | **238** | **93** | **1,469** | **210** | **(31)** | **2,059** | **203** | **-** | **2,262** |

1 Revaluation reserves include hedging reserve.
2 Capital securities of EUR 200 million consists of EUR 200 million notional amount and EUR 3 million profit attributable to capital securities. At reporting date there is no obligation to pay the profit attributable to capital securities holders.
3 EUR 56 million relates to cashflow.

| in EUR millions | Share capital | Share pre-mium | Re-valua-tion re-serves[1] | Retained earnings | Profit after tax | Distribu-tion charged to profit after tax | Equity of the parent company | Capital securi-ties (non-control-ling interests)[2] | Equity attr-ibutable to other non-control-ling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to: | | | | | | Attributable to: | | | |
| **Balance at 1 January 2016** | **80** | **238** | **60** | **1,437** | **71** | **-** | **1,886** | **-** | **-** | **1,886** |
| Impact of application IFRS 9 Own credit risk at 1 January 2016 | - | - | 115 | (115) | - | - | - | - | - | - |
| **Restated balance at 1 january 2016** | **80** | **238** | **175** | **1,322** | **71** | **-** | **1,886** | **-** | **-** | **1,886** |
| Transfer of profit after tax 2015 to retained earnings | - | - | - | 71 | (71) | - | - | - | - | - |
| Total comprehensive income for the period ended 31 December 2016 | - | - | (19) | - | 102 | - | 83 | - | - | 83 |
| **Balance at 31 December 2016** | **80** | **238** | **156** | **1,393** | **102** | **-** | **1,969** | **-** | **-** | **1,969** |

1 Revaluation reserves include hedging reserve.
2 Capital securities of EUR 200 million consists of EUR 200 million notional amount and EUR 3 million profit attributable to capital securities. At reporting date there is no obligation to pay the profit attributable to capital securities holders.

## Available distributable amount as at 31 December

| in EUR millions | 2017 |
|---|---|
| Equity[1] | 2,062 |
| Share capital | (80) |
| Within retained earnings | (180) |
| Revaluation reserves | (43) |
| Legal reserve profit participation | (1) |
| **Legal reserves** | **(224)** |
| **Available distribution amount** | **1,758** |

1 Excluding capital securities and non-controlling interests but including profit attributable to capital securities.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## for the years ended 31 December

| in EUR millions | note | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit after tax for the year | | 213 | 102 |
| **Adjustments for non-cash items** | | | |
| Depreciation, amortisation and impairment losses | 9/11 | (91) | 78 |
| Changes in employee benefits | 39 | - | (1) |
| **Changes in operating assets and liabilities** | | | |
| Derivative financial instruments | 26 | (347) | (10) |
| Operating assets[1] | 13-25/30,31 | 1,344 | (787) |
| Operating liabilities (including deposits from customers)[2] | 30/32/33/38/42 | 118 | 599 |
| **Cash flows from operating activities** | | **1,237** | **(19)** |
| **Investing activities** | | | |
| Acquisition of subsidiaries , associated and joint ventures | 27 | (3) | - |
| Acquisition of property, plant and equipment | 28 | (3) | (2) |
| Repayments of financial assets | 4 | (67) | (22) |
| **Cash flows from investing activities** | | **(73)** | **(24)** |
| **Financing activities** | | | |
| Proceeds from the issuance of own debt securities | 34/36 | 716 | 1,324 |
| Repayment of issued own debt securities | 34/36 | (178) | (518) |
| Proceeds from the issuance of subordinated liabilities | 40/41 | (22) | 4 |
| Repayment of issued subordinated liabilities | 40/41 | (125) | (4) |
| Proceeds from the issuance of debt securities structured | 37 | 11 | 63 |
| Repayment of issued debt securities structured | 37 | (29) | (140) |
| Repayment of issued debt securities related to securitised mortgages and lease receivables | 35 | (1,070) | (725) |
| Dividend paid[3] | | (56) | - |
| Proceeds from capital securities (net of issuance costs) | 43 | 200 | - |
| **Cash flows from financing activities** | | **(553)** | **4** |
| | | | |
| **Cash and cash equivalents at 1 january** | | **1,175** | **1,223** |
| Net foreign exchange difference | | (6) | (9) |
| Net increase/(decrease) in cash and cash equivalents | | 611 | (39) |
| **Cash and cash equivalents at 31 december** | | **1,780** | **1,175** |
| | | | |
| **Reconciliation of cash and cash equivalents:** | | | |
| Cash and balances with central banks (maturity three months or less) | 13 | 1,445 | 777 |
| Due from other banks (maturity three months or less) | 14 | 335 | 398 |
| | | **1,780** | **1,175** |
| **Supplementary disclosure of operating cash flow information:** | | | |
| Interest paid | | 179 | 256 |
| Interest received | | 585 | 541 |

1 Includes all assets excluding derivatives, intangible assets and current tax and consists mostly of Securitised mortgage loans (note 23: EUR 1,212 million), Loans (note 15: EUR 578 million), Due from other banks (note 14: EUR 402 million), Debt investments (note 17: EUR 251 million), Debt investments available for sale (note 20: EUR 213 million), partly offset by mortgages loans (note 16: EUR -1,066 million) and mortgages loans FVtPL (note 21: EUR - 457 million).

2 Includes all liabilities excluding derivatives and consists mainly of Due to other banks (note 32: EUR 545 million), partly offset by Deposits from customers (note 33: EUR -292 million), other liabilities (note 38: EUR -124 million) and income tax expense of EUR 2 million.

3 Cashflow movement disclosed in consolidated statement of changes in equity.

# ACCOUNTING POLICIES

## Authorisation of consolidated financial statements

The consolidated financial statements of *NIBC Bank N.V.* (**NIBC**) for the year ended 31 December 2017 were authorised for issue by the Managing Board of NIBC on 26 February 2018. NIBC, together with its subsidiaries (NIBC or the group), is incorporated and domiciled in the Netherlands, and is a wholly-owned subsidiary of *NIBC Holding N.V.* (**NIBC Holding**). The principal activities of NIBC are described in the Report of the Managing Board of this Annual Report.

## Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise. Where considered necessary comparative figures have been adjusted to conform to changes in presentation in the current year.

### Statement of compliance

NIBC's consolidated financial statements have been prepared in accordance with the *International Financial Reporting Standards as adopted by the European Union* (together **IFRS-EU**) and with Title 9 of Book 2 of the Netherlands Civil Code.

### Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for:

- Available-for-sale financial assets, financial assets and liabilities (including derivative instruments) certain classes of (investment) property – measured at fair value;
- Assets held for sale – measured at fair value less cost of disposal.

All figures are rounded to the nearest EUR million, except when otherwise indicated.

The preparation of financial statements in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying NIBC's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the Critical accounting estimates and judgements section.

### Changes in accounting policies in 2017

#### Changes in IFRS-EU

The following new or revised standards, amendments or interpretations were implemented by NIBC on 1 January 2017:

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
  The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

- Amendments to IAS 7: Disclosure Initiative
  The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Application of the amendments will result in additional disclosures provided by NIBC.

- Annual Improvements to IFRS Standards 2014-2016 Cycle
  This cycle of improvements contains amendments to three standards of which two are relevant for NIBC. These are IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Venture. Only the amendment related to IFRS 12 became effective as from 1 January 2017 and does not have significant impact on NIBC's Annual report. The amendment related to IAS 28 becomes effective as from 1 January 2018 and is described in section 'Upcoming changes after 2017'.

The changes in IFRS-EU listed above have not led to changes in NIBC's accounting policies and do not have a material impact on the position and performance of NIBC. In addition, NIBC did not have any other reasons to change its accounting policies.

## Upcoming changes after 2017

**New and/or amended standards not yet effective**
The following new accounting standards, amendments and/or interpretations are issued by the *International Accounting Standards Board* (**IASB**) and endorsed by the EU, but are not yet effective. The new accounting standards, amendments and interpretations are required to be applied as from 1 January 2018. Note that only the amendments to IFRSs that are relevant for NIBC are discussed below.

- IFRS 9 'Financial instruments'
  As from 1 January 2018, the current IFRS standard for financial instruments (IAS 39) will be replaced by IFRS 9. Changes contain three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting. As from 1 January 2016, NIBC has already early adopted the own credit requirements introduced by IFRS 9 in isolation. The own credit requirements entail changes in the fair value attributable to changes in credit risk of the financial liabilities designated at *Fair Value through Profit or Lose* (**FVTPL**) to be recognised in *Other Comprehensive Income*. (**OCI**)

**Classification and measurement of financial instruments**
In 2017 the business model blueprint has been finalised, which was used to determine the classification under IFRS 9. Following the determination of business models, transactions to be recognised at amortised cost have been reviewed to ensure the contractual cash flow characteristics meet the requirement to solely consist of payments of principal and interest (SPPI). An analysis of the cash flow characteristics of the relevant financial assets has been executed. The business model selection and SPPI test have been performed on groups of assets that have a set of similar characteristics resulting in a homogenous population. Process adjustments to ensure an adequate governance and ongoing compliance with IFRS 9 have been identified will be further embedded and refined in 2018.

**Impact**

Except for the reclassification effect of mortgage loans designated at FVTPL to amortised cost, NIBC notes there is a limited impact on equity related to changes in classification. The reclassification effect of mortgage loans designated at FVTPL to amortised cost is EUR 321 million, which is the result of revoking the previous fair value designation and consequently is equal to the fair value of the relevant mortgage loans designated at FVTPL as per 31 December 2017. The impact was primarily driven by market interest rates as these have had a material impact on the fair value development of the portfolio. The reclassification effect of mortgage loans designated at FVTPL to amortised cost on the regulatory capital leads to a decrease of the fully loaded CET 1 ratio of NIBC of approximately 3.6%-points at 1 January 2018.

**Impairment of financial assets**

Key elements to measure *expected credit losses* (**ECL**) are the staging triggers within the 'three-stage' model and the incorporation of forward looking information.

**'Three-stage' model**

NIBC is required to recognise an allowance depending on whether there has been a significant increase in credit risk since initial recognition or the financial asset was credit-impaired on initial recognition. A key assessment is, therefore, whether a significant deterioration in the credit risk of a financial asset occurred between initial recognition and maturity. The guiding principle of the *Excpected Credit Loss* (**ECL**) model is to reflect the general pattern of deterioration or improvement in the credit quality of financial assets. The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. In general, there are two measurement bases:

1. 12-month ECLs (stage 1), which apply to all items (from initial recognition) as long as there is no significant deterioration in credit quality; and
2. Lifetime ECLs, which apply when a significant increase in credit risk has occurred on an individual or collective basis (stage 2) or when there is objective evidence of impairment as a result of one or more events that occurred before or after the initial recognition of the financial asset (stage 3).

The appropriate stage is determined by performing an assessment based on staging triggers. The staging triggers contain one of the following elements:

1. A quantitative element (i.e. reflecting a quantitative comparison of Probability of Default (PD) at the reporting date and PD at initial recognition);
2. A qualitative element (e.g. expert judgement); and
3. 'Backstop' indicators (i.e. measures of last resort if other indicators are not available, e.g. the '90 days past due' rebuttable presumption).

NIBC uses both the quantitative element and the qualitative element to determine significant increases in credit risk, as the assessment can be based on a mixture of quantitative and qualitative information. Examples of used triggers are increase of lifetime PD since initial recognition, days past due, forborne, watch list and other internal and external ratings methods. In certain circumstances, qualitative and non-statistical quantitative information may be sufficient to determine that a financial asset has met the criterion for the recognition of lifetime ECLs. That is, the information does not need to flow through a statistical model or credit ratings process in order to determine whether there has been a significant increase in the credit risk of the financial asset.

Special attention has been given to the definition of stage 2 assets and the interaction of the IFRS 9 criteria of significant increased credit risk with the existing credit quality framework of NIBC.

**Incorporation of forward looking information**
Estimating ECL requires, amongst others, considerations of multiple forward-looking scenarios, whereby the final ECL is an average of the ECLs calculated under the different scenarios. In line with market developments, NIBC uses three scenarios: base, downturn and benign; updated semi-annually. NIBC developed a model that translates the forecasted developments of macro-economic factors into portfolio-specific point-in-time PD and *Loss Given Default* (**LGD**) changes and consequently into ECL developments. In 2018, NIBC will continue to re-assess and update all forward-looking assumptions used in the model.

In 2017, the aforementioned key decisions were implemented into ECL models and risk management processes. All relevant ECL models have been validated by a third party. Furthermore risk and finance processes and systems have been adjusted to support the required ECL-calculations, administrative processing and reporting. In 2018, NIBC will continue to refine and further improve all related processes.

**Impact**
Based on ECL calculations NIBC considers the increase in the total level of impairment allowance to be moderate as compared to the fully loaded CET 1 ratio of NIBC at 1 January 2018. Following the transition to IFRS 9, a more volatile impairment charge is expected on the back of macroeconomic predictions.

With the introduction of IFRS 9, NIBC will no longer report *incurred but not reported* (**IBNR**) impairment losses. This will partially offset the impact of ECL impairment allowances.

**Hedge accounting**
IFRS 9 allows entities to continue with the hedge accounting under IAS 39 after 1 January 2018. NIBC decided to continue applying IAS 39 for hedge accounting (IAS 39 AG126a).

**Reporting**
IFRS 9 introduces expanded disclosure requirements and changes in presentation. These will change the nature and extent of NIBC's disclosures about its financial instruments particularly in the year of the application of the new standard.

The information provided in this note is focused upon material items, consequently it does not represent a complete list of expected adjustments.

- IFRS 15 'Revenue from Contracts with Customers'
  *IFRS 15 'Revenue from Contracts with Customers'* (**IFRS 15**) becomes effective as of 2018. IFRS 15 provides more specific guidance on recognising revenue on other than insurance contracts and financial instruments. Based upon NIBC's analysis IFRS 15 will not have a significant impact on the consolidated financial statements.

- IFRS 16 'Leases'
  *IFRS 16 'Leases' (IFRS 16*) becomes effective as of 2019. IFRS 16 requires lessees to recognise most leases on their balance sheets. NIBC does not expect IFRS 16 to have a significant impact on the consolidated financial statements.

- Clarifications to IFRS 15 Revenue from Contracts with Customers
  The IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. The amendments have an effective

date of 1 January 2018, which is the effective date of IFRS 15. NIBC does not expect IFRS 15 to have a significant impact on the consolidated financial statements.

- Annual Improvements to IFRS Standards 2014-2016 Cycle
  This cycle of improvements contains amendments to three standards of which two are relevant for NIBC. These are IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Venture which are effective for annual periods beginning on or after 1 January 2017 (see section 'Upcoming changes after 2017') and 1 January 2018 respectively. Both amendments do not have significant impact on NIBC's Annual report.

**New and/or amended standards not yet endorsed**

The following new or revised standards and amendments have been issued by the IASB, but are not yet endorsed by the European Union and are therefore not open for early adoption. Note that only the amendments to IFRSs that are relevant for NIBC are discussed below.

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
  The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendments are effective for annual periods beginning on or after 1 January 2018. NIBC is assessing the potential effect of the amendments on its consolidated financial statements.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018. NIBC is assessing the potential impact.

- Amendments to IAS 40: Transfers of Investment property
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018. NIBC is assessing the potential impact.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
  The interpretation clarifies application of the recognition and measurement in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after 1 January 2019. NIBC is assessing the potential impact.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
  The IASB issued amendments to IFRS 9 that addresses that prepayable financial assets that would otherwise meet the '*solely payments of principal and interest*'(**SPPI**) criterion would be eligible to

be measured at amortised or fair value through other comprehensive income –subject to the business model assessment – if the following conditions are met: the instrument is inconsistent with the SPPI-criterion only because the party that chooses (or causes) to terminate the contract early may receive reasonable additional compensation for doing so (fist eligibility condition); and the fair value of the prepayment feature is insignificant on initial recognition of the financial asset (second eligibility condition). NIBC does not expect these amendments to IFRS 9 to have a significant impact on the consolidated financial statements.

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
  The proposed amendments to IAS 28 clarify that companies account for long-term interests in an associate or joint venture -to which the equity method is not applied- using IFRS 9 'Financial Instruments'. The amendments are effective for annual periods beginning on or after 1 January 2019. NIBC is assessing the potential impact.

## Basis of consolidation

The consolidated financial statements are comprised of the financial statements of NIBC and its subsidiaries as at and for the years ended 31 December 2017 and 2016.

**Subsidiaries**

The group's subsidiaries are those entities (including structured entities) which it directly or indirectly controls. Control over an entity is evidenced by the group's ability to exercise its power in order to affect any variable returns that the group is exposed to through its involvement with the entity. The group sponsors the formation of structured entities and interacts with structured entities sponsored by third parties for a variety of reasons, including allowing customers to hold investments in separate legal entities, allowing customers to invest jointly in alternative assets, for asset securitisation transactions, and for buying or selling credit protection.

When assessing whether to consolidate an entity, the group evaluates a range of control factors, namely:

- the purpose and design of the entity;
- the relevant activities and how these are determined;
- whether the group's rights result in the ability to direct the relevant activities;
- whether the group has exposure or rights to variable returns;
- whether the group has the ability to use its power to affect the amount of its returns.

Where voting rights are relevant, the group is deemed to have control where it holds, directly or indirectly, more than half of the voting rights over an entity unless there is evidence that another investor has the practical ability to unilaterally direct the relevant activities, as indicated by one or more of the following factors:

- another investor has the power over more than half of the voting rights by virtue of an agreement with the group; or
- another investor has the power to govern the financial and operating policies of the investee under a statute or an agreement; or
- another investor has the power to appoint or remove the majority of the members of the board of directors or equivalent governing body and the investee is controlled by that board or body; or
- another investor has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of that entity is by this board or body.

Potential voting rights that are deemed to be substantive are also considered when assessing control. Likewise, the group also assesses the existence of control where it does not control the majority of the voting power but has the practical ability to unilaterally direct the relevant activities. This may arise in circumstances where the size and dispersion of holdings of the shareholders give the group the power to direct the activities of the investee.

Subsidiaries are consolidated from the date on which control is transferred to the group and are deconsolidated from the date that control ceases.

The group reassesses the consolidation status at least at each financial reporting date. Therefore, any changes in the structure leading to a change in one or more of the control factors require reassessment when they occur. This includes changes in decision making rights, changes in contractual arrangements, changes in the financing, ownership or capital structure as well as changes following a trigger event which was anticipated in the original documentation.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement presented under other operating income as negative goodwill. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of subsidiaries (including structured entities that the bank consolidates) have been changed where necessary to ensure consistency with the accounting policies adopted by NIBC.

**Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**Disposal of subsidiaries**

When the group ceases to have control, any retained interest in the entity is re-measured at its fair value at the date when control is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement (investment income).

## Investment in associates and joint ventures

Associates are all entities over which the group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

- Representation in the board of directors;
- Participation in the policymaking process;
- Interchange of managerial personnel.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The group's share of post-acquisition results of associates and joint ventures is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment in associates and joint ventures. When the group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The group's investments in its associates and joint ventures are, except as otherwise described below, accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost, and the carrying amount is increased or decreased to recognise the group's share of the profit or loss of the associate or joint venture after the date of acquisition. The group's investment in associates or joint ventures includes goodwill identified on acquisition. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The group determines at each reporting date whether there is objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount adjacent to investment income (sub line item share in result of associates) in the income statement.

Unrealised gains and losses resulting from transactions between the group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

If the interest in an associate is reduced but significant influence is retained, only a proportionate share of amounts previously recognised in other comprehensive income are reclassified to the income statement, where appropriate.

Upon loss of significant influence over the associate or joint control over the joint venture, the group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the income statement. If applicable, dilution gains and losses arising in investments in associates are recognised in the income statement.

With effect from 1 January 2007, all newly acquired investments in associates and joint ventures held by venture capital entities, mutual funds and investment funds (as that term is used in IAS 28 and IFRS 11) that qualify as a joint venture or associate are accounted for as an investment held at fair value through profit or loss. Interests held by the group in venture capital entities, mutual funds and investment funds that are managed on a fair value basis are also accounted for as investments held at fair value through profit or loss.

## Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Managing Board of NIBC. For details of NIBC's operating segments see note 1.

## Foreign currency translation

### Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in EUR, the functional currency and presentation currency of NIBC.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity (other comprehensive income net of tax) as qualifying net investment hedges.

Changes in the fair value of monetary loans denominated in foreign currency that are classified as available for sale are analysed between foreign exchange translation differences and other changes in the carrying amount of the loan. Foreign exchange translation differences are recognised in the income statement and other changes in the carrying amount are recognised in other comprehensive income.

Foreign exchange translation differences on non-monetary assets and liabilities that are stated at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary items classified as available for sale assets are included in the revaluation reserve in other comprehensive income.

**Group companies**

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at weighted average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Recognition of financial instruments

A financial instrument is recognised in the balance sheet when NIBC becomes a party to the contractual provisions that comprise the financial instrument.

Financial assets and liabilities, with the exception of loans and receivables and mortgage loans at fair value through P&L, are initially recognised on the trade date, i.e., the date that NIBC becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances and mortgage loans at fair value through P&L are recognised when funds are transferred to the customers' account. NIBC recognises due to customer balances when funds reach NIBC.

Forward purchases and sales other than those requiring delivery within the time frame established by regulation or market convention are treated as derivative forward contracts.

## Derecognition of financial assets and liabilities

Financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) are derecognised when:

- The rights to receive cash flows from the financial assets have expired; or
- When NIBC has transferred its contractual right to receive the cash flows of the financial assets, and either:
  - substantially all risks and rewards of ownership have been transferred; or
  - substantially all risks and rewards have neither been retained nor transferred but control is not retained.

If NIBC has transferred its contractual rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of NIBC's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that NIBC could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of NIBC's continuing involvement is the amount of the transferred asset that NIBC may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of NIBC's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

## Classification of financial instruments

Financial assets are classified as:

- Loans and receivables at amortised cost;
- Available for sale financial instruments; or
- Financial assets at fair value through profit or loss which include:
  - financial assets held for trading;
  - financial assets that NIBC irrevocably designated at initial recognition as held at fair value through profit or loss when the instruments are held to reduce an accounting mismatch, are managed on the basis of its fair value or include terms that have substantive derivative characteristics in nature.

Financial liabilities are classified as:

- Financial instruments at amortised cost; or
- Financial liabilities at fair value through profit or loss which include:
  - financial liabilities held for trading;
  - financial liabilities that NIBC has irrevocably designated at initial recognition as held at fair value through profit or loss when the instruments are held to reduce an accounting mismatch are managed on the basis of its fair value or include terms that have substantive derivative characteristics in nature.

The measurement and income recognition in the income statement depend on the IFRS classification of the financial asset or liability. The classification of financial instruments, except for the financial assets reclassified in 2008, is determined upon initial recognition.

## Loans and receivables at amortised cost

Loans and receivables at amortised cost are non-derivative financial assets with fixed or determinable payments that are (upon recognition) not quoted in an active market, other than:

- those that NIBC intends to sell immediately or in the short term, which are classified as held for trading;
- those that NIBC upon initial recognition designates at fair value through profit or loss;
- those that NIBC upon initial recognition designates at available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

An interest acquired in a pool of assets that are not loans and receivables (for example an interest in a mutual fund or similar fund) is not a loan or receivable.

The main classes of loans and receivables at amortised cost at 31 December 2017 include corporate lending (excluding commercial real estate and leverage loan warehouses, secondary loan trading and distressed asset trading), mortgage loans at own book and investments in the EU Corporate Credits and EU Structured Credits portfolio that were reclassified in 2008.

Loans and receivables are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method (including interest accruals less provision for impairment).

## Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The main classes of financial instruments designated as available for sale assets at 31 December 2017 include:

- Equity investments;
- Certain debt investments that do not meet the definition of loans and receivables;
- EU most subordinated notes.

Available for sale financial assets are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are initially measured at fair value plus transaction costs and are subsequently measured at fair value. Changes in fair value are recognised directly in the revaluation reserve in other comprehensive income until the financial instrument is derecognised or impaired. When available for sale investments are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the income statement as net trading income or investment income (sub line item gains less losses from financial assets).

Interest calculated using the effective interest method and foreign currency gains and losses on monetary instruments classified as available for sale are recognised in the income statement as interest and similar income and net trading income respectively. Dividends on available for sale financial instruments are recognised in the income statement as investment income (sub line item dividend income) when NIBC's right to receive payment is established.

## Financial instruments at fair value through profit or loss

This category has two subcategories: financial instruments held for trading and financial instruments designated upon initial recognition at fair value through profit or loss.

## Financial instruments held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near future with the objective of generating a profit from short-term fluctuations in price or dealer's margin. Derivatives are also categorised as held for trading unless they are designated as effective hedging instruments.

The measurement of these financial instruments is initially at fair value, with transaction costs taken to the income statement. Subsequently, their fair value is re-measured, and all gains and losses from changes therein are recognised in the income statement in net trading income as they arise.

## Financial instruments designated upon initial recognition as fair value through profit or loss

Financial instruments are classified in this category if they meet one or more of the criteria set out below, and provided they are so designated by management. NIBC may designate financial instruments at fair value when the designation:

- Eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by NIBC at fair value through profit or loss are: Residential mortgage loans (own book and securitised) originated before 1 January 2013, certain Debt investment portfolios, Equity investments (including investments in associates and joint ventures held by our venture capital organisation), and certain Fixed-rate long-term debt securities issued after 1 January 2007;
- Applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information on the groups of financial instruments is reported to management on that basis. Under this criterion, the main classes of financial instruments designated by NIBC at fair value through profit or loss are: Equity investments (originated after 1 January 2007), Commercial real estate loans (originated before 1 July 2007), Leveraged loan warehouses, Secondary loan trading and Distressed asset trading. NIBC has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks. Reports are provided to management on the fair value of the assets;
- Relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments. Under this criterion, the main classes of financial instruments designated by NIBC at fair value through profit or loss are: Debt securities in issue structured and Subordinated liabilities at fair value through profit or loss.

The fair value designation, once made, is irrevocable.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or liabilities are included in net trading income.

Financial instruments at fair value through profit or loss (comprising the categories described above) are initially recognised at fair value and transaction costs are expensed in the income statement. Subsequent measurement is at fair value and all changes in fair value are reported in the income statement, either as net trading income or as investment income. Interest is recorded in interest income using the effective interest rate method, while dividend income is recorded in investment income (sub line item dividend income) when NIBC's right to receive payment is established.

## Financial liabilities

With the exception of those financial liabilities designated at fair value through profit or loss, these are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method (including interest accruals) with the periodic amortisation recorded in the income statement.

The main classes of financial liabilities at amortised cost include amounts due to other banks, deposits from (corporate and retail) customers, own debt securities in issue under the European Medium Term Note programme, Covered Bonds and debt securities in issue related to securitised mortgages. The main classes of financial liabilities designated at fair value through profit or loss include debt securities in issue structured that consist of notes issued with embedded derivatives and derivative financial liabilities held for trading and used for hedging.

NIBC classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. NIBC Bank's perpetual bonds are not redeemable by the holders but bear an entitlement to distributions that is not at the discretion of NIBC Bank. Accordingly, they are presented as a financial liability.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Subordinated liabilities are recognised initially at fair value net of transaction costs incurred. Subordinated liabilities without embedded derivatives are subsequently measured at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method. Subordinated liabilities containing one or more embedded derivatives that significantly modify the cash flows are designated at fair value through profit or loss.

**Own credit requirements IFRS 9 (early adopted in isolation as from 1 January 2016)**

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the NIBC's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

## Reclassification

In accordance with the amendment to IAS 39: 'Reclassifications of Financial Assets', NIBC may reclassify certain non-derivative financial assets held for trading to either the loans and receivables or available for sale categories. The amendment also allows for the transfer of certain non-derivative financial assets from available for sale to loans and receivables.

NIBC is allowed to reclassify certain financial assets out of the held for trading category if they are no longer held for the purpose of selling or repurchasing them in the near term.

The amendment distinguishes between those financial assets which would be eligible for classification as loans and receivables and those which would not. The former are those instruments which have fixed or determinable payments, are not quoted in an active market and contain no features that could cause the holder not to recover substantially all of its initial investment, except through credit deterioration.

Financial assets that are not eligible for classification as loans and receivables may be transferred from held for trading to available for sale only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Financial assets that would now meet the criteria to be classified as loans and receivables may be transferred from held for trading or available for sale to loans and receivables if the Group has the intention and ability to hold them for the foreseeable future.

Reclassifications are recorded at the fair value of financial asset as of the reclassification date. The fair value at the date of reclassification becomes the new cost or amortised cost as applicable. Gains or losses due to changes in the fair value of the financial asset recognised in the income statement prior to reclassification date are not reversed. Effective interest rates for financial assets reclassified to the loans and receivables category are determined at the reclassification date as the discount rate applicable to amortise the fair value back to expected future cash flows at that date. Subsequent increases in estimated future cash flows will result in a prospective adjustment to the effective interest rate applied.

For financial assets reclassified from available for sale to loans and receivables, previous changes in fair value that have been recognised in the revaluation reserve within other comprehensive income are amortised to the income statement over the remaining life of the asset using the effective interest rate method. If such assets are subsequently determined to be impaired, the balance of losses previously recognised in other comprehensive income is released to the income statement and, if necessary, additional impairment losses are recorded in the income statement to the extent they exceed the remaining (available for sale) revaluation reserve in equity (other comprehensive income).

**Reclassification of financial assets (as of 1 July 2008)**
As of 1 July 2008, the effective date of the amendments to IAS 39 and IFRS 7, the following financial assets were reclassified:
- Loans and receivables: loans and receivables, except for those that were designated at fair value through profit or loss, were reclassified out of the available for sale category to loans and receivables at amortised cost; and
- Debt investments:
  - US Structured Credits were reclassified out of the held for trading category to loans and receivables at amortised cost to the extent the assets meet the definition of loans and receivables;
  - EU Structured Credits originated after 1 July 2007 were reclassified out of the available for sale category to loans and receivables at amortised cost to the extent the assets meet the definition of loans and receivables; EU Corporate Credits and
  - EU Structured Credits originated before 1 July 2007 were reclassified out of the held for trading category to loans and receivables at amortised cost to the extent the assets meet the definition of loans and receivables;
  - EU *Collateralised Debt Obligation* (**CDO**) equity was reclassified out of the held for trading category to the available for sale category. Any subsequent change in fair value from the fair value at the date of reclassification will be recorded in the (available for sale) revaluation reserve unless it is determined to be impaired or until the instrument is derecognised.

The amendments to IFRS 7 regarding reclassifications require disclosure of the impact of the reclassification of each category of financial assets on the financial position and performance of NIBC. The information provided as of the reclassification date relates only to financial assets remaining on the balance sheet as of the reporting date 31 December 2017.

**Changes to the classification of financial assets**

NIBC made the following changes:

- In 2007: Loans and receivables: loans and receivables originated before 1 July 2007 are accounted for at fair value through profit or loss (mortgage loans, commercial real estate loans and leveraged loan warehouses, secondary loan trading, and distressed asset trading) or available for sale (all other corporate lending). With the exception of mortgage loans, loans originated after 1 July 2007 are classified as loans and receivables at amortised cost. These loans were initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. The reason for this change in classification is to align with market practice.
- In the years after 2012 newly originated mortgages are classified as amortised cost;
- Debt investments (assets): with effect from 1 July 2007, newly originated assets in the EU structured credits books were classified as available for sale.
- Assets acquired before 1 July 2007 were classified as held for trading. The reason for this change in classification is to align with market practice;
- Equity investments in associates and joint ventures: with effect from 1 January 2007, all newly acquired investments in associates and joint ventures held by the venture capital organisation (as that term is used in IAS 28 and IFRS 11) have been designated at fair value through profit or loss. Previously acquired investments in associates, where material, were accounted for using the equity method and investments in joint ventures were proportionally consolidated. The reason for this change in classification is to align with market practice;
- Equity investments: equity investments acquired before 1 January 2007 held in the Investment portfolio of the venture capital organisation are classified as available for sale assets in the consolidated balance sheet. With effect from 1 January 2007, all newly acquired equity investments held by the venture capital organisation are designated upon initial recognition as financial assets at fair value through profit or loss. The reason for this change in classification is to align with market practice.

**Changes to the classification of financial liabilities**

In 2007, a change was made to the classification of certain financial liabilities (debt securities in issue) upon origination. During the period commencing 1 January 2007, plain vanilla fixed-rate long-term debt securities (liabilities) were issued together with matching interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost because the related derivatives are measured at fair value with movements in the fair value through the income statement. By designating the long-term debt as fair value through profit or loss, the movement in the fair value of the long-term debt will also be recorded in the income statement, and thereby offset the gains and/or losses on the derivative instrument that is also included in the income statement.

As from 2008, newly issued funding is classified as amortised costs, unless an accounting mismatch with related derivatives would arise or if embedded derivatives are involved. Then the debt securities are classified as fair value.

## Fair value estimation

IFRS 13 requires for financial instruments and non-financial instruments that are measured at fair value in the balance sheet disclosure of each class of financial assets and liabilities within a three-level hierarchy, referring to the respective basis of fair value measurement as follows:

- Level 1 financial instruments - Quoted prices (unadjusted) in active markets for identical assets and liabilities;

- Level 2 financial instruments - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- Level 3 financial instruments - Inputs that are not based on observable market data (unobservable inputs).

### Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell or paid to transfer a particular asset or liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which NIBC has access at that date. NIBC determines fair value either by reference to quoted market prices or dealer price quotations without adjustment for transaction costs for those financial instruments that are currently traded in an active market. The fair value measurement is based upon the bid price for financial assets and the ask price for financial liabilities. These financial instruments are reported as level 1 in the fair value hierarchy.

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 on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The fair value of financial instruments not quoted in an active market is determined using appropriate valuation techniques. These valuation techniques are applied using, where possible, relevant market observable inputs (level 2) or unobservable inputs (level 3). Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, option pricing models, credit models and other relevant models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation technique based on NIBC's best estimate of the most appropriate assumptions and that has been calibrated against actual market transactions. Outcomes are adjusted to reflect the spread for bid and ask prices, to reflect costs to close out positions, where necessary for counterparty credit and liquidity spread, and for any other limitations in the technique. Profit or loss, calculated upon initial recognition (day one profit or loss), is deferred unless the calculation is based on market observable inputs, in which case it is immediately recognised. Deferred day one profit or loss is amortised to income over the contractual life until maturity or settlement.

The fair value of on demand deposits from customers is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The level within the fair value hierarchy at which an instrument measured at fair value is categorised is determined on the basis of the lowest level input that is significant to the measurement of fair value in its entirety.

NIBC recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

See note 44 for an analysis of the fair values of financial instruments and further details as to how they are measured.

## Recognition of day one profit or loss

The best evidence of fair value at initial recognition is the transaction price (that is, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

NIBC has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. Significant differences between the transaction price and the model value, commonly referred to as day one profit or loss, are not recognised immediately in the income statement.

Deferred day one profit or losses are amortised to income over the life until maturity or settlement. The financial instrument is subsequently measured at fair value as determined by the relevant model adjusted for any deferred day one profit or loss.

## Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for disclosure purposes of those financial instruments which are not recorded at fair value in the financial statements.

### Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate fair value. This assumption is also applied to demand deposits from customers and customer savings with a specific maturity.

### Fixed-rate financial instruments

The fair values of Fixed-rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed-interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and on credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since initial recognition.

See note 44 for the fair values of NIBC's financial instruments that are not carried at fair value in the balance sheet.

## Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when, and only when, NIBC has currently a legally enforceable right to set-off the amounts and the group intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

## Collateral

The group enters into master agreements and *Credit Support Annexes* (**CSA**) with counterparties whenever possible and when appropriate. Master agreements provide that, if the master agreement is being terminated as a consequence of an event of default or termination event, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis. In the case of a CSA with counterparties, the group has the right to obtain collateral for the net counterparty exposure.

The group obtains collateral in respect of counterparty liabilities when this is considered appropriate. The collateral normally takes the form of a pledge over the counterparty's assets and gives the group a claim on these assets for both existing and future liabilities.

The group also pays and receives collateral in the form of cash or securities in respect of other credit instruments, such as derivative contracts, in order to reduce credit risk. Collateral paid or received in the form of cash together with the underlying is recorded on the balance sheet at fair value. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

## Derivative financial instruments and hedging

NIBC uses derivative financial instruments both for trading and hedging purposes. NIBC uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks and to credit risk.

Derivative financial instruments are initially measured, and are subsequently re-measured, at fair value. The fair value of exchange-traded derivatives is obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

The method of recognising fair value gains and losses depends on whether the derivatives are held for trading or are designated as hedging instruments and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement in net trading income.

When derivatives are designated as hedges, NIBC classifies them as either (i) a fair value hedge of interest rate risk ('portfolio fair value hedges'); (ii) a fair value hedge of interest rate risk or foreign exchange rate risk ('micro fair value hedges') (iii) a cash flow hedge of the variability of highly probable cash flows ('cash flow hedges') Hedge accounting is applied to derivatives designated as hedging instruments, provided certain criteria are met.

## Hedge accounting

Where derivatives are held for risk management purposes, and when transactions meet the criteria specified in IAS 39, NIBC applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate, to the risks being hedged.

At the inception of a hedging relationship, NIBC documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. NIBC also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging relationships are highly effective in offsetting changes attributable to the hedged risk in the fair value or cash flows of the hedged items. Interest on designated qualifying hedges is included in net interest income.

NIBC discontinues hedge accounting prospectively when:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- The derivative expires, or is sold, terminated or exercised;
- The hedged item matures, or is sold or repaid;
- A forecast transaction is no longer deemed highly probable; or
- It voluntarily decides to discontinue the hedge relationship.

**Fair value hedge**

NIBC applies portfolio fair value hedge accounting and fair value hedge accounting on a micro level. Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement in net trading income together with changes in the fair value of the hedged items attributable to the hedged risk.

If a hedge relationship no longer meets the criteria for hedge accounting, the cumulative fair value adjustment to the carrying amount of the hedged item is amortised to the income statement over the remaining period to maturity using the effective interest method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement in net trading income.

Portfolio fair value hedge

NIBC applies portfolio fair value hedge accounting to the interest rate risk arising on portfolios of fixed-interest rate corporate loans (classified as available for sale financial assets or as amortised cost assets), to portfolios of plain vanilla fixed-interest rate funding (liabilities classified as amortised cost) and to the residual interest rate risk from retail deposits and mortgages.

In order to apply portfolio fair value hedge accounting, the cash flows arising on the portfolios are scheduled into time buckets based upon when the cash flows are expected to occur. For the first two years, cash flows are scheduled using monthly time buckets; thereafter annual time buckets are used. Hedging instruments are designated for each time bucket, together with an amount of assets or liabilities that NIBC is seeking to hedge. Designation and de-designation of hedging relationships is undertaken on a monthly basis, together with an assessment of the effectiveness of the hedging relationship at a portfolio level, across all time buckets.

Ineffectiveness within the 80% - 125% bandwidth is recognised in the income statement through the actual hedge adjustment. Ineffectiveness outside the 80% - 125% bandwidth is recognised by not posting a hedge adjustment to the hedged item.

Micro fair value hedge

NIBC applies micro fair value hedge accounting to the interest rate risk and/or the foreign exchange risk arising from debt investments at available for sale and fixed-interest rate funding.

(Cross-currency) interest rate swaps are used as hedging instruments. Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement together with changes in the fair value of the hedged items attributable to the hedged risks.

Effectiveness is tested retrospectively on a monthly basis by comparing the cumulative clean fair value movement (since inception) of the hedged item, due to changes in both benchmark interest rates and foreign exchange rates, to the total clean fair value movement of the hedging instrument (the cumulative dollar offset method).

Ineffectiveness within the 80% - 125% bandwidth is recognised in the income statement through the actual hedge adjustment. Ineffectiveness outside the 80% - 125% bandwidth is recognised by not posting a hedge adjustment to the hedged item. In this case, the micro hedge relationship is de-designated and it is re-designated at the beginning of the next period if expected to be highly effective prospectively.

**Cash flow hedge**
Cash flow hedging is applied to hedge the variability arising on expected future cash flows due to interest rate risk on available for sale corporate loans and/or corporate loans at amortised cost with floating interest rates. As interest rates fluctuate, the future cash flows on these instruments also fluctuate. NIBC uses interest rate swaps to hedge the risk of such cash flow fluctuations.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income within the cash flow hedging reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement in net trading income.

Amounts accumulated in other comprehensive income are recycled to the income statement in the periods in which the hedged item will affect the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in other comprehensive income at that time remains in other comprehensive income until the forecast cash flow is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

**Hedge effectiveness testing**
To qualify for hedge accounting, NIBC requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis.

The documentation of each hedging relationship describes how effectiveness will be assessed. For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the bandwidth of 80% - 125% for the hedge to be deemed effective.

Hedge ineffectiveness is recognised in the income statement in net trading income.

**Derivatives managed in conjunction with financial instruments designated as at fair value through profit or loss**
All gains and losses arising from changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement. Derivatives used to manage the interest rate and credit spread exposure on certain financial assets and liabilities (mainly structured funding, debt investments and residential mortgage loans) are not designated in hedging relationships. Gains and losses on these derivatives together with the fair value movements on these financial assets and liabilities are reported within net trading income.

## Sale and repurchase agreements
*Securities sold subject to repurchase agreements* (**Repos**) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the

collateral; the counterparty liability is included in amounts due to other banks or other deposits as appropriate.

*Securities purchased under agreements to resell* (**Reverse repos**) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

## Impairment

### General

The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example: equity ratio and net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The estimated period between a loss event occurring and its identification is determined by management for each identified portfolio (Corporate loans, Mortgage loans at Own Book, EU Corporate Credits and EU Structured Credits). The average period is six months for the different Corporate loan portfolios and Mortgage loans at own book.

Losses expected from future events, no matter how likely, are not recognised.

### Financial assets reported at amortised cost

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the group's risk rating process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

**Financial assets classified as available for sale**
The group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available for sale, a 'significant' or 'prolonged' decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally fair value less than 75% of cost and 6-9 months are used as triggers.

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement under investment income (sub line item gains less losses).

Reversals of impairment losses are subject to contrasting treatments depending on the nature of the instrument concerned:
- Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement;
- If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

**Non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (*Cash-Generating Units* - **CGUs**). Non-financial assets, other than goodwill that suffered an impairment, are reviewed for possible reversal of the impairment at each reporting date. Impairment losses and the reversal of such losses, for non-financial assets other than goodwill, are recognised directly in the income statement.

**Renegotiated loans**

Where possible, NIBC seeks to restructure loans rather than to take possession of collateral. This may involve extending payment terms and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

The method to determine impairments for renegotiated and or restructured loans is identical to that for non-structured loans.

## Intangible assets

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment or more frequently when there are indications that impairment may have occurred and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

**Trademarks and licences**

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of ten years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

**Customer relationships**

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

**Impairment of intangible assets**

At each reporting date, NIBC assesses whether there is any indication that an asset may be impaired or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable (see impairment – non-financial assets).

## Tangible assets

**Property (land and buildings), plant and equipment**

Land and buildings comprise offices and are measured at fair value (revaluation model). This fair value is based on the most recent appraisals by independent registered appraisers, less straight-line depreciation for buildings over the estimated economic life taking into account any residual value. Buildings in own use are valued at market value on an unlet or let basis. If arm's length lease agreements have been concluded between NIBC group companies, the building is recognised at its value as a let property. If there is no lease agreement, the property is recognised as vacant property. Any accumulated depreciation at the date of revaluation is eliminated against the carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising from revaluation of land and buildings are credited to other reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 30 - 50 years |
| Machinery | 4 - 10 years |
| Furniture, fittings and equipment | 3 - 10 years |
| Assets under operating leases | 1 - 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

## Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date.

### A group company is the lessee

#### Operational lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to income statement on a straight-line basis over the period of the lease. Properties leased out under operating leases are included in investment properties.

#### Financial lease

Leases of assets where the group has substantially all risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

The leases entered into by the group are primarily operational leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operational lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**A group company is the lessor**

When assets are held subject to a financial lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included in Assets held under operating leases under Property, plant and equipment.

## Financial guarantees

In the ordinary course of business, the group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in impairments of financial assets. The premium received is recognised in the income statement in fee and commission income on a straight line basis over the life of the guarantee.

## Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks and net credit balances on current accounts with other banks.

Cash balances are measured at face value while bank balances are measured at cost.

## Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset in the scope of IFRS 5 (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

When an operation is classified as a discontinued operation, if material, the comparative income statement and cash flow statement are represented as if the operation had been discontinued from the start of the comparative period.

## Provisions

Provisions for restructuring costs and legal claims are recognised when:

- The group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation;
- The amount has been reliably estimated.

The group does not recognise provisions for projected future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be remote.

Provisions are measured at the present value of the expected required expenditure to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Provisions are presented under other liabilities.

Contingent liabilities, if applicable, are not recognised in the financial statements but are disclosed, unless they are remote.

## Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## Employee benefits

### Pension benefits

NIBC operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to NIBC by the employees and is recorded as an expense under personnel expenses and share-based payments. Unpaid contributions are recorded as a liability. NIBC does not operate a defined benefit plan.

### Termination benefits

NIBC recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

**Share-based compensation**

NIBC operates both equity-settled and cash-settled share-based compensation plans.

**Equity-settled transactions**

The group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the group. The fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares or options granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions;
- Excluding the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, NIBC revises its estimates of the number of shares or options that are expected to vest based on the non-market vesting conditions. NIBC recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied. Similarly, awards of equity instruments with non-vesting conditions are treated as vesting if all vesting conditions that are not market conditions are met, irrespective of whether the non-vesting conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised in personnel expenses is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either NIBC or the counterparty are not met.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

**Cash-settled transactions**

For the cash-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of share-based compensation is recognised as a liability. The liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in the income statement in personnel expenses. The social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

**Profit-sharing and bonus plans**

A liability is recognised for cash-settled bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to our shareholder after certain adjustments. NIBC recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholder's equity (other comprehensive income), in which case it is recognised in shareholder's equity (other comprehensive income).

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates (and laws) enacted or substantially enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when NIBC intends to settle on a net basis and a legal right of offset exists.

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NIBC's principal temporary differences arise from the revaluation of certain financial assets and liabilities including derivative contracts, the depreciation of property and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group 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 utilised.

Deferred tax related to the fair value remeasurement of available for sale investments and cash flow hedges, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred gain or loss is recognised in the income statement.

## Equity

### Share capital
Shares are classified as equity when there is not a contractual obligation to transfer cash or other financial assets.

### Capital securities
As there is no formal obligation to (re)pay the principal or to pay a dividend the capital securities are recognized as equity and dividends paid on capital securities are recognized directly in equity.

### Issue costs of shares and capital securities
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Dividends on ordinary shares and capital securities
Dividends on ordinary shares and capital securities are recognised as a liability in the period that the obligation for payment has been established, being in the period in which they are approved by the shareholder.

## Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### Interest income and expense
Interest income and interest expense are recognised in the income statement for all interest-bearing instruments, including those classified as held for trading or designated at fair value through profit or loss.

For all interest-bearing financial instruments, interest income or interest expense is recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability (on an amortised cost basis). The calculation includes all contractual terms of the financial instrument (for example, prepayment options) but not 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 is impaired, interest income is subsequently recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Any increase in estimated future cash flows of financial assets reclassified to loans and receivables at amortised cost on 1 July 2008 will result in a prospective adjustment to the effective interest rates.

**Fee and commission income and expense**
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Loan syndication fees are recognised as revenue when the syndication has been completed and NIBC has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

Asset management fees related to investment funds are recognised pro rata over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

**Investment income**
Investment income includes the following income items:

Gains less losses from financial assets
Realised gains or losses from debt investments and equity investments as available for sale previously recognised in other comprehensive income, and gains or losses from associates and equity investments at fair value through profit or loss and impairment losses on equity investments are recognised in the income statement as gains less losses from financial assets.

Dividend income
Dividends are recognised in the income statement when NIBC's right to receive payment is established.

Share in result of associates (equity method)
Share in result of associates includes gains and losses related to investments in associates (equity method).

**Net trading income**
Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities measured at fair value through profit or loss as well as realised gains and losses on financial assets and financial liabilities excluding those presented under investment income; gains less losses from financial assets. Net trading income includes related foreign exchange gains and losses.

**Government grants**
NIBC recognises an unconditional government grant in profit or loss as other income when the grant becomes receivable. Other government grants are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and NIBC will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate NIBC for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

**Rental income**

The group manages a portfolio of German Residential and Commercial Property. Rental income from operating leases from the German Residential and Commercial Property is recognised in income on a straight line basis over the lease term net of discounts and other deductions.

## Statement of cash flows

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents that became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operating activities, including banking activities, investment activities and financing activities. Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investing activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in and sales of subsidiaries and associates, property, plant and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures.

## Fiduciary activities

NIBC acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements as they are not assets of the group.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

NIBC makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and judgements are principally made in the following areas:
- Fair value of certain financial instruments;
- Impairment of corporate loans;
- Impairment of debt investments classified at amortised cost;
- Impairment of debt investments classified as available for sale;
- Impairment of equity investments classified as available for sale;
- Income taxes.

### Fair value of certain financial instruments

The fair value of financial instruments is determined based on quoted market prices in an active market or, where no active market exists, by using valuation techniques. In cases where valuation techniques are used, the fair values are estimated from market observable data, if available, or by using models. Where market-observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those who prepared them. All models are reviewed prior to use and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent possible, models use only observable data; however, in areas such as applicable credit spreads (both own credit spread and counterparty credit spreads), volatilities and correlations may require management to estimate inputs.

Changes in assumptions could affect the reported fair value of financial instruments. For the identification of assumptions used in the determination of fair value of financial instruments and for estimated sensitivity information for level 3 financial instruments, except for own liabilities and mortgage loans designated at fair value through profit or loss, see note 44.

#### Own liabilities designated at fair value through profit or loss

At 31 December 2017, the fair value of these liabilities was estimated to be EUR 821 million (31 December 2016: EUR 933 million). This portfolio is designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:
- Financial liabilities at fair value through profit or loss: Own debt securities in issue;
- Financial liabilities at fair value through profit or loss: Debt securities in issue structured; and
- Financial liabilities at fair value through profit or loss: Subordinated liabilities.

The portion of fair value changes on these liabilities designated at fair value through profit or loss during 2017 attributable to the movement in credit spreads as reported in notes 36, 37 and 41 reflects gross amounts, excluding pull-to-par and model refinement effects.

The bank estimates its own credit risk from market observable data such as NIBC senior unsecured issues, NIBC subordinated issues and secondary prices for its traded debt.

The valuation of all the above classes of financial liabilities designated at fair value through profit or loss is sensitive to the estimated credit spread used to discount future expected cash flows. A 10 basis point change in the weighted average credit spread used to discount future expected cash flows would increase or decrease the fair value of these own financial liabilities at 31 December 2017 by EUR 3.3 million (31 December 2016: EUR 4.0 million).

## Mortgage loans

NIBC determines the fair value of mortgage loans (both those it holds in part of its own warehouse and those it has securitised) by using a valuation model developed by NIBC. This model discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the costs and the risks of the assets. Subsequently NIBC calculates two discount spreads, one via the top-down approach (i.e. retail spread), and one via the bottom-up approach (i.e. securitisation spread).

The top-down approach derives a discount spread by taking into account the mortgage rates of newly originated loans in the consumer market. The offered mortgage rate is determined by collecting mortgage rates from other professional lenders sorted by product, loan-to-value class and the fixed-rate period. The discount spread is derived by comparing the offered mortgage rate to the market interest rates taking into account various upfront costs embedded in the offered mortgage rate. Where deemed necessary, surcharges are added to reflect the illiquidity of certain sub-portfolios.

Via the bottom-up approach a price is derived by determining the various components that market participants would take into account when pricing the asset. This includes funding-related costs, servicing costs and a compensation for prepayment and credit risks. Funding-related costs are derived by assuming that the acquiring party will fund the acquired portfolio by securitising the assets via a *residential mortgage backed security* (**RMBS**). NIBC therefore collects quotes from publicly issued RMBS's solely including Dutch mortgage loans, over a certain period before the measurement date. Various transaction costs related to issuing and maintaining an RMBS are added to the observed primary rates. Where deemed necessary, surcharges are added to reflect the illiquidity of certain sub-portfolios. Any additional arbitrage opportunities that may exist (i.e. the difference between the bottom-up approach versus the top down approach) are assumed to be only applicable to the first call date of the RMBS-transaction.

In the consumer market there is currently limited trading activity in mortgage portfolios. Therefore NIBC currently considers the discount spread determined via the bottom-up approach as the best approximation of the fair value of its residential mortgage portfolio. The use of RMBS spreads provides the best estimate of the spread that would be inherent in a transaction at the reporting date motivated by normal business considerations.

The determination of the applicable discount spread (including a spread for prepayment risk) and prepayment rates requires NIBC to apply judgement. A ten basis point shift in either direction of the discount spread across the mortgage portfolio would have had either a positive or a negative impact as of 31 December 2017 of approximately EUR 15 million (31 December 2016: EUR 16 million) on the fair value of the mortgages. A shift of a full 1% from base case (increase from 9% to10%) in the assumption NIBC makes about expected prepayments would have had an impact as of 31 December

2017 of approximately EUR 10 million (31 December 2016: EUR 13 million) on the fair value of the mortgages.

### Valuation of corporate derivatives (credit valuation adjustment and debit valuation adjustment)

*Credit Valuation Adjustments & Debit Valuation Adjustments* (**CVAs and DVAs**) are incorporated into derivative valuations to reflect the risk of default of respectively the counterparty and NIBC. In essence, CVA represents an estimate of the discounted expected loss on an *Over The Counter* (**OTC**) derivative during the lifetime of a contract. DVA represents the estimate of the discounted expected loss from the counterparty's perspective. Both CVA and DVAs are applied to all OTC derivative contracts, except those that benefit from a strong collateral agreement where cash collateral is regularly exchanged, mitigating credit risk.

### Fair value of equity investments

The group estimates the fair value of its equity investments using valuation models, and it applies the valuation principles set forth by the International Private Equity and Venture Capital Valuation Guidelines to the extent that these are consistent with IAS 39.

On 31 December 2017, the fair value of this portfolio was estimated to be EUR 323 million (31 December 2016: EUR 245 million). This portfolio is reported as equity investments (including investments in associates) at fair value through profit or loss (31 December 2017: EUR 287 million; 31 December 2016: EUR 204 million) and as equity investments at available for sale (31 December 2017: EUR 36 million; 31 December 2016: EUR 41 million).

For the determination of the fair value of equity investments and for estimated sensitivity to key assumptions in the valuation, see note 44.

## Impairment of corporate loans

NIBC assesses whether there is an indication of impairment of corporate loans classified as loans and receivables at amortised cost on an individual basis on at least a quarterly basis. NIBC considers a range of factors that have a bearing on the expected future cash flows that it expects to receive from the loan, including the business prospects of the borrower and its industry sector, the realisable value of collateral held, the level of subordination relative to other lenders and creditors, and the likely cost and likely duration of any recovery process. Subjective judgements are made in the process including, the determination of expected future cash flows and their timing and the market value of collateral. Furthermore, NIBC's judgements change with time as new information becomes available, or as recovery strategies evolve, resulting in frequent revisions to individual impairments, on a case-by-case basis. NIBC regularly reviews the methodology and assumptions used for estimating both the amount and timing of future cash flows, to reduce any differences between loss estimates and actual loss experience.

If, as at 31 December 2017, for each of NIBC's impaired corporate loans, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 7.3 million (31 December 2016: EUR 18.4 million).

## Impairment of debt investments classified at amortised cost

NIBC assesses whether there is an indication of impairment on debt investments classified at amortised cost on an individual basis on at least a quarterly basis. NIBC considers a range of factors that have a bearing on the expected future cash flows that it expects to receive from the debt investment including rating downgrades and delinquencies and/or defaults in the underlying asset pools. Adjustments are also made to reflect such elements as deteriorating liquidity and increased refinancing risk.

If, as at 31 December 2017, for each of NIBC's impaired debt investments, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 0.1million (31 December 2016: EUR 0.8 million).

## Impairment of debt investments classified as available of sale

NIBC assesses whether there is an indication of impairment on debt investments classified as available for sale on an individual basis on at least a quarterly basis. This requires similar judgement as applied to debt investments at amortised cost.

The level of the impairment loss that NIBC recognises in the consolidated income statement is equivalent to the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income plus any additional impairment loss (if applicable). If, as at 31 December 2017, for each of NIBC's impaired debt investments, the fair value had been 5% lower or higher, NIBC would have recognised an additional impairment loss or gain of EUR 0.1 million (31 December 2016: EUR 0.1 million).

## Impairment of equity investments classified as available for sale

NIBC determines an impairment loss on the available for sale equity investments held in the Investment portfolio of the venture capital organisation when there has been a 'significant' or 'prolonged' decline in fair value below original cost. NIBC exercises judgement in determining what is 'significant' or 'prolonged' by evaluating, among other factors, whether the decline is outside the normal range of volatility in the asset's price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the company whose securities are held by NIBC, a decline in industry or sector performance, adverse changes in technology or problems with operational or financing cash flows.

The level of the impairment loss that NIBC recognises in the consolidated income statement is the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income. If NIBC had deemed all of the declines in fair value of equity investments below cost as 'significant' or 'prolonged', the effect would have been a EUR 0.6 million (2016: EUR 0.4 million) reduction in the profit before tax (investment income) in 2017.

## Income taxes

Deferred tax assets are included only if it is probable that taxable profits will be realised in the near future against which these temporary differences can be offset. When determining future taxable profits, estimates are used since these are subject to uncertainty.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 Segment report

Segment information is presented in these consolidated financial statements on the same basis as used for internal management reporting within NIBC Bank. Segment reporting puts forth a presentation of the segment results based on management reporting methods and a reconciliation between the results of the operating segments and the consolidated financial statements. The Managing Board is the Group's chief operating decision-maker.

### Operating segments

Taking into account the changes, the operating segments are as follows:

**Corporate client offering**

Corporate client offering provides advice and debt, mezzanine and equity financing solutions to mid-sized companies and entrepreneurs in the Netherlands, Germany and the UK. Sectors in which we are active include Commercial Real Estate, Food, Agriculture, Retail & Health, Infrastructure & Renewables, Industries & Manufacturing, Telecom, Media, Technology & Services. Furthermore, we are active in two global sectors in which we have longstanding expertise: Offshore Energy and Shipping & Intermodal. This segment also includes NIBC Markets.

**Retail client offering**

Retail client offering offers savings products and mortgages to consumers who are seeking to actively manage their financial objectives. Savings products are offered in the Netherlands, Germany and Belgium, and mortgages are offered in the Netherlands. We also offer brokerage services in Germany under our label 'NIBC Direct.'

**Treasury and Group Functions**

Treasury and Group functions includes the bank's treasury function, asset and liability management, risk management and the bank's Corporate Centre which includes HR & Corporate Communications, Internal Audit, Legal & Compliance, Sustainability, Operations & Facilities, Technology, and Finance, Tax & Strategy. A substantial part of the operating expenses as well as the full time equivalents of Group Functions are allocated to corporate and retail client offering.

No operating segments have been aggregated to form the above-mentioned segments. Transfer prices between operating segments are at an arm's length basis in a manner similar to transactions with third parties.

Certain financial assets and liabilities are not allocated to Corporate client offering and Retail client offering as they are managed on a group basis. These financial assets and liabilities are held within the segment Treasury and Group Functions and mainly comprise cash, debt investments, derivative assets and liabilities as well as majority of the bank's funding. As the assets of Corporate Banking and Retail Banking are largely funded internally with transfer pricing, majority of NIBC's external funding is held within Treasury and Group Functions.

Inter-segment income and expenses are eliminated on consolidation level.

### Reconciliation with consolidated income statement

The accounting policies of the segments are the same as those described in our Accounting Policies section, with the exception of the following adjustment.

1. Special items: The gains and losses that do not arise in the ordinary course of business have been excluded as 'special items.' In 2016, these include the badwill from acquisition of NIBC Markets of EUR 22 million, EUR 18 million credit loss on resolving pre-crisis retail exposure, EUR 6 million one-off expenses related to the outsourcing of our technical IT-environment and also to the alignment of the NIBC Markets franchise to our business model as well as the further development of this franchise. There are no special items reported in 2017.

NIBC operates in four geographical locations namely the Netherlands, Germany, the UK and Belgium. The income and expenses incurred at each location are provided.

The following table presents the Segment report comprising of a summary of our internal management report and the reconciliation to the consolidated results under IFRS for the years ended 31 December 2017 and 31 December 2016.

| in EUR millions | Corporate client offering | Retail client offering | Treasury & Group functions | Internal mana-gement report | Recon-ciliation | Total (consolidated financial report) |
|---|---|---|---|---|---|---|
| | For the year ended 31 December 2017 | | | | | |
| Net interest income | 204 | 127 | 35 | 366 | - | 366 |
| Net fee and commission income | 50 | 4 | 0 | 54 | - | 54 |
| Investment income | 66 | - | 1 | 67 | - | 67 |
| Net trading income | 37 | (2) | (10) | 24 | - | 25 |
| Other operating income | 0 | 0 | 0 | 0 | - | - |
| **Operating income** | **357** | **130** | **25** | **512** | **-** | **512** |
| Regulatory charges and levies | - | 9 | 5 | 14 | - | 14 |
| Other operating expenses[1] | 121 | 54 | 34 | 209 | - | 209 |
| **Operating expenses** | **121** | **63** | **39** | **223** | **-** | **223** |
| Impairments of financial assets | 34 | 0 | 0 | 34 | - | 34 |
| **Profit before tax** | **201** | **67** | **(13)** | **255** | **-** | **255** |
| Tax | 35 | 16 | (10) | 42 | - | 42 |
| **Profit after tax** | **166** | **50** | **(4)** | **213** | **-** | **213** |
| Result attributable to non-controlling interests | 0 | 0 | 0 | 0 | | - |
| **Profit after tax before special items** | **166** | **50** | **(4)** | **213** | **-** | **213** |
| Special items net of tax | - | - | - | - | - | - |
| **Profit after tax attributable to:** | **166** | **50** | **(4)** | **213** | **-** | **213** |
| Shareholder of the parent company | | | | | | 210 |
| Holders of Capital securities | | | | | | 3 |
| Non-controlling interests | | | | | | - |
| Total FTEs | 461 | 126 | 79 | 666 | - | 666 |
| EC Usage (start of the year) | 1,154 | 363 | 138 | 1,656 | | 1,656 |
| Available capital (start of the year) | | | | 1,944 | | 1,944 |
| ROE (SBU based on EC Usage) | 14.4% | 13.9% | -4.8% | 12.7% | | 12.7% |
| ROE (on available capital) | | | | 10.8% | | 10.8% |
| Cost/income ratio | 34% | 48% | | 44% | | 44% |
| Segment assets | 8,308 | 9,095 | 4,806 | 22,209 | - | 22,209 |
| Risk weighted assets | 6,516 | 1,158 | 872 | 8,546 | - | 8,546 |

1 Other operating expenses includes all operating expenses except regulatory charges and levies.

| | For the year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|
| in EUR millions | The Netherlands | Germany | United Kingdom | Belgium | Total |
| Operating income | 449 | 48 | 10 | 5 | 512 |
| Operating expenses | 179 | 30 | 11 | 3 | 223 |
| Impairments & other | 34 | 0 | 0 | - | 34 |
| **Profit before tax** | **236** | **17** | **0** | **2** | **255** |
| Tax | 35 | 6 | 0 | 1 | 42 |
| **Profit after tax** | **201** | **11** | **0** | **1** | **213** |
| | | | | | |
| FTEs | 552 | 78 | 31 | 5 | 666 |

| in EUR millions | Corporate client offering | Retail client offering | Treasury & Group functions | Internal management report | Reconciliation | Total (consolidated financial report) |
|---|---|---|---|---|---|---|
| | For the year ended 31 December 2016 | | | | | |
| Net interest income | 162 | 117 | 27 | 306 | - | 306 |
| Net fee and commission income | 32 | 0 | (1) | 32 | - | 32 |
| Investment income | 33 | - | (2) | 31 | (8) | 23 |
| Net trading income | 16 | (4) | (1) | 12 | - | 12 |
| Other operating income | 0 | 0 | 1 | 0 | 22 | 22 |
| **Operating income** | **244** | **114** | **24** | **381** | **14** | **395** |
| Regulatory charges and levies | - | 10 | 5 | 15 | - | 15 |
| Other operating expenses[1] | 118 | 47 | 15 | 180 | 9 | 188 |
| **Operating expenses** | **118** | **57** | **20** | **194** | **9** | **203** |
| Impairments of financial assets | 57 | 1 | 0 | 57 | 14 | 72 |
| **Profit before tax** | **69** | **56** | **4** | **129** | **(9)** | **120** |
| Tax | 12 | 14 | 0 | 25 | (7) | 18 |
| **Profit after tax** | **58** | **42** | **4** | **104** | **(2)** | **102** |
| Result attributable to non-controlling interests | 0 | 0 | 0 | 0 | - | 0 |
| **Profit after tax before special items** | **58** | **42** | **4** | **104** | **(2)** | **102** |
| Special items net of tax | (18) | - | 16 | (2) | - | - |
| **Profit after tax attributable to:** | **39** | **42** | **20** | **102** | **-** | **102** |
| Shareholder of the company | | | | | | 102 |
| Holders of capital securities | | | | | | - |
| Non-controlling interests | | | | | | - |
| Total FTEs | 508 | 122 | 74 | 704 | - | 704 |
| EC Usage (start of the year) | 1,084 | 334 | 107 | 1,525 | - | 1,525 |
| Available capital (start of the year) | | | | 1,886 | - | 1,886 |
| ROE (SBU based on EC Usage) | 5.3% | 12.7% | 3.8% | 6.8% | | 6.7% |
| ROE (on available capital) | | | | 5.5% | | 5.4% |
| Cost/income ratio | 48% | 50% | | 51% | | 51% |
| Segment assets | 8,880 | 8,831 | 5,869 | 23,580 | - | 23,580 |
| Risk weighted assets | 7,861 | 1,284 | 964 | 10,109 | - | 10,109 |

1 Other operating expenses includes all operating expenses except regulatory charges and levies.

| | For the year ended 31 December 2016 | | | | |
|---|---|---|---|---|---|
| in EUR millions | The Netherlands | Germany | United Kingdom | Belgium | Total |
| Operating income | 320 | 48 | 21 | 6 | 395 |
| Operating expenses | 156 | 31 | 12 | 4 | 203 |
| Impairments & other | 71 | 1 | 0 | - | 72 |
| **Profit before tax** | **93** | **15** | **9** | **2** | **120** |
| Tax | 11 | 5 | 2 | 1 | 18 |
| **Profit after tax** | **82** | **11** | **7** | **2** | **102** |
| FTEs | 579 | 87 | 34 | 5 | 704 |

## 2 Net interest income

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Interest and similar income** | | |
| Interest income from other assets | 423 | 391 |
| Interest income from assets at fair value through profit or loss | 125 | 156 |
| | **548** | **547** |
| **Interest expense and similar charges** | | |
| Interest expense from other liabilities | 164 | 223 |
| Interest expense from liabilities at fair value through profit or loss | 18 | 18 |
| | **182** | **241** |
| | **366** | **306** |

Interest income from debt and other fixed-income instruments designated as held for trading or designated at fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

The interest income includes a positive amount of EUR 5 million, including the catch-up effect for 2016 is EUR 0.5 million, related to the Targeted Long-Term Refinancing Operations programme (TLTRO II) of the ECB, as NIBC Holding expects to meet the minimum net lending amount in the reference period, needed to receive the applicable discount rate of 40bps.

Interest income includes negative interest from liabilities for an amount of EUR 35 million (2016: EUR 40 million).

For the year ended 31 December 2017, interest expense related to deposits from customers amounted to EUR 113 million (31 December 2016: EUR 170 million).

Interest expense includes negative interest from financial assets for an amount of EUR 62 million (2016: EUR 38 million).

## 3 Net fee and commission income

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Fee and commission income** | | |
| Investment management | 14 | 8 |
| Lending related fees | 18 | 14 |
| M&A fees | 11 | 6 |
| Originate-to-Manage | 4 | - |
| NIBC Markets | 7 | 4 |
| | **54** | **32** |
| **Fee and commission expense** | | |
| Other non-interest related | - | - |
| | **-** | **-** |
| | **54** | **32** |

## 4 Investment income

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Gains less losses** | | |
| **Equity investments** | | |
| **Gains less losses from equity investments (available-for-sale)** | | |
| Net gain/(losses) on disposal | - | 1 |
| Impairment losses equity investments | - | - |
| **Gains less losses from equity investments (fair value through profit or loss)** | | |
| Gains less losses from associates | 63 | 29 |
| Gains less losses from other equity investments | 1 | (6) |
| **Debt investments** | | |
| Gains less losses from debt investments (available-for-sale) | 1 | (2) |
| | **65** | **22** |
| **Dividend income (available-for-sale)** | 2 | - |
| **Share in result of associates** | - | 1 |
| | **67** | **23** |

## 5 Net trading income

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Debt securities (designated at fair value through profit or loss) | - | (5) |
| Debt investments (designated at fair value through profit or loss) | - | - |
| Mortgage loans own book and securitised mortgage loans | 5 | 9 |
| Loans (designated at fair value through profit or loss) | - | 10 |
| Assets and liabilities held for trading | 6 | 2 |
| Interest rate instruments (derivatives) | (4) | (16) |
| Foreign exchange | - | (1) |
| Fair value hedges of interest rate risk | (1) | 9 |
| Cash flow hedges of interest rate risk | (5) | (2) |
| Other net trading income | 24 | 6 |
| | **25** | **12** |

## 6 Other operating income

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Badwill (negative goodwill) | - | 22 |
| Other | - | - |
| | **-** | **22** |

Badwill (negative goodwill) for an amount of EUR 22 million is recognised following the acquisition of SNS Securities N.V. on 30 June 2016. For further details note 51.

## 7 Personnel expenses and share-based payments

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Salaries | 73 | 74 |
| **Variable compensation:** | | |
| Cash bonuses | 11 | 5 |
| Share-based and deferred bonuses including expenses relating to previous years' grants | 3 | 2 |
| **Pension and other post-retirement charges:** | | |
| Defined-contribution plan | 14 | 11 |
| Other post-retirement charges/(releases) including own contributions of employees | (1) | (1) |
| Social security charges | 8 | 7 |
| Other staff expenses | 2 | 2 |
| | **109** | **101** |

The decrease in salaries in 2017 can be explained by an decrease in the average number of Full-Time Equivalents (FTEs), mainly driven by the reorganisations within the Markets and the IT department.

### Internal reorganisation 2016

A new operating model for the IT-department was developed in 2016. After a positive advice of the Work Council it was decided to outsource some of the IT-tasks to an external supplier.

### Internal reorganisation 2017

Following the evaluation of the staff base of Markets mid 2016, which resulted initially in a reduced workforce of 5 FTE in 2016, in 2017 it was decided to end some of the Markets business activities. As a consequence of approximately 15 FTE became redundant in 2017 and 20 FTE will become redundant in 2018.

As a result of these internal reorganisations a one-off expense of approximately EUR 4.7 million is recognised in 2017 (2016: EUR 5.4 million).

The number of FTEs decreased from 704 at 31 December 2016 to 666 at 31 December 2017. The number of FTEs employed outside of the Netherlands decreased from 125 at 31 December 2016 to 115 at 31 December 2017.

The variable compensation in cash charged to the income statement increased in 2017 on the back of improved performance and in view of the ongoing review of strategic options. The total amount of variable income granted in 2017, with respect to the performance over 2016, amounts to EUR 7.6 million. This grant consists of (direct and deferred) cash and (vested and unvested) share based instruments. In 2017 one employee was awarded a total compensation of more than EUR 1 million (2016: one employee).

Information on the pension charges is included in note 39 Employee benefits.

Information on the remuneration of the members of the Staturory Board and Supervisory Board can be found in note 55.

### Remuneration of Statutory Board and Supervisory Board

### Key management personnel compensation (Statutory Board)

| in EUR | 2017 | 2016 |
|---|---|---|
| **The breakdown of the total remuneration of the Statutory Board is as follows:**[1] | | |
| Cash compensation (base salary) | 1,900,000 | 2,243,750 |
| Short-term incentive compensation (cash bonus) | 114,000 | 108,588 |
| Cash compensation (sign-on payment)[2] | - | 51,625 |
| Short-term incentive compensation (phantom share units) | 114,000 | 108,588 |
| Vesting of prior years short-term deferred share awards compensation[3] | 123,163 | 93,210 |
| Vesting of 2009-2014 co-investment related deferred share awards compensation[3] | 456,108 | 174,382 |
| Pension costs | 366,710 | 442,419 |
| Other remuneration elements | 189,684 | 228,596 |
| | **3,263,664** | **3,451,158** |

1 Statutory Board is equal to Managing Board. The amounts included in the remuneration tables include current and former Statutory Board members, the latter defined as members in 2016.
2 The sign-on relates to a one-off compensation to the new CRO for leaving an attractive position with his previous employer. The sign-on is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in Phantom Share Units and 20% in unvested Phantom Share Units.
3 Expensed through P&L current year, remuneration has been in prior year(s)

As at 31 December 2017, current and former members of the Statutory Board held 144,252 Common Depositary Receipts (CDRs) (31 December 2016: 144,252), 123,381 Conditional Common Depositary Receipts (CCDRs) (31 December 2016: 104,288) and 21,254 Conditional Restricted Depositary Receipts (CRDRs) (31 December 2016: 43,138).

## Key management personnel compensation (Supervisory Board)

| in EUR | 2017 | 2016 |
|---|---|---|
| **Total remuneration of the Supervisory Board is as follows:** | | |
| Annual fixed fees, committee fees | 572,500 | 544,333 |
| | **572,500** | **544,333** |

### Components of variable compensation - NIBC Choice

NIBC Choice is NIBC Holding's share-based and deferred compensation plan and governs all variable compensation components in the form of equity, equity-related and deferred cash compensation. In addition to this, variable compensation can consist of a discretionary short- term cash bonus. NIBC Choice is only open to management and employees and includes conditions relating to termination of employment or certain corporate events, such as restructurings, affecting the rights that would otherwise accrue to them.

The following table gives an overview of the different NIBC Choice instruments and their main characteristics:

| NIBC Choice instrument | Share based | Equity/Cash-settled | Vesting conditions |
|---|---|---|---|
| Common Depositary Receipt (CDR) | Yes | Equity-settled | None |
| Conditional Common Depositary Receipt (CCDR) | Yes | Equity-settled | None |
| Conditional Restricted Depositary Receipt (CRDR) | Yes | Equity-settled | 4 years pro rata vesting |
| Phantom Share Unit (PSU) | Yes | Cash-settled | None |
| Restricted Phantom Share Unit (RPSU) | Yes | Cash-settled | 3 years pro rata vesting |
| Deferred cash | No | Cash-settled | 3 years pro rata vesting |

### Depositary receipts

The *Depositary Receipts* (**DRs**), consisting of CDRs, CCDRs and CRDRs, are issued by Stichting *Administratiekantoor NIBC Holding* (**the Foundation**) in accordance with its relevant conditions of administration (administratievoorwaarden).

The Foundation issues a DR for each ordinary share it holds in NIBC Holding. The Foundation exercises the voting rights in respect of each of these ordinary shares at its own discretion, while the holder of a DR is entitled to the dividends and other distributions declared payable in respect of the underlying ordinary share. Holders of DRs cannot exercise voting rights or request a power of attorney from the Foundation to vote in respect of our ordinary shares.

Under the conditions of administration, the holders of DRs have pre-emption rights similar to other shareholders of NIBC Holding, subject to the Foundation having been given pre- emptive rights. Consequently, when given these pre-emptive rights, the Foundation will exercise the pre-emption rights attached to the ordinary shares underlying the DRs if these holders so elect.

In 2009 a co-investment programme was introduced for Statutory Board members. Under this programme Statutory Board members were granted matching shares (CRDRs), subject to a four-year vesting period, on a net after-tax basis representing a 1:1 match to their personal investment in CDRs at that time. These matching shares will become fully unconditional and vest immediately upon change of control of NIBC Holding. NIBC has the discretion to offer new members of the Statutory Board the opportunity to participate in this co-investment programme under the same conditions, except for the ability to earn performance shares as this feature is presumed no longer to be in line with the DNB Principles.

In 2009, a *Long-Term Incentive plan* (**LTI**) was introduced for the Statutory Board members and selected senior management. The LTI is forward-looking and will be granted annually. Its main objective is to provide an incentive to achieve a balanced mix of pre-agreed long-term financial and non-financial performance conditions. The LTI is subject to three-year cliff vesting and an additional retention period of two years and will be delivered in the form of CRDRs but, at the discretion of the Supervisory Board, may be delivered in another form. On every vesting date, the applicable tranche of CRDRs converts automatically into CCDRs if the vesting conditions are met.

Since 2012 the Supervisory Board was not permitted to grant LTI to Statutory Board members as long as NIBC had not yet repaid all outstanding state guaranteed funding. As of 1 January 2015 the long-term incentive arrangement (40% to 70% of base salary) was revoked by the Supervisory Board and replaced by a short-term variable income component at target of 15% of base salary (with a maximum of 20%).The variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in Phantom Share Units and 20% in Restricted Phantom Share Units.

In December 2017 it was proposed by the Statutory Board and subsequently approved by the Remuneration and Nominating Committee and Supervisory Board to change the Plan Rules Variable Compensation (NIBC Choice) in order to allow delivery of Depositary Receipts (DR) for outstanding *Conditional Common Depositary Receipts* (**CCDR**) in lieu of the occurrence of a change of control of NIBC Holding. The one-off costs related to the change of Plan Rules in December 2017 amounts to EUR 0.4 million. Furthermore it was decided that all unvested *Conditional Restricted Depositary Receipts* (**CRDR**) outstanding at 1 January 2018 will vest immediately (accelerated vesting) into CCDR. This applies to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members. Following this change of the Plan Rules 317,200 (net after tax basis) outstanding CCDRs were released into Common DRs in January 2018.

**Phantom Share Units**

In 2010, a new equity-linked reward instrument was introduced as part of the *Short-Term Incentive* (**STI**) plan for the Statutory Board members and selected senior management. The short-term compensation in share-related awards consists of *Phantom Share Units* (**PSUs**) and/or *Restricted Phantom Share Units* (**RPSUs**). RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. All PSUs and RPSUs are subject to a one-year retention period as measured from the date of vesting. For the Statutory Board the retention period of the equity-linked instruments is five years. The RPSU and PSU has similar characteristics as the CRDR, such as eligibility for dividend and a value which is tied to movements in the net asset value of NIBC Holding, however RPSUs are not eligible for dividend. This short-term compensation can be converted into cash immediately after the retention period and therefore is recognised as cash-settled.

## Share plans

### Common Depositary Receipts

At year-end 2017, 2,083,116 (2016: 2,083,116) CDRs were in issue to employees.

| | Depositary Receipt awards (in numbers) | | Fair value at balance sheet date (in EUR) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Balance at 1 January** | **2,083,116** | **2,083,116** | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| **Balance at 31 December** | **2,083,116** | **2,083,116** | **10.32** | **7.96** |
| **Of which relates to investment from own funds at 31 December** | **904,359** | **904,359** | | |

### Conditional Common Depositary Receipts

At year-end 2017, 123,381 (2016: 104,288) of the total 287,905 of CCDRs had been issued to current and former Statutory Board members. All CCDRs are considered equity-settled in both 2017 and 2016.

| | Conditional Common Depositary Receipt awards (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Changes in conditional common depositary receipts:** | | | | |
| **Balance at 1 January** | **268,812** | **244,012** | **9.11** | **9.18** |
| Vesting of one-off matching shares awarded in 2012 and 2014 on investment from own funds | 14,138 | 18,449 | 8.28 | 8.37 |
| Vesting of cancellation LTI arrangement in 2014 | 4,955 | 6,351 | 8.60 | 8.60 |
| **Balance at 31 December** | **287,905** | **268,812** | **9.06** | **9.11** |

The fair market value per CCDR is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 10.32 (2016: EUR 7.96).

Following the change of the Plan Rules in December 2017 the outstanding CCDRs were released into Common DRs in January 2018.

### Conditional Restricted Depositary Receipts

At year-end 2017, 21,254 CRDRs (2016: 43,138) were in issue to Statutory Board members related to their personal co-investment in 2012, 2013 and 2014 in NIBC Holding CDRs, with a weighted average remaining vesting period of 0 years (2016: 0.8 years). These CRDRs are subject to four-year vesting with one quarter vesting each year on 1 January, for the first time on 1 January 2013 (2012 investment), 1 January 2015 (2013 and early 2014 investment) and 1 January 2016 (end of 2014 investment) provided that the holder is still employed by NIBC on the vesting date.

All CRDRs are considered equity-settled in both 2017 and 2016.

| | Conditional Restricted Depositary Receipt awards (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Changes in conditional restricted depositary receipts:** | | | | |
| **Balance at 1 January** | **43,138** | **72,123** | **8.39** | **8.42** |
| Forfeited | (2,791) | (4,185) | 8.60 | 8.60 |
| Vested into conditional CDRs | (19,093) | (24,800) | 8.36 | 8.43 |
| **Balance at 31 December** | **21,254** | **43,138** | **8.38** | **8.39** |

The fair market value per CRDR is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 10.32 (2016: EUR 7.96).

### Phantom Share Units

As at year-end 2017, 256,765 (2016: 225,012) PSUs had been issued to employees. The total outstanding position is considered cash-settled.

| | Phantom Share Units (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Changes in phantom share units:** | | | | |
| **Balance at 1 January** | **225,012** | **208,010** | **8.34** | **8.63** |
| Granted | 102,818 | 97,387 | 10.32 | 7.96 |
| Vesting of RPSUs | 39,067 | 42,783 | 8.63 | 8.43 |
| Exercised | (108,201) | (123,168) | 8.68 | 8.56 |
| Forfeited | (1,931) | - | 8.63 | |
| **Balance at 31 December** | **256,765** | **225,012** | **9.10** | **8.34** |

The fair market value per PSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 10.32 (EUR 7.96).

### Restricted Phantom Share Units

As at year end 2017, 206,150 (2016: 165,747) RPSUs had been issued to employees. The total outstanding position is considered cash-settled.

| | Restricted Phantom Share Units (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Changes in restricted phantom share units:** | | | | |
| **Balance at 1 January** | **165,747** | **146,791** | **8.38** | **8.63** |
| Granted | 85,731 | 74,729 | 10.32 | 7.96 |
| Vesting of RPSUs | (39,067) | (42,783) | 8.63 | 8.43 |
| Forfeited | (6,261) | (12,990) | 8.18 | 8.66 |
| **Balance at 31 December** | **206,150** | **165,747** | **9.14** | **8.38** |

The fair market value per RPSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value. The fair value at reporting date was EUR 10.32 (2016: EUR 7.96).

**Result recognition**

With respect to all instruments relating to NIBC Choice (CDRs, CCDRs, CRDRs, PSUs, RPSUs and deferred cash), an amount of EUR 3 million was expensed through personnel expenses in 2017 (2016: EUR 2 million), of which EUR 3 million (2016: EUR 2 million) refers to cash-settled instruments (deferred cash and PSUs) and nil (2016: nil) to equity-settled instruments.

With respect to the cash-settled instruments (PSUs, RPSUs and deferred cash), the amount expensed during the vesting period through the income statement is based on the number of instruments originally granted outstanding at balance sheet date, their fair value at balance sheet date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period. The liability in the balance sheet with respect to cash-settled instruments is EUR 5 million (2016: EUR 3 million).

With respect to the equity-settled instruments (CDRs, CCDRs and CRDRs), the amount expensed during the vesting period through the income statement is based on the number of instruments granted outstanding at balance sheet date, their fair value at grant date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period.The liability in the balance sheet relating to the cumulative expenses with respect to equity-settled instruments is EUR 4 million (2016: EUR 4 million).

The current account with NIBC Holding includes EUR 29 million payable (2016: EUR 29 million) relating to NIBC Choice. This is a result of recharges from NIBC Holding to its subsidiaries with respect to NIBC Choice (equity-settled instruments). The recharge is accounted for upon vesting of the granted equity settled NIBC Choice instruments. This amount payable is more than offset by a receivable in the current account position with NIBC Holding for the capital contribution of EUR 51 million (2016: EUR 51 million) in relation to the share-based payments programme granted by NIBC Holding. The difference between both amounts relates to share-based expenses for which the after payroll tax amounts were paid to the Foundation with subsequent delivery of Restricted Depository Receipts, which have since then been converted into CDRs, by the Foundation to the employees.

## 8 Other operating expenses

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Other operating expenses | | |
| Building-, housing & services expenses | 5 | 5 |
| Car-, travel- and accomodation expenses | 4 | 5 |
| Project expenses & consultants | 25 | 17 |
| Control and supervision | 3 | 2 |
| Corporate brand, brochures, (re-)presentation expenses | 5 | 6 |
| General personal expenses | 4 | 4 |
| ICT expensens | 22 | 19 |
| Office costs | 5 | 5 |
| Other general expenses | 19 | 15 |
| Fees of external independent auditor | 3 | 2 |
| | **95** | **80** |

### Audit fees 2017

| in EUR thousands | External auditor | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors:** | | | | |
| Audit of financial statements NIBC | 1,681 | - | - | 1,681 |
| Audit of financial statements Subsidiaries | 476 | - | - | 476 |
| Other audit-related services NIBC | - | - | - | - |
| Other audit-related services Subsidiares | - | - | 185 | 185 |
| Other non-audit related services NIBC | - | 38 | 192 | 230 |
| Other non-audit related services Subsidiares | - | 66 | - | 66 |
| Tax services NIBC | - | - | - | - |
| Tax services Subsidiares | - | - | - | - |
| | **2,157** | **104** | **377** | **2,638** |

### Audit fees 2016

| in EUR thousands | External auditor | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors:** | | | | |
| Audit of financial statements NIBC | 1,165 | 254 | - | 1,419 |
| Audit of financial statements Subsidiaries | - | - | - | - |
| Other audit-related services NIBC | - | - | 186 | 186 |
| Other audit-related services Subsidiares | 303 | - | - | 303 |
| Other non-audit related services NIBC | 15 | - | 128 | 143 |
| Other non-audit related services Subsidiares | - | - | - | - |
| Tax services NIBC | - | - | 22 | 22 |
| Tax services Subsidiares | - | - | - | - |
| | **1,483** | **254** | **336** | **2,073** |

The fees listed above relate to the procedures applied to NIBC and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1(1) of the Dutch Audit

Firms Supervision Act (Dutch acronym: Wta), as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

These fees relate to the audit of the 2017 and 2016 annual reports, as incurred and accrued.

## 9 Depreciation and amortisation

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Property, plant and equipment | 5 | 7 |
| Intangible assets | - | - |
| | **5** | **7** |

## 10 Regulatory charges and levies

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Resolution levy | 4 | 4 |
| Deposit Guarantee Scheme | 10 | 11 |
| | **14** | **15** |

## 11 Impairments of financial and non-financial assets

### Financial assets

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Impairments** | | |
| Loans classified at amortised cost | 67 | 78 |
| Debt investments classified at amortised cost | - | 6 |
| Debt investments classified available-for-sale | - | - |
| Mortgage loans own book classified at amortised cost | - | 1 |
| | **67** | **85** |
| **Reversals of impairments** | | |
| Loans classified at amortised cost | (32) | (16) |
| Debt investments classified at amortised cost | (2) | - |
| Debt investments classified available-for-sale | - | - |
| Mortgage loans own book classified at amortised cost | - | - |
| | **(34)** | **(16)** |
| Other | 1 | 1 |
| | **34** | **70** |

### Non-financial assets

Impairment of non-financial assets in 2016 (EUR 2 million) is related to intangible assets of NIBC's non-financial company Olympia Nederland Holding B.V. (Olympia). Olympia was classified as Disposal group held for sale as per 31 December 2015 and sold in June 2016.

# 12 Tax

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Current tax | 57 | 30 |
| Deferred tax | (15) | (12) |
| | **42** | **18** |

Further information on deferred tax is presented in note 30. The actual tax charge on NIBC's profit before tax differs from the theoretical amount that would arise using the basic tax rate, as follows:

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Tax reconciliation:** | | |
| **Profit before tax** | **255** | **120** |
| Tax calculated at the nominal Dutch corporate tax rate of 25.0% (2016: 25.0%) | 64 | 30 |
| Impact of income not subject to tax | (15) | (13) |
| Impact of expenses not deductible | - | - |
| Result final tax assessment previous years | - | - |
| Effect of different tax rates other countries | 1 | 1 |
| Actualisation including true-ups and revaluations[1] | (8) | - |
| Correction deferred tax position | - | - |
| | **42** | **18** |

1 The EUR 8 million mainly consists of true up of prior year tax positions, Deferrred tax assets temporary differences and revaluation of the Deferred tax assets losses carry forward.

The impact of income not subject to tax mainly relates to income from equity investments and investments in associates, in which NIBC has a stake of more than 5%, being income that is tax exempt under Dutch tax law. NIBC Bank N.V. is part of the fiscal entity with NIBC Holding N.V.

The effective tax rate for the year ended December 2017 was 16.5% (2016: 15.3%).

NIBC Holding N.V. is the parent company of NIBC Bank N.V., NIBC Investments N.V. and NIBC Investment Management N.V., which are all part of the same fiscal entity.

## 13 Cash and balances with central banks (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Cash and balances with central banks (amortised cost) | 1,604 | 918 |
| | **1,604** | **918** |
| **Cash and balances with central banks can be categorised as follows:** | | |
| Receivable on demand | 1,445 | 777 |
| Not receivable on demand | 159 | 141 |
| | **1,604** | **918** |
| **Legal maturity analysis of cash and balances with central banks not receivable on demand:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | 8 | 8 |
| Longer than five years | - | - |
| Assets with central banks due to mandatory reserve deposits | 151 | 133 |
| | **159** | **141** |

Cash and balances with central banks included EUR 1,224 million on the current account balance held with Dutch Central Bank (2016: EUR 707 million).

Balances held with central banks are interest-bearing.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of the underlying assets.

## 14 Due from other banks (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Current accounts | 334 | 398 |
| Deposits with other banks | 628 | 1,030 |
| | **962** | **1,428** |
| **Due from other banks can be categorised as follows:** | | |
| Receivable on demand | 334 | 402 |
| Cash collateral placements posted under CSA agreements | 627 | 1,026 |
| Not receivable on demand | 1 | - |
| | **962** | **1,428** |

There were no subordinated loans outstanding due from other banks in 2017 and 2016.

No impairments were recorded in 2017 and 2016 on the amounts due from other banks at amortised cost.

An amount of EUR 627 million (2016: EUR 1,026 million) related to cash collateral given to third parties and was not freely available to NIBC.

Due from other banks categorised as 'not receivable on demand' all have a legal maturity of three months or less on 31 December 2017.

## 15 Loans (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Loans | 7,274 | 7,729 |
| Loans on group companies | 475 | 540 |
| | **7,749** | **8,269** |
| **Legal maturity analysis of loans:** | | |
| Three months or less | 425 | 453 |
| Longer than three months but not longer than one year | 897 | 940 |
| Longer than one year but not longer than five years | 4,520 | 4,714 |
| Longer than five years | 1,907 | 2,162 |
| | **7,749** | **8,269** |
| **Movement schedule of loans:** | | |
| **Balance at 1 January** | **8,269** | **7,668** |
| Additions | 2,036 | 3,601 |
| Disposals | (2,231) | (2,914) |
| Other (including exchange rate differences) | (325) | (86) |
| **Balance at 31 December** | **7,749** | **8,269** |
| **Movement schedule of impairment losses on loans:** | | |
| **Balance at 1 January** | **204** | **172** |
| Additional allowances | 67 | 78 |
| Write-offs / disposals | (73) | (30) |
| Amounts released | (32) | (16) |
| Unwinding of discount adjustment | (7) | (9) |
| Other (including exchange rate differences) | (13) | 9 |
| **Balance at 31 December** | **146** | **204** |

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Movement schedule of loans on group companies:** | | |
| **Balance at 1 January** | **540** | **377** |
| Additions | 123 | 124 |
| Disposals | (175) | 42 |
| Other (including exchange rate differences) | (13) | (3) |
| **Balance at 31 December** | **475** | **540** |
| | | |
| **Movement schedule of impairment losses on loans on group companies:** | | |
| **Balance at 1 January** | **26** | **34** |
| Additional allowances | 1 | 2 |
| Write-offs / disposals | - | - |
| Amounts released | (21) | (12) |
| Unwinding of discount adjustment | (1) | (2) |
| Impaired interest | (5) | 4 |
| Exchange rate differences | - | - |
| **Balance at 31 December** | **-** | **26** |

The maximum credit risk exposure, at balance sheet date, including undrawn credit facilities arising on loans at amortised cost amounts to EUR 9,372 million (2016: EUR 9,627 million).

The total amount of subordinated loans in this item amounted to EUR 128 million in 2017 (2016: EUR 150 million).

As per 31 December 2017, EUR 32 million (2016: EUR 42 million) was guaranteed by the Dutch State.

On 1 July 2008 following the IAS 39 amendments, an amount of EUR 79 million of the impairments related to the available-for-sale loans was reclassified as loans at amortised cost. The corresponding total amount of loans in the available-for-sale category net of impairments has been reclassified to the loans at amortised cost category as at 1 July 2008. The remaining cumulative impairments at 31 December 2017, related to the available-for-sale loans reclassified to the loans at amortised cost category on 1 July 2008, amounted to EUR 16 million (2016: EUR 16 million).

## 16 Mortgage loans own book (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Mortgage loans own book | 4,412 | 3,346 |
| | **4,412** | **3,346** |
| **Legal maturity analysis of mortgage loans own book:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | 1 | - |
| Longer than one year but not longer than five years | 4 | 2 |
| Longer than five years | 4,407 | 3,344 |
| | **4,412** | **3,346** |
| **Movement schedule of mortgage loans own book:** | | |
| **Balance at 1 January** | **3,346** | **2,390** |
| Additions | 1,498 | 1,093 |
| Disposals | (432) | (137) |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **4,412** | **3,346** |

The maximum credit exposure including committed but undrawn facilities was EUR 4,799 million at 31 December 2017 (31 December 2016: EUR 4,261 million).

The total impairments on mortgage loans own book at amortised cost at 31 December 2017 were EUR 2 million (2016: EUR 2 million).

## 17 Debt investments (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Debt investments | 59 | 287 |
| | **59** | **287** |
| **Debt investments analysed by listing:** | | |
| Listed | 59 | 237 |
| Unlisted | - | 50 |
| | **59** | **287** |
| **Legal maturity analysis of debt investments:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | 9 | 50 |
| Longer than one year but not longer than five years | 8 | 129 |
| Longer than five years | 42 | 108 |
| | **59** | **287** |
| **Movement schedule of debt investments:** | | |
| **Balance at 1 January** | **287** | **294** |
| Additions | 4 | 86 |
| Disposals | (233) | (84) |
| Impairments | 2 | (6) |
| Exchange differences and amortisation | (1) | (3) |
| **Balance at 31 December** | **59** | **287** |
| **Movement schedule of impairment losses on debt investments:** | | |
| **Balance at 1 January** | **43** | **39** |
| Additional allowances | - | 6 |
| Write-offs | (21) | - |
| Amounts released | (2) | - |
| Other (including exchange rate differences) | - | (2) |
| **Balance at 31 December** | **20** | **43** |

## 18 Loans on group companies (available-for-sale)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Loans on group companies | - | 24 |
| | **-** | **24** |
| **Legal maturity analysis of loans on group companies:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | - | 24 |
| Longer than one year but not longer than five years | - | - |
| Longer than five years | - | - |
| | **-** | **24** |
| **Movement schedule of loans on group companies:** | | |
| **Balance at 1 January** | **24** | **18** |
| Additions | - | 2 |
| Disposals | (40) | - |
| Changes in fair value | 16 | 4 |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **-** | **24** |

In 2017 and 2016, there were no additional impairments.

## 19 Equity investments (available-for-sale)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Equity investments | 36 | 41 |
| | **36** | **41** |
| **Movement schedule of equity investments:** | | |
| **Balance at 1 January** | **41** | **48** |
| Additions | - | - |
| Disposals (sales and/or capital repayments) | (3) | (3) |
| Impairments | - | - |
| Changes in fair value | (1) | (4) |
| Other (including exchange rate differences) | (1) | - |
| **Balance at 31 December** | **36** | **41** |

## 20 Debt investments (available-for-sale)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Debt investments | 823 | 1,028 |
| | **823** | **1,028** |

All debt investments are non-government, except for EUR 38 million, (2016: EUR 55 million).

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Debt investments analysed by listing:** | | |
| Listed | 808 | 1,025 |
| Unlisted | 15 | 3 |
| | **823** | **1,028** |
| **Legal maturity analysis of debt investments:** | | |
| Three months or less | 7 | 34 |
| Longer than three months but not longer than one year | 89 | 54 |
| Longer than one year but not longer than five years | 636 | 230 |
| Longer than five years | 91 | 710 |
| | **823** | **1,028** |
| **Movement schedule of debt investments:** | | |
| **Balance at 1 January** | **1,028** | **1,064** |
| Additions | 276 | 442 |
| Disposals | (462) | (479) |
| Changes in fair value | 6 | (1) |
| Other (including exchange rate differences) | (25) | 2 |
| **Balance at 31 December** | **823** | **1,028** |
| **Movement schedule of impairment losses on debt investments:** | | |
| **Balance at 1 January** | **11** | **18** |
| Additional allowances | - | - |
| Write-offs | (7) | (7) |
| Amounts released | - | - |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **4** | **11** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes and exchange rate differences is compensated by results on financial derivatives.

In 2017 and 2016 there were no additional impairments on debt investments available-for-sale.

The movement 'Other (including exchange rate differences)' completely exists of exchange rate differences (EUR 25 million).

At 31 December of 2017, EUR 39 million (2016: EUR 8 million) was pledged as collateral with clearinghouses.

## 21 Loans (designated at fair value through profit or loss)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Loans | 181 | 210 |
| | **181** | **210** |
| **Legal maturity analysis of loans:** | | |
| Three months or less | - | 1 |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | 47 | 65 |
| Longer than five years | 134 | 144 |
| | **181** | **210** |
| **Movement schedule of loans:** | | |
| **Balance at 1 January** | **210** | **316** |
| Additions | - | 8 |
| Disposals | (24) | (100) |
| Changes in fair value | 1 | 10 |
| Other (including exchange rate differences) | (6) | (24) |
| **Balance at 31 December** | **181** | **210** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

Interest income from loans is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest income are recognised in net trading income.

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 8 million (2016: EUR 9 million) and the change for the current year is a gain of EUR 1 million.

The portion of fair value changes in 2017 included in the balance sheet amount (designated at fair value through profit or loss) as at 31 December 2017 relating to the movement in credit spreads amounted to nil (2016: EUR 6 million).

The maximum credit risk exposure including undrawn credit facilities amounted to EUR 181 million (2016: EUR 211 million).

# 22 Mortgage loans own book (designated at fair value through profit or loss)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Mortgage loans own book | 4,581 | 4,124 |
| | **4,581** | **4,124** |
| **Legal maturity analysis of mortgage loans own book:** | | |
| Three months or less | 15 | 9 |
| Longer than three months but not longer than one year | 26 | 17 |
| Longer than one year but not longer than five years | 87 | 104 |
| Longer than five years | 4,453 | 3,994 |
| | **4,581** | **4,124** |
| **Movement schedule of mortgage loans own book:** | | |
| **Balance at 1 January** | **4,124** | **4,111** |
| Additions (including transfers from consolidated SPEs) | 1,035 | 466 |
| Disposals (sale and/or redemption, including replenishment of consolidated SPEs) | (570) | (471) |
| Changes in fair value | (8) | 18 |
| **Balance at 31 December** | **4,581** | **4,124** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated with results on financial derivatives.

The cumulative change in fair value is disclosed in note 23 Securitised mortgage loans.

Interest income from mortgage loans own book is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest are recognised in net trading income.

The maximum credit exposure including committed but undrawn facilities was EUR 4,582 million (2016: EUR 4,125 million).

## 23 Securitised mortgage loans (designated at fair value through profit or loss)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Securitised mortgage loans | 338 | 1,550 |
| | **338** | **1,550** |
| **Legal maturity analysis of securitised mortgage loans:** | | |
| Three months or less | 1 | 1 |
| Longer than three months but not longer than one year | 2 | 1 |
| Longer than one year but not longer than five years | 10 | 19 |
| Longer than five years | 325 | 1,529 |
| | **338** | **1,550** |
| **Movement schedule of securitised mortgage loans:** | | |
| **Balance at 1 January** | **1,550** | **2,266** |
| Additions | | - |
| Disposals (sale and/or redemption including transfers to own book) | (1,129) | (666) |
| Changes in fair value | (83) | (50) |
| **Balance at 31 December** | **338** | **1,550** |

At 31 December 2017 the carrying amounts for mortgage loans own book (designated at fair value through profit or loss) and securitised mortgages loans include a total revaluation adjustment of EUR 331 million debit (2016: EUR 423 million debit) related to both interest rates and credit spreads. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

The portion of fair value changes in 2017 included in the balance sheet carrying amount related to the movement in credit spreads on mortgages loans own book (see note 22) and securitised mortgage loans amounted to EUR 19 million debit at 31 December 2017 (2016: EUR 35 million debit), being an increase in the carrying amount.

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a gain of EUR 107 million (2016: EUR 98 million) and the change for the current year is a gain of EUR 9 million.

Interest income from securitised mortgage loans is recognised in interest and similar income at the effective interest rate. Fair value movements (excluding interest) are recognised in net trading income.

At 31 December 2017, securitised mortgage loans in the amount of EUR 338 million (2016: EUR 1,550 million) were pledged as collateral for NIBC's own liabilities (see note 49).

The maximum credit exposure was EUR 338 million at 31 December 2017 (31 December 2016: EUR 1,550 million).

The aggregate difference yet to be recognised in the income statement between transaction prices at initial recognition and the fair value determined by a valuation model on both mortgage loans own book (see note 22) and securitised mortgage loans at 31 December 2017 amounted to a liability of EUR 11 million (2016: EUR 14 million).

Securitised mortgage loans are recognised on NIBC's balance sheet based on the risks and rewards NIBC retains in the special purpose entities (SPEs) issuing the mortgage-backed notes. Risks and rewards can be retained by NIBC by retaining issued notes, providing overcollateralisation to the SPEs or implementing reserve accounts in the SPEs. At the balance sheet date, NIBC retained EUR 43 million (31 December 2016: EUR 135 million) of notes issued by the SPEs and reserve accounts amounted to EUR 3 million (31 December 2016: EUR 11 million).

## 24 Equity investments (designated at fair value through profit or loss, including investments in associates)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Investments in associates | 246 | 185 |
| Other equity investments | 39 | 17 |
| Long position in listed and actively traded equities | 2 | 2 |
| | **287** | **204** |
| **Movement schedule of investments in associates:** | | |
| **Balance at 1 January** | **185** | **172** |
| Additions | 5 | 31 |
| Disposals | (5) | (38) |
| Changes in fair value | 61 | 20 |
| **Balance at 31 December** | **246** | **185** |
| **Movement schedule of other equity investments:** | | |
| **Balance at 1 January** | **17** | **50** |
| Additions | 30 | 10 |
| Disposals | (7) | (37) |
| Changes in fair value | 1 | (6) |
| Other (including exchange rate differences) | (2) | - |
| **Balance at 31 December** | **39** | **17** |
| **Movement schedule of long position in listed and actively traded equities:** | | |
| **Balance at 1 January** | **2** | **-** |
| Additions | 62 | 6 |
| Disposals | (63) | (4) |
| Other (including exchange rate differences) | 1 | - |
| **Balance at 31 December** | **2** | **2** |

At the end of 2017 and 2016, all investments in associates and other equity instruments were unlisted. Other disclosure requirements for associates are presented in note 53 Principal subsidiaries and associates.

Long positions in listed and actively traded equities consist of trading positions. Additions and disposals relate to trading activities at NIBC Markets.

## 25 Debt investments at fair value through profit or loss (including trading)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Held for trading | 31 | 60 |
| Designated at fair value through profit or loss | - | - |
| | **31** | **60** |
| **Movement schedule of debt investments designated at fair value through profit or loss:** | | |
| **Balance at 1 January** | **-** | **7** |
| Additions | - | - |
| Disposals (sale and/or redemption including transfers to own book) | - | (7) |
| Changes in fair value | - | - |
| Exchange rate differences | - | - |
| **Balance at 31 December** | **-** | **-** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in credit risk amounts to nil and the change for the current year is also nil (2016: nil).

Interest income from debt investments is recognised in interest and similar income at the effective interest rate until the date of reclassification. Fair value movements excluding interest have been recognised in net trading income.

## 26 Derivative financial instruments

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Derivative financial assets:** | | |
| Derivative financial assets used for hedge accounting | 79 | 177 |
| Derivative financial assets - other | 942 | 1,640 |
| | **1,021** | **1,817** |
| **Derivative financial liabilities:** | | |
| Derivative financial liabilities used for hedge accounting | 38 | 89 |
| Derivative financial liabilities - other | 825 | 1,917 |
| | **863** | **2,006** |

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39.

The derivatives financial assets and liabilities in the category 'other' are classified as held for trading according to IAS 39.

The derivatives in this category consist of:
- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity;
- Limited money market trading.

Economically all these derivatives, with the exception of the limited money market trading, are used to hedge interest rate or FX risk. The limited money market trading is controlled by a small facilitating VaR limit of EUR 2.25 million. For further details see note 58 Market Risk (Key risk statistics Trading portfolio, excluding NIBC Markets).

In 2017 NIBC started offsetting assets and liabilities related to derivative transactions with central clearing members. Under certain conditions derivative positions with the same characteristics such as counterparty, maturity bucket and currency are netted, for a total amount of EUR 332 million (for further details reference is made to note 46).

Derivative balances have decreased significantly in 2017. Part of the decrease is driven by market developments. As the positions mainly relate to hedges of interest rate risks, the interest rate movements of 2017 have affected the balances. In addition to these regular developments, two separate actions have led to an additional reduction of the derivative balances. During 2017, NIBC has reviewed its hedging positions and has closed out many offsetting positions and replaced off-market derivatives with new derivatives at current market rates. As settlement processes and systems have been adjusted following the implementation of central clearing, more positions are eligible for off-setting. This has led to an additional reduction of the reported derivative balances.

## Derivative financial instruments used for hedge accounting

### at 31 December 2017

| | Notional amount with remaining life of | | | | | |
|---|---|---|---|---|---|---|
| in EUR millions | Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
| **Derivatives accounted for as fair value hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 1 | 1,845 | 8,049 | 9,895 | 60 | 40 |
| Interest currency rate swaps | - | - | 17 | 17 | 5 | - |
| | **1** | **1,845** | **8,066** | **9,912** | **65** | **40** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 95 | 25 | 479 | 599 | 14 | (2) |
| | **95** | **25** | **479** | **599** | **14** | **(2)** |
| **Total derivatives used for hedge accounting** | **96** | **1,870** | **8,545** | **10,511** | **79** | **38** |

## Derivative financial instruments used for hedge accounting at 31 December 2016

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Derivatives accounted for as fair value hedges of interest rate risk** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | - | 10 | 7,996 | 8,006 | 121 | 87 |
| Interest currency rate swaps | - | - | 18 | 18 | 6 | - |
| | **-** | **10** | **8,014** | **8,024** | **127** | **87** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | 25 | 225 | 1,852 | 2,102 | 50 | 2 |
| | **25** | **225** | **1,852** | **2,102** | **50** | **2** |
| **Total derivatives used for hedge accounting** | **25** | **235** | **9,866** | **10,126** | **177** | **89** |

## Derivative financial instruments - other at 31 December 2017

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps[1] | 1,206 | 3,474 | 19,943 | 24,623 | 709 | 771 |
| Interest rate options (purchase) | 333 | 278 | 431 | 1,042 | 2 | - |
| Interest rate options (sale) | 350 | 294 | 446 | 1,090 | - | 1 |
| | **1,889** | **4,046** | **20,820** | **26,755** | **711** | **772** |
| **Currency derivatives** | | | | | | |
| **OTC products:** | | | | | | |
| Interest currency rate swaps | 328 | 787 | 1,901 | 3,016 | 200 | 15 |
| Currency/cross-currency swaps | 190 | - | - | 190 | 1 | 2 |
| | **518** | **787** | **1,901** | **3,206** | **201** | **17** |
| **Other derivatives (including credit derivatives)** | | | | | | |
| **OTC products:** | | | | | | |
| Credit default swaps (guarantees given) | - | - | - | - | - | - |
| Credit default swaps (guarantees received) | 4 | - | - | 4 | - | 1 |
| Other swaps | - | - | 14 | 14 | 30 | 35 |
| | **4** | **-** | **14** | **18** | **30** | **36** |
| **Total derivatives - other** | **2,411** | **4,833** | **22,735** | **29,979** | **942** | **825** |

1 The relatively significant notional amount of these derivatives can largely be explained by past market practice, when it used to be more beneficial to hedge interest rate risk by entering into a new swap position rather than to unwind existing swaps.

## Derivative financial instruments - other at 31 December 2016

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps[1] | 6,170 | 10,617 | 24,097 | 40,884 | 1,443 | 1,784 |
| Interest rate options (purchase) | - | 60 | 714 | 774 | 2 | - |
| Interest rate options (sale) | - | 30 | 782 | 812 | - | 2 |
| | **6,170** | **10,707** | **25,593** | **42,470** | **1,445** | **1,786** |
| **Currency derivatives** | | | | | | |
| **OTC products:** | | | | | | |
| Interest currency rate swaps | 277 | 760 | 1,809 | 2,846 | 148 | 88 |
| Currency/cross-currency swaps | 451 | - | - | 451 | 4 | - |
| | **728** | **760** | **1,809** | **3,297** | **152** | **88** |
| **Other derivatives (including credit derivatives)** | | | | | | |
| **OTC products:** | | | | | | |
| Credit default swaps (guarantees given) | - | 10 | 4 | 14 | - | 1 |
| Credit default swaps (guarantees received) | - | 10 | - | 10 | - | - |
| Other swaps | 27 | - | 23 | 50 | 43 | 42 |
| | **27** | **20** | **27** | **74** | **43** | **43** |
| **Total derivatives - other** | **6,925** | **11,487** | **27,429** | **45,841** | **1,640** | **1,917** |

1 The relatively significant notional amount of these derivatives can largely be explained by past market practice, when it used to be more beneficial to hedge interest rate risk by entering into a new swap position rather than to unwind existing swaps.

### Fair value hedges of interest rate risk

The following table discloses the fair value of the swaps designated in fair value hedging relationships:

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Fair value pay - fixed swaps (hedging assets) \| assets | (2) | 6 |
| Fair value pay - fixed swaps (hedging assets) \| liabilities | (37) | (80) |
| | **(39)** | **(74)** |
| Fair value pay - floating swaps (hedging liabilities) \| assets | 66 | 121 |
| Fair value pay - floating swaps (hedging liabilities) \| liabilities | (3) | (7) |
| | **63** | **114** |

### Cash flow hedges of interest rate risk

The following table discloses the fair value of the swaps designated in cash flow hedging relationships:

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Fair value receive - fixed swaps \| assets | 15 | 50 |
| Fair value receive - fixed swaps \| liabilities | 2 | (2) |
| | **17** | **48** |
| Fair value receive - floating swaps \| assets | - | - |
| Fair value receive - floating swaps \| liabilities | - | - |
| | **-** | **-** |

**Sum of fair value and cash flow hedges of interest rate risk**
The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is four years (2016: five years).

## Hedging activities

**Portfolio fair value hedge of plain vanilla funding**
According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by the *Asset & Liability Committee* (**ALCO**). Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2017 was EUR 16 million debit (2016: EUR 18 million debit). The losses on the hedging instruments were EUR 2 million (2016: nil). The gains on the hedged items attributable to the hedged risk were EUR 3 million (2016: nil). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Portfolio fair value hedge of fixed rate retail deposits**
According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate retail deposit activities above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the retail deposits with a contractual duration longer than two years and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2017 was EUR 16 million debit (2016: EUR 33 million debit). The losses on the hedging instruments were EUR 8 million (2016: loss of EUR 6 million). The gains on the hedged items attributable to the hedged risk were EUR 9 million (2016: gain of EUR 7 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Portfolio fair value hedge of fixed rate mortgages**
According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate mortgages activities above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate mortgages. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the mortgages with a contractual duration longer than three months and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2017 was EUR 29 million credit (2016: EUR 59 million credit). The gains on the hedging instruments were EUR 35 million (2016: loss of EUR 32 million). The losses on the hedged items attributable to the hedged risk were EUR 36 million (2016: gain of EUR 40 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness and pipeline hedging.

**Micro fair value hedge of plain vanilla funding**
According to NIBC's hedging policy, NIBC should not be exposed to interest rate and foreign exchange risk from its fixed rate plain vanilla funding activities above certain limits prescribed by ALCO. Consequently, NIBC uses cross-currency interest rate swaps to hedge the fair value interest rate risk and foreign exchange risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2017 was EUR 30 million debit (2016: EUR 59 million debit). The losses on the hedging instruments were EUR 34 million (2016: gain of EUR 8 million). The gains on the hedged items attributable to the hedged risk were EUR 31 million (2016: loss of EUR 7 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Portfolio fair value hedge of loans**
According to NIBC's hedging policy, NIBC should not be exposed to interest rate risk from its corporate loan activities above certain limits as set by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising from these fixed rate loans. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate loan and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these hedge relationships at 31 December 2017 was EUR 9 million credit (2016: EUR 11 million credit). Gains on the hedging instruments were EUR 3 million (2016: loss of EUR 3 million). The losses on the hedged items attributable to the hedged risk were EUR 2 million (2016: nil). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Micro fair value hedge of the Liquidity portfolio debt investments**

According to NIBC's hedging policy, NIBC should not be exposed to fair value interest rate risk from its fixed rate debt investments held in the Liquidity portfolios above certain limits prescribed by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate debt investments. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate debt investments and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2017 was nil. (2016: nil). The gains on the hedging instruments were nil (2016: nil). The losses on the hedged items attributable to the hedged risk were nil (2016: nil). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Cash flow hedges**

NIBC has classified a large part of its corporate loans as loans and receivable at amortised cost. Therefore, variability in the cash flows of the floating rate corporate loans is accounted for in future periods, when the coupons are recorded in the income statement on an amortised cost basis. Interest rate swaps are used to hedge the floating cash flows of its floating corporate loans. These swaps are reported at fair value through profit or loss. This accounting mismatch creates volatility in the income statement of NIBC. Therefore NIBC applies hedge accounting on these positions. Hedge accounting is applied to all swaps that are used to hedge the cash flow risk of the floating corporate loans by defining a macro cash flow hedge relationship with the floating corporate loans.

The variability in interest cash flows arising on floating rate corporate loans is hedged on a portfolio basis with interest rate swaps that receive fixed and pay floating (generally one, three and six months floating rates). The highly probable cash flows being hedged relate both to the highly probable cash flows on outstanding corporate loans and to the future reinvestment of these cash flows. NIBC does not hedge the variability of future cash flows of corporate loans arising from changes in credit spreads.

Interest rate swaps with a net fair value of EUR 17 million credit (2016: EUR 48 million debit) were designated in a cash flow hedge relationship. The cash flow on the hedged item will be reported in income over the next seven years. In 2017 the ineffectiveness recognised in the income statement that arose from cash flow hedges was a loss of EUR 5 million (2016: loss of EUR 2 million).

Some macro cash flow hedging relationships ceased to exist during 2011 and therefore the related cumulative hedge adjustment as from that date is being amortised over the remaining contractual maturity of the hedged item.

The amount that was recognised in equity for the year 2017 was EUR 10 million debit (2016: EUR 12 million credit). The amount that was transferred from equity to the income statement in 2017 was a gain of EUR 7 million net of tax (2016: gain of EUR 18 million).

## 27 Investments in associates and joint ventures (equity method)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Investments in associates | 7 | 7 |
| Joint ventures | 3 | - |
| | **10** | **7** |

At the end of 2017 and 2016, all investments in associates and joint ventures were unlisted.

There is no unrecognised share of losses of an associate, either for the period or cumulatively.

The cumulative impairment losses amounted to nil for 2017 and 2016.

Other disclosure requirements for associates which are equity accounted are included in note 54 Principal subsidiaries and associates.

## 28 Property, plant and equipment

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Land and buildings | 41 | 40 |
| Other fixed assets | 3 | 4 |
| | **44** | **44** |
| **Movement schedule of land and buildings:** | | |
| **Balance at 1 January** | **40** | **43** |
| Additions | 2 | - |
| Revaluation | 2 | - |
| Depreciation | (3) | (3) |
| Impairments | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **41** | **40** |
| Gross carrying amount | 101 | 97 |
| Accumulated depreciation | (60) | (57) |
| Accumulated impairments | - | - |
| | **41** | **40** |
| **Movement schedule of revaluation surplus:** | | |
| **Balance at 1 January** | **10** | **11** |
| Depreciation | (1) | (1) |
| **Balance at 31 December** | **9** | **10** |
| **Movement schedule of other fixed assets:** | | |
| **Balance at 1 January** | **4** | **6** |
| Additions | 1 | 2 |
| Revaluation | - | - |
| Depreciation | (2) | (4) |
| Impairments | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **3** | **4** |
| Gross carrying amount | 28 | 27 |
| Accumulated depreciation | (25) | (23) |
| Accumulated impairments | - | - |
| | **3** | **4** |

NIBC's land and buildings in own use were revalued as of 31 December 2017 based on an external appraisal (a valuation is carried out at least every three years).

Buildings in use by NIBC are insured for EUR 75 million (2016: EUR 74 million). Other fixed assets are insured for EUR 37 million (2016: EUR 43 million).

The fair value of the property, plant and equipment does not materially deviates from the carrying amount.

## 29 Current tax

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Current tax assets | 1 | - |
| | **1** | **-** |

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Current tax liabilities | 1 | - |
| | **1** | **-** |

It is expected that the current tax will be settled within 12 months.

## 30 Deferred tax

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | 8 | - |
| Deferred tax liabilities | 4 | 3 |
| | **4** | **(3)** |
| **Amounts of deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:** | | |
| Debt investments (available-for-sale) | 9 | 2 |
| Tax losses carried forward | 7 | 17 |
| | **16** | **19** |
| **Amounts of deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction:** | | |
| Equity investments (available-for-sale) | 1 | 3 |
| Cash flow hedges | 10 | 14 |
| Property, plant and equipment | - | 4 |
| Temporary tax differences | 1 | 1 |
| | **12** | **22** |
| | **4** | **(3)** |

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Gross movement on the deferred income tax account may be summarised as follows:** | | |
| **Balance at 1 January** | **(3)** | **(1)** |
| **Debt investments (reported as available-for-sale):** | | |
| Fair value remeasurement charged/(credited) to revaluation reserve | 6 | - |
| **Equity investments (reported as available for sale):** | | |
| Fair value remeasurement (charged)/credited to revaluation reserve | 1 | - |
| **Cash flow hedges:** | | |
| Fair value remeasurement charged/(credited) to hedging reserve | 5 | 2 |
| **Property, plant and equipment (reported at fair value):** | | |
| Fair value remeasurement (charged)/credited to revaluation reserve | 4 | - |
| **Temporary tax differences** | | |
| IFRS - HGB deferred tax | - | (1) |
| Tax losses carried forward | (9) | (3) |
| **Balance at 31 December** | **4** | **(3)** |

Deferred tax assets and liabilities are measured for all temporary differences using the liability method. The effective tax rate in the Netherlands for measuring deferred tax is 25% (2016: 25%). There were no changes in deferred tax assets and liabilities resulting from changes in the effective tax rate in the Netherlands. No deferred tax asset has been recognised for unused tax losses in the Netherlands totaling EUR 69 million at 31 December 2017 (31 December 2016: EUR 106 million). Deferred tax assets of EUR 17 million at 31 December 2017 (31 December 2016: EUR 27 million) have not been recognised because future taxable profits are not considered probable. The term to maturity of the majority of these carry forward losses is three years at the maximum.

Deferred tax assets recognised in respect of carry forward losses can only be utilized if taxable profits are realised in the future. To measure deferred tax assets, NIBC Holding takes a management best estimate regarding future compensation of carry forward losses. On 31 December 2017 there was a realistic expectation that sufficient taxable profits would be generated within the applicable periods for the recognised deferred tax asset based on internal (medium term) forecasts, which include estimates for the development of own credit spread, tax exempt results on equity investments and allocation of the expected impact of the introduction of IFRS9 as from 1 January 2018.

Corporate income tax is allocated by NIBC Holding N.V. to the company to which it relates and settled with the parent company in current account. NIBC Bank N.V. is jointly and severally liable for all debts arising from the fiscal entity for corporate income tax.

## 31 Other assets

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Accrued interest | 3 | 1 |
| Other accruals and receivables | 51 | 49 |
| Pending settlements | 8 | 173 |
| | **62** | **223** |

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of its related assets.

Pending settlements are related to NIBC Markets N.V., a newly acquired subsidiary in 2016. These transitory amounts are related to the brokerage activities and settled within 3 days.

## 32 Due to other banks (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Due to other banks | 491 | 390 |
| Due to central banks | 1,344 | 900 |
| | **1,835** | **1,290** |
| **Due to other banks:** | | |
| Payable on demand | 8 | 6 |
| Not payable on demand | 1,827 | 1,284 |
| | **1,835** | **1,290** |
| **Legal maturity analysis of due to other banks not payable on demand:** | | |
| Three months or less | 114 | 120 |
| Longer than three months but not longer than one year | 334 | 68 |
| Longer than one year but not longer than five years | 1,277 | 905 |
| Longer than five years | 102 | 191 |
| | **1,827** | **1,284** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

At 31 December 2017, an amount of EUR 248 million (2016: EUR 114 million) related to cash collateral received from third parties.

Amounts drawn under Targeted Longer Term Refinancing Operation (TLTRO-program II) equal EUR 1,343 million (2016: EUR 900 million). The maturity of TLTRO program II is four years and interest payments will be settled in arrears. The collateral for the TLTRO-program consists of DNB eligible debt investments and securitised mortgage loans. The interest rate, which is fixed for the entire maturity of the TLTRO program II, will be set in June 2018.

## 33 Deposits from customers (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Retail deposits | 9,324 | 9,723 |
| Institutional/corporate deposits | 2,211 | 2,104 |
| | **11,535** | **11,827** |
| **Deposits from customers:** | | |
| On demand | 5,418 | 5,454 |
| Term deposits | 6,117 | 6,373 |
| | **11,535** | **11,827** |
| **Legal maturity analysis of term deposits:** | | |
| Three months or less | 1,024 | 786 |
| Longer than three months but not longer than one year | 2,345 | 2,221 |
| Longer than one year but not longer than five years | 2,208 | 2,371 |
| Longer than five years | 540 | 995 |
| | **6,117** | **6,373** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

## 34 Own debt securities in issue (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Bonds and notes issued | 4,392 | 3,855 |
| | **4,392** | **3,855** |
| **Legal maturity analysis of own debt securities in issue:** | | |
| Three months or less | 1 | - |
| Longer than three months but not longer than one year | 1,111 | 67 |
| Longer than one year but not longer than five years | 2,288 | 2,277 |
| Longer than five years | 992 | 1,511 |
| | **4,392** | **3,855** |
| **Movement schedule of own debt securities in issue:** | | |
| **Balance at 1 January** | **3,855** | **3,050** |
| Additions | 729 | 1,328 |
| Disposals | (178) | (453) |
| Other (including exchange rate differences) | (14) | (70) |
| **Balance at 31 December** | **4,392** | **3,855** |

In the first half year of 2017 a senior unsecured bond of EUR 500 million was issued.

The disposals of own debt securities in issue at amortised cost for 2017 include redemptions at the scheduled maturity date and repurchases of debt securities before the legal maturity date to an amount of EUR 178 million (2016: EUR 453 million).

EUR 715 million relates to cash inflow items and EUR 178 million relates to cash outflow items included in the consolidated statement of cash flows.

## 35 Debt securities in issue related to securitised mortgages and lease receivables (amortised cost)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Bonds and notes issued | 267 | 1,337 |
| | **267** | **1,337** |
| **Legal maturity analysis of debt securities in issue related to securitised mortgage loans and lease receivables:** | | |
| Three months or less | 267 | 2 |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | - | - |
| Longer than five years | - | 1,335 |
| | **267** | **1,337** |
| **Movement schedule of debt securities in issue related to securitised mortgage loans and lease receivables:** | | |
| **Balance at 1 January** | **1,337** | **2,062** |
| Additions | - | - |
| Disposals | (1,070) | (725) |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **267** | **1,337** |

EUR 1,070 relates to cash outflow items included in the consolidated statement of cash flows.

# 36 Own debt securities in issue (designated at fair value through profit or loss)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Bonds and notes issued | 38 | 37 |
| | **38** | **37** |
| **Legal maturity analysis of own debt securities in issue:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | 38 | 37 |
| Longer than five years | - | - |
| | **38** | **37** |
| **Movement schedule of own debt securities in issue:** | | |
| **Balance at 1 January** | **37** | **36** |
| Additions | 1 | 1 |
| Disposals | - | - |
| Changes in fair value | - | - |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **38** | **37** |

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated by results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 36 million at 31 December 2017 (2016: EUR 34 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 3 million and the change for the current year amounts to a loss of 1 million recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2016: gain of 2 million). See note 44.7 for further information with respect to IFRS 9 Own credit risk.

EUR 1 million relates to cash inflow items included in the consolidated statement of cash flows.

# 37 Debt securities in issue structured (designated at fair value through profit or loss)

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Bonds and notes issued | 616 | 620 |
| | **616** | **620** |
| **Legal maturity analysis of debt securities in issue structured:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | 21 | 16 |
| Longer than one year but not longer than five years | 280 | 55 |
| Longer than five years | 315 | 549 |
| | **616** | **620** |
| **Movement schedule of debt securities in issue structured:** | | |
| **Balance at 1 January** | **620** | **704** |
| Additions | 39 | 56 |
| Disposals | (29) | (169) |
| Changes in fair value | 22 | 35 |
| Other (including exchange rate differences) | (36) | (6) |
| **Balance at 31 December** | **616** | **620** |

The disposals of debt securities in issue designated at fair value through profit or loss for 2017 include redemptions at the scheduled maturity date to an amount of EUR 29 million (2016: EUR 169 million) and repurchases of debt securities before the legal maturity date to an amount of nil (2016: nil). The changes in fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated with results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 624 million at 31 December 2017 (2016: EUR 654 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a gain of EUR 7 million and the change for the current year is a loss of EUR 30 million recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2016: loss of EUR 11 million). See note 44.7 for further information with respect to IFRS 9 Own credit risk.

EUR 28 million relates to cash inflow items, EUR 29 million relates to cash outflow items and EUR 3 million relates to net foreign exchange differences included in the consolidated statement of cash flows.

## 38 Other liabilities

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Payables | 63 | 68 |
| Reorganisation provisions | - | 2 |
| Other accruals | 40 | 29 |
| Pending settlements | 8 | 136 |
| | **111** | **235** |
| **Movement schedule of regorganisation provisions:** | | |
| **Balance at 1 January** | **2** | **-** |
| Addition allowances | - | 2 |
| Provision used | (2) | - |
| Amounts released | - | - |
| **Balance at 31 December** | **-** | **2** |

In 2016, a reorganisation provision of EUR 2 million has been recognised for the transformation of the IT department and the reorganisation of NIBC Markets. Per 2017 all uncertainties have been settled. A liability remains of EUR 2 million to unwind labor agreements.

Pending settlements are related to NIBC Markets. These transitory amounts are related to the brokerage activities and settled within 3 days.

## 39 Employee benefits

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Employee benefits | 3 | 3 |
| | **3** | **3** |
| **The movement in employee benefits recognised in the balance sheet may be summarised as follows:** | | |
| **Balance at 1 January** | **3** | **4** |
| Paid | - | - |
| Increase | - | - |
| Releases | - | (1) |
| **Balance at 31 December** | **3** | **3** |

Employee benefit obligations of EUR 3 million at 31 December 2017 are related to payments to be made in respect of other leave obligations (2016: EUR 3 million). These obligations are short-term in nature and therefore valued at nominal value.

## Pension benefit obligations

### Obligations and expense under pension plans

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **The amounts of pension charges recognised in personnel expenses in the income statement were as follows:** | | |
| **Collective Defined Contribution plans** | | |
| Employer's contribution | 13 | 11 |
| Participants' contributions | (1) | (1) |
| Administrative expenses | 1 | 1 |
| One-off employers pension contribution | 1 | - |
| | **14** | **11** |

Employer's contributions in 2017 includes EUR 2 million (2016: EUR 2 million) intended to compensate for the pension gap that arose as a result of changed tax rules that became effective as of 1 January 2015.

In 2017, in negotiation with the Works Council, new appointments were made for the annual pension contribution for the period 2018 - 2020. As part of the negotiations the Employer agreed to pay a one-off pension contribution of EUR 1 million to the premium reserve of the Pension Fund before the end of December 2017.

### Obligations and expense under pension plans

A defined-contribution plan is a pension plan under which NIBC each year pays a fixed percentage of the salaries of the members into the scheme. The size of the fund on retirement will be determined by how much was contributed to the scheme and the investment return achieved.

For defined-contribution plans, NIBC pays contributions directly into the member's scheme. NIBC has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The CDC-plan is based on an average salary plan. The retirement age is set at 68 years, as per 1 January 2018. The contribution payable by participants in the CDC-plan is maximised at 4% per annum. Under the CDC-plan the annual pension contributions are calculated according to a fixed contribution calculation mechanism. The annual pension contribution of NIBC is maximised at 26% of the pensionable salary (salary minus a social security deductible). By paying the agreed fixed annual contribution NIBC is released from all its obligations.

# 40 Subordinated liabilities - amortised cost

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Subordinated loans other | 115 | 122 |
| | **115** | **122** |
| **Legal maturity analysis of subordinated liabilities:** | | |
| One year or less | - | - |
| Longer than one year but not longer than five years | 1 | 2 |
| Longer than five years but not longer than ten years | 63 | 50 |
| Longer than ten years | 51 | 70 |
| | **115** | **122** |
| **Movement schedule of subordinated liabilities:** | | |
| **Balance at 1 January** | **122** | **120** |
| Additions | - | - |
| Disposals | - | - |
| Other (including exchange rate differences) | (7) | 2 |
| **Balance at 31 December** | **115** | **122** |

All of the above loans are subordinated to the other liabilities of NIBC. With respect to the CRR/CRDIV requirements regarding additional Tier 1 capital instruments, non-qualifying subordinated loans amounted to EUR 51 million (2016: EUR 58 million). Interest expense of EUR 5 million was recognised on subordinated liabilities during the year 2017 (2016: EUR 4 million). In 2017 and 2016, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

EUR 6 million relates to cash outflow items and EUR 1 million relates to foreign exchange differences included in the consolidated statement of cash flows.

## 41 Subordinated liabilities - designated at fair value through profit or loss

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Non-qualifying as grandfathered additional Tier 1 capital | 60 | 179 |
| Subordinated loans other | 107 | 97 |
| | **167** | **276** |
| **Legal maturity analysis of subordinated liabilities:** | | |
| One year or less | - | 1 |
| Longer than one year but not longer than five years | 1 | - |
| Longer than five years but not longer than ten years | 1 | - |
| Longer than ten years | 165 | 275 |
| | **167** | **276** |
| **Movement schedule of subordinated liabilities:** | | |
| **Balance at 1 January** | **276** | **280** |
| Additions | 1 | 1 |
| Disposals | (126) | (17) |
| Changes in fair value | 40 | 5 |
| Other (including exchange rate differences) | (24) | 7 |
| **Balance at 31 December** | **167** | **276** |

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated by results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 249 million at 31 December 2017 (2016: EUR 405 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in credit risk amounts to a gain of EUR 83 million and the change for the current year amounts to a loss of EUR 38 million recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2016: loss of EUR 5 million). See note 44.7 for further information with respect to IFRS 9 Own credit risk.

All of the above loans are subordinated to the other liabilities of NIBC. The non-qualifying as grandfathered additional Tier 1 capital consists of perpetual securities and may be redeemed by NIBC only with the prior approval of the DNB. Interest expense of EUR 15 million was recognised on subordinated liabilities during the year 2017 (2016: EUR 16 million). In 2017 and 2016, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

NIBC has not had any defaults of principal, interest or redemption amounts on its liabilities during 2017 or 2016.

EUR 18 million relates to cash inflow, EUR 126 million relates to cash outflow items and EUR 1 million relates to foreign currency differences included in the consolidated statement of cash flows.

# 42 Equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

## Share capital

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Paid-up capital | 80 | 80 |
| | **80** | **80** |

| | 2017 | 2016 |
|---|---|---|
| **The number of authorised shares:** | | |
| Number of authorised shares[1] | 183,597,500 | 183,597,500 |
| Number of shares issued and fully paid[2] | 62,586,794 | 62,586,794 |
| Par value per A share | 1.28 | 1.28 |
| Par value class B, C, D, E1 and E3 preference share | 1.00 | 1.00 |
| Par value class E4 preference share | 5.00 | 5.00 |

1 The authorised capital amounts to EUR 214.9 million and is divided into 110,937,500 A shares of EUR 1.28 nominal value each, 72,600,000 of different classes of preference shares with a nominal value of EUR 1.00 each and 60,000 preference shares with a nominal value of EUR 5.00 each.
2 The shares issued and fully paid consist of A-shares.

## Share premium and other reserves

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Share premium | 238 | 238 |
| **Other reserves are as follows:** | | |
| Hedging reserve | 30 | 43 |
| Revaluation reserve - loans (available-for-sale) | - | 3 |
| Revaluation reserve - equity investments (available-for-sale) | 5 | 6 |
| Revaluation reserve - debt investments (available-for-sale) | (2) | (7) |
| Revaluation reserve - property, plant and equipment | 8 | 8 |
| | 11 | 10 |
| Own credit risk reserve | 52 | 103 |
| | **93** | **156** |
| | **331** | **394** |

| in EUR millions | Share premium | Hedging reserve | Revaluation reserves | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **238** | **43** | **10** | **103** | **394** |
| Net result on hedging instruments | - | (13) | - | - | (13) |
| Revaluation/remeasurement (net of tax) | - | - | 1 | (51) | (50) |
| **Total recognised directly through other comprehensive income in equity** | **238** | **30** | **11** | **52** | **331** |
| Transfer to retained earnings | - | - | - | - | - |
| **Balance at 31 December 2017** | **238** | **30** | **11** | **52** | **331** |

| in EUR millions | Share premium | Hedging reserve | Revaluation reserves | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **238** | **49** | **11** | **-** | **298** |
| Impact of application IFRS 9 Own credit risk at 1 January 2016 | - | - | | 115 | 115 |
| **Restated balance at 1 January 2016** | **238** | **49** | **11** | **115** | **413** |
| Net result on hedging instruments | - | (6) | - | - | (6) |
| Revaluation/remeasurement (net of tax) | - | - | (1) | (12) | (13) |
| **Total recognised directly through other comprehensive income in equity** | **-** | **(6)** | **(1)** | **(12)** | **(19)** |
| **Balance at 31 December 2016** | **238** | **43** | **10** | **103** | **394** |

## Dividend restrictions

NIBC and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company. Refer to note 25 of the Company Financial Statements for detailed information regarding the Legal Reserves.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

### Share premium

The proceeds from rights issues and options exercised received net of any directly attributable transaction costs and less the nominal value are credited to share premium.

## Other reserves

### Hedging reserve

This reserve comprises the portion of the gains or losses on hedging instruments in a cash flow hedge that is determined to be an effective hedge (net of tax).

### Revaluation reserve - loans (available-for-sale)

This reserve comprises changes in fair value of amortised cost loans (net of tax).

### Revaluation reserve - equity investments (available-for-sale)

This reserve comprises changes in fair value of available-for-sale equity investments (net of tax).

### Revaluation reserve - debt investments (available-for-sale)

This reserve comprises changes in fair value of available-for-sale debt investments (net of tax).

### Revaluation reserve - property, plant and equipment

This reserve comprises changes in fair value of land and buildings (net of tax).

**Own credit risk reserve**
This reserve includes the cumulative changes in the fair value of the financial liabilities designated as at FVtPL that are attributable to changes in the credit risk of these liabilities other than those recognised in profit or loss (net of tax).

### Retained earnings
Retained earnings reflect accumulated earnings less dividends accrued and paid to shareholders and transfers from other reserves.

## 43 Capital securities

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Capital securities issued by NIBC | 203 | - |
| | **203** | **-** |
| **Movement schedule of capital securities issued by NIBC:** | | |
| **Balance at 1 January** | **-** | **-** |
| Additions | 200 | - |
| Disposals | - | - |
| Profit attributable to holders of capital securities | 3 | - |
| **Balance at 31 December** | **203** | **-** |

The capital securities are perpetual and have no expiry date, first redemption date is 29 September 2026. Distribution on the capital securities issued in September 2017 is as follows: the coupon is 6% per year and is made payable every six months in arrears as of the issue date (29 September 2017), for the first time on 29 March 2018. As of 29 September 2026, and subject to capital securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5 year euro swap rate +5.564 %. Any payments including coupon payments are fully discretionary.

Conversion triggers as described in the capital security issuance documentation are primarily subject to NIBC's capital ratio.

EUR 200 million relates to cash inflow items included in the consolidated statement of cash flows.

# 44 Fair value of financial instruments

This note describes the fair value measurement of both financial and non-financial instruments and is structured as follows:

44.1 Valuation principles
44.2 Valuation governance
44.3 Financial instruments by fair value hierarchy
44.4 Valuation techniques
44.5 Valuation adjustments and other inputs and considerations
44.6 Impact of valuation adjustments
44.7 Own credit adjustments on financial liabilities designated at fair value
44.8 Transfers between Level 1 and Level 2
44.9 Movements in level 3 financial instruments measured at fair value
44.10 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
44.11 Sensitivity of fair value measurements to changes in observable market data
44.12 Fair value of financial instruments not measured at fair value
44.13 Non-financial assets valued at fair value

## 44.1 Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as follows:

- Level 1 financial instruments - Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 financial instruments - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 financial instruments - Inputs that are not based on observable market data (unobservable inputs).

## 44.2 Valuation governance

NIBC's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of NIBC including the Risk and Finance functions. Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions.

## 44.3 Financial instruments by fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

| in EUR millions | Level 1 | Level 2 | Level 3 | 2017 |
|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | |
| Loans | - | - | - | - |
| Equity investments (unlisted) | - | - | 36 | 36 |
| Debt investments | 639 | 183 | 1 | 823 |
| | **639** | **183** | **37** | **859** |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | - | 181 | - | 181 |
| Mortgage loans own book | - | - | 4,581 | 4,581 |
| Securitised mortgage loans | - | - | 338 | 338 |
| Equity investments (including investments in associates) | 2 | - | 285 | 287 |
| Debt investments | - | 31 | - | 31 |
| Derivative financial assets | - | 1,021 | - | 1,021 |
| | **2** | **1,233** | **5,204** | **6,439** |
| | **641** | **1,416** | **5,241** | **7,298** |

| in EUR millions | Level 1 | Level 2 | Level 3 | 2017 |
|---|---|---|---|---|
| **Financial liabilities at fair value through profit or loss including trading)** | | | | |
| Own debt securities in issue | - | 38 | - | 38 |
| Debt securities in issue structured | - | 616 | - | 616 |
| Derivative financial liabilities | - | 863 | - | 863 |
| Subordinated liabilities | - | 167 | - | 167 |
| | **-** | **1,684** | **-** | **1,684** |

| in EUR millions | Level 1 | Level 2 | Level 3 | 2016 |
|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | |
| Loans on group companies | - | - | 24 | 24 |
| Equity investments (unlisted) | - | - | 41 | 41 |
| Debt investments | 840 | 187 | 1 | 1,028 |
| | **840** | **187** | **66** | **1,093** |
| **Financial assets at fair value through profit or loss including trading)** | | | | |
| Loans | - | 210 | - | 210 |
| Mortgage loans own book | - | - | 4,124 | 4,124 |
| Securitised mortgage loans | - | - | 1,550 | 1,550 |
| Equity investments (including investments in associates) | 2 | - | 202 | 204 |
| Debt investments | - | 59 | 1 | 60 |
| Derivative financial assets | - | 1,817 | - | 1,817 |
| | **2** | **2,086** | **5,877** | **7,965** |
| | **842** | **2,273** | **5,943** | **9,058** |

| in EUR millions | Level 1 | Level 2 | Level 3 | 2016 |
|---|---|---|---|---|
| **Financial liabilities at fair value through profit or loss including trading)** | | | | |
| Own debt securities in issue | - | 37 | - | 37 |
| Debt securities in issue structured | - | 620 | - | 620 |
| Derivative financial liabilities | - | 2,006 | - | 2,006 |
| Subordinated liabilities | - | 276 | - | 276 |
| Other financial liabilities | - | - | - | - |
| | **-** | **2,939** | **-** | **2,939** |

## 44.4 Valuation techniques

The following is a description of the determination of fair value for financial instruments that are recorded at fair value using either quoted prices or valuation techniques. These incorporate NIBC's interpretation of valuation assumptions (qualitative) that a market participant would consider when valuing the instruments.

### Financial assets available-for-sale

**Debt investments - level 1**

For the determination of fair value at 31 December 2016, NIBC used market-observable prices (including broker quotes). NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

**Debt investments - level 2**

For the determination of fair value at 31 December 2016, NIBC applied market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

**Loans - level 3**

For the level 3 loans classified at available-for-sale, NIBC determines the fair value based on the unobservable sales pricings from external parties and on an internal development valuation model.

**Equity investments (unlisted) - level 3**

The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process. To approximate the fair value at the reporting date, the net asset value is adjusted, where appropriate, for factors such as, subsequent capital contributions and fund distributions, movements in exchange rate and subsequent changes in the fair value of the underlying investee companies, where these are known to NIBC.

The fair value of equity investments is established by applying capitalisation multiples to maintainable earnings. Maintainable earnings are estimated based on the normalised last twelve months' *Earnings Before Interest, Taxes, Depreciation and Amortisation* (**EBITDA**). Capitalisation multiples are derived from the enterprise value and the normalised last twelve months EBITDA at the acquisition date. On each reporting date, the capitalisation multiple of each equity investment is compared against those derived from the publicly available enterprise value and earnings information of traded peers, where these can be identified. Peer capitalisation multiples are normalised for factors such as differences in regional and economic environment, time lags in earnings information and one-off gains and losses.

The resulting enterprise value is adjusted for net debt, non-controlling interests, illiquidity and management incentive plans to arrive at the fair value of the equity.

**Debt investments - level 3**
For the level 3 debt investments, NIBC uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

## Financial assets at fair value through profit or loss

**Equity investments - level 1**
The level 1 portfolio consists of unadjusted, quoted prices for assets in an active market. The assets have been valued at the market's closing price of the 30rd of December.

**Loans - level 2**
In an active market environment, these assets are marked-to-market by applying market bid quotes observed on the secondary market. The quotes received from other banks or brokers and applied in the marked-to-market process are calibrated to actual market trades whenever possible.

In certain instances, where the market is inactive, a discounted cash flow model is used based on various assumptions including market interest rates, market credit spread levels and assumptions regarding market liquidity, where relevant. Additional pricing reference points have been obtained by collecting spreads using primary transactions that are comparable with the relevant loans.

**Debt investments - level 2**
For the determination of fair value at 31 December 2016, NIBC applied market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

**Derivatives financial assets and liabilities (held for trading and used for hedging) - level 2**
Derivative products valued using a valuation technique with market-observable inputs are mainly interest rate swaps, currency swaps, credit default swaps and foreign exchange contracts. The most frequently applied valuation techniques include swap models using present value calculations. The models incorporate various inputs including foreign exchange rates, credit spread levels and interest rate curves. Credit derivative valuation models also require input as to the estimated probability of default and recovery value.

**Loans - level 3**
For the level 3 loans classified at fair value through profit or loss, NIBC determines the fair value based on the unobservable sales pricings from external parties and on an internal development valuation model.

**Mortgage loans (own book and securitised) - level 3**
NIBC determines the fair value of mortgage loans (both those NIBC holds on its own book and those NIBC has securitised) by using a valuation model developed by NIBC. To calculate the fair

value, NIBC discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the credit spread risk of the mortgages and uncertainty relating to prepayment estimates.

The RMBS spread is determined by collecting RMBS spreads from publicly issued Dutch RMBS-transactions. The discount spread is derived by adding related RMBS costs to the RMBS spread.

Sensitivity analysis carried out on the prepayment rates used in the valuation model of the mortgage loans showed that the variability in these rates does not have a significant impact on the total value of the Residential Mortgage portfolio.

**Equity investments (including investments in associates) - level 3**
The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process. To approximate the fair value at the reporting date, the net asset value is adjusted, where appropriate, for factors such as, subsequent capital contributions and fund distributions, movements in exchange rate and subsequent changes in the fair value of the underlying investee companies, where these are known to NIBC.

The fair value of equity investments is established by applying capitalisation multiples to maintainable earnings. Maintainable earnings are estimated based on the normalised last twelve months' Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). Capitalisation multiples are derived from the enterprise value and the normalised last twelve months EBITDA at the acquisition date. On each reporting date, the capitalisation multiple of each equity investment is compared against those derived from the publicly available enterprise value and earnings information of traded peers, where these can be identified. Peer capitalisation multiples are normalised for factors such as differences in regional and economic environment, time lags in earnings information and one-off gains and losses.

The resulting enterprise value is adjusted for net debt, non-controlling interests, illiquidity and management incentive plans to arrive at the fair value of the equity.

**Debt investments - level 3**
For the level 3 debt investments, NIBC uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

## Financial liabilities at fair value through profit or loss (including trading)

**Own liabilities designated at fair value through profit or loss - level 2**
This portfolio was designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:
- Own debt securities in issue (financial liabilities at fair value through profit or loss);
- Debt securities in issue structured (financial liabilities at fair value through profit or loss); and
- Subordinated liabilities (financial liabilities at fair value through profit or loss).

Debt securities in issue structured consist of notes issued with embedded derivatives that are tailored to specific investors' needs. The return on these notes is dependent upon the level of certain underlying equity, interest rate, currency, credit, commodity or inflation-linked indices. The embedded derivative within each note issued is fully hedged on a back-to-back basis, such that effectively synthetic floating rate funding is created. Because of this economic hedge, the income statement is not sensitive to fluctuations in the price of these indices.

In the case of debt securities in issue structured and subordinated liabilities, the fair value of the notes issued and the back-to-back hedging swaps is determined using valuation models developed by a third party employing Monte Carlo simulation, lattice valuations or closed formulas, depending on the type of embedded derivative. These models use market-observable inputs (e.g. interest rates, equity prices) for valuation of these structures.

For each class of own financial liabilities at fair value through profit or loss, the expected cash flows are discounted to present value using interbank zero-coupon rates. The resulting fair value is adjusted for movements in the credit spread applicable to NIBC issued funding.

## 44.5 Valuation adjustments and other inputs and considerations

### Credit and debit valuation adjustments

NIBC calculates CVA/DVA (as defined in Critical accounting estimates and judgements) on a counterparty basis over the entire life of the exposure.

### Bid-offer

NIBC's pricing models initially calculate mid-market prices, which are subsequently adjusted to reflect bid-offer spreads (the difference between prices quoted for sales and purchases). NIBC Markets pricing models use bid prices.

### Day 1 profit

A Day 1 profit, representing the difference between the transaction price and the fair value output of internal models, is recognised when the inputs to the valuation models are observable market data.

## 44.6 Impact of valuation adjustments

The following table shows the amount recorded in the income statement:

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Type of adjustment** | | |
| Risk related | - | - |
| Credit value adjustment/Debit value adjustment | 4 | 2 |
| **Totally Risk related** | **4** | **2** |
| Bid-offer adjustment | (3) | (3) |
| Day-1 profit (see the following table) | 3 | 3 |
| | **4** | **2** |

The following table shows the movement in the aggregate profit not recognised when financial instruments were initially recognised (Day 1 profit), because of the use of valuation techniques for which not all the inputs were market observable data.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Movement schedule of day-1 profit** | | |
| **Balance at 1 january** | **14** | **16** |
| Deferral of profit on new transactions | - | - |
| **Recognised in the income statement during the year:** | | |
| Subsequent recognition due to amortisation | (3) | (2) |
| Derecognition of the instruments | - | - |
| Exchange differences | - | - |
| **Balance at 31 december** | **11** | **14** |

## 44.7 Own credit adjustments on financial liabilities designated at fair value

The own credit presentation requirements of IFRS 9 were early applied as of 1 January 2016. From this date onward, changes in the fair value of financial liabilities designated at fair value through profit and loss related to own credit are recognised in Other comprehensive income and presented in the Statement of comprehensive income, and no longer in Net trading income within the Income statement. The following table summarises the effects of own credit adjustments related to financial liabilities designated at fair value. Life-to-date amounts reflect the cumulative unrealised change since initial recognition.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Recognised during the period (before tax):** | Included in OCI | Included in OCI |
| Realised gain/(loss) | - | - |
| Unrealised gain/(loss) | 67 | (16) |
| | **67** | **(16)** |
| Unrealised life-to-date gain/(loss) | 69 | 136 |
| | **69** | **136** |

## 44.8 Transfers between level 1 and level 2

During the year ended 31 December 2017 and 2016, there were no transfers between level 1 and level 2 fair value measurements.

## 44.9 Movements in level 3 financial instruments measured at fair value

During the year ended 31 December 2017, there were no transfers into and out of level 3 fair value measurements.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value:

| in EUR millions | At 1 January 2017 | Amounts recognised in the income statement | Amounts recognised recorded in OCI | Purchases/ Additions | Sales | Settle-ments/ Disposals | Trans-fers into level 3 | Trans-fers from level 3 | At 31 December 2017 |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | | | | | | |
| Loans | 24 | - | - | - | - | (24) | - | - | - |
| Equity investments | 41 | (1) | (1) | - | - | (3) | - | - | 36 |
| Debt investments | 1 | - | - | - | - | - | - | - | 1 |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | | | | |
| Loans | - | | | | | | | | - |
| Mortgage loans own book | 4,124 | (8) | - | 1,035 | - | (570) | - | - | 4,581 |
| Securitised mortgage loans | 1,550 | (83) | - | - | - | (1,129) | - | - | 338 |
| Equity investments (including investments in associates) | 202 | 60 | - | 35 | - | (12) | - | - | 285 |
| Debt investments | 1 | - | - | - | (1) | - | - | - | - |
| | **5,943** | **(32)** | **(1)** | **1,070** | **(1)** | **(1,738)** | **-** | **-** | **5,241** |

| in EUR millions | At 1 January 2016 | Amounts recognised in the income statement | Amounts recognised recorded in OCI | Purchases/ Additions | Sales | Settle-ments/ Disposals | Trans-fers into level 3 | Trans-fers from level 3 | At 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | | | | | | |
| Loans | 18 | - | 4 | - | - | 2 | - | - | 24 |
| Equity investments | 48 | (1) | (3) | - | (3) | - | - | - | 41 |
| Debt investments | 1 | - | - | - | - | - | - | - | 1 |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | | | | |
| Loans | 14 | 6 | - | - | - | (20) | - | - | - |
| Mortgage loans own book | 4,111 | 18 | - | 466 | - | (471) | - | - | 4,124 |
| Securitised mortgage loans | 2,266 | (50) | - | - | - | (666) | - | - | 1,550 |
| Equity investments (including investments in associates) | 222 | 14 | - | 41 | (75) | - | - | - | 202 |
| Debt investments | - | - | - | 1 | - | - | - | - | 1 |
| | **6,680** | **(13)** | **1** | **508** | **(78)** | **(1,155)** | **-** | **-** | **5,943** |

Total gains or losses on level 3 financial instruments in the previous table are presented in the income statement and other comprehensive income as follows:

| in EUR millions | 31 December 2017 Net trading income | 31 December 2017 Investment income | 31 December 2017 Revaluation reserve | 31 December 2017 Total | 31 December 2016 Net trading income | 31 December 2016 Investment income | 31 December 2016 Revaluation reserve | 31 December 2016 Total |
|---|---|---|---|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | | | | | |
| Loans | - | - | - | - | - | - | 4 | 4 |
| Equity investments | - | (1) | (1) | (2) | - | (1) | (3) | (4) |
| Debt investments | - | - | - | - | - | - | - | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | | | |
| Loans | | | | - | 6 | - | - | 6 |
| Mortgage loans own book | (8) | - | - | (8) | 18 | - | - | 18 |
| Securitised mortgage loans | (83) | - | - | (83) | (50) | - | - | (50) |
| Equity investments (including investments in associates) | - | 60 | - | 60 | - | 14 | - | 14 |
| Debt investments | - | - | - | - | - | - | - | - |
| | **(91)** | **59** | **(1)** | **(33)** | **(26)** | **13** | **1** | **(12)** |

The amount in total gains or losses presented in the income statement for the period relating to the assets and liabilities held in level 3 until the end of the reporting period is given in the following table:

| in EUR millions | 31 December 2017 Held at balance sheet date | 31 December 2017 Derecognised during the year | 31 December 2016 Held at balance sheet date | 31 December 2016 Derecognised during the year |
|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | |
| Loans | - | - | - | - |
| Equity investments | (1) | - | (1) | - |
| Debt investments | | | - | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | - | - | - | 6 |
| Mortgage loans own book | (8) | - | 18 | - |
| Securitised mortgage loans | (83) | - | (50) | - |
| Equity investments (including investments in associates) | 60 | - | 15 | (1) |
| | **(32)** | **-** | **(18)** | **5** |

## Recognition of unrealised gains and losses in Level 3

Amounts recognised in the profit and loss account relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the profit and loss account as follows:

| | For the years ended | | | | | |
|---|---|---|---|---|---|---|
| | 31 December 2017 | | | 31 December 2016 | | |
| in EUR millions | Net trading income | Investment income | Total | Net trading income | Investment income | Total |
| **Financial assets available-for-sale** | | | | | | |
| Loans | - | - | - | - | - | - |
| Equity investments | - | (2) | (2) | - | (1) | (1) |
| Debt investments | - | - | - | - | - | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | |
| Loans | | | - | - | - | - |
| Mortgage loans own book | (8) | - | (8) | 18 | - | 18 |
| Securitised mortgage loans | (83) | - | (83) | (50) | - | (50) |
| Equity investments (including investments in associates) | - | 75 | 75 | - | 9 | 9 |
| | **(91)** | **73** | **(18)** | **(32)** | **8** | **(24)** |

## 44.10 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table provides a summary of the valuation techniques, key unobservable inputs and the lower and upper range of such unobservable inputs, by type of level 3 asset/liability. The lower and upper range mentioned in the overview represent the lowest and highest variance of the respective valuation input as actually used in the valuation of the different financial instruments. Amounts and percentages stated are unweighted. The range could change from period to period subject to market movements and change in level 3 position. Lower and upper bounds reflect the variability of level 3 positions and their underlying valuation inputs in the portfolio, but do not adequately reflect their level of valuation uncertainty. For valuation uncertainty assessment, please refer to following section 44.11 Sensitivity of fair value measurements to changes in observable market data.

| | At 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | in EUR millions | | | | | |
| | Fair value of level 3 assets | Fair value of level 3 liabilities | Valuation technique | Significant unobservable inputs | Lower range | Upper range |
| **Financial assets available-for-sale** | | | | | | |
| Loans | - | - | Expected cash flows | Expected salesprices underlying assets | n.a. | n.a. |
| Equity investments[1] | 36 | - | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | 1 | - | Expected cash flows | Expected cash flows from colleteral | 0% | 100% |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | |
| Mortgage loans own book | 4,581 | - | Discounted projected cash flows | Discount Spread (bps) | 111 | 146 |
| | | | Discounted projected cash flows | CPR | 8% | 10% |
| Securitised mortgage loans | 338 | - | Discounted projected cash flows | Discount Spread (bps) | 111 | 146 |
| | | | Discounted projected cash flows | CPR | 8% | 10% |
| Equity investments (including investments in associates)[1] | 285 | - | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | - | - | Bid price | Price % | 0% | 100% |
| | **5,241** | **-** | | | | |

1 Given the wide range of diverse investments and the correspondingly large differences in prices, NIBC does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

| | At 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | in EUR millions | | | | | |
| | Fair value of level 3 assets | Fair value of level 3 liabilities | Valuation technique | Significant unobservable inputs | Lower range | Upper range |
| **Financial assets available-for-sale** | | | | | | |
| Loans | 24 | - | Expected cash flows | Expected salesprices underlying assets | 75% | 125% |
| Equity investments[1] | 41 | - | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | 1 | - | Expected cash flows | Expected cash flows from colleteral | 0% | 100% |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | |
| Mortgage loans own book | 4,124 | - | Discounted projected cash flows | Discount Spread (bps) | 119 | 174 |
| | | | Discounted projected cash flows | CPR | 8% | 10% |
| Securitised mortgage loans | 1,550 | - | Discounted projected cash flows | Discount Spread (bps) | 119 | 174 |
| | | | Discounted projected cash flows | CPR | 8% | 10% |
| Equity investments (including investments in associates)[1] | 202 | - | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | 1 | - | Bid price | Price % | 0% | 100% |
| | **5,943** | **-** | | | | |

1 Given the wide range of diverse investments and the correspondingly large differences in prices, NIBC does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

## Non-Listed equity investments

Level 3 equity securities mainly include corporate investments, fund investments and other equity securities which are not traded in active markets. In the absence of an active market, fair values are estimated on the analysis of fund manager reports, company's financial position and other factors.

### Discount spreads
Discount spread is the spread above a market interest rate, based on Euribor, which is used to discount the projected cash flows. The lower range is the outcome of a bottom-up valuation approach, the upper range is the result of a top-down valuation approach.

### Expected sales prices underlying assets
The fair value of the loans available for sale is highly dependend on the projected sales prices of the underlying assets. The lower level assumes actual salesprices of 75% of the projected sales prices the higher level assumes actual salesprices of 125%.

### Price
For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay good yield.

### Debt investments AFS
Level 3 AFS debt investments are valued based on the expected cashflows of the instrument flowing from the collateral.

## 44.11 Sensitivity of fair value measurements to changes in observable market data
The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

| | For the years ended | | | |
|---|---|---|---|---|
| | 31 December 2017 | | 31 December 2016 | |
| in EUR millions | Carrying amount | Effect of reasonably possible alternative assumptions | Carrying amount | Effect of reasonably possible alternative assumptions |
| **Financial assets available-for-sale** | | | | |
| Loans | - | - | 24 | 1 |
| Equity investments (unlisted) | 36 | 2 | 41 | 2 |
| Debt investments | 1 | - | 1 | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | | | - | - |
| Mortgage loans own book | 4,581 | 14 | 4,124 | 12 |
| Securitised mortgage loans | 338 | 1 | 1,550 | 4 |
| Equity investments (including investments in associates) | 285 | 14 | 202 | 10 |
| Debt investments | | | 1 | - |

In order to determine the reasonably possible alternative assumptions, NIBC adjusted key unobservable valuation technique inputs as follows:

- For equity investments, the material unobservable input parameters, such as capitalisation multiple, that are applied to the maintainable earnings to determine fair value are adjusted by 5%;

- For the mortgage loans classified at fair value through profit or loss (both those NIBC holds on its own book and those NIBC has securitised), NIBC adjusted the discount spread with 10bp as a reasonably possible alternative outcome;
- For the debt investments, NIBC adjusted the weighted average calculated model price by 100 basis points as a reasonably possible alternative outcome. The primary unobservable input in the calculated model price is the applicable credit spread; and
- For loans, the material unobservable input parameters, such as discounts on sale prices, a 5% deviation in fair value is a reasonably possible alternative assumption.

In 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the NIBC's financial assets and liabilities and there were no reclassifications of financial assets.

## 44.12 Fair value information on financial instruments not measured at fair value

The following table presents the carrying values and estimated fair values of financial assets and liabilities, excluding financial instruments which are carried at fair value on a recurring basis.

| | Fair value information at 31 December 2017 | | | | |
|---|---|---|---|---|---|
| in EUR millions | Level 1 | Level 2 | Level 3 | Carrying value | Fair value |
| **Financial assets at amortised cost** | | | | | |
| Loans | - | 7,749 | - | 7,749 | 7,760 |
| Mortgage loans own book | - | - | 4,412 | 4,412 | 4,725 |
| Debt investments | - | 57 | 2 | 59 | 55 |
| **Financial liabilities at amortised cost** | | | | | |
| Own debt securities in issue | - | 4,392 | - | 4,392 | 4,466 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 267 | 267 | 267 |
| Subordinated liabilities | - | 115 | - | 115 | 135 |

| | Fair value information at 31 December 2016 | | | | |
|---|---|---|---|---|---|
| in EUR millions | Level 1 | Level 2 | Level 3 | Carrying value | Fair value |
| **Financial assets at amortised cost** | | | | | |
| Loans | - | 8,269 | - | 8,269 | 8,370 |
| Mortgage loans own book | - | - | 3,346 | 3,346 | 3,618 |
| Debt investments | - | 287 | - | 287 | 261 |
| **Financial liabilities at amortised cost** | | | | | |
| Own debt securities in issue | - | 3,855 | - | 3,855 | 3,717 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 1,337 | 1,337 | 1,348 |
| Subordinated liabilities | - | 122 | - | 122 | 120 |

**Financial instruments for which carrying value approximates fair value**

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These financial instruments include cash and balances with central banks, due from other banks, due to other banks, deposits from customers and other financial liabilities. These financial instruments are not included in the previous table.

### 44.13 Non-financial assets valued at fair value

NIBC's land and buildings are valued at fair value through equity. The carrying amount of NIBC's land and buildings (level 3) as of 31 December 2017 was EUR 40 million (31 December 2016: EUR 40 million). The land and buildings were last revalued as of 31 December 2017 based on external appraisal. No fair value movements were recognised in the statement of comprehensive income or the income statement in respect of NIBC's land and buildings in 2017 and 2016.

## 45 Reclassification financial assets (application of amendments to IAS 39 and IFRS 7)

As of 1 July 2008, NIBC reclassified non-derivative trading financial assets, which do not meet the definition of loans and receivables and are no longer held for the purpose of selling them in the near term, from held for trading to available-for-sale. NIBC believes that the deterioration of the world's financial markets that occurred in the course of 2008 represents a rare circumstance that allows such a reclassification, under the exemption rules of IAS 39.

In addition, NIBC reclassified financial assets from held for trading and available-for-sale to loans and receivables. At the date of reclassification NIBC had the intention and ability to hold these reclassified loans and receivables for the foreseeable future or until maturity.

**Impact reclassification financial assets on comprehensive income**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| in EUR millions | After reclassification | Before reclassification | After reclassification | Before reclassification |
| Net interest income | 15 | 16 | 16 | 15 |
| Net trading income | 1 | 6 | 1 | 1 |
| Impairment of financial assets | (4) | (4) | 4 | 4 |

**Impact reclassification financial assets**

The following table presents the fair value and carrying value of the financial assets reclassified as of 1 July 2008:

| in EUR millions | Loan portfolio reclassified from: Available-for-sale category to AC | Debt investments reclassified from: Held for trading category to AC | Available-for-sale category to AC | Held for trading category to AFS |
|---|---|---|---|---|
| Fair value on date of reclassification | 457 | 121 | 7 | 7 |
| Carrying amount as per 31 December 2017 | 505 | 57 | 2 | 1 |
| Fair value as per 31 December 2017 | 460 | 51 | 2 | 1 |
| Range of effective interest rates at the date of reclassification[1] | 5-9% | 6-13% | 6-6% | 23-23% |
| Expected undiscounted recoverable cash flows EUR | 512 | 194 | 10 | 19 |

1 Ranges of effective interest rates were determined based on weighted average rates.

**Revaluation reserve financial assets reclassified into available-for-sale category**

NIBC chose to reclassify (as of 1 July 2008) certain financial assets that were no longer held for the purpose of selling in the near term as permitted by the amendment to IAS 39 and IFRS 7. In NIBC's judgement, the deterioration in the world's financial markets was an example of a rare circumstance applicable on the date of reclassification. Had NIBC determined that the market conditions during 2008 did not represent a rare circumstance or that NIBC did not have the intention and ability to hold the financial assets for the foreseeable future or until maturity, and had NIBC therefore not reclassified the financial assets, no net of tax gain (2016: no gain) would have been recognised in the income statement and an incremental net of tax gain of EUR 7 million (2016: net of tax gain of EUR 1 million) would have been recognised in the revaluation reserve in equity in 2017 due to changes in fair value.

## 46 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

| in EUR millions | At 31 December 2017: Gross amount of recognised financial assets | Gross amount of recognised financial liabilities set off in the balance sheet | Net amount of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet: Financial instruments collateral | Cash collateral received | Net amount |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Derivative financial assets | 1,353 | 332 | 1,021 | - | 248 | 773 |
| Reverse repurchase agreements | - | - | - | - | - | - |
| | **1,353** | **332** | **1,021** | **-** | **248** | **773** |

| in EUR millions | At 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the balance sheet | Net amount of financial liabilities presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
| | | | | Financial instruments collateral | Cash collateral pledged | |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 1,195 | 332 | 863 | - | 627 | 236 |
| Repurchase agreements | - | - | - | - | - | - |
| | **1,195** | **332** | **863** | **-** | **627** | **236** |

| in EUR millions | At 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount of recognised financial assets | Gross amount of recognised financial liabilities set off in the balance sheet | Net amount of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
| | | | | Financial instruments collateral | Cash collateral received | |
| **Assets** | | | | | | |
| Derivative financial assets | 1,817 | - | 1,817 | - | 114 | 1,703 |
| Reverse repurchase agreements | - | - | - | - | - | - |
| | **1,817** | **-** | **1,817** | **-** | **114** | **1,703** |

| in EUR millions | At 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the balance sheet | Net amount of financial liabilities presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
| | | | | Financial instruments collateral | Cash collateral pledged | |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 2,006 | - | 2,006 | - | 1,016 | 990 |
| Repurchase agreements | - | - | - | - | - | - |
| | **2,006** | **-** | **2,006** | **-** | **1,016** | **990** |

Related amounts which cannot be set off in the balance sheet position are amounts which are part of ISDA netting agreements. The related amounts are reported on the asset side and the liability side of the balance sheet as the ISDA agreements does not meet all requirements for offsetting in IAS 32.

In 2017 NIBC Holding started offsetting assets and liabilities related to derivative transactions with central clearing members. Under certain conditions derivative positions with the same characteristics such as counterparty, maturity bucket and currency are netted.

## 47 Repurchase and resale agreements and transferred financial assets

NIBC has a programme to borrow and lend securities and to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos'). The securities lent or sold under agreements to repurchase are transferred to a third party and NIBC receives cash, or other financial assets in exchange. The counterparty is allowed to sell or repledge those securities lent or sold under repurchase agreements in the absence of default by NIBC, but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under terms based on the applicable ISDA Collateral Guidelines. If the securities increase or decrease in value, NIBC may in certain circumstances, require, or be required, to pay additional cash collateral. NIBC has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly NIBC may sell or repledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by NIBC, which instead records a separate asset for the cash collateral given.

NIBC conducts these transactions under terms agreed in Global Master Repurchase Agreements. As per year-end 2017 NIBC did not have any repuchase and resale agreement related positions as described in this Note (2016: nil).

**Transferred financial assets**

This disclosure provides insight into the relationship between these transferred financial assets and associated financial liabilities in order to understand which risks the bank is exposed to when the assets are transferred.

If transferred financial assets continue to be recognised on the balance sheet, NIBC is still exposed to changes in the fair value of the assets.

**Transferred financial assets that are not derecognised in their entirety**

The following table shows transferred financial assets that are not derecognised in their entirety.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | RMBS programme | Covered Bond programme | RMBS programme | Covered Bond programme |
| in EUR millions | Securitised mortgage loans (FVtPL) | Mortgage loans own Book (AC and FVtPL) | Securitised mortgage loans (FVtPL) | Mortgage loans own Book (AC and FVtPL) |
| **Securitisations:** | | | | |
| Carrying amount transferred assets | 338 | 2,926 | 1,550 | 2,428 |
| Carrying amount associated liabilities | 267 | 2,007 | 1,337 | 2,028 |
| Fair value of assets | 338 | 3,049 | 1,550 | 2,526 |
| Fair value of associated liabilities | 267 | 2,009 | 1,348 | 1,881 |
| Net position | 71 | 1,040 | 202 | 645 |

**RMBS programme**

NIBC uses securitisations as a source of funding whereby the *Structured Entity* (**SE**) issues debt securities. Pursuant to a securitisation transaction utilising true sale mechanics, NIBC transfers the title of the assets to SEs.When the cash flows are transferred to investors in the notes issued by consolidated securitisation vehicles, the assets (residential mortgage loans) are considered to be transferred.

**The Covered Bond programme**

Under NIBC's Covered Bond programme, notes are issued by NIBC from its own balance sheet. Bond holders are protected from suffering a loss even in the event that NIBC defaults because at the point the notes were issued, NIBC also transferred the legal title of a portfolio of mortgages to a *Structured Entity* (**SE**) to act as collateral for the covered bond investors. From a legal perspective, the SE guarantees the repayment of the Covered Bonds. The title transfer of the mortgages has been achieved by NIBC providing an inter-company loan on the same terms and conditions as the external bonds to the SE. The SE used the proceeds to purchase the mortgage portfolio. The net result is that the SE retains the legal title, but proceeds from the mortgages are passed through the intercompany loan to the covered bond holders. NIBC consolidates the SE on the basis that, in addition to having power as the sole owner, NIBC also is entitled to substantial variable returns through the over-collateralised portion of the sold mortgages.

**Continuing involvement in transferred financial assets that are derecognised in their entirety**

NIBC does not have any material transferred assets that are derecognised in their entirety, but where NIBC has continuing involvement.

## 48 Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers related to mortgages at fixed-interest rates or fixed spreads are hedged with interest rate swaps recorded at fair value. These commitments are designated upon initial recognition at fair value through profit or loss.

NIBC provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. In the following table, it is assumed that amounts are fully advanced.

The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Contract amount:** | | |
| Committed facilities with respect to corporate loan financing | 1,533 | 1,303 |
| Committed facilities with respect to mortgage loans | 158 | 708 |
| Capital commitments with respect to equity investments | 12 | 19 |
| Guarantees granted | 43 | 76 |
| Irrevocable letters of credit | 35 | 18 |
| | **1,781** | **2,124** |

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 56 Credit risk.

## Contingent liabilities related to income tax

The European Commission has addressed questions related to the Dutch Government about article 29a of the Dutch Corporate Income Tax Code. If the European Commission would decide to start a formal investigation and ultimately would conclude that this is a case of state aid, NIBC may have to repay tax benefits it will enjoy from 208 onwards Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. In this context NIBC issued Capital Securities in September 2017, amounting EUR 200 million at a fixed interest rate of 6%. The contingent liability related to this matter may start at the (fully discretionary) first coupon payment date (scheduled in March 2018).

## Claims, investigations, litigation or other proceedings or actions may have a material adverse effect on NIBC's business, results of operations, financial condition and prospects.

NIBC is involved in a number of proceedings and settlement negotiations that arise with customers, counterparties, current or former employees or others arising in the ordinary course of business. Proceedings may relate to, for example, alleged violations of NIBC's duty of care (*zorgplicht*) vis-a-vis its (former) customers, the provision of allegedly inadequate investment advice or the provision of allegedly inadequate services. Dutch financial services providers are increasingly exposed to collective claims from groups of customers or consumer organisations seeking damages for an unspecified or indeterminate amount or involving unprecedented legal claims in respect of assumed mis-selling or other violations of law or customer rights. While NIBC has made considerable investment in reviewing and assessing historic sales and "know your customer" practices and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historic sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated. Furthermore, 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 client expectations. Negative publicity associated with certain sales practices, compensation payable in respect of such issues or regulatory changes resulting from such issues could have a material adverse effect on NIBC's reputation, business, results of operations, financial condition and prospects.

It is difficult for NIBC to predict the outcome of many of the pending or future claims, regulatory proceedings and other adversarial proceedings. The costs and staffing capacity required to defend against future actions may be significant. Counterparties in these proceedings may also seek publicity, over which NIBC will have no control, and this publicity could lead to reputational harm to NIBC and potentially decrease customer acceptance of NIBC's services, regardless of whether the allegations are valid or whether NIBC is ultimately found liable. In addition, NIBC's provisions for defending these claims may not be sufficient.

On the basis of legal advice, taking into consideration the facts known at present NIBC is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position and the consolidated results.

## 49 Assets transferred or pledged as collateral

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Assets have been pledged as collateral in respect of the following liabilities and contingent liabilities:** | | |
| **Liabilities** | | |
| Due to other banks/Own debt securities in issue | 3,443 | 2,896 |
| Debt securities in issue related to securitised loans and mortgages | 691 | 1,945 |
| Derivative financial liabilities | 566 | 888 |
| | **4,700** | **5,729** |
| **Details of the carrying amounts of assets pledged as collateral:** | | |
| **Assets pledged** | | |
| Debt investments/Mortgage loans own book | 4,085 | 3,471 |
| Securitised loans and mortgages | 944 | 2,170 |
| Cash collateral (due from other banks) | 669 | 1,004 |
| | **5,698** | **6,645** |

As part of NIBC's funding and credit risk mitigation activities, the cash flows of selected financial assets are transferred or pledged to third parties. Furthermore, NIBC pledges assets as collateral for derivative transactions. Substantially all financial assets included in these transactions are Mortgage loans, other loan portfolios, debt investments and cash collateral. The extent of NIBC's continuing involvement in these financial assets varies by transaction.

The asset encumbrance ratio (encumbered assets and total collateral received re-used divided by total assets and total collateral re-used) at year end 2017 was 26% (2016: 29%).

## 50 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of customers. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to these assets, as it does not guarantee these investments.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Assets held and managed by NIBC on behalf of customers | 1,600 | 928 |
| | **1,600** | **928** |

Assets under management consist of the following activities:

- NIBC Leveraged Finance Markets (LFM) manages external investors' funds invested in sub-investment grade secured and unsecured debt. LFM focuses predominantly on European leveraged loans, infrastructure debt and high yield bonds;
- NIBC Infrastructure and Renewables manages external investors' funds invested in Infrastructure debt mainly located in the United Kingdom;

- The NIBC European Infrastructure Fund was established for institutional clients, and in addition acts directly for pension fund investors, assisting them with the acquisition and on-going management of infrastructure investments. Core sectors, reflecting the expertise and experience of the NIBC team, include PPP projects, waste management projects, energy storage and distribution assets and renewable energy projects in the wind, solar and waste-to-energy sectors;
- Under Originate-to-manage mandates, NIBC's retail client offering manages external investors' funds invested in Dutch mortgages;

NIBC's sustainability policy framework, including applicable sector policies, is also applicable to the investments made under these programmes.

For more information please see our website.

# 51 Business combinations and divestments

## Acquisitions

**Acquisitions in 2017**
In 2017 there were no business combinations.

**Acquisitions in 2016**
**Acquisition of SNS Securities N.V.**
On 30 June 2016, NIBC obtained control of SNS Securities N.V., located in Amsterdam, by acquiring 100% of the share capital and voting interests in the company from SNS Bank N.V. With the acquisition, NIBC initially intended to expand its service offering with capital market solutions, bond and stock broking, research and execution services for independent asset managers, commercial lending and principal investments. The acquisition of SNS Securities N.V. has been approved by the appropriate regulatory authorities and work councils. On 30 June 2016 SNS Securities N.V. changed its name into NIBC Markets N.V. Based on change in strategic priorities NIBC announced in January 2017 to discontinue a part of these services in the first half year of 2017.

*Acquisition-related costs*
Acquisition related costs of EUR 1 million have been charged to other operating expenses in the consolidated income statement for the period ended 31 December 2016.

The following table summarises the consideration transferred and the fair value of assets acquired and liabilities assumed at the acquisition date. The fair value of the identifiable net assets is based on an assessment by an external independent valuator. The valuation was completed in 2016.

| in EUR millions | Fair value recognised on acquisition |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 38 |
| Loans and receivables (AC) | 71 |
| Debt investments (FV) | 79 |
| Other | 2 |
| | **190** |
| **Liabilities** | |
| Due to other banks | 93 |
| Deposits from customers | 68 |
| Other | 3 |
| | **164** |
| **Total identifiable net assets at fair value** | **26** |
| Badwill (negative goodwill) arising on acquisition | 22 |
| **Total consideration transferred** | **4** |

NIBC paid EUR 4 million in cash for 100% of the shares outstanding.

EUR 22 million was recognised as badwill (negative goodwill) (income) on the acquisition of SNS Securities N.V. and is recognised on Other operating income of the consolidated income statement.

*Acquired loans and receivables (AC)*
The fair value of the receivables comprise gross amounts. NIBC estimates that all receivables are collectible.

*Intangible assets and contingent liabilities*
There are no material intangible assets identified and contingent liabilities related to the acquisition of SNS Securities N.V.

*Revenue and profit contribution*
From the date of acquisition to 31 December 2016 the impact of NIBC Markets N.V. on NIBC's results was a loss of EUR 2.4 million (excluding recognised badwill of EUR 22 million).

If this acquisition had occurred on 1 January 2016, management estimates that the result from this company included in the consolidation would have been a loss of EUR 3.3 million.

## Divestments

### Divestments closed in 2017
There were no divestments in 2017.

### Divestments closed in 2016
In September 2015, NIBC committed to a plan to sell its non-financial company Olympia Nederland Holding B.V., which was consequently classified as a Disposal group held for sale. In February 2016 NIBC reached an agreement on the sale of Olympia to a third party which was closed on 2 June

2016. The sale is based upon a strategic decision to place greater focus on NIBC's key financial services competencies.

## 52 Related party transactions

In the normal course of business, NIBC 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. Related parties of NIBC include, amongst others, its subsidiaries, associates and key management personnel. The transactions were made at an arm's length price. Transactions between NIBC and its subsidiaries meet the definition of related party transactions. However, as all of these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

**Transactions with NIBC's parent company**

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Transactions involving NIBC's shareholder** | | |
| Assets | 203 | 225 |
| Liabilities | - | - |
| Off-balance sheet commitments | - | - |
| | | |
| Income received | 1 | 1 |
| Expenses paid | - | - |

**Transactions with other entities controlled by the parent company**

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Transactions involving NIBC's shareholder** | | |
| Assets | 268 | 319 |
| Liabilities | (26) | (25) |
| Off-balance sheet commitments | 90 | 55 |
| | | |
| Income received | 56 | 1 |
| Expenses paid | - | - |

In March 2016, NIBC Holding (the parent company of NIBC) acquired BEEQUIP B.V. (BEEQUIP). Before and after the acquisition, NIBC financed BEEQUIP. At acquisition date the (long-term) loan to BEEQUIP amounted to EUR 52 million. NIBC's exposure at 31 December 2017 amounted to EUR 208 million (31 December 2016: EUR 113 million).

In May 2015, NIBC obtained control of Vijlma B.V. with a view to resale to NIBC Investments N.V. (a subsidiary of the parent company of NIBC). Subsequently Vijlma B.V. was sold to NIBC Investments N.V. on 30 June 2015. NIBC's exposure to Vijlma B.V. at 31 December 2017 amounted to EUR 49 million (31 December 2016: EUR 220 million).

**Transactions within the group**

Transactions within the group are as described in 'transactions with other entities controlled by the parent company'. No other transactions occured in 2017.

**Transactions related to associates**

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Transactions related to associates** | | |
| Assets | 82 | 86 |
| Liabilities | - | - |
| Off-balance sheet commitments | 4 | 12 |
| | | |
| Income received | 8 | 10 |
| Expenses paid | - | - |

Assets, liabilities, commitments and income related to associates result from transactions which are executed as part of the normal banking business. Summarised financial information for the group's investments in associates is set out in note 53 Principal subsidiaries and associates.

NIBC did not earn fees on the loans from these associates in 2017 and 2016.

## Key management personnel investments

NIBC's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NIBC (directly or indirectly) and comprise the Statutory Board members and Supervisory Board members.

Except for the transaction reported below transactions with key employees are reported in the tables in note 55 Remuneration of Statutory Board members and Supervisory Board members.

In December 2016 the members of the Managing Board personally invested directly in ordinary shares of NIBC Holding N.V. for a total amount of EUR 4 million on the back of a secondary trade (at a fair value of EUR 5,81 per share) with current shareholders.

The following table shows the specifics of the investments of the Managing Board-members in shares NIBC Holding N.V.:

| Management participant | Number of shares | Investment with own funds | Loans provided by shareholders of NIBC Holding N.V. | Total invested amount | Interest in share capital of NIBC Holding N.V. |
|---|---|---|---|---|---|
| | | in EUR | | | |
| P.A.M. de Wilt (CEO) | 258,140 | 300,000 | 1,200,000 | 1,500,000 | 0.18% |
| H.H.J. Dijkhuizen (CFO) | 172,093 | 200,000 | 800,000 | 1,000,000 | 0.12% |
| R.D.J. van Riel (CRO) | 172,093 | 200,000 | 800,000 | 1,000,000 | 0.12% |

Details of the transaction in shares of NIBC Holding N.V.:
- The loans provided by shareholders of NIBC Holding N.V. are bearing interest at 5 percent, including the premium of the put options. The term of the loans is five years;
- The shares have been pledged to the providers of the loans;
- The voting rights of the shares have been transferred to the providers of the loans;
- The management participants have a put option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date;

■ The providers of the loans have a call option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date; and

■ Any future transactions in shares will be executed at fair value.

Details of the Remuneration of the Statutory Board members and Supervisory Board members are disclosed in note 55. For details of the holdings of MB and SB members in NIBC Choice instruments reference is made to note 7 Personnel expenses and share based payments.

The shares purchased cannot be sold for five years, except in the situation of a change of control of NIBC Holding N.V. In that case the loans including capitalised and accrued interest must be repaid. If a member of the Managing Board ceases employment during the five year period, the shares may not be sold.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation (i.e. Indentified Staff, including the Statutory Board).

| | Short term incentive compensation | | | | | | |
|---|---|---|---|---|---|---|---|
| in EUR | Base salary | Cash bonus | Sign-on compensation | Deferred cash | Pension related short term allowance[1] | Other remuneration elements | Total short term incentive compen-sation |
| Current Statutory Board (3) | 1,900,000 | 114,000 | - | 76,000 | 275,878 | 189,684 | 2,555,561 |
| Current Other Identified Staff (53) | 10,161,868 | 802,800 | 120,000 | 535,200 | 767,860 | 1,489,258 | 13,876,986 |
| | **12,061,868** | **916,800** | **120,000** | **611,200** | **1,043,738** | **1,678,941** | **16,432,548** |

1 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 103.317.

| | Long term (incentive) compensation | Share based payments[1] | Termination payments | |
|---|---|---|---|---|
| in EUR | Post employment contribution | (Restricted) Phantom Share Units | Severance payments | Total |
| Current Statutory Board (3) | 90,832 | 190,000 | - | 2,836,393 |
| Current Other Identified Staff (53) | 1,206,545 | 1,338,000 | - | 16,421,531 |
| | **1,297,377** | **1,528,000** | **-** | **19,257,924** |

1 Phantom share units (including sign-on).

| | Short term incentive compensation | | | | | | |
|---|---|---|---|---|---|---|---|
| in EUR | Base salary | Cash bonus | Sign-on compensation | Deferred cash | Pension related short term allowance[1] | Other remuneration elements | Total short term incentive compen-sation |
| Current Statutory Board (4) | 2,129,167 | 108,588 | 25,813 | 89,600 | 316,787 | 200,114 | 2,870,069 |
| Current Other Identified Staff (46) | 8,224,482 | 649,176 | - | 432,784 | 585,629 | 1,400,959 | 11,293,030 |
| | **10,353,649** | **757,764** | **25,813** | **522,384** | **902,416** | **1,601,073** | **14,163,099** |

1 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 101.519.

| | Long term (incentive) compensation | Share based payments[1] | Termination payments | |
|---|---|---|---|---|
| in EUR | Post employment contribution | (Restricted) Phantom Share Units | Severance payments | Total |
| Current Statutory Board (4) | 103,878 | 224,000 | - | 3,197,947 |
| Current Other Identified Staff (46) | 1,060,076 | 1,081,960 | - | 13,435,066 |
| | **1,163,954** | **1,305,960** | **-** | **16,633,013** |

1 Phantom share units (including sign-on).

| | Number of CDRs (vested) | Number of CCDRs (vested) | Number of CRDRs (unvested) | Number of phantom share units | Number of restricted phantom share units |
|---|---|---|---|---|---|
| Current Statutory Board (3) | 70,788 | 49,534 | 21,254 | 33,402 | 19,543 |
| Current Other Identified Staff (53) | 335,861 | 11,428 | - | 195,485 | 151,967 |
| | **406,649** | **60,962** | **21,254** | **228,887** | **171,510** |

| | Number of CDRs (vested) | Number of CCDRs (vested) | Number of CRDRs (unvested) | Number of phantom share units | Number of restricted phantom share units |
|---|---|---|---|---|---|
| Current Statutory Board (4) | 119,614 | 85,650 | 43,138 | 27,128 | 18,085 |
| Current Other Identified Staff (46) | 332,960 | 11,428 | - | 174,892 | 125,028 |
| | **452,574** | **97,078** | **43,138** | **202,020** | **143,113** |

# 53 Principal subsidiaries and associates

## Information on subsidiaries

### Composition of NIBC

NIBC consists of 50 (2016: 59) consolidated entities, including 15 (2016: 13) consolidated structured entities (for further details see note 54). 33 (2016: 46) of the entities controlled by NIBC are directly or indirectly held by NIBC at 100% of the ownership interests (share of capital). Third parties also hold ownership interests in 17 (2016: 13) of the consolidated entities (non-controlling interests).

### Accounting for investment in subsidiaries

In the company financial statements of NIBC, investments in subsidiaries are stated at net asset value.

### Principal subsidiaries

NIBC's principal subsidiaries are set out in the following table. This includes those subsidiaries that are most significant in the context of NIBC's business, results or financial position.

| | Principal place of business | Country | Nature of relationship | Percentage of voting rights held |
|---|---|---|---|---|
| **Subsidiaries of NIBC Bank N.V.** | | | | |
| NIBC Bank Deutschland AG | Frankfurt | Germany | Banking | 100% |
| Parnib Holding N.V. | The Hague | Netherlands | Financing | 100% |
| B.V. NIBC Mortgage-Backed Assets | The Hague | Netherlands | Financing | 100% |
| NIBC Principal Investments B.V. | The Hague | Netherlands | Financing | 100% |

**Significant judgements and assumptions used to determine the scope of the consolidation**

Determining whether NIBC has control of an entity is generally straightforward, based on ownership of the majority of the voting rights. However, in certain instances this determination will involve significant judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgement may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether NIBC, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

There is also often considerable judgement involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, NIBC may conclude that the managers of the structured entity are acting as its agent and therefore NIBC will consolidate the structured entity.

An interest in equity voting rights exceeding 50% (or in certain circumstances large minority shareholding) would typically indicate that NIBC has control of an entity. However certain entities are excluded from consolidation because NIBC does not have exposure to their variable returns and/or are managed by external parties and consequently are not controlled by NIBC. Where appropriate, interests relating to these entities are included in note 54 Structured entities.

See the basis of consolidation section of the Accounting policies for further information on other factors affecting consolidation of an entity.

**Significant restrictions to access or use NIBC's assets**

Legal, contractual or regulatory requirements as well as protective rights of non-controlling interests might restrict the ability of NIBC to access and transfer assets freely to or from other entities within NIBC and to settle liabilities of NIBC.

Since NIBC did not have any material non-controlling interests at the balance sheet date, any protective rights associated with these did not give rise to significant restrictions.

Restrictions impacting NIBC's ability to use assets:

- NIBC has pledged assets to collateralise its obligations under repurchase agreements, securities financing transactions, collateralised loan obligations and for margining purposes of OTC derivative liabilities;
- The assets of consolidated structured entities are held for the benefit of the parties that have bought the notes issued by these entities; and
- Regulatory and central bank requirements or local corporate legislation may restrict NIBC's ability to transfer assets to or from other entities within NIBC in certain jurisdictions.

**Carrying amounts of restricted assets**

| in EUR millions | At 31 December 2017 Total assets | At 31 December 2017 Restricted assets | At 31 December 2016 Total assets | At 31 December 2016 Restricted assets |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| Cash and balances with central banks | 1,604 | 151 | 918 | 133 |
| Due from other banks | 962 | 917 | 1,428 | 1,304 |
| Loans | 7,749 | 633 | 8,269 | 613 |
| Mortgages own book | 4,412 | 3,128 | 3,346 | 2,020 |
| **Financial assets at available-for-sale** | | | | |
| Equity investments | 36 | 25 | 41 | 27 |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | 181 | 120 | 210 | 128 |
| Mortgage loans own book | 4,581 | 3,283 | 4,124 | 2,516 |
| Securitised mortgage loans | 338 | 318 | 1,550 | 1,550 |
| Debt investments | 31 | - | 60 | - |
| Investments in associates | 287 | 209 | 204 | 200 |
| Investments in associates (equity method) | 10 | 10 | 7 | 6 |
| | **20,191** | **8,794** | **20,157** | **8,497** |

Previous table excludes assets that are not encumbered at an individual entity level but which may be subject to restrictions in terms of their transferability within NIBC. Such restrictions may be based on local connected lending requirements or similar regulatory restrictions. In this situation, it is not feasible to identify individual balance sheet items that cannot be transferred. This is also the case for regulatory minimum liquidity requirements. NIBC identifies the volume of liquidity reserves in excess of local stress liquidity outflows. The aggregate amount of such liquidity reserves that are considered restricted for this purpose is EUR 150 million and EUR 133 million as per 31 December 2017 and 31 December 2016, respectively.

A list of participating interests and companies for which a statement of liability have been issued has been filed at the Chamber of Commerce in The Hague.

## Information on associates

NIBC holds interests in 32 (2016: 33) associates. Five associates are considered to be material to NIBC, based on the carrying value of the investment and NIBC's income from these investees. There are no joint arrangements which are considered individually significant.

**Accounting classification and carrying value**

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Investments in associates (fair value through profit or loss) | 245 | 186 |
| Investments in associates (equity method) | 10 | 7 |
| | **255** | **193** |

**Significant associates**

NIBC's interests in significant associates are classified as associates fair value through profit or loss and are all unlisted.

The following tables illustrate the summarised financial information of NIBC's investments in associates material to NIBC.

| | Principal place of business | Country | Nature of relationship | Percentage of voting rights held |
|---|---|---|---|---|
| **Name of the associate** | | | | |
| MBF Equity 1B | The Hague | Netherlands | Investment company | 53% |
| NEIF | The Hague | Netherlands | Investment company | 29% |
| GCF II | The Hague | Netherlands | Investment company | 11% |
| Arles I B.V. | Vianen | Netherlands | Hotel | 38% |
| FINCO FUEL BENELUX B.V. | Dordrecht | Netherlands | Oil company | 30% |

The amounts shown in the following table are of the investees, not just NIBC's share for the year ended 31 December 2017. These associates are highly leveraged by equity.

| in EUR millions | Assets | Liabilities | Operating income | Other comprehensive income | Total comprehensive income[1] |
|---|---|---|---|---|---|
| MBF Equity 1B | 224 | 45 | 27 | - | 27 |
| NEIF | 436 | - | 70 | - | 70 |
| GCF II | 158 | 3 | 24 | - | 24 |
| Arles B.V. | 186 | 163 | 4 | - | 4 |
| FINCO FUEL BENELUX B.V. | 95 | 91 | 11 | - | 11 |

1 The figures are based on the latest publicly available financial information of the investee.

NIBC received no dividends from above significant associates in 2017 and 2016.

**Investments in associates and joint ventures (equity method)**

NIBC's investments in associates and joint ventures (equity method)are nil for the years ended 31 December 2017 and 2016..

**Aggregated carrying amount of associates that are individually immaterial to NIBC**

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Aggregated amount of NIBC's share of profit/(loss) from continuing operations | - | 1 |
| Aggregated amount of NIBC's share of post-tax profit/(loss) from discontinued operations | - | - |
| Aggregated amount of NIBC's share of other comprehensive income | - | - |
| | **-** | **1** |

Unrecognised share of the losses of individually immaterial associates was nil in 2017 and 2016.

### Other information on associates

NIBC's associates are subject to statutory requirements such that they cannot make remittances of dividends or make loan repayments to NIBC without agreement from the external parties.

NIBC's share of contingent liabilities or capital commitments of its associates was nil in 2017 and 2016.

## 54 Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities.

The principal use of structured entities is to provide clients with access to specific portfolios of assets and to provide market liquidity for clients through securitising financial assets. Structured entities may be established as corporations, trusts or partnerships. Structured entities generally finance the purchase of assets by issuing notes that are collateralised by and/or indexed to the assets held by the structured entities. The notes issued by structured entities may include tranches with varying levels of subordination.

Structured entities are consolidated when the substance of the relationship between NIBC and the structured entities indicate that the structured entities are controlled by NIBC, as pointed out in the Accounting policies section Basis of consolidation. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

### Consolidated structured entities

**Nature, purpose and extent of NIBC's interests in consolidated structured entities**

**Securitisation vehicles**

NIBC primarily has contractual arrangements for securitisation vehicles which may require it to provide financial support. NIBC uses securitisation as a source of financing and a means of risk transfer. At 31 December 2017 and 2016, there were no significant outstanding loan commitments to these entities.

**Financial support provided or to be provided to consolidated structured entities**

NIBC has not provided any non-contractual financial support during 2016 and 2015 and does not anticipate providing non-contractual support to consolidated structured entities in the future.

### Unconsolidated structured entities

Nature, purpose and extent of NIBC's interests in unconsolidated structured entities

The structured entities covered by this section are not consolidated since NIBC does not has control them through voting rights, contract, funding agreements and/or other means. The extent of NIBC's interests in unconsolidated structured entities will vary depending on the type of structured entity. Examples of interests in unconsolidated structured entities include debt or equity investments, liquidity facilities and guarantees in which NIBC is absorbing variability of returns from the structured entities.

**Securitisation vehicles**
NIBC established securitisation vehicles which purchase diversified pools of assets, including fixed-income securities, corporate loans, and asset-backed securities (predominantly commercial, residential and mortgage-backed assets). The securitisation vehicles fund these purchases by issuing multiple tranches of notes.

**Third-party fund entities**
NIBC provides funding to structured entities that hold a variety of assets. These entities may take the form of funding entities, trusts and private investment companies. The funding is collateralised by the asset in the structured entities. NIBC's involvement involves predominantly equity investments.

**Income derived from involvement with unconsolidated structured entities**
NIBC earns management fees and, occasionally, performance-based fees for its investment management services in relation to funds. Interest income is recognised on the funding provided to structured entities. Movements in the value of different types of notes held by NIBC in structured entities are recognised in net trading income.

**Maximum exposure to unconsolidated structured entities**
The maximum exposure to loss is determined by considering the nature of the interest in the unconsolidated structured entity. The maximum exposure for loans and trading instruments is reflected in their carrying amounts in the consolidated balance sheet. The maximum exposure for off-balance sheet instruments such as guarantees, liquidity facilities and loan commitments under IFRS 12, as interpreted by NIBC, is reflected by the notional amounts. Such amounts do not reflect the economic risks faced by NIBC because they do not take into account the effects of collateral or hedges nor the probability of such losses being incurred.

At 31 December 2017 off-balance sheet instruments amounts to EUR 14 million (2016: EUR 21 million). There were no derivatives linked to structured unconsolidated entities.

**Size of structured entities**
NIBC provides a different measure for the size of structured entities depending on their type. The following measures have been considered as appropriate indicators for evaluating the size of structured entities:
- Securitisations – notional of notes in issue when NIBC derives its interests through notes its holds and notional of derivatives when NIBC's interests is in the form of derivatives; and
- Third party fund entities – total assets in entities. For third party fund entities, size information is based on the latest available investor reports and financial statements.

**Summary of interests in unconsolidated structured entities**
The following table shows, by type of unconsolidated structured entity, the carrying amounts of NIBC's interests recognised in the consolidated statement of financial position as well as the maximum exposure to loss resulting from these interests. It also provides an indication of the size of the structured entities. The carrying amounts presented below do not reflect the true variability of returns faced by NIBC because they do not take into account the effects of collateral or hedges.

| in EUR millions | Securitisations | Third party fund entities | 2017 |
|---|---|---|---|
| **Financial assets at amortised cost** | | | |
| Loans | - | 1 | 1 |
| Debt investments | 18 | - | 18 |
| **Financial assets at available-for-sale** | | | |
| Equity investments | - | 25 | 25 |
| Debt investments | 110 | - | 110 |
| **Financial assets at fair value through profit or loss (including trading)** | | | |
| Equity investments (including investments in associates) | - | 206 | 206 |
| **Total assets** | **128** | **232** | **360** |
| Off-balance sheet exposure | - | 14 | 14 |
| **Total maximum exposure to loss** | **128** | **245** | **373** |
| Size of structured entities | 8,521 | 3,268 | 11,789 |

| in EUR millions | Securitisations | Third party fund entities | 2016 |
|---|---|---|---|
| **Financial assets at amortised cost** | | | |
| Loans | - | 36 | 36 |
| Debt investments | 127 | - | 127 |
| **Financial assets at fair value through profit or loss (including trading)** | | | |
| Equity investments | - | 27 | 27 |
| Debt investments | 135 | - | 135 |
| **Financial assets at fair value through profit or loss (including trading)** | | | |
| Equity investments (including investments in associates) | - | 146 | 146 |
| **Total assets** | **262** | **209** | **471** |
| Off-balance sheet exposure | - | 21 | 21 |
| **Total maximum exposure to loss** | **262** | **230** | **492** |
| Size of structured entities | 6,608 | 3,440 | 10,048 |

Loans of EUR 1 million (2016: EUR 36 millions) consist of investments in securitisation tranches and financing to third party fund entities. NIBC's financing to third party fund entities is collateralised by the assets in those structured entities.

No debt investments are collateralised by the assets contained in these entities.

Equity investments of EUR 231 million (2016: EUR 173 million) primarily consist of investments in associates of EUR 57 million, EUR 117 million and EUR 17 million in NIBC MBF Equity IB B.V., NIBC European Infrastructure Fund I C.V. and JC Flowers II LP respectively.

### Exposure to losses

NIBC's exposure to losses related to securitisations depends on the level of subordination of the interest which indicates the extent to which other parties are obliged to absorb credit losses before NIBC. This is summarised in the following table. There is no significant level of subordination relating to third-party funding.

| in EUR millions | Subordinated interests | Mezzanine interests | Senior interests | Most senior interests | 2017 |
|---|---|---|---|---|---|
| **Securitisations** | | | | | |
| I) Maximum exposure to loss | - | - | - | 128 | 128 |
| II) Potential losses held by other investors | - | 247 | 625 | 7,521 | 8,393 |

| in EUR millions | Subordinated interests | Mezzanine interests | Senior interests | Most senior interests | 2016 |
|---|---|---|---|---|---|
| **Securitisations** | | | | | |
| I) Maximum exposure to loss | - | 58 | - | 204 | 262 |
| II) Potential losses held by other investors | - | 489 | 1,532 | 4,324 | 6,345 |

### Income from interests in unconsolidated structured entities

The following table presents NIBC's total income received from its interests in unconsolidated structured entities:

| in EUR millions | Securitisations | Third party entities | 2017 |
|---|---|---|---|
| **Net income unconsolidated structured entities** | | | |
| Net interest income | - | 5 | 5 |
| Net fee and commission income | - | 6 | 6 |
| Investment income | - | 45 | 45 |

| in EUR millions | Securitisations | Third party entities | 2016 |
|---|---|---|---|
| **Net income unconsolidated structured entities** | | | |
| Net interest income | 4 | (1) | 3 |
| Net fee and commission income | - | 1 | 1 |
| Investment income | - | 10 | 10 |

### Financial support provided or to be provided to unconsolidated structured entities

NIBC has not provided any non-contractual financial support during the period and does not intend to provide non-contractual support to unconsolidated structured entities in the future.

### Sponsored unconsolidated structured entities

As a sponsor, NIBC is involved in the legal structure and marketing of the entity and supports the entity in different ways, namely:

- transferring assets to the entities; and
- providing operational support to ensure the entity's continued operation.

NIBC is also deemed a sponsor for a structured entity if market participants would reasonably associate the entity with NIBC. Additionally, the use of the NIBC name for the structured entity indicates that NIBC has acted as a sponsor.

Income from sponsored unconsolidated structured entities in which NIBC did not hold an interest as per 31 December 2017 comprised to nil (31 December 2016: nil) interest earned from bonds recognised within interest income.

**Assets transferred to unconsolidated sponsored structured entities**

The carrying amounts of assets transferred to unconsolidated sponsored structured entities during the period were nil.

## 55 Remuneration of the Statutory Board members and Supervisory Board members

### Remuneration of the Statutory Board members

The Supervisory Board reviewed and amended NIBC's Remuneration Policy in 2015. The review took account of all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the *DNB Principles on Sound Remuneration Policies* (**DNB Principles**), *European Banking Authority* (**EBA**) and CRD IV and the Dutch *remuneration legislation for Financial Service Companies* (Wet beloning Financiële ondernemingen - Wbfo).

**Regular annual remuneration**

In 2017, the average number of members of the Statutory Board appointed under the articles of association was 3.0 (2016: 3.7). For the total regular annual remuneration costs (including pension costs) for members and former members of the Statutory Board, appointed under the articles of association, reference is made to note 7 Personnel expenses and share-based payments. During 2016 the following changes occurred in the Statutory Board: At 15 March 2016 Petra van Hoeken stepped down as Chief Risk Officer of the statutory Board and her employment ended on the same date. At 1 August 2016 Reinout van Riel joined NIBC and was appointed as Chief Risk Officer of the Statutory Board on 15 August 2016. In 2017 Herman Dijkhuizen was reappointed as Chief Financial Officer.

**Base salary and short-term incentive compensation (cash bonus)**

In 2017, the base salary for the Chairman and for members of the Statutory Board remained the at the same level as 2016. As of 1 January 2015, in light of the legislation on remuneration for Financial Service Companies and the social context, the long-term incentive arrangement (40% to 70% of base salary) was revoked by the Supervisory Board and replaced by a short-term variable income component at target of 15% of base salary (with a maximum of 20%).The variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in Phantom Share Units and 20% in Restricted Phantom Share Units.

Over 2017 the following incentive compensation of base salary was granted: The Chief Executive Officer 20%, The Chief Financial Officer 20% and the Chief Risk Officer 20%.

## The compensation awards per member and former member of the statutory board at 31 December 2017:

| | Short term (incentive) compensation | | | | | | |
|---|---|---|---|---|---|---|---|
| in EUR | Base salary | Cash bonus | Sign-on compensation | Granted Deferred cash[1] | Pension related short term allowance[2] | Other remuneration elements | Total short term incentive compen-sation |
| Mr. Paulus de Wilt, Chief Executive Officer, Chairman | 800,000 | 48,000 | - | 32,000 | 119,881 | 79,743 | 1,079,624 |
| Mr. Herman Dijkhuizen, Chief Financial Officer | 550,000 | 33,000 | - | 22,000 | 92,525 | 65,222 | 762,747 |
| Mr. Reinout van Riel, Chief Risk Officer | 550,000 | 33,000 | - | 22,000 | 63,472 | 44,719 | 713,191 |
| | **1,900,000** | **114,000** | **-** | **76,000** | **275,878** | **189,684** | **2,555,561** |

1 This granted remuneration will be expensed in future years (including sign on)
2 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 103.317.

| | Long term (incentive) compensation | Share based payments | Share based payments | Termination payments | |
|---|---|---|---|---|---|
| in EUR | Post employment contribution | Phantom Share Units | Restricted Phantom Share Units[1] | Severance payments | Total |
| Mr. Paulus de Wilt, Chief Executive Officer, Chairman | 31,574 | 48,000 | 32,000 | - | 1,191,198 |
| Mr. Herman Dijkhuizen, Chief Financial Officer | 30,144 | 33,000 | 22,000 | - | 847,891 |
| Mr. Reinout van Riel, Chief Risk Officer | 29,113 | 33,000 | 22,000 | - | 797,303 |
| | **90,832** | **114,000** | **76,000** | **-** | **2,836,393** |

1 This granted remuneration will be expensed in future years

The actual paid deferred cash amounts in 2017 related to bonusses granted in previous years (including sign on bonusses to the CEO was EUR 125,450 (2016: EUR 166,667) and to the CFO EUR 5,667 (2016: EUR 0).

## The compensation awards per member and former member of the statutory board at 31 December 2016:

| | Short term (incentive) compensation | | | | | | |
|---|---|---|---|---|---|---|---|
| in EUR | Base salary | Cash bonus | Sign-on compensation | Deferred cash[1] | Pension related short term allowance[2] | Other remuneration elements | Total short term incentive compen-sation |
| Mr. Paulus de Wilt, Chief Executive Officer, Chairman | 800,000 | 40,800 | - | 27,200 | 120,182 | 53,039 | 1,041,221 |
| Mr. Herman Dijkhuizen, Chief Financial Officer | 550,000 | 28,050 | - | 18,700 | 92,888 | 52,628 | 742,266 |
| Mr. Reinout van Riel, Chief Risk Officer | 229,167 | 11,688 | 25,813 | 25,000 | 26,535 | 18,564 | 336,767 |
| Mr. Rob ten Heggeler, former Chief Client Officer | 550,000 | 28,050 | - | 18,700 | 77,182 | 75,883 | 749,815 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 114,583 | - | - | - | 15,696 | 28,482 | 158,761 |
| | **2,243,750** | **108,588** | **25,813** | **89,600** | **332,483** | **228,596** | **3,028,830** |

1 This granted remuneration will be expensed in future years
2 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 101,519.

| | Long term (incentive) compensation | Share based payments[1] | Share based payments[1] | Termination payments | |
|---|---|---|---|---|---|
| in EUR | Post employment contribution | Phantom Share Units | Restricted Phantom Share Units[2] | Severance payments | Total |
| Mr. Paulus de Wilt, Chief Executive Officer, Chairman | 31,115 | 40,800 | 27,200 | - | 1,140,336 |
| Mr. Herman Dijkhuizen, Chief Financial Officer | 30,109 | 28,050 | 18,700 | - | 819,125 |
| Mr. Reinout van Riel, Chief Risk Officer[3] | 12,116 | 37,500 | 25,000 | - | 411,383 |
| Mr. Rob ten Heggeler, former Chief Client Officer | 30,538 | 28,050 | 18,700 | - | 827,103 |
| Ms. Petra van Hoeken, former Chief Risk Officer[4] | 6,059 | - | - | - | 164,820 |
| | **109,937** | **134,400** | **89,600** | **-** | **3,362,767** |

1 Phantom share units (including sign-on).
2 This granted remuneration will be expensed in future years
3 Mr. Van Riel joined NIBC on 1 August 2016 and was appointed as Chief Risk Officer of the Statutory Board at 15 August 2016.
4 Ms Van Hoeken stepped down as Chief Risk Officer of the Statutory Board on 15 March 2016 and his employment ended on the same date.

## The short term compensation share related awards (restricted) phantom share units per member of the Statutory Board:

| | Number of phantom share units | | Number of restricted phantom share units | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Mr. Paulus de Wilt | 4,651 | 5,126 | 3,101 | 3,417 |
| Mr. Herman Dijkhuizen | 3,198 | 3,524 | 2,132 | 2,349 |
| Mr. Reinout van Riel[1] | 3,198 | 4,712 | 2,132 | 3,141 |
| Mr. Rob ten Heggeler, former Chief Client Officer | - | 3,524 | - | 2,349 |
| | **11,047** | **16,886** | **7,365** | **11,256** |

1 The 2016 numbers includes the sign-on compensation.

The following table provides a reconciliation between the compensation awards of the Statutory Board and the remuneration expenses of the Statutory Board as disclosed in Note 7.

## Reconciliation Compensation awards and remuneration expenses of the Statutory Board

| in EUR | 2017 | 2016 |
|---|---|---|
| Compensation awards of the Statutory Board at 31 December | 2,836,393 | 3,362,767 |
| Compensation awards, not included in remuneration expenses of the year | (152,000) | (179,200) |
| Remuneration expenses, not included in compensation awards of the year | 579,271 | 267,591 |
| **Remuneration expenses of the Statutory Board** | **3,263,664** | **3,451,158** |

## Remuneration of the Supervisory Board members

The remuneration of the (former) Supervisory Board members relates to their position within NIBC Holding and NIBC Bank.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| in EUR | Before tax | Value Added Tax | Incl. tax | Before tax | Value Added Tax | Incl. tax |
| Members: | | | | | | |
| Mr. W.M. van den Goorbergh | 102,500 | 21,525 | 124,025 | 96,500 | 20,265 | 116,765 |
| Mr. D.R. Morgan[1] | 38,750 | - | 38,750 | 71,500 | - | 71,500 |
| Mr. M.J. Christner | 60,000 | - | 60,000 | 55,000 | - | 55,000 |
| Mr. J.C. Flowers | 50,000 | - | 50,000 | 40,000 | - | 40,000 |
| Mr. A. de Jong | 65,000 | 13,650 | 78,650 | 51,500 | 10,815 | 62,315 |
| Ms. S.A. Rocker[2] | 28,750 | - | 28,750 | 50,000 | - | 50,000 |
| Mr. D.M. Sluimers | 77,500 | 16,275 | 93,775 | 63,333 | 13,300 | 76,633 |
| Ms. K.M.C.Z. Steel | 70,000 | 14,700 | 84,700 | 66,500 | 13,965 | 80,465 |
| Mr. A.H.A. Veenhof | 65,000 | 13,650 | 78,650 | 50,000 | 10,500 | 60,500 |
| Mr. R.L. Carrión[3] | 15,000 | 3,150 | 18,150 | - | - | - |
| **Total remuneration** | **572,500** | **82,950** | **655,450** | **544,333** | **68,845** | **613,178** |

1 Mr. D.R. Morgan stepped down as a member of the Supervisory Board on 21 June 2017.
2 Ms. S.A. Rocker stepped down as a member of the Supervisory Board on 21 June 2017.
3 Mr R.L. Carrión was appointed as a member of the Supervisory Board as from 29 September 2017 in the Extraordinary Meeting of Shareholders on 11 September 2017.

The remuneration of the Supervisory Board members consists of annual fixed fees and committee fees. As at 31 December 2017 and 31 December 2016, no loans, advance payments or guarantees had been provided by the company to Supervisory Board members.

## Depositary receipts

### Common Depositary Receipts

The following tables show the holdings by current and former members of the Statutory Board:

| Number of common depositary receipts (investment from own funds) | 2017 | 2016 |
|---|---|---|
| Mr. Paulus de Wilt | 47,198 | 47,198 |
| Mr. Herman Dijkhuizen | 23,590 | 23,590 |
| Mr. Rob ten Heggeler, former Chief Client Officer | 48,826 | 48,826 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 24,638 | 24,638 |
| **Total number of common depositary receipts (investment from own funds)** | **144,252** | **144,252** |

**Conditional Common Depositary Receipts**
The following tables show the holdings by members of the Statutory Board:

| Number of conditional common depositary receipts (vested one-off matching shares) | 2017 | 2016 |
|---|---|---|
| Mr. Paulus de Wilt | 33,236 | 21,437 |
| Mr. Herman Dijkhuizen | 16,298 | 10,400 |
| Mr. Rob ten Heggeler, former Chief Client Officer | 46,036 | 44,640 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 18,638 | 18,638 |
| **Total number of conditional common depositary receipts (vested one-off matching shares** | **114,208** | **95,115** |

| Number of conditional common depositary receipts (LTI) | 2017 | 2016 |
|---|---|---|
| Mr. Rob ten Heggeler, former Chief Client Officer | 9,173 | 9,173 |
| **Total number of conditional common depositary receipts (LTI)** | **9,173** | **9,173** |

As of 1 January 2015 the long-term incentive arrangement (40% to 70% of base salary) was revoked by the Supervisory Board and replaced by a short-term variable income component, therefore no new CRDRs were granted under this program.

## Conditional Restricted Depositary Receipts

**Co-investment programme**
As a result of personal investments by the Statutory Board members in 2012 and 2014 matching shares were granted to the Statutory Board members in 2012 and 2014, in the form of CRDRs with an after-tax value equal to the value of the personal investment made.

NIBC has the discretion to offer new members of the Statutory Board the opportunity to participate in this co-investment programme under the same conditions.

This offer was made to and accepted by Mr Dijkhuizen and Mr. de Wilt when they joined the Statutory Board.

The following table shows the holdings by members of the Statutory Board:

| Number of conditional restricted depositary receipts (one-off matching shares) | 2017 | 2016 |
|---|---|---|
| Mr. Paulus de Wilt | 13,962 | 25,761 |
| Mr. Herman Dijkhuizen | 7,292 | 13,190 |
| Mr. Rob ten Heggeler, former Chief Client Officer | - | 4,187 |
| **Total number of conditional restricted depositary receipts (one-off matching shares)** | **21,254** | **43,138** |

The matching shares are subject to four-year vesting with one quarter vesting each year on 1 January, but they will immediately vest upon a change of control of NIBC Holding, in which case they (i) will become fully unconditional and (ii) be legally transferred.

From the 21,254 outstanding CRDRs at 31 December 2017, 17,696 will vest on 1 January 2018 and 3,558 will vest on 1 January 2019. In December 2017 it was proposed by the Statutory Board and subsequently approved by the Remuneration and Nominating Committee and Supervisory Board to change the Plan Rules Variable Compensation (NIBC Choice) in order to allow delivery of *Depositary Receipts* (**DR**) for outstanding *Conditional Common Depositary Receipts* (**CCDR**) in lieu of the occurrence of a change of control of NIBC Holding. Furthermore it was decided that all unvested *Conditional Restricted Depositary Receipts* (**CRDR**) outstanding at 1 January 2018 will vest immediately (accelerated vesting) into CCDR. This applies to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members.

## Phantom Share Units

### Phantom Share Units

In 2010, a new equity-linked reward instrument was introduced as part of the *Short-Term Incentive* (**STI**) plan. The short-term compensation in share-related awards consists of *Phantom Share Units* (**PSUs**) and/or *Restricted Phantom Share Units* (**RPSUs**). RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. The PSUs, whether vested or restricted, held by the members of the Statutory Board are subject to a five-year retention period as measured from the date of vesting. This short-term compensation can be converted into cash immediately after the retention period.

The following table shows the holdings by members of the Statutory Board:

| Number of phantom share units | 2017 | 2016 |
|---|---|---|
| Mr. Paulus de Wilt | 15,243 | 9,598 |
| Mr. Herman Dijkhuizen | 10,249 | 6,409 |
| Mr. Reinout van Riel | 7,910 | 4,712 |
| Mr. Rob ten Heggeler, former Chief Client Officer | 6,409 | 6,409 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 2,885 | 2,885 |
| **Total number of phantom share units** | **42,696** | **30,013** |

### Restricted Phantom Share Units

The following table shows the holdings by members of the Statutory Board:

| Number of restricted phantom share units | 2017 | 2016 |
|---|---|---|
| Mr. Paulus de Wilt | 8,506 | 6,398 |
| Mr. Herman Dijkhuizen | 5,764 | 4,273 |
| Mr. Reinout van Riel | 5,273 | 3,141 |
| Mr. Rob ten Heggeler, former Chief Client Officer | - | 4,273 |
| **Total number of restricted phantom share units** | **19,543** | **18,085** |

## 56 Credit risk

This section includes all financial assets subject to credit risk. Non-credit obligations fall under other risk types, such as market risk, and equity is subject to investment risk. Figures may not always add up due to rounding. The following portfolios that contain credit risk have been identified:

- Corporate/Investment Loans;
- Lease receivables;
- Mortgage loans;
- Debt Investments;
- Cash Management;
- Derivatives.

### 56-1 Credit risk exposure breakdown per portfolio

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Corporate / investment loans | 9,612 | 9,904 |
| Corporate loans | 9,393 | 9,658 |
| Investment loans | 220 | 246 |
| Lease receivables | 60 | 123 |
| Residential mortgage loans | 9,146 | 8,831 |
| Equity investments | 343 | 262 |
| Debt investments | 822 | 1,232 |
| Debt from financial institutions and corporate entities | 324 | 459 |
| Securitisations | 498 | 773 |
| Cash management | 2,021 | 1,371 |
| Derivatives[1] | 1,021 | 1,817 |
| **Total** | **23,025** | **23,540** |

1 2017 is based on a combination of netting and positive replacement values. 2016 is based on positive replacement values only.

Table 56-1 presents the maximum credit risk exposure per portfolio, without taking collateral or any other credit risk reduction into consideration. For all portfolios except derivatives, this is generally the total commitment of NIBC, which also includes off-balance sheet commitments such as guarantees and undrawn credit lines.

The figures in table 56-1 are not directly comparable to the figures on the balance sheet. Corporate and investment loans include off-balance sheet exposures and exclude exposures from NIBC Bank to NIBC Holding. Mortgage loans are recognised on the balance sheet under mortgage loans own book and securitised mortgage loans. Debt investments (securitisations) differ from the figure on the balance sheet due to off-balance sheet exposures as disclosed in the Risk Management notes and due to partial offsetting of risk exposure with liabilities to the same counterparties. The main difference in the cash figures is due to collateral posting on credit risk differences for derivatives/repos.

NIBC employs an internally-developed methodology under the *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of corporate and bank counterparties. The AIRB methodology for corporate counterparties was approved by NIBC's regulatory authority, the DNB, in 2008. In 2014, NIBC also received approval from the DNB to use the AIRB methodology for bank counterparties.

## Corporate loans

### Corporate loan distribution

The industry sectors shown in tables 56-2 and 56-3 are based on internal NIBC sector organisation. NIBC steers its business on internal sector classification, however it can be mapped to the industry sectors of NACE classification, if necessary. For comparability purposes portfolio breakdown based on NACE codes is also provided in a separate document published on NIBC's annual report website.

Tables 56-2 and 56-3 display a breakdown of the Corporate Loan portfolio among regions and industry sectors, at year-end 2017 and 2016. The Corporate Loan portfolio decreased by EUR 266 million in 2017 to EUR 9,393 million mainly due to exposure decreases in the industry sectors: *Shipping & Intermodal* (**S&I**) and *Offshore Energy* (**OE**). The relative weight of NIBC's core growth market the Netherlands increased, and the weight of the United Kingdom slightly increased. The corporate loan portfolio in the Netherlands increased to 42% of the total exposure at 31 December 2017 (31 December 2016: 36%).

### 56-2 Corporate loan exposure per industry sector and region, 31 December 2017

| in % | Commercial Real Estate | Food, Agri, Retail & Health | Industries & Manufacturing | Infrastructure & Renewables | Offshore Energy | Shipping & Intermodal | Telecom, Media, Technology & Services | Total | Total (in EUR millions) |
|---|---|---|---|---|---|---|---|---|---|
| The Netherlands | 13 | 7 | 12 | 2 | 1 | 2 | 4 | 42 | 3,931 |
| Germany | 2 | 4 | 5 | 4 | - | 1 | 6 | 22 | 2,089 |
| United Kingdom | - | 1 | 1 | 10 | 3 | 2 | 2 | 18 | 1,712 |
| Rest of Europe | - | - | 1 | 1 | 3 | 4 | 1 | 9 | 882 |
| Asia / Pacific | - | - | - | - | 1 | 1 | - | 2 | 186 |
| North America | - | - | - | - | 1 | 3 | - | 4 | 356 |
| Other | - | 1 | - | - | 1 | 1 | - | 3 | 237 |
| **Total** | **15** | **13** | **18** | **17** | **10** | **14** | **13** | **100** | **9,393** |
| **Total (in EUR millions)** | **1,391** | **1,216** | **1,730** | **1,626** | **934** | **1,297** | **1,198** | | **9,393** |
| **Expected Recovery**[1] | **1,209** | **989** | **1,388** | **1,400** | **770** | **1,178** | **975** | | **7,908** |

1 Including the finanical effect of collateral.

## 56-3 Corporate loan exposure per industry sector and region, 31 December 2016

| in % | Commercial Real Estate | Food, Agri, Retail & Health | Industries & Manufacturing | Infrastructure & Renewables | Offshore Energy | Shipping & Intermodal | Telecom, Media, Technology & Services | Total | Total (in EUR millions) |
|---|---|---|---|---|---|---|---|---|---|
| The Netherlands | 10 | 7 | 10 | 2 | 2 | 2 | 4 | 36 | 3,451 |
| Germany | 4 | 4 | 4 | 3 | - | 1 | 6 | 23 | 2,211 |
| United Kingdom | - | - | 1 | 11 | 2 | 1 | 2 | 17 | 1,660 |
| Rest of Europe | - | - | 1 | 1 | 4 | 5 | 1 | 12 | 1,168 |
| Asia / Pacific | - | - | - | - | 2 | 2 | - | 4 | 387 |
| North America | - | - | - | - | 2 | 3 | - | 5 | 511 |
| Other | - | 1 | - | - | 1 | 1 | - | 3 | 270 |
| **Total** | **15** | **12** | **16** | **17** | **13** | **16** | **13** | **100** | **9,658** |
| **Total (in EUR millions)** | **1,375** | **1,149** | **1,514** | **1,618** | **1,233** | **1,512** | **1,257** | | **9,658** |
| **Expected Recovery**[1] | **1,199** | **924** | **1,205** | **1,388** | **1,037** | **1,364** | **1,010** | | **8,126** |

1 Including the finanical effect of collateral.

### CRR/CRD IV and credit approval process

NIBC employs an internally-developed methodology under *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of its Corporate Loan portfolio. In line with CRR/CRD IV regulations, the methodology consists of three elements:

- CCR, reflecting the PD of the borrower. The default definition is in line with the CRR/CRD IV definition[1]
- LGD, defined as an anticipated loss element that expresses the potential loss in the event of default, which takes into account the presence and the value of collateral;
- EAD, which is the amount that is expected to be outstanding at the moment a counterparty defaults.

The PDs, LGDs and EADs that are calculated through NIBC's internal models are used for the calculation of *expected loss* (**EL**) and CRR/CRD IV/Pillar 1 *regulatory capital* (**RC**). *Economic capital* (**EC**), *risk-adjusted return on capital* (**RAROC**), limit setting and stress testing are additional areas which make use of these parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar 1. PDs, LGDs and EADs are also used in the CRR/CRD IV solvency report to the regulator.

Annual backtests of the internal rating framework are carried out to assess the quality and the performance of the models. The internal CCRs and LGDs are also benchmarked periodically with the scales of external rating agencies.

NIBC enforces strict separation of responsibilities with respect to its internal rating methodologies and rating process, model development, model validation and internal audit. The roles and responsibilities of each department involved are explicitly set out in internal policies and manuals, also in conformity with the stipulations of CRR/CRD IV on model governance.

1 According to the CRR/CRD IV definition, a default is determined at the borrower level. A default is indicated by using a 9 or 10 rating in NIBC's internal rating scale. A default is considered to have occurred with respect to a particular obligor when either or both of the two following events have taken place: i) the bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realising security (if held); ii) the obligor is past due more than 90 days on any material credit obligation to the banking group.

All approvals of individual credit proposals are granted after risk management has made a credit risk assessment and has analysed proposals by taking into consideration, among others, aggregate limits set per country, per industry segment, and per individual counterparty. The total one obligor exposure and related exposure are also taken into account. Individual credit and transaction proposals are then approved in the *Transaction Committee* (**TC**). Proposals, credit reviews and amendments of smaller scale can be approved outside the TC by risk management. All counterparties and, subsequently, all facilities, are reviewed at least once a year.

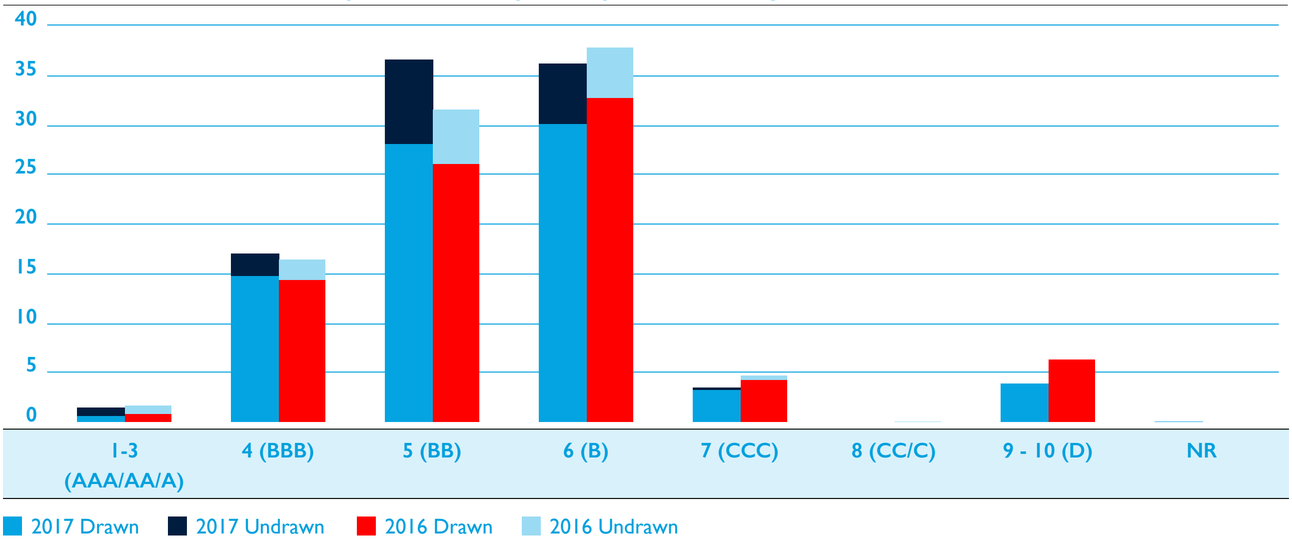
**Credit ratings**

NIBC uses an internal through-the-cycle CCR rating scale which consists of 10 grades (1-10) and a total of 22 notches. The CCRs 9 and 10 are assigned to counterparties that have already defaulted and therefore carry a PD of 100%.

The weighted average CCR of the non-defaulted clients remained stable during 2017 to 6+ with an average PD of 1.9% at 31 December 2017 (31 December 2016: 2.3%). The credit quality in terms of CCRs remained concentrated in the sub-investment grade categories 5 and 6 (BB and B categories in external rating agencies' scales).

Graph 56-4 shows the distribution of the drawn and undrawn corporate loan exposure per CCR. The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters in parentheses refer to the equivalent rating scale of Standard & Poor's. NR stands for not rateable, which was a negligible portion of the corporate loans (0.2% at 31 December 2017; 0.1% at 31 December 2016). NR is assigned to entities for which NIBC's corporate rating tools were not suitable at the time of rating.

**56-4 Drawn and undrawn corporate loan exposure per CCR rating**

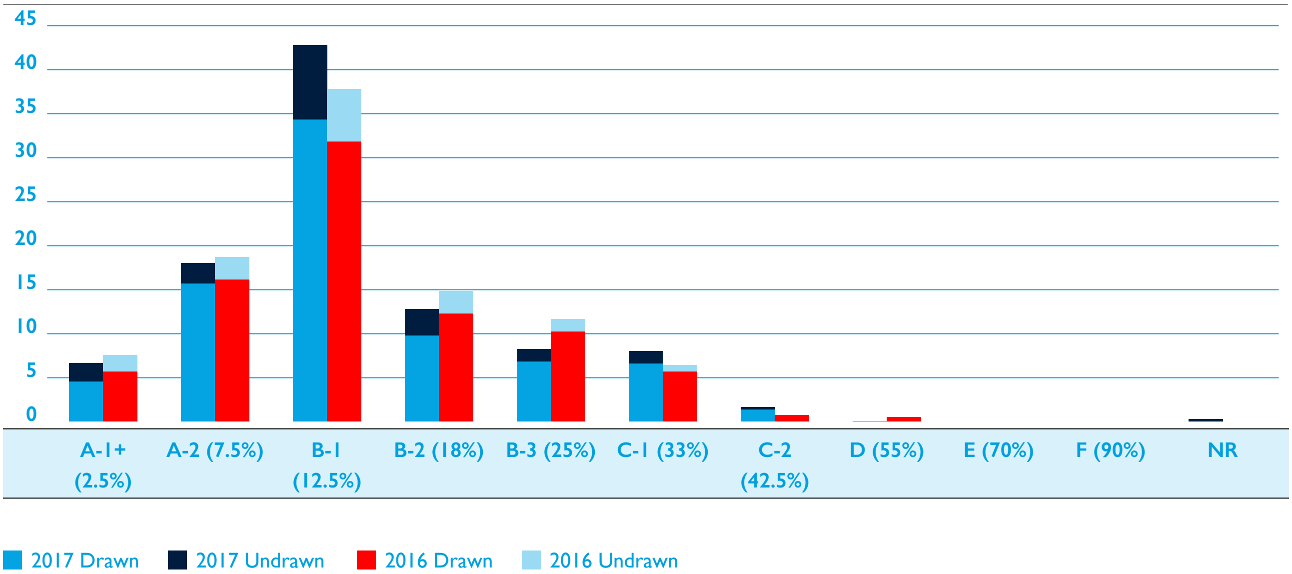



**Collateral and LGD**

NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations. LGD ratings are facility-specific. The weighted average LGD remained stable at B-1 grade with an average LGD of 15.1% at 31 December 2017 (31 December 2016: 15.1%). The weighted average LGD is calculated for non-defaulted loans and is weighted by exposure. Nearly all facilities within NIBC have some form of collateralisation, resulting in LGDs concentrated in those LGD categories which correspond to high recoveries in the range of 80% and 90%.

Graph 56-5 shows the distribution of drawn and undrawn corporate loan exposures per LGD. The letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers in parentheses refer to the loss percentage assigned to each LGD rating. NR was negligible (0.4% of corporate loans at 31 December 2017; 0.1% at 31 December 2016).

**56-5 Drawn and undrawn non-defaulted corporate loan exposure per LGD rating**




Note that the corporate loan exposure of graph 56-5 refers to non-defaulted exposure as the LGD is a measure of anticipated loss for facilities of a non-defaulted counterparty. Once counterparty enters default, the impairment amount becomes a more meaningful measure of the loss.

The most significant types of collateral securing the loan and derivative portfolios are tangible assets, such as real estate, vessels, rigs and equipment. Exposures in the shipping and offshore energy sectors are primarily secured by moveable assets such as vessels and drilling vessels. The commercial real estate portfolio is primarily collateralised by mortgages on financed properties. Collateral value on a going concern basis is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. Realizable collateral value is determined as collateral value after haircuts for factors such as business cycle, location, asset construction status or guarantor counterparty rating. For example, loan-to-value ratios are regularly tested and vessels are appraised semi-annually by external parties. Other commercial exposures are, to a large extent, collateralised by assets such as inventory, debtors, lease and other receivables and third-party credit protection (e.g. guarantees).

### Arrears

The total arrears in the Corporate Loan portfolio to the total outstanding decreasead to 0.6% at 31 December 2017 (31 December 2016: 1.0%). An overview of the amounts in arrear per arrear bucket is provided in tables 56-6 and 56-7. The exposure amounts refer to drawn and undrawn amounts of those facilities with an arrear, whereas the outstanding amounts refer to the drawn amounts only. The amounts in arrear are the actual amounts overdue at 31 December 2017 and 31 December 2016. The column labelled 'Impairment Amount' includes on-balance sheet impairment amounts only (31 December 2017: EUR 126 million; 31 December 2016: EUR 175 million). The inclusion of *Incurred but not Reported* (**IBNR**) impairment amounts (31 December 2017: EUR 17 million; 31 December 2016: EUR 17 million) on the line with no payment in arrear brings the total impairment amount for 31 December 2017 to EUR 143 million (31 December 2016: EUR 192 million). Loans that are impaired but do not have payment arrears represents restructured loans which are now current with respect to payment obligations. Tables 56-11 and 56-12 provide more information on impairment amounts.

## 56-6 Corporate loan amounts in arrear, 31 December 2017

| | Exposure | | | | Outstanding | | | | Amount in arrear | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Impaired | not Impaired | Total | % of On Balance | Impaired | not Impaired | Total | % of On-Balance | Impairment Amount |
| Age of payment in arrear | | | | | | | | | | | |
| 1- 5 days | 5 | 0.1% | - | 5 | 5 | 0.1% | - | 5 | 1 | 0.0% | - |
| 6 - 30 days | 15 | 0.2% | - | 15 | 15 | 0.2% | - | 15 | 5 | 0.1% | - |
| 31 - 60 days | 9 | 0.1% | - | 9 | 9 | 0.1% | - | 9 | 1 | 0.0% | - |
| 61 - 90 days | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal less than 90 days** | **29** | **0.3%** | **-** | **29** | **29** | **0.4%** | **-** | **29** | **7** | **0.1%** | **-** |
| Over 90 days | 155 | 1.6% | 82 | 73 | 154 | 2.0% | 81 | 73 | 42 | 0.5% | 32 |
| No payment in arrear | 9,209 | 98.0% | 223 | 8,985 | 7,533 | 97.6% | 222 | 7,311 | - | 0.0% | 111 |
| **Total** | **9,393** | **100%** | **305** | **9,088** | **7,717** | **100%** | **303** | **7,414** | **49** | **0.6%** | **143** |

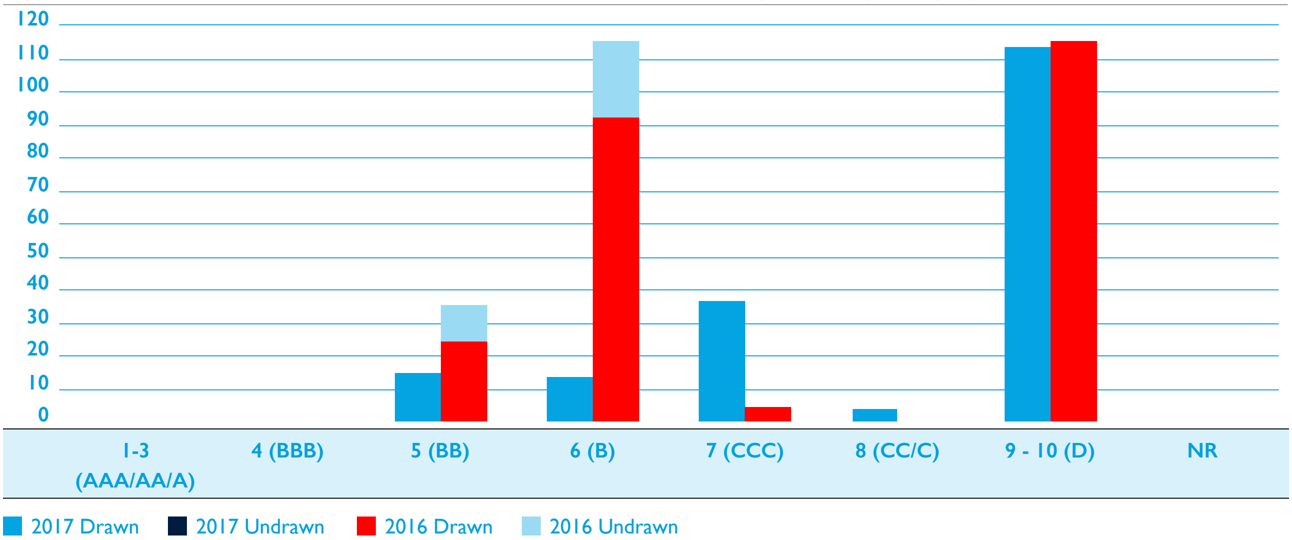
## 56-7 Corporate loan amounts in arrear, 31 December 2016

| | Exposure | | | | Outstanding | | | | Amount in arrear | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Impaired | not Impaired | Total | % of On Balance | Impaired | not Impaired | Total | % of On-Balance | Impairment Amount |
| Age of payment in arrear | | | | | | | | | | | |
| 1- 5 days | 44 | 0.5% | 9 | 34 | 43 | 0.5% | 9 | 33 | 18 | 0.2% | - |
| 6 - 30 days | 33 | 0.3% | - | 33 | 33 | 0.4% | - | 33 | - | 0.0% | - |
| 31 - 60 days | - | 0.0% | - | - | - | 0.0% | - | - | - | 0.0% | - |
| 61 - 90 days | 6 | 0.1% | - | 6 | 6 | 0.1% | - | 6 | - | 0.0% | - |
| **Subtotal less than 90 days** | **83** | **0.9%** | **9** | **74** | **82** | **1.0%** | **9** | **73** | **18** | **0.2%** | **-** |
| Over 90 days | 191 | 2.0% | 80 | 110 | 158 | 1.9% | 80 | 77 | 65 | 0.8% | 48 |
| No payment in arrear | 9,384 | 97.2% | 514 | 8,870 | 8,050 | 97.1% | 511 | 7,539 | - | 0.0% | 143 |
| **Total** | **9,658** | **100.0%** | **604** | **9,055** | **8,291** | **100.0%** | **601** | **7,690** | **83** | **1.0%** | **192** |

NIBC applies a threshold for determining whether a loan carries a non-material arrear. If the total arrear on facility level is lower than EUR 25,000 per facility, the age of the payment in arrear is below 30 days and the counterparty has not defaulted, then the arrear is considered insignificant. If arrears fall within the threshold, the exposure is placed on the 'no payment in arrear' line on tables 56-6 and 56-7. The application of this threshold does not influence the total arrears, which amounted to EUR 49 million at 31 December 2017 (31 December 2016: EUR 83 million).

Graph 56-8 displays the rating distribution of the exposure amounts (expressed as the sum of drawn and undrawn amounts) of all loans with an amount in arrears. The total exposure amount at 31 December 2017 was EUR 184 million (31 December 2016: EUR 274 million) and the total drawn amount at 31 December 2017 was EUR 184million (31 December 2016: EUR 240 million).

**56-8 Distribution of drawn and undrawn amounts with an arrear per rating category**




**Forbearance and non-performing Corporate Loans**

NIBC considers a client to be forborne if:

1. NIBC considers the obligor to be in financial difficulties,
2. NIBC grants a concession to the obligor.

Financial difficulties are defined as a debtor facing or about to face difficulties meeting financial obligations. Concession refers to one of the following (per facility):

- Modification of terms or conditions of a troubled facility to allow sufficient debt service capacity (that would not be granted if the obligor were not in financial difficulties);
- (partial) Refinancing of a troubled facility (that would not be granted without financial difficulties).

Tables 56-9 and 56-10 provide the total forborne outstanding in NIBC's Corporate Loan portfolio per industry sector and per region as at 31 December 2017. The forborne outstanding is divided in performing and non-performing outstanding. NIBC considers a client non-performing if that client is in default, or if a performing forborne facility under probation is extended additional forbearance measures, or becomes more than 30 days past due. At the end of December 2017, EUR 7 million non-performing outstanding was not forborne. Comparable figures for 2016 can be seen in Tables 56-11 and 56-12.

Impairments of forborne facilities (excluding IBNR) amounted to EUR 122 million at 31 December 2017, which represented 14% of the total forborne balances. The total impairments of the Corporate Loan portfolio amounted to EUR 143 million at 31 December 2017, which represented 1.5% of the total Corporate Loan portfolio of EUR 9.4 billion.

## Table 56-9 Forborne exposure per industry sector, 31 December 2017

| in EUR millions | Exposure Non-performing | Exposure Performing | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| Commercial Real Estate | 97 | 81 | 178 | 38 |
| Food, Agri, Retail & Health | 10 | 7 | 17 | 3 |
| Industries & Manufacturing | 4 | 78 | 82 | 2 |
| Infrastructure & Renewables | 50 | 4 | 53 | 14 |
| Offshore Energy | 173 | 153 | 326 | 50 |
| Shipping & Intermodal | 46 | 168 | 213 | 15 |
| Telecom, Media, Technology & Services | 19 | 14 | 33 | - |
| **Total** | **398** | **504** | **903** | **122** |

## Table 56-10 Forborne exposure per region, 31 December 2017

| in EUR millions | Exposure Non-performing | Exposure Performing | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| The Netherlands | 49 | 140 | 188 | 8 |
| Germany | 146 | 120 | 266 | 52 |
| United Kingdom | 43 | 66 | 109 | 24 |
| Rest of Europe | 62 | 153 | 215 | 7 |
| Asia / Pacific | 22 | - | 22 | 17 |
| North America | 32 | 25 | 57 | - |
| Other | 44 | - | 44 | 15 |
| **Total** | **398** | **504** | **903** | **122** |

## Table 56-11 Forborne exposure per industry sector, 31 December 2016

| in EUR millions | Exposure Non-performing | Exposure Performing | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| Commercial Real Estate | 362 | - | 362 | 76 |
| Food, Agri, Retail & Health | 7 | - | 7 | 4 |
| Industries & Manufacturing | 15 | 2 | 17 | 8 |
| Infrastructure & Renewables | 51 | 32 | 83 | 14 |
| Offshore Energy | 66 | 136 | 202 | 28 |
| Shipping & Intermodal | 56 | 203 | 259 | 28 |
| Telecom, Media, Technology & Services | - | 45 | 45 | - |
| **Total** | **557** | **418** | **976** | **157** |

## Table 56-12 Forborne exposure per region, 31 December 2016

| in EUR millions | Exposure | | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| | Non-performing | Performing | | |
| The Netherlands | 25 | 105 | 129 | 15 |
| Germany | 410 | 29 | 439 | 86 |
| United Kingdom | 33 | 77 | 110 | 25 |
| Rest of Europe | 16 | 126 | 142 | 3 |
| Asia / Pacific | 47 | 10 | 57 | 27 |
| North America | - | 72 | 72 | - |
| Other | 26 | - | 26 | - |
| **Total** | **557** | **418** | **976** | **157** |

**Impairment amounts**

The Corporate Loan portfolio is reviewed by credit officers and risk management who monitor the quality of counterparties and the related collateral. Formal assessment of the entire portfolio takes place on a quarterly basis. All existing impairments are also reviewed. NIBC calculates an impairment amount by taking various factors into account, particularly the available collateral securing the loan and the corporate derivative exposure, if present. The loss amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If collateral is present, then the present value of the future cash flows reflects the foreclosure of collateral. More information on the method impairments are calculated is included in the Accounting Policies section.

NIBC determines a default at counterparty level, whereas an impairment amount is taken at facility level. When a default occurs, the entire exposure and outstanding amount of the borrower are classified as defaulted. If, however, an impairment amount is taken on a facility, only the exposure amount of that particular facility is classified as impaired.

In 2017, the total write-offs (EUR 52 million) increased compared to 2016 (EUR 30million), mainly in the industry & manufacturing, shipping and offshore energy sectors. The stock of impairments decreased and amounted to EUR 143 million at year-end 2017 (year-end 2016: EUR 192 million).

Tables 56-13 and 56-14 display an overview of impairments at 31 December 2017 and 31 December 2016, subdivided in industry sectors and regions, respectively. The column labelled 'Exposure' includes both drawn and undrawn amounts.

## 56-13 Impairment per industry sector

| in EUR millions | 2017 Exposure | 2017 Impaired Exposure | 2017 Impairment Amount | 2017 Write-offs | 2016 Exposure | 2016 Impaired Exposure | 2016 Impairment Amount | 2016 Write-offs |
|---|---|---|---|---|---|---|---|---|
| Commercial Real Estate | 1,391 | 98 | 39 | 5 | 1,375 | 363 | 77 | 8 |
| Food, Agri, Retail & Health | 1,216 | 10 | 3 | 3 | 1,149 | 7 | 4 | 4 |
| Industries & Manufacturing | 1,730 | 6 | 3 | 11 | 1,514 | 28 | 15 | 10 |
| Infrastructure & Renewables | 1,626 | 51 | 15 | - | 1,618 | 52 | 15 | - |
| Offshore Energy | 934 | 92 | 50 | 16 | 1,233 | 87 | 31 | - |
| Shipping & Intermodal | 1,297 | 48 | 16 | 11 | 1,512 | 58 | 28 | - |
| Telecom, Media, Technology & Services | 1,198 | - | - | 6 | 1,257 | 9 | 6 | 7 |
| IBNR corporate loans | | | 17 | | | | 17 | |
| **Total** | **9,393** | **305** | **143** | **52** | **9,658** | **604** | **192** | **30** |

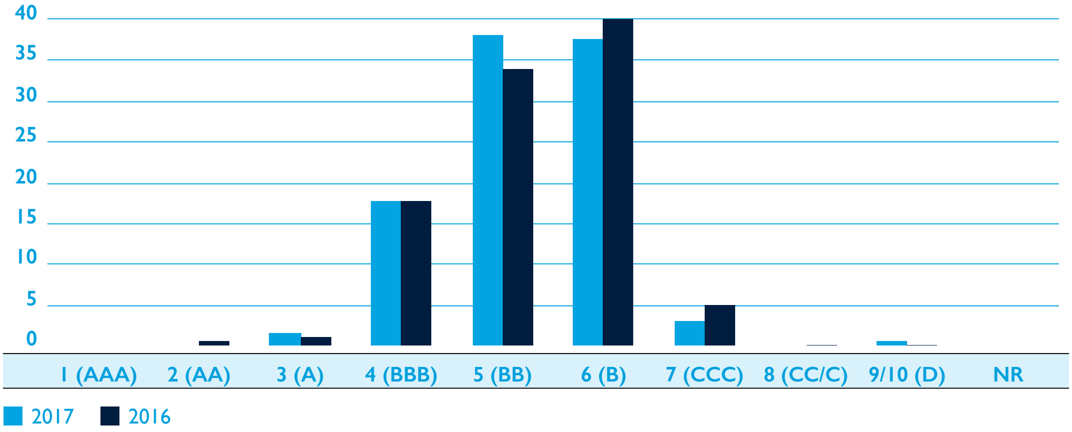
## 56-14 Impairment per region

| in EUR millions | 2017 Exposure | 2017 Impaired Exposure | 2017 Impairment Amount | 2017 Write-offs | 2016 Exposure | 2016 Impaired Exposure | 2016 Impairment Amount | 2016 Write-offs |
|---|---|---|---|---|---|---|---|---|
| The Netherlands | 3,931 | 31 | 9 | 16 | 3,451 | 37 | 21 | 8 |
| Germany | 2,089 | 148 | 53 | 9 | 2,211 | 421 | 94 | 14 |
| United Kingdom | 1,712 | 45 | 24 | 14 | 1,660 | 63 | 27 | - |
| Rest of Europe | 882 | 37 | 8 | - | 1,168 | 17 | 4 | 7 |
| Asia / Pacific | 186 | 22 | 17 | 11 | 387 | 47 | 27 | - |
| North America | 356 | - | - | 2 | 511 | 19 | 2 | - |
| Other | 237 | 22 | 15 | - | 270 | - | - | - |
| IBNR corporate loans | | | 17 | | | | 17 | |
| **Total** | **9,393** | **305** | **143** | **52** | **9,658** | **604** | **192** | **30** |

**Corporate loans without impairments or arrears**

At 31 December 2017, the size of the corporate loan exposure carrying neither impairments nor arrears equalled EUR 9,005 million or 96% of the total Corporate Loan portfolio (31 December 2016: EUR 8,900 million or 92%). Graph 56-15 displays the distribution of exposure amounts without impairments or arrears, at 31 December 2017 and 31 December 2016. Of this exposure 94% is rated in CCR categories 4, 5 and 6 (BBB, BB and B categories in external rating agencies' scales). NR represents a negligible part of the portfolio (31 December 2017: 0.2% of all loans without impairments or amounts in arrear; 31 December 2016: 0.1%).

### 56-15 Distribution of exposure amount without impairments or arrears per rating category




**Country risk**

Country risk is the risk that an entity defaults due to political, social, economical or financial turmoil in its applicable jurisdiction(s). Country risk can potentially be an important cause of increased counterparty default risk since a large number of individual debtors could default at the same time. NIBC did not experience any counterparty defaults from this risk in 2017.

## Investment loans

Investment loans are originated and monitored separately from the Corporate Loan portfolio. Investment loans are typically (unsecured) subordinated loans that contain equity characteristics such as attached warrants or conversion features. As such, investment loans typically carry a higher risk profile than corporate loans. Examples of these loans include mezzanine loans, convertible loans and shareholder loans.

The investment loan can be divided into indirect investments and direct investments. Indirect investments are investments made through *funds* (**NIBC Funds**). Direct investments are all other investments.

Direct investments or commitments in NIBC Funds are approved by the *Investment Committee* (**IC**) of NIBC. Indirect investments are approved by the investment committees of the NIBC Funds, subject to the investment guidelines stipulated in the fund agreements between the manager of the NIBC Fund and the investors.

Investment officers monitor the quality of counterparties in the portfolio on a regular basis. On a quarterly basis, the entire Investment Loan portfolio is assessed for impairment. All existing impairments are reviewed. Impairments of indirect investments are determined by the manager of the NIBC Fund. All impairments are reviewed and approved by the IC.

The total size of investment loans at 31 December 2017 was EUR 220 million (31 December 2016: EUR 246 million), of which 91% had been drawn (31 December 2016: 91%). In line with the characteristics of the asset class, investment loans typically carry riskier internal CCRs and often a higher LGD than corporate loans. At 31 December 2017, the weighted average counterparty credit rating of non-defaulted investment loans remained stable at an internal rating 6 (31 December 2016: 6) on NIBC's internal rating scale (equivalent to B on external rating agencies' scales).

Tables 56-16 and 56-17 display a breakdown of investment loans per region and industry sector at 31 December 2017 and 31 December 2016.

## 56-16 Breakdown of investment loans per region

| | 2017 | | 2016 | |
|---|---|---|---|---|
| in EUR millions | Exposure | % | Exposure | % |
| The Netherlands | 216 | 98% | 243 | 99% |
| Germany | 2 | 1% | - | - |
| United Kingdom | 1 | 0% | 3 | 1% |
| Rest of Europe | - | - | - | - |
| North America | - | - | - | - |
| **Total** | **220** | **100%** | **246** | **100%** |

## 56-17 Breakdown of investment loans per industry sector

| | 2017 | | 2016 | |
|---|---|---|---|---|
| in EUR millions | Exposure | % | Exposure | % |
| Commercial Real Estate | 22 | 10% | 20 | 8% |
| Food, Agri, Retail & Health | 99 | 45% | 116 | 47% |
| Industries & Manufacturing | 28 | 13% | 6 | 3% |
| Infrastructure & Renewables | 22 | 10% | 19 | 8% |
| Offshore Energy | 17 | 8% | 16 | 7% |
| Shipping & Intermodal | - | - | - | - |
| Telecom, Media, Technology & Services | 32 | 14% | 69 | 28% |
| **Total** | **220** | **100%** | **246** | **100%** |

### Arrears

The amounts in arrear as a percentage of exposure at year-end 2017 was 0.7% which is a decrease from EUR 4.7% at year-end 2016.

## 56-18 Investment loan amounts in arrear, 31 December 2017

| | Exposure | | Outstanding | | Amount in arrear | | |
|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Total | % of On-Balance | Total | % of On-Balance | Impairment Amount |
| Age of payment in arrear | | | | | | | |
| 1 - 5 days | 8 | 3.8% | 8 | 4% | 1 | - | - |
| > 90 days | 12 | 5.4% | 12 | 6% | 1 | - | - |
| no payment arrear | 200 | 90.9% | 181 | 90% | - | - | 3 |
| Total | 220 | 100% | 201 | 100% | 2 | - | 3 |

## 56-19 Investment loan amounts in arrear, 31 December 2016

| | Exposure | | Outstanding | | Amount in arrear | | |
|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Total | % of On-Balance | Total | % of On-Balance | Impairment Amount |
| Age of payment in arrear | | | | | | | |
| 1 - 5 days | 9 | 3.7% | 6 | 3% | 5 | - | - |
| > 90 days | 6 | 2.5% | 6 | 3% | 6 | - | 6 |
| no payment arrear | 230 | 93.7% | 210 | 94% | - | - | 6 |
| **Total** | **246** | **100%** | **222** | **100%** | **12** | **-** | **13** |

**Impairment amounts**

At 31 December 2017, impairments on investment loans decreased to EUR 3 million due to the write-off of one retail exposure (31 December 2016: EUR 13 million). Table 60-20 shows the breakdown of impairments and write-offs in industry sectors at 31 December 2017 and 31 December 2016. The column labelled 'Exposure' includes both drawn and undrawn amounts, and the column labelled 'Impairment Amount' refers to drawn amounts of impaired facilities.

## 56-20 Impairment per industry sector

| in EUR millions | 2017 Exposure | 2017 Impaired Exposure | 2017 Impairment Amount | 2017 Write-offs | 2016 Exposure | 2016 Impaired Exposure | 2016 Impairment Amount | 2016 Write-offs |
|---|---|---|---|---|---|---|---|---|
| Commercial Real Estate | 22 | - | - | - | 20 | - | - | - |
| Food, Agri, Retail & Health | 99 | 6 | - | 22 | 116 | 22 | 12 | - |
| Industries & Manufacturing | 28 | - | - | - | 6 | - | - | - |
| Infrastructure & Renewables | 22 | - | - | - | 19 | - | - | - |
| Offshore Energy | 17 | - | - | - | 16 | - | - | - |
| Shipping & Intermodal | - | - | - | - | - | - | - | - |
| Telecom, Media, Technology & Services | 32 | 9 | 3 | - | 69 | 3 | - | - |
| **Total** | **220** | **16** | **3** | **22** | **246** | **25** | **13** | **-** |

At 31 December 2017, the investment loans that carried neither impairments nor past-due amounts equalled EUR 184 million or 84% of total (31 December 2016: EUR 221 million or 90% of total).

## Lease receivables

In 2014, NIBC obtained a leasing portfolio as a result of the acquisition of Gallinat-Bank AG in Germany. This is a static portfolio and strict criteria were in place to determine the eligibility of lease contracts for this programme. These were entered into with German lessees to finance moveable objects such as trucks and trailers. The contracts are to commercial clients in the German SME market and consist of hire purchase contracts, partially amortising and fully amortising lease contracts. The servicing of this portfolio remains with the leasing company. The portfolio is financed by NIBC via a ring-fenced structure benefiting from credit enhancement. At the end of December 2017, the leasing portfolio continues to decrease from the original EUR 221 million to EUR 60 million.

## Mortgage loans

The composition of the Mortgage loan portfolio at year-end 2017 and at year-end 2016 is displayed in Table 56-21.

## 56-21 Breakdown of Mortgage loan portfolio

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Dutch Own Book portfolio | 8,755 | 7,215 |
| Dutch Securitised portfolio | 338 | 1,532 |
| German Own Book portfolio | 53 | 84 |
| **Total**[1] | **9,146** | **8,831** |

1 The collateral value related to NIBC's Mortgage loans amounts to EUR 13.6 billion (EUR 13.0 billion (Own book), EUR 0.6 billion (Securitised) and 95 million for Germany)

## Dutch Mortgage loan portfolio

The Dutch Mortgage loan portfolio largely consists of owner occupied mortgages. These contain NIBC Direct loans originated by business partners since 2013, as well as white label mortgage loans that were also originated by business partners till 2009. Buy-to-Let (NIBC Vastgoed Hypotheek) mortgages for investors were started in January 2015 and continued to show strong growth in 2017. This niche currently comprises approximately 7% of the total mortgage portfolio. Servicing and administration of the mortgage portfolio is outsourced to third-party servicers. Acceptance and special servicing is performed in-house.

At 31 December 2017, 29% of the Mortgage loan portfolio (31 December 2016: 33%) had a *Dutch government guarantee* (**NHG guarantee**) in accordance with the general terms and conditions set by the *Stichting Waarborgfonds Eigen Woningen* (**WEW**, Social Housing Guarantee Fund).

A part of the Dutch Mortgage loan portfolio has been securitised to obtain funding. NIBC generally retains the junior notes and other positions related to these securitisation programmes. As a result the securitisation programmes are consolidated on NIBC's balance sheet. The total amount of the retained positions at 31 December 2017 was EUR 26.5 million (31 December 2016: EUR 135 million).

### Risk governance Dutch Mortgages loans

In order to control the credit risk in the origination of residential mortgage loans, an acceptance policy framework was formulated to screen residential mortgage applications. Acceptance depends on the following underwriting criteria:

- Conformity with the Code of Conduct on Mortgage Credits of the Dutch Bankers Association where applicable;
- A check of an applicant's credit history with the Dutch National Credit Register (*Bureau Krediet Registratie* or **BKR**), a central credit agency used by financial institutions in the Netherlands, which records five years of financial commitments and negative credit events;
- Mortgage loans are secured by first-ranking mortgage rights;
- Other criteria, such as type of property, maximum *Loan-To-Market Value* (**LTMV**), maximum *Loan-to-Income* (**LTI**) and minimum Debt Service Coverage Ratio (DSCR);and
- Underwriting criteria for mortgages with an NHG guarantee are set in accordance with the general terms and conditions set by the WEW. The WEW finances itself by a one-off up-front charge to the borrower as a percentage of the principal amount of the mortgage loan. The NHG guarantee covers losses on the outstanding principal, accrued unpaid interest, and disposal costs, caused by foreclosure.

In 2017, the following amendments were implemented:

- The maximum NHG guaranteed loan amount stayed at EUR 245 thousand.
- Maximum Loan-to-Value decreased to 101% in 2017 for owner occupied mortgages. For buy-to-let mortgages, maximum LTMV in rented state is currently 70% (not regulated by law)

### Management of loans in arrears Dutch Mortgages loans

In order to control the credit risk in the Dutch Mortgage loan portfolio, NIBC has established procedures to manage all loan amounts in arrears. All amounts in arrears are managed in-house. This ensures a dedicated team focused on preventing and minimising credit losses. The Special Servicing Mortgages team is responsible for arrears, client retention, foreclosures, collecting remaining debts and visiting clients and properties that serve as collateral.

The special servicing at NIBC is focused on intensive contact with its mortgage clients and tailor-made solutions. When amounts in arrears occur, the borrower receives a letter after the first day of arrears. Within one week, the client is contacted by phone. Depending on the outcome of these contacts, a customer-specific approach is formulated on a case-by-case basis. Customer visits are made if arrears reach two months. In case of defaults, the Special Servicing team has to submit the file to the Arrears Management Committee for approval of the strategy to be followed. The Arrears Management Committee includes members from Risk Management, Operations, Portfolio Management and the Special Servicing team. NIBC bids for own foreclosed properties at auctions to ensure the proceeds are at arm's length. If needed, NIBC acquires these properties.

NIBC has introduced a programme where vulnerable customers that may face potential future financial difficulties are approached pro-actively with the intention of identifying and resolving difficulties before actual arrears arise.

Table 56-22 shows the arrears overview of the total Dutch Mortgage loan portfolio at 31 December 2017 and 31 December 2016. Overall, the notional amount in arrears decreased compared to year end 2016 while the portfolio volume has grown with 4%.

## 56-22 Arrears overview, Dutch Mortgage loan portfolio

| | Arrears allocation | | Impairments | | Not impaired | |
|---|---|---|---|---|---|---|
| in EUR millions | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| No payment in arrear | 8,900 | 8,534 | 0.4 | 0.7 | 8,900 | 8,533 |
| 0-30 days | 111 | 106 | 0.2 | 0.1 | 110 | 106 |
| 31-60 days | 11 | 37 | 0.4 | 0.2 | 10 | 37 |
| 61-90 days | 30 | 18 | 0.2 | 0.3 | 30 | 18 |
| Over 90 days | 42 | 52 | 0.3 | 0.1 | 41 | 52 |
| **Total (in EUR milion)** | **9,093** | **8,747** | **1.4** | **1.5** | **9,093** | **8,747** |

**Forbearance Dutch Mortgage loans**

NIBC has developed a forbearance policy for mortgage clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. The forbearance policy is defined, formalized and implemented in the standard working routines and processes and is similar to the policy applied for the corporate loan portfolio.

NIBC has been providing a forbearance program to its mortgagers who are experiencing financial difficulties since May 2013. The Client Retention team of the Special Servicing department has the responsibility of assessing the nature and the expected duration of a client's financial distress, and will determine necessity of providing forbearance measures to that client and the conditions that should apply. The team considers forbearance solutions for clients who do not fully meet their financial obligations to NIBC. Forbearance solutions are also submitted to the Arrears Management Committee for further approval. At

31 December 2016, EUR 38 million was forborne of which EUR 23 million was performing and EUR 15 million non-performing. At 31 December 2017, EUR 41 million was reported as forborne of which EUR 25 million was performing and EUR 16 million non-performing.

### Risk measurement Dutch Mortgage loans

NIBC's rating methodology for residential mortgage loans has been used for determining regulatory capital requirements since 2008. The calculation of PD, LGD and EAD for owner- occupied mortgages is performed by an internally-developed CRR/CRD IV AIRB model (for Buy-to-Let mortgages, Basel standardized approach for credit risk is used).

The PD estimates are dependent on a variety of factors, of which the key factors are debt- to-income and loan-to-value ratios. Minor factors that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0-100%.

The LGD estimates are based on a downturn scenario comparable to the downturn in the Dutch mortgage market in the 1980s. In this case, the indexed collateral value is stressed in order to simulate the proceeds of a sale or foreclosure of the collateral. The stress is dependent on the location and the absolute value of the collateral. Together with cost and time-to-foreclosure assumptions, an LGD is derived. The LGD estimate also takes into account whether a mortgage loan has an NHG guarantee, in which case the LGD estimate will be lower in comparison to a mortgage loan without the NHG guarantee. The LGD estimate is also based on a continuous scale.

The validation of these estimates is performed on historical data and is carried out annually. For the PD and LGD, the estimates are back tested against realised defaults and realised losses. In this way, it is ensured that the model functions correctly in a changing economic environment. Moreover, NIBC is closely following recent regulatory proposals regarding to adjust capital requirements under standardized approach and introducing capital floors.

Impairment amounts are not calculated on individual residential mortgage loans but, rather, calculated on the portfolio level of the residential mortgage loans.

Table 56-23 shows the PD distribution of the Dutch Mortgage loan portfolio at 31 December 2017 and 31 December 2016. A PD of 100% means that a borrower is close to or more than 90 days in arrears.

### 56-23 PD allocation of Dutch mortgage loans

| | Own book Dutch mortgages[1] | | Securitised Dutch mortgages | |
|---|---|---|---|---|
| in % | 2017 | 2016 | 2017 | 2016 |
| Probability of default | | | | |
| <= 1% | 97.5 | 97.5 | 97.4 | 95.3 |
| 1%> <=2% | 0.3 | 0.4 | 0.2 | 0.3 |
| 2%> <=5% | 0.2 | 0.2 | 0.1 | 0.3 |
| 5%> <100% | 1.4 | 1.3 | 1.9 | 2.4 |
| 100% | 0.6 | 0.7 | 0.5 | 1.7 |
| **Total (%)** | **100** | **100** | **100** | **100** |

1 Excluding buy-to-let mortgages.

### Risk mitigation and collateral management Dutch Mortgage loans

Credit losses are mitigated in a number of ways:

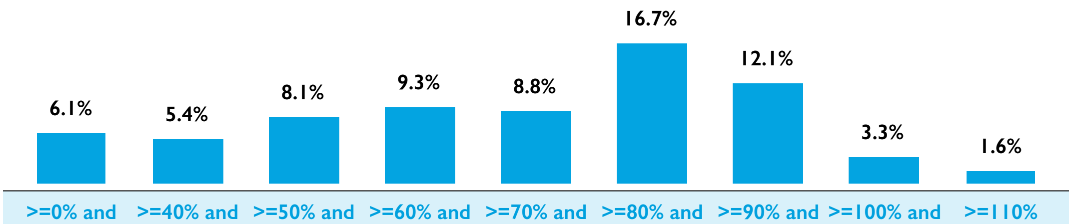
- The underlying property is pledged as collateral;
- 29% of the Dutch Own Book portfolio and 8% of the Securitised portfolio are covered by the NHG programme; and

- For the part of the Dutch portfolio that has been securitised, credit losses higher than the retained positions, excess spread and reserve accounts are attributable to investors in the securitisation programmes.

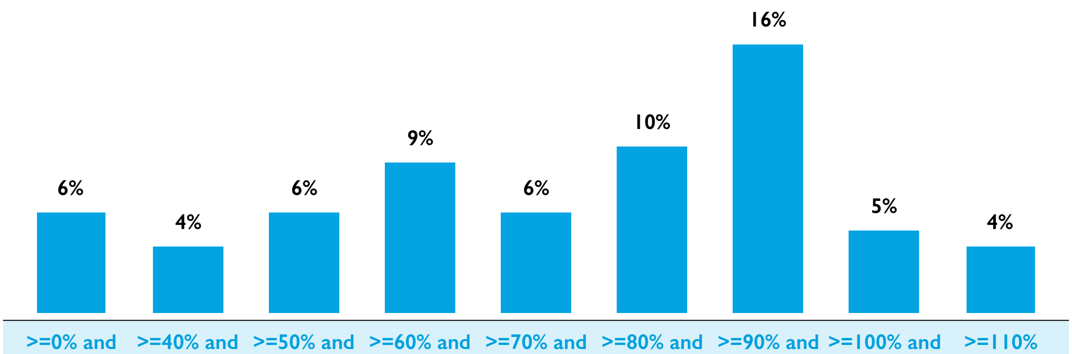
For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings, life insurance and investment deposits may also serve as additional collateral.

An indicator for potential losses, taking into account indexation of house prices and seasoning, is the *Loan-to-Indexed-Market-Value* (**LTIMV**). The indexation is made by using the CBS/Kadaster index, which is based on market observables. The Kadaster (national property register) is a public government register of real estate and their vested rights (e.g. ownership and mortgages). This register contains transaction data as well as CBS (Statistics Netherlands) data, which are used to construct a pricing index. Graphs 56-24 and 56-25 show a breakdown of the LTIMV for the total Dutch Mortgage loan portfolio at 31 December 2017 and 31 December 2016. The average seasoning of the total portfolio is approximately 8 years. The increase in the NHG guaranteed category is due to new origination of NIBC Direct mortgages. 5% of the total portfolio has an LTIMV above 100%. For the remainder of the portfolio, the indexed collateral value is less than or equal to the nominal loan balance outstanding or is a NHG mortgage.

### 56-24 LTIMV of Dutch Mortgage loan portfolio (EUR9,093 million), 31 December 2017




### 56-25 LTIMV of Dutch Mortgage loan portfolio (EUR 8,747 million), 31 December 2016




### German Mortgage loan portfolio

The German Mortgage loan portfolio amounted to EUR 53 million at 31 December 2017 (31 December 2016: EUR 84 million). The collateral value of this portfolio amounted to EUR 95 million at 31 December 2017 (31 December 2016: EUR 139 million). The majority of this portfolio was acquired from third parties via two portfolio purchases. The purchased portfolios contain highly seasoned loans with low LTMV.

As is the case in the Netherlands, the underlying property is the primary collateral for the granted mortgage loan. The majority of mortgage loans in Germany contain an annuity debt profile, leading to a lower outstanding balance during the lifetime of the loan.

## Debt investments

NIBC defines credit risk in debt investments as issuer risk, which is the credit risk of losing the principal amount on products such as bonds. Issuer risk is calculated based on the book value.

### Risk monitoring and measurement

Risk is controlled by setting single issuer limits and, in some cases, programme limits. All single issuer limits are approved by the TC or by delegated authority to the FMCR department. Apart from single issuer limits, risk is also monitored by assessing credit spread risk. Both sensitivity analysis (*basis point values,* **BPV**s) and Value at Risk (**VaR**) numbers are used[2].

Note 58 on Market Risk contains more information on these variables.
In the remainder of this section, the exposure has been divided into the following two sub-portfolios:

- Debt from financial institutions, corporate entities and sovereigns; and
- Securitisations.

### Debt from financial institutions and corporate entities

NIBC invests in debt (bonds) issued by financial institutions and corporate entities. The size of this sub-portfolio decreased in the course of 2017 to EUR 324 million at 31 December 2017 (31 December 2016: EUR 459 million). Of the total exposure, 30% (31 December 2016: 37%) were covered bonds. The remaining 70% (31 December 2016: 63%) was senior unsecured debt.

In 2014, NIBC began to use internal ratings to assess the creditworthiness of a financial institution. In general debt investments are rated more conservative by NIBC than by the external rating agencies.

The amount of EUR 324 million at 31 December 2017 represents the maximum credit risk exposure, without taking into account the presence of any collateral that could be repossessed in case of default. The portfolio did not contain any *credit default swap* (**CDS**) exposures.

## 56-27 Debt of financial institutions and corporate entities, 31 December 2017

| in EUR millions | AAA | AA | A | BBB | BB | <= B | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|
| Financial institutions | 103 | - | 126 | 15 | - | 3 | - | 247 |
| Corporate entities | 39 | - | - | - | - | - | - | 39 |
| Sovereigns | 21 | 17 | - | - | - | - | - | 38 |
| **Total** | **162** | **17** | **126** | **15** | **-** | **3** | **-** | **324** |

1 Source ratings: internal rating model (excluding sovereigns), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1.

2 Sensitivity Analysis for NIBC Markets is accounted for in Note 62 Market Risk

## 56-28 Debt of financial institutions and corporate entities, 31 December 2016

| in EUR millions | AAA | AA | A | BBB | BB | <= B | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|
| Financial institutions | 170 | 5 | 82 | 88 | - | 4 | - | 349 |
| Corporate entities | 8 | - | - | 11 | 50 | - | - | 68 |
| Sovereigns | 24 | 18 | - | - | - | - | - | 41 |
| **Total** | **201** | **23** | **82** | **99** | **50** | **4** | **-** | **459** |

1 Source ratings: internal rating model (excluding sovereigns), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1.

At both 31 December 2017 and 31 December 2016, the portfolio of debt from financial institutions and corporate entities had no impairments and contained no arrears.

### Securitisations

NIBC has been an active participant on the securitisation market in the past decade, both as an originator and investor in securitisations.

Tables 56-29 and 56-30 present an overview of NIBC's total securitisation exposure resulting from its activities as investor in securitisations. The exposure relating to NIBC's activities as an originator can be split into exposures related to consolidated and non-consolidated securitisations. If a securitisation programme is consolidated on NIBC's balance sheet, the exposure to the underlying collateral is excluded from the securitisation exposure and included in the total exposures presented in note 60 on credit risk in the corporate loans or mortgage loans sections. NIBC's total exposure as an originator to consolidated securitisations was EUR 206 million at 31 December 2017 (31 December 2016: EUR 224 million).

NIBC distinguishes two Securitisation sub-portfolios: the portfolio of Western European Securitisations and the Liquidity Investments portfolio.

NIBC's total securitisation exposure (investor and non-consolidated originator) decreased to EUR 498 million at 31 December 2017 (31 December 2016: EUR 773 million), mainly due to a decrease of the Western European Securitisations portfolio.

The portfolio of investments in Western European securitisations contains NIBC's investor securitisations in Western Europe as well as all investments in NIBC's own non-consolidated securitisations. All investments in NIBC's own securitisations are subject to approval from both Risk Management and Finance. The total amount of the portfolio of investments in Western Europe decreased to EUR 74 million at 31 December 2017 (31 December 2016: EUR 256 million). The Liquidity Investments portfolio was set up to invest part of NIBC's excess liquidity in the securitisation market. Investments are in majority AAA rated RMBS transactions backed by Dutch collateral or European ABS and are eligible to be pledged as collateral with the *European Central Bank* (**ECB**). Apart from the strict mandate, each investment is pre-approved by FMCR. Exposure in this portfolio decreased to EUR 424 million at 31 December 2017 (31 December 2016: EUR 518 million). The underlying assets in the collateral pools of NIBC's securitisation investments comprise Dutch residential mortgage loans (NL-RMBS AAA Liquidity Portfolio) and French and German car loans and credit card receivables (EU-ABS AAA Liquidity Portfolio).

## 56-29 Exposure to securitised products, 31 December 2017

| Book value, in EUR millions | AAA | AA | A | BBB | BB | <BB | Total[1] |
|---|---|---|---|---|---|---|---|
| EU - ABS | - | - | - | - | - | - | 1 |
| EU - CDO | 1 | - | 2 | - | 3 | 14 | 21 |
| EU - CMBS | - | - | - | - | - | 11 | 11 |
| EU - RMBS | 2 | 8 | 28 | - | - | 4 | 42 |
| **Total Western European securitisations** | **3** | **8** | **30** | **-** | **3** | **29** | **74** |
| NL - RMBS AAA Liquidity portfolio | 302 | - | 4 | - | - | - | 307 |
| EU- ABS AAA Liquidity portfolio | 117 | - | - | - | - | - | 117 |
| **Total securitisation exposure** | **422** | **8** | **34** | **0** | **3** | **29** | **498** |

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

## 56-30 Exposure to securitised products, 31 December 2016

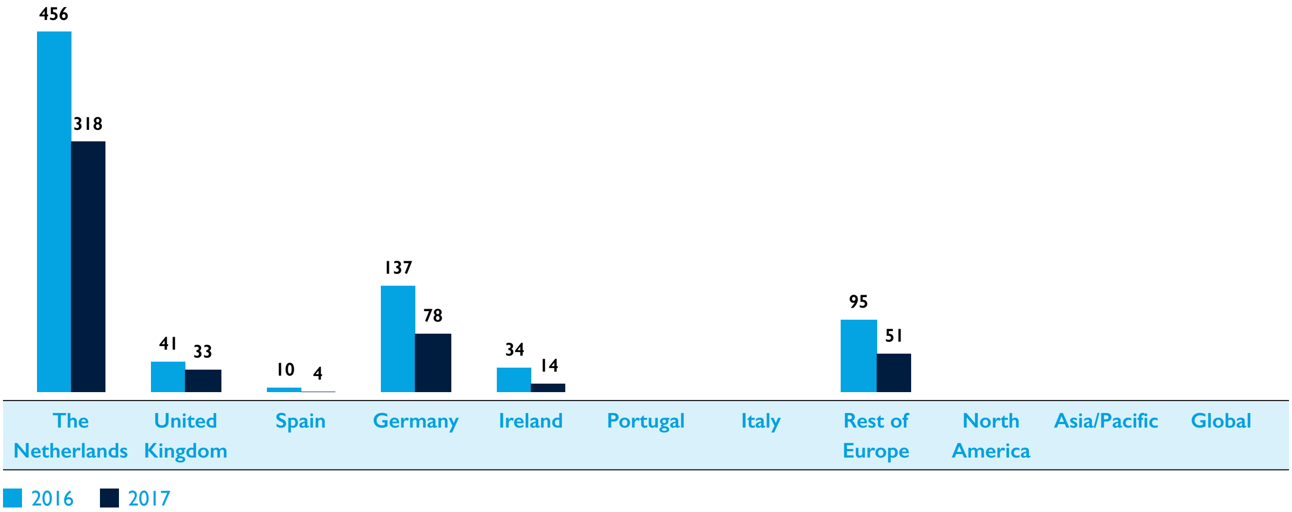
| Book value, in EUR millions | AAA | AA[1] | A | BBB | BB | <BB[1] | Total[2] |
|---|---|---|---|---|---|---|---|
| EU - ABS | - | - | - | - | - | - | 1 |
| EU - CDO | 24 | 10 | 9 | - | 4 | 12 | 59 |
| EU - CMBS | - | - | - | - | - | 132 | 132 |
| EU - RMBS | 5 | 13 | 29 | 4 | - | 12 | 64 |
| **Total Western European securitisations** | **29** | **23** | **38** | **5** | **4** | **157** | **256** |
| NL - RMBS AAA Liquidity portfolio | 363 | - | 3 | - | - | - | 366 |
| EU- ABS AAA Liquidity portfolio | 152 | - | - | - | - | - | 152 |
| **Total securitisation exposure** | **543** | **23** | **41** | **5** | **4** | **157** | **773** |

1 Of AA related exposure of EUR 23 million and < BB related exposure of EUR 157 million an amount of respectively EUR 2 million and EUR 131 million relates to NIBC's own non-consolidated securitisations.
2 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

### Geographic distribution of securitisations

Graph 56-31 presents the distribution of the Securitisations portfolio by geographic region at 31 December 2017 and 31 December 2016. NIBC allocates exposure to a region based on the geographic location in which the cash flows are generated. The geographic distribution illustrates that the majority of these assets are located in Western Europe, mainly in the Netherlands (64%), Germany (16%) and the United Kingdom (7%). NIBC's exposure in Ireland, Italy, Spain and Portugal is limited and had decreased to EUR 18 million at 31 December 2017 (31 December 2016: EUR 44 million). Approximately 93% of this exposure is investment grade exposure. NIBC had no exposure in Greece at 31 December 2017 or 2016.

## 56-31 Distribution of securitisations per region, 31 December 2017 (EUR 498 million) and 31 December 2016 (EUR 773 million)




### Impairments on securitisations

The majority of the Securitisations portfolio is reported at amortised cost or available for sale for accounting purposes and the respective assets are subject to a quarterly impairment analysis. Impairments are taken when the expected future cashflows are insufficient to meet the payment obligaitons. The stock of impairments decreased to EUR 24 million at 31 December 2017 (31 December 2016: EUR 47 million).

### Securitisations without impairments

Table 56-32 presents the rating breakdown of securitisation exposure that did not carry an impairment amount at 31 December 2017 (EUR 495 million). The total amount of securitisations without impairments at 31 December 2016 was EUR 762 million.

## 56-32 Distribution of securitisation exposure without impairments per rating category, 31 December 2017

| Book value, in EUR millions | AAA | AA | A | BBB | BB | <BB | Total[1] |
|---|---|---|---|---|---|---|---|
| Securitisation exposure without impairments | 422 | 8 | 34 | 0 | 3 | 27 | 495 |

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

## 56-33 Distribution of securitisation exposure without impairments per rating category, 31 December 2016

| Book value, in EUR millions | AAA | AA | A | BBB | BB | <BB | Total[1] |
|---|---|---|---|---|---|---|---|
| Securitisation exposure without impairments | 543 | 23 | 41 | 5 | 4 | 145 | 762 |

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

## Cash management

NIBC is exposed to credit risk as a result of cash management activities. In 2017, NIBC's risk management framework for cash management continued its conservative approach, taking into account the vulnerable financial markets.

### Risk monitoring and measurement

NIBC places its excess cash with the DNB/Dutch State Treasury Agency and with a selected number of investment-grade financial institutions. A monitoring process is in place within the FMCR department for the approved financial institutions. Cash management exposures can be collateralised through reverse repo transactions or unsecured through interbank deposits and current accounts.

### Correspondent banking and third-party account providers

Apart from the exposure in cash management, NIBC holds foreign currency accounts at correspondent banks and also utilises third-party account providers for internal securitisations.

### Exposures

At 31 December 2017, NIBC's total cash amounted EUR 2,021 million (31 December 2016: EUR 1,371 million). EUR 1,604 million of the cash was held at DNB and Deutsche Bundesbank, EUR 403 million at financial institutions and the remaining EUR 14 million at corporate entities (securitisation-related liquidity facilities).

## 56-34 Cash, 31 December 2017

| in EUR millions | AAA | AA | A | ≤BBB | Total[1] |
|---|---|---|---|---|---|
| Cash and balances with central banks | 1,604 | - | - | - | 1,604 |
| Financial institutions | - | 25 | 306 | 71 | 403 |
| Corporate entities | 4 | - | 10 | - | 14 |
| **Total** | **1,608** | **25** | **316** | **71** | **2,021** |

1 Source ratings: internal rating model (excluding Cash and balances with central banks), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

## 56-35 Cash, 31 December 2016

| in EUR millions | AAA | AA | A | ≤BBB | Total[1] |
|---|---|---|---|---|---|
| Cash and balances with central banks | 917 | - | - | - | 917 |
| Financial institutions | - | 77 | 282 | 81 | 439 |
| Corporate entities | 4 | - | 10 | - | 14 |
| **Total** | **922** | **-** | **292** | **81** | **1,371** |

1 Source ratings: internal rating model (excluding Cash and balances with central banks), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

At year-end 2017, EUR 627 million cash collateral has been excluded from the cash management exposure (year-end 2016: EUR 1,016 million) as this amount is restricted cash that relates to derivatives with a negative fair value. At both 31 December 2017 and 31 December 2016, this portfolio carried no impairments and no arrears.

## Credit risk in derivatives

Credit risk in derivatives is the risk of having to replace the counterparty in derivative contracts. NIBC's credit risk in derivatives can be split into exposures to financial institutions and corporate entities. NIBC's policy is to minimise this risk. NIBC only enters into OTC contracts with central clearing counterparties and financial institutions that are investment grade or with corporate entities where the exposure is secured by some form of collateral.

**Risk monitoring and measurement**

Credit risk in derivatives is based on the marked-to-market value and *Potential Future Exposure* (**PFE**) of the derivative. The PFE reflects a potential future change in marked-to- market value during the remaining lifetime of the derivative contract. For financial institutions, separate limits for credit risk are in place, based on the external rating. For corporate clients, NIBC enters into a derivative transaction as part of its overall relationship with the client. The credit approval process for these derivatives is closely linked with the credit approval process of the loan. Limit-setting proposals for both financial institutions and corporate counterparties are reviewed in the TC. For financial institutions, collateral postings under a CSA are taken into account. In 2017 NIBC offsetted assets and liabilities with central clearing members. Derivatives with the same characteristics, being counterparty, maturity bucket and currency are netted. In 2017, EUR 244 million of NIBC's derivative portfolio including netting, but excluding collateral and PFE has been centrally cleared. For corporate counterparties, both the loan and derivative are treated as a single package whereby the derivative often benefits from the security/collateral supporting the loan exposure.

**Exposures**

Tables 56-36 and 56-37 display NIBC exposures from credit risk in derivatives allocated across the rating class of the underlying counterparty. Exposure is the sum of the positive marked-to-market value of derivative contracts, excluding the effect of netting and collateral exchange. Due to amortisation and limit origination, the total derivative exposure excluding netting and collateral decreased in 2017 to EUR 1,021 million at 31 December 2017 (31 December 2016: EUR 1,817 million).

## 56-36 Derivative exposure excluding netting and collateral, 31 December 2017

| in EUR millions | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | 24 | 462 | 72 | - | - | - | - | - | - | 558 |
| Corporate entities | 21 | - | - | 281 | 70 | 80 | - | - | 11 | - | 463 |
| **Total** | **21** | **24** | **462** | **353** | **70** | **80** | **-** | **-** | **11** | **-** | **1,021** |

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

## 56-37 Derivative exposure excluding netting and collateral, 31 December 2016

| in EUR millions | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | 31 | 1,121 | 91 | - | - | - | - | - | - | 1,242 |
| Corporate entities | - | 25 | 5 | 358 | 45 | 58 | 72 | - | 13 | - | 575 |
| **Total** | **-** | **56** | **1,126** | **449** | **45** | **58** | **72** | **-** | **13** | **-** | **1,817** |

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

**Collateral**

To the extent possible, NIBC attempts to limit credit risk arising from derivatives. NIBC enters into bilateral collateral agreements with financial institutions to mitigate credit risk in OTC derivatives by means of CSAs. Positive marked-to-market values can be netted with negative marked-to-market values (as in tables 56-38 and 56-39) and the remaining exposure is mitigated through bilateral collateral settlements. Accepted collateral is mainly cash collateral, which is usually exchanged on a daily basis. The primary counterparties in these CSAs are large international banks with ratings of A or higher. NIBC generally carries out daily cash collateral exchanges to account for changes in the market value of the contracts included in the CSA.

Terms and conditions of these CSAs are in line with general *International Swaps and Derivatives Association* (**ISDA**) credit support documents. Collateral from CSAs significantly decreases the credit exposure on derivatives, as presented in table 56-38 at 31 December 2017 and in table 56-39 at December 2017.

## 56-38 Derivative exposure including netting and collateral, 31 December 2017

| in EUR millions | AAA | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | - | 1 | 26 | 5 | - | - | - | - | - | - | 32 |
| Corporate entities | - | 22 | - | - | 271 | 69 | 80 | - | - | 11 | - | 453 |
| **Total** | **-** | **22** | **1** | **26** | **276** | **69** | **80** | **-** | **-** | **11** | **-** | **485** |

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

## 56-39 Derivative exposure including netting and collateral, 31 December 2016

| in EUR millions | AAA | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | - | - | 58 | 31 | - | - | - | - | - | - | 89 |
| Corporate entities | - | - | 25 | 5 | 347 | 45 | 57 | 72 | - | 13 | - | 563 |
| **Total** | **-** | **-** | **25** | **63** | **378** | **45** | **57** | **72** | **-** | **13** | **-** | **652** |

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

**Valuation of corporate derivatives (credit and debt value adjustments)**

CVA and DVA are incorporated into derivative valuations to reflect the risk of default of the counterparty as well as the own default risk of NIBC. The adjustments are applied to all OTC derivative contracts, except for those that benefit from a solid collateral agreement where cash collateral is regularly exchanged, mitigating the credit risk. In practice, this means that CVA and DVA are only applied to OTC derivative contracts that generate credit risk on corporate (i.e. non-financial) counterparties.

## Arrears

NIBC applies a threshold for determining whether a derivative carries a non-material arrear. The criteria for this threshold are the same as for the portfolio of corporate loans. If amounts in arrear fall below the threshold (EUR 100,000), they are considered insignificant and are therefore excluded. The application of the threshold does not influence the total arrears for 2017 and 2016.

Table 56-40 displays an overview of the arrears for corporate derivatives at 31 December 2017 and 31 December 2016 as well as the exposures (marked-to-market values) these arrears refer to. There were no amounts in arrear for derivatives with financial institutions. As shown in Table 56-40, at 31 December 2017, no marked-to-market exposure in arrear (31 December 2016: no marked-to-market expsoure in arrear).

### 56-40 Arrears overview, corporate derivative exposure

| in EUR millions | 2017 | | 2016 | |
|---|---|---|---|---|
| | Exposure (MtM)[1] | Amount in arrear | Exposure (MtM)[1] | Amount in arrear |
| Age of payment in arrear | | | | |
| 1- 5 days | - | - | - | - |
| 6 - 30 days | - | - | - | - |
| 31 - 60 days | - | - | - | - |
| 61 - 90 days | - | - | - | - |
| **Subtotal less than 90 days** | **-** | **-** | **-** | **-** |
| Over 90 days | - | - | - | - |
| No payment in arrear | 453 | - | 575 | - |
| Total | 453 | - | 575 | - |

1 MtM: Marked-to-Market value.

## 57 Interest rate risk in the Banking book

NIBC defines interest rate risk in the Banking book (IRRBB) as the risk of losses from interest rate sensitive positions in non-trading activities due to movements in interest rates. Interest rate risk is measured both from an economic value perspective and an earnings perspective. The first perspective considers the impact on the market value, while the latter considers the impact on the net interest income.

NIBC's banking book consists of:
- Corporate treasury
- Commercial Treasury
- Corporate banking
- Retail banking

### Risk appetite

The risk appetite for IRRBB from an economic value perspective is measured by the modified duration of equity and equal to 5 (with a tolerance of 7.5), while the risk appetite from an earnings perspective is measured by the impact on 1Y earnings and equal to EUR 13 million (assuming a shift in interest rates of 100 bps).

### Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest *Basis Point Value* (**BPV**) and interest *Value at Risk* (**VaR)** measures are calculated on a daily basis and reviewed by the Market Risk department:
- Interest BPV measures the sensitivity of the market value to an instantaneous change of one basis point in each time bucket of the interest rate curve. The BPV as displayed in the tables below represents the sensitivity of the market value to a one-basis-point, parallel upward shift of the underlying curve;
- The interest VaR measures the threshold value, which daily marked-to-market losses with a confidence level of 99% will not exceed, based on four years of historical data for weekly changes in interest rates. These weekly changes are superimposed on the current market rates. The VaR is calculated by means of full valuation to take non-linearity into account.

From the earnings perspective changes in interest rates occur both instantaneously and gradually over time. The combination of static and dynamic (changes to the current portfolio composition) analyses are used. The dynamic analysis allows the integration of the business strategy in the earnings, by aligning the development of the balance sheet with the business plan, taking into account both refinancing and reinvestments. Earnings at risk (EatR) is calculated by means of the following measure:
- 12 months earnings impact due to a 200 bps gradual upwards or downwards interest rate shock per currency

EatR as displayed in the tables below represents the 200 bps gradual upwards measure.

The interest rate risk analysis is complemented by a set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on the above measures, both those from the economic value perspective and from an earnings perspective. The limits and utilisation are reported to the ALCO once every two weeks. Any major breach of IRRBB limits is reported to the CRO immediately.

## Interest rate risk

**Interest rate risk in the Banking book**

Interest rate risk in the Banking book from an economic value perspective is mainly present in the Mismatch book and the Mortgages book; note that the books have opposite interest rate risk positions from an economic value perspective.

NIBC accepts a certain economic value risk exposure in the Mismatch book to stabilize earnings. We call this our strategic mismatch exposure. If we would not have this exposure and hedge all our interest bearing assets and liabilities to 3-months Euribor/Libor, our (non-interest bearing) capital will effectively be financing very short-term assets and the interest return on our (non-interest bearing) capital will fluctuate with these short term rates earned on those assets.

The Mismatch book exclusively contains swaps in EUR and GBP as these are, next to USD, the major currencies in which also lending activities take place. The USD position (31 million EUR) in the Mismatch book was closed in Q4 2017 as future increases in interest rates might result in negative carry. At year-end of 2017 the total notional position is 427 EUR mln, with 58% of the mismatch position held in EUR, 42% in GBP and 0% in USD. Duration based the relative positions would be 57% in EUR, 43% in GBP, 0% in USD.

The Mortgage loan book consists of:
- The 'old' (white label) mortgage portfolio, 4.9 billion EUR of which 53 million EUR in Germany. This portfolio is accounted on fair value. The hedging strategy of this book is based upon the interest rate sensitivity, including a discount spread.
- In 2013 NIBC started originating mortgages under the NIBC Direct label and this portfolio grew significantly since then. At year-end 2016 this portfolio's size was 3.3 billion EUR and at year-end 2017 the size of this portfolio is 4.4 billion EUR. This portfolio is accounted on amortised cost. The hedging strategy of this book is based upon notional amounts, i.e. excluding a discount spread.

However the interest rate sensitivity (from an economic value perspective) of both books is measured identically, i.e. by taking into account a discount spread.

The Corporate Treasury Book contains mainly the funding activities of NIBC and the corporate loan books. The Liquidity portfolio, Collateral portfolio and Debt Investments portfolio are part of the Banking Book and consist mainly of investments in financial institutions and securitisations

Tables 57-1 and 57-2 illustrate in EUR the interest rate sensitivity for EUR, USD and GBP in the Mismatch and remaining Banking book at year-end 2017 and 2016. For other currencies, the interest rate risk is minimal.

### 57-1 Interest rate statistics Banking book, 31 December 2017

| | Economic value perspective (BPV) | | | Earnings perspective (EatR) | | |
|---|---|---|---|---|---|---|
| in EUR thousands | Mismatch | Other | Total | Mismatch | Other | Total |
| EUR | (91) | 291 | 199 | (1,954) | 16,046 | 14,092 |
| USD | 0 | (4) | (4) | - | (343) | (343) |
| GBP | (68) | 8 | (60) | (1,377) | 445 | (932) |
| Other | - | 0 | 0 | - | 296 | 296 |
| **Total** | **(159)** | **294** | **135** | **(3,331)** | **16,445** | **13,114** |

### 57-2 Interest rate statistics Banking book, 31 December 2016

| | Economic value perspective (BPV) | | | Earnings perspective (EatR) | | |
|---|---|---|---|---|---|---|
| in EUR thousands | Mismatch | Other | Total | Mismatch | Other | Total |
| EUR | (120) | 335 | 216 | (1,900) | 17,260 | 15,360 |
| USD | (72) | 0 | -71 | (1,400) | 970 | -430 |
| GBP | (91) | 8 | -82 | (1,200) | (900) | -2,100 |
| Other | 0 | 0 | 0 | - | 20 | 20 |
| **Total** | **(282)** | **344** | **62** | **(4,500)** | **17,350** | **12,850** |

From the economic value perspective more detailed statistics with respect to the Mismatch book are presented in the following table.

### 57-3 Interest rate statistics Mismatch book

| | 2017 | | 2016 | |
|---|---|---|---|---|
| in EUR thousands | Interest rate BPV | Interest rate VaR | Interest rate BPV | Interest rate VaR |
| Max[1] | (283) | 2,334 | (357) | 2,540 |
| Average | (232) | 1,722 | (313) | 2,196 |
| Min[2] | (159) | 1,060 | (272) | 1,912 |
| **Year-end** | **(159)** | **1,060** | **(282)** | **1,971** |

1 Max: value farthest from zero.
2 Min: value closest to zero.

In the following table the interest BPV statistics of the Banking Book, split in Mismatch, Other and Total are presented.

### 57-4 Interest rate BPV statistics Banking book

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| in EUR thousands | Mismatch | Other | Total | Mismatch | Other | Total |
| Max[1] | -283 | 525 | 245 | -357 | 392 | -260 |
| Average | -232 | 298 | 67 | -313 | 195 | -118 |
| Min[2] | -159 | 180 | -1 | -272 | 61 | 1 |
| **Year-end** | **-159** | **294** | **135** | **-282** | **342** | **60** |

1 Max: value farthest from zero.
2 Min: value closest to zero.

## 58 Market risk

NIBC defines market risk as:

- the risk of losses in the Trading book arising from adverse movements in market rates and;
- the risk of losses in the Banking Book from NIBC's credit spread risk position and;
- the risk of losses in both the banking and trading book from adverse movements in currencies with respect to the Euro.

The predominant market risk drivers for NIBC are interest rate risk and credit spread risk .

In Money Markets & Trading, NIBC takes short-term positions in the EUR, GBP and USD yield curves. This book also contains interest rate risk related to derivative transactions of NIBC's clients. All positions within NIBC Markets are part of the Trading book. The Trading book of NIBC Markets contains bonds and a relatively small equity portfolio in those equities, for which NIBC markets is liquidity provider.

### Risk appetite

The risk appetite for market risk is moderate. For all market risk types limits are set and monitored on a daily basis.

### Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest and credit spread *Basis Point Value* (**BPV**) and interest and credit spread and equity *Value at Risk* (**VaR)** measures are calculated on a daily basis and reviewed by the Market Risk department. VaR is calculated using 4 years of historical data and a confidence level of 99%.

The market risk analysis is complemented by a set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on the above measures. The limits and utilisation are reported to the ALCO once every two weeks. Any major breach of market risk limits is reported to the CRO immediately.

### Interest rate risk, credit spread risk and equity risk

Money Markets & Trading contains plain vanilla interest rate derivatives only. Figures per year-end 2017 versus 2016 are displayed below.

## 58-1 Interest rate statistics Trading book NIBC excluding NIBC Markets, 31 December 2017

| in EUR thousands | 2017 Interest rate BPV | 2017 Interest rate VaR | 2016 Interest rate BPV | 2016 Interest rate VaR |
|---|---|---|---|---|
| Max[1] | (80) | 415 | (91) | 377 |
| Average | (25) | 193 | (30) | 174 |
| Min[2] | 1 | 67 | 0 | 69 |
| **Year-end** | **(40)** | **128** | **38** | **116** |

1 Max: value farthest from zero.
2 Min: value closest to zero.

The Trading book of NIBC Markets consists of bonds and equities. The bonds in the Trading book of NIBC Markets are subject to both interest rate risk and credit spread risk. The equities of the Trading Book of NIBC Markets are related to the function of liquidity provider, which NIBC Markets has for a number of Dutch small and midcap equities. Year-end 2017 figures are displayed in the table below.

## 58-2 Interest rate & credit spread risk statistics Trading book NIBC Markets, 31 December 2017

| in EUR thousands | 2017 Interest BPV | 2017 Credit spread BPV | 2017 VaR | 2016 Interest BPV | 2016 Credit spread BPV | 2016 VaR |
|---|---|---|---|---|---|---|
| NIBC Markets | (16) | (46) | 150 | (18) | (51) | 171 |

The VaR in this table includes both interest rate risk and credit spread risk.

The year-end 2017 equity VaR of NIBC Markets is 61 thousand EUR while in 2016 equity VaR was 38 thousand EUR per end of year.

NIBC's Banking book has credit spread risk mainly in the Liquidity portfolio, Collateral portfolio, the Structured Credits portfolio and the fair value mortgages portfolio. Year-end 2017 credit spread risk figures versus 2016 are displayed below.

## 58-3 Credit spread risk statistics Banking book, 31 December 2017

| in EUR thousands | 2017 Credit spread BPV | 2017 Credit spread VaR | 2016 Credit spread BPV | 2016 Credit spread VaR |
|---|---|---|---|---|
| Liquidity / Collateral | (230) | 1,370 | (233) | 1,598 |
| Structured Credits | (46) | 679 | (59) | 687 |
| Mortgages (fair value) | (1,540) | 1,806 | (1,770) | 2,966 |

### Currency risk

NIBC manages its overall currency position based on the currency positions in the monthly balance sheets. The main exposures in foreign currencies for NIBC are USD, GBP and JPY. NIBC uses matched funding and other measures to apply its policy of not taking any currency positions. Any currency position which does show at month end is caused by movements in the fair value of assets or liabilities or interest income in foreign currencies and is hedged by entering into FX spot transactions. The total open foreign currency position, by nominal amount, was EUR 3.5 million at year-end 2017. This currency position is the position prior to hedging, which is always done shortly after month-end. Regulatory capital for currency risk is equal to 0.9 million EUR per end of 2017.

Furthermore, the impact of a *reasonably possible* yearly change (in absolute terms) of EUR against other currencies was calculated. Per end of 2017 the impact of these reasonably possible changes is as follows for NIBC (only currencies with the larger exposures are displayed).

### 58-4 Currency Risk Analysis, 31 December 2017

| 2017 | | | 2016 | | |
|---|---|---|---|---|---|
| Currency | Change in currency in % | Impact P&L in mln EUR | Currency | Change in currency in % | Impact P&L in mln EUR |
| USD | +08 | 0.8 | USD | +08 | -0.4 |
| GBP | +11 | -0.3 | GBP | +13 | -0.3 |
| JPY | +09 | 0.0 | JPY | +09 | -0.2 |
| CHF | +09 | -0.1 | CHF | +09 | -0.3 |

The sum of the absolute values of the impact for all currencies is equal to around 1.5 million EUR.

## 59 Liquidity risk

NIBC defines liquidity risk as the inability of NIBC to fund its assets and meet its obligations as they become due, at acceptable cost.

Maintaining a sound liquidity and funding profile is one of NIBC's most important risk management objectives. NIBC analyses its funding profile by mapping all assets and liabilities into time buckets that correspond to their maturities. Based on projections prepared by the business units and reviewed by Risk Management, and the current asset and liability maturity profiles, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position.

**Assumptions**

One of the stress scenarios, the market-wide stress test, assumes a world-wide liquidity shortage in which no new market funding can be attracted by NIBC. Furthermore, it is assumed that assets cannot be sold, but that they can only be made liquid by making them eligible for collateralised and ECB funding. In addition, the following assumptions are made:

- In order to maintain NIBC's business franchise, it is assumed that new corporate loan production continues at a level where the current books are maintained constant;
- Conservative assumptions with respect to for example collateral cash outflows (payments from CSAs) and drawdowns of undrawn commitments are made; and
- A one notch downgrade is assumed.

The projection of NIBC's liquidity in this way is necessarily a subjective process and requires management to make assumptions about, for example, the fair value of eligible collateral and potential outflow of cash collateral placed by NIBC with derivative counterparties.

In light of these projections, NIBC is confident that sufficient liquidity is available to meet maturing obligations over the next 12 months.

**Maturity calendar consolidated balance sheet**

The following tables present the cash flows payable by NIBC in respect of non-derivative financial liabilities relevant for liquidity risk by the remaining contractual maturities at 31 December. The amounts disclosed in the tables for the non-derivative financial liabilities are contractual future undiscounted cash flows. Financial liabilities at fair value through profit or loss are therefore restated to future nominal amounts. The financial assets relevant for managing liquidity risk are based on the fair value (discounted cash flows) for those assets which are classified at fair value through profit or loss or available-for-sale.

The differences between the table and the stress scenario are caused mainly by the following items that are included in the stress scenario analysis but not in the maturity calendar of the consolidated balance sheet:

- New asset production;
- Collateralised funding capacity of internal securitisations and individual bonds; and
- Conservative assumptions with respect to possible cash outflows (e.g. CSA collateral, callable funding).

## 59.1 Liquidity maturity calendar, 31 December 2017

| in EUR millions | Not dated | Payable on demand | Due within three months | Due between three and twelve months | Due between one and five years | Due after five years | Total |
|---|---|---|---|---|---|---|---|
| **Liabilities (undiscounted future cash flows)** | | | | | | | |
| **Financial liabilities at amortised cost** | | | | | | | |
| Due to other banks | - | - | 4 | 218 | 1,207 | 2 | 1,431 |
| Deposits from customers | - | 5,444 | 812 | 2,347 | 2,230 | 618 | 11,451 |
| Own debt securities in issue | - | - | - | 1,098 | 2,270 | 579 | 3,947 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 267 | - | - | - | 267 |
| **Financial liabilities at fair value through profit or loss (including trading)** | | | | | | | |
| Own debt securities in issue | - | - | - | - | 37 | - | 37 |
| Debt securities in issue structured | - | - | - | 20 | 449 | 697 | 1,166 |
| **Other financial liabilities** | | | | | | | |
| Other liabilities | - | - | - | 113 | - | - | 113 |
| Deferred tax | - | - | - | - | 4 | - | 4 |
| Employee benefits | - | - | - | - | - | 3 | 3 |
| **Subordinated liabilities** | | | | | | | |
| Amortised cost | - | - | - | 2 | - | 112 | 114 |
| Fair value through profit or loss | - | - | - | - | - | 330 | 330 |
| **Other** | | | | | | | |
| Liabilities held for sale | 104 | - | - | - | - | - | 104 |
| **Total liabilities (excluding derivatives and interest cash flows)** | **104** | **5,444** | **1,083** | **3,798** | **6,197** | **2,341** | **18,967** |
| **Total assets relevant for managing liquidity risk (fair value, excluding derivatives and interest cash flows)** | **1,035** | **1,930** | **449** | **1,086** | **5,320** | **11,359** | **21,179** |

## 59.2 Liquidity maturity calendar, 31 December 2016

| in EUR millions | Not dated | Payable on demand | Due within three months | Due between three and twelve months | Due between one and five years | Due after five years | Total |
|---|---|---|---|---|---|---|---|
| **Liabilities (undiscounted future cash flows)** | | | | | | | |
| **Financial liabilities at amortised cost** | | | | | | | |
| Due to other banks | - | 6 | 110 | 63 | 833 | 176 | 1,188 |
| Deposits from customers | - | 5,332 | 768 | 2,171 | 2,318 | 973 | 11,562 |
| Own debt securities in issue | - | - | - | 60 | 2,044 | 1,356 | 3,460 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 2 | - | - | 1,335 | 1,337 |
| **Financial liabilities at fair value through profit or loss (including trading)** | | | | | | | |
| Own debt securities in issue | - | - | - | - | 36 | - | 36 |
| Debt securities in issue structured | - | - | 6 | 17 | 175 | 976 | 1,174 |
| **Other financial liabilities** | | | | | | | |
| Other liabilities | - | - | - | 275 | - | - | 275 |
| Deferred tax | - | - | - | - | 3 | - | 3 |
| Employee benefits | - | - | - | - | - | 3 | 3 |
| **Subordinated liabilities** | | | | | | | |
| Amortised cost | - | - | - | 2 | 48 | 68 | 118 |
| Fair value through profit or loss | - | - | 2 | 7 | 48 | 485 | 542 |
| **Other** | | | | | | | |
| Liabilities held for sale | - | - | - | - | - | - | - |
| **Total liabilities (excluding derivatives and interest cash flows)** | **-** | **5,338** | **888** | **2,595** | **5,505** | **5,372** | **19,698** |
| **Total assets relevant for managing liquidity risk (fair value, excluding derivatives and interest cash flows)** | **1,382** | **1,312** | **498** | **1,309** | **5,271** | **11,991** | **21,763** |

## 59.3 Liquidity maturity calendar of derivatives, 31 December 2017

### Liquidity maturity calendar derivatives

The following tables present the derivative financial instruments that will be settled on a net basis into relevant maturity classes based on the contractual maturity date at 31 December 2016 and 2015. The amounts disclosed in the tables are the contractual undiscounted cash flows.

| in EUR millions | Less than three months | Between three months and one year | One to five years | Five years or more | Total |
|---|---|---|---|---|---|
| **Derivatives held for trading** | | | | | |
| ***Interest rate derivatives (net settled)*** | | | | | |
| Inflow | 411 | 867 | 2,285 | 671 | 4,234 |
| Outflow | (417) | (1,005) | (2,543) | (922) | (4,887) |
| ***Credit derivatives*** | | | | | |
| Inflow | - | - | - | 1 | 1 |
| Outflow | - | - | - | - | - |
| **Derivatives used for hedging** | | | | | |
| ***Interest rate derivatives (net settled)*** | | | | | |
| Inflow | 11 | 110 | 249 | 25 | 395 |
| Outflow | (9) | (84) | (306) | (218) | (617) |
| **Total inflow** | **422** | **977** | **2,534** | **696** | **4,630** |
| **Total outflow** | **(426)** | **(1,089)** | **(2,849)** | **(1,140)** | **(5,504)** |

## 59.4 Liquidity maturity calendar of derivatives, 31 December 2016

| in EUR millions | Less than three months | Between three months and one year | One to five years | Five years or more | Total |
|---|---|---|---|---|---|
| **Derivatives held for trading** | | | | | |
| ***Interest rate derivatives (net settled)*** | | | | | |
| Inflow | 476 | 986 | 2,279 | 717 | 4,458 |
| Outflow | (498) | (1,018) | (2,327) | (749) | (4,592) |
| ***Credit derivatives*** | | | | | |
| Inflow | - | - | - | 1 | 1 |
| Outflow | - | - | - | - | - |
| **Derivatives used for hedging** | | | | | |
| ***Interest rate derivatives (net settled)*** | | | | | |
| Inflow | 10 | 70 | 296 | 33 | 409 |
| Outflow | (14) | (49) | (297) | (52) | (412) |
| **Total inflow** | **486** | **1,056** | **2,575** | **750** | **4,868** |
| **Total outflow** | **(512)** | **(1,067)** | **(2,624)** | **(801)** | **(5,004)** |

## 59.5 Liquidity maturity calendar off-balance sheet, 31 December 2017

**Liquidity maturity calendar off-balance sheet**

The following table shows the contractual maturity of NIBC's contingent liabilities and commitments.

Each undrawn loan or capital commitment is included in the time band containing the earliest date it can be drawn down.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

| in EUR millions | Less than three months | Between three months and one year | One to five years | Five years or more | Total |
|---|---|---|---|---|---|
| **Contract amount** | | | | | |
| Committed facilities with respect to corporate loan financing | 1,533 | - | - | - | 1,533 |
| Committed facilities with respect to Mortgage loans financing | 158 | - | - | - | 158 |
| Capital commitments | 12 | - | - | - | 12 |
| Guarantees granted | 43 | - | - | - | 43 |
| Irrevocable letters of credit | 35 | - | - | - | 35 |
| | **1,781** | **-** | **-** | **-** | **1,781** |

## 59.6 Liquidity maturity calendar off-balance sheet, 31 December 2016

| in EUR millions | Less than three months | Between three months and one year | One to five years | Five years or more | Total |
|---|---|---|---|---|---|
| **Contract amount** | | | | | |
| Committed facilities with respect to corporate loan financing | 1,303 | - | - | - | 1,303 |
| Committed facilities with respect to Mortgage loans financing | 708 | - | - | - | 708 |
| Capital commitments | 19 | - | - | - | 19 |
| Guarantees granted | 76 | - | - | - | 76 |
| Irrevocable letters of credit | 18 | - | - | - | 18 |
| | **2,124** | **-** | **-** | **-** | **2,124** |

# 60 Capital management

### Overview

It is NIBC's policy to maintain a strong capital base, to meet regulatory capital requirements at all times and to support the development of its business by allocating capital efficiently. Allocation of capital to the business is based on an EC approach. EC is the amount of capital which NIBC allocates as a buffer against potential losses from business activities, based upon its assessment of risks. The EC that NIBC allocates to each business is based on the assessment of risk of its activities. It differs from the CRR/CRDIV capital requirements, i.e. regulatory capital, as in certain cases NIBC assesses the specific risk characteristics of its business activities in a different way than the CRR/CRDIV method. Total regulatory capital however, in combination with a minimum benchmark Tier 1 ratio, does form a limit to the maximum amount of EC that can be allocated to the business.

Comparing the risk-based EC of each business to its profit delivers a RAROC for each business. EC and RAROC are key tools in NIBC's capital allocation and usage process, assisting in allocating Own Funds as efficiently as possible, based on expectations of both risks and return. Usage of EC is assessed once every two weeks in the ALCO. The ALCO resets the maximum allocation level of EC to and within each business, taking into account business expectations, NIBC's desired risk profile and the regulatory requirements.

**Methodology**

NIBC uses the business model of each activity as the basis for determining the EC. If the business model of an activity is trading, distribution or investing for a limited period, a market risk approach based upon VaR and scaled to a one-year horizon is used to calculate the EC usage. A business model based on 'buy-to-hold' or investing to maturity leads to a credit risk approach being applied, based upon estimations of PD and LGD. Add-ons for operational risk and country risk are also calculated. Furthermore, NIBC allocates EC for business risk, reputation risk and model risk on a group-wide level.

The EC approach differs from the CRR/CRDIV approach in which only the trading books are assigned a market risk approach. In the CRR/CRDIV framework, activities that are not trading but have a business model based on distribution or investment for a limited period are often assigned a credit risk approach, following CRR/CRDIV regulations or regulatory industry practice, whereas in the EC framework NIBC applies a market risk approach similar to that of the trading activities. Risks and EC are monitored accordingly.

The main differences between the EC capital and CRR/CRDIV framework come from the Residential Mortgage portfolio, the Securitisations portfolio and NIBC's interest rate mismatch position. EC is determined by a market risk approach for these activities. The CRR/CRDIV approach is either a credit risk approach (mortgage loans and securitisations) or is not part of the CRR/CRD IV Pillar 1 at all (mismatch position).

**Capital allocation**

NIBC allocates EC to all its business activities in the form of limits set by the ALCO and calculates the amount of EC usage of each business based on the risk of its activities:

- For the Corporate Loan portfolio, NIBC calculates EC usage by means of a credit risk approach largely based upon the CRR regulatory capital formula and an add-on for concentration risk;
- For the Debt Investments and Trading portfolios, the Residential Mortgage portfolio and the interest rate mismatch position, NIBC uses a market risk approach to determine EC usage. EC usage for these portfolios is calculated using VaR, calculated with four years of historical data and scaled to a one-year horizon;
- For the Investment loans, NIBC calculates EC usage by applying a credit approach based upon the CRR regulatory capital formula. NIBC uses fixed percentages for the equity investments.

**CRR/CRDIV regulatory capital**

The objective of CRR/CRDIV is to enhance the capital adequacy of the banking industry by making it more responsive to risk. CRR/CRDIV is structured on three pillars:

- Pillar 1 describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;
- Pillar 2 describes the additional *supervisory review and evaluation process* (**SREP**), where regulators analyse the *internal capital adequacy assessment process* (**ICAAP**) of the individual banks. Since the end of 2011, Dutch Central Bank also analyses the *internal liquidity adequacy assessment process* (**ILAAP**);
- In Pillar 3 the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

Under CRR/CRDIV and subject to approval from the regulator, banks have the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'.

For credit risk, NIBC adopted the AIRB approach as further specified in CRR/CRDIV for its corporate, retail and institutional exposure classes. NIBC started using the AIRB approach at 1 January 2008. A small residue of exposures is measured on the standardised approach.

For market risk, NIBC adopted an internal model VaR approach.

For measuring operational risk, NIBC adopted the standardised approach, which is based on prescribed business-line activities.

The basis for Pillar 2 is NIBC's ICAAP, which is NIBC's self-assessment of risks sufficiently captured by Pillar 1, i.e. the link between NIBC's risk profile, its risk management and risk mitigation, and NIBC's capital planning.

Under Pillar 3, NIBC publishes its regulatory disclosures regarding its capital structure, capital adequacy, liquidity risk, risk management objectives/policies and risk-weighted assets each year. The Pillar 3 disclosures are published on the same date as the Annual Report on our website.

The following table displays the composition of regulatory capital as at 31 December 2017 and 31 December 2016.The regulatory capital is based on the CRR/CRDIV scope of consolidation, calculated for NIBC Bank consolidated on a fully loaded base and including the full year profit after of the year. The full year profit after tax is included without permission of DNB. NIBC Bank complies with the CRR/CRDIV capital requirements, which formally requires a minimum Common Equity ratio (including capital buffer) of 9.75%, a minimum Tier 1 ratio (including capital buffer) of 11.25% and a minimum Total Capital ratio (including capital buffer) of 13.25%.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Tier 1:** | | |
| Called-up share capital | 80 | 80 |
| Share premium | 237 | 237 |
| Eligible reserves | 1,746 | 1,608 |
| Profit after tax not included in CET 1 capital | (97) | (26) |
| Regulatory adjustments | (139) | (201) |
| **Common equity Tier 1 capital** | **1,827** | **1,698** |
| | | |
| Additional Tier 1 capital | 200 | - |
| **Total Tier 1 capital** | **2,027** | **1,698** |
| | | |
| **Tier-2:** | | |
| Qualifying subordinated liabilities | 301 | 457 |
| **Total Tier 2 capital** | **301** | **457** |
| **Total BIS capital** | **2,328** | **2,155** |

# 61 Subsequent events

### Changes in Dutch fiscal unity regime as a result of Justice of the European Union Judgement

On 22 February 2018, the Justice of the European Union decided that certain elements of the Dutch fiscal unity regime for corporate income tax purposes violate the freedom of establishment and are therefore contrary to European Union law. As a result, previously announced emergency legislation will change the Dutch fiscal unity regime, with retroactive effect, from 25 October 2017. The wording of this reparatory legislation is expected in the second quarter of 2018. This reparatory legislation may have impact on group companies within the fiscal unity NIBC. Although the various Dutch rules on restrictions of interest deductions will be applicable for group companies of a fiscal unity as from 25 October 2017, the impact for 2017 is immaterial. As soon as the final reparatory legislation is available an impact analysis will be performed by NIBC. and to the extent possible measures will be taken to mitigate potential negative effects.

# COMPANY FINANCIAL STATEMENTS

# TABLE OF CONTENTS

# COMPANY INCOME STATEMENT

## for the years ended 31 December

| in EUR millions | note | 2017 | 2016 |
|---|---|---|---|
| Interest and similar income | | 506 | 448 |
| Interest expense and silimar charges | | 284 | 276 |
| **Net interest income** | 1 | **222** | **172** |
| Fee and commission income | Q | 41 | 21 |
| Fee and commission expense | | | - |
| **Net fee and commission income** | 2 | **41** | **21** |
| Income from equity investments | 14 | 3 | 2 |
| Income from interests in group companies | 15 | 152 | 111 |
| **Income from group companies and (other) equity investments** | | **155** | **113** |
| Results from financial transactions | 3 | 2 | 8 |
| **Total operating income** | | **420** | **314** |
| **Personnel expenses** | 4 | **84** | **78** |
| Depreciation, amortisation and value adjustments of tangible assets and intangible assets | 5 | 4 | 5 |
| Other operating expenses | 6 | 70 | 59 |
| Impairments and provisions | | 20 | 59 |
| Release of impairments and provisions | | | (4) |
| Other | | | 1 |
| **Net impairments and provision charges of loans** | 7 | **20** | **56** |
| Regulatory charges and levies | 8 | 12 | 13 |
| **Total operating expenses** | | **190** | **211** |
| **Profit from ordinary operations before tax** | | **230** | **103** |
| Tax | 9 | 17 | 1 |
| **Profit after tax** | | **213** | **102** |

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

## for the years ended 31 December

| in EUR millions | 2017 Before tax | 2017 Tax charge/ (credit) | 2017 After tax | 2016 Before tax | 2016 Tax charge/ (credit) | 2016 After tax |
|---|---|---|---|---|---|---|
| **Profit for the year** | **230** | **17** | **213** | **103** | **1** | **102** |
| **Other comprehensive income** | | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | | |
| Revaluation of property, plant and equipment | 2 | - | 2 | - | - | - |
| Revaluation of liability credit reserve | (67) | (16) | (51) | (16) | (4) | (12) |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | |
| Net result on hedging instruments | (18) | (5) | (13) | (8) | (2) | (6) |
| Revaluation of equity investments | (4) | (1) | (3) | (4) | (1) | (3) |
| Revaluation of loans and advances to customers | (1) | - | (1) | 4 | 1 | 3 |
| Revaluation of interest-bearing securities | 6 | 1 | 5 | (1) | - | (1) |
| **Total other comprehensive income** | **(82)** | **(21)** | **(61)** | **(25)** | **(6)** | **(19)** |
| **Total comprehensive income** | **148** | **(4)** | **152** | **78** | **(5)** | **83** |

# COMPANY BALANCE SHEET

## before profit appropriation, as at 31 December

| in EUR millions | note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 10 | 1,416 | 845 |
| Due from other banks | 11 | 844 | 1,386 |
| Loans and advances to customers | 12 | 20,461 | 23,620 |
| Interest-bearing securities | 13 | 1,004 | 1,316 |
| Equity investments | 14 | 3 | 1 |
| Interests in group companies | 15 | 1,339 | 1,209 |
| Property, plant and equipment | 16 | 28 | 28 |
| Derivative financial instruments | 17 | 1,340 | 2,250 |
| Other assets | 18 | 57 | 69 |
| **Total assets** | | **26,492** | **30,724** |
| **Liabilities and equity** | | | |
| Due to other banks | 19 | 1,968 | 1,441 |
| Customer deposits and other fund on deposit | 20 | 15,960 | 20,246 |
| Debt securities in issue | 21 | 5,046 | 4,537 |
| Other liabilities | 22 | 61 | 47 |
| Derivative financial instruments | 17 | 909 | 2,065 |
| Provisions | 23 | 5 | 22 |
| Subordinated liabilities | 24 | 281 | 397 |
| **Total liabilities** | | **24,230** | **28,755** |
| **Equity** | | | |
| Share capital | 25 | 80 | 80 |
| Share premium | 25 | 238 | 238 |
| Revaluation reserves | 25 | 93 | 156 |
| Retained earnings including profit for the period | 25 | 1,648 | 1,495 |
| Profit after tax | | - | - |
| **Equity attributable to shareholder of the company** | | **2,059** | **1,969** |
| Capital securities | | 203 | - |
| **Total parent equity** | | **2,262** | **1,969** |
| **Total liabilities and equity** | | **26,492** | **30,724** |
| Contingent liabilities | 26 | 70 | 77 |
| Irrevocable liabilities | 26 | 1,377 | 1,241 |

# COMPANY STATEMENT OF CHANGES IN EQUITY

| in EUR millions | Attributable to: Share capital | Share premium | Revaluation reserves | Other reserves | Profit after tax | Distribution charged to profit after tax | Shareholder of the company |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **80** | **238** | **156** | **1,393** | **102** | **-** | **1,969** |
| Transfer of profit after tax 2016 to retained earnings | - | - | - | 102 | (102) | - | - |
| Total comprehensive income for the period ended 31 December 2017 | - | - | (61) | - | 210 | - | 149 |
| Transfer of realised depreciation revalued property, plant and equipment | - | - | (2) | 2 | - | - | - |
| Issue of capital securities | - | - | - | - | - | - | - |
| Cost of capital securities | - | - | - | (2) | - | - | (2) |
| Paid coupon on capital securities | - | - | - | - | - | - | - |
| Other | - | - | - | (1) | - | - | (1) |
| Final and interim dividend | - | - | - | (25) | - | (31) | (56) |
| **Balance at 31 December 2017** | **80** | **238** | **93** | **1,469** | **210** | **(31)** | **2,059** |

| in EUR millions | Attributable to: Share capital | Share premium | Revaluation reserves | Other reserves | Profit after tax | Distribution charged to profit after tax | Shareholder of the company |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **80** | **238** | **60** | **1,437** | **71** | **71** | **1,886** |
| Impact of adpoting IFRS 9 Own credit risk at 1 January 2016 | - | - | 115 | (115) | - | - | - |
| **Restated balance at 1 January 2016** | **80** | **238** | **175** | **1,322** | **71** | **71** | **1,886** |
| Transfer of profit after tax 2015 to retained earnings | - | - | - | 71 | (71) | (71) | - |
| Total comprehensive income for the period ended 31 December 2016 | - | - | (19) | - | 102 | - | 83 |
| **Balance at 31 December 2016** | **80** | **238** | **156** | **1,393** | **102** | **-** | **1,969** |

# COMPANY ACCOUNTING POLICIES

## Basis of preparation

The principal accounting policies applied in the preparation of the company financial statements are set out in the consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

The company financial statements have been prepared in accordance with the legal requirements for financial statements contained in Title 9 of Book 2 of the Netherlands Civil Code. NIBC applies the provisions in Section 362, paragraph 8, Title 9 of Book 2 of the Netherlands Civil Code that make it possible to prepare the company financial statements in accordance with the accounting policies (including those for the presentation of financial instruments as equity or liability) used in its consolidated financial statements.

The company financial statements are presented in euros rounded to the nearest million. The euro is the functional and presentation currency of NIBC .

## Summary of significant accounting policies

Except as set forth below, the accounting policies applied in the company financial statements are the same as those for the consolidated financial statements.

**Interests in group companies**

Interests in group companies, as defined in the Subsidiaries section in the basis of consolidation in the notes to the consolidated financial statements, are measured at net asset value. Net asset value is determined by measuring the assets, provisions, liabilities and income based on the accounting policies used in the consolidated financial statements. The company's share of its group companies profits or losses is recognised in the income statement.

If losses of group companies that are attributable to the company exceed the carrying amount of the interest in the group company (including separately presented goodwill, if any, and including other unsecured receivables), further losses are not recognised unless the company has incurred obligations or made payments on behalf of the group company to satisfy obligations of the group company. In such a situation, NIBC recognises a provision up to the extent of its obligation.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1 Net interest income

Interest income consists of interest income on loans and advances to customers, interest-bearing securities and other interest and similar income.

Interest expense consists of interest expense on liabilities, whether or not embodied in debt securities, and derivatives, as well as commissions having an interest nature, penalty interest on early redemptions, premiums and discounts. Premiums and discounts on debts, whether or not embodied in debt securities, not stated at fair value are recognised using the effective interest method, together with the relevant interest expense.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Interest and similar income:** | | |
| Interest from loans and advances to customers - designated at fair value through profit or loss | 60 | 51 |
| Interest from interest-bearing securities - designated at fair value through profit or loss | 7 | 7 |
| Interest income from other assets | 439 | 390 |
| | **506** | **448** |
| **Interest expense and similar charges:** | | |
| Interest expense from liabilities - designated at fair value through profit or loss | 18 | 18 |
| Interest expense from other liabilities | 266 | 258 |
| | **284** | **276** |
| | **222** | **172** |

Interest income from debt and other fixed-income instruments designated as held for trading or designated at fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

The interest income includes a positive amount of EUR 5 million related to the Targeted Long-Term Refinancing Operations programme (TLTRO II) of the ECB, as NIBC Holding expects to meet the minimum net lending amount in the reference period, needed to receive the applicable discount rate of 40bps.

Interest income includes negative interest from liabilities for an amount of EUR 35 million (2016: EUR 40 million).

For the year ended 31 December 2017, interest expense related to deposits from customers amounted to EUR 113 million (31 December 2016: EUR 170 million).

Interest expense includes negative interest from financial assets for an amount of EUR 62 million (2016: EUR 38 million).

## 2 Net fee and commission income

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Fee and commission income:** | | |
| Agency and underwriting fees | 7 | 4 |
| Investment management fees | 15 | 5 |
| Advisory fees | 10 | 4 |
| Other fees | 9 | 8 |
| | **41** | **21** |
| **Fee and commission expense:** | | |
| Other non-interest related | | - |
| | **-** | **-** |
| | **41** | **21** |

## 3 Results from financial transactions

This item relates to gains and losses and fair value movements from financial transactions, other than related to financial fixed assets and neither related to interest income and similar income.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Debt securities (designated at fair value through profit or loss) | - | - |
| Debt investments (designated at fair value through profit or loss) | - | - |
| Mortgage loans own book and securitsed mortgage loans | (9) | 1 |
| Loans (designated at fair value through profit or loss) | - | 10 |
| Assets and liabilities held for trading | 2 | 2 |
| Interest rate Instruments (derivatives) | (2) | (16) |
| Foreign exchange | (7) | (1) |
| Fair value hedges of interest rate risk | 1 | 9 |
| Cash flow hedges of interest rate risk | (5) | (2) |
| Other net trading income | 22 | (3) |
| Gains less losses from interest-bearing securities (available-for-sale) | - | (2) |
| Currency hedge adjustments related to equity investments | - | 10 |
| | **2** | **8** |

## 4 Personnel expenses

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Salaries | 55 | 58 |
| Social security charges | 6 | 6 |
| **Other personnel expenses** | | |
| **Variable compensation:** | | |
| Cash bonuses | 10 | 4 |
| Share-based and deferred bonuses including expenses relating to previous years' grants | 3 | 2 |
| **Pension and other post-retirement charges:** | | |
| Defined-contribution plan | 12 | 10 |
| Other post-retirement charges/(releases) including own contributions of employees | (1) | (1) |
| Other staff expenses | (1) | (1) |
| Staff cost of non-financial companies included in the consolidation | | - |
| | **84** | **78** |

The decrease in salaries in 2017 can be explained by a decrease in the average number of FTEs, mainly driven by the reorganisations within NIBC Markets and the IT department.

The number of FTEs increased from 543 at 31 December 2016 to 603 at 31 December 2017. The number of FTEs employed outside of the Netherlands decreased from 54 at 31 December 2016 to 51 at 31 December 2017.

## 5 Depreciation

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Property, plant and equipment | 4 | 5 |
| | **4** | **5** |

## 6 Other operating expenses

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Other operating expenses | | |
| Building-, housing & services expenses | 5 | 4 |
| Car-, travel- and accomodation expenses | 3 | 3 |
| Consultants | 24 | 16 |
| Control and supervision | 3 | 2 |
| Corporate brand, brochures, (re-)presentation expenses | 5 | 5 |
| General personal expenses | 3 | 3 |
| ICT expensens | 19 | 16 |
| Office costs | 4 | 3 |
| Other general expenses | 2 | 5 |
| Fees of external independent auditor | 2 | 2 |
| | **70** | **59** |

## Audit fees 2016

| in EUR thousands | External auditor | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors can be categorised as follows:** | | | | |
| Audit of financial statements | 1,641 | - | - | 1,641 |
| Other audit-related services | - | - | 21 | 21 |
| Other non-audit related services | - | - | 209 | 209 |
| Tax services | - | - | - | - |
| | **1,641** | **-** | **230** | **1,871** |

## Audit fees 2015

| in EUR thousands | External auditor | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors can be categorised as follows:** | | | | |
| Audit of financial statements | 1,386 | - | - | 1,386 |
| Other audit-related services | - | - | 65 | 65 |
| Other non-audit related services | - | - | 140 | 140 |
| Tax services | - | - | 22 | 22 |
| | **1,386** | **-** | **227** | **1,613** |

The fees listed above relate to the procedures applied to NIBC and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1(1) of the Dutch Audit Firms Supervision Act (Dutch acronym: Wta), as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

These fees relate to the audit of the 2017 and 2016 annual reports, regardless of whether the work was performed during the financial year.

## 7 Net impairments and provision charges of loans

This item relates to impairments and reservals of loans and advances to customers and banks, interest-bearing securities classified at amortised cost or available-for-sale. In addition it is also related to provisions and reversals of off-balance sheet commitments.

## Financial assets

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Impairments and provision charges of loans:** | | |
| **Loans and advances to customers** | | |
| Loans classified at amortised cost | 62 | 64 |
| Mortgage loans own book classified at amortised cost | | - |
| **Interest-bearing interests** | | |
| Debt investments classified at amortised cost | | 6 |
| Debt investments classified available-for-sale | | - |
| | **62** | **70** |
| **Reversals:** | | |
| **Loans and advances to customers** | | |
| Loans classified at amortised cost | (40) | (15) |
| Mortgage loans own book classified at amortised cost | | - |
| **Interest-bearing interests** | | |
| Debt investments classified at amortised cost | (2) | - |
| Debt investments classified available-for-sale | | - |
| | **(42)** | **(15)** |
| Other | | 1 |
| | **20** | **56** |

## 8 Regulatory charges and levies

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Resolution levy | 3 | 4 |
| Deposit Guarantee Scheme | 9 | 9 |
| | **12** | **13** |

## 9 Tax

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Current tax | 18 | 1 |
| Deferred tax | (1) | - |
| | **17** | **1** |

## 10 Cash and balances with central banks

This item consists of balances with De Nederlandsche Bank (the Dutch Central Bank) as well as balances with foreign central banks in countries where NIBC operates.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Cash and balances with central banks | 1,416 | 845 |
| | **1,416** | **845** |
| **Cash and balances with central banks can be categorised as follows:** | | |
| Receivable on demand | 1,225 | 708 |
| Not receivable on demand | 191 | 137 |
| | **1,416** | **845** |
| **Legal maturity analysis of cash and balances with central banks not receivable on demand:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | 8 | 8 |
| Longer than five years | - | - |
| Assets with central banks due to mandatory reserve deposits | 183 | 129 |
| | **191** | **137** |

Cash and balances with central banks included EUR 1.224 million on the current account balance held with Dutch Central Bank (2016: EUR 707 million).

Balances held with central banks are interest-bearing.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature.

## 11 Due from other banks

This item represents loans and advances to other banks, other than in the form of interest-bearing securities.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Current accounts | 72 | 93 |
| Deposits with other banks | 628 | 1,026 |
| Due from group companies | 144 | 267 |
| | **844** | **1,386** |
| **Due from other banks can be categorised as follows:** | | |
| Receivable on demand | 216 | 360 |
| Cash collateral placements posted under CSA agreements | 627 | 1,026 |
| Not receivable on demand | 1 | - |
| | **844** | **1,386** |
| **Legal maturity analysis of due from other banks not receivable on demand:** | | |
| Three months or less | 1 | - |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | - | - |
| Longer than five years | - | - |
| | **1** | **-** |

There were no subordinated loans outstanding due from other banks in 2017 and 2016.

The fair value of this balance sheet item does not materially differ from its face value due to the short-term nature of the underlying assets and the credit quality of the counterparties.

No impairments were recorded in 2017 and 2016 on the amounts due from other banks at amortised cost.

NIBC transacted several reverse repurchase transactions with third parties. The related disclosures are included in note 47 Repurchase and resale agreements and transferred financial assets of the consolidated financial statements.

## 12 Loans and advances to customers

This item consists of loans and advances arising in the course of business operations, other than receivables from banks and interest-bearing securities.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Amortised cost | 5,644 | 6,047 |
| Available for sale | - | 24 |
| Fair value through profit or loss | 234 | 294 |
| Group companies - amortised cost | 14,583 | 17,255 |
| | **20,461** | **23,620** |
| **Legal maturity analysis of loans:** | | |
| On demand or undated | 1,171 | 2,763 |
| Three months or less | 810 | 648 |
| Longer than three months but not longer than one year | 1,863 | 2,443 |
| Longer than one year but not longer than five years | 10,331 | 11,262 |
| Longer than five years | 6,286 | 6,504 |
| | **20,461** | **23,620** |
| **Movement schedule of loans:** | | |
| **Balance at 1 January** | **23,620** | **19,488** |
| Additions | 1,838 | 6,722 |
| Disposals | (2,216) | (2,478) |
| Other (including exchange rate differences) | (2,781) | (112) |
| **Balance at 31 December** | **20,461** | **23,620** |
| **Movement schedule of impairment losses on loans:** | | |
| **Balance at 1 January** | **186** | **158** |
| Additional allowances | 62 | 64 |
| Write-offs / disposals | (52) | (21) |
| Amounts released | (39) | (15) |
| Unwinding of discount adjustment | (7) | (9) |
| Other (including exchange rate differences) | (12) | 9 |
| **Balance at 31 December** | **138** | **186** |

| Concentration of loans (excluding loans to group companies) in specific business sectors (in %): | 2017 | 2016 |
|---|---|---|
| Commercial Real Estate | 5 | 11 |
| FAR&H | 3 | 9 |
| Industrials & Manufacturing | 5 | 13 |
| Infrastructure & Renewables | 6 | 20 |
| Offshore Energy | 4 | 16 |
| Shipping & Interrmodel | 5 | 21 |
| TMTS | 2 | 9 |
| Other | 70 | 1 |
| | **100** | **100** |

The total amount of subordinated loans in this item amounted to EUR 55 million in 2017 (2016: EUR 69 million).

For the impact of the reclassifications following IASB amendments 'IAS 39 Financial Instruments: Recognition and Measurements' on the income statement and on equity, see notes to the consolidated financial statements 2016 of NIBC.

Impairment losses of loans at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

As a policy, NIBC does not provide loans to its key management personnel (see note 31).

## 13 Interest-bearing interests

This item represents loans and advances to other banks, other than in the form of interest-bearing securities.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Amortised cost | 156 | 288 |
| Available-for-sale | 817 | 1,024 |
| Fair value through profit or loss | 28 | - |
| Held for trading | 3 | 4 |
| | **1,004** | **1,316** |

The previous table displays the IFRS accounting classification of interest bearing securities. All interest-bearing securities are non-government, except for EUR 38 millions, and are issued by third parties.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Interest-bearing securities analysed by listing:** | | |
| Listed | 989 | 1,262 |
| Unlisted | 15 | 54 |
| | **1,004** | **1,316** |
| **Legal maturity analysis of interest-bearing securities:** | | |
| Three months or less | 23 | 34 |
| Longer than three months but not longer than one year | 99 | 105 |
| Longer than one year but not longer than five years | 655 | 358 |
| Longer than five years | 227 | 819 |
| | **1,004** | **1,316** |
| **Movement schedule of interest-bearing securities:** | | |
| **Balance at 1 January** | **1,316** | **1,334** |
| Additions | 1,124 | 529 |
| Disposals | (1,416) | (535) |
| Gains/(losses) from changes in fair value recognised in the income statement | 6 | (6) |
| Changes in fair value | - | (3) |
| Other (including exchange rate differences) | (26) | (3) |
| **Balance at 31 December** | **1,004** | **1,316** |

There were no subordinated loans outstanding in interest-bearing interests in 2016 and 2015.

As at 31 December 2017, interest-bearing interests amounts from group companies of EUR 96 million (2016: EUR 51 million).

## 14 Equity investments

This item consists of shares and other non-interest-bearing securities, including temporary other investments.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Available-for-sale | - | - |
| Fair value through profit or loss | 3 | 1 |
| | **3** | **1** |
| **Movement schedule of equity investments:** | | |
| **Balance at 1 January** | **1** | **-** |
| Additions | 62 | - |
| Disposals (sales and/or capital repayments) | (63) | (1) |
| Impairments | - | |
| Changes in fair value through income statement | 3 | 2 |
| Changes in fair value through equity | - | - |
| **Balance at 31 December** | **3** | **1** |

Impairment losses for equity investments at available-for-sale are defined as the difference between the fair value of equity investments that exhibit indicators of impairment and original cost.

## 15 Interests in group companies

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Interests in group companies | 1,339 | 1,209 |
| | **1,339** | **1,209** |
| **Movement schedule of interests in group companies:** | | |
| **Balance at 1 January** | **1,209** | **1,074** |
| Purchases and investments | - | - |
| Disposals | (15) | 26 |
| Revaluation | - | (3) |
| Results of group companies | 152 | 111 |
| Dividends received | (7) | 1 |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **1,339** | **1,209** |

| List of Principal Interests of NIBC | |
|---|---|
| NIBC Bank Deutschland AG, Frankfurt | 100% |
| Parnib Holding N.V., The Hague | 100% |
| Counting House B.V., The Hague | 100% |
| B.V. NIBC Mortgage Backed Assets, The Hague | 100% |
| NIBC Principal Investments B.V., The Hague | 100% |
| NIBC Financing N.V., The Hague | 100% |

## 16 Property, plant and equipment

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Land and buildings | 26 | 24 |
| Other fixed assets | 2 | 4 |
| | **28** | **28** |
| **Movement schedule of land and buildings:** | | |
| **Balance at 1 January** | **24** | **27** |
| Additions | 3 | - |
| Revaluation | 1 | - |
| Depreciation | (2) | (3) |
| Impairments | | - |
| Disposals | | - |
| **Balance at 31 December** | **26** | **24** |
| Gross carrying amount | 65 | 61 |
| Accumulated depreciation | (39) | (37) |
| Accumulated impairments | | - |
| | **26** | **24** |
| **Movement schedule of revaluation surplus:** | | |
| **Balance at 1 January** | **7** | **7** |
| Depreciation | (1) | - |
| **Balance at 31 December** | **6** | **7** |
| **Movement schedule of other fixed assets:** | | |
| **Balance at 1 January** | **4** | **5** |
| Additions | 1 | 2 |
| Revaluation | - | - |
| Depreciation | (3) | (3) |
| Impairments | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **2** | **4** |
| Gross carrying amount | 26 | 25 |
| Accumulated depreciation | (24) | (21) |
| Accumulated impairments | | - |
| | **2** | **4** |

Buildings in use by NIBC are insured for EUR 75 million (2016: EUR 74 million).

There is no property, plant and equipment pledged as security for liabilities.

There were no contractual commitments for the acquisition of property, plant and equipment at 31 December 2017 and 31 December 2016.

NIBC's land and buildings in own use were revalued as of 31 December 2017 based on an external appraisal (a valuation is carried out every three years).

The fair value of the property, plant and equipment does not materially deviates from the carrying amount.

## 17 Derivative financial instruments

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Derivative financial assets:** | | |
| Derivative financial assets used for hedge accounting | 79 | 177 |
| Derivative financial assets - other | 1,261 | 2,073 |
| | **1,340** | **2,250** |
| **Derivative financial liabilities can be broken down as follows:** | | |
| Derivative wih third parties | 1,021 | 1,811 |
| Derivative with group companies | 319 | 439 |
| | **1,340** | **2,250** |
| **Derivative financial liabilities:** | | |
| Derivative financial liabilities used for hedge accounting | 38 | 89 |
| Derivative financial liabilities - other | 871 | 1,976 |
| | **909** | **2,065** |
| **Derivative financial liabilities can be broken down as follows:** | | |
| Derivative wih third parties | 861 | 1,983 |
| Derivative with group companies | 48 | 82 |
| | **909** | **2,065** |

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39.

The derivatives financial assets and liabilities in the category 'other' are classified as held for trading according to IAS 39.

The derivatives in this category consist of:
- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity;
- Limited money market trading.

Economically all these derivatives, with the exception of the limited proprietary trading, are used to hedge interest rate or FX risk. The limited proprietary trading is controlled by a small facilitating VaR limit of EUR 2.25 million. For further details see note 58 Market risk[no target-node] of the consolidated financial statements.

## Derivative financial instruments used for hedge accounting at 31 December 2017

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Derivatives accounted for as fair value hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 1 | 1,845 | 8,049 | 9,895 | 60 | 40 |
| Interest currency rate swaps | - | - | 17 | 17 | 5 | - |
| | **1** | **1,845** | **8,066** | **9,912** | **65** | **40** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 95 | 25 | 479 | 599 | 14 | (2) |
| | **95** | **25** | **479** | **599** | **14** | **(2)** |
| **TOTAL DERIVATIVES USED FOR HEDGE ACCOUNTING** | **96** | **1,870** | **8,545** | **10,511** | **79** | **38** |

## Derivative financial instruments used for hedge accounting at 31 December 2016

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Derivatives accounted for as fair value hedges of interest rate risk** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | - | 10 | 7,996 | 8,006 | 121 | 87 |
| Interest currency rate swaps | - | - | 18 | 18 | 6 | - |
| | **-** | **10** | **8,014** | **8,024** | **127** | **87** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | 25 | 225 | 1,852 | 2,102 | 50 | 2 |
| | **25** | **225** | **1,852** | **2,102** | **50** | **2** |
| **TOTAL DERIVATIVES USED FOR HEDGE ACCOUNTING** | **25** | **235** | **9,866** | **10,126** | **177** | **89** |

## Derivative financial instruments- other at 31 December 2017

| in EUR millions | Notional amount with remaining life of | | | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| | Less than three months | Between three months and one year | More than one year | | | |
| **Interest rate derivatives** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | 1,733 | 5,284 | 30,064 | 37,081 | 1,046 | 836 |
| Interest rate options (purchase) | 333 | 278 | 431 | 1,042 | 2 | - |
| Interest rate options (sale) | 350 | 294 | 446 | 1,090 | - | 2 |
| | **2,416** | **5,856** | **30,941** | **39,213** | **1,048** | **838** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | 328 | 787 | 1,901 | 3,016 | 200 | 15 |
| Currency/cross-currency swaps | 190 | - | - | 190 | 1 | 2 |
| | **518** | **787** | **1,901** | **3,206** | **201** | **17** |
| **Other derivatives (including credit derivatives)** | | | | | | |
| **OTC products:** | | | | | | |
| Credit default guarantees given | - | - | - | - | - | - |
| Credit default guarantees received | 4 | | | 4 | - | 1 |
| Other swaps | - | - | 97 | 97 | 12 | 15 |
| | **4** | **-** | **97** | **101** | **12** | **16** |
| **TOTAL DERIVATIVES - OTHER** | **2,938** | **6,643** | **32,939** | **42,520** | **1,261** | **871** |

## Derivative financial instruments- other at 31 December 2016

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | 6,803 | 15,362 | 34,194 | 56,359 | 1,911 | 1,872 |
| Interest rate options (purchase) | - | 60 | 714 | 774 | 2 | - |
| Interest rate options (sale) | - | 30 | 782 | 812 | - | 2 |
| | **6,803** | **15,452** | **35,690** | **57,945** | **1,913** | **1,874** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| **OTC products:** | | | | | | |
| Interest rate swaps | 277 | 760 | 1,809 | 2,846 | 148 | 88 |
| Currency/cross-currency swaps | 451 | - | - | 451 | 4 | - |
| | **728** | **760** | **1,809** | **3,297** | **152** | **88** |
| **Other derivatives (including credit derivatives)** | | | | | | |
| **OTC products:** | | | | | | |
| Credit default guarantees given | - | 10 | 4 | 14 | - | 1 |
| Credit default guarantees received | - | 10 | - | 10 | - | - |
| Other swaps | 27 | - | 35 | 62 | 8 | 13 |
| | **27** | **20** | **39** | **86** | **8** | **14** |
| **TOTAL DERIVATIVES - OTHER** | **7,558** | **16,232** | **37,538** | **61,328** | **2,073** | **1,976** |

### Fair value hedges of interest rate risk

The interest rate risk of financial assets with a fixed interest rate classified at available-for-sale or at amortised costs are hedged with interest rate swaps under which NIBC pays a fixed rate and receives floating rates. Fair value hedge accounting is applied to these hedge relationships.

Interest rate swaps under which NIBC pays a floating rate and receives a fixed rate are used in fair value hedges of fixed-interest rate liabilities (as far as not held for trading purposes or designated at fair value through profit or loss).

The following table discloses the fair value of the swaps designated in fair value hedging relationships:

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Fair value pay - fixed swaps (hedging assets) \| assets | (2) | 6 |
| Fair value pay - fixed swaps (hedging assets) \| liabilities | (37) | (80) |
| | **(39)** | **(74)** |
| Fair value pay - floating swaps (hedging liabilities) \| assets | 66 | 121 |
| Fair value pay - floating swaps (hedging liabilities) \| liabilities | (3) | (7) |
| | **63** | **114** |

**Cash flow hedges of interest rate risk**

The following table discloses the fair value of the swaps designated in cash flow hedging relationships:

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Fair value receive - fixed swaps \| assets | 15 | 50 |
| Fair value receive - fixed swaps \| liabilities | 2 | (2) |
| | **17** | **48** |
| Fair value receive - floating swaps \| assets | - | - |
| Fair value receive - floating swaps \| liabilities | - | - |
| | **-** | **-** |

The average remaining maturity (within which the related cash flows are expected to enter into the determination of profit and loss) is 4 years (2016: five years).

## 18 Other assets

This item relates to goods and warehouse receipts, current and deferred tax assets and assets that cannot be classified under any other heading.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Accrued interest | 2 | 1 |
| Current tax assets | 1 | - |
| Deferred tax assets | 8 | 24 |
| Accrued income and repayments | 46 | 44 |
| | **57** | **69** |
| Deferred tax assets | 8 | 24 |
| Deferred tax liabilities[1] | (2) | (17) |
| | **6** | **7** |

1 Deferred tax liabilities are presented in note 24 Provisions.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:** | | |
| Debt securities | 9 | 2 |
| Tax losses carried forward | 7 | 22 |
| | **16** | **24** |
| **Deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction:** | | |
| Equity investments (available for sale) | 9 | 1 |
| Cash flow hedges | - | 14 |
| Property, plant and equipment | 1 | 2 |
| | **10** | **17** |
| | **6** | **7** |

| in EUR millions | 2017 | 2016 |
|---|---|---|
| **Gross movement on the deferred income tax account:** | | |
| **Balance at 1 January** | **6** | **6** |
| **Debt investments (reported as available-for-sale):** | | |
| Fair value remeasurement charged/(credited) to revaluation reserve | 7 | - |
| **Cash flow hedges:** | | |
| Fair value remeasurement charged/(credited) to hedging reserve | 1 | (1) |
| **Equity investments (reported as available-for-sale):** | | |
| Fair value remeasurement charged/(credited) to hedging reserve | 2 | - |
| **Property, plant and equipment (reported at fair value):** | | |
| Fair value remeasurement (charged)/credited to revaluation reserve | (1) | - |
| **Temporary tax differences** | | |
| IFRS - HGB deferred tax | 5 | 3 |
| Tax losses carried forward | (14) | (1) |
| **Balance at 31 December** | **6** | **7** |

The deferred tax asset is recognised to the extent that taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are measured for all temporary differences using the liability method. The effective tax rate in the Netherlands for measuring deferred tax is 25% (2016: 25%). There were no changes in deferred tax assets and liabilities resulting from changes in the effective tax rate in the Netherlands. Deferred tax assets recognised in respect of carry forward losses can only be utilized if taxable profits are realised in the future. To measure deferred tax assets, NIBC takes a prudent approach regarding future compensation of carry forward losses. On 31 December 2017 there was a realistic expectation that sufficient taxable profits would be generated within the applicable periods for the recognised deferred tax asset.

## 19 Due to other banks

This item represents amounts owed to credit institutions, other than debt securities and subordinated debt, of which:

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Due to other banks | 624 | 541 |
| Due to central banks | 1,344 | 900 |
| | **1,968** | **1,441** |
| **Due to other banks:** | | |
| Payable on demand | 156 | 174 |
| Note payable on demand | 1,812 | 1,267 |
| | **1,968** | **1,441** |
| **Legal maturity analysis of due to other banks:** | | |
| Three months or less | 275 | 297 |
| Longer than three months but not longer than one year | 315 | 48 |
| Longer than one year but not longer than five years | 1,276 | 905 |
| Longer than five years | 102 | 191 |
| | **1,968** | **1,441** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

NIBC transacted several repurchase transactions with third parties. The related disclosures are included in note 47 Repurchase and resale agreements and transferred financial assets.

At 31 December 2017, an amount of EUR 253 million (2016: EUR 114 million) related to cash collateral received from third parties.

Amounts drawn under TLTRO-program II equal EUR 1,343 million (2016: EUR 900 million). The maturity of TLTRO program II is four years and interest payments will be settled in arrears. The collateral for the TLRTO-program consists of DNB eligible debt investments and securitised mortgage loans. The interest rate, which is fixed for the entire maturity of the TLTRO program II, will be set in June 2018.

## 20 Customer deposits and other funds on deposit

This item consists of amounts due to customers other than debt securities.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Customer deposits and other funds on deposit | 15,960 | 20,246 |
| | **15,960** | **20,246** |
| **Customer deposits and other funds on deposit:** | | |
| Certificates of deposits | - | 4,275 |
| Due to customers | 15,960 | 15,971 |
| | **15,960** | **20,246** |
| **Customer deposits and other funds on deposit:** | | |
| Payable on demand | 5,390 | 5,445 |
| Not payable on demand | 10,570 | 14,801 |
| | **15,960** | **20,246** |
| **Legal maturity analysis of deposits from customers:** | | |
| Three months or less | 9,102 | 9,316 |
| Longer than three months but not longer than one year | 2,604 | 2,773 |
| Longer than one year but not longer than five years | 3,400 | 5,895 |
| Longer than five years | 854 | 2,262 |
| | **15,960** | **20,246** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

The balance sheet item included EUR 3,221 million (2016: EUR 3,003 million) in respect of deposits from customers to group companies.

The balance sheet item includes all non-subordinated liabilities other than debt securities and amounts owed to credit institutions.

## 21 Debt securities in issue

This item relates to non-subordinated bonds and other interest-bearing securities and fair value hedge accounting adjustments.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Bonds and notes issued - amortised costs | 4,372 | 3,827 |
| Bonds and notes issued - through profit or loss | 654 | 657 |
| Fair value hedge adjustment on amortised cost bonds and notes issued | 20 | 53 |
| | **5,046** | **4,537** |
| **Legal maturity analysis of debt securities:** | | |
| Three months or less | 2 | - |
| Longer than three months but not longer than one year | 1,131 | 82 |
| Longer than one year but not longer than five years | 2,606 | 2,396 |
| Longer than five years | 1,307 | 2,059 |
| | **5,046** | **4,537** |

## 22 Other liabilities

This item includes liabilities that cannot be classified under any other heading, such as liabilities for staff costs and taxes.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Interest | 2 | - |
| Acruals | 34 | 23 |
| Current tax liabilities | - | - |
| Payables | 25 | 24 |
| | **61** | **47** |

## 23 Provisions

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Reorganisation provision | - | 2 |
| Deferred tax liabilities[1] | 2 | 17 |
| Employee benefits | 3 | 3 |
| | **5** | **22** |
| **Movement schedule of reorganisation provisions:** | | |
| **Balance at 1 January** | **2** | **-** |
| Additional allowances | - | 2 |
| Provision used | (2) | - |
| Amounts released | - | - |
| **Balance at 31 December** | **-** | **2** |

1 Deferred tax assets and liabilities are disclosed in note 18 Other assets.

In 2016, a reorganisation provision of EUR 2 million has been recognised for the transformation of the IT department and the reorganisation of the business unit NIBC Markets.

## 24 Subordinated liabilities

This represents IFRS accounting classification of subordinated loans.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Amortised cost | 114 | 121 |
| Designated at fair value through profit or loss | 167 | 276 |
| | **281** | **397** |
| **Legal maturity analysis of subordinated liabilities at amortised cost:** | | |
| One year or less | - | - |
| Longer than one year but not longer than five years | - | - |
| Longer than five years but not longer than ten years | 63 | 51 |
| Longer than ten years | 51 | 70 |
| | **114** | **121** |

The subordinated loans classified at amortised cost are subordinated to the other liabilities of NIBC. With respect to the new CRR/CRDIV requirements regarding additional Tier 1 capital instruments, non-qualifying subordinated loans amounted to EUR 51 million (2016:EUR 57 million). Interest expense of EUR 5 million was recognised on subordinated liabilities during the year 2017 (2016: EUR 4 million). In 2017 and 2016, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

The subordinated liabilities reflect five transactions (2016: five transactions), of which the largest three total EUR 114 million (2016 largest three: EUR 120 million).

### Subordinated liabilities - designated at fair value through profit or loss

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Non-qualifying as grandfathered additional Tier 1 capital | - | - |
| Subordinated loans other | 167 | 276 |
| | **167** | **276** |
| **Legal maturity analysis of subordinated liabilities designated at fair value through profit or loss:** | | |
| One year or less | - | 1 |
| Longer than one year but not longer than five years | - | - |
| Longer than five years but not longer than ten years | 1 | - |
| Longer than ten years | 166 | 275 |
| | **167** | **276** |

The subordinated loans classified at fair value are subordinated to the other liabilities of NIBC. The non-qualifying as grandfathered additional Tier 1 capital consists of perpetual securities and may be redeemed by NIBC only with the prior approval of the Dutch Central Bank. Interest expense of EUR 15 million was recognised on subordinated liabilities during the year 2017 (2016: EUR 16 million). In 2017, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item (2016: nil).

The subordinated liabilities reflect six transactions (2016: seven transactions), of which the largest three total EUR 118 million (2016 largest three: EUR 206 million).

## 25 Equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

| in EUR millions | 2017 | 2016 |
|---|---|---|
| Share capital | 80 | 80 |
| Share premium | 238 | 238 |
| Revaluation reserves | 93 | 156 |
| Other reserves | 1,648 | 1,495 |
| Profit after tax for the year | - | - |
| | **2,059** | **1,969** |

**Share capital**

This section includes the fully issued and paid-up share capital. No changes occurred in the issued share capital in 2017 and 2016.

| | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|
| | Numbers x 1,000 | | in EUR millions | |
| Authorised share capital | 183,598 | 183,598 | 215 | 215 |
| Unissued share capital | 121,011 | 121,011 | 135 | 135 |
| **Issued share capital A shares** | **62,587** | **62,587** | **80** | **80** |
| | Numbers x 1,000 | | in EUR millions | |
| **The number and total amounts of authorised shares:** | | | | |
| Class A share | 110,938 | 110,938 | 142 | 142 |
| Class B, C, D, E1 and E3 preference shares | 72,600 | 72,600 | 73 | 73 |
| Class E4 preference share | 60 | 60 | - | - |
| | **183,598** | **183,598** | **215** | **215** |
| | | | In EUR | |
| **Classes and par values of authorised shares:** | | | | |
| Class A share | | | 1.28 | 1.28 |
| Class B, C, D, E1 and E3 preference shares | | | 1.00 | 1.00 |
| Class E4 preference share | | | 5.00 | 5.00 |

**Share premium**

No changes occurred in the share premium in 2017 and 2016.

## Changes in revaluation reserves

| in EUR millions | Property in own use reserve | Available-for-sale reserve | Cash flow hedge reserve | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **8** | **2** | **43** | **103** | **156** |
| Impact of adopting IFRS 9 Own credit risk | - | - | - | - | - |
| **Restated balance at 1 January 2017** | **8** | **2** | **43** | **103** | **156** |
| Unrealised revaluations | - | 1 | - | - | 1 |
| Changes in cash flow hedge reserve | - | - | (13) | - | (13) |
| Changes in liabilty credit reserve | - | - | - | (51) | (51) |
| **Balance at 31 December 2017** | **8** | **3** | **30** | **52** | **93** |

| in EUR millions | Property in own use reserve | Available-for-sale reserve | Cash flow hedge reserve | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **8** | **3** | **49** | **-** | **60** |
| Impact of adopting IFRS 9 Own credit risk | - | - | - | 115 | 115 |
| **Restated balance at 1 January 2016** | **8** | **3** | **49** | **115** | **175** |
| Unrealised revaluations | - | (1) | - | - | (1) |
| Changes in cash flow hedge reserve | - | - | (6) | - | (6) |
| Changes in liabilty credit reserve | - | - | - | (12) | (12) |
| **Balance at 31 December 2016** | **8** | **2** | **43** | **103** | **156** |

## Changes in other reserves

| in EUR millions | Legal reserve | Retained earnings | Total |
|---|---|---|---|
| **Balance at 1 January 2017** | **198** | **1,195** | **1,393** |
| Impact of adopting IFRS 9 Own credit risk | - | - | - |
| **Restated balance at 1 January 2017** | **198** | **1,195** | **1,393** |
| Transfer of profit after tax previous financial year | - | 102 | 102 |
| Final and interim dividend paid | - | (56) | (56) |
| AT 1 cost of issue | - | (2) | (2) |
| Revaluation transfer | - | 2 | 2 |
| Other | - | (1) | (1) |
| Movement related to legal reserves | (18) | 18 | - |
| **Balance at 31 December 2017** | **180** | **1,258** | **1,438** |

| in EUR millions | Legal reserve | Retained earnings | Total |
|---|---|---|---|
| **Balance at 1 January 2016** | **217** | **1,220** | **1,437** |
| Impact of adopting IFRS 9 Own credit risk | - | (115) | (115) |
| **Restated balance at 1 January 2016** | **217** | **1,105** | **1,322** |
| Transfer of profit after tax previous financial year | - | 71 | 71 |
| Movement related to legal reserves | (19) | 19 | - |
| **Balance at 31 December 2016** | **198** | **1,195** | **1,393** |

Information on NIBC's solvency ratios is included in the risk management section of this Annual Report.

**Legal reserves**

This concerns the reserve for unrealised fair value changes on mortgage loans (own book and securitised), certain non-listed trading assets, derivatives related to mortgage loans (own book and securitised) and these non-listed trading assets, and on associates designated at fair value through profit or loss and liabilities designated at fair value through profit or loss.

Including the revaluation and hedging reserves, total legal reserves at 31 December 2017 amount to EUR 224 million, including EUR 52 million relating to Own credit risk reserve and a legal reserve result participations of EUR 1 million (31 December 2016: EUR 257 million, including EUR 103 million relating to Own credit risk reserve and a legal reserve result participations of EUR 2 million).

## 26 Capital securities

For a specification of the capital securities, please see note 43 of the consolidated financial statements.

## 27 Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers related to mortgages at fixed-interest rates or fixed spreads are hedged with interest rate swaps recorded at fair value. These commitments are designated upon initial recognition at fair value through profit or loss.

NIBC provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. In the following table, it is assumed that amounts are fully advanced.

The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

| **in EUR millions** | **2017** | 2016 |
|---|---|---|
| **Contract amount:** | | |
| Undrawn facilities and capital commitments | 1,377 | 1,241 |
| Guarantees and letters of credit | 60 | 77 |
| | **1,437** | **1,318** |

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 48 of the consolidated financial statements.

Guarantees within the meaning of Section 403 Title 9 of Book 2, of the Netherlands Civil Code have been given on behalf of De Nationale Maatschappij voor Industriële Financieringen B.V., Parnib Holding N.V. and B.V. NIBC Mortgage Backed Assets. A complete list of the companies on behalf of which NIBC has given guarantees within the meaning of Section 403 Title 9 of Book 2, of the Netherlands Civil Code has been filed with the Chamber of Commerce in The Hague.

## 28 Other

NIBC is, together with other group companies and participating interests, a member of one fiscal entity NIBC Holding N.V. Besides NIBC Bank N.V. and NIBC Holding N.V., the principal other members are B.V. NIBC Mortgage Backed Assets, Parnib Holding N.V., Vredezicht 's-Gravenhage 110 B.V. and NIBC Principal Investments Mezzanine B.V.

## 29 Assets pledged as security

For a specification of the assets pledged as security, please see note 49 of the consolidated financial statements.

## 30 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of the customer. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2017, the total assets held by NIBC on behalf of customers were EUR 2,185 million (2016: EUR 1,583 million).

## 31 Related party transactions

For a specification of the related party transactions, see note 52 of the consolidated financial statements.

## 32 Principal subsidiaries and associates

For a specification of the principal subsidiaries and associates, see note 53 of the consolidated financial statements.

## 33 Financial risk management

Please see notes 56 to 59 of the consolidated financial statements, for NIBC's risk management policies.

## 34 Remuneration

For the remuneration of the Statutory Board members and Supervisory Board members, see notes 7 and 55 of the consolidated financial statements.

At 31 December 2017 and 31 December 2016, there were no receivables outstanding with current and former members of the Statutory Board and Supervisory Board.

## 35 Profit appropriation

| in EUR millions | 2017 |
|---|---|
| Result available for holders of the company distribution | 213 |
| | **213** |
| Final and interim dividend | 56 |
| Holders of capital securities | 3 |
| Transferred to retained earnings | 154 |
| | **213** |

# 36 Subsequent events

## Changes in Dutch fiscal unity regime as a result of Justice of the European Union Judgement

On 22 February 2018, the Justice of the European Union decided that certain elements of the Dutch fiscal unity regime for corporate income tax purposes violate the freedom of establishment and are therefore contrary to European Union law. As a result, previously announced emergency legislation will change the Dutch fiscal unity regime, with retroactive effect, from 25 October 2017. The wording of this reparatory legislation is expected in the second quarter of 2018. This reparatory legislation may have impact on group companies within the fiscal unity NIBC. Although the various Dutch rules on restrictions of interest deductions will be applicable for group companies of a fiscal unity as from 25 October 2017, the impact for 2017 is immaterial. As soon as the final reparatory legislation is available an impact analysis will be performed by NIBC. and to the extent possible measures will be taken to mitigate potential negative effects.

**The Hague, 26 March 2018**

## Managing Board
Paulus de Wilt, *Chief Executive Officer, Chairman*
Herman Dijkhuizen, *Chief Financial Officer*
Reinout van Riel, *Chief Risk Officer*

## Supervisory Board
Mr. W.M. van den Goorbergh, *Chairman*
Mr. D.M. Sluimers, *Vice-Chairman*
Mr. R.L. Carrión
Mr. M.J. Christner
Mr. J.C. Flowers
Mr. A. de Jong
Ms. K.M.C.Z. Steel
Mr. A.H.A. Veenhof

# OTHER INFORMATION

Ernst & Young Accountants LLP
Cross Towers, Antonio Vivaldistraat 150
1083 HP Amsterdam, Netherlands
Postbus 7883
1008 AB Amsterdam, Netherlands

Tel: +31 88 407 10 00
Fax: +31 88 407 10 05
ey.com

# Independent auditor's report

To: the shareholders and Supervisory Board of NIBC Bank N.V.

## Report on the audit of the 2017 financial statements included in the annual report

### Our opinion

We have audited the 2017 financial statements of NIBC Bank N.V. ('NIBC' or 'the Company'), based in 's-Gravenhage. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2017
- The following statements for 2017: the consolidated income statement, the consolidated statements of comprehensive income and changes in shareholder's equity and the consolidated cash flow statement
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2017
- The following statements for 2017: the company income statement, the company statements of comprehensive income and changes in shareholder's equity
- 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 financial statements" section of our report.

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

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

### Materiality

| | |
|---|---|
| Materiality | EUR 12 million (2016: EUR 5.9 million) |
| Benchmark applied | 5% of operating profit before taxation (2016: 5%) |

Building a better working world



| | |
|---|---|
| Explanation | Based on our professional judgment, a benchmark of 5% of operating profit before tax is an appropriate quantitative indicator of materiality and it best reflects the financial performance of NIBC. We have applied the initial planning materiality of EUR 12 million as set in our planning phase. Based on the actual operating income before tax as of 31 December 2017 we reassessed the materiality and concluded to apply the materiality initially set. |

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 0.6 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the group audit

NIBC is the head of a group of entities and subsidiaries. The financial information of NIBC is included in the consolidated financial statements of NIBC. NIBC is structured in operating segments: Corporate client segment, Retail client segment and Treasury and group functions, focused on the Netherlands and Germany. NIBC also provides retail products in Belgium and has operations in the United Kingdom.

Because we are ultimately responsible for the opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities. Our group audit focused on the operating segments based on its size and risk, including one significant group entity in Germany. This resulted in a coverage of 98% of profit before taxes and 99% of total assets.

This German component in scope for group reporting is audited by an EY member firm. We sent detailed instructions to the component auditor, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. We visited the component team in Germany, where we held physical meetings and/or calls with the auditor of this component and discussed the planning, risk assessment, procedures performed, findings and observations reported to the group auditor.

The group audit team has set a component materiality level of EUR 1 million, based on the mix of size and financial statement risk profile of the component within the group to reduce the aggregation risk to an acceptable level. The consolidation of the group, the disclosures in the financial statements and certain accounting topics that are performed at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, equity, group financing, certain elements of the loan loss provisioning process, corporate income tax for the Dutch fiscal unity and claims and litigations.

By performing the procedures mentioned above at group entities, 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 financial statements.

### Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed. The key matters are similar to those reported following our 2016 audit, except for the recognition of deferred tax assets for carry forward losses. Furthermore, we now included our observations for the key audit matters.

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

| Valuation of corporate loans | |
|---|---|
| Key audit matter | Corporate loans are classified as loans and receivables and amount to EUR 7,749 million as at 31 December 2017. These loans are measured at amortised cost, less a provision for loan losses (EUR 146 million). Certain aspects of the accounting for loan losses require significant judgment of management, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the estimation of the recoverable amount.<br><br>Due to the significance of corporate loans and the related estimation uncertainty, we consider the valuation of corporate loans as a key audit matter. Refer to the "Critical accounting estimates and judgments" section, note 15 "Loans (amortised cost)" and note 56 "Credit risk" to the financial statements. |
| Our audit approach | Our audit approach included testing both the effectiveness of internal controls around determining loan loss provisions as well as substantive audit procedures. Our procedures over internal controls focused on controls around the accuracy of loan and collateral data, the determination of risk ratings and the process for identifying arrears and the management thereof. In our audit, we also considered the process around the internal validation and implementation of the models used to determine the loan loss provisions, as well as the periodic evaluation of the parameters applied in these models.<br><br>We examined a selection of loan exposures that either continued to be, have become, or were at risk of being individually impaired. We applied professional judgement in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that were potentially more sensitive to developing economic trends. For selected loan files, we challenged management's estimate of the recoverable amount, including the cash generating capacity and, where applicable, the value of realisable collateral, based on available financial information, market information and, where applicable, the analysis of alternative recovery scenarios. Finally we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS. |
| Our observations | We have made recommendations to management relating to embedding observable impairment triggers in the risk/lending system, evidencing periodic review of repayment capacity and of back testing of leading scenarios for calculating individual provision in our 2017 management letter to NIBC's management and the Audit Committee of the Supervisory Board. Overall, we assess that the Corporate loans portfolio after deduction of loan loss provisions is fairly stated and concur with the related disclosures in the financial statements. |

| Valuation residential mortgages at fair value through profit or loss | |
|---|---|
| Key audit matter | Residential mortgages designated at fair value through profit or loss (own book and securitized), amount to respectively EUR 4,581 and EUR 338 million. Due to the significance of the fair value through profit and loss mortgages and the related estimation uncertainty in the determination of the retail spread and the prepayment rate, we determined the valuation to be a key audit matter. Refer to the accounting policies "financial instruments designated upon initial recognition at fair value through profit or loss", the "critical accounting estimates and judgments", note 5 "net trading income", note 22 "residential mortgages own book (designated at fair value through profit and loss)", note 23 "securitized residential mortgages (designated at fair value through profit or loss)" and note 44 "Fair value of financial instruments" to the financial statements. |
| Our audit approach | Our audit approach included testing both the effectiveness of internal controls around fair value measurement as well as substantive audit procedures.<br>Our procedures over internal controls focused on controls over valuation, independent price verification and model approval. We performed additional procedures for areas of higher risk and estimation with the assistance of our valuation experts. This included a challenge of pre-payment and retail spread assumptions made for the fair valuation of the residential mortgage portfolio and a re-performance of the valuation.<br>Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS. |

EY
Building a better working world



| | |
|---|---|
| Our observations | We have made recommendations to management relating to evidencing the methodology and assumption setting process in our 2017 management letter to NIBC's management and the Audit Committee of the Supervisory Board. Overall, we assess that Residential mortgages designated at fair value through profit or loss are fairly stated and concur with the related disclosures in the financial statements. |
| **Recognition of deferred tax assets for carry forward losses** | |
| Key audit matter | Deferred tax assets for carry forward losses (EUR 69 million) of EUR 17 million at 31 December 2017 have not been recognized because management considers future taxable profits not to be probable to that extent. Due to the significant judgment exercised when estimating future taxable income as well as the assumptions made in the allocation of future taxable income, we determined this management forecast to be a key audit matter. Refer to the "Critical accounting estimates and judgments" section and note 30 "Deferred tax" to the financial statements. |
| Our audit approach | We assessed the completeness and accuracy of the data used for the estimations of future taxable income for the coming three years. We compared key inputs used by NIBC to forecast future taxable income to externally available data, to NIBC's historical data and performance and assessed the sensitivity of the outcomes to reasonably possible changes in assumptions. We assessed with the assistance of our tax and valuation experts the key input variables used, including own credit spread adjustments and the expected impact of the introduction of IFRS 9 as from 1 January 2018 for internal forecasts for the coming three years. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS. |
| Our observations | We have made recommendations to management relating to evidencing the tax control framework in our 2017 management letter to NIBC's management and the Audit Committee of the Supervisory Board. Overall, we assess that Deferred Tax Assets for carry forward losses are fairly stated and concur with the related disclosures in the financial statements. |
| **Reliability and continuity of the information technology and systems** | |
| Key audit matter | NIBC is dependent on the IT infrastructure for the continuity and reliability of their business processes and financial reporting. NIBC continuously made investments to further improve the IT environment and IT systems. In particular, there was increased management attention on the planned outsourcing of various IT services to a third party and on the identified risks and information security requirements. We therefore consider this as a key audit matter. |
| Audit approach | Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2017 financial statements. Amongst others, we tested the IT general controls related to logical access and change management and application controls embedded in NIBC's key processes. Our work consisted of assessing the developments in the IT infrastructure and analysing the impact on the IT organization. In addition, we assessed the reliability and continuity of the IT environment and the impact of changes during the year either from the ongoing transitioning initiative toward a platform sourced by an external party or from external factors such as reporting requirements. |
| Our observations | We have made recommendations to management relating to internal controls and governance of outsourced applications in our 2017 management letter to NIBC's management and the Audit Committee of the Supervisory Board. Overall, the combination of the tests of the controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the continued operation of the IT systems for the purposes of our audit. |

## Report on other information included in the annual report

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

- At a Glance
- Key figures
- Letter from the CEO
- Report of the Managing Board
- Report of the Supervisory Board
- Remuneration Report

- Corporate Governance
- Risk Management
- In Control Report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements 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 financial statements.

Management is responsible for the preparation of the other information, including the Report of the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were engaged by the Supervisory Board as auditor of NIBC on 10 April 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

### 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 audit of public-interest entities.

### Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:
- Regulatory reporting: We issued auditor's reports and reports of factual findings following the audit of the prudential statements prepared by management on behalf of the Dutch Central Bank, consisting of Financial Reporting (FinRep), Common Reporting (CoRep), Interest rate risk reporting, Deposit Guarantee Schema (DGS) and Asset Segregation.
- Capital market transactions: We issued comfort letters and/or consent letters in relation to (updated) offering circulars, prospectuses and registration statements prepared in connection with securities offerings or funding programs of NIBC.
- Service provider reports: We issued ISAE 3402 reports for fund services provided by NIBC to third parties.

## Description of responsibilities for the financial statements

### Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment 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 have detected all material errors and fraud.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 26 February 2018

Ernst & Young Accountants LLP

Signed by N.Z.A. Ahmed-Karim

# PROFIT APPROPRIATION

The provision and appropriation of the profit after tax is based upon the Articles of Association of 22 December 2017.

Distribution of profits pursuant to Article 41 and 42 of the Articles of Association shall be made following the adoption of the annual report, which shows that such distribution is allowed.

The General Meeting resolves whether dividends shall be paid on one or more series of the preference shares. If the General Meeting resolves to pay dividends on one or more series of the preference shares, to the extent possible, the dividend due to each of the holders of preference shares pursuant to Article 41 paragraph 3 and paragraph 4 shall be paid at times and dates established under Article 42 paragraph 2 under b.

# ALTERNATIVE PERFORMANCE MEASURES

NIBC uses, throughout its financial publications, *alternative performance measures* (**APMs**) in addition to the figures that are prepared in accordance with the International Financial Reporting Standards (**IFRS**), *Capital Requirements Regulation* (**CRR**) and *Capital Requirements Directive* (**CRD IV**). NIBC uses APMs to provide additional information to investors and to enhance the understanding of the results. The APMs should be viewed as complementary to, rather than a substitute for, the figures determined according to IFRS, CRR and CRD IV. All measures that are covered by IFRS, CRR and CRD IV are not considered to be APMs.

NIBC uses the following APMs:
- Dividend payout ratio, %
- Cost/income ratio, %
- Return on equity, %
- Cost of risk, %
- Impairment ratio, %
- NPL ratio, %
- Impairment coverage ratio, %
- Loan-to-deposit ratio, %
- Net interest margin, %

Investors should consider that similarly titled APMs reported by other companies may be calculated differently. For that reason, the comparability of APMs across companies might be limited. In accordance with the guidelines of the *European Securities and Markets Authority* (**ESMA**), the following information is given in regards to the above mentioned alternative performance measures:
1. Definition of the APM;
2. Reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements.

NIBC's most recent financial publications at any time are available online at our website.

## Dividend payout ratio

The dividend payout ratio is the fraction of net income for a period to be paid to NIBC's shareholders in dividends. It provides meaningful information on the portion of NIBC's profit that is distributed to its shareholders. The elements of the dividend payout ratio reconcile to the income statement of NIBC.

$$\text{Dividend payout ratio} = \frac{\text{Dividend payout}}{\text{Profit after tax}}$$

| Dividend payout ratio | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Dividend payout 2017 | 96 | | | |
| Profit after tax 2017 | 210 | | | |
| **Dividend payout ratio 2017** | **45** | | | |
| Dividend payout 2016 (page 318 annual report NIBC Bank N.V.) | | 25 | | |
| Profit after tax 2016 (page 108 annual report NIBC Bank N.V.) | | 102 | | |
| **Dividend payout ratio 2016** | | **25** | | |
| Dividend payout 2015 (N.A.) | | | n.a. | |
| Profit after tax 2015 (page 84 annual report NIBC Bank N.V.) | | | 71 | |
| **Dividend payout ratio 2015** | | | **n.a.** | |
| Dividend payout 2014 (N.A.) | | | | n.a. |
| Profit after tax 2014 (page 64 annual report NIBC Bank N.V. ) | | | | 24 |
| **Dividend payout ratio 2014** | | | | **n.a.** |

## Cost/income ratio

The cost/income ratio displays operating expenses as a percentage of operating income. The concept provides meaningful information on NIBC's operating efficiency. Cost/income ratio is calculated as the ratio (i) operating expenses before special items and (ii) operating income before special items. The elements of the cost/income ratio reconcile to the income statement of NIBC.

$$\text{Cost/income ratio} = \frac{\text{Operating expenses}}{\text{Operating income}}$$

| Cost/Income ratio | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Operating expenses 2017 | 223 | | | |
| Operating income 2017 | 512 | | | |
| **Cost/income ratio 2017** | **44** | | | |
| Operating expenses 2016 (page 157 annual report NIBC Bank N.V.) | | 194 | | |
| Operating income 2016 (page 157 annual report NIBC Bank N.V.) | | 381 | | |
| **Cost/income ratio 2016**[1] | | **51** | | |
| Operating expenses 2015 (page 124 annual report NIBC Bank N.V.) | | | 176 | |
| Operating income 2015 (page 124 annual report NIBC Bank N.V.) | | | 316 | |
| **Cost/income ratio 2015**[2] | | | **56** | |
| Operating expenses 2014 (comparative figures page 124 annual report NIBC Bank N.V.) | | | | 155 |
| Operating income 2014 (comparative figures page 124 annual report NIBC Bank N.V.) | | | | 295 |
| **Cost/income ratio 2014**[2] | | | | **53** |

1 Cost/income ratio calculation is excluding special items
2 Regulatory charges and levies should be incorporated in operating expenses in 2015 (also included in 2017 and 2016 operating expenses) for calculation of Cost-to-income ratio. One-off SNS levy (18 mln) is excluded in 2014

## Return on equity

Return on equity measures net profit in relation to the book value of shareholder's equity. It provides meaningful information on the performance of Issuer's business, as well as on NIBC's ability to generate income from the equity available to it. Return on equity is calculated as the ratio of (i) annualised net profit attributable to parent shareholder to (ii) total shareholder's equity at the start of the financial year. All elements of the return on equity reconcile to NIBC's consolidated financial statement.

$$\text{Return on equity} = \frac{\text{Annualised net profit attributal to parent shareholder}}{\text{Post proposed dividend total shareholder's equity at start of the financial year}}$$

| Return on equity[1] | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Annualised net profit attributal to parent shareholder | 210 | | | |
| Post proposed dividend total shareholder's equity at the start of financial year | 1,944 | | | |
| **Return on equity 2017** | **10.8** | | | |
| Annualised net profit attributal to parent shareholder (page 108 annual report NIBC Bank N.V.) | | 102 | | |
| Post proposed dividend total shareholder's equity at the start of financial year (page 111 annual report NIBC Bank N.V.) | | 1886 | | |
| **Return on equity 2016** | | **5.4** | | |
| Annualised net profit attributal to parent shareholder (page 84 annual report NIBC Bank N.V.) | | | 71 | |
| Post proposed dividend total shareholder's equity at the start of financial year (page 87 annual report NIBC Bank N.V.) | | | 1831 | |
| **Return on equity 2015** | | | **3.9** | |
| Annualised net profit attributal to parent shareholder (page 64 annual report NIBC Bank N.V.) | | | | 24 |
| Post proposed dividend total shareholder's equity at the start of financial year (page 67 annual report NIBC Bank N.V.) | | | | 1789 |
| **Return on equity 2014** | | | | **1.3** |

1 Total shareholder's equity was changed in Post proposed dividend total shareholder's equity in FY 2017 publication. This adjustment has no effect on prior year calculations

## Cost of risk

The cost of risk compares the total credit losses included in the income statement to the total risk weighted assets. This measure provides meaningful information on Issuer's performance in managing credit losses. The cost of risk is calculated as the ratio of (i) the sum of annualised impairments and the credit losses on the fair value mortgage loans and loans (as part of the net trading income) and to (ii) the total risk weighted assets averaged over the reporting period. With the exception of the credit losses on the fair value mortgage loans and loans, the elements of the cost of risk reconcile to our financial statements and regulatory reporting. The credit losses on the fair value mortgage loans are calculated in accordance with the applicable financial reporting framework and form part of the net trading income.

$$\textbf{Cost of Risk} = \frac{\textbf{Annualised impairments and the credit losses on fair value residential mortgages and loans (as part of net trading income)}}{\textbf{Average risk weighted assets (Basel III regulations)}}$$

| Cost of risk | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Annualised impairments | 34 | | | |
| Annualised credit losses FVTPL Mortgages | 2 | | | |
| **Total annualised impairments and credit losses on fair value residential mortgages 2017** | **36** | | | |
| Risk-weighted assets 2017 | 8,546 | | | |
| Risk-weighted assets 2016 | 10,109 | | | |
| **Average risk-weighted assets 2017** | **9,328** | | | |
| **Cost of risk 2017** | **0.38** | | | |
| Annualised impairments (page 21 Condensed interim financial report bank) | | | | |
| Annualised credit losses FVTPL Mortgages and AQR (page 32 annual report NIBC Bank N.V) | | 4 | | |
| **Total annualised impairments and credit losses on fair value residential mortgages 2016** | | **62** | | |
| Risk-weighted assets 2016 (page 8 annual report NIBC Bank N.V) | | 10,109 | | |
| Risk-weighted assets 2015 (page 8 annual report NIBC Bank N.V) | | 10,162 | | |
| **Average risk-weighted assets 2016** | | **10,136** | | |
| **Cost of risk 2016** | | **0.61** | | |
| Annualised impairments (page 137 Condensed interim financial report bank) | | | 63 | |
| Annualised credit losses FVTPL Mortgages and AQR (page 32 annual report NIBC Bank N.V 2016) | | | 8 | |
| **Total annualised impairments and credit losses on fair value residential mortgages 2015** | | | **71** | |
| Risk-weighted assets 2015 (page 5 annual report NIBC Bank N.V) | | | 10,162 | |
| Risk-weighted assets 2014 (page 5 annual report NIBC Bank N.V) | | | 9,646 | |
| **Average risk-weighted assets 2015** | | | **9,904** | |
| **Cost of risk 2015** | | | **0.71** | |
| Annualised impairments (page 117 annual report NIBC Bank N.V) | | | | 93 |
| Annualised credit losses FVTPL Mortgages and AQR (page 32 annual report NIBC Bank N.V 2016) | | | | 12 |
| **Total annualised impairments and credit losses on fair value residential mortgages 2014** | | | | **105** |
| Risk-weighted assets 2014 (page 5 annual report NIBC Bank N.V) | | | | 9,646 |
| Risk-weighted assets 2013 (page 5 annual report NIBC Bank N.V) | | | | 8,405 |
| **Average risk-weighted assets 2014** | | | | **9,026** |
| **Cost of risk 2014** | | | | **1.16** |

## Impairment ratio

The impairment ratio compares impairments included in the income statement on corporate and retail loans to the carrying value of these loans. The measure provides meaningful information on NIBC's performance in managing credit losses arising from its business. The impairment ratio is calculated as the ratio of (i) the annualised impairment expenses to (ii) the average loans and mortgage loans. All elements of the impairment ratio reconcile to NIBC's income statement and the consolidated balance sheet.

$$\textbf{Impairment ratio} = \frac{\textbf{Annualised impairment expenses including AQR}}{\textbf{Average financial assets regarding loans and residential mortgages}}$$

| Impairment ratio | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Annualised impairments including AQR | 34 | | | |
| Average financial assets at amortised cost: loans | 8,009 | | | |
| Average financial assets at amortised cost: residential mortgages | 3,879 | | | |
| Average financial assets at available for sale: loans | 12 | | | |
| Average financial assets at fair value through profit or loss: loans | 196 | | | |
| Average financial assets at fair value through profit or loss: residential mortgages own book | 4,353 | | | |
| Average financial assets at fair value through profit or loss: securitised residential mortgages | 944 | | | |
| **Average financial assets regarding loans and residential mortgages (total)** | **17,392** | | | |
| **Impairment ratio 2017** | **0.20** | | | |
| Annualised impairments including AQR (page 32 annual report NIBC Bank N.V.) | | 58 | | |
| Average financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.) | | 7,969 | | |
| Average financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.) | | 2,868 | | |
| Average financial assets at available for sale: loans (page 110 annual report NIBC Bank N.V.) | | 21 | | |
| Average financial assets at fair value through profit or loss: loans (page 110 annual report NIBC Bank N.V.) | | 263 | | |
| Average financial assets at fair value through profit or loss: residential mortgages own book (page 110 annual report NIBC Bank N.V.) | | 4,118 | | |
| Average financial assets at fair value through profit or loss: securitised residential mortgages (page 110 annual report NIBC Bank N.V.) | | 1,908 | | |
| **Average financial assets regarding loans and residential mortgages (total)** | | **17,146** | | |
| **Impairment ratio 2016** | | **0.34** | | |
| Annualised impairments including AQR (page 137 annual report NIBC Bank N.V.)[1] | | | 63 | |
| Average financial assets at amortised cost: loans (page 86 annual report NIBC Bank N.V.) | | | 7,447 | |
| Average financial assets at amortised cost: residential mortgages (page 86 annual report NIBC Bank N.V.) | | | 1,734 | |
| Average financial assets at available for sale: loans (page 86 annual report NIBC Bank N.V.) | | | 9 | |
| Average financial assets at fair value through profit or loss: loans (page 86 annual report NIBC Bank N.V.) | | | 345 | |
| Average financial assets at fair value through profit or loss: residential mortgages own book (page 86 annual report NIBC Bank N.V.) | | | 3,648 | |
| Average financial assets at fair value through profit or loss: securitised residential mortgages (page 86 annual report NIBC Bank N.V.) | | | 2,937 | |
| **Average financial assets regarding loans and residential mortgages (total)** | | | **16,120** | |
| **Impairment ratio 2015** | | | **0.39** | |
| Annualised impairments including AQR (page 117 annual report NIBC Bank N.V) | | | | 93 |
| Average financial assets at amortised cost: loans (page 66 annual report NIBC Bank N.V.) | | | | 6,706 |
| Average financial assets at amortised cost: residential mortgages (page 66 annual report NIBC Bank N.V.) | | | | 588 |
| Average financial assets at available for sale: loans (page 66 annual report NIBC Bank N.V.) | | | | 0 |
| Average financial assets at fair value through profit or loss: loans (page 66 annual report NIBC Bank N.V.) | | | | 427 |
| Average financial assets at fair value through profit or loss: residential mortgages own book (page 66 annual report NIBC Bank N.V.) | | | | 3,464 |
| Average financial assets at fair value through profit or loss: securitised residential mortgages (page 66 annual report NIBC Bank N.V.) | | | | 3,758 |
| **Average financial assets regarding loans and residential mortgages (total)** | | | | **14,943** |
| **Impairment ratio 2014** | | | | **0.63** |

1 Impairments 2016 excludes EUR 14 million, which was part the EUR 18 million after tax loss on resolving pre-crisis exposure, that was reported in special items

## NPL ratio

The *non-performing loans* (**NPL**) ratio compares the non-performing exposure (as defined by the European Banking Authority) of corporate and retail loans to the total exposure of these loans. The measure provides meaningful information on the credit quality of NIBC's assets. The ratio is calculated by dividing the total of non-performing exposure for both corporate loans and mortgage loans by the total exposure for corporate loans and mortgage loans. The elements of the NPL ratio reconcile to the consolidated financial statements and the regulatory reporting of NIBC.

$$\textbf{NPL ratio} = \frac{\textbf{Non performing exposure (corporate and residential mortgages)}}{\textbf{Total exposure (corporate loans and residential mortgages)}}$$

| NPL ratio[1] | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Non performing exposure corporate loans 2017 | 433 | | | |
| Non performing exposure residential mortgages 2017 | 42 | | | |
| **Non performing exposure 2017** | **475** | | | |
| Total corporate loans drawn and undrawn 2017 | 9,612 | | | |
| Total retail client assets 2017 | 9,147 | | | |
| **Total exposure 2017** | **18,759** | | | |
| **NPL ratio 2017** | **2.5** | | | |
| Non performing exposure corporate loan and residential mortgages 2016 (page 93 annual report NIBC Bank N.V.) | | 707 | | |
| Total corporate loans drawn and undrawn 2016 (page 8 annual report NIBC Bank N.V.) | | 9,904 | | |
| Total retail banking assets 2016 (page 8 annual report NIBC Bank N.V.) | | 8,831 | | |
| **Total exposure 2016** | | **18,735** | | |
| **NPL ratio 2016** | | **3.8** | | |
| Non performing exposure corporate loan and residential mortgages 2015 (page 74 annual report NIBC Bank N.V.) | | | 656 | |
| Total corporate loans drawn and undrawn 2015 (page 4 annual report NIBC Bank N.V.) | | | 9,358 | |
| Total consumer banking assets 2015 (page 5 annual report NIBC Bank N.V.) | | | 8,580 | |
| **Total exposure 2015** | | | **17,938** | |
| **NPL ratio 2015** | | | **3.7** | |
| Non performing exposure 2014 (page 52 annual report NIBC Bank N.V.) | | | | 586 |
| Total corporate loans drawn and undrawn 2014 (page 4 annual report NIBC Bank N.V.) | | | | 8,943 |
| Total consumer banking assets 2014 (page 5 annual report NIBC Bank N.V.) | | | | 8,058 |
| **Total exposure 2016** | | | | **17,001** |
| **NPL ratio 2014** | | | | **3.4** |

1 Figures changed compared to the published figures H1 2017 due to the inclusion of investment management loans as part of corporate loans exposure.

## Impairment coverage ratio

The impairment coverage ratio compares impaired amounts on corporate and retail exposures to the total corporate and retail exposures, providing meaningful information on the residual risk related to NIBC's impaired assets. The ratio is calculated by dividing the total impairments on corporate and retail loans by the total exposure of impaired corporate and retail loans. The elements of the impaired coverage ratio reconcile to NIBC's consolidated financial statements.

$$\text{Impairment coverage ratio} = \frac{\text{Total impairments on corporate and retail loans}}{\text{Total exposure of impaired corporate and retail loans}}$$

| Impairment coverage ratio[1] | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Balance impairment losses on loans | 147 | | | |
| Total impaired exposure 2017 | 321 | | | |
| **Impairment coverage ratio 2017** | **46** | | | |
| Balance impairment losses on loans 2016 (page 173 annual report NIBC Bank N.V.) | | 206 | | |
| Total impaired exposure 2016 (page 93 annual report NIBC Bank N.V.) | | 629 | | |
| **Impairment coverage ratio 2016** | | **33** | | |
| Balance impairment losses on loans 2015 (page 173 annual report NIBC Bank N.V. 2016) | | | 173 | |
| Total impaired exposure 2015 (page 74 annual report NIBC Bank N.V.) | | | 507 | |
| **Impairment coverage ratio 2015[2]** | | | **34** | |
| Balance impairment losses on loans 2014 (page 173 annual report NIBC Bank N.V. 2016) | | | | 171 |
| Total impaired exposure 2014 (page 52 annual report NIBC Bank N.V.) | | | | 459 |
| **Impairment coverage ratio 2014** | | | | **37** |

1 Figures changed compared to the published figures H1 2017 due to the inclusion of investment management loans as part of corporate loans exposure.
2 In 2016 the impairment balance 2015 was restated including calculation of the impairment coverage ratio. Comparative numbers (ending balance 2015 and ending balance 2014) reflect the numbers used in this calculation.

## Loan-to-deposit ratio

The loan-to-deposit ratio compares NIBC's loans to customers to its deposits from customers. It provides meaningful information on Issuer's funding and liquidity position. The loan-to-deposit ratio is calculated by dividing the total loans and mortgage loans by the deposits from customers. The elements of the loan-to-deposit ratio reconcile to NIBC's balance sheet.

$$\textbf{Loan to deposit ratio} = \frac{\textbf{Financial assets regarding loans and residential mortgages}}{\textbf{Deposits from customers}}$$

| Loan to deposit ratio | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Financial assets at amortised cost: loans | 7,749 | | | |
| Financial assets at amortised cost: residential mortgages | 4,412 | | | |
| Financial assets at available for sale: loans | 0 | | | |
| Financial assets at fair value through profit or loss: loans | 181 | | | |
| Financial assets at fair value through profit or loss: residential mortgages own book | 4,581 | | | |
| Financial assets at fair value through profit or loss: securitised residential mortgages | 338 | | | |
| **Financial assets regarding loans and residential mortgages (total)** | **17,261** | | | |
| **Deposits from customers** | **11,535** | | | |
| **Loan to deposit ratio 2017** | **150** | | | |
| Financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.) | | 8,269 | | |
| Financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.) | | 3,346 | | |
| Financial assets at available for sale: loans (page 110 annual report NIBC Bank N.V.) | | 24 | | |
| Financial assets at fair value through profit or loss: loans (page 110 annual report NIBC Bank N.V.) | | 210 | | |
| Financial assets at fair value through profit or loss: residential mortgages own book (page 110 annual report NIBC Bank N.V.) | | 4,124 | | |
| Financial assets at fair value through profit or loss: securitised residential mortgages (page 110 annual report NIBC Bank N.V.) | | 1,550 | | |
| **Financial assets regarding loans and residential mortgages (total)** | | **17,523** | | |
| **Deposits from customers (page 111 Condensed interim financial report bank)** | | **11,827** | | |
| **Loan to deposit ratio 2016** | | **148** | | |
| Financial assets at amortised cost: loans (page 86 annual report NIBC Bank N.V.) | | | 7,668 | |
| Financial assets at amortised cost: residential mortgages (page 86 annual report NIBC Bank N.V.) | | | 2,390 | |
| Financial assets at available for sale: loans (page 86 annual report NIBC Bank N.V.) | | | 18 | |
| Financial assets at fair value through profit or loss: loans (page 86 annual report NIBC Bank N.V.) | | | 316 | |
| Financial assets at fair value through profit or loss: residential mortgages own book (page 86 annual report NIBC Bank N.V.) | | | 3,954 | |
| Financial assets at fair value through profit or loss: securitised residential mortgages (page 86 annual report NIBC Bank N.V.) | | | 2,236 | |
| **Financial assets regarding loans and residential mortgages (total)** | | | **16,582** | |
| **Deposits from customers (page 87 Condensed interim financial report bank)** | | | **11,586** | |
| **Loan to deposit ratio 2015** | | | **143** | |
| Financial assets at amortised cost: loans (page 66 annual report NIBC Bank N.V.) | | | | 7,226 |
| Financial assets at amortised cost: residential mortgages (page 66 annual report NIBC Bank N.V.) | | | | 1,078 |
| Financial assets at available for sale: loans (page 66 annual report NIBC Bank N.V.) | | | | 0 |
| Financial assets at fair value through profit or loss: loans (page 66 annual report NIBC Bank N.V.) | | | | 374 |
| Financial assets at fair value through profit or loss: residential mortgages own book (page 66 annual report NIBC Bank N.V.) | | | | 3,342 |
| Financial assets at fair value through profit or loss: securitised residential mortgages (page 66 annual report NIBC Bank N.V.) | | | | 3,638 |
| **Financial assets regarding loans and residential mortgages (total)** | | | | **15,658** |
| **Deposits from customers (page 61 Condensed interim financial report bank)** | | | | **10,182** |
| **Loan to deposit ratio 2014** | | | | **154** |

## Net interest margin

The net interest margin is a measure to display the difference between interest income and the amount of interest paid out to lenders, relative to the amount of interest-earning assets. It is similar to the gross margin (or gross profit margin) of non-financial companies and provides meaningful information on the contribution of Issuer's business to its operating income. It is calculated as the ratio of (i) the net interest income from the last 12 months and (ii) the 12 months moving average interest bearing assets. Interest bearing assets equal the total assets from the consolidated balance sheet excluding equity investments, derivatives, investments in associates, property, plant and equipment and other assets. The net interest income reconciles to the income statement of NIBC.

The average interest bearing assets cannot be directly reconciled with the financial publications of NIBC as the monthly figures are not disclosed, however the monthly figures are prepared in accordance with the applicable financial reporting framework.

Since the denominator of the net interest margin calculation is subject to volatility in the balance, a moving average provides more reliable information on the underlying developments. The moving average however does not tie back to disclosed balances. For reference purposes, the following table shows the calculation method and the comparative outcome for 2017 when the net interest margin is calculated on ending balances instead of moving averages.

$$\textbf{Net interest margin} = \frac{\textbf{Sum net interest income last 12 Months}}{\textbf{12 Months average interest bearing assets}}$$

| Net interest margin | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Sum interest income last 12 Months 2017 | 366 | | | |
| 12 Month average interest bearing assets | 21,652 | | | |
| **Net interest margin 2017** | **1.69** | | | |
| Net interest margin 2017 on balance sheet end date average instead of 12 Month average | 1.72 | | | |
| **Net interest margin 2016** | | **1.44** | | |
| **Net interest margin 2015** | | | **1.37** | |
| **Net interest margin 2014** | | | | **1.28** |

# CORPORATE RESPONSIBILITY REPORTING SCOPE

This Annual Report is an integrated report. We have chosen to combine all our financial, economic, social and environmental information into one document because all these factors are integral to NIBC's strategy and operations. By providing this additional information we aim to increase transparency for all of our stakeholders and to allow them to make a more informed assessment of NIBC and how we are creating and sustaining value.

The non-financial key figures for this report were confirmed by the departments that are responsible for the data. The reported non-financial key figures were reviewed by Internal Audit. Internal Audit confirmed that nothing has come to the attention that causes them to believe that the reported non-financial key figures for NIBC Bank N.V. are inadequately presented, in all material respects, in accordance with the reporting criteria.

## Scope

Unless specified otherwise, this report includes figures and information for NIBC Holding N.V. (including all international offices and wholly-owned subsidiaries established by NIBC for our business purposes).

NIBC Bank N.V. is a signatory to the UN Global Compact. The NIBC Bank N.V. Annual Report contains details of our progress as regards the 10 Global Compact principles.

## Criteria

The contents of this Annual Report and the selection of non-financial key figures are based on the following criteria:

- Assessment of materiality. We report on NIBC's strategy and the elements that we have identified as most relevant for us as a company and for our stakeholders. Please see our Materiality Assessment report and materiality matrix for an overview of these elements;
- Legal and regulatory requirements. For NIBC, the principal regulatory requirements are contained in the Dutch Corporate Governance Code, the Dutch Banking Code and the Dutch Decree on disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie), which came into effect on 24 March 2017 as part of the transposition into Dutch law of the EU Non-Financial Reporting Directive (2014/95/EU, OJEU 201 330). Please see the Corporate Governance sector for more details.

## Accountability and reporting standards

Our non-financial key figures are prepared in accordance with the reporting criteria and guidelines of the latest *Global Reporting Initiative* (**GRI**) Standards. We have applied the GRI Standards guidelines at a 'core' level with no exceptions. The GRI content index and glossary of definitions can be found in the appendices available on our website.

The methodology used for the calculation of indicators for 2017 is the same as for 2016 unless otherwise stated in the definitions for non-financial key figures.

## Materiality Assessment

We engaged with our stakeholders to verify the focus of our sustainability strategy and materiality in reporting. This materiality assessment process and the outcomes are described here and form the basis for our Annual Report.

Stakeholder consultation confirmed the three most important aspects for stakeholders were client satisfaction, product responsibility, and stakeholder engagement. Given their importance to stakeholders, NIBC will focus on in these areas while continuing to prioritize our efforts across the other aspects which stakeholders found to be most material.

For further information, please refer to the Annual Report of NIBC Bank N.V.

# DEFINITIONS FOR THE NON-FINANCIAL KEY FIGURES

The following definitions have been used for the Non Financial Key Figures presented in NIBC's annual report.

## NPS

Outcome of *Net Promoter Score* (**NPS**) survey with corporate lending clients, who executed a lending deal/deals with NIBC Corporate Banking during the reporting period, and for existing lending clients of NIBC.

Stakeholders view this as a material indicator of client satisfaction of our corporate lending clients as well as an indicator of stakeholder engagement.

The NPS methodology is a widely used methodology in which scores from 0 to 6 are classified as 'detractor', scores. 7 or 8 are classified as 'passive' and only those scores that are 9 or 10 are classified as 'promoters'. The result is calculated by the percentage of promoters minus the percentage of detractors, giving the NPS. The NPS can therefore range from -100% to +100%.

The NPS is measured over a 12 month period, from the 1st December to the 30st November each year. It takes place in four batches and each respondent weighs the same in the score. It is calculated over the corporate lending client base, where we are in direct contact with the client, excluding distressed asset clients, internal clients and certain legacy clients. In case of multiple deals for one client, the client is counted once. When the online survey is sent to multiple contact persons for a client, only the first response is included.

The total population of NIBC corporate clients in scope is 602 clients in the 12 month period. 409 clients fall within the definition described above and were surveyed, 165 responses were received. NIBC considers this to be representative of the total population. The online surveys are sent by a third party service provider, which transfers the raw results back to NIBC.

## NIBC Direct Customer Satisfaction Score

The results of the latest, annual online *Customer Satisfaction Survey* (**CSS**) for the bank's retail clients, i.e. NIBC Direct Savings Netherlands (NL, including Mortgages), Belgium (BE) and Germany(GE, also including Brokerage clients), that was completed in the reporting period.

The digital surveys were conducted in October through third parties, using a random selection of NIBC's new and existing Dutch mortgages- and NIBC Direct Savings clients, Belgian NIBC Direct Savings clients and German brokerage- and NIBC Direct Savings clients. Clients were selected based on country, product, and duration of services. The average scores per country and product are totaled and divided by the total number of respondents.

Stakeholders view this as a material indicator of client satisfaction of our retail clients as well as an indicator of stakeholder engagement.

The total population of NIBC Direct Customer Satisfaction survey was 400.000 clients in October 2017, of which 30.000 have been surveyed, and 3.039 responses were received. NIBC considers this to be representative of the total population.

### % of new Corporate loans screened against sustainability policy framework

New corporate deals which have been assessed for social and environmental risks during the reporting period. A deal may include one or more underlying facilities with different tenors as part of a deal or loan structure. Amendments to existing deals are excluded from this figure.

Stakeholders view this as a material indicator in regard to transparency. Sustainability impacts and good corporate governance are among the financial and non-financial aspects taken into consideration during NIBC's corporate client engagement and financing decision processes.

Screenings were performed by Corporate Banking account managers as part of NIBC's ongoing and mandatory due diligence process using a third party toolkit system.

### Number of New clients/transactions with increased sustainability risk assessment

Number of new (potential) clients/transactions for which increased sustainability risks were identified using a third party toolkit assessment. This does not include monitoring of existing client files with sustainability risks nor clients for which a sustainability risk assessment has not (yet) been completed as the transaction is still in an early stage or was cancelled in an early stage.

Stakeholders view this as a material indicator of stakeholder engagement on potential sustainability issues.

In these situations, NIBC performs enhanced sustainability due diligence into potential material environmental, social, and governance aspects that are of potential concern.

### Fines or sanctions for non-compliance with laws and regulations

Number of significant fines and number of non-monetary sanctions for non-compliance with laws and regulations. The definition is limited to fines from a regulator. This excludes any pending claims and/or litigation. Significant: values of fine > EUR 10.000 (in line with category 2 and 3 fines of AFM).

Stakeholders view this as a material indicator of regulatory compliance and corporate governance of NIBC's own operations and day-to-day business.

NIBC includes non-punitive fines agreed as part of settlement of regular tax audits within its interpretation of the definition for this indicator.

### Number of FTE's end of year

Number of FTE's of NIBC worldwide at the end of the year. Only employees on NIBC's payroll and having an 'internal' position are accounted for. NIBC Bank N.V. includes all its international offices as well as NIBC Bank Deutschland AG, though excludes minor participations of the bank.

At year end 2017, 666 FTEs have been reported, a year-on-year decrease of 38 FTEs.

A *Full Time Equivalent* (**FTE**) represents, per employee, the total number of contract hours per week related to the maximum number of contract hours per week (e.g. 40 hours). This maximum can differ per NIBC office (depending on local guidelines) and kind of job contract.

### Male/female ratio

Percentage of number of male and female for NIBC worldwide, at the end of the year.

The number of males and females is based upon headcount as reported from NIBC's human resources information management system at the end of the year.

Stakeholders view this metric as a material indicator for gender diversity in the company. NIBC supports all types of diversity and aspires to further diversify its workplace.

### Male/female ratio top management

Percentage of number of male and female for NIBC worldwide, at the end of the year. Top management consists of management with corporate title 'Director' and 'Managing Director'.

Stakeholders view this metric as a material indicator for gender diversity of top management.

### Training expenses per employee

Total of training and education expenses, incurred in the current year based on average headcount calculated by taking the headcount at the beginning and end of the year. For employees traveling for training, this includes travel costs and any related expenses.

Stakeholders view this metric as a material indicator of the bank's commitment to employee development and future employability.

### Absenteeism

Absenteeism is the rolling average of the latest absenteeism percentage, annualized for NIBC's employees in The Netherlands. The absenteeism percentage is the number of workdays lost to absenteeism divided by the total number of available workdays, expressed as a percentage. In case of partial absenteeism, the absenteeism percentage only reflects the actual absenteeism (non-working hours). Maternity leave is not included in the figure.

Absenteeism rate may change as the year progresses due to previously unreported cases of absenteeism and/or confirmation of the employee's recovery.

Notifications of illness and recovery are submitted by NIBC to a 3rd party ARBO service organization. NIBC uses its 3rd party health & safety services organization to report on absenteeism figures. The absenteeism percentage relates to the absenteeism in the Netherlands only: absenteeism in Germany, Belgium and United Kingdom is not accounted for in this figure.

### Employee turnover (employees started & left)

Employee turnover consists of inflow of new employees ('started') and outflow of existing employees ('left').

Started: The number of employees that joined NIBC worldwide throughout the current calendar year (hire date between 1-1-17 and 31-12-17), divided by total number of employees at the end of the year.

Left: The number of employees that left NIBC worldwide throughout the calendar year divided by the total number of employees at the end of the year.

Stakeholders view this metric as a material indicator of employee engagement of existing employees and further as an indicator of the bank's position as an attractive employer.

# CONTACT INFORMATION

Our website, www.nibc.com, offers a wide range of information about NIBC, financial information, corporate information, corporate calendar, press releases and sustainability information. The information is available on our English, Dutch and German website. Financial information (annual reports, full-year and half-year results releases and trading updates) is available in English.
To receive press releases and other NIBC news, please subscribe to our e-mail service by sending an e-mail to info@nibc.com.

## Questions and remarks

We invite all stakeholders to ask their questions and share their remarks.

- General questions and remarks can be addressed to Corporate Communications, telephone +31 70 342 56 25 / e-mail info@nibc.com;
- Questions and remarks related to investor relations can be addressed to Michèle Negen - Jacobusse, telephone +31 70 342 95 90 / e-mail michele.negen@nibc.com;
- Questions and remarks related to bond investments can be addressed to Debt Investor Relations, Toine Teulings, telephone +31 70 342 98 36 / e-mail toine.teulings@nibc.com;
- Questions and remarks related to CSR can be addressed to the CSR department, e-mail csr@nibc.com;
- You can find NIBC's complaints procedures here. For NIBC Direct in the Netherlands you can find our complaints procedures here, for NIBC Direct Germany here, and for NIBC Direct Belgium you can find our complaints procedure here (Dutch) or here (French).

# Offices

## THE NETHERLANDS

**NIBC Bank N.V. / NIBC Holding N.V.**
Carnegieplein 4
2517 KJ The Hague, The Netherlands
P.O. Box 380
2501 BH The Hague, The Netherlands
Telephone +31 (0)70 3425425
Fax +31 (0)70 365 1071

**NIBC Amsterdam**
NIBC Amsterdam
Gustav Mahlerlaan 348
1082 ME Amsterdam
The Netherlands
T +31 (0)20 550 85 00

## GERMANY

**NIBC Bank N.V. / NIBC Bank Deutschland AG**
Main Tower, Neue Mainzer Strasse 52
D-60311 Frankfurt am Main, Germany
Telephone +49 (0)69 5050 65 50
Fax +49 (0)69 5050 21 83

**NIBC Bank N.V.**
Telephone +49 (0)69 5050 655 230
Fax +49 (0)69 5050 655 977

## UNITED KINGDOM

**NIBC Bank N.V.**
125 Old Broad Street, 11th Floor
London EC2N 1 AR, United Kingdom
Telephone +44 (0)207 375 77 77
Fax +44 (0)207 588 64 83

## BELGIUM

**NIBC Bank N.V.**
Rue Royale 71
1000 Brussels, Belgium
Telephone +32 (0)2 235 88 03
Fax +32 (0)2 235 88 09

# DISCLAIMER

## Presentation of information

This annual report (**Annual Report**) of NIBC Bank N.V. (**NIBC**) has been prepared in accordance with *International Financial Reporting Standards as adopted by the European Union* (**IFRS-EU**) and with Title 9 of Book 2 of the Netherlands Civil Code.

## Cautionary statement regarding forward-looking statements

Certain statements in this Annual Report are not historical facts and are 'forward-looking' statements that relate to, among other things, NIBC's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. These statements are based on NIBC's current view with respect to future events and financial performance. Words such as 'believe', 'anticipate', 'estimate', 'expect', 'intend', 'predict', 'project', 'could', 'may', 'will', 'plan', 'forecast', 'target' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve uncertainties and are subject to certain risks, including, but not limited to (i) general economic conditions, in particular in NIBC's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness (iii) performance of financial markets, including developing markets, (iv) interest rate levels, (v) credit spread levels, (vi) currency exchange rates, (vii) general competitive factors, (viii) general changes in the valuation of assets (ix) changes in law and regulations, including taxes (x) changes in policies of governments and/or regulatory authorities, (xi) the results of our strategy and investment policies and objectives, and (xii) the risks and uncertainties as addressed in this Annual Report, the occurrence of which could cause NIBC's actual results and/or performance to differ from those predicted in such forward-looking statements and from past results.

The forward-looking statements speak only as of the date hereof. NIBC does not undertake any obligation to update or revise forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise. Neither do NIBC nor any of its directors, officers or employees make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## ANNUAL REPORT 2017

Layout and production by:
KNOEFF COMMUNICATIE-ONTWERP, Amsterdam, the Netherlands

Text by:
CFF Communications
NIBC

Photography by:
Studio Oostrum, Alain de Kruijff, the Netherlands

NIBC
Carnegieplein 4
2517 KJ The Hague
P.O. Box 380, 2501 BH The Hague
The Netherlands

Telephone: +31 70 3425425
Internet: www.nibc.com

Chamber of Commerce, no: 27032036.

# ABBREVATIONS

| | |
|---|---|
| AC | Acquired loans and receivables |
| AFM | Authority for the Financial Markets |
| AIRB | Advanced Internal Ratings Based |
| ALCO | Asset & Liability Committee |
| ALM | Asset and liability management |
| AQR | Asset quality review |
| AT I | Additional Tier I |
| BEEQUIP | BEEQUIP B.V. |
| BKR | Bureau Krediet Registratie (Dutch National Credit Register) |
| BPV | Basis Point Value |
| CCDRs | Conditional Common Depositary Receipts |
| CCR | Counterparty Credit Rating |
| CDC | Collective Defined Contribution |
| CDC arrangement | Collective defined-benefit pension arrangement |
| CDO | Collateralised Debt Obligation |
| CDRs | Common Depositary Receipts |
| CDS | Credit Default Swaps |
| CEO | Chief Executive Officer |
| CET I | Common Equity Tier I ratio |
| CFO | Chief Financial Officer |
| CGUs | Cash-Generating Units |
| Council | Works' Council |
| CRDRs | Conditional Restricted Depositary Receipts |
| CRE | Commercial Real Estate |
| CRO | Chief Risk Officer |
| CSA | Credit Support Annexes |
| CSS | Customer Satisfaction Survey |
| CVAs and DVAs | Credit Valuation Adjustments & Debit Valuation Adjustments |
| DCM | Debt Capital Management |
| DNB | Dutch Central Bank |
| DNB Principles | DNB Principles on Sound Remuneration Policies |
| DR | Depositary Receipts |
| DSCR | Debt Service Coverage Ratio |
| E&S | Environmental & Social |
| EatR | Earnings at risk |
| EBA | European Banking Authority |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortisation |
| EC | Engagement Committee |
| EC | Economic Capital |
| ECB | European Central Bank |
| ECL | Expected Credit Loss |
| ECM | Equity Capital Management |
| EIB | European Investment Bank |
| EL | Expected loss |
| EP | Equator Principles |
| EPS | Earnings per share |
| ESF | Einlagensicherungsfonds |
| ExCo | Executive Committee |
| FAR&H | Food, Agri, Retail & Health |
| FMCR | Financial Markets Credit Risk |
| FTEs | Full-Time Equivalents |
| FVtPL | Fair value through profit or loss |
| GRI | Global Reporting Initiative |
| I&M | Industries & Manufacturing |
| I&R | Infrastructure & Renewables |
| IASB | International Accounting Standards Board |
| IBNR | Incurred But Not Reported |
| IC | Investment Committee |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| IFRS 9 | IFRS 9 'Financial instruments' |
| IFRS-EU | International Financial Reporting Standards as adopted by the European Union |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IPO | Initial public offering |
| IRRBB | Interest Rate Risk in the Banking book |
| ISDA | International Swaps and Derivatives Association |
| LFM | Leveraged Finance Markets |
| LGD | Loss Given Default |
| LTI | Loan-to-Income |
| LTIMV | Loan-to-Indexed-Market-Value |
| LTMV | Loan-to-Market Value |
| LVR | Leverage ratio |
| M&A | Mergers and Acquisitions |
| MIFID II | The Markets in Financial Instruments Directive II |
| MtM | Marked-to-Market value |
| NACE | Statistical Classification of Economic Activities in the European Community |
| NEIF | NIBC European Infrastructure Fund I C.V. |
| NHG Guarantee | National Mortgage Guarantee |
| NIBC | NIBC Bank N.V. |
| NIBC Funds | Funds set up and managed by NIBC |
| NIBC Holding | NIBC Holding N.V. |
| NPS | Net Promoter Score |
| NVS | NIBC Vermogensbeheerders Services |
| OCI | Other Comprehensive Income |
| OE | Offshore Energy |

| | |
|---|---|
| OTC | Over The Counter |
| OTM | Originate-to-Manage |
| PD | Probability of Default |
| PFE | Potential Future Exposure |
| PSUs | Phantom Share Units |
| RAROC | Risk-adjusted return on capital |
| RC | Regulatory capital |
| REDC | RED Company |
| Repos | Securities sold subject to repurchase agreements |
| Reverse repos | Securities purchased under agreements to resell |
| RMBS | Residential Mortgage-Backed Securities |
| RNC | Remuneration and Nominating Committee |
| ROE | Return on equity |
| RPCC | Risk Policy & Compliance Committee |
| RPSUs | Restricted Phantom Share Units |
| RPTC | Related Party Transactions Committee |
| RSRS | Responsible Ship Recycling Standards |
| RWA | Risk Weighted Assets |
| S&I | Shipping & Intermodal |
| S&P | Standard & Poor's |
| SAM | Specialised Asset Management |
| SDGs | Sustainable development goals |
| SE | Structured Entity |
| SPE | Special Purpose Entities |
| SREP | Supervisory review and evaluation process |
| STAK | Stichting Administratiekantoor |
| STI | Short-Term Incentive |
| TC | Transaction Committee |
| TCF | Tax Control Framework |
| The Foundation | NIBC |
| TLTRO II | Targeted Longer Term Refinancing Operation |
| TMT&S | Telecom, Media, Technology & Services |
| TPE | Third Party Execution |
| VaR | Value at Risk |
| Wbfo | Wet beloning financiële ondernemingen |
| WEW | Stichting Waarborgfonds Eigen Woningen (Social Housing Guarantee Fund) |