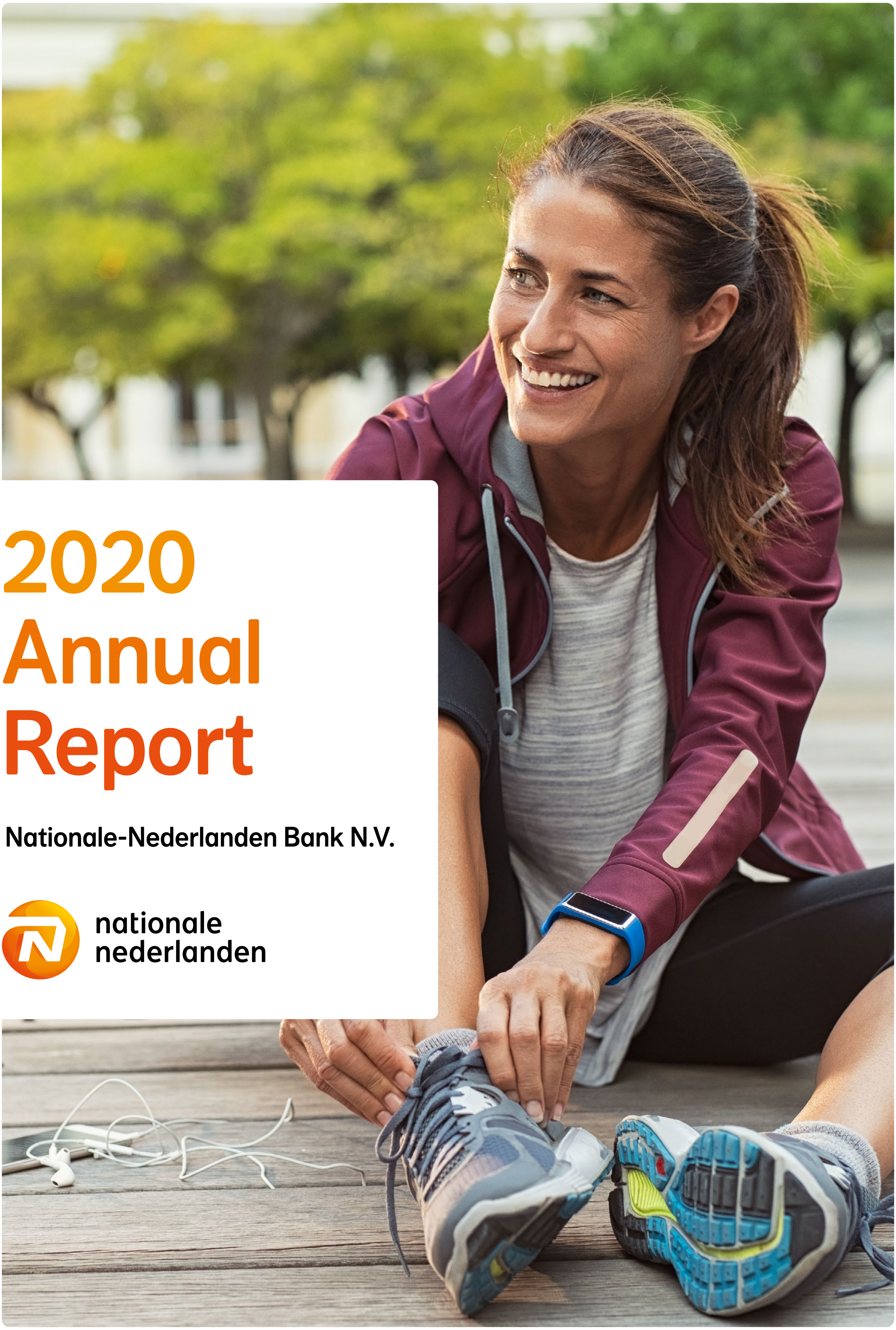


2020 Annual Report

Nationale-Nederlanden Bank N.V.

nationale nederlanden

Contents

Composition of the Boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Bank N.V. (NN Bank) as at 31 December 2020 was as follows:

Management Board

Composition as at 31 December 2020

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

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

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

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

Supervisory Board

Composition as at 31 December 2020

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

D. (Delfin) Rueda (1964)

A.A.G. (André) Bergen (1950)

T. (Tjeerd) Bosklopper (1975)[2]

Resigned in 2020

J.H. (Jan-Hendrik) Erasmus (1980)[3]

G.A. (Guus) Schoorlemmer (1972)[4]

Appointed in 2021

A.M. (Anne) Snel-Simmons (1968)[5]

1 Non statutory Board member as defined by Company Internal Governance. The Management Board includes both the statutory and non-statutory members, which is required by IAS 24. Part 9 of Book 2 of the Dutch Civil Code requires NN Bank to present only the statutory members of the Management Board.
2 Appointment as at 16 December 2020 by the general meeting on 16 December 2020.
3 Resignation as at 1 January 2020 by resignation letter.
4 Appointment as at 21 April 2020 by the general meeting on 21 April 2020. Resignation as at 1 October 2020 by resignation letter.
5 Appointment as at 1 January 2021 by the general meeting on 16 December 2020.

NN Group and NN Bank at a glance

NN Bank is part of NN Group N.V.

NN Group profile

NN Group N.V. (NN Group) is an international financial services company, active in 20 countries, with a strong presence in a number of European countries and Japan.

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

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

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

Our purpose and ambition

Our purpose, 'We help people care for what matters most to them' is the 'why' behind what we do – our reason for being. It reflects the kind of company we aspire to be: a company that delivers long-term value – not just wealth – for all our stakeholders. At NN, we put our resources, expertise, and networks to use for the well-being of our customers, the advancement of our communities, the preservation of our planet and the promotion of a stable, inclusive, and sustainable economy. For more than 175 years, NN has merged, grown and changed, but the core of who we are has remained the same.

We want to be an industry leader, known for our customer engagement, talented people and contribution to society.

Our values

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

Key figures NN Bank

Financial

Return on equity
11.7%
(2019: 11.7%)

Cost/income ratio
52.1%
(2019: 54.6%)

Net result
125.3m
(2019: 116.2m)

Net portfolio growth
0.7bn
Savings
1.2bn
Mortgages

NIM
1.1%
(2019: 1.1%)

TCR (total capital ratio)
18.9%
(2019: 17.2%)

Risk costs (IFRS9)
3.5m
(2019: –1.1m)

Mortgage origination
8.2bn
(2019: 7.9bn)

Non Financial

Net promotor score
+18.9

(2019: +11.0)

Employee Engagement
7.7

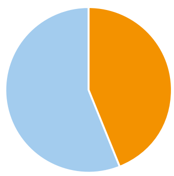
(2019: 7.5)

Total number of employees
total 1,179 FTE
internal and external employees
(2019: total 1,159 FTE)

Total number of customers
1,047,000

(2019: 980,000)

Sustainability
23%
of NN Bank's mortgage portfolio has an A energy label


Diversity
Male – Female ratio in MT NN Bank


(2019: MT: male 63% – female 37%)

NN Bank

NN Bank is a Dutch retail bank, founded on 26 April 2011. It is a fully owned subsidiary of NN Group, and its broad range of banking products is complementary to Nationale-Nederlanden's (NN's) individual life and non-life insurance products for retail customers in the Netherlands.

In 2013, NN Bank merged with WestlandUtrecht Bank, making NN Bank a fully-fledged mortgage and savings bank. In 2018, it merged with Delta Lloyd Bank. NN Bank now occupies a significant position on the Dutch retail savings and mortgage market with relevance for customers and stakeholders.

NN Bank has three fully owned subsidiaries:

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

Nationale-Nederlanden Beleggingsrekening N.V. This is a dormant company, not currently conducting any business or other activities. In 2021, the intention is to merge the company with NN Bank.

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

Our Bank today

NN Bank has experienced strong growth over the past nine years. The Bank now accounts for 8% of NN Group's operating result and is a Top 5 retail bank in the Netherlands. NN Bank continuously improves its services, to become more efficient, more innovative and more personal and relevant. The Bank has also taken major steps in the field of digitisation.

NN Bank serves more than one million customers in the Dutch market. NN Bank's purpose is to help people care for what matters most to them. We help customers manage and protect their assets and income through mortgage loans, (internet) savings, bank annuities, consumer lending and retail investment products. In addition, NN Bank provides administration and management services to other NN Group entities and institutional investors.

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

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

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

We have created a strong foundation for our future.

Our purpose: We help people care for what matters most to them.

Our future Bank

NN Group's purpose is the starting point for everything we do. Together with NN's values 'care', 'clear', 'commit', and brand promise 'You matter', the purpose is at the heart of our culture. NN Bank focuses on solid growth in our transition towards a relationship-oriented bank. NN Bank translates NN Group's purpose to the bank's customer promise: 'NN Bank helps customers make conscious choices. Choices that have a positive impact on customers' lives and the world around them.'

This means that we aim to give customers insight into their choices and the consequences thereof, now and in the future. For this, we develop new services with simple processes and distinctive service components. In this way, we help people take care of what is really important to them.

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

Our ambition is the future we envision for our company; what we want to achieve in the coming years. We want to be an industry leader, known for our customer engagement, our talented people, and our contribution to society.

NN Group identified five strategic commitments, with which NN Group's ambition will be realised: Customers and distribution, Products and services, People and organisation, Financial strength and Society.

The five commitments are highly relevant to NN Bank and constitute the foundation of our strategy. Driven by NN Group's strategic commitments, NN Bank is able to create long-term value for our company and our stakeholders: customers, shareholders, employees, business partners and society at large.

To realise NN Bank's ambitions, we have translated NN Group's strategic commitments into five strategic priorities.

1. Strong customer relationships
Customers expect personalised and relevant services. For that reason, NN Bank will make the transition from a customer-focused mortgage and savings bank to a relationship-oriented bank.

NN Bank aims to respond to the customer's needs at the relevant moments for the customer. Therefore, we will invest in more relevant services for, and more relevant contact with, our customers.

2. Data-driven business
Data analysis, and the value it creates, is becoming increasingly important. With more than one million customers, NN Bank has customer knowledge and data. By making intelligent use of data, where needed with the consent of our customers, we can make the best commercial, operational and financial decisions.

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

4. Broadening of the business model
NN Bank will broaden its business model by developing additional sources of income and by collaborating more within Nationale-Nederlanden and with other business partners. We will expand our administrative and management services for third parties.

5. Sustainable company & society
NN Bank's responsibility is about people, professionalism and trust. In our daily activities, we strive for long-term value creation, not just financial gain. As a socially engaged company, we believe that it is important to make well-considered decisions. The Bank affects the world of tomorrow. We want to contribute to a world in which future generations also have a promising future. We do this by listening to what our customers really care about and by looking ahead in everything we do. We will increase our social role by enabling people to invest in a sustainable life.

By fulfilling the five strategic priorities, NN Bank will continue to play a significant role in the Dutch market for our customers, stakeholders and society.

Marcel Zuidam, CEO of NN Bank:

‘In 2020, we applied our strategy to be even more relevant to our customers and laid the foundations for more new initiatives and plans in the future.’

2020 a good year for NN Bank, despite the Covid-19 pandemic

“

2020 was a good year for NN Bank, despite the Covid-19 pandemic. I am grateful to our colleagues for the way they dealt with the situation, and proud of the results we achieved together.

Marcel Zuidam
CEO of NN Bank

Marcel Zuidam, NN Bank’s CEO, reflects on an intense – yet good – 2020. A year dominated by Covid-19 and its major impact on society. NN Bank‘s employees were no exception, and the Bank had to be run from home. But despite these challenges, NN Bank saw good results, with record mortgage origination and a high savings inflow. NN Bank also started new initiatives in 2020, in line with the strategy to be more relevant for its customers. And with the completion of the Delta Lloyd integration and the introduction of a new purpose and ambition, space has been created and the foundations were laid for even more new initiatives and plans in the future.

An intense – but good – 2020 for the Bank

How do you look back on 2020? Marcel: "Of course, 2020 was a very intense year for everyone. The impact of Covid-19 on society is reflected in our colleagues, and how we had to run NN Bank from home. I'm grateful to our colleagues for how they handled the situation, and proud of the results we achieved together. That's because 2020 was a good year for NN Bank, despite the pandemic. We saw a huge number of new mortgage applications, which led to record mortgage origination."

"We also saw a high inflow in Savings: In uncertain times, people save more. And in our Investment funds, share prices have recovered well, so the initial price decline at the beginning of the year was largely offset in the second half of the year. Fortunately, we also see that the number of customers with payment difficulties due to Covid-19 has remained limited, not least thanks to government measures that kept unemployment in the Netherlands at a very low level. And, we were able to help our customers who did experience difficulties with special payment holidays, which we later adapted for their specific situation."

Main milestones

What were the most important milestones for NN Bank in 2020? Marcel: "We launched Woonnu, a new mortgage product for the Dutch housing market that aims to help consumers make their homes more sustainable. Woonnu is an independent subsidiary of NN Bank. It rewards sustainable living, since we offer an interest discount as the energy level becomes more efficient. Our NOVA app is also new. It's a personal financial management app that helps customers gain insight into their household financial affairs. Both of these are good examples of how we apply our strategy to become even more relevant to our customers. Finally, we completed the Delta Lloyd integration last year. This will ensure that we have even more room for new initiatives and plans in the future."

More data-driven

NN Bank has grown rapidly in recent years, both from organic growth and through acquisitions. Marcel: "Indeed. We must ensure that our data environment – and the actions we take to professionalise it – keep pace with our growth. We are working hard on our data environment so that we can use that data in multiple ways. On the one hand, of course, to comply with regulatory reporting requirements. But on the other hand, also to become more relevant to customers."

What is really important to our customers?

Marcel: "It is the Group's strategy to be more relevant to customers during important life events. This is fully in line with our new purpose: we help people care for what matters most to them. Before that, we asked ourselves: what is really important to our customers? As NN, we're moving away from merely supplying products, and transitioning into an organisation that wants to be as relevant as possible to our customers when it really matters. And we're adapting our services accordingly. The nature of NN Bank's products and services means that we have regular and frequent contact with our customers, so we play an important role in this. New initiatives like Woonnu and the NOVA app are good examples. We're also working constantly to improve our digital environment. For example, we introduced 'piggy banks' in the app and in the mijn.nn.nl environment, and customers can arrange more and more things themselves in their online mortgage environment."

> "Launching Woonnu is a good example of how we apply our strategy to be even more relevant to customers.

> "We were able to help our customers who did experience difficulties with special payment holidays, which we later adapted for their specific situation.

Connecting head and heart in the strategy

What is your view on the new purpose? Marcel: "Our environment is rapidly changing, customers have different needs and our company has also changed, since we made acquisitions in recent years and also introduced new products. So, it's also time to renew the purpose. We want to create long-term value for our customers, for our colleagues and for society. The aim of the purpose is twofold: it gives direction to our strategy and it tries to connect colleagues' minds and hearts to the strategy. We are working on this now, and all managers are engaging in dialogue with their team members about it. What does this purpose mean for them and their teams?"

Sustainability high on the agenda

Marcel: "The purpose is about the kind of company we want to be, also for society. We want to use our knowledge, resources and experience to contribute to society. And we want to contribute to a stable, inclusive and sustainable economy. In that context, NN Group has also signed the Dutch Climate Agreement. As NN Bank, we contribute to this through our commitment to making the Dutch housing market more sustainable. Our commitment to the Dutch Climate agreement means, we have committed to a 49% reduction in the CO_2 emissions of our mortgage portfolio by 2030."

NN Bank as part of NN Group

What is NN Bank's role within NN Group? Marcel: "You can see our role as threefold. First, we have more than one million customers, with whom we have regular and frequent contact. In addition to becoming more relevant for those customers, we also enable cross-sell opportunities for other parts of NN Group. In addition, we are introducing services within NN Bank that go beyond financial services, in order to increase customer engagement. For example, Powerly, a platform we are experimenting with to help customers make their homes more sustainable."

"Second, we originate high-quality mortgages. We see that the majority of mortgages, around two-thirds, are allocated to other Group entities. Our mortgages form an interesting asset category for other Group entities, which in turn helps them to be successful and realise a good investment return."

"Third, with this business model, we are a highly profitable Bank with a strong operating result and a healthy return on equity. We presented our new targets to the market at NN Group's Capital Markets Day last June. Namely, a net operating ROE of 12% or higher, and a cost/income ratio for the Bank of below 55% in 2023. That also makes us a financially attractive part of NN Group."

Continuing to build and develop

What is your hope for 2021? Marcel: "First of all, I hope we can all see each other in person in 2021, and grow accustomed to a new combination of working at home and in the office. Because let me tell you, the well-being of our people has been a major concern for me this past year. And, given our colleagues' handling of the unique circumstances in 2020 and the results they achieved, I am confident that 2021 will be a year in which we continue to build on our ambition to be a leading bank. Due to our knowledge, expertise and innovative solutions of course, but mostly due to the excellent experiences that customers have with us. And finally, I hope that, thanks to our people's entrepreneurship, our method of working will be a success. Namely that we, as an organisation, continue to enjoy learning and developing, and that it becomes part of our daily way of working."

Our operating environment

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

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

Covid-19

In 2020, Covid-19 had worldwide consequences. The Covid-19 pandemic, and the measures taken by the Dutch government to contain it, had an impact on healthcare, participation in work or education, social contacts and leisure activities. Fear of getting sick or losing a job, uncertainty about when to visit a family member and pressure on family life had a major effect on many people. The Covid-19 pandemic affected everyone in our society.

During 2020, NN Bank supported its customers with mortgage payment holidays where appropriate. After the initial phase, we opted for a tailor-made approach, in which the customer's circumstances were the primary focus.

Thus far, the consequences for the majority of our customers, and for us, remained limited. Less than 0.8% of our customers needed a payment holiday, and of these, 82% has already recovered.

Looking back on the year 2020, and in view of the situation today, we have all recognised the importance of our own safety and health, and that of our loved ones. We all had to adapt to the new circumstances. NN Bank management is extremely proud of how all employees have dealt with this, and of how they have been able to adapt, all from home.

Payment Service Directive 2 (PSD2)

By introducing PSD2, the European Commission compelled banks to open up and provide customers with full control over their payment data. By providing consent, customers can easily share their data with regulated third parties and enjoy new services. The introduction of PSD2 can be seen as the first step in enabling more innovative and customer-centric services. PSD2 has been applicable in the Netherlands since 19 February 2019.

Related to this development, NN Bank sees opportunities in offering customers more data-driven, efficient and personalised services. Therefore, we have started exploring initiatives that provide customers with an improved, combined overview of their financial situation and uncovering ways to actively help them.

NN Bank sees opportunities in offering customers more data-driven, efficient and personalized services.

Data and privacy

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

In recent years, Dutch consumers have become accustomed to sharing a lot of personal information online. Customers are willing to share their data – provided there is a genuine advantage in doing so, such as convenience or faster service. In the financial services sector, data plays a crucial role in simplifying things like application processes. When developing predictive models, data can be used to give customers a greater understanding of their financial situation or to better predict customer behaviour. In turn, this information can be used to better align services to the customer.

NN Bank is working on data-driven initiatives that will contribute to improving customer services on the one hand, and greater efficiency for the Bank on the other.

However, the intensive use of these data also poses privacy, ethics and security risks. NN Bank continues to improve employees' knowledge and skills with regard to the value of data, the opportunities of Artificial Intelligence (AI) and importance of privacy.

Consumer needs

Experiences with other sectors drive our customers' expectations for financial services and the convenient management of their financial affairs. Customers expect to be able to manage their affairs through any channel or device, without barriers. They expect financial service providers to offer propositions targeted at core needs, such as specific life events, and not just around traditional financial services. This, of course, brings both challenges and opportunities for banks.

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

Constantly improving the customer experience is important in order to build and retain long-term customer relationships. That is why in 2020, as in previous years, NN Bank focused strongly on improving our services, and in doing so, improving the customer experience. It is important for NN Bank to listen to the views of our customers and our business partners, so that we are genuinely responsive to their needs.

Sustainability

Our society is confronted with the challenge of climate change, with all its consequences and risks. To combat the climate crisis, 195 countries and the European Union signed one overarching agreement in Paris in 2015 during the UN Climate Summit. The agreement aims to keep the change in global temperatures below 2° C, with the goal of 1.5° C. The Paris Climate Agreement came into effect in 2020. In order to achieve the climate targets, EU member states have agreed that they will emit fewer greenhouse gases by 2030, compared with emissions in 1990. In addition, it has been agreed that member states will draw up climate policies and plans.

The Netherlands has converted the Paris Agreement into a Dutch Climate Policy. This contains measures to protect the Netherlands against the consequences of climate change and limit further global warming. A number of objectives are also set in the Climate Act. The Climate Act stipulates that our country must reduce CO_2 emissions by 49% in 2030 and by 95% in 2050, compared with 1990. The Climate Act also states that the Dutch Cabinet must draw up a Climate Plan. The first Climate Plan applies to the period between 2021 and 2030.

To achieve the climate goals, the government, companies and civil society organisations signed a Climate Agreement in 2019. The financial sector, including NN Group, has also committed to this.

Responsibility to the consumer

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

Constantly improving the customer experience is important in order to build and retain long-term customer relationships.

NN Bank wants to make a significant contribution to our customers' financial awareness and help customers make the right financial decisions.

Brexit

On 31 January 2020, the United Kingdom formally left the European Union, and on 1 January 2021, the new trade agreement between the two parties came into effect. With regard to financial services, the implication of the new agreement is that UK service providers no longer benefit from automatic access to the EU Single Market. For NN Bank, this entails a limit on the services it can obtain from UK counterparts. NN Bank ensured it was prepared for this situation and put an EU-based framework in place to safeguard continuity of services.

NN Bank's derivatives portfolio is cleared via two clearing houses: LCH and Eurex. Due to the departure by the United Kingdom from the European Union as of 1 January 2021, LCH is no longer authorised under the European Market Infrastructure Regulation (EMIR) as a Central Clearing Counterparty, and now requires a Third Country recognition under the European clearing obligations. The European Commission and European Securities and Markets Authority (ESMA) have granted temporary equivalence and recognition until 30 June 2022, ensuring clearing access to LCH for European parties for this period of time. Given the temporary nature of the decisions by the European Commission and ESMA, NN Bank will actively manage the distribution of exposures between both clearing houses.

Definition of default

As per 1 January 2021, the new Guidelines on the application of the definition of default (EBA/GL/2016/07) have come into effect. These guidelines specify aspects related to the application of the definition of default of an obligor as defined in article 178 of the Capital Requirements Regulation (Regulation (EU) No 575/2013 or CRR).

The main changes that result from the new guidelines are:

- The Regulatory Technical Standards (RTS) on the materiality thresholds define an absolute and a relative threshold that must be met before the counting of 'days past due' commences. As long as both thresholds are met, the counting of days past due continues. This puts an end to a common practice in the Netherlands, in which new payments are used to pay for the oldest obligation (First In First Out).
- Broader definition of unlikely-to-pay, which introduces additional default triggers
- Introduction of a minimum holding period which leads to stricter criteria for defaulted clients to return to non-default

NN Bank wishes to give insight into the financial consequences resulting from the new legislation. Hence the reported loan loss provisions already reflect this change, as a prudent measure. The increase in risk weighted assets for both mortgages and consumer lending is limited to EUR 54 million (1.1% of total RWA). This is not yet included in the accounts.

Per 31 December 2020, the provisions are based on the new definition of default.

Pieter Emmen, CRO of NN Bank:

‘The data landscape we are setting up now is the basis for a data-driven organisation.’

Optimising the regulatory reporting process

“

Our new data landscape will allow us to be much better at implementing process and system changes more quickly, easily and efficiently within the whole bank.

Pieter Emmen
Chief Risk Officer (CRO) at NN Bank

NN Bank is working on a major project: the redesign of its entire regulatory reporting chain. The project includes a new, centralised data warehouse in which all information from relevant sources can be systematically collected. The goal is to optimise the regulatory reporting process and increase efficiency. But at the same time, data quality will also be improved throughout the bank. All units within NN Bank will soon be able to use these data for their own purposes. These efforts enable NN Bank to work in a more data-driven way, and improve the efficiency of reporting processes. And, with the purchase of an external regulatory reporting system, NN Bank will ensure that it is always up to date when it comes to the latest requirements.

A foundation for the future

Why is optimising the reporting chain a priority for NN Bank? Pieter: “First, because we now spend a lot of time making, checking and correcting the reports. This will soon be much more efficient, and then we can focus on other and more value added work. It will also significantly reduce the likelihood of errors, and the quality of the reports will improve. But this initiative is also important for our future. It is a foundation for the future that fits with a growing and ambitious bank. If supervision becomes more data-driven in the future, we must be able to provide all relevant information with the push at a button.”

“We will also do a lot more with our data in the future. And the data landscape we are setting up now is the basis for a data-driven organisation. It will be the source for all our customer data analysis. We can use those analyses to improve our services. And that includes making it much easier for customers to take action within our processes, so that they can arrange more things themselves. And since we’re a young Bank, our data landscape isn’t too complex yet. So we can build the landscape properly, in a relatively short amount of time.”

The right data as a starting point

What steps have you already taken?
Pieter: "We are implementing a database that is good, complete and accessible for others to use, for everything we need at NN Bank. To that end, we first got to work improving our data quality. That starts with describing exactly what a data field should look like: which data should be in it, what may be in it. Take a Dutch postal code, for example: four digits, space, two letters. We did a lot of clean-up to make this a reality. These are huge and very complex projects. We start with small, simple things like postal codes, all the way through to complex back-end processes and data. We have defined all the formats, and are now working with our Mortgages & Consumer Credit and Savings & Investment value chains to deliver the information according to these formats. We will first completely fill the data warehouse with the correct data. Then we will get the entire system up and running. After that, we can connect it with the regulatory reporting."

New data landscape

How does the new data landscape differ from the old one? Pieter: "Today, the data flow is being processed in a chain. When data are modified in a system, the logic in the entire chain is disrupted by that change. So if I add incomplete or incorrect data in the front-end, that incorrect or incomplete data will travel all the way through to the report at the end. And you have to modify the entire chain every time by hand."

> **"It's a foundation for the future that fits with a growing and ambitious bank. So that, in the years to come, we can provide all relevant information at the push of a button.**

"The new data landscape ensures that, if we change something in one of our front-end systems, it is properly entered in the data warehouse, so that back-end processes – including reports – aren't impacted. In this way, we disconnect the data flows."

"Take the data about mortgages, for example. These data come in through a set format, and there's a check to ensure the data are correct. Are they correct and complete? If not, they go back and are supplemented or improved. Only when the data are correct do they end up in the data warehouse."

"Soon, we will be able to see where the error is very quickly. Is it in the system? In the data warehouse? Or was the mistake made on the reporting side? It will be much faster and easier to identify and solve problems. And, it will be possible to implement changes independently within NN Bank without getting in each other's way. As a result, we'll be much better at controlling change, and we can also implement changes more efficiently, quickly and easily. The system will also be far less prone to errors."

Selected solutions and new organisational design

What other steps did we take in 2020?
Pieter: "Firstly, we entered into an agreement with an external party for our regulatory reporting solution. In addition to signing the contracts, we first took a technical look at how NN Bank's systems interact with the external tool. We also analysed the requirements for the various reports in detail. The insights we gained form the foundation for a multi-year programme plan."

"Secondly, we purchased a platform for our data management. This will not only give us insight into the data available within NN Bank, but also enable us to track the data throughout the entire chain. Technical implementation of that platform has already begun."

"Thirdly, we set up the foundations in 2020 for the data governance organisation that will grow stronger in the coming years. We have adapted our policy and designed a new organisation. We have appointed a Chief Data Officer (CDO) and set up the

> **"As a young Bank, our data landscape isn't too complex yet. That makes it possible to build it properly now.**

Data Management & Projects department within Risk. In various departments within the organisation, we've appointed data stewards who are responsible for data quality."

Capital management that suits NN Bank's status

Pieter: "We have grown a lot, and are now a mature bank. With the size we now have, it's appropriate to have corresponding development in our capital management. In addition to redesigning our regulatory reporting chain, we are also preparing to be eligible for A-IRB: Advanced Internal Ratings-Based Approach. This gives us, as a bank, the opportunity to use our own models to determine capital requirements. A-IRB is one of NN Bank's strategic initiatives. The aim of the programme is better risk management: better models facilitate better decision-making and more efficient use of capital. The programme also focuses on the implementation of the new definition of default (DoD) guidelines, as prescribed by the European Banking Authority. To comply with these new regulations, we have collected a completely new set of historical loss data, which form the foundation for the risk models. In 2020, we worked hard to extract the historical data from systems and put them into the central data warehouse."

Building on the foundation

What are the next steps? Pieter: "We want to deliver the first regulatory reports in 2021, so that we can complete that part of the project in 2022. That means that the central data warehouse must be fully stocked in 2021. In doing so, we will build on the important foundation we laid in 2020."

Market developments

Economic conditions

In 2020, the Dutch economy was dominated by the Covid-19 pandemic and the government measures to limit the spread of the virus and ensure structural continuity of the economy. The economic contraction in the first half of 2020 was unprecedented, and so was the rebound in the second half. The economic impact of the second lockdown is expected to be less severe than the first, as the second lockdown is less generic. Future economic developments are uncertain, and affected by the extent of the spread of the more virulent Covid-19 variants, the effectiveness of current and future lockdown measures and efficacy and take-up of vaccinations.

After the historic decline in trade and production, the Dutch economy grew in the third quarter, but the shock reverberates. Unemployment and bankruptcy are potentially delayed. Government support policies have bought time for companies to delay painful decisions, but will not be able to prevent them all. Some of the damage is probably permanent (Source: CPB, the Dutch Bureau for Economic Policy Analysis).

In 2020, the economy shrank by 3.8%. Unemployment rose to 4.1%.(Source: CBS).

In 2021, the economy will not be able to fully recover, but is expected to grow by 2.8%, provided that the coronavirus is under control in the first half of 2021. Unemployment is expected to rise to 6.1%. The development of the pandemic largely determines the recovery perspective. When new corona waves follow and vaccines are insufficiently available or effective, the economy may shrink by 0.6% and unemployment may rise to more than 8% by the end of 2021 (Source: CPB November estimates).

Not everything of value can be measured. Helping neighbours, family visits, home education: it can't all be captured in economic figures. The Covid-19 crisis has had major consequences for matters that affect the quality of life. Covid-19 increases the already-existing inequality in education and thus heightens long-term income inequality (Netherlands Youth institute [NJI]). Young people, the self-employed, flex workers and vulnerable groups in the labour market bear a disproportionate share of the economic effects of the crisis. Existing fault lines in the labour market are therefore deepened (Source: CPB).

To be part of the solution to the Covid-19 economic crisis, banks have decided to be lenient with consumers and businesses when it comes to borrowing or to meeting liabilities. Up to and including November 2020, banks have given 36,000 Dutch consumers a 'payment holiday' on their (mortgage) loan (Source: NVB).

A large scale vaccination program has started. But this does not mean that the Covid-19 crisis will come to an immediate end. The positive effects for the economy 'will not materialise overnight': the impact of the Covid-19 vaccine will be noticeable in the second half of 2021 at the earliest. At the moment, the W-shaped economic scenario, measured from the start of the Covid-19 pandemic, therefore seems most plausible. The letter 'W' signifies a double economic dip, followed by periods of strong recovery.

Housing market
In 2020, there continued to be a housing shortage in the Netherlands. There is currently a shortage of 331,000 homes (Source: Ministerie BZK, Ministry of the Interior and Kingdom Relations). In the short term, rate of construction will not be able to keep up with the growth in demand, and the national housing shortage will increase to 419,000 houses by 2025. This peak of the deficit in 2025 will occur in all regions (Source: ABF Research, Primos 2020).

This shortage is one of the reasons that housing demand is persistently outpacing supply, despite the Covid-19 crisis (Source: DNB OFS). In 2020, average prices rose by 7.8% (Source: CBS).

Mortgage market
The Covid-19 crisis appears to have boosted the mortgage market. According to the Dutch Land Registry Office's (Kadaster), the new originated mortgage market grew by 26.5% in 2020, compared to 2019. The market rose among all customer segments. The number of houses that changed owner rose by 8.5% to 235,511. However, growth has been strongest among customers who refinanced their mortgage (+59.1%). Due to the continuing low mortgage interest rate, it remains interesting for customers to refinance their mortgage (Source: Kadaster).

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

The issue of climate change is having an impact on the mortgage market. The need for sustainability is reflected in investment preferences and home modifications. The Dutch Authority for the Financial Markets (AFM) concludes that retail investors are satisfied with lower returns and more risk if investments are sustainable. The Dutch 'Nationaal Warmtefonds' reports a significant increase of 25% in the number of requests for 'energiebespaarleningen' (loans for energy savings) in the first six months of 2020. Other research shows that plans to make the home more sustainable are being postponed due to Covid-19, as people prefer not to have workers in their home and want to keep their financial reserves (Source: VEH, Ipsos).

For consumers, there are the potential risks related to interest-only mortgages. The group of homeowners whose interest-only mortgage expires, will grow in the coming years. Homeowners will then need to pay off their mortgages or refinance, precisely at the time when some of them will be retiring and will lose their entitlement to mortgage interest relief. Consumers can reduce these potential risks when they still have a long existing term on their mortgage. This is why it is important for mortgage providers and consumers to take prompt action if needed. This calls for banks to approach customers with a high-risk profile to provide insight into the situation. Nearly three million Dutch households have interest-only mortgages. About 78,000 households run the risk of not being able to refinance their interest-only mortgage once the term is expired. These households may have to sell their homes. Some may be left with a residual debt (Source: AFM). Banks offer 'Aflossingsblij' services (services to customers with an interest-only mortgage) to highlight the potential risks of this kind of mortgage and to encourage customers repay their interest-only mortgage before the maturity date and continue to live without financial stress.

Savings market

The Dutch savings market has been characterised by low interest rates in recent years. In spite of these low interest rates, taxes levied on pre-supposed returns and rising inflation, the savings market has been growing for some years now. One of the economic consequences of Covid-19 is an even further reduction in interest rates and a strong increase in savings.

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

The savings balance in Dutch households increased by 5.9% to EUR 390 billion in 2020. This amount is largely in the freely withdrawable savings accounts (Source: DNB).

Investment market

Between 2002 and 2016, the penetration of investors among households decreased from 25% to 12%. Since then, the penetration rate again increased to about 15% of households in 2020 (Source: Ipsos). The number of people considering investing is also increasing. People that do not invest, indicate that it is too risky or because they have insufficient knowledge (Source: AFM).

An important reason for investing is the low interest environment. Low interest rates are the new normal and have structural causes, such as the aging population and large savings capacity against insufficient investment. The Covid-19 crisis and the loose monetary policy of central banks are putting further pressure on interest rates.

With new technology and smart propositions, providers are trying to make investing more accessible. Many of them offer the opportunity to periodically invest a small amount, with the aim of reaching new target groups. Starting investors in particular use automatic or online asset management. The group of investors with a small portfolio (less than EUR 5,000) has increased to 25% (Source: AFM). The portfolio growth in euros is strongest among execution only. The growth in numbers and penetration is the strongest in discretionary mandates (Source: Ipsos).

At the start of the pandemic, the stock market fell at an almost unprecedented speed. After that, the index rebounded. Devastating scenarios such as the bursting of internet bubble and the financial crisis did not occur. Since the middle of 2020, the Amsterdam Exchange Index (AEX) has been at the same level as last year, partly as a result of the low interest rate. In addition, a number of companies are hardly affected by the crisis, or not affected at all. Optimism about the end of the Covid-19 pandemic drives up the stock markets.

Over the past five years, the compound annual growth rate (CAGR) of the invested capital of households in funds was 8.3% (Source: DNB). This growth is due to the increase in the number of retail investors and stock exchange developments (e.g. CAGR AEX: +7.1%).

Consumer lending market

The consumer lending market is characterised by crowding out and increasing competition, including from alternatives. Personal loans are replacing revolving credits, private lease is displacing car financing and lenders are struggling with increasingly lower interest rates, causing the refinancing market to grow. The method for determining the borrowing capacity has also been tightened (Source: AFM).

The percentage of households participating in consumer lending decreased to 14% in 2020. In 2014, this was 20% (Source: Ipsos). Encouraged by the AFM, the market for personal loans replaces that for revolving loans. Providers have improved the conditions of the personal loan, and interim repayments can be made without compensation. More and more providers no longer offer their revolving loan product.

The willingness to finance is declining due to declining consumer confidence. The Covid-19 pandemic has put a stop to (the financing of) sustainability plans or other major expenditure (Source: Ipsos). As a result, origination of consumer loans has declined by 21.2% in 2020. Total debt volume of the consumer lending market shrank by -6.5% (Source: DNB).

Outlook

After shrinking by 3.8% in 2020, the economy is expected to grow by 2.8% in 2021, provided that the Covid-19 crisis in Europe is under control. If new Covid-19 waves follow and vaccines are insufficiently available or effective, the economy is expected to shrink by an additional 0.6% in 2021. Unemployment is expected to grow to 6% to 8% depending on further Covid-19 developments and measures. Young people, flex workers and the self-employed will be particularly affected (Source: CPB November Estimates).

Whatever scenario applies, the recovery will be incomplete, mainly due to the massive economic impact caused by the Covid-19 pandemic. Rising unemployment and the uncertain future make consumers insecure. Companies are delaying investments due to uncertain revenue expectations. As a result, the recovery in spending and foreign demand is limited.

The overheating of the housing market is expected to lessen in 2021, as household spending will come under pressure due to rising unemployment, a decline in GDP and lower population growth (source: CPB November Estimates). At the same time, low interest rates will continue to support the demand for housing. The delayed response to macro-economic developments is characteristic of the housing market. Compared with the crisis in 2008–2013, the economic impact of Covid-19 on the housing market appears to be mild. This is because the housing market is tight and the number of homes built will not meet the demand in the coming years (Source: CPB).

NN Bank expects the price rises of recent years to continue, but less pronounced than last year. The number of transactions however, is expected to decrease (Source: NN Research).

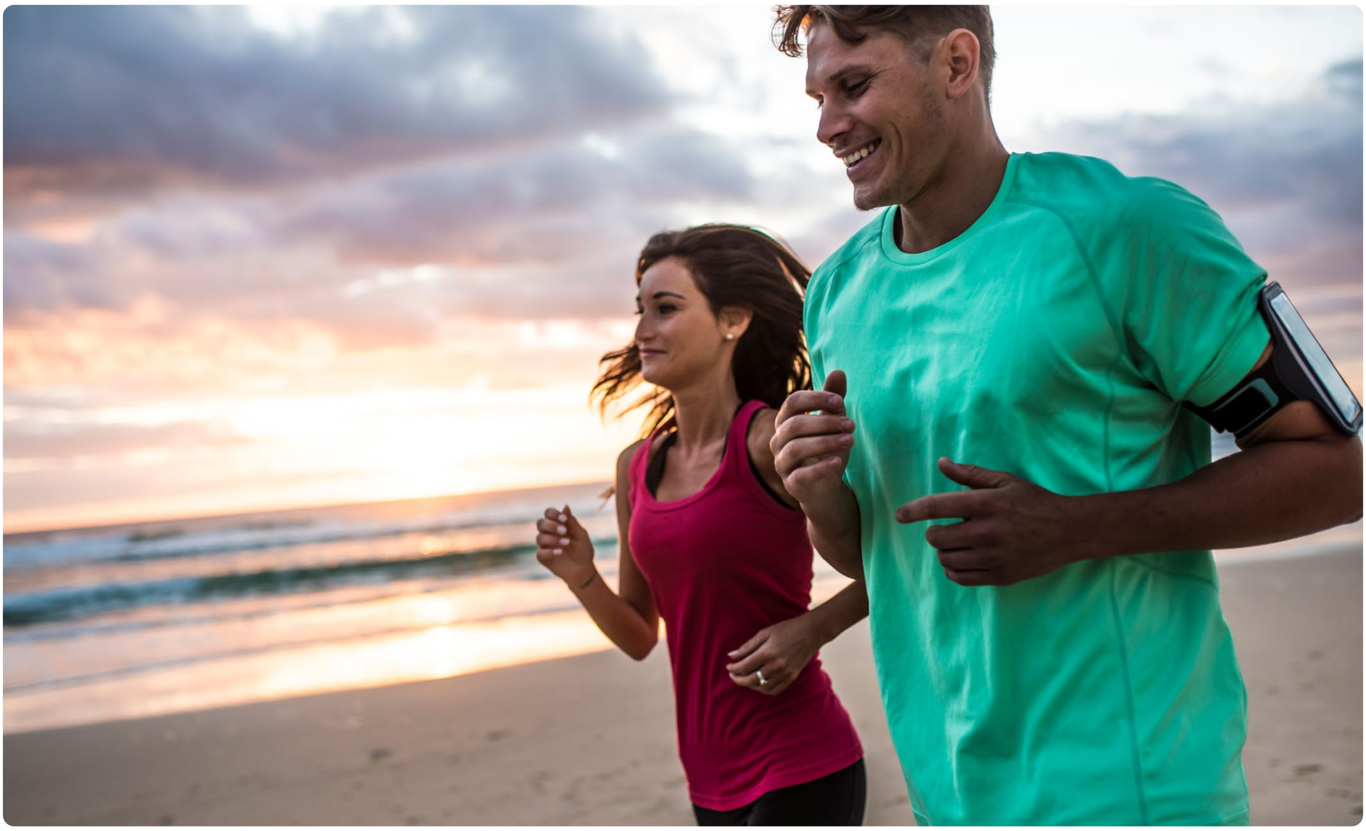
Due to the deteriorating economic conditions caused by Covid-19, the shortage of homes and the limited affordability of homes, NN Bank expects new mortgage business to shrink in 2021 for the first time in seven years.

NN Bank expects future demand for consumer lending to drop. In 2021, consumers will not yet be comfortable borrowing, and the market is expected to shrink by around 10.0%. When the Covid-19 pandemic is over and economic recovery occurs, people will start spending again. Initially, this will be by drawing down savings. NN Bank expects a cautious recovery of the consumer lending market starting in 2024 (Source: Market Estimates, NN Research).

Despite the low interest rates, economic uncertainty will encourage people to maintain a buffer. How strongly they are encouraged depends on the developments regarding the pandemic. Rising unemployment on the one hand causes withdrawal of savings. On the other hand, declining consumer confidence will fuel the savings trend in freely withdrawable accounts. Consumers are cautious and are postponing major purchases for a while. On balance, NN Bank expects the savings market to grow in 2021.

In the near future, NN Bank expects the retail investment market to continue to grow, but not as strongly as before. NN Bank anticipates the possibility of a prolonged period of weak economic growth and limited returns on the stock exchange. Disappointing returns carry a risk for retail investors. NN Bank expects a compound annual growth rate of 4.3% in Assets under Management (AuM) for the coming five years (Source: Market Estimates, NN Research).

In 2020, the impact of Covid-19 on the financial markets was mitigated through the monetary policy response of the ECB and Dutch government measures. In 2021, it is expected that the ECB will maintain its presence in financial markets to alleviate uncertainty and, as a result, interest rates and spreads will remain low.



'We want to help our customers make choices that have impact, and be their partner in life.'

How customer focus takes NN Bank further


This photo was taken under the strictest Covid-19 guideline and edited afterwards.

"

Our customers want to make conscious decisions that are important for them, and for the world around them.

Kokke van der Werf – Director of Savings & Investments
Monique Sueters – Director of Mortgages & Consumer Loans
Remco de Mol – Strategy and Corporate Affairs

Customer experience is an important component of NN Bank's strategy. Creating strong relationships with customers is the foundation to transforming into a truly relationship-oriented bank. Developing new and existing services based on customer insights and needs is a central focus in order to strengthen the customer relationship and ensure the customer feels seen and heard. And above all, to anchor continuous improvement based on customer experience into the organisation.

Continuous improvement through feedback

Customer experience is an important part of NN Bank's strategy. How do you bring it to life? Monique: "One of NN Bank's strategic pillars is to create a strong relationship with our customers. We want to anchor our customers' experience into the way we work, and the way we develop our products and services. We regularly distribute Net Promoter Score (NPS) surveys, which results in a lot of customer feedback. As much as possible, we want to incorporate that feedback into our service."

Kokke: "Great customer service comes from continuously following up on the customer feedback that you receive. Taking that feedback seriously and letting customers know what you've done with it. That's truly the most important step. And we spend a lot of time and energy anchoring that mind-set into our organisation."

Helping customers further

Remco: "We have invested a great deal in our products and (digital) services for customers. Among other benefits, this caused a significant increase in our NPS in 2020. We're also looking at how we can further strengthen our relationship with customers, such as by investing in new services. One good example of this, which we launched in 2020, is the NOVA app: your personal financial management app that helps customers gain insight into their household financial affairs."

The ability to arrange things digitally

And what are customers telling you?
Kokke: "At Savings & Investments, we see that customers are becoming increasingly aware of their own responsibility for their income later in life. Customers are looking for a higher return than savings interest, and

young people in particular are exploring the possibilities of investment. Some of them want to take the wheel themselves, while others are looking for someone else to take over the task. We also see sustainability becoming increasingly important. That fits very well within NN's strategy."

Monique: "Our customers want swift and reliable service, so they know where they stand. They want a mortgage or loan that suits their situation now, but is also suitable to their futures. And we see that customers increasingly want to take control, and arrange things themselves digitally. That trend has already started and we want to support it even more."

Life events lead the way to a relationship-oriented bank

How does this fit into the transition the Bank is making? Remco: "Our customers don't just want to get a grip on today and the future. They also want to make conscious decisions that are important to them, and to the world around them. These decisions often revolve around the events that truly impact a customer's life. We want to help them with that: become a partner in life. This is fully in line with our strategy to transition into a truly relationship-oriented bank."

Improvements in 2020

What steps did we take in 2020? Kokke: "We improved a lot of things for customers in 2020. For example, we introduced a live chat function for customer service, improved the chatbot and website content, and ensured that a single customer contact colleague is responsible for a customer issue from start to finish, regardless of the channels that are used. We also added a targeted savings product that enables customers to save for a specific purpose. Customers told us they really wanted that."

> "You achieve great customer service by continuously following up on the feedback you receive.

Monique: "We also accomplished a great deal on the mortgage and consumer loans side in 2020. For example, we developed and further expanded propositions for specific target groups. Think here, for example, of the refinancing proposition that allows customers to benefit from the current low interest rates. Or the proposition for senior citizens, such as the possibility to check against actual expenses. We have expanded our digital services, so we can serve customers faster. We've also improved our accessibility and response times, and are working on further improving our customer contact by, for example, reducing the number of times a call is forwarded."

How can it get even better?

Remco: "In 2020, in addition to the major improvements in both chains, we also worked diligently on a number of underlying systems. For example, we introduced a new framework to better measure our customer feedback. This helps us ask for the right feedback at the right time. We also set up an internal training course for a group of colleagues, in which they learn to work from the customer's perspective."

Monique: "In order to serve our customers well, we also have to make it all easier for our colleagues. For example, if they have to open multiple screens to answer a customer's or intermediary's question, that's not very helpful. In the past year, we've therefore very explicitly looked at improving the employee journey."

Fulfilling the customer promise

Let's now look at 2021. What's the ambition? Kokke: "We want to further strengthen the relationship with our customers in 2021. We'll do this through innovation, by offering simplicity and convenience, and with personal and relevant communication. We aim to simplify the system landscape and focus more on mobile interactions. We also want to make use of new technologies, like Artificial Intelligence."

> "Our colleagues and intermediaries play an essential role in realising our ambitions.

Remco: "We'll also further shape our foundations in 2021. Our products and services must ensure an excellent customer experience. To that end, we constantly listen to our customers' feedback and make improvements based on those insights. In the coming years, we will also work on services with which we can fulfil our customer promise. So, services that help our customers make decisions that have an impact. Examples of that include the NOVA app and our efforts to help customers make their homes more sustainable."

Becoming a partner in life, together

Monique: "In 2021, we'll continue to expand and improve propositions aimed at specific customer groups. By improving call routing, we want to start the conversations with customers more swiftly. We will also expand our track & trace options, so that customers gain insight into the status and lead time of their requests. And we will digitalise more customer and intermediary processes, so that they can arrange even more things themselves online. Our ambition is to become a 'partner in life' for customers. We have the same ambition when it comes to providing services to intermediaries. In addition, we want to further improve support for our colleagues, so that they can serve customers and intermediaries as optimally and easily as possible. Because only together can we become our customers' partner in life."

Our strategic and business developments

NN Bank can look back on a successful year in terms of improvements to the services we provide to our customers, business improvements, finalisation of the integration of Delta Lloyd, commercial results and financial results.

In 2020, an important milestone was reached. NN Bank successfully completed the migration of the Delta Lloyd Bank mortgage portfolio to the NN systems. As a result of this migration, all former Delta Lloyd Bank customers can take advantage of NN Bank's (online) mortgage services, such as the mijn.nn.nl online portal and NN Bank's risk based pricing policy.

For NN Bank, 2020 was also a very successful year on the mortgage market. For the third year in a row, we reported the highest level of new mortgage origination since the Bank was founded. Compared with 2019, NN Bank generated 4% more new mortgage business: EUR 8.2 billion, compared with EUR 7.9 billion in 2019. NN Bank's mortgage portfolio grew by EUR 1.2 billion to EUR 20.6 billion in 2020*.

According to Kadaster, the market grew stronger by 26.5%, causing NN Bank's market share of new originated mortgage loans to drop from 8.0% in 2019 to 6.6% in 2020. In 2020, NN Bank was the fifth-largest mortgage player in the Netherlands (2019 fourth-largest, Source: Kadaster).

In 2020, Woonnu originated its first mortgages. Woonnu, NN Bank's new mortgage label, is a new mortgage provider on the Dutch market with the aim of helping consumers to make their homes more sustainable. The success of Woonnu is the result of further excellent collaboration with NN Bank's most important business partners, the independent intermediaries.

The customer savings portfolio remained the main funding source for NN Bank. In 2020, NN Bank also grew its savings portfolio. The net inflow of retail savings amounted to EUR 0.7 billion in 2020. The Bank's savings portfolio increased by 4.5% to EUR 15.6 billion in 2020, accounting for approximately 4.0% of the total savings balance of Dutch households.

New mortgage business in euro's

8.2bn

* Mortgage portfolio at book value excluding trading portfolio

NN Bank introduced NOVA: a digital house-keeping app that provides direct insight into customers' financial matters.

NN Bank's retail investment portfolio decreased 5.2% to EUR 1,055 million, representing approximately 1.24% of total Dutch retail investments in funds (Q3, 2020).

NN Bank's share of newly opened discretionary mandate accounts increased from 5.1% in 2019 to 7.9% in 2020 (Source: Ipsos). NN Bank's share of newly opened consumer loans increased from 0.5% in 2019 to 0.7% in 2020 (Source: Ipsos).

NN Bank has decided to reorganise the activities of NN Advice. This is in line with the developments within retail distribution.

In line with the Bank's strategy, NN Bank focused on the strategic priorities in 2020.

Strong customer relationship

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

'How much can I still spend this month?' and 'what exactly do I spend my money on?' are questions that matter to consumers. But they usually do not take time or action to answer them. National Institute for Family Finance Information (Nibud) research shows that 38% of households still have difficulties making ends meet, and that there is still much to be gained in this area with innovative financial aids.

For that reason, NN Bank introduced NOVA on 10 November 2020. NOVA is a digital housekeeping app that provides direct insight into customers' financial matters. Customers can link their current payment account to the NOVA app, and it will provide insight into how much money the customer can spend. NOVA helps by dividing payments into categories and providing clear information for all debits and credits. This way, the user can see exactly where, when and what purchases have been made. The app also provides users with an overview of all types of insurance policies they have, including the name of the insurer and the amount they spend on those insurance policies. By involving users at an early stage in the development of NOVA, Nationale-Nederlanden could investigate the ease of use and the added value for customers, and coordinate future improvements accordingly.

The Bank's savings portfolio increased by 4,5% to EUR 15.6 billion in 2020.

Customer research shows that customers want to save money for specific targets and life events. For that reason, NN Bank introduced a feature that enables customers to save money towards specific objectives: 'Doelsparen'. Customers can create up to ten individual savings objectives in mijn.nn.nl and the NN app. By entering a target amount and date, customers can see how much money they need to put aside every month.

In 2020, NN Bank also helped mortgage customers who experienced financial problems due to the Covid-19 pandemic and the related government measures. A special policy was formulated so that NN Bank could provide customers financial relief by granting them a 'payment holiday'. The policy also enabled the creation of a specialist team to manage the Covid-19-related cases. More than 700 customers (1.0% of outstanding) contacted NN Bank, and approximately 500 customers (0.8% of outstanding) received a payment holiday. At the end of 2020, 82% of these customers no longer needed a payment holiday.

In 2020, NN Bank started approaching interest-only mortgage customers to analyse whether this type of mortgage still suited the customer's situation. All customers gained access to an online self-assessment tool that provided useful insight. When necessary or desired, customers could ask for a follow-up discussion with an advisor. Advisors actively approached customers with a high-risk profile to dive deeply into their situation. For this, NN worked closely with the appropriate intermediaries. All relevant customers were approached in 2020 and will have periodical follow-up sessions in the years to come.

> “
> **NN Bank gave me all its attention when I called, and solved the problem in a confident and thoughtful way.**
>
> **Customer**

The continuing low mortgage interest rates mean customers are beneficial in refinancing their mortgages. Based on customer research, NN Bank improved the refinancing proposition by introducing a refinance tool for consumers on nn.nl. With an easy online calculator, consumers can see when it is interesting to refinance their mortgage at NN Bank. NN Bank also improved the internal refinancing process. Furthermore, NN Bank introduced the possibility of an interest-only mortgage with a 30-year fixed interest rate, and offered more acceptance options for specific types of customers.

In 2020, NN Bank received several awards. For the second year in a row, we received a 5-star rating from Moneyview for the pricing of annuity and linear mortgage products. The 5-star rating is largely thanks to our new policy that a customer's interest rate will drop automatically when their risk premium can be lowered due to repayments. For the second year in a row, NN Bank won the 'Cashcow Award 2020' in the category 'Best Online Asset Manager' for the online investment proposition 'Beheerd Beleggen'. For the second year in a row, IG&H has awarded our 'Bank Annuities' with the highest intermediary satisfaction. In Spain, NN Bank received an award for our excellent customer service in relation to NN Bank's savings products.

NN Bank's efforts led to a further improvement in customer experience. The transactional NPS in 2020 was 18.9 (2019: 11.0).

Broadening of the business model
NN Bank broadens its business model by developing additional sources of income and by collaborating more within Nationale-Nederlanden and with other business partners. We want to enable external investors to invest in making the Dutch housing market more sustainable. Woonnu will give substance to this strategic priority.

On 17 August 2020, NN Bank introduced Woonnu, a 100% subsidiary of NN Bank. With a contemporary proposition that focuses on sustainability Woonnu is building a new mortgage portfolio for investors. The servicing of the mortgage portfolio has been outsourced. With Woonnu, NN Bank broadens its business model by potentially generating more fee income through external institutional investors.

NN Bank has been the sole originator and servicer for the NN Dutch Residential Mortgage Fund (DRMF) since NN IP initiated it. As 2020 has been a strong year in the Netherlands in terms of the number of originated mortgages, NN Bank was also able to provide a materially larger number of mortgages for DRMF. Investor appetite in DRMF was, and is, supportive of our proposition for the end retail mortgage customer. In 2020, DRMF and NN Bank have successfully executed a different set-up of the transfer mechanism between the two entities. This effectively mitigates the attached interest rate risk on the mortgage originated for DRMF at the Bank balance sheet. As such, this will enable both entities to transfer even larger numbers of mortgages in the future if needed.

The new set-up is a good example of the collaboration between two entities within NN Group and has resulted in a material increase in the transferred volumes of mortgages in 2020 towards DRMF.

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

A-IRB
The term A-IRB is an abbreviation of Advanced Internal Ratings-Based approach, and it refers to a set of credit risk measurement techniques proposed under Basel II capital adequacy rules for banking institutions. Under this approach the banks are allowed to develop their own empirical model to quantify required capital for credit risk. Banks can use this approach only subject to approval from their local regulators. Under A-IRB banks are supposed to use their own quantitative models to estimate PD (probability of default), EAD (exposure at default), LGD

> “
> **The operator's patience and calm, with a little touch of humour and a good explanation, made me very satisfied. I'm smiling.**
>
> **Customer**

(loss given default) and other parameters required for calculating the RWA (risk-weighted asset) – as opposed to the current Standardised Approach (SA) where it is prescribed.

The A-IRB program is a strategic initiative that aims at better risk management. It facilitates NN Bank to further professionalise in areas that are necessary to maintain its competitive position (e.g. sharper and more competitive pricing). Improved models facilitate better decision-making and a more efficient use of capital – it can help reducing the capital requirements and credit risk. In 2020, the A-IRB program finalised the implementation of the new regulatory definition of default. It also covers the gathering and enhancement of historical data that is crucial for more accurate risk profiling and pricing.

Data Ecosystem

NN Bank's new Data Ecosystem (DECOS) is the data hub that ensures data quality and data lineage, and provides reports to our finance, risk and business teams. DECOS also archives our data for regulatory reporting purposes, and to accumulate larger datasets for training our AI models.

NN Bank initiated the programme in 2019 to migrate from the current, more scattered landscape to DECOS: one central data warehouse that will be the basis for all reporting. In order to increase efficiency and flexibility and adapt to continuously changing regulatory reporting requirements, NN Bank will restructure and further automate its regulatory reporting processes and organisation. After a thorough selection procedure, NN Bank selected a SaaS regulatory reporting solution. NN Bank also wants to further professionalise by improving our data governance, data quality and data management processes, capabilities and tooling. All these improvements are combined in the DECOS project, which will focus first on regulatory reporting. In this way, NN Bank is building a future-proof solution for its data quality and reporting requirements, all in one place, with a single source of truth for all users of the data we will collect.

> **“**
>
> **Great products and an excellent account manager and team. There's always a solution.**
>
> **Intermediary**

In 2020, we set up feature teams that can work on both the information layer and on DECOS, thus guaranteeing service for customers and work that is independent of the developments on the various platforms. In addition, test automation and 'Continuous Integration' and 'Continuous Delivery' pipelines have been developed.

On top of the Data Ecosystem, NN Bank built a graph database to break down any existing data silos and create a true 360° Customer View. This will allow us to use customer data in automated chatbot conversations, optimise our customer journeys and improve fraud prevention, while maintaining operational efficiency. By combining customer insights from NN Bank data and Non-life data, we also aim to increase cross-sell and share of wallet between Bank and NN Non-life portfolios. The 360° Customer View is set up in compliance with the General Data Protection Regulation (GDPR/AVG), and is targeted to become operational in 2021.

In addition to our strong data foundation and the 360° Customer View, NN Bank continues to apply predictive AI models in existing operations and new propositions. Projects include developing AI models for:

- assisting our operational teams in preventing mortgage fraud
- assisting our arrears teams in predicting mortgage defaults
- email classification to send incoming emails directly to the right NN agent

NN Bank is always looking for great insights that can be turned into new, data-driven projects for our customers. To encourage everyone to share and build on their ideas, NN Bank developed a Data & AI e-Learning that is now offered to all employees. The e-Learning was very well-received within the bank. Additionally, two internal Data & AI training courses were also developed focusing on training managers and 'business translators': experts who bring opportunities of AI close to the business.

In 2020, the 360° Customer View, the application of AI and the training courses have further inspired a passionate data community within the bank, which so far has produced a large number of valuable data initiatives.

> **Really working together and helping each other, unprecedented in these times of crisis.**
>
> **Intermediary**

Sustainable company & society

NN Group recently introduced the new purpose: ‘helping people care for what matters most to them’. In line with NN Group’s strategic commitment ‘Society’, NN Bank strives for a sustainable society and wants to be a future-proof, sustainable Bank. We are a financially strong company and are working on solid, long-term value creation for our customers, shareholders and employees. In addition, we strive – and act – for a sustainable future for our society. Our work is about people, professionalism and trust. Every day, we strive for value creation in the long term, not just for financial gain. We are well prepared for the future by complying with current laws and regulations. As a socially involved company, we believe it’s important to make well-considered decisions. Finally, our actions today affect tomorrow’s world. We strive for a world in which future generations also have promising future. We do this by continuing to listen to what our customers really care about and by looking ahead in everything we do. NN Bank will increase its social role by enabling people to invest in a sustainable life.

With Woonnu, NN Bank offers a new mortgage label and enables external investors to invest in making the Dutch housing market more sustainable. Woonnu believes that sustainable living should be possible and affordable for everyone. Woonnu aims to do so by improving and seamlessly integrating the process and financing required to make the housing market sustainable. With this initiative, NN Bank contributes to its commitment to the Dutch Climate Policy.

Furthermore, NN launched ‘Powerly’, a platform that offers users support– from orientation to implementation – as they improve the sustainability of their homes in the Netherlands. Powerly aims to expand to a sustainability platform that offers a reliable starting point for consumers, benefits customers, partners and NN, and contributes to the UN Sustainable Development Goals.

Our financial developments

Analysis of results

Amounts in millions of euros	2020	2019
Interest income	618.5	631.2
Interest expenses	343.2	383.3
Interest result	**275.3**	**247.9**
Gains and losses on financial transactions and other income	**19.2**	**41.4**
Fee and commission income	**102.1**	**96.8**
Valuation results derivatives	**6.5**	**-6.5**
Total income	**403.1**	**379.6**
Impairment charges on financial instruments	3.5	-1.1
Staff expenses	116.5	113.3
Regulatory levies	20.4	17.3
Other operating expenses	93.4	93.8
Total expenses	**233.8**	**223.3**
Result before tax	**169.3**	**156.3**
Taxation	44.0	40.1
Net result	**125.3**	**116.2**

Key figures

Amounts in millions of euros	2020	2019
Loans	21,255	20,004
Customer deposits and other funds on deposit	15,743	15,079
Net interest margin[1]	1.10%	1.07%
Cost/Income ratio[1]	52.1%	54.6%
Return on assets[1]	0.5%	0.5%
Return on equity[1]	11.7%	11.7%
Total assets	25,498	24,663
CET1 capital	1,047	926
CET1 ratio[2]	17.4%	15.7%
Total capital[2]	1,132	1,011
Total capital ratio[2]	18.9%	17.2%
Leverage ratio	4.0%	3.7%
Liquidity Coverage Ratio (LCR)	168%	173%
Average number of internal FTE	883	839

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

2 These capital ratios are not final until filed with the regulators and exclude net result for the second half year 2020, for which approval of inclusion is not yet obtained. If DNB approves the addition of the net result after payment of dividend, the Total capital is EUR 1,183 million, with a total capital ratio of 19.7% and CET1 ratio of 18.3%.

Targets and regulatory requirements

On 24 June 2020, in its Capital Markets Day, NN Group announced financial targets for NN Bank: a cost/income ratio below 55% in 2023 and a net operating return on equity of 12% or higher. A net operating return on equity of 12% on group reporting basis equals a return on equity of approximately 9% on a statutory basis. In addition to these financial targets, NN Bank also has targets on capital:

- Total capital ratio: NN Bank aims to have a total capital ratio of around 16.8% over time
- Leverage ratio: regulatory minimum of 3%

Profit and loss

Covid-19 has had a minimal impact on NN Bank's operating result. This is reflected in higher operating expenses for arrears management and higher risk expenses following payment holidays for customers. Besides the Covid-19 pandemic, customers refinancing their mortgages, which led to an increase in redemptions, is currently affecting the Dutch mortgage market. This has an immediate positive effect on interest income as prepayment compensation increased, but it exacerbates a trend of declining future margins.

Other developments at NN Bank that characterised the year 2020 financially are the:

- launch of the new label, Woonnu
- transfer of mortgages to the Dutch Retail Mortgage Fund at inception date instead of monthly, limiting the impact of fair value results
- refinancing of part of the wholesale funding portfolio
- decrease in client rates on the savings portfolio

NN Bank's 2020 net result increased compared with 2019, driven by both internal and external factors. This higher net result is offset by higher equity leading to a stable return on equity of 11.7% in 2020. The higher equity is a result of NN Bank withholding dividends following regulator recommendations that apply to the industry, following the Covid-19 pandemic.

Net result 2020
in millions of euros

125.3

Net result was positively impacted by the refinancing of the wholesale funding portfolio in 2019, the decrease in client rates for retail savings in 2020 and the increase in prepayment compensation received following higher mortgage redemptions. This is the main reason for an increase of EUR 27.4 million in interest result. This increase in interest result compensates for the increase in expenses of EUR 10.5 million caused by the higher risk expenses and operating expenses for Covid-19, higher operating expenses following strategic initiatives and higher levies.

Interest result increased from EUR 247.9 million in 2019 to EUR 275.3 million in 2020, driven by lower interest expenses following the refinance of wholesale funding portfolio and a decrease in client rates on the savings portfolio. An increase in the number of customers refinancing their mortgages is impacting the market, leading to higher income from prepayment compensation. The NIM remained broadly stable at 1.1%.

Gains and losses on financial transactions and other income decreased to EUR 19.2 million, compared with EUR 41.4 million in 2019. This 2019 amount included EUR 33.8 million in non-recurring benefits related to premiums on mortgage sales, as well as mortgage origination fees from the NN IP Dutch Residential Mortgage Fund, which are now reported under 'commission income'.

Fee and commission income increased by EUR 5.3 million, as 2020 includes EUR 11 million in mortgage origination fees from the NN IP Dutch Residential Mortgage Fund previously reported under 'gains and losses on financial transactions and other income'.

Staff and other operating expenses increased by EUR 2.8 million to EUR 209.9 million. This increase is mainly caused by strategic initiatives and the impact of Covid-19. It is partly compensated by savings related to the Delta Lloyd integration. The cost/income ratio improved to 52.1%, compared with 54.6% in 2019, mainly reflecting higher total income driven by the higher interest result.

Customer portfolios

The NN Bank mortgage portfolio increased by EUR 1.2 billion to EUR 20.6 billion in 2020*. The mortgage market was favourable, but market competition is still very strong. NN Bank managed to increase its volume of originations to EUR 8.2 billion compared with EUR 7.9 billion in 2019.

Of the EUR 8.2 billion origination, EUR 2.8 billion was transferred to NN Life, EUR 1.2 billion to the NN Dutch Residential Mortgage Fund, EUR 0.7 billion to NN Non-life and EUR 0.6 billion to NN Belgium.

The customer savings portfolio remained the main funding source for NN Bank. The net inflow of retail savings amounted to EUR 0.7 billion in 2020 bringing the total savings portfolio to EUR 15.6 billion at the end of 2020.

Capital, funding & liquidity

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

In June 2020, NN Bank launched a Soft Bullet Covered Bond Programme with the aim of benefiting from a very broad investor base and to extend its funding duration. NN Bank successfully raised

* Mortgage portfolio at book value excluding trading portfolio.

NN Bank launched a Soft Bullet covered bond programme with the aim of benefiting from a very broad investor base and to extend its funding duration.

long-term secured funding at relatively low costs by issuing 10- and 15-year EUR 500 million Soft Bullet covered bonds in July and September 2020, respectively. Both transactions attracted strong demand from institutional investors. Order books were largely oversubscribed, and in total more than 120 unique investors participated in the two issues. In addition, the Bank raised EUR 250 million through a 20-year, privately placed Soft Bullet covered bond in November 2020. On the other hand, NN Bank redeemed both the Arena NHG 2014-II and the Hypenn IV RMBS transactions at their respective first optional redemption dates.

Although NN Bank was not an active issuer in the unsecured bond market during 2020, we took the opportunity to update our Debt Issuance Programme. It now also caters to potential issuances of eligible senior preferred debt, senior non-preferred debt and subordinated debt, to meet future regulatory capital requirements if and when needed.

To manage the Liquidity Coverage Ratio (LCR), NN Bank has a large portfolio of retained RMBS notes, in addition to the on-balance-sheet High Quality Liquid Assets (HQLA) portfolio and cash. In this respect, additional contingent liquidity in the form of a retained RMBS, Hypenn VII, with just under EUR 2.0 billion in senior notes was issued on 11 June 2020.

NN Bank maintained a solid liquidity position, with an LCR of 168%. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. In 2020, NN Bank had credit facilities in place with NN Group, one of which secures NN Bank's liquidity needs related to variation margin calls. Two other liquidity facilities matured in October and November 2020, and were not extended due to the availability of more attractive alternatives.

NN Bank has maintained a solid capital position, with a Capital Requirement Regulation (CRR) total capital ratio of 18.9% (2019: 17.2%) and a CRR CET1 ratio of 17.4% at year-end 2020 (2019: 15.7%). The growth in capital, driven by internal capital generation in the form of retained profits, exceeds the growth in risk weighed assets. NN Bank steers its capital on total capital ratio and meets all capital targets.

In line with NN Group's policy to manage excess capital at Group level, dividend is paid out if NN Bank's total capital ratio exceeds a minimum target. NN Bank paid a 2019 interim dividend of EUR 26.2 million in September 2019, however no final dividend over 2019 or interim dividend over 2020 was paid in accordance with the recommendation of the Dutch regulator. NN Bank proposes a final dividend over 2020 of EUR 12.0 million, in line with the recommendations of the ECB and DNB under the current Covid-19 pandemic. When supervisory restrictions or recommendations on dividend payments are lifted, we will steer our capital towards our capital targets through dividend payments.

Wholesale funding strategy
NN Bank's funding strategy has two main components: retail savings and wholesale funding. The bank actively manages both funding sources, seeking the best opportunities to raise attractive and diversified funding from both retail customers and institutional investors and banks.

As an integral part of its balance sheet management in conjunction with retail savings, NN Bank applies the following steps in its wholesale funding strategy:

- NN Bank agrees upon the allocation of newly originated mortgage loans to other NN companies
- NN Bank aims to satisfy the potential; applicable minimum requirements for own funds and eligible liabilities (MREL) by issuing unsecured funding - including MREL- eligible senior preferred, senior non-preferred and subordinated debt
- NN Bank raises secured funding. It primarily relies on the issuance of Soft Bullet covered bonds as the main secured funding source to refinance maturing securitisation debt and to finance part of the balance sheet growth. The issuance of covered bonds adds flexibility to our funding capabilities and allows for longer-term maturities that match the duration of the Bank's long-tenor assets.
- NN Bank seeks to bridge the remaining funding gap, mainly by issuing money market funding and senior unsecured preferred debt

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

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

Our role in society

NN Bank helps people care for what matters most to them. We believe that this involves taking responsibility for the well-being of society as a whole and supporting the communities in which we are active.

Sustainability

We contribute to society by managing our direct carbon footprint.

To underline our ambition, NN Group endorses various commitments, such as the Commitment of the financial sector to the Dutch Climate Agreement (Klimaatakkoord). We are also a member of the UN Principles for Sustainable Insurance and the UN Global Compact. NN Bank's commitment to the Climate Agreement basically means four deliverables:

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

NN Bank is at the beginning of the process to deliver these four elements .

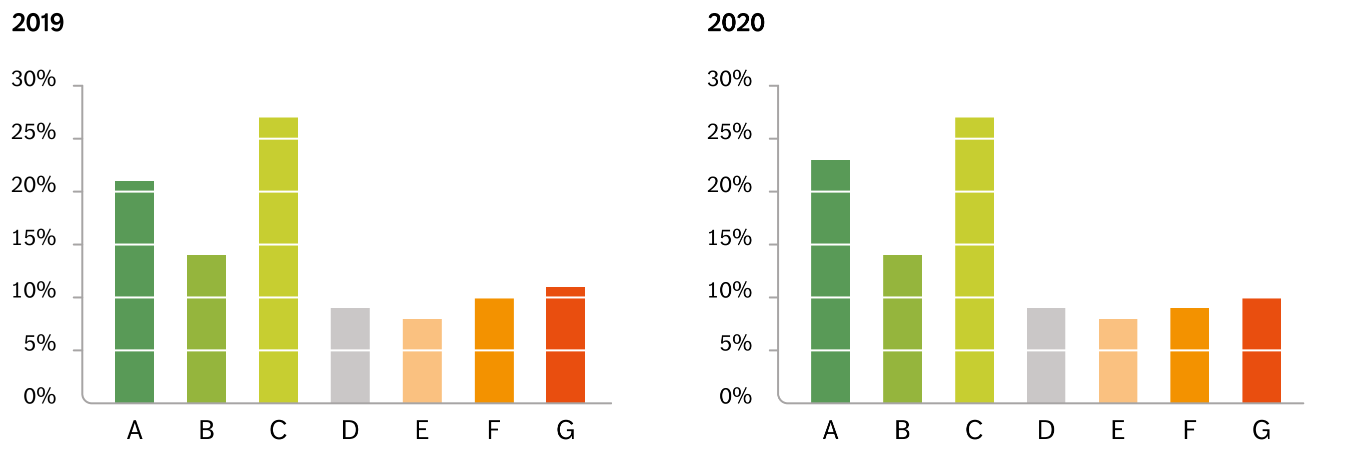
Regarding carbon emissions, the aim of the Climate Agreement is to roughly halve these by 2030 compared with 1990. For the Dutch financial sector, this includes setting up carbon footprint monitoring of financing activities, and drawing up action plans to help reduce it. Customers will also be encouraged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

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

As a mortgage provider, we want to contribute to the reduction of greenhouse gas emission in houses we finance. NN Bank offers financing options to make homes more sustainable, and has the ambition to issue green bonds and to source green mortgages for ourselves, and also for third parties. We will also encourage our customers to reduce emissions by making their homes more sustainable. In 2020, NN Bank introduced Woonnu, a 100% subsidiary of NN Bank. Woonnu is a new mortgage provider on the Dutch housing market with the aim of helping consumers make their homes more sustainable. Woonnu takes care of the implementation and rewards sustainable living.

The entire mortgage portfolio on NN Bank's balance sheet - EUR 20.5 billion, 95,563 houses - were included in the carbon footprint analysis.

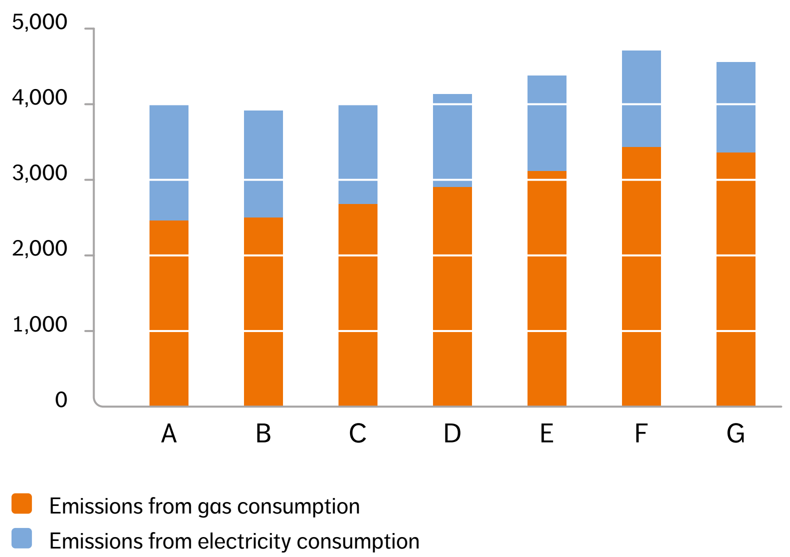
NN Bank portfolio: energy labels (in number of houses)



Emissions are calculated using houses' energy efficiency labels. We then estimate gas and electricity consumption based on these labels. In line with the 'Partnership for Carbon Accounting Financials'(PCAF) recommendations, this method covers both scope 1 and 2 emissions related to the energy usage at the property financed through the mortgage (i.e. the energy consumed by the building's occupant). These emissions are 100% attributed to NN Bank as the mortgage provider.

The figure above shows the energy label distribution of NN Bank's mortgage portfolio. Compared to 2019, the share of label A in our portfolio increased to 23% from 21%, labels B, C, D and E (taken together) remained unchanged, and labels F and G (taken together) declined to 19% from 21%. In our Woonnu portfolio, the percentage of houses with an energy label A is 91%.

CO_2 emissions per house per energy label in 2020 (in m³)



We calculate the emissions associated with the NN Bank mortgage portfolio by multiplying the number of houses with each energy label by the average CO_2 emissions per energy label in the Dutch market. In 2020, the absolute portfolio emissions amounted to a total of 396,546 tonnes CO_2. We also calculated relative emissions. These remained stable compared to 2019, and amounted to 20 tonnes CO_2 per EUR million invested and 4.1 tonnes CO_2 per house.

The method we used is based on theoretical average consumption data and not on actual consumption data. As such, the PCAF prefers that institutions work with actual consumption data, for instance directly from grid operators. The Dutch financial institutions that are part of the PCAF are looking into ways to either obtain this actual consumption data or improve the method of estimation.

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

Social responsibility

NN Bank focuses on helping people care for what matters most to them. Also for people who have financial difficulties. The Bank provides coaching and tools intended to generate more income, reduce living expenses, reduce monthly mortgage payments or a combination of all of these. NN Bank is involved in a coalition of creditors, the 'Schuldeisercoalitie'. In the coalition, large Dutch businesses work together to combat poverty in the Netherlands. The participating businesses abide by an ethical manifesto about how to deal with customers who encounter payment difficulties. NN Bank also takes part in the 'Nederlandse schuldhulproute' (the Dutch Debt Relief Route [NSR]). Various organisations are part of the NSR, whose aim is to identify people with potentially problematic debts at an early stage. Companies such as banks, health and other insurers, telecoms businesses, energy companies and housing corporations can identify actual or imminent payment arrears.

NN Bank employees are also given the opportunity to get involved in people's financial well-being outside of their own role at the Bank. Employees can spend time doing volunteer work, for example at LEF Coaching, a programme aimed at coaching people to help them find a job. Furthermore, employees have the option of requesting a donation for a charity that they support, through our foundation 'Stichting Wij en de Maatschappij' (Together for Society).

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

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

NN Bank is involved in a coalition of creditors, the 'Schuldeisercoalitie'. In the coalition, large Dutch businesses work together to combat poverty in the Netherlands.

Our employees

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

We want to be an attractive employer for current and new colleagues, which means that we offer more than just favourable financial remuneration. We also offer a motivating and healthy workplace where talent can develop, colleagues enjoy their work and where their efforts are valued and respected. This is conveyed in how we communicate with the labour market.

The average number of NN Bank employees (internal and external) rose slightly during 2020, from 1,159 FTEs (2019) to 1,179 FTEs (2020). Of these 1,179 FTEs, there were 883 internal FTE employees and 296 external FTE employees at year-end 2020.

For NN Bank, the health and safety of our colleagues and customers are the Bank's highest priority. In the Netherlands, NN follows guidelines of Foreign Affairs and of the Dutch National Institute for Public Health and the Environment (RIVM). To limit the spread of Covid-19 as much as possible, the NN Group Management Board requested that all colleagues work from home as of 16 March 2020. NN Bank has proven to be able to manage the transition to working from home, both for our customers and for the well-being of our employees. All employees will continue to work from home as much as possible, and at least until April 2021.

Covid-19 has had a major impact on the lives of many of our customers and employees. We continue to address this with utmost care and attention. In order to respond to the situation and to take the right measures where possible, two Covid-19 surveys on how colleagues experienced working from home were carried out among NN employees. The results for NN Bank were positive (8 out of 10 or higher). This is an average and does not apply to every employee. We continue to pay attention to every individual.

As of 1 September 2020, NN Bank's organisational structure was changed to take the next step in the 'agile way of working'. This is a relevant step in making the organisation faster and more agile, and in further improving the customer and intermediary operation. The core of this new structure is the autonomy of the 'self-organising teams'. The teams add as much value as possible to customers, intermediaries and stakeholders.

In the future, the agile way of working within NN Bank will continue to develop. We will continue to learn from our customers and each other, and continue to discover how we can make products and services more relevant for our customers.

The next steps in NN Bank's agile transformation are part of the broader 'Change is NOW Next Level' transformation programme. In this change programme, NN Bank is working on its future. Two pillars are an important precondition for success for the Bank:

- developing servant leadership within the organisation to maximise self-organising teams
- building autonomous, entrepreneurial and high-performing teams within all chains

NN Bank wants to be a bank that genuinely helps people care for what matters most to them. This calls for employees who want to constantly improve for the customer. Employee engagement is crucial, which is why NN Bank conducted employee engagement surveys in 2020. The engagement score in 2020 was 7.7, an increase since 2019 (7.5).

‘We want our colleagues to be proud ambassadors of our strategy and purpose.’

Building an agile NN with learning and behavioural change


This photo was taken under the strictest Covid-19 guideline and edited afterwards.

“

To realise our ambitions, we need to work on being an agile organisation that continuously learns, in addition to fulfilling our strategic themes.

Michiel Lotze – CTI manager
Laura Hikke – Business Manager

In line with its strategy and ambitions, NN wants to be a flexible organisation that’s continuously learning, and a leader in the employment of talented colleagues. That’s why NN Bank is working on the part of the strategy that concerns ‘Our people and organisation’, subdivided into three focus areas: leadership, agile transformation and cultural & behavioural change. This means that NN Bank will work (together) in a new way: more decisively, more efficiently and with more focus. The movement began with the introduction of a new strategy in 2018, and gained new strength in 2020.

Continuing the movement

We’ve been working to create a flexible organisation that’s continuously learning. What were the milestones in 2020? Michiel: “NN Bank was already an agile company, and our learning culture continues to develop. But we can do even more. We made progress by adapting our organisational structure to fit with the way of working that we’ve been developing for a while now. We have also formulated a description of the agile mind-set, and incorporated it into a competency profile.”

Laura: “We want to be flexible and keep learning. That will help us respond more quickly to changes in the world, and therefore respond to customer needs. The bar is getting higher and higher. The program to improve our corporate culture is a strategic initiative that contributes to this. The programme started a while ago, and in 2020 we continued to support colleagues and managers as they realise and embed behavioural change. And thereby achieve the strategic goals. We do this through both internal collaboration and in co-creation with an external organisation.”

Leadership development

There are three focus areas, and the first one is 'leadership'. What are the most important developments here? Laura: "The purpose of the competency profile we now apply is to help NN Bank managers further develop their skills in servant leadership. We've incorporated the agile mind-set into this profile, and identified the behaviours we need for agile transformation and the realisation of our strategy. There are five competencies: customer focus, results-driven, providing feedback, change agility and creating support and engagement."

"By the way, these desired behaviours apply to all NN Bank employees. We want to create an open culture that is in line with our values. And we want to enable our colleagues to perform at their best. Becoming an agile organisation and continuous learning doesn't happen on its own. We have to work on it together. We already got to work applying the profile at NN Bank in 2020."

Michiel: "We are focusing on two pillars in NN Bank's agile transformation: developing leadership that facilitates self-organising teams, and building autonomous and entrepreneurial, high-performing teams in all chains. Identifying and establishing formal roles was an important condition to achieving these goals."

> **"We've made progress by adapting our organisational structure to fit with the way of working that we've been developing for quite some time.**

Formal roles bring focus to agile transformation

And those formal roles were established in 2020? Michiel: "Yes. Since 1 September, we have had formalised roles and responsibilities that support an agile organisation. We now have formal roles for domain leads, product owners, customer journey managers, DevOps and agility experts, to name a few. This brings the needed focus to our work, and supports the principles of this change. In particular, the emergence of more self-organising teams, the delivery of value in short cycles, having more product focus and shifting to a more facilitative leadership style. We need to make sure that roles – and their impact – are unambiguous. That's the key to a successful agile transformation. It's not enough to be a new organisation on paper – we must also be able to deliver. Together, we examined the ways to offer agile teams the best support. We also conducted workshops to align team responsibilities. By following up with managers, for example, we gained great insights and value. And we've made impressive progress towards a single way of working."

Ambassadors in caring for what matters most

And what steps have been taken in cultural & behavioural change? Laura: "We already had a Strategic Leadership programme, in which employees themselves are responsible for rolling out the new strategy. Some great initiatives came out of this in 2019, like storytelling. We also named start/stop behaviours: a way to stimulate desired behaviour and reduce undesired behaviour, like micromanaging. With the new purpose and ambition in 2020, we brought extra power to cultural & behavioural change, which will help us accelerate. It's important to be an agile organisation that continuously learns, in addition to implementing strategic themes. Of course, the agile transformation is an important step, but our conduct is also crucial here. Things like giving feedback, working together and being entrepreneurial. We want every colleague to feel and experience the way in which they can make a difference themselves. We are going to inspire behavioural change in a fun, fresh way that connects our colleagues with each other. We put the programme together in 2020, and it will be rolled out in 2021. It includes live radio shows for all colleagues and a serious game. All so that, together, we all live and experience the purpose: helping people care for what matters most to them. And so that our colleagues become proud ambassadors who spread and promote this ideal."

> **"We want every colleague to experience the way in which they can make a difference.**

At the core of being agile

What are the plans for 2021? Michiel: "Our primary goal is to anchor the formalised roles and responsibilities into our standard way of working. In addition, one of the most important tasks will be to align the different plans and create an overarching plan that's driven by customer insights and supported by the right roles."

Laura: "We want to enable colleagues and managers to guide and realise the needed behavioural changes in a rapidly changing environment. Our goal is to make everyone aware of their own conduct, and the consequences of that conduct for them and for the organisation. In essence, this is what it's all about: being agile, becoming a learning organisation that can deal with uncertainty and change. And it will work. Because it's not something we will just tick off our list. We'll develop it together, spread it over a longer period of time and give it its due attention."

Conclusions for 2020 and looking ahead

For nearly every person and business, 2020 was an unprecedented and difficult year. Economic and social impact was enormous. In these challenging circumstances, NN Bank's priority was to ensure the health and well-being of its customers and employees.

Given the circumstances, NN Bank can look back on a solid performance in 2020. The Bank is proud of its record mortgage origination. The customer's rating of our services has increased, giving us a higher NPS. This is the result of the many efforts to further improve services around customer life events. Different initiatives, which contribute to the five strategic priorities, were introduced.

NN Bank launched a Soft Bullet Covered Bond Programme and managed to issue two benchmark long-term transactions and an additional semi-benchmark private placement that support the Bank's funding strategy.

NN Bank fulfilled its social role and broadened its business model with the introduction of the Woonnu green mortgage label. With the NOVA budgeting app, NN Bank introduced another new relevant service for customers.

To realise our ambitions in the coming years, NN Bank started the 'Change is NOW Next Level' programme, which contributes to the Bank's transformation.

NN Bank also finalised the integration of Delta Lloyd Bank. Now, all former Delta Lloyd Bank mortgage customers can utilise NN Bank services.

Outlook for 2021

Circumstances will bring uncertainties and difficulties in 2021, much as they did in 2020. NN Bank will continue to play a relevant role in ensuring the health and well-being of its customers and employees. In addition, NN Bank looks forward to a year with new challenges.

NN Bank's new purpose, ambition and strategic priorities will guide the Bank in the coming years. We have great ambitions for healthy growth, our business model, customer relationships, our role in society and the continued development of data-driven work. In 2021, NN Bank will continue to grow in these priorities.

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

Following on from 2020, during which the impact of Covid-19 on the financial markets was mitigated by the ECB and the Dutch government, the ECB is expected to maintain its presence in the financial markets for 2021 in order to reduce uncertainty. As a result, interest rates and spreads will remain low.

Appreciation for NN Bank employees

This year made us all realise the importance of our own safety and health, and that of our loved ones. We have all had to adapt to the new circumstances. The Management Board is extremely proud of how all employees handled this, all while working from home. The Management Board would like to express its thanks to all employees for their hard work, personal dedication and ongoing commitment, as well as for their achievements in 2020. The Management Board looks forward to working with all employees to serve our customers and therewith on NN Bank's success in 2021 and beyond.

Corporate governance

General

NN Bank has a two-tiered Board system, which comprises a Supervisory Board and a Management Board. The Audit & Risk Committee has been appointed from among the members of the Supervisory Board. Its task is to prepare the decisions of the Supervisory Board on audit issues, risk management and financial reporting. The Management Board determines, and is responsible for, NN Bank's mission, strategy, policy and objectives. It focuses on business continuity, taking into account a balanced assessment of the interests of customers, investors, employees and shareholders. The Supervisory Board advises the Management Board and supervises the Management Board's pursuit of policy and performance of its duties and the company's course of affairs, taking into account the interests of the company's stakeholders.

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

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

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

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

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

Board composition

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

NN Group strives to grow the diversity of its people and sets a target by having at least 40% women in senior management positions by 2023. These positions include the Management Board of NN Group and Management Board of NN Group minus 1 managerial positions. Talent management, succession planning and NN Group's Diversity & Inclusion Statement are key instruments in our approach and are part of the Human Capital Development processes of NN Group. Reference is made to the Diversity and inclusion section in the Annual Review of NN Group.

Should the current state and group size of a management board and/or a supervisory board give reason thereto, NN Group may initially aim to have a gender balance of at least one third men and at least one third women for such management board and/or supervisory board.

External auditor

On 29 May 2019, the general meeting of NN Group reappointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2020 through 2022. On 3 June 2019, the General Meeting reappointed KPMG Accountants N.V. as external auditor of NN Bank for the financial years 2020 through 2022. The external auditor attended the meetings of the Audit & Risk Committee of the Supervisory Board on 19 March and 17 August 2020 and 18 March 2021.

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

Legislation and regulations

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

Regulation, the Competitive Trading Act, the Telecommunications Act, the (Anti-) Money Laundering and Terrorist Financing (Prevention) Act, the Consumer Lending Act and the further regulation based on this legislation.

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

Banking Code

NN Bank has implemented the Banking Code and applies it. The Code helps to increase awareness of the role of banks and their responsibilities towards society. NN Bank devotes a great deal of attention to the Code in the Bank's operations, risk management and in its dealings with customers and other stakeholders. The Code can be downloaded from the Dutch Banking Association's website (www.nvb.nl). It applies to all banks that have been granted a banking license under the Financial Supervision Act. NN Bank publishes its full report regarding the 'Application of the Banking Code' on the Nationale-Nederlanden website (www.nn.nl).

Remuneration policy

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

NN Group's remuneration policies take into account all applicable regulations and codes, including the Banking Code.

The NN Group Remuneration Framework strikes a balance between the interests of its customers, employees, shareholders and society at large. It also aims at supporting the long-term objectives of NN Group.

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

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

The largely abandoned variable remuneration is predominantly linked to non-financial targets.

NN Group's Code of Conduct

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

Risk management organisation

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

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

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

Risk Appetite Framework

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

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

NN Bank's risk committees monitor usage of the risk limits per risk category.

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

Internal capital and liquidity adequacy

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

The ICLAAP and Supervisory Review & Evaluation Process (SREP) show that NN Bank has a robust capital and liquidity position.

Financial reporting process

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

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

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Loan Loss Provisioning (LLP) process

At NN Bank, Loan Loss Provisioning (LLP) is a quarterly process, carefully executed and well monitored and controlled. This process encompasses the following key phases:

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

The Hague, 25 March 2021

The Management Board

Report of the Supervisory Board

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

Meetings
In 2020, the Supervisory Board convened six times. Four ordinary meetings and two extra meetings were held. NN Bank's Audit & Risk Committee convened twice. Important items on the Supervisory Board's agenda were the full-year and half-year results, progress on implementation of strategy, the status of strategic projects, the Bank's Internal capital adequacy assessment (ICAAP) and liquidity adequacy assessment (ILAAP) submissions, risk appetite, balance sheet transactions and the strengthening of the internal organisation. In addition, the Supervisory Board discussed the future strategic options for the Bank, as well as the functioning of the external auditor, including its independence, with the Management Board. Supervisory Board members also attended permanent education sessions.

Committees
Until the establishment of an Audit & Risk Committee, the Supervisory Board, as a whole, performed the activities of said committee. In 2019, the Supervisory Board decided to establish a separate Audit & Risk Committee. This committee met twice in 2020. The Audit & Risk Committee is composed of two members of the Supervisory Board. The Executive Board, Internal Audit and the external auditor attended these meetings. The Audit & Risk Committee, and the Supervisory Board in its former role, discussed several topics: risk analysis, risk policies, risk appetite, market risk, capital and liquidity adequacy, operational risk, compliance risk and strategic risk. The internal and external audit plan was also approved and monitored, and the progress made in the resolution of audit issues, including IT and compliance-related matters, was discussed. Furthermore, key financials, financial reporting, reports of the specific audits of the internal auditors and the external auditor and reports of DNB and AFM were discussed.

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

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

Functioning of the Management Board
The Supervisory Board performed its annual review of the functioning of the Management Board in 2020. The Supervisory Board concluded that the Management Board was capable and effective. The Management Board met the Supervisory Board's expectations.

Composition of the Management Board
The composition of the NN Bank Management Board did not change in 2020. Please refer to page 3 of this Annual Report for the current composition.

Composition of the Supervisory Board
Members of the Supervisory Board are selected based on a profile that includes the required professional background, education, international experience, skills, diversity and independence. The composition of the Supervisory Board is such that its members can perform their duties properly because of the appropriate mix of experience and expertise. In 2020, two members of the Supervisory Board resigned. The Supervisory Board now consists of five members.

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

Annual Report, Banking Code and dividend
The Management Board has prepared the Annual Report and discussed it with the Supervisory Board. The Annual Report will be submitted for adoption at the 2021 annual general meeting. At the 2021 annual general meeting, a final dividend over 2020 of EUR 12.0 million will be proposed.

Appreciation for the Management Board and NN Bank's employees
We would like to express our gratitude to the Management Board and to all employees for their hard work, personal dedication and ongoing commitment, as well as for their achievements in 2020, especially in view of the challenges of the Covid-19 pandemic.

The Hague, 25 March 2021

The Supervisory Board

Conformity statement

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

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

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

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

- The Nationale-Nederlanden Bank N.V. 2020 Annual accounts, as referred to in section 2:361 of the Dutch Civil Code including the relevant additional information as referred to in section 2:392 paragraph 1 of the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of Nationale-Nederlanden Bank N.V. and the entities included in the consolidation taken as a whole
- The Nationale-Nederlanden Bank N.V. 2020 Report of the Management Board, as referred to in section 2:391 of the Dutch Civil Code, gives a true and fair view of the position at the balance sheet date, and the development and performance of the business during the financial year 2020 of Nationale-Nederlanden Bank N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks Nationale-Nederlanden Bank N.V. is confronted with

The Hague, 25 March 2021

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

Consolidated annual accounts

Consolidated balance sheet

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

	notes	2020	2019
Assets			
Cash and balances at central banks	2	2,585,528	1,660,465
Amounts due from banks	3	423,195	658,432
Financial assets at fair value through profit or loss:			
– non-trading derivatives	4	57,995	88,198
Investment securities	5	933,334	2,027,326
Loans	6	21,255,396	20,003,922
Intangible assets	7	24,689	13,683
Other assets	8	217,691	210,778
Total assets		**25,497,828**	**24,662,804**
Liabilities			
Amounts due to banks	9	438,583	314,053
Customer deposits and other funds on deposit	10	15,742,735	15,078,921
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives	11	138,737	335,183
Other borrowed funds	12	1,260,000	1,273,000
Other liabilities	13	294,685	273,652
Deferred tax liabilities	25	11,603	14,806
Provisions	14	6,402	5,705
Debt securities issued	15	6,384,373	6,274,411
Subordinated debt	16	85,000	85,000
Total liabilities		**24,362,118**	**23,654,731**
Equity			
Shareholders' equity		1,135,710	1,008,073
Total equity	17	**1,135,710**	**1,008,073**
Total equity and liabilities		**25,497,828**	**24,662,804**

References relate to the notes starting on page 47. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account

Amounts in thousands of euros, unless stated otherwise

Consolidated profit and loss account

	notes	2020	2020	2019	2019
Interest income		618,471		631,165	
Interest expenses		343,149		383,309	
Interest result	18		275,322		247,856
Gains and losses on financial transactions and other income	19		19,167		41,398
– gross fee and commission income		116,894		111,313	
– fee and commission expenses		14,750		14,464	
Net fee and commission income	20		102,144		96,849
Valuation results on non-trading derivatives	21		6,496		-6,457
Total income			**403,129**		**379,646**
Impairment charges on financial instruments			3,511		-1,108
Staff expenses	22		116,557		113,355
Regulatory levies	23		20,377		17,315
Other operating expenses	24		93,385		93,759
Total expenses			**233,830**		**223,321**
Result before tax			**169,299**		**156,325**
Taxation	25		44,041		40,154
Net result			**125,258**		**116,171**

Consolidated statement of comprehensive income

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of comprehensive income

		2020		2019
Net result		**125,258**		**116,171**
– unrealised revaluations investment securities at fair value through other comprehensive income	10,721		4,329	
– realised gains or losses transferred to the profit and loss account	-8,411		-5,801	
Items that may be reclassified subsequently to the profit and loss account		2,310		-1,472
Total other comprehensive income		**2,310**		**-1,472**
Total comprehensive income		**127,568**		**114,699**
Comprehensive income attributable to:				
Shareholder of the parent		127,568		114,699
Total comprehensive income		**127,568**		**114,699**

Consolidated statement of cash flows

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of cash flows

	notes	2020	2019
Result before tax		169,299	156,325
Adjusted for:			
– amortisation of intangible assets	7	2,051	1,511
– amortisation of mortgage premium	6	39,586	44,391
– modifications	6	-3,399	-6,057
– net impairment charges on financial instruments		3,511	-1,108
– net addition to provisions	14	6,284	5,756
– fair value change on hedged items	6	-292,917	-393,473
– accrued interest	8/13	-5,345	-2,367
– amortisation premium investment securities	5	20,680	20,974
– increase (decrease) deferred tax	25	-3,939	-2,945
– change in employee share plans	17	69	141
– other	17	0	37
Taxation paid		-51,924	-32,065
Changes in:			
– amounts due to banks	9	124,530	49,553
– non-trading derivatives	4/11	-166,244	128,936
– loans	6	-2,099,326	-2,152,762
– sale of mortgages	6	1,135,220	947,979
– other assets	8	3,187	-48,484
– customer deposits and other funds on deposit	10	663,813	602,482
– other liabilities	13	18,576	34,284
Net cash flow from operating activities		**-436,288**	**-646,892**
Investments and advances:			
– investment securities	5	-688,613	-1,720,414
– intangible assets	7	-13,057	-7,138
Disposals and redemptions:			
– investment securities	5	1,765,364	738,715
Net cash flow from investing activities		**1,063,694**	**-988,837**
Proceeds from issuance of subordinated debt	16	30,000	40,000
Proceeds from repayment of subordinated debt	16	-30,000	-52,000
Proceeds from issuance of debt securities	15	1,256,609	2,687,884
Repayments of debt securities	15	-1,181,189	-1,381,584
Proceeds from other borrowed funds	12	672,000	1,183,000
Repayments of other borrowed funds	12	-685,000	-240,000
Capital contribution	17	0	2,587
Dividend paid	17	0	-82,100
Net cash flow from financing activities		**62,420**	**2,157,787**
Net cash flow		**689,826**	**522,058**

Interest included in net cash flow from operating activities

	2020	2019
Interest received	608,369	629,042
Interest paid	-337,102	-383,865
Interest received and paid	**271,267**	**245,177**

Cash and cash equivalents

		2020	2019
Cash and cash equivalents at beginning of the period		2,318,897	1,796,839
Net cash flow		689,826	522,058
Cash and cash equivalents at end of the period	2/3	**3,008,723**	**2,318,897**

		2020	2019
Cash and balances at central banks	2	2,585,528	1,660,465
Amounts due from banks	3	423,195	658,432
Cash and cash equivalents at end of the period		**3,008,723**	**2,318,897**

Consolidated statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Consolidated statement of changes in equity (2020)

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

Consolidated statement of changes in equity (2019)

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

Notes to the Consolidated annual accounts

Amounts in thousands of euros, unless stated otherwise

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

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

1 Accounting policies

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

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

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

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

Upcoming changes in IFRS-EU

There are no upcoming changes in IFRS-EU that were issued by the IASB, are effective after 2020 and are material to NN Bank.

Change in accounting policies

The revisions to IAS 1 and IAS 8 are amendments that sharpen the definition of materiality for the inclusion of information in the annual accounts and harmonise it within the Conceptual Framework and the different standards. The amended standards were endorsed by the EU in November 2019 and are effective as of 1 January 2020. These changes have no material effects on NN Bank's Consolidated annual accounts.

Amendments to IAS 39, IFRS 9 and IFRS 7 in relation to the interest rate benchmark reform are effective as of 1 January 2020. These amendments provide relief and eliminate the impact, if any, of the interest rate benchmark reform on derivatives qualifying for hedge accounting under IFRS. NN Bank adopted these amendments as of 1 January 2020. There was no material impact on NN Bank as a result of these amendments.

Additional amendments regarding actual interest rate benchmark reforms were issued in August 2020 and are effective as of 1 January 2021. The implementation of these amendments is not expected to have a significant impact on NN Bank.

NN Bank has aligned the definition of default for regulatory purposes with the definition of 'credit-impaired' financial assets under IFRS 9 (Stage 3). As per 1 January 2021, European Banking Authority (EBA) Guidelines on the application on the definition of default and EBA Regulatory Technical Standards (RTS) on the materiality threshold for credit obligations past due become effective. In order to comply, NN Bank has updated its definition of default for regulatory and IFRS 9 purposes in 2020. Reference is made to the paragraph 'New definition of default' within the Accounting Policies. From an accounting perspective, this represents a change in accounting estimate. The impact of this change is disclosed in Note 6 'Loans'.

Critical accounting policies and significant estimates

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

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

Impairments

IFRS 9 contains multiple impairment models for different portfolios. These are applied to all financial assets measured at amortised cost and at fair value through 'Other comprehensive income' (Equity). The expected-loss impairment model requires at balance sheet date

Notes to the Consolidated annual accounts Continued

accounting for expected credit losses within the 12 months following the time when financial instruments are first recognised, and recognising full lifetime expected losses in case of a significant increase in credit risk. For further details on the accounting policy pertaining to this estimate, reference is made to 'General accounting policies' under the heading 'Impairment'.

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is based on unadjusted quoted market prices at the balance sheet date, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. When an exchange price is not available, market prices may be obtained from independent market vendors, brokers or market-makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some cases, positions are marked at mid-market prices. For further details on the accounting policy pertaining to this estimate, reference is made to 'General accounting policies' under the heading 'Fair value of financial assets and liabilities'.

Covid-19 pandemic

Since early 2020, the Covid-19 pandemic has been causing significant disruption to society and the global economy, impacting NN Bank, its employees, its customers and its suppliers. Financial markets were severely impacted by significant volatility in interest rates, equity prices and spreads, and the global economy has been significantly impacted. Governments and central banks worldwide are responding to this crisis with aid packages and further supportive measures. At the date of this report, it is too early to determine the structural impact of the Covid-19 pandemic on results, financial markets and longer term assumptions, if any. NN Bank is constantly monitoring the developments and the (potential) impact on the Bank. The most significant risks that NN Bank is facing in this context are related to funding risk in the wholesale funding markets (including interest rates and spreads), credit risk in the retail mortgage and consumer lending market and operational risk (continuity of business processes). The Notes to the Consolidated annual accounts include extensive disclosure on the exposure to such risks and the risk management thereof. In order to mitigate these risks, NN Bank launched a new Soft Bullet Covered Bond Programme to benefit from large investor demand for this type of funding and the opportunity to issue longer dated bonds that match the duration of our assets. Furthermore, NN Bank issued a retained RMBS, Hypenn VII, which can be used as collateral for ECB funding and/or alternative secured funding transactions. 'Payment holidays' (postponement of interest and/or principal payments) are being offered on an individual basis to retail borrowers who face temporary payment difficulties on their mortgage loans or consumer loans. NN Bank has established, and put into operation a business continuity plan to help ensure the continuity of its businesses, the well-being of its staff and its ability to support its customers, whilst maintaining financial and operational resilience. The actual impact will be mainly dependent on the impact of subsequent waves of the virus, developments in the financial markets and the speed and shape of the Dutch economy's recovery.

The preparation of the Consolidated annual accounts requires management to make judgements, estimates and assumptions that impact the application of the accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Due to the Covid-19 pandemic, the assumptions in expected credit losses on loans, e.g. macro-economic scenarios, were updated to reflect the credit risk impact. Reference is made to Note 6 'Loans'. Management has assessed that the Covid-19 pandemic has no impact on other judgements, estimates and assumptions.

General accounting policies

Consolidation

NN Bank comprises Nationale-Nederlanden Bank N.V. and all its subsidiaries. The Consolidated annual accounts of NN Bank comprise the accounts of Nationale-Nederlanden Bank N.V. and all entities over which NN Bank has control. NN Bank has control over an entity when NN Bank has existing rights that give it the ability to direct the relevant activities, and is exposed to, or has rights to, variable returns from its involvement with the entity. NN Bank has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between NN Bank and the entity, and considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

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

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

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

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

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

Foreign currency translation

Functional and presentation currency

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

Notes to the Consolidated annual accounts Continued

Transactions and balances
NN Bank does not conduct transactions in foreign currency.

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

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

Realised gains and losses on investments are determined as the difference between the sales proceeds and (amortised) cost. For debt securities, the cost is determined by specific identification (generally First In First Out [FIFO]).

Classification and measurement financial assets
IFRS 9 contains a classification and measurement approach for financial assets that reflect the business model in which assets are managed, as well as their cash flow characteristics. Financial assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any impairment losses. Transaction costs (including qualifying fees and commissions) are part of the amortised cost. Subsequent measurement of financial assets depends on the classification, driven by cash flow characteristics and the business model in which an asset is held. The standard contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL).

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

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

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

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

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

Impairment
Measurement of expected credit losses
The recognition and measurement of impairments under IFRS 9 is forward-looking. The IFRS 9 impairment requirements apply to all financial assets measured at amortised cost and at fair value through 'Other comprehensive income' (Equity). Initially, a provision is required for credit losses expected within the next 12 months. This is referred to as 'Stage 1'. If there is a significant increase in credit risk between the moment of origination and the reporting date, but the exposure is not in default, the exposure is in 'Stage 2'. If the exposure is in default, this is referred to as 'Stage 3'. For both 'Stage 2' and 'Stage 3', a provision is required for expected credit losses over the remaining lifetime of the financial asset. The lifetime expected credit losses are calculated based on different macro-economic scenarios (up, neutral, down) with individual weights for the probability that these scenarios will occur. These probabilities are set at 80% for the neutral scenario and at 10% for both the up and down scenario. These probability weightings remain unchanged compared to 2019.

Inputs into measurement of expected credit losses
As a starting point, NN Bank uses the components of an Internal Ratings-Based Approach to calculate minimum required capital based on requirements for regulatory purposes:

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

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

Notes to the Consolidated annual accounts Continued

Definition of default

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

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

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

New definition of default

Per 1 January 2021, the new guidelines on the definition of default (EBA-GL-2016-07) became effective. The new definition of default is effective for the loan loss provisions calculation and stage classification at year-end 2020. The new definition of default will be applied as of 1 January 2021 in the delinquency bucketing and forbearance classification.

In line with the new regulations, a client at NN Bank is credit-impaired, non-performing and in default if:

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

The 'days past due' counter will be based on the number of days between the reporting period and the date two regulatory prescribed materiality thresholds have been breached. The days past due counter starts counting when the arrears amount is greater than or equal to EUR 100 and the arrears amount is greater than 1% of the carrying value.

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

Purchased or Originated Credit-Impaired (POCI) assets

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

Credit risk grades

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

Determination significant increase of credit risk

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

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

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

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

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

Term structure of default probabilities

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

Notes to the Consolidated annual accounts Continued

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

Forward-looking information

IFRS 9 adjusted input parameters are estimated over the remaining lifetime of the asset. A macro-economic forecast is used to estimate the future development of PD and LGD. The following macro-economic time series are taken into consideration:

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

Unemployment rate

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

Gross domestic product

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

Housing prices

Calculation of housing price index is based on the house price index of existing homes. The house price index of existing homes is based on the Dutch Land Registry Office's (Kadaster) registration of sales of homes in the Netherlands. The house price index is corrected for various characteristics of the homes, such as size and location.

Consumer lending

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

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

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

Non-retail book

NN Bank applies a simple approach to calculate the ECL for its investments in bonds, securitisations and other similar publicly traded securities. In determining the level of sophistication of the selected approach, NN Bank considered entity factors (including: credit quality, size, business model, complexity, cross-border activity, use of SA or IRB approach) and portfolio factors (including: complexity, materiality and available data). Given these factors, NN Bank concluded that it is appropriate to use a simple approach to calculate ECLs for non-retail assets.

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

Loan loss provisions do not apply to derivatives. The rationale is that all interest rate swaps are cleared through a Qualified Central Clearing Party, through two separate clearing brokers. In addition, the total credit risk exposure, consisting of initial/variation margin and the potential future exposure, is reported with a regulatory risk weight of 2%. Hence, the risk on this exposure is deemed to be very low.

Private banking portfolio

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

Notes to the Consolidated annual accounts Continued

Revenue from contracts with customers

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

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

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

A contract regarding origination of mortgages contains a significant financing component, since the payment of the origination fee is done over the lifetime of mortgages, even though the performance obligation is satisfied at a point in time. The fee is split into a consideration for the origination service and a consideration for the financing service. In the profit and loss account, both fees are presented separately. The consideration for the origination service is presented in the line item 'Brokerage and advisory fees' under 'Net fee and commission income' as from the second half-year 2020; for the related disclosure update, reference is made to Note 'Gains and losses on financial transactions and other income'. The fee for the financing service is presented under 'Interest result'.

Partial transfer of mortgage loans

NN Bank and related parties are involved in the issuance of savings mortgages. Initially, one party recognises the full savings mortgage loan. The client saves the total amount to redeem the savings mortgage at maturity date at the other party. If the savings amount increases, consequently, the share of ownership of the savings mortgage by the other party increases. NN Bank has arrangements to transfer savings mortgage parts. In certain arrangements, NN Bank receives the mortgage parts. In other arrangements, NN Bank transfers the mortgage parts. Transferred mortgage parts are recognised and derecognised at their nominal value. Following these arrangements, the changes are added or deducted from the amount of 'Loans'.

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

Offsetting of financial assets and financial liabilities

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

Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are based on unadjusted quoted market prices at the balance sheet date, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. The quoted market price used for financial assets held by NN Bank is the current bid price. The quoted market price used for financial liabilities is the current offer price. Where an exchange price is not available, market prices may be obtained from external market vendors, brokers or market-makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some cases, positions are marked at mid-market prices. When markets are less liquid, there may be a range of prices for the same security from different price sources. Selecting the most appropriate price requires judgement, and could result in different estimates of the fair value.

For certain financial assets and liabilities, quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques, based on market conditions existing at each balance sheet date. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account.

Valuation techniques are subjective in nature, and significant judgement is involved in establishing the fair value for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair value.

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

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value, not considering any impairments or loan loss provisions, for the relevant financial assets. For the off-balance-sheet items, the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 32 'Contingent liabilities and commitments' for these off-balance-sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. As a large part of the loans on NN Bank's balance sheet consists of loans secured by mortgages, the actual credit exposure is significantly lower. The manner in which NN Bank manages credit risk and determines credit risk exposures is explained in Note 39 'Risk management'.

Notes to the Consolidated annual accounts Continued

Government grants
NN Bank received government grants for its participation in the Targeted Longer-Term Refinancing Operations III programme in 2020 (TLTRO III). This programme has a maturity of three years and an option to repay early. Government grants are recognised in the profit and loss account on a systematic basis over the periods that the related expenses, for which it is intended to compensate, are recognised. In the case of an income-related grant, the grant is deducted from the related expense. Reference is made to Note 18 'Interest result'.

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

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

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

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

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

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

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

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

Interest income and expenses
Interest income and expenses are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability, and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability. When calculating the effective interest rate, NN Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset, or a group of similar financial assets, has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account, except for interest income and expenses on derivatives for which no hedge accounting is applied. The latter is classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these derivatives.

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

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

Notes to the Consolidated annual accounts Continued

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

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 4, 6 and 11)

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

Derivatives and hedge accounting

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

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

IFRS 9 and hedge accounting

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

Fair value hedge accounting

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

Non-trading derivatives that do not qualify for hedge accounting

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

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

Investment securities (Note 5)

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

Loans (Note 6)

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

NN Bank has amended its mortgage loans pricing system, which leads to an automatic adjustment of the mortgage interest rate if the loan moves into a lower risk premium category. The 'modifications' under 'Loans' and 'Interest result' relate to the loan-to-value (LTV) charge resulting from the estimated impact of the modification of outstanding mortgage loans as a result of this amended pricing system. In this

Notes to the Consolidated annual accounts Continued

estimation, the gross carrying amount of mortgage loans is recalculated as the present value of modified contractual cash flows that are discounted at the original effective interest rate taking into account client behaviour, such as prepayment assumptions and client response assumptions.

Intangible assets (Note 7)

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

Intangible assets are reviewed for impairment at least annually if an impairment trigger is identified and when the asset is not yet ready for intended use. They are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

Other assets (Note 8)

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

Customer deposits and other funds on deposit (Note 10)

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

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

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

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

Provisions (Note 14)

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

Net fee and commission income (Note 20)

Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts when the service is provided.

Notes to the Consolidated annual accounts Continued

2 Cash and balances at central banks

Cash and balances at central banks

	2020	2019
Amounts held at central banks	2,585,528	1,660,465
Cash and balances at central banks	**2,585,528**	**1,660,465**

'Amounts held at central banks' reflects the demand balances. 'Amounts held at central banks' includes a mandatory reserve deposit of EUR 87.1 million (2019: EUR 84.9 million), which is not freely disposable to NN Bank. Reference is made to Note 30 'Assets not freely disposable'. The remainder of 'Amounts held at central banks' is at free disposal of NN Bank.

3 Amounts due from banks

Amounts due from banks

	2020	2019
Bank balances	87,275	131,354
Collateral posted	335,920	527,078
Amounts due from banks	**423,195**	**658,432**

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

'Collateral posted' concerns posted collateral regarding centrally cleared swaps. The decrease in 'Collateral posted' from EUR 527.1 million to EUR 335.9 million includes a partial settlement as a result of the fact that during 2020, NN Bank converted its centrally cleared interest rate derivative contracts with one clearing member from collateralised-to-market (CTM) to settled-to-market (STM). The impact of this conversion to STM per 31 December 2020 amounts to EUR 321.1 million. Reference is made to Note 27 'Derivatives and hedge accounting'. 'Collateral posted' is not freely disposable.

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2020	2019
Derivatives held for fair value hedge accounting	34,187	33,757
Balanced guaranteed swaps	21,916	49,871
Other non-trading derivatives	1,892	4,570
Non-trading derivatives	**57,995**	**88,198**

For further clarification on 'Derivatives held for fair value hedge accounting', reference is made to Note 27 'Derivatives and hedge accounting'.

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

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

5 Investment securities

Investment securities by type 31 December 2020

	AC[1]	FVOCI[2]	2020
Government bonds	225,299	0	225,299
Covered bonds	0	603,358	603,358
Corporate bonds	2,450	0	2,450
Financial institution bonds	62,046	12,654	74,700
Asset backed securities	27,611	0	27,611
Investment securities - before loss provisions	**317,406**	**616,012**	**933,418**
Investment securities loss provisions	-48	-36	-84
Investment securities - after loss provisions	**317,358**	**615,976**	**933,334**

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

Notes to the Consolidated annual accounts Continued

Investment securities by type 31 December 2019

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

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

Changes in investment securities

	2020	2019
Investment securities – opening balance	2,027,803	1,068,941
Additions	688,613	1,720,414
Amortisation	-20,680	-20,974
Changes in unrealised revaluations	3,046	-1,863
Disposals and redemptions	-1,765,364	-738,715
Investment securities – closing balance	**933,418**	**2,027,803**

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

6 Loans

Loans by type 31 December 2020

	AC	FVTPL[1]	2020
Loans secured by mortgages, guaranteed by public authorities	5,620,012	496	5,620,508
Loans secured by mortgages[2]	14,931,859	3,151	14,935,010
Consumer lending	136,620	0	136,620
Other loans	306,749	0	306,749
Group companies	281,773	0	281,773
Loans – before loan loss provisions	**21,277,013**	**3,647**	**21,280,660**
Loan loss provisions	-25,264	0	-25,264
Loans	**21,251,749**	**3,647**	**21,255,396**

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

Loans by type 31 December 2019

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

1 Including Purchased or Originated Credit-Impaired loans

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

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

Notes to the Consolidated annual accounts Continued

Loans by stage 31 December 2020

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

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

Loans by stage 31 December 2019

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

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

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

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

Changes in loans by stage

	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit-Impaired	No allocated stage[1]	2020	2019
Loans – opening balance	18,756,070	359,466	84,078	34,594	790,326	20,024,534	18,471,414
Mortgage portfolio transfer	413,208	16,613	3,525	3,984	0	437,329	572,172
Partial transfer of mortgage loans	13,895	0	0	0	0	13,895	35,182
Origination	4,297,223	95,411	2,465	0	0	4,395,099	3,775,768
Sale of mortgages	-1,106,600	-27,933	-687	0	0	-1,135,220	-947,979
Amstelhuys and OHF merger 1 December 2019	0	0	0	0	0	0	30,312
Premium new mortgages	0	0	0	0	20,517	20,517	18,742
Amortisation mortgage premium	0	0	0	723	-40,309	-39,586	-44,391
Fair value change hedged items	0	0	0	0	327,459	327,459	393,473
Other changes[2]	-54,782	26,812	40,914	-28	17,288	30,204	-61,658
Modifications	0	0	0	0	3,399	3,399	6,057
Redemptions	-2,610,042	-126,557	-34,682	-3,490	0	-2,774,770	-2,213,516
Transfers to[3]:							
– Stage 1	0	-161,571	-6,426	0	0	-167,997	-158,689
– Stage 2	-180,710	0	-15,932	0	0	-196,644	-224,441
– Stage 3	-160,095	-40,946	0	0	0	-201,041	-36,943
Transfers from[3]:							
– Stage 1	0	175,516	149,744	0	0	325,260	213,423
– Stage 2	156,890	0	40,126	0	0	197,015	137,804
– Stage 3	6,172	15,033	0	0	0	21,205	57,804
Loans – closing balance	**19,531,229**	**331,844**	**263,124**	**35,783**	**1,118,680**	**21,280,660**	**20,024,534**

1 'No allocated stage' relates mainly to mortgage premium and fair value changes of hedged items.
2 'Other changes' mainly reflects the differences that result from 'Transfers to' / 'Transfer from', which are based on YtD and other movements which are based on MtD.
3 'Transfers to' shows the outflow from the stage in the column to the stage stated on row level. 'Transfers from' shows the inflow from stage on row level to the stage in the column. Differences between 'Transfers to' and 'Transfers from' arise due to changes in balance amount between the moment of outflow and inflow.

In 2020, the mortgage portfolio transfer from ING Bank amounted to EUR 421 million. As at 31 December 2020, both parties had already determined to transfer EUR 72 million in mortgage loans for the first four months of 2021. As settlement date accounting is applied, these mortgages are not recognised in the balance sheet as at 31 December 2020.

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

The Stage 3 balance increased due to the new guidelines on the definition of default (reference is made to page 50 on the definition of default).

Notes to the Consolidated annual accounts Continued

In 2020, there were no 'Sale of mortgages' to related parties NN Non-life and NN Belgium (2019: EUR 144 million). All sales in 2020 were sales to NN Dutch Residential Mortgage Fund (DRMF) (2019: EUR 804 million).

'Modifications' relates to the impact of the modification of the outstanding mortgage loans as a result of the amended interest rate pricing system for NN and former Delta Lloyd mortgage portfolios.

Purchased or Originated Credit-Impaired loans (POCI)

	2020	2019
POCI - opening balance	34,594	35,055
Mortgage portfolio transfer	3,984	3,047
Amortisation value adjustment	723	461
Redemptions	-3,490	-3,935
Unfavourable changes in credit quality	-547	-337
Favourable changes in credit quality	519	303
POCI - closing balance	**35,783**	**34,594**

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

Loan loss provisions by type

	2020	2019
Loans secured by mortgages	13,783	8,658
Consumer lending	11,481	11,954
Loan loss provisions by type	**25,264**	**20,612**

In 2020, the loan loss provisions increased by EUR 4.7 million to EUR 25.3 million, mainly due to the new regulatory guidelines on 'definition of default'. The Covid-19 pandemic leads to a limited increase in provisions. The increase in provisions is partly offset by a strong housing price increase in 2020 (8.1%).

Loans secured by mortgages
After an internal review, individual borrowers who face temporary payment difficulties on their mortgage loans are offered a 'payment holiday' for interest and principal payments for a maximum period of six months. The treatment of these payment holidays is in line with the impairment policies. The Bank has assessed that offering such payment holidays, taking into account the initial assessment conducted before the payment holiday is granted, qualifies as a Significant Increase in Credit Risk (SICR) under IFRS. Consequently, clients who are offered a payment holiday are classified in Stage 2. The number of payment holidays offered in 2020 in relation to the active mortgage portfolio is limited to 509, representing 0.8% of the total mortgage loans outstanding. At the end of 2020, 82% of these customers had recovered, 14% had an active payment holiday, and 4% showed structural payment problems, for which the NN Bank arrears management policy applies.

Macro-economic scenarios
Furthermore, NN Bank has updated its macro-economic scenarios. The assumptions on future macro-economic variables such as GDP, unemployment and housing prices are used as input in the calculation of the expected credit losses under IFRS 9, where it is required to use forward-looking information. Various institutions published adjusted economic outlooks and scenarios, which include the possible impacts of the Covid-19 pandemic on the economy. The Bank has taken into account the most recent scenarios as published by the CPB, IMF and DNB. Based on the updated forecasts, management applied a so-called 'U-shape' scenario whilst applying a recovery period of two years. The scenario weighting (neutral variant 80%, upside 10%, downside 10%) has remained unchanged as compared to year-end 2019. These assumptions will be assessed on a continuing basis and adjusted if necessary, based on the further developments of Covid-19. To provide an indication of the expected credit losses' sensitivity to the macro-economic environment, the table also shows the impact on mortgages and consumer lending ECL of applying a 100% weighting to each scenario.

In 2020, Covid-19 resulted in a large contraction of the Dutch economy. NN Bank expects the economy to partially rebound, with a GDP growth of 2.5% in 2021 in the neutral variant. In later years, NN Bank expects lower growth. The unemployment rate is expected to increase to 6% in 2021 in the neutral variant. Despite the crisis, housing prices still increased in 2020. This is mainly due to low supply. As this will not change in the coming years, NN Bank does not expect housing prices to drop in the neutral variant. In the years afterwards, NN Bank expects prices again to increase.

Scenario variant	Weighting	Macro-economic variable	2021	2022	2023	Long Term Rate	Unweighted ECL	Weighted ECL
		GDP growth	2.5%	4.8%	3.3%			
Up	10%	Unemployment	4.2%	3.3%	3.7%		20,861	
		Housing Price index growth	11.1%	15.7%	8.8%			
		GDP growth	2.5%	1.8%	1.8%	1.8%		
Neutral	80%	Unemployment	6.0%	5.4%	4.8%	4.1%	24,469	25,264
		Housing Price index growth	0.0%	1.9%	1.9%	1.9%		
		GDP growth	-6.7%	-9.4%	-3.8%			
Down	10%	Unemployment	6.0%	7.0%	5.5%		36,024	
		Housing Price index growth	0.0%	-4.2%	-1.1%			

Notes to the Consolidated annual accounts Continued

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

	Stage 1 12-month ECL non-credit impaired	Stage 2 Lifetime ECL non-credit impaired	Stage 3 Lifetime ECL credit impaired	Purchased or Originated Credit-Impaired	2020	2019
Loan loss provisions – opening balance	2,130	1,474	4,619	435	8,658	10,701
Addition (release from) to the loan loss provisions	-313	500	-1,305	168	-950	589
Changes in models and methodologies[1]	-70	-68	-250	-23	-411	0
Transfers to[2]:						
– Stage 1	0	-574	-560		-1,134	-3,919
– Stage 2	-74	0	-1,029		-1,103	-1,505
– Stage 3	-57	-293	0		-350	-97
Transfers from[2]:						
– Stage 1	0	1,061	5,780		6,841	1,862
– Stage 2	26	0	2,100		2,126	710
– Stage 3	10	96	0		106	317
Loan loss provisions – closing balance	**1,652**	**2,196**	**9,355**	**580**	**13,783**	**8,658**
Write-offs	0	0	719	0	719	1,578
Recoveries	0	0	-901	0	-901	-556

1 'Changes in models and methodologies' shows the change in provisions due to updates of the model parameters.
2 'Transfers to' shows the outflow from the stage in the column to the stage stated on row level. 'Transfers from' shows the inflow from stage on row level to the stage in the column. Differences between 'Transfers to' and 'Transfers from' arise because the provision changes as a result of the change in stage.

Changes in loan loss provisions by stage – Consumer lending

	Stage 1 12-month ECL non-credit impaired	Stage 2 Lifetime ECL non-credit impaired	Stage 3 Lifetime ECL credit impaired	2020	2019
Loan loss provisions – opening balance	1,137	2,438	8,379	11,954	17,773
Addition (release from) to the loan loss provisions	-203	-984	-251	-1,438	-8,067
Changes in models and methodologies[1]	-224	-222	-49	-495	845
Transfers to[2]:					
– Stage 1	0	-658	-197	-855	-716
– Stage 2	-49	0	-50	-99	-294
– Stage 3	-54	-419	0	-473	-454
Transfers from[2]:					
– Stage 1	0	714	972	1,686	2,035
– Stage 2	46	0	1,120	1,166	784
– Stage 3	8	27	0	35	48
Loan loss provisions – closing balance	**661**	**896**	**9,924**	**11,481**	**11,954**
Write-offs	0	0	1,115	1,115	6,864
Recoveries	0	0	-1,280	-1,280	-683

1 'Changes in models and methodologies' shows the change in provisions due to updates of the model parameters.
2 'Transfers to' shows the outflow from the stage in the column to the stage stated on row level. 'Transfers from' shows the inflow from stage on row level to the stage in the column. Differences between 'Transfers to' and 'Transfers from' arise because the provision changes as a result of the change in stage.

In 2020, the loan loss provisions for mortgages increased by EUR 5.1 million to EUR 13.8 million mainly due to the new regulatory guidelines on 'definition of default'. The Covid-19 pandemic led to a limited increase in provisions. The increase in provisions is partly offset by a strong housing price increase in 2020 (8.1%).

For consumer lending, the increase in provisions due to the new regulatory guidelines on 'definition of default' and the Covid-19 pandemic is offset by a decrease in the size of the portfolio and a model update. As a result, provisions for consumer lending decreased by EUR 0.5 million to EUR 11.5 million.

Total write-offs minus recoveries were low (EUR -0.3 million) due to low unemployment and a strong housing price increase in 2020.

7 Intangible assets

Intangible assets

	2020	2019
Intangibles	**24,689**	**13,683**

	2020	2019
Intangibles – opening balance	13,683	8,056
Additions	13,057	7,138
Amortisation	-2,051	-1,511
Intangibles – closing balance	**24,689**	**13,683**

Notes to the Consolidated annual accounts Continued

Gross carrying value	33,349	20,292
Accumulated amortisation	-8,660	-6,609
Net carrying value	**24,689**	**13,683**

The additions to the intangible assets relate to renewal and expansion of our core banking platform. Part of the gross carrying value relates to projects in progress (EUR 15.6 million). The amortisation period is generally five years from the date of full implementation of the new systems.

8 Other assets

Other assets

	2020	2019[1]
Accrued interest mortgages	45,137	32,206
Accrued interest other	9,617	18,460
Current account NN Insurance Eurasia N.V.	54,547	87,678
Current account other group companies	11,698	10,999
Debtors	94,041	56,536
Other	2,651	4,899
Total other assets	**217,691**	**210,778**

1 For purposes of comparison, the amounts from 2019 have been reclassified.

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

The remaining receivable related to the Bank's contribution to the deposit guarantee scheme following the bankruptcy of DSB Bank of EUR 4.2 million, is included in the line item 'Debtors'.

9 Amounts due to banks

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

Amounts due to banks by type

	2020	2019
Interest-bearing	437,984	310,700
Collateral received	599	3,353
Amounts due to banks	**438,583**	**314,053**

The increase in 'Amounts due to banks (interest-bearing)' of EUR 127 million relates mainly to an increase of EUR 438 million of new contracted loans with third parties, offset by repayments of loans of EUR 311 million. Part of this increase is the participation in Targeted Longer-Term Refinancing Operations (TLTRO III) initiated by the European Central Bank, of EUR 110.0 million, which is partly offset by early repayment of TLTRO II of EUR 74.5 million. NN Bank's participation in TLTRO III is secured by the collateral pool held at DNB.

As at 31 December 2020, NN Bank had unused bank lines of credit available of EUR 143 million (31 December 2019: EUR 654 million).

10 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit by type

	2020	2019
Savings	7,269,894	6,708,147
Bank annuities	6,796,334	6,754,430
Bank annuities related to mortgages	1,541,276	1,477,296
Corporate deposits	3,500	0
Group companies	131,731	139,048
Customer deposits and other funds on deposit	**15,742,735**	**15,078,921**

'Group companies' relates to a payable following sub-participation agreements to transfer mortgage parts in an intercompany account for the former Delta Lloyd Bank portfolio.

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

Customers have not entrusted any funds to NN Bank on terms other than those prevailing in the normal course of business.

Notes to the Consolidated annual accounts Continued

Changes in customer deposits and other funds on deposit

	2020	2019
Customer deposits and other funds on deposit – opening balance	15,078,921	14,476,439
Deposits received	4,276,806	3,877,090
Withdrawals	-3,612,992	-3,274,608
Customer deposits and other funds on deposit – closing balance	**15,742,735**	**15,078,921**

11 Financial liabilities at fair value through profit or loss

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

Non-trading derivatives

	2020	2019
Derivatives held for fair value hedge accounting	114,508	264,880
Balanced guaranteed swaps	21,916	49,871
Other non-trading derivatives	2,313	20,432
Non-trading derivatives	**138,737**	**335,183**

The decrease in 'Derivatives held for fair value hedge accounting' from EUR 264.9 million to EUR 114.5 million includes a partial settlement as a result of the fact that during 2020, NN Bank converted its centrally cleared interest rate derivative contracts with one clearing member from collateralised-to-market (CTM) to settled-to-market (STM). The impact of this conversion to STM per 31 December 2020 amounts to EUR 340.1 million. For further clarification, reference is made to Note 27 'Derivatives and hedge accounting'.

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

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

12 Other borrowed funds

Other borrowed funds

	2020	2019
NN Group	790,000	493,000
Other borrowed funds	470,000	780,000
Other borrowed funds	**1,260,000**	**1,273,000**

	2020	2019
Other borrowed funds – opening balance	1,273,000	330,000
Issuances	672,000	1,183,000
Redemption	-685,000	-240,000
Other borrowed funds – closing balance	**1,260,000**	**1,273,000**

In 2020, new loans amounting to EUR 375 million were contracted with third parties, while EUR 685 million was repaid, resulting in a decrease in 'Other borrowed funds' to EUR 470 million (2019: EUR 780 million).

NN Group provided a revolving credit facility commitment to NN Bank up to an amount of EUR 250 million (2019: EUR 250 million). In addition, NN Group provided a Central Clearing Borrowing Facility up to an amount of EUR 1,300 million (2019: EUR 1,300 million) for the funding of variation margin calls regarding centrally cleared interest rate derivatives contracts.

The drawdown under the Central Clearing Borrowing Facility provided by NN Group increased to EUR 790 million (2019: EUR 493 million), due lower interest rates with consequently higher variation margin obligations.

On 31 December 2020, EUR 760 million was not drawn by NN Bank (2019: EUR 1,057 million).

13 Other liabilities

Other liabilities

	2020	2019
Income tax payable	11,496	19,379
Other taxation and social security contributions	14,534	13,528
Accrued interest non-trading derivatives	42,998	40,060
Accrued interest other	15,473	13,655
Current account other group companies	188,477	131,343
Costs payable	14,548	7,843
Other	7,159	47,844
Other liabilities	**294,685**	**273,652**

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

Notes to the Consolidated annual accounts Continued

14 Provisions

Provisions

	2020	2019
Restructuring provisions	6,375	4,505
Other provisions	27	1,200
Provisions	**6,402**	**5,705**

Restructuring provisions

	2020	2019
Restructuring provisions – opening balance	4,505	4,689
Additions	7,455	5,586
Releases	-1,224	-955
Charges	-4,247	-4,761
Other	-114	-54
Restructuring provisions – closing balance	**6,375**	**4,505**

The restructuring provision is recognised for expected future redundancy costs, mainly as result of a limited strategic reorientation within NN Bank's own advisory channel and an agile transformation: changing the organisational structure within the value chains to include self-managing teams to increase the agility of the organisation.

During the first half of 2020, a Request for Advice was issued to the Works Council for the agile transformation of NN Bank. The expected impact of this restructuring is EUR 1.4 million. During the second half of 2020, a Request for Advice was issued to the Works Council for the reorganisation of NN Advice, the advisory channel of NN Bank. The expected impact of this restructuring is EUR 5.1 million.

'Additions' or 'releases' are recognised in the profit and loss account.

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

15 Debt securities issued

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

Debt securities issued – maturities 31 December 2020

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

Debt securities issued – maturities 31 December 2019

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

Notes to the Consolidated annual accounts Continued

Secured debt securities

NN Bank has the right to redeem the Residential Mortgage Backed Securities under the Arena NHG and Hypenn RMBS securitisation programmes at the First Optional Redemption Date (FORD). These dates for the debt securities issued are presented in the table below. The amounts are balance sheet amounts, excluding retained notes.

	FORD	2020	2019
Arena NHG 2014-II	17-4-2020	0	335,327
Arena NHG 2016-I	17-7-2021	222,510	289,120
Hypenn RMBS I A3	17-11-2023	0	0
Hypenn RMBS IV	17-7-2020	0	341,306
Hypenn RMBS V	17-4-2021	282,504	333,882
Hypenn RMBS VI	17-12-2022	384,966	440,169
Hypenn RMBS VII	17-9-2026	0	0
Total		**889,980**	**1,739,804**

The Arena NHG 2014-II and Hypenn RMBS IV notes have been redeemed on the FORD.

On 11 June 2020, NN Bank issued a new securitisation named Hypenn RMBS VII for an amount of EUR 2,067 million. The outstanding notes of this SPV are fully held (retained) by NN Bank and as such the notes are eliminated at NN Bank consolidated level. The FORD is on 17 September 2026.

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

	Maturity date	2020	2019
Covered bond October 2017	10-10-2024	498,991	498,667
Covered bond June 2018	11-9-2025	497,416	496,880
Covered bond September 2018	25-9-2028	494,601	493,918
Covered bond February 2019	27-2-2024	498,673	498,243
Covered bond March 2019 - 1	18-3-2039	24,823	24,819
Covered bond March 2019 - 2	21-3-2039	19,922	19,917
Covered bond July 2019	25-9-2028	52,646	53,309
Covered bond September 2019	24-9-2029	498,560	498,396
Soft Bullet Covered Bond July 2020	8-7-2030	501,286	0
Soft Bullet Covered Bond September 2020	24-9-2035	495,691	0
Soft Bullet Covered Bond November 2020	12-11-2040	247,202	0
Fair value change hedged items		59,100	30,434
Total		**3,888,911**	**2,614,583**

On 17 June 2020, NN Bank's Soft Bullet Covered Bond Programme was registered with DNB. The programme exists next to the Conditional Pass-Through Covered Bond Programme and is the primary source for attracting new secured funding from institutional investors going forward. The inaugural issuance under the Soft Bullet Covered Bond Programme took place on 8 July 2020.

Unsecured debt securities

	Maturity date	2020	2019
Debt Issuance Programme May 2019	31-5-2023	498,407	497,727
Debt Issuance Programme August 2019	3-9-2029	19,859	19,978
Debt Issuance Programme November 2019	26-2-2025	497,488	496,919
Other unsecured debt securities	n/a	365,980	356,164
Fair value change hedged items		9,115	3,239
Fixed rate unsecured debt securities		**1,390,849**	**1,374,027**
Floating Rate Note June 2019 - 1	11-12-2020	0	250,064
Floating Rate Note June 2019 - 2	1-7-2021	35,012	35,020
Floating Rate Note July 2019 - 1	11-12-2020	0	80,863
Floating Rate Note July 2019 - 2	10-7-2026	24,884	24,862
Floating Rate Note July 2019 - 3	15-7-2021	100,031	100,073
Floating Rate Note August 2019	3-9-2021	54,706	55,115
Floating rate unsecured debt securities		**214,633**	**545,997**

'Debt securities issued' includes the Residential Mortgage Backed Securities under the Arena NHG and the Hypenn RMBS securitisation programmes held by third and related parties, the bonds issued under the Conditional Pass-Through Covered Bond Programme, the Soft Bullet Covered Bond Programme, the Debt Issuance Programme and 'Schuldschein' securities. The debt securities issued to third parties amounted to EUR 6,384 million as at 31 December 2020 (31 December 2019: EUR 6,274 million), of which EUR 3,889 million relates to the Covered Bonds (31 December 2019: EUR 2,615 million) and EUR 1,605 million relates to unsecured debt securities (31 December 2019: EUR 1,920 million). At 31 December 2020, no notes were issued to related parties (2019: EUR 0 million).

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

Notes to the Consolidated annual accounts Continued

The notes issued by the Arena NHG and Hypenn RMBS entities that are held by NN Bank are not presented in the table above. The notes issued to NN Bank amounted to EUR 3,364 million as at 31 December 2020 (31 December 2019: EUR 1,734 million) and consist of EUR 469 million junior notes (31 December 2019: EUR 491 million) and EUR 2,895 million senior notes (31 December 2019: EUR 1,243 million senior notes).

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

16 Subordinated debt

Subordinated debt

				Notional amount		Balance sheet value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**2020**	**2019**	**2020**	**2019**
1.29%	2020	26 February 2030	26 February 2025	30,000	0	30,000	0
1.38%	2019	26 September 2029	26 September 2024	25,000	25,000	25,000	25,000
1.83%	2019	26 June 2029	26 June 2024	15,000	15,000	15,000	15,000
3.02%	2017	27 February 2027	27 February 2022	15,000	15,000	15,000	15,000
2.66%	2015	26 February 2025	26 February 2020	0	30,000	0	30,000
Subordinated debt				**85,000**	**85,000**	**85,000**	**85,000**

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

The EUR 30.0 million subordinated loan issued in 2015 was restructured on 26 February 2020, and NN Group extended the maturity date by five years. The new interest rate is 1.29%. This restructured loan is considered to be a new loan under IFRS.

All subordinated debt is euro denominated.

17 Equity

Total equity

	2020	**2019**
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	2,457	147
Retained earnings and unappropriated result	642,253	516,926
Shareholders' equity	**1,135,710**	**1,008,073**

Share capital

			Ordinary shares	
	Shares (in numbers)		Amount (in EUR thousand)	
	2020	**2019**	**2020**	**2019**
Authorised share capital	5,000,000	5,000,000	50,000	50,000
Unissued share capital	4,000,000	4,000,000	40,000	40,000
Issued share capital	**1,000,000**	**1,000,000**	**10,000**	**10,000**

Changes in equity (2020)

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

Notes to the Consolidated annual accounts Continued

Changes in equity (2019)

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

Ordinary shares

All shares are in registered form. Shares may be transferred by means of a deed of transfer, subject to the approval of the General Meeting. On 31 December 2020, issued and fully paid ordinary share capital consists of 1,000,000 ordinary shares, with a par value of EUR 10.00 per share.

Distributable reserves

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

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

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

Distributable reserves based on the Dutch Civil Code

		2020		2019
Total shareholders' equity		1,135,710		1,008,073
– share capital	10,000		10,000	
– revaluation reserve	2,457		147	
– intangible assets reserve	24,689		13,683	
Total non-distributable part of shareholders' equity		37,146		23,830
Distributable reserves based on the Dutch Civil Code		**1,098,564**		**984,243**

Proposed appropriation of result

The result is appropriated pursuant to article 21 of the NN Bank Articles of Association, the relevant provisions of which state that the General Meeting, having heard the advice of the Management Board and the Supervisory Board, shall determine the appropriation of result. It is proposed to add the 2020 net result of EUR 125.3 million, less the proposed cash dividend of EUR 12.0 million, to the retained earnings.

Appropriation of result 2019

On 29 May 2020, following the General Meeting's adoption of the 2019 Consolidated annual accounts, the 2019 net result of EUR 116.2 million was added to the retained earnings.

Dividend

No final dividend over 2019 or interim dividend over 2020 was paid in accordance with the recommendation of the Dutch regulator. NN Bank proposes a final dividend over 2020 of EUR 12.0 million, in line with the recommendations of the ECB and DNB under the current Covid-19 pandemic.

Notes to the Consolidated annual accounts Continued

18 Interest result

Interest result

	2020	2019
Interest income on loans[1]	563,281	556,651
Modifications	3,460	6,057
Interest income on non-trading derivatives	48,108	67,675
Negative interest on liabilities	3,622	782
Total interest income	**618,471**	**631,165**
Interest expenses on amounts due to banks	112	212
Interest expenses on customer deposits and other funds on deposit	156,373	174,917
Interest expenses on debt securities issued and other borrowed funds	37,160	40,571
Interest expenses on subordinated loans	1,526	2,803
Interest expenses on non-trading derivatives	137,895	153,395
Negative interest on assets	8,152	7,438
Other interest expenses	1,931	3,973
Total interest expenses	**343,149**	**383,309**
Interest result	**275,322**	**247,856**

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

'Modifications' relates to the impact of the modification of the outstanding mortgage loans as a result of the amended interest rate pricing system for NN and former Delta Lloyd mortgage portfolios.

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

'Negative interest on liabilities' for the year 2020 included EUR 170 thousand (2019: EUR 0), which was related to government grants under the Targeted Longer-Term Refinancing Operations III programme.

'Negative interest on assets' includes negative interest income charged by DNB of EUR 6.1 million (2019: EUR 6.2 million). The remainder mainly concerns interest on investment securities.

Interest margin in percentages

	2020	2019
Interest margin	**1.10%**	**1.07%**

'Interest margin' is calculated by dividing the interest result by the average of the total assets for the year ending 2020 and 2019, respectively.

19 Gains and losses on financial transactions and other income

Gains and losses on financial transactions and other income

	2020	2019
Realised gains or losses of investment securities	10,742	7,297
Results from financial transactions	12,214	40,254
Net income from loans measured at FVTPL	-3,353	12,656
Other income	-436	-18,809
Gains and losses on financial transactions and other income	**19,167**	**41,398**

'Results from financial transactions' and 'Net income from loans measured at FVTPL' mainly comprise the results on the sale of mortgages to NN Dutch Residential Mortgage Fund (DRMF), NN Non-life and NN Belgium. The related origination fee in 2020 amounts to EUR 6.1 million (2019: EUR 15.5 million) and premiums amount to EUR 2.7 million (2019: EUR 37.4 million).

For DRMF, the related origination fee for the first half year 2020 of EUR 6.0 million is presented under 'Results from financial transactions'. As from the second half year 2020, DRMF is purchasing mortgage receivables as from mortgage application phase. Since all risk and rewards have been transferred to DRMF, the mortgage receivables do not qualify for recognition at NN Bank's balance sheet and as such there are no 'Results from financial transactions'. For this reason, the related origination fee of EUR 11.0 million, as from the second half-year 2020, is presented under 'Net fee and commission income'. Reference is made to Note 20 'Net fee and commission income'.

Notes to the Consolidated annual accounts Continued

20 Net fee and commission income

Net fee and commission income

	2020	2019
Service management fee	42,743	40,818
Brokerage and advisory fees	74,151	70,495
Gross fee and commission income	**116,894**	**111,313**
Asset management fees	10,623	11,084
Brokerage and advisory fees	4,052	3,230
Other fees	75	150
Fee and commission expenses	**14,750**	**14,464**
Net fee and commission income	**102,144**	**96,849**

NN Bank services a total loan portfolio of EUR 33.3 billion (2019: EUR 32.2 billion) for NN Life, NN Non-life, NN Belgium, NN Dutch Residential Mortgage Fund, ING Bank and other entities.

NN Bank originates mortgages directly on behalf of NN Life, NN Non-life and NN Belgium and receives an origination fee for this service. The origination fee for the NN Life loan portfolio amounts to EUR 37.2 million (2019: EUR 54.5 million), for the NN Non-life loan portfolio this amounts to EUR 9.2 million (2019: EUR 0 million) and for the NN Belgium loan portfolio this amounts to EUR 7.8 million (2019: EUR 7.2 million). These are included in 'Brokerage and advisory fees'.

As from the second half-year 2020, the origination fee for DRMF of EUR 11.0 million is presented under 'Brokerage and advisory fees'. Reference is made to Note 19 'Gains and losses on financial transactions and other income'.

21 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2020	2019
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	-299,686	-390,575
– the hedged items (mortgages/debt securities) attributable to the hedged risk	304,010	383,869
Gains or losses (fair value changes) in other non-trading derivatives	2,172	249
Valuation results on non-trading derivatives	**6,496**	**-6,457**

Included in 'Valuation results on non-trading derivatives' are the fair value movements used to economically hedge exposures. Changes in market conditions, such as interest rates, influence the fair value movements on the derivatives. The received cash compensation payments for the change in net present value following the discounting switch from EONIA to Euro Short-Term Rate '€STR' are accounted for under this heading. Reference is made to Note 27 'Derivatives and hedge accounting'. Gains and losses on hedged items and hedging instruments in 2020 increased compared with those of 2019, mainly due to movements in the underlying spreads.

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

22 Staff expenses

Staff expenses

	2020	2019
Salaries	62,458	57,928
Pension and other staff-related benefit costs	12,090	11,701
Social security costs	8,133	8,538
Share-based compensation arrangements	68	60
External staff costs	32,002	33,551
Education	912	1,064
Other staff costs	894	513
Staff expenses	**116,557**	**113,355**

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

Notes to the Consolidated annual accounts Continued

Pension costs

Defined contribution plans

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

Number of employees

	2020	2019
Average number of internal employees on full-time equivalent basis	883	839
Average number of external employees on full-time equivalent basis	296	320
Total	**1,179**	**1,159**

Remuneration of Management Board and Supervisory Board

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

Share plans

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

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

Share awards on NN Group shares

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

	Share awards (in numbers)		Weighted average grant date fair value (in euros)	
	2020	2019	2020	2019
Share awards outstanding – opening balance	3,589	6,675	36.59	33.27
Granted	2,996	3,573	20.09	39.10
Vested	-3,372	-3,760	28.84	35.64
Forfeited[1]	-498	-2,899	36.65	33.26
Share awards outstanding – closing balance	**2,715**	**3,589**	**28.01**	**36.60**

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

In 2020, 1,948 share awards on NN Group shares (2019: 3,093) were granted to the members of the NN Bank Management Board. To other employees of NN Bank, 1,048 share awards on NN Group shares (2019: 480) were granted.

As at 31 December 2020, the share awards on NN Group shares consist of 2,715 (2019: 3,589) share awards relating to equity-settled share-based payment arrangements, and no share awards to cash-settled share-based payment arrangements.

The fair value of share awards granted is allocated over the vesting period of the share awards as an expense under 'Staff expenses'.

As at 31 December 2020, total unrecognised compensation costs related to share awards amount to EUR 23 thousand (2019: EUR 44 thousand). These costs are expected to be recognised over a weighted average period of 1.3 years (2019: 1.5 years).

23 Regulatory levies

Regulatory levies

	2020	2019
Regulatory levies	20,377	17,315
Regulatory levies	**20,377**	**17,315**

'Regulatory levies' represents contributions to Deposit Guarantee Schemes (DGS) and the Single Resolution Fund (SRF). The contributions to DGS were EUR 15.5 million (2019: EUR 14.1 million) and contributions to the SRF were EUR 4.9 million (2019: EUR 3.2 million).

Notes to the Consolidated annual accounts Continued

24 Other operating expenses

Other operating expenses

	2020	2019
Computer costs	22,580	22,819
Office expenses	251	185
Travel and accommodation expenses	2,280	2,771
Advertising and public relations	2,621	3,669
Bank costs	201	338
Net addition to restructuring provisions	6,231	4,631
Amortisation of intangible assets	2,051	1,511
Other	8,788	8,225
Other operating expenses	**45,003**	**44,149**
Customer & Commerce	18,198	18,597
IT	13,685	16,175
Facility Management	6,508	6,642
General Management	6,436	3,982
Group HR	2,228	2,639
Shared Service Centre Finance	1,327	1,575
Total Group Services	**48,382**	**49,610**
Total other operating expenses	**93,385**	**93,759**

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

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

Fees of auditors

Reference is made to Note 47 'Fees of auditors' in the Consolidated annual accounts of NN Group for audit fees and audit-related fees. The services rendered by the auditor, in addition to the statutory audit, include an audit in relation to reporting to regulators, audit of annual accounts of subsidiaries, review of interim report, assurance on internal control reports provided to third parties and regulators, services in relation to prospectuses and issuance of debt and reports of factual findings to external parties and regulators.

25 Taxation

NN Bank is part of the Dutch fiscal unity of NN Group for corporate income tax purposes, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables from and payables to NN Group. Income tax payable amounts to EUR 11,496 thousand and concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 13 'Other liabilities'.

Deferred tax (2020)

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

1 Positive amounts are liabilities, negative amounts are assets.

IFRS ruling

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

Impact of changes in tax regulation in the Netherlands

In 2019, the Dutch corporate income tax rates were amended, so that the enacted tax rate for 2020 was 25.0% and for 2021 21.7%. As most of NN Bank's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 21.7% rate that would apply as of 2021. This enacted tax rate reduction was cancelled in 2020 by the Dutch government. The impact of this cancellation is recognised in 2020. The impact related to the Dutch tax rate changes in the 2020 profit and loss account was EUR 1.7 million negative.

Notes to the Consolidated annual accounts Continued

Deferred tax (2019)

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

1 Positive amounts are liabilities, negative amounts are assets.

Taxation on result

	2020	2019
Current tax	47,999	42,962
Deferred tax	-3,958	-2,808
Taxation on result	**44,041**	**40,154**

Taxation in 2020 increased by EUR 3.8 million to EUR 44.0 million, from EUR 40.2 million in 2019.

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

	2020	2019
Result before tax	169,299	156,325
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**42,325**	**39,081**
Expenses not deductible for tax purposes	17	-35
Tax rate changes	1,719	827
Other	-20	281
Effective tax amount	**44,041**	**40,154**
Effective tax rate	**26.0%**	**25.7%**

The statutory tax rate in 2020 was 25.0%, as in 2019. The effective tax rate in 2020 was 26.0% (2019: 25.7%).

Taxation on components of other comprehensive income

	2020	2019
Unrealised revaluations	-755	528
Realised gains or losses transferred to the profit and loss account	0	0
Total income tax related to components of other comprehensive income	**-755**	**528**

26 Fair value of financial assets and liabilities

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2020	2019	2020	2019
Financial assets				
Cash and balances at central banks	2,585,528	1,660,465	2,585,528	1,660,465
Amounts due from banks	423,195	658,432	423,195	658,432
Financial assets at fair value through profit or loss:				
– non-trading derivatives	57,995	88,198	57,995	88,198
Investment securities	935,096	2,029,911	933,334	2,027,326
Loans	22,508,948	21,193,804	21,255,396	20,003,922
Financial assets	**26,510,762**	**25,630,810**	**25,255,448**	**24,438,343**
Financial liabilities				
Amounts due to banks	438,512	313,920	438,583	314,053
Customer deposits and other funds on deposit	16,736,835	15,964,207	15,742,735	15,078,921
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	138,737	335,183	138,737	335,183
Other borrowed funds	1,260,403	1,272,838	1,260,000	1,273,000
Debt securities issued	6,545,042	6,390,111	6,384,373	6,274,411
Subordinated debt	86,241	85,507	85,000	85,000
Financial liabilities	**25,205,770**	**24,361,766**	**24,049,428**	**23,360,568**

Notes to the Consolidated annual accounts Continued

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

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

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

Cash and balances at central banks

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

Amounts due from banks

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

Financial assets and liabilities at fair value through profit or loss

Derivatives

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

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

Investment securities

Debt securities

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

Loans

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

Amounts due to banks

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

Customer deposits and other funds on deposit

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

Notes to the Consolidated annual accounts Continued

Other borrowed funds

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

Subordinated debt and debt securities issued

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

Financial assets and liabilities at fair value and amortised cost

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

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

	Balance sheet value	Total fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value					
Non-trading derivatives	57,995	57,995	0	36,079	21,916
Investment securities - FVOCI	615,976	616,012	0	616,012	0
Loans - FVTPL	3,647	3,647	0	0	3,647
Financial assets not measured at fair value					
Cash and balances at central banks[1]	2,585,528	2,585,528	2,585,528	0	0
Amounts due from banks[1]	423,195	423,195	423,195	0	0
Investment securities - AC	317,358	319,084	149,606	169,478	0
Loans - AC	21,251,749	22,505,301	0	0	22,505,301
Financial assets	**25,255,448**	**26,510,762**	**3,158,329**	**821,569**	**22,530,864**
Financial liabilities measured at fair value					
Non-trading derivatives	138,737	138,737	0	116,821	21,916
Financial liabilities not measured at fair value					
Amounts due to banks	438,583	438,512	0	438,512	0
Customer deposits and other funds on deposit[1]	15,742,735	16,736,835	9,980,172	6,725,611	31,052
Other borrowed funds	1,260,000	1,260,403	790,000	470,403	0
Debt securities issued	6,384,373	6,545,042	5,652,866	892,176	0
Subordinated debt	85,000	86,241	0	86,241	0
Financial liabilities	**24,049,428**	**25,205,770**	**16,423,038**	**8,729,764**	**52,968**

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

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

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

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

NN Bank has categorised its financial instruments that are either measured in the balance sheet at fair value or for which the fair value is disclosed, into a three-level hierarchy, based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities, and the lowest priority to valuation techniques supported by

Notes to the Consolidated annual accounts Continued

unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

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

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

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

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

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

Changes in Level 3 Financial assets

	Non-trading derivatives	Loans - FVTPL	2020	2019
Level 3 Financial assets – opening balance	49,871	128,523	178,394	117,316
Amounts recognised in the profit and loss account during the year	-27,955	7,524	-20,431	-1,892
Additions	0	623,702	623,702	732,228
Sale of assets	0	-756,102	-756,102	-669,258
Level 3 Financial assets – closing balance	**21,916**	**3,647**	**25,563**	**178,394**

Changes in Level 3 Financial liabilities

	2020	2019
Level 3 Financial liabilities – opening balance	49,871	84,965
Amounts recognised in the profit and loss account during the year	-27,955	-35,094
Level 3 Financial liabilities – closing balance	**21,916**	**49,871**

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

	2020	2019
Financial assets		
Non-trading derivatives	-27,955	-35,094
Loans - FVTPL	7,524	33,202
Financial assets	**-20,431**	**-1,892**
Financial liabilities		
Non-trading derivatives	27,955	35,094
Financial liabilities	**27,955**	**35,094**

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

Notes to the Consolidated annual accounts Continued

Level 3 financial assets and liabilities at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2020 of EUR 677.7 million (31 December 2019: EUR 1,924.3 million) include an amount of EUR 25.6 million (3.8%) that is classified as Level 3 (31 December 2019: EUR 178.4 million, 9.3%).

Financial liabilities measured at fair value in the balance sheet as at 31 December 2020 of EUR 138.7 million (31 December 2019: EUR 335.2 million) include an amount of EUR 21.9 million (15.8%) that is classified as Level 3 (31 December 2019: EUR 49.9 million, 14.9%)

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

27 Derivatives and hedge accounting

Use of derivatives and hedge accounting

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

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

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

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

	Positive value		Negative value		Balance	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Derivatives held for macro fair value hedge accounting	549	14,687	832,909	535,082	-832,360	-520,395
Derivatives held for micro fair value hedge accounting	68,538	41,835	0	7,499	68,538	34,336
Balanced Guaranteed Swaps	21,916	49,871	21,916	49,871	0	0
Other non-trading derivatives	13,601	6,696	59,958	29,020	-46,357	-22,324
Interest rate swaps Settled-to-Market	-79,387	-44,862	-776,046	-286,289	696,659	241,427
Position to be settled STM	32,778	19,971	0	0	32,778	19,971
	57,995	**88,198**	**138,737**	**335,183**	**-80,742**	**-246,985**

The fair value of the non-trading derivatives decreased in 2020 to EUR -80.7 million (31 December 2019: EUR -247.0 million). This decrease has primarily been caused by the fact that during 2020, NN Bank converted its centrally cleared interest rate derivative contracts of a clearing member from collateralised-to-market (CTM) to settled-to-market (STM). The impact of this conversion to STM amounts to EUR 321.1 million. From an accounting perspective, this means that changes in the value of these contracts are no longer paid and received in a collateral posted account reflecting the total marked-to-market, but rather daily changes are settled in the cash account. This conversion leads to shortening the balance sheet without impact on the profit and loss account. The 'Position to be settled STM' comprises mainly the last day of the annum marked-to-market change not yet settled with the clearing member.

Interest rate benchmark reform

The hedge accounting applied by NN Bank relates to interest rate risk based on Euribor. Euribor's calculation method changed in 2019, and Euribor will continue to be used after the benchmark reform. As a result, NN Bank expects that Euribor will continue to exist as a benchmark and does not anticipate replacing Euribor in its interest rate risk management and related hedge accounting. NN Bank follows market developments with respect to Euribor and to have fallback provisions in place in case Euribor will permanently cease to exist, in accordance with the recommendations of the Dutch regulator.

Furthermore, the reference rate to discount future cash flows of the centrally cleared hedging instruments has been changed from EONIA to the Euro Short-Term Rate '€STR' in July 2020 in line with market practice. In connection with this discounting switch, NN Bank has received cash compensation payments as compensation for the change in net present value of these derivatives. This cash compensation received has been accounted under 'Valuation results on non-trading derivatives'.

Macro fair value hedge accounting

NN Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve-out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument, and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits, and ineffectiveness only arises when the

Notes to the Consolidated annual accounts Continued

revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. NN Bank applies the IFRS-EU 'carve-out' to its hedge of the interest rate risk of mortgage loans.

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

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

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

	2020	2019
Fair value movements in hedging instruments	-334,035	-412,065
Fair value movements in hedged item attributable to hedged risks	338,553	404,962
Net effect macro fair value hedge	**4,518**	**-7,103**

Micro fair value hedge accounting

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

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

	2020	2019
Fair value movements in hedging instruments	34,349	21,491
Fair value movements in hedged item attributable to hedged risks	-34,543	-21,094
Net effect micro fair value hedge	**-194**	**397**

Non-trading derivatives

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

Non-trading derivatives by type and maturity (2020)

	notionals, amounts in millions of euros				amounts in millions of euros	
	< 1 year	Between 1 and 5 years	> 5 years	Total	Positive fair value	Negative fair value
Interest rate swaps	459	3,768	8,106	12,333	36	117
Balanced Guaranteed Swaps	565	1,070	0	1,635	22	22
Interest rate caps	600	0	0	600	0	0
Total non-trading derivatives	**1,624**	**4,838**	**8,106**	**14,568**	**58**	**139**

Non-trading derivatives by type and maturity (2019)

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

28 Assets by contractual maturity

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

Assets by contractual maturity (2020)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	2,585,528	0	0	0	0	2,585,528
Amounts due from banks	87,275	335,920	0	0	0	423,195

Notes to the Consolidated annual accounts Continued

Financial assets at fair value through profit or loss:						
– non-trading derivatives[2]	32,778	0	1,535	20,381	3,301	57,995
Investment securities	18,020	15,064	78,008	814,631	7,611	933,334
Loans	277,742	50,312	172,301	1,523,536	19,231,505	21,255,396
Intangible assets	190	381	1,713	5,163	17,242	24,689
Other assets	120,999	96,324	368	0	0	217,691
Total assets	**3,122,532**	**498,001**	**253,925**	**2,363,711**	**19,259,659**	**25,497,828**
Risk management derivatives:						
– inflow	424	3,401	19,648	74,464	18,972	116,909
– outflow	0	-556	-2,892	-13,851	-15,528	-32,827

1 Includes assets on demand.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the interest rate swap curve per 31 December 2020.

Assets by contractual maturity (2019)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,660,465	0	0	0	0	1,660,465
Amounts due from banks	131,354	527,078	0	0	0	658,432
Financial assets at fair value through profit or loss:						
– non-trading derivatives[2]	18,835	0	4,878	51,444	13,041	88,198
Investment securities	57,023	3,016	300,714	1,417,979	248,594	2,027,326
Loans	76,085	65,053	176,134	1,233,579	18,453,071	20,003,922
Intangible assets	0	0	0	5,910	7,773	13,683
Other assets	169,407	41,371	0	0	0	210,778
Total assets	**2,113,169**	**636,518**	**481,726**	**2,708,912**	**18,722,479**	**24,662,804**
Risk management derivatives:						
– inflow	437	960	12,151	36,261	39,183	88,992
– outflow	-7	-490	-1,784	-7,513	-13,103	-22,897

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

Notes to the Consolidated annual accounts Continued

29 Liabilities by maturity

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

Non-financial liabilities are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 39 'Risk Management' for a description on how liquidity risk is managed.

Liabilities by maturity (2020)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Amounts due to banks	15,599	178,000	135,000	109,984	0	438,583
Customer deposits and other funds on deposit	9,934,881	124,965	581,622	2,146,007	2,955,260	15,742,735
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives[2]	0	0	1,535	22,985	114,217	138,737
Other borrowed funds	0	125,000	295,000	840,000	0	1,260,000
Debt securities issued	0	0	713,774	3,183,210	2,487,389	6,384,373
Subordinated debt	0	0	0	0	85,000	85,000
Financial liabilities	**9,950,480**	**427,965**	**1,726,931**	**6,302,186**	**5,641,866**	**24,049,428**
Other liabilities	58,471	217,558	18,656	0	0	294,685
Deferred tax liabilities	0	0	11,603	0	0	11,603
Other provisions	0	27	6,375	0	0	6,402
Non-financial liabilities	**58,471**	**217,585**	**36,634**	**0**	**0**	**312,690**
Total liabilities	**10,008,951**	**645,550**	**1,763,565**	**6,302,186**	**5,641,866**	**24,362,118**
Risk management derivatives:						
– outflow	9,094	16,571	86,683	394,085	443,984	950,417
– inflow	-35	-91	-1,375	-4,806	-49,361	-55,668
Coupon interest due on financial liabilities	-56,346	-12,665	-38,532	-316,693	-258,208	-682,444

1 Includes deposits on demand, arranged by the earliest possible contractual maturity without taking into account expected client behaviour and other factors.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 31 December 2020.

Liabilities by maturity (2019)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Amounts due to banks	43,353	27,500	168,700	74,500	0	314,053
Customer deposits and other funds on deposit	9,276,004	122,002	570,495	2,174,872	2,935,548	15,078,921
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives[2]	0	164	7,628	58,874	268,517	335,183
Other borrowed funds	25,000	245,000	440,000	563,000	0	1,273,000
Debt securities issued	0	0	1,007,560	3,053,636	2,213,215	6,274,411
Subordinated debt	0	0	0	0	85,000	85,000
Financial liabilities	**9,344,357**	**394,666**	**2,194,383**	**5,924,882**	**5,502,280**	**23,360,568**
Other liabilities	53,715	152,714	67,223	0	0	273,652
Deferred tax liabilities	0	0	14,806	0	0	14,806
Other provisions	0	1,279	4,426	0	0	5,705
Non-financial liabilities	**53,715**	**153,993**	**86,455**	**0**	**0**	**294,163**
Total liabilities	**9,398,072**	**548,659**	**2,280,838**	**5,924,882**	**5,502,280**	**23,654,731**
Derivative management derivatives:						
– outflow	8,457	16,235	79,345	303,557	479,474	887,068
– inflow	-35	-774	-1,232	-10,291	-269,250	-281,582
Coupon interest due on financial liabilities	-49,687	-10,074	-90,313	-345,592	-271,816	-767,482

1 Includes deposits on demand, arranged by the earliest possible contractual maturity without taking into account expected client behaviour and other factors.
2 Contractual cash flows for non-trading derivatives are presented on a gross basis. 'Risk management derivatives' shows the contractual interest cash flows on derivatives. The cash flows of the floating legs are based on forward rates, based on the curve per 31 December 2019.

Notes to the Consolidated annual accounts Continued

30 Assets not freely disposable

Assets not freely disposable

	2020	2019
Loans	8,915,374	6,607,460
Cash and balances at central banks	87,141	84,914
Amounts due from banks	73,470	111,253
Assets not freely disposable	**9,075,985**	**6,803,627**

The amount not freely disposable for 'Loans' reflects the securitised mortgages portfolios to Arena NHG 2016-I and Hypenn RMBS I, V to VII and the mortgage loans structured through the (Soft Bullet [2020] and Conditional Pass-Through) Covered Bond Programmes

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

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

31 Transferred, but not derecognised financial assets

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

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

32 Contingent liabilities and commitments

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

Contingent liabilities and commitments (2020)

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

Contingent liabilities and commitments (2019)

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

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

In 2020, NN Bank adhered to the contractual agreement with ING Bank. In this contract, NN Bank commits to the purchase of resetting loans until all NN-labelled mortgages owned by ING have been transferred. This is expected to continue until approximately 2036. In addition, the resetting loans now also contain certain other loans with an adjustment in interest rates. As per 31 December 2020, the size of the portfolio of NN-labelled mortgages held by ING Bank was EUR 1.0 billion (2019: EUR 1.6 billion).

Tax liabilities

Together with the other group companies that are part of the fiscal unity, NN Bank is jointly and severally liable for income tax payable by NN Group. The income tax payable by NN Group at the end of 2020 amounted to EUR 51.8 million (2019: EUR 45.6 million receivable).

Notes to the Consolidated annual accounts Continued

33 Legal proceedings

General
NN Bank could be, and is, involved in litigation and other binding proceedings involving claims by and against NN Bank that arise in the ordinary course of its business, including in connection with its activities as bank, investor and its position as employer and taxpayer. Such proceedings could entail that large or indeterminate amounts are sought. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings. At the date of this Annual Report, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NN Bank is aware) that may have, or have in the recent past had, a significant effect on the financial condition or profitability of NN Bank and its subsidiaries.

34 Principal subsidiaries
NN Bank has three fully owned subsidiaries:

- HQ Hypotheken 50 B.V. was founded on 21 August 2012 and has its official seat and registered offices in Rotterdam. Via this subsidiary, NN Bank offered mortgage loans to customers via a third party mortgage servicer (Quion Hypotheekbemiddeling B.V.).
- Nationale-Nederlanden Beleggingsrekening N.V. has its official seat in The Hague. This is a dormant company, not currently conducting any business or other activities. In 2021, it is intended to merge the company with NN Bank.
- Woonnu B.V., which was founded on 13 August 2019 with statutory seat in The Hague. Via Woonnu B.V., NN Bank originates mortgage loans under a new label via a third party mortgage servicer (Quion Hypotheekbemiddeling B.V.). NN Bank has obtained an AFM licence for Woonnu B.V.

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

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

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

NN Bank has established a EUR 5 billion Conditional Pass-Through Covered Bond Programme and a 7.5 billion Soft Bullet Covered Bond Programme. Under these programmes, the payment of interest and principal on the bonds issued by NN Bank is guaranteed by NN Bank-administered structured entities, NN Conditional Pass-Through Covered Bond Company B.V. (CBC) and NN Covered Bond Company B.V. (SB). In order for the CBC and SB to fulfil its guarantees, NN Bank legally transfers Dutch prime residential mortgage loans originated by NN Bank to the CBC and SB. Economically, the mortgages are on the NN Bank balance sheet. The CBC and SB are consolidated by NN Bank.

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

	Due date	Notional amount	Fixed coupon
Covered bond October 2017	10-10-2024	500,000	0.500%
Covered bond June 2018	11-9-2025	500,000	0.625%
Covered bond September 2018	25-9-2028	500,000	1.000%
Covered bond February 2019	27-2-2024	500,000	0.250%
Covered bond March 2019 - 1	18-3-2039	25,000	1.400%
Covered bond March 2019 - 2	21-3-2039	20,000	1.432%
Covered bond July 2019	25-9-2028	50,000	1.000%
Covered bond September 2019	24-9-2029	500,000	0.125%
Soft Bullet Covered Bond July 2020	8-7-2030	500,000	0.010%
Soft Bullet Covered Bond September 2020	24-9-2035	500,000	0.050%
Soft Bullet Covered Bond November 2020	12-11-2040	250,000	0.050%
		3,845,000	

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

Notes to the Consolidated annual accounts Continued

NN Bank uses derivative financial instruments for selected securitisation transactions. These financial instruments relate to balanced guaranteed swap agreements with a swap counterparty, which have been structured in such a manner that NN Bank pays the swap counterparty the interest expenses on the notes and the swap counterparty pays NN Bank the interest received on the mortgage receivables, less third-party operation expenses and additions to the Loan Loss Provision. The SPE also uses these derivative financial instruments, which are exactly the opposite of the financial instruments of NN Bank. The fair value of these balanced guaranteed swap transactions amounted to EUR 21.9 million as at 31 December 2020 (31 December 2019: EUR 49.9 million) and are presented gross. Offsetting is not applicable, as it concerns separate contracts.

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

	Maturity Year	Related mortgage loans		Notes / bonds issued	
		2020	**2019**	**2020**	**2019**
Arena NHG 2014-II	2020	0	447,662	0	335,327
Arena NHG 2016-I	2021	336,967	412,832	222,510	289,120
Hypenn RMBS I	2023	1,304,481	1,304,067	0	0
Hypenn RMBS IV	2020	0	401,424	0	341,306
Hypenn RMBS V	2021	306,600	378,032	282,504	333,882
Hypenn RMBS VI	2022	577,654	699,977	384,966	440,169
Hypenn RMBS VII	2026	1,918,442	0	0	0
Covered Bonds	2024-2039	2,923,190	2,963,467	2,585,631	2,584,149
Soft Bullet Covered Bonds	2030-2040	1,548,040	0	1,244,180	0
Total		**8,915,374**	**6,607,461**	**4,719,791**	**4,323,953**

36 Related parties

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

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

- The management of financial instruments via a management agreement with NN Investment Partners Holdings N.V. (NN IP). Reference is made to the table 'Other group companies'.
- Sale of mortgages to other NN Group companies. Reference is made to Note 6 'Loans'.
- NN Bank and related parties are involved in the issuance of savings mortgages. Initially, one party recognises the full savings mortgage loan. The client saves the total amount to redeem the savings mortgage at maturity date at the other party. If the savings amount increases, consequently, the share of ownership of the savings mortgage by the other party increases. NN Bank has arrangements to transfer savings mortgage parts. In certain arrangements, NN Bank receives the mortgage parts. In other arrangements, NN Bank transfers the mortgage parts. All transfers of mortgage parts take place against their nominal value and are recorded in the current accounts with other group companies. These current accounts are classified under Note 6 'Loans' for received mortgage parts and classified under Note 10 'Customer deposits and other funds on deposit' for paid mortgage parts. Reference is also made to Note 1 'Accounting policies' in the paragraph 'Partial transfer of mortgage loans'.
- Transactions with NN Group concerning financing arrangements and the payment of taxes, as NN Group heads the fiscal unity. Reference is made to Notes 12 'Other borrowed funds', 16 'Subordinated debt', 25 'Taxation' and 32 'Contingent liabilities and commitments'.
- Asset management services to group companies, carried out by NN Bank. Reference is made to 'Income received' in the table 'Other group companies'.
- Facility and other services carried out by group companies
- Transactions relating to the remuneration of Board members. Reference is made to Note 37 'Key management personnel compensation'.
- For defined contribution plans, NN Bank pays contributions to the NN CDC Pensioenfonds and Delta Lloyd Pensioenfonds on a contractual basis. Reference is made to Note 22 'Staff expenses' for further details.

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

Parent company

NN Group	**2020**	**2019**
Assets	0	0
Liabilities	810,396	555,010
Income received	-829	-2,504
Expenses paid	22,370	22,314

Notes to the Consolidated annual accounts Continued

'Liabilities' mainly consists of unsecured loans from NN Group amounting to EUR 790 million and subordinated loans from NN Group amounting to EUR 85 million.

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

Other group companies

Other group companies	2020	2019[1]
Assets	384,245	277,016
Liabilities	320,275	281,736
Income received	96,465	91,478
Expenses paid	33,613	32,352

1 For purposes of comparison, the amounts from 2019 are restated to include all positions with other group companies.

'Assets' mainly comprises the current account with NN Insurance Eurasia N.V. of EUR 92 million (2019: EUR 88 million) and positions resulting from partial transfer of mortgage loans with NN Life. With NN Belgium, loans mortgage savings amount to EUR 72 million (2019: EUR 74 million).

NN Bank transfers mortgage parts as part of certain arrangements. The net amount of partial mortgages loans transferred to NN Life amounted to EUR 1 million as at 31 December 2020 (2019: EUR 62 million).

'Liabilities' mainly consists of payables to NN Insurance Eurasia N.V. of EUR 187 million (2019: EUR 22 million).

'Income received' mainly reflects fee income on mortgage origination and servicing on behalf of NN Life of EUR 57 million (2019: EUR 72 million), on behalf of NN Non-life of EUR 11 million (2019: EUR 1 million) and on behalf of NN Belgium of EUR 12 million (2019: EUR 19 million). Interest expenses on transfer of mortgage parts amount to EUR 4 million (2019: EUR 7 million). Income from loan portfolio servicing fees and negative income on asset management fees to NN IP are also included.

'Expenses paid' mainly comprises expenses by Customer & Commerce and Facility Management for work done by these entities on behalf of NN Bank.

37 Key management personnel compensation

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

Management Board

	2020[2]	2019[2]
Fixed compensation:		
- base salary	891	759
- pension costs[1]	96	87
- termination benefit	0	581
- individual savings allowance[1]	110	104
Variable compensation:		
- up-front cash	38	79
- up-front shares	38	79
- deferred cash	38	79
- deferred shares	38	79
Other benefits	222	219
Fixed and variable compensation	**1,471**	**2,066**

1 'Pension costs' consists of an amount of employer contribution (EUR 96 thousand) and an individual savings allowance (EUR 110 thousand, which is 23.3% of the amount of base salary above EUR 110.111. The Management Board members were eligible for a range of other emoluments, such as healthcare insurance, lifecycle saving scheme and expat allowances. The Management Board members were also able to obtain banking and insurance services in the ordinary course of business, and on terms that apply to all employees of NN Group in the Netherlands.

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

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The NN Bank Supervisory Board members do not receive any compensation for their activities, except for two Supervisory Board members who are not employees of NN Group (2019: two external Supervisory Board members). The remuneration of EUR 62,404 (2019: EUR 62,770) is recognised in the profit and loss account in 'Operating expenses'. Some Supervisory Board members hold remunerated (Board) positions within NN Group, but not within NN Bank. Their remuneration is part of the allocation of headquarter expenses, and they do not receive any (additional) allowances for their role as Supervisory Board members.

Notes to the Consolidated annual accounts Continued

The remuneration of the Supervisory Board members includes VAT for 2020 and 2019. NN Bank does not provide the Supervisory Board with a pension arrangement, termination arrangements (including termination of retirement benefits) or variable remuneration in cash or in stock.

The total remuneration of EUR 1,471 thousand (2019: EUR 2,066 thousand), as disclosed in the table above, includes all variable remuneration related to the performance year 2020. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2020 and therefore included in 'Total expenses' in 2020, relating to the fixed expenses of 2020 and the vesting of variable remuneration of 2020 and earlier performance years, is EUR 1,398 thousand (2019: EUR 1,860 thousand).

Remuneration policy

As a direct subsidiary of NN Group, NN Bank is in scope of the NN Group Remuneration Framework. NN Bank is well aware of the public debate about pay in the financial industry and the responsibility the industry is taking in that light. NN Group's remuneration policies take into account all applicable regulations and codes, including the Banking Code and the recommendations of the ECB and DNB under the current Covid-19 pandemic. The NN Group Remuneration Framework strikes a balance between interests of its customers, employees, shareholders and society at large, and supports the long-term objectives of the company.

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

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

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2020	2019	2020	2019	2020	2019
Management Board members	380	394	3.97%	4.07%	14	16
Supervisory Board members	0	0	0.0%	0.0%	0	0
Loans and advances to key management	**380**	**394**			**14**	**16**

The total amount of outstanding loans in 2020 was EUR 380 thousand (2019: EUR 394 thousand.) The total amount of redemptions of these mortgage loans during 2020 was EUR 14 thousand (2019: EUR 16 thousand).

38 Subsequent and other events

Subsequent events

Soft Bullet Covered Bonds issuance

On 4 March 2021, NN Bank settled the fourth transaction under its Soft Bullet Covered Bond programme. An amount of EUR 500 million was raised from a large group of international investors by the issuance of a covered bond with a tenor of 20 years and a fixed coupon of 0.375%.

Hypenn RMBS V

On 19 February 2021, NN Bank announced that it will repurchase mortgages from the Hypenn RMBS V BV transaction. As a result, NN Bank will facilitate the full redemption of the current outstanding EUR 282 million Class A2 notes and EUR 31 million Class B notes on 17 April 2021.

Notes to the Consolidated annual accounts Continued

39 Risk management

Introduction

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

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

Mission

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

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

Risk management system and governance

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

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

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

Risk Governance

Management Board and its committees

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

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

Notes to the Consolidated annual accounts Continued

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

Any sub-committees are not included above.

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

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

Notes to the Consolidated annual accounts Continued

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

Independent risk management function (Second Line of Defence)
The CRO is a member of NN Bank's Management Board. Four risk departments support the CRO: Enterprise Risk Management, Credit Risk Management, Asset & Liability Management Risk and Non-Financial Risk Management.

The CRO ensures that NN Bank's Management Board and NN Group are well informed and understand NN Bank's risk position at all times. At least every quarter, the CRO reports to the Supervisory Board on NN Bank's risk appetite levels and on NN Bank's risk profile. In addition, the CRO briefs NN Bank's Supervisory Board on developments in internal and external risk-related issues and ensures the Board committees understand specific risk concepts.

The CRO is responsible for the implementation and management of an adequate Risk Management system and a set of policy guidelines. The aim is to ensure that NN Bank's risk appetite, product offering and operations are within statutory limits set by the prudential supervisor, De Nederlandsche Bank (DNB), and compliant with the frameworks set by the NN Group Policy House NN Group's business principles.

The main objectives of risk management within NN Bank are as follows:

- To create and safeguard transparency, awareness and understanding of the risks associated with the products and portfolios, ensuring that the risk positions taken are carefully considered and in line with the formulated risk appetite
- To retain (potential) customers' and other stakeholders' confidence in NN Bank as a reliable financial service provider
- To generate sustainable profitability and stable shareholder value
- To comply with all relevant laws and regulations

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

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

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

Risk profile NN Bank

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

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

Solvency and liquidity risks

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

Non-financial risks

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

Emerging and strategic risks

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

Risk of not meeting strategic objectives due to:

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

Risk control cycle

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

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

Risk Strategy – Risk Appetite Framework

In line with the NN Group Risk Control Framework, NN Bank uses an integrated risk management approach for its banking activities. NN Bank's Management Board uses the NN Bank Risk Appetite Framework to determine which risks NN Bank wishes to take, to avoid, to retain and/or to remove. The Risk Appetite Framework consists of qualitative and quantitative statements as to risk preferences, risk

Notes to the Consolidated annual accounts Continued

tolerances, risk limits and risk controls. In order to verify that NN Bank remains within the Risk Appetite Framework, risk positions are monitored on at least a monthly basis, and reported to NN Bank's Management Board through its risk committees.

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

Qualitative risk appetite metrics

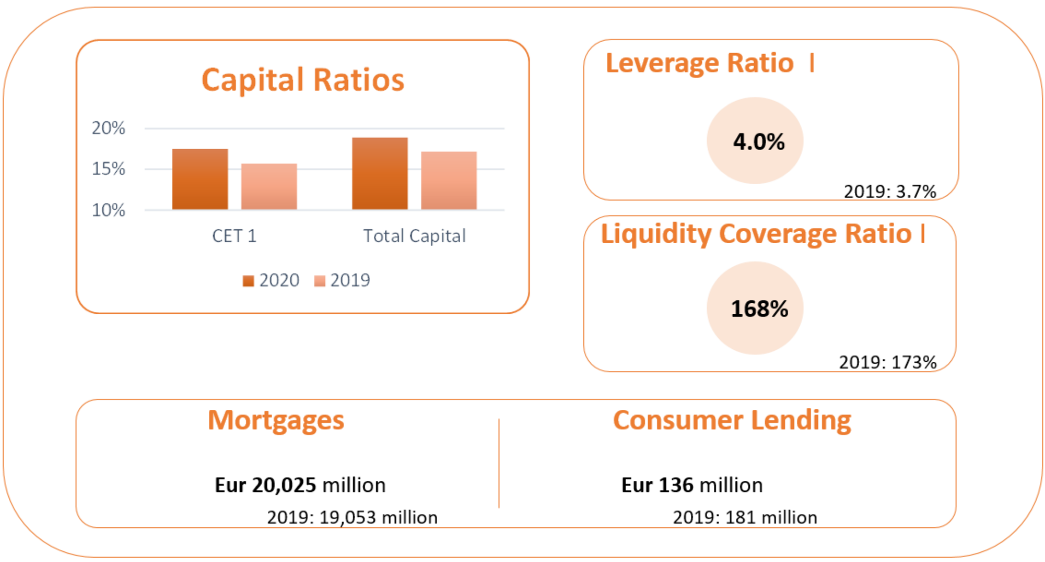
In line with the NN Group Risk Control Framework, NN Bank key qualitative risk appetite statements are as follows:

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

Quantitative risk appetite metrics

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

Key risk metrics



Notes to the Consolidated annual accounts Continued

		Level end of
	2020	2019
Common Equity Tier 1 ratio	17.4%	15.7%
Total capital ratio	18.9%	17.2%
Leverage ratio	4.0%	3.7%
Liquidity Coverage Ratio (LCR)	168%	173%

The increase in the balance sheet notwithstanding, NN Bank has maintained a solid capital position with a Total capital ratio of 18.9% and a CET1 ratio of 17.4% at year-end 2020. The leverage ratio stands at 4.0%. At the end of December 2020, NN Bank had an LCR of 168%. This is well above the regulatory target of 100% and internal minimums. It shows a solid liquidity position, given our liquidity risks.

Risk Assessment & Control

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

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

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

Product approval and review process (PARP)

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

Internal capital adequacy assessment (ICAAP) and liquidity adequacy assessment (ILAAP) processes

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

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

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

Stress-testing approaches include the following:

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

Recovery and resolution planning

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

Notes to the Consolidated annual accounts Continued

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

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

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

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

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

In December 2017, the Basel Committee on Banking Supervision (BCBS) announced Basel III revisions. These consist of a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches, changes to the use of advanced internal ratings-based approach and the introduction of a standardised measurement approach for operating risk, amongst others. BCBS members agreed to full, timely and consistent implementation of all elements of the reform package by 1 January 2023 as the main implementation deadline, with some revisions including the output floor to be phased in until 1 January 2028. The European Commission has stated that it is committed to this agreement and its faithful implementation in the EU, taking into account European specificities and the objective stated by co-legislators for the reforms not to result in a significant increase in the overall capital requirements for the banking sector. The public consultation, started by EC for implementing the final Basel III reforms in the EU, was closed on 3 January 2020.

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

Risk developments 2020
Integration Delta Lloyd Bank
The operational integration of NN Bank and Delta Lloyd Bank was finalised in 2020.

Brexit
On 31 January 2020, the United Kingdom formally left the European Union, and on 1 January 2021, the new trade agreement between the two parties came into effect. With regard to financial services, the implication of the new agreement is that UK service providers no longer benefit from automatic access to the EU Single Market. For NN Bank, this entails a limit on the services it can obtain from UK counterparts. NN Bank ensured it was prepared for this situation and put an EU-based framework in place to safeguard continuity of services.

NN Bank's derivatives portfolio is cleared via two clearing houses: LCH and Eurex. Due to the departure by the United Kingdom from the European Union as of 1 January 2021, LCH is no longer authorised under the European Market Infrastructure Regulation (EMIR) as a Central Clearing Counterparty and now requires a Third Country recognition under the European clearing obligations. The European Commission and European Securities and Markets Authority (ESMA) have granted temporary equivalence and recognition until 30 June 2022, ensuring clearing access to LCH for European parties for this period of time. Given the temporary nature of the decisions by the European Commission and ESMA, NN Bank will actively manage the distribution of exposures between both clearing houses.

Notes to the Consolidated annual accounts Continued

Credit risk

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

Covid-19

In response to the Covid-19 pandemic and government lockdown in European countries in general, and in the Netherlands in particular, NN Bank offers a (1- to 6-month) payment holiday for clients facing financial difficulties due to Covid-19. New EBA guidelines create possibilities to leave the reported customer's credit quality unchanged in the event that a Covid-19-related payment holiday is offered. In order to be eligible for such an exemption, payment measures must be offered to a large group of customers without specific acceptance criteria. Such payment agreements are referred to as 'payment moratoria'. NN Bank customers who are offered a payment holiday are classified as forborne and placed in Stage 2, as is the case with regular (not Covid-19-specific) payment holidays.

Clients who contacted NN Bank regarding financial problems due to Covid-19 make up 1.0% of the mortgage portfolio, and 0.8% of the mortgage portfolio was granted a payment holiday. For the consumer lending portfolio, 0.4% of the portfolio was granted a payment holiday. The majority (82%) of clients who were granted a payment holiday have recovered, showing that the impact of Covid-19 on the credit quality of our mortgage portfolio was limited in 2020. Today, 14% of those granted a payment holiday continue to have one, and 4% show structural payment problems for which the NN Bank arrears management policy applies. It is worth mentioning that 73% of the customers who received a payment holiday are self-employed.

The further impact of Covid-19 on the Dutch economy remains uncertain. Yet it is plausible that more customers will contact NN Bank in 2021 for financial support due to the continuous measures taken by the government to stop the spread of the Covid-19 virus.

Credit risk profile

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties (including bond issuers). Credit risks arise in NN Bank's lending and investment activities. Credit risk exposure is the total amount of outstanding, plus the unused portion of, commitments. As the distribution of the exposures is of great importance in correctly managing the credit risk exposure, NN Bank has established a Credit Risk Appetite Framework that is derived from the overall NN Bank risk appetite.

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

Credit risk portfolio & credit quality

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

Net exposure on mortgages

Amounts in thousands of euros	2020	2019
Balance amount[1]	20,025,360	19,053,051
Indexed market value primary cover	34,792,604	30,963,302
Secondary cover value[2]	1,812,951	1,712,426
NHG guarantee value	5,620,508	5,486,243
Total cover value + NHG guarantee capped at balance amount	20,006,175	19,002,949
Remaining exposure at risk[3]	19,184	50,102

1 Total amount reconciles to Stages 1-3 and Purchased or Originated Credit-Impaired loans, excluding the category 'no allocated stage'. Reference is made to Note 6 'Loans'.
2 For purposes of comparison, the 2019 'secondary cover value' is restated from EUR 1.3 billion to EUR 1.7 billion, to include the impact of EUR 385 million secondary cover value linked to the partial transfer of mortgage loans.
3 'Remaining exposure at risk' is calculated as 'Balance amount' minus 'Total cover value + NHG guarantee capped at balance amount'.

The table above shows the credit risk mitigants (covers and NHG guarantee, or national mortgage guarantee) of NN Bank's mortgage book. In addition to the total value of the different covers and guarantees, the net exposure is also calculated. This risk measure is calculated at loan level without double-counting any cover value or guarantee value. The value is capped at the carrying value. The net exposure is exposure without any type of cover or guarantee. This amount decreased in 2020 mainly due to an increase in the housing price index.

Notes to the Consolidated annual accounts Continued

Furthermore, new production shows a low net exposure. The reason is that for new loans, the maximum LTV is 100% and most loans have an annuity or linear redemption scheme (because of tax deduction). Since this year the secondary cover value linked to the partial transfer of mortgage loans is included in the figures.

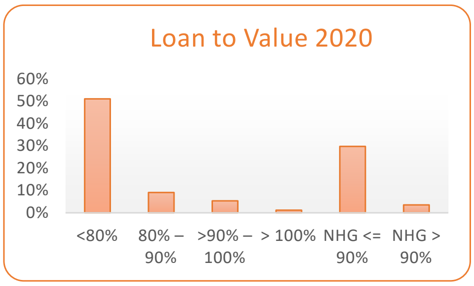
Please note that the NHG guarantee value is lower than the exposure that is flagged as such. This is because the NHG guarantee value decreases in time following an annuity scheme. For example, for interest-only loans, the loan exposure is stable while the NHG guarantee value decreases. For mortgages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

Loan-to-value

As at the end of 2020, NN Bank's mortgage book had a current loan to indexed market value ratio of 66% (2019: 70%), and 33% (2019: 34%) of the outstanding mortgage amounts are guaranteed under NHG. Effective in 2020, new residential mortgage loans below EUR 310,000 were eligible for coverage by public mortgage loan insurance under the NHG in the Netherlands. The NHG guarantees, to a large extent, the repayment of a loan in case of a forced property sale.

Mortgage portfolio by LTV segment

	2020	2019
<80%	51%	46%
80% – 90%	9%	10%
>90% – 100%	5%	7%
> 100%	1%	3%
NHG <= 90%	30%	29%
NHG > 90%	4%	5%
Total	**100%**	**100%**



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

Credit approval process

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

Past-due loans

Despite the negative consequences of Covid-19, the delinquencies in NN Bank's portfolio slightly decreased in 2020.

The mortgage portfolio is of good quality because of strict underwriting criteria and adequate problem loan management. Furthermore, the portfolio grew relatively quickly in the past few years because of a substantial level of newly originated loans (which typically have fewer delinquencies).

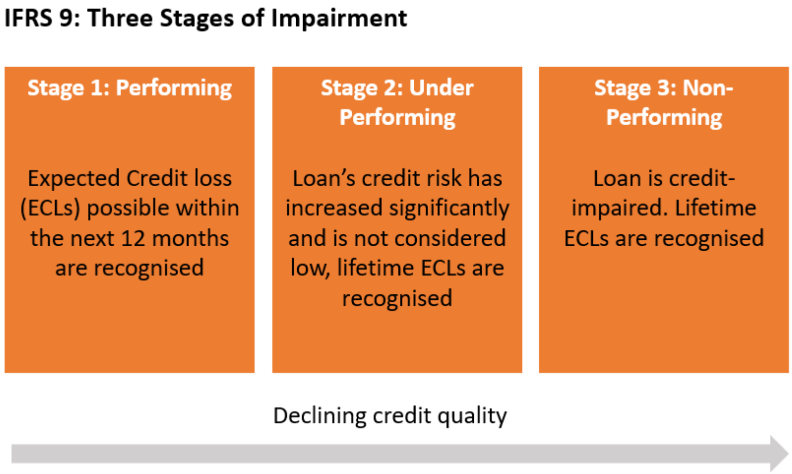
Delinquency

	Mortgages		Consumer lending		Total	
	2020[1/2]	2019[1]	2020[1/2]	2019[1]	2020[1/2]	2019[1]
0 days	19,787,210	18,751,347	119,418	161,152	19,906,628	18,912,499
1 – 30 days	117,994	174,478	3,673	5,039	121,667	179,517
31 – 60 days	35,308	50,981	1,434	1,924	36,742	52,905
61 – 90 days	40,744	32,532	435	808	41,179	33,340
> 90 days	44,104	43,713	11,660	12,234	55,764	55,947
Total	**20,025,360**	**19,053,051**	**136,620**	**181,157**	**20,161,980**	**19,234,208**

1 Total amount reconciles to Stages 1-3 and Purchased or Originated Credit-Impaired loans, excluding the category 'no allocated stage'. Reference is made to Note 6 'Loans'.
2 The delinquency breakdown is based on the old days past due counter (reference is made to page 50 on the definition of default).

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

Notes to the Consolidated annual accounts Continued



IFRS 9 Stages 1 and 2

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

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

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

IFRS 9 Stage 3

Stage 3 loans are qualified as non-performing (NPL) and receive a PD of 100%, a lifetime expected loss is calculated under IFRS 9. As can be derived from the table below, 1.3% (EUR 263 million) of the total loans to customers as at the end of 2020 (0.4% at the end of 2019), are classified as Stage 3. As a result of the Covid-19 pandemic, Stage 3 increased for both mortgages and consumer lending, due to the new regulatory guidelines on the definition of default (reference is made to page 50 on the definition of default).

Loans exposed to credit risk (Stages by exposure)

	Stage 1		Stage 2		Stage 3		POCI assets		Total	Total
	2020	2019	2020	2019	2020	2019	2020	2019	2020[1]	2019[1]
Mortgages	19,412,782	18,595,699	327,758	351,433	249,037	71,325	35,783	34,594	20,025,360	19,053,051
Consumer loans	118,447	160,371	4,086	8,033	14,087	12,753	0	0	136,620	181,157
Total	**19,531,229**	**18,756,070**	**331,844**	**359,466**	**263,124**	**84,078**	**35,783**	**34,594**	**20,161,980**	**19,234,208**

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

Risk costs

Risk costs are defined as net additions to the loan loss provisions, plus write-offs, minus recoveries. NN Bank's total risk costs over 2020 were positive (i.e. an increase in Loan Loss Provisions) and amounted EUR 3.5 million (1.7 bps), compared to EUR -1.1 million (-0.6 bps) over 2019.

Provisions by stage

	Stage 1		Stage 2		Stage 3		POCI assets		Total	Total
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Mortgages	1,652	2,130	2,196	1,474	9,355	4,619	580	435	13,783	8,658
Consumer loans	661	1,137	896	2,438	9,924	8,379	0	0	11,481	11,954
Total	**2,313**	**3,267**	**3,092**	**3,912**	**19,279**	**12,998**	**580**	**435**	**25,264**	**20,612**

Note: Under IFRS 9, NN Bank also calculates provisions for bonds (non-retail), which amounts to EUR 0.1 million per year-end 2020 (2019: EUR 0.5 million).

For the mortgage, consumer loans and bonds portfolio together, the stock of provisions as at year-end amounted to EUR 25.2 million (2019: EUR 21.1). The following remarks can be made:

Notes to the Consolidated annual accounts Continued

- The Stage 3 provisions increased by EUR 7.2 million as a result of the new regulatory guidelines on the definition of default
- The Covid-19 pandemic led to an increase in provisions. This increase in provisions is caused by a negative adjustment in the macro-economic outlook and an inflow in Stage 2 provisions for clients that were offered a payment holiday.
- For mortgages, the impact of Covid-19 and new guidelines on default is partly offset by a housing price increase in 2020 (8.1%).
- For consumer loans, the impact of Covid-19 and new guidelines on default is partly offset by a decrease in the size of the portfolio
- Write-offs minus recoveries were EUR -0.3 million, of which EUR -0.2 million for mortgages. Write-offs were low due to low unemployment and a strong housing price increase in 2020.
- Although the impact of Covid-19 on the risk costs was limited in 2020, NN Bank expects further impact from Covid-19 in 2021

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

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

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

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

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

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

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

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

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

- The contract is considered to be performing and has been reported as 'performing forbearance' for a minimum of two years
- The client is less than 30 days past due at the end of the forbearance reporting period

The underlying NN Bank exposure classified as forborne as at year-end 2020 amounted to EUR 196 million (1.0% of mortgage exposure). This percentage sharply increased as a result of the payment holiday that was offered in response to the Covid-19 pandemic.

Forbearance category in percentage of total lending exposure

	2020[1]	2019
Restructuring	0.13%	0.17%
Terms & conditions	0.84%	0.13%
Total forbearance	**0.97%**	**0.30%**

1 The forbearance classification is based on the old definition of default (reference is made to page 50 on the definition of default).

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

Business risk
NN Bank is exposed to interest rate-related customer behaviour risk that influences volumes and margins. ALM Risk Management models the customer behaviour in relation to mortgages, loans and savings. Models and parameters are reviewed at least annually and updated

Notes to the Consolidated annual accounts Continued

when deemed necessary. In the modelling of savings, different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses result in an investment rule for the various portfolios. With respect to mortgages and consumer loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled, if applicable.

Convexity risk

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

Risk profile

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

Value perspective

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

- Effective duration
- NPV at Risk

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

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

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

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

NPVaR

Percentage of total equity	2020	2019
Parallel shift 200 basis points	-1.6%	-0.4%

Exposure to NPVaR per end-of 2020 is well below regulatory and internal limits.

Earnings at Risk

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

In the table below, the EaR figures for a 1% parallel shock with a one-year horizon are shown. The EaR is expressed as a percentage of the interest result, taking the worst-case impact of the up-and-down 100 basis points parallel shock scenarios. A negative percentage means a negative impact on the expected interest income. NN Bank measures EaR for both parallel and non-parallel scenarios.

Earnings at Risk

Percentage of interest result	2020	2019
Parallel shift 100 basis points	-4.1%	-4.1%

EaR exposure remained at the same level as per year-end 2019, with a positive net repricing gap on the one-year horizon creating earnings sensitivity to IR down scenarios. During 2020, this gap increased but the impact was offset by the effect of EBA-prescribed flooring on the lower yield curve. The exposure is well within appetite.

Notes to the Consolidated annual accounts Continued

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

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

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

Strategic liquidity risk profile
NN Bank manages its balance sheet prudently, whereby NN Bank aims to fund the longer-term assets with stable and longer-term liabilities. Monitoring and control of the funding is achieved through a dedicated funding and liquidity framework. Each year, the business strategy is translated into a funding plan for a minimum of three years. The funding plan and corresponding liquidity gap are monitored in the ALCO on a monthly basis. In 2020, NN Bank issued long-term covered bonds to manage the long-term mismatch between assets and liabilities. Furthermore, an RMBS (Hypenn VII) was placed in the market, for which the notes are included in NN Bank's liquidity buffer. These serve as a backup in case of a prolonged Covid-19 scenario or other (liquidity) crisis.

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

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

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

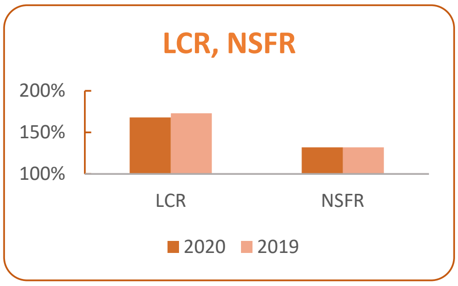
- Liquidity Coverage Ratio (LCR), and
- Net Stable Funding Ratio (NSFR)

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

Contingency liquidity risk
Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in times of stress. Within NN Bank, for contingency purposes, a specific crisis team – consisting of key Board members and representatives from staff departments (e.g. Finance, Risk and Treasury) – is responsible for liquidity management in times of crisis. Due to the uncertainties in the markets following the Covid-19 outbreak, NN Bank activated the crisis team. The meeting frequency decreased as markets recovered. Throughout the organisation, an adequate and up-to-date contingency funding plan is in place to enable senior management to act effectively and efficiently in times of crisis.

Liquidity position
Liquidity measures

	2020	2019
LCR	168%	173%
NSFR	132%	132%



At the end of December 2020, NN Bank had an LCR of 168% and an NSFR of 132%. This is well above the regulatory and internal minimums. It shows a solid liquidity position given our liquidity risks. In addition to the available liquidity as captured by the LCR and the NSFR, NN Bank has other sources of liquidity available.

Notes to the Consolidated annual accounts Continued

Non-financial risk management

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

Scenario analysis

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

Operational risk

Risk profile

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk for the purpose of a minimum regulatory operational risk capital charge.

Risk mitigation

For operational risk, NN Group has developed a framework that governs the process of identifying, assessing, mitigating, monitoring and reporting operational risks. Operational risk assessments are conducted on a strategic level and business level and are forward-looking. Based on the identified risks, measures have been implemented to mitigate them within risk appetite. NN Bank conducts regular risk and control monitoring to evaluate the risks and the effectiveness of the controls. The business process owners are responsible for the actual execution of the controls, and for assessing the adequacy of their internal controls. Operational risk management, as part of the Second Line of Defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN Bank non-financial risk and control framework.

Business conduct risk

Risk profile

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

Risk mitigation

NN Bank is committed to upholding its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which the company operates. All employees are expected to adhere to these laws, regulations and ethical standards, and management is responsible for ensuring such compliance. Compliance is therefore an essential ingredient of good corporate governance.

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

In addition to effective reporting systems, NN Bank has a whistle-blower procedure that protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or business principles. NN Bank also has policies and procedures regarding anti-money-laundering, sanctions and anti-terrorist-financing, gifts and entertainment, anti-bribery, customer suitability and confidential and insider information. The NN Group Code of Conduct is applicable for its personnel.

NN Bank is fully committed to complying with all applicable sanction legislation, and with all obligations and requirements under those applicable laws, including freezing and reporting obligations with regard to transactions involving a US-, EU- or UN-sanction target. Furthermore, NN Group designates specific countries as ultra-high risk, and prohibits client engagements and transactions (including payments or facilitation) involving those countries. Certain exceptions to this policy are allowed, after explicit and case-specific consent, and provided that the applicable sanctions laws and regulations are met. At present, the specified ultra-high risk countries are North Korea, Sudan (North Sudan), Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US, and other sanction regimes.

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

Notes to the Consolidated annual accounts Continued

40 Capital management

Regulatory requirements

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

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

Capital management process

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

Important inputs to the capital and liquidity planning and management process are provided by stress testing that is performed on a regular basis as part of the ICAAP and ILAAP processes. These stress tests focus on topical issues and the sensitivity of NN Bank's capital position to certain risks. These analyses determine risk appetite and provide input that help to steer strategic direction. In addition, this information is important input for the annual Supervisory Review and Evaluation Process (SREP) performed by the regulator, resulting in capital requirements for NN Bank. Given the macro-economic uncertainty due to Covid-19, the outcome of the SREP process was that the capital requirements were kept unchanged.

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

Capital adequacy

Capital position

Amounts in millions of euros	2020	2019
Common Equity Tier 1 Capital	1,047	926
Total capital[1]	1,132	1,011
Risk Weighted Assets	6,001	5,894
Common Equity Tier 1 ratio[1]	17.4%	15.7%
Total capital ratio[1]	18.9%	17.2%

1 These capital ratios are not final until filed with the regulators and exclude net result for the second half year 2020, for which approval of inclusion is not yet obtained. If DNB approves the addition of the net result after payment of dividend, the Total capital is EUR 1,183 million, with a total capital ratio of 19.7% and CET1 ratio of 18.3%.

Despite the balance sheet increase, NN Bank has maintained a solid capital position with a Capital Requirements Regulation (CRR) total capital ratio of 18.9% (31 December 2019: 17.2%) and a CRR CET1 ratio of 17.4% as of 31 December 2020 (31 December 2019: 15.7%). Common Equity Tier 1 Capital amounts to EUR 1,047 million (31 December 2019: EUR 926 million) and has increased mainly due to internal capital generation in the form of retained profit.

Liquidity adequacy

During 2020, NN Bank maintained an adequate liquidity position.

	2020	2019
Liquidity Coverage Ratio (LCR)	168%	173%
Net Stable Funding Ratio (NSFR)	132%	132%
Loan-to-Deposit ratio (LtD)	127%	128%

On 31 December 2020, NN Bank had an LCR ratio of 168%. This is well above regulatory and internal minimums. In addition to the available liquidity as captured by the LCR, NN Bank has other sources of liquidity available. NN Bank has issued RMBSs for which the notes are included in NN Bank's liquidity buffer. These can be used for ECB standing facilities (excl. emergency facilities) and commercial repo transactions. Further, NN Bank had external credit facilities in place for use when necessary.

In addition to its liquidity ratio, NN Bank uses two ratios to measure and monitor the Bank's funding position. The NSFR ratio is defined as the amount of available stable funding relative to the amount of required stable funding. The objective of the NSFR is to incentivise banks to fund their activities from stable sources of funding on an ongoing basis. On 31 December 2020, NN Bank had a NSFR ratio of 132%. This is well above regulatory and internal minimums.

The LtD ratio is a statistic for assessing a bank's deposit funding gap by dividing the bank's total volume of commercial loans by its retail deposits. This ratio is used for a diversified funding base and gives an indication of the bank's dependence on wholesale funding for financing client loans. On 31 December 2020, NN Bank had an LtD ratio of 127%.

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

Notes to the Consolidated annual accounts Continued

Dividend policy

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

In the second half of 2019, NN Bank paid an interim dividend of EUR 26.2 million relating to the profit for the first half of 2019. The 2019 interim dividend was paid in cash, and was deducted from the retained earnings. No final dividend over 2019 or interim dividend over 2020 was paid in accordance with the recommendation of the Dutch regulator.

NN Bank proposes a final dividend over 2020 of EUR 12.0 million, in line with the recommendations of the ECB and DNB under the current Covid-19 pandemic. When supervisory restrictions or recommendations on dividend payments are lifted, NN Bank will steer its capital towards its capital targets through dividend payments.

Authorisation to the Consolidated annual accounts

The Consolidated annual accounts of NN Bank for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the NN Bank Management Board on 25 March 2021.

The Hague, 25 March 2021

The Management Board

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

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

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

The Supervisory Board

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

A.A.G. (André) Bergen

D. (Delfin) Rueda

T. (Tjeerd) Bosklopper

A.M. (Anne) Snel-Simmons

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

Parent company annual accounts

Parent company balance sheet
Amounts in thousands of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result	notes	2020	2019
Assets			
Cash and balances at central banks		2,585,528	1,660,465
Amounts due from banks	2	349,088	547,018
Financial assets at fair value through profit or loss:			
– non-trading derivatives		57,995	88,198
Investment securities		933,334	2,027,326
Loans	3	20,566,790	19,066,106
Receivables from group companies	4	1,085,792	1,189,225
Other assets	5	131,855	97,658
Investments in group companies	6	107,961	88,903
Intangible assets		23,755	13,683
Total assets		**25,842,098**	**24,778,582**
Liabilities			
Amounts due to banks		438,583	314,053
Customer deposits and other funds on deposit		15,742,735	15,078,921
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives	7	116,821	285,313
Other borrowed funds		470,000	780,000
Other liabilities	8	65,350	89,050
Deferred tax liabilities		11,609	14,813
Provisions		6,402	5,705
Debt securities issued	9	5,494,393	4,534,607
Loans from group companies	10	2,275,495	2,583,047
Subordinated debt		85,000	85,000
Total liabilities		**24,706,388**	**23,770,509**
Equity			
Share capital		10,000	10,000
Share premium		481,000	481,000
Revaluation reserve		2,457	147
Retained earnings		516,995	400,755
Unappropriated result		125,258	116,171
Shareholders' equity	11	**1,135,710**	**1,008,073**
Total equity and liabilities		**25,842,098**	**24,778,582**

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

Parent company profit and loss account

Amounts in thousands of euros, unless stated otherwise

Parent company profit and loss account

For the year ended 31 December	notes		2020		2019
Interest income		650,278		647,448	
Interest expenses		471,010		489,656	
Interest result	12		179,268		157,792
Income from group companies	6		16,930		19,496
Gains and losses on financial transactions and other income	13		112,128		135,739
– gross fee and commission income		118,772		111,313	
– fee and commission expenses		11,793		9,690	
Net fee and commission income	14		106,979		101,623
Valuation results on non-trading derivatives	15		-21,459		-41,546
Total income			**393,846**		**373,104**
Impairment charges on financial instruments			3,536		-1,117
Staff expenses			114,554		113,344
Regulatory levies			20,377		17,315
Other operating expenses			91,722		93,739
Total expenses			**230,189**		**223,281**
Result before tax			**163,657**		**149,823**
Taxation			38,399		33,652
Net result			**125,258**		**116,171**

Parent company statement of changes in equity

Amounts in thousands of euros, unless stated otherwise

Parent company statement of changes in equity (2020)

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

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

Parent company statement of changes in equity (2019)

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

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

Notes to the Parent company annual accounts

Amounts in thousands of euros, unless stated otherwise

1 Accounting policies for the Parent company annual accounts

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

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

2 Amounts due from banks

	2020	2019
Bank balances	13,168	19,939
Collateral posted	335,920	527,079
Amounts due from banks	**349,088**	**547,018**

3 Loans

Loans analysed by type

Loans analysed by type	2020	2019
Loans secured by mortgages, guaranteed by public authorities	5,014,674	4,668,318
Loans secured by mortgages	14,852,181	13,949,059
Consumer lending, other	136,620	181,064
Other loans	306,749	0
Group companies	281,773	288,197
Loans – before loan loss provisions	**20,591,997**	**19,086,638**
Loan loss provisions	-25,207	-20,532
Loans	**20,566,790**	**19,066,106**

Structured entities

Reference is made to Note 35 'Structured entities' in the Consolidated annual accounts. As these securitisation transactions did not transfer substantially all the risk and rewards, NN Bank continues to recognise mortgage receivables. For the same reason, with reference to the balance sheet item 'Derivatives', the non-trading derivative transactions of EUR 22.2 million are recognised (2019: EUR 49.9 million).

Changes in loans

	2020	2019
Loans to third parties – opening balance	19,086,638	17,365,347
Mortgage portfolio transfer	437,329	572,172
Partial transfers of mortgage loans	13,895	35,182
Origination	4,391,029	3,756,897
Sale of mortgages	-1,135,220	-947,979
Amstelhuys and OHF merger 1 December 2019	0	30,312
Change in mortgage premium	-18,679	-25,648
Fair value change hedged items	327,459	393,473
Other changes	133,441	2,766
Modifications	3,399	6,057
Redemptions	-2,625,092	-2,090,899
Changes in staging	-22,201	-11,042
Loans to third parties – closing balance	**20,591,997**	**19,086,638**

4 Receivables from group companies

Changes in receivables from group companies

	2020	2019[1]
Receivables from group companies – opening balance	1,189,225	1,176,095
Movement	-103,433	13,130
Receivables from group companies – closing balance	**1,085,792**	**1,189,225**

1 The comparative figures changed due to a change in interest calculation on the loan from NN Bank N.V. to HQ Hypotheken 50 B.V.

'Receivables from group companies' consists of loans to Woonnu B.V. and to HQ Hypotheken 50 B.V. for the funding of the third-party loans as serviced by Quion. The interest for 2020 is the same as 2019, and is based on Euro OverNight Index Average (EONIA) with an add-on of 0.6%.

Notes to the Parent company annual accounts Continued

5 Other assets

Other assets by type

	2020	2019
Accrued assets	33,327	32,480
Other receivables	98,528	65,178
Other assets	**131,855**	**97,658**

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

6 Investments in group companies

Investment in group companies

	Interest held 2020	Balance sheet value 2020	Interest held 2019	Balance sheet value 2019[1]
HQ Hypotheken 50 B.V.[1]	100%	107,838	100%	88,780
Nationale-Nederlanden Beleggingsrekening N.V.	100%	123	100%	123
Woonnu B.V.	100%	0	100%	0
Investments in group companies		**107,961**		**88,903**

Changes in investments in group companies

	2020	2019[1]
Investments in group companies – opening balance	88,903	69,407
Results from group companies	16,930	19,496
Value adjustment group companies	2,128	0
Investments in group companies – closing balance	**107,961**	**88,903**

1 The comparative figures changed due to a change in interest calculation on the loan from NN Bank N.V. to HQ Hypotheken 50 B.V.

7 Non-trading derivatives

Non-trading derivatives

	2020	2019
Derivatives held for fair value hedge accounting	114,508	264,880
Other non-trading derivatives	2,313	20,433
Non-trading derivatives	**116,821**	**285,313**

8 Other liabilities

Other liabilities

	2020	2019
Income tax payable	10,460	17,803
Accrued interest	14,283	12,226
Costs payable	13,906	7,562
Other taxation and social contribution	14,529	13,524
Other amounts payable	12,172	37,935
Other liabilities	**65,350**	**89,050**

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

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

9 Debt securities issued

	2020	2019
Covered bond issues	3,888,911	2,614,583
Unsecured debt securities	1,605,482	1,920,024
Total	**5,494,393**	**4,534,607**

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

Notes to the Parent company annual accounts Continued

10 Loans from group companies

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

11 Equity

Equity

	2020	2019
Share capital	10,000	10,000
Share premium	481,000	481,000
Revaluation reserve	2,457	147
Retained earnings	516,995	400,755
Unappropriated result	125,258	116,171
Total equity	**1,135,710**	**1,008,073**

Share capital

			Ordinary shares	
	Shares in number		Amount (in EUR thousand)	
	2020	2019	2020	2019
Authorised share capital	5,000,000	5,000,000	50,000	50,000
Unissued share capital	4,000,000	4,000,000	40,000	40,000
Issued share capital	**1,000,000**	**1,000,000**	**10,000**	**10,000**

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

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

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

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

'Revaluation reserve' cannot be freely distributed. Share premium reserves are not freely distributable up to the negative amount of Retained Earnings.

The total amount of 'Equity' in the Parent company annual accounts equals 'Shareholder's equity' in the Consolidated annual accounts.

The Distributable reserves based on the Dutch Civil Code in the Parent company annual accounts is equal to the Distributable reserves included in the Consolidated annual accounts, except for the Positive components of Share of associates reserve which is EUR 0.1 million (2019: EUR 0.1 million). The total Distributable reserves based on the Dutch Civil Code in the Parent company annual accounts is EUR 1,099.4 million (2019: EUR 984.1 million).

Notes to the Parent company annual accounts Continued

12 Interest result

Interest result

	2020	2019
Interest income on loans	595,521	574,059
Modifications	3,460	6,057
Interest income on non-trading derivatives	47,675	66,550
Negative interest on liabilities	3,622	782
Total interest income	**650,278**	**647,448**
Interest expenses on amounts due to banks	112	12,790
Interest expenses on customer deposits and other funds on deposit	155,186	167,653
Interest expenses on debt securities issued and other borrowed funds	34,891	17,236
Interest expenses on subordinated loans	1,526	2,803
Interest expenses on non-trading derivatives	109,134	112,881
Negative interest on assets	7,413	6,578
Other interest expenses	1,815	4,940
Interest expenses on structured entities	160,933	164,775
Total interest expenses	**471,010**	**489,656**
Interest result	**179,268**	**157,792**

'Negative interest on assets' includes negative interest income charged by DNB of EUR 5.4 million (2019: EUR 5.3 million). The remainder concerns interest on non-trading derivatives and investment securities.

Interest margin in percentages

	2020	2019
Interest margin	**0.71%**	**0.68%**

'Interest margin' is calculated by dividing the interest result by the average of the total assets for year-end 2020 and 2019, respectively.

13 Gains and losses on financial transactions and other income

	2020	2019
Realised gains or losses of investment securities	10,742	7,297
Results from financial transactions	76,759	99,499
Net income from loans measured at FVTPL	-3,353	12,656
Other income	27,980	16,287
Gains and losses on financial transactions and other income	**112,128**	**135,739**

14 Net fee and commission income

Net fee and commission income

	2020	2019
Service management fee	44,624	40,818
Brokerage and advisory fees	74,148	70,495
Gross fee and commission income	**118,772**	**111,313**
Asset management fees	7,662	5,770
Brokerage and advisory fees	4,056	3,364
Other fees	75	556
Fee and commission expenses	**11,793**	**9,690**
Net fee and commission income	**106,979**	**101,623**

15 Valuation results on non-trading derivatives

	2020	2019
Gains or losses (fair value changes) in fair value hedge accounting relating to:		
– the hedging instrument (non-trading derivatives)	-299,686	-390,575
– the hedged items (mortgages) attributable to the hedged risk	304,010	383,869
Gains or losses (fair value changes) in other non-trading derivatives	-25,783	-34,840
Valuation results on non-trading derivatives	**-21,459**	**-41,546**

Notes to the Parent company annual accounts Continued

16 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	2,585,528	0	0	0	0	2,585,528
Amounts due from banks	13,168	335,920	0	0	0	349,088
Loans	278,611	47,461	157,080	1,439,417	18,644,221	20,566,790
Liabilities						
Amounts due to banks	15,599	178,000	135,000	109,984	0	438,583
Customer deposits and other funds on deposit	9,934,881	124,965	581,622	2,146,007	2,955,260	15,742,735
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	0	0	2,605	114,216	116,821
Debt securities issued	0	0	208,760	2,798,244	2,487,389	5,494,393

Analysis of certain assets and liabilities (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances at central banks	1,660,465	0	0	0	0	1,660,465
Amounts due from banks	19,939	527,079	0	0	0	547,018
Loans	75,257	61,568	158,273	1,132,047	17,638,961	19,066,106
Liabilities						
Amounts due to banks	43,353	27,500	168,700	74,500	0	314,053
Customer deposits and other funds on deposit	9,276,005	122,002	570,495	2,174,872	2,935,547	15,078,921
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	164	3,259	13,372	268,518	285,313
Debt securities issued	0	0	330,927	1,990,466	2,213,214	4,534,607

17 Contingent liabilities

Contingent liabilities and commitments (2020)

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

Contingent liabilities and commitments (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	0	0	0	0	1,043	1,043
Irrevocable credit facilities	110,619	0	0	0	0	110,619
Mortgage and consumer lending offerings	259,113	559,271	297,026	0	0	1,115,410
Construction deposits	23,975	52,265	167,530	126,348	7	370,125
Contingent liabilities and commitments	**393,707**	**611,536**	**464,556**	**126,348**	**1,050**	**1,597,197**

18 Related parties

NN Bank has entered into transactions with its principal subsidiary, HQ Hypotheken 50 B.V. and Woonnu B.V. 'Receivables from group companies' comprises a loan for funding purposes of the mortgage origination by Quion Hypotheekbemiddeling B.V. on behalf of NN Bank's subsidiary. The interest expenses for 2020 amount to EUR 1.1 million (2019: EUR 2.2 million).

Woonnu B.V. originates mortgages directly on behalf of NN Bank and receives an origination fee for this service. The related origination fee amounts to EUR 1.1 million (2019: EUR 0 million).

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

Notes to the Parent company annual accounts Continued

19 Other

Fiscal unity

NN Bank and its subsidiaries (excluding consolidated structured entities) are part of the Dutch fiscal unity of NN Group for corporation tax purposes, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern NN Group's receivables and payables.

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Bank for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Management Board on 25 March 2021.

The Hague, 25 March 2021

The Management Board

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

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

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

The Supervisory Board

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

A.A.G. (André) Bergen

D. (Delfin) Rueda

T. (Tjeerd) Bosklopper

A.M. (Anne) Snel-Simmons

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

Other information

Independent auditor’s report

Independent auditor's report

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

Report on the audit of the annual accounts 2020 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2020 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code; and
- the accompanying parent company annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Bank N.V. as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the annual accounts 2020 of Nationale-Nederlanden Bank N.V. (‘the Company’ or ‘NN Bank’) based in The Hague. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1 the consolidated balance sheet as at 31 December 2020;
2 the following consolidated statements for 2020: the profit and loss account and the statements of comprehensive income, cash flows and changes in equity; and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1 the parent company balance sheet as 31 December 2020;
2 the parent company profit and loss account for 2020;
3 the parent company statement of changes in equity for 2020; and
4 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of NN Bank in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality

— Materiality of EUR 6 million
— 3.5% of result before tax

Group audit

— 100% audit coverage of total assets and total liabilities
— 100% audit coverage of revenue

Key audit matters

— Estimation uncertainty with respect to impairment losses on mortgage loans
— Reliability and continuity of electronic data processing

Opinion

Unqualified

Independent auditor's report Continued

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 6 million (2019: EUR 6 million). The materiality is determined with reference to the result before tax. We consider result before tax as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts and given the fact that NN Bank is a profit-oriented entity. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 0.3 million (2019: EUR 0.24 million) which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NN Bank has three fully owned subsidiaries: HQ Hypotheken 50 B.V., Nationale-Nederlanden Beleggingsrekening N.V. and Woonnu B.V. Through HQ Hypotheken 50 B.V., NN Bank offers mortgage loans to customers via a business partner. Nationale-Nederlanden Beleggingsrekening N.V. is a dormant entity, currently not conducting any business or other activities. Woonnu B.V. was founded in 2019 and commenced business in August 2020 and serves as a mortgage loan originator under the label 'Woonnu' for and on behalf of NN Bank and other entities.

The financial information of these subsidiaries is included in the annual accounts of NN Bank. We are ultimately responsible for the opinion on these annual accounts and therefore we are responsible for directing, supervising and performing the group audit. In addition, part of the account balances included in the consolidated annual accounts of NN Bank are serviced by external business partners or service providers within NN Group. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group purposes.

We have:

- performed audit procedures ourselves at NN Bank level;
- made use of the work of other auditors, appointed by the business partners (service organisations) of NN Bank, for the account balances of HQ Hypotheken 50 B.V. and the mortgage portfolio originated by Woonnu for and on behalf of NN Bank. We, furthermore, made use of the work performed by auditors of certain service providers within NN Group in respect of investment securities and personnel related accounts and disclosures;
- sent audit instructions to the aforementioned auditors (hereafter also referred to as 'component auditors'), covering significant areas, including the relevant risks of material misstatements, and set out the information required to be reported to us.

Independent auditor's report Continued

As group auditor we have satisfied ourselves that the audit work performed by the component auditors meets the requirements set out in the audit instructions that we have sent. Our procedures included regular communication about the assessment of risks and audit responses thereto. Furthermore, we discussed the information reported to us, including audit observations, and performed a review of the audit files to ensure these are consistent with the instructions sent by us and support the audit opinion provided by the component auditor on the financial information that we relied upon in the completion of our audit of NN Bank.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the annual accounts.

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

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

- to identify and assess the risks of material misstatement of the annual accounts due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the annual accounts due to non-compliance with laws and regulations; and
- to obtain a high (but not absolute) level of assurance that the annual accounts, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Management Board, with oversight by the Supervisory Board.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

Independent auditor's report Continued

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Company and we inquired with the Management Board as to whether the entity is in compliance with such laws and regulations and inspected correspondence with relevant licensing and regulatory authorities such as the Autoriteit Financiële Markten ('AFM') and De Nederlandsche Bank ('DNB').

The potential effect of the identified laws and regulations on the annual accounts varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the annual accounts, including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and therefore no additional audit response is necessary.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the annual accounts, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

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

In accordance with the auditing standards we evaluated the following fraud and non-compliance risk that is relevant to our audit:

- management override of controls (a presumed fraud risk).

Based on our risk assessment, we rebutted the presumed fraud risk on revenue recognition given the non-complex and routine nature of revenue recognition applied by the Company.

We communicated the identified risks of fraud and non-compliance with laws and regulations throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit.

In all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matter 'Estimation uncertainty with respect to impairment losses on mortgage loans', that provides an example of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

Independent auditor's report Continued

We communicated our risk assessment and audit response to management and the Audit Committee of the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our response

We performed the following audit procedures (not limited) to respond to the assessed risks:

- We evaluated the design and the implementation of internal controls that mitigate fraud risks. In case of internal control deficiencies, where we considered there would be opportunity for fraud, we performed supplemental detailed risk-based testing.
- We performed data analyses of high-risk journal entries and evaluated key estimates and judgements for bias by the Company. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included tracing transactions back to source information.
- We incorporated elements of unpredictability in our audit.
- We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures.
- We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the annual accounts.
- We considered the effect of actual, suspected or identified risk of non-compliance as part of our procedures on the related financial statement items.
- We inspected all correspondence with the regulatory bodies DNB and AFM for the year and inquired with management and other relevant functionaries of the Company in order to assess the impact of such correspondence.

We do note that our audit is not primarily designed to detect fraud and non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the annual accounts, the less likely it is that the inherently limited procedures required by auditing standards will identify it. In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent auditor's report Continued

Our key audit matters

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

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

Compared to last year, the key audit matters with respect to the financial impact of the amended mortgage interest rate pricing system and IT migration risk are not included, as both matters specifically related to the financial year 2019 and previous years. Furthermore, compared to last year, a key audit matter with respect to the reliability and continuity of electronic data processing has been added.

Estimation uncertainty with respect to impairment losses on mortgage loans

Description

The largest part of the loan portfolio secured by mortgages ('mortgage loans') of NN Bank is classified as 'held to collect' and therefore measured at amortised cost. The mortgage loans measured at amortised cost amount to EUR 20.6 billion. The amortised cost is determined by subtracting the provision for loan losses from the outstanding balance of the mortgage loans.

In accordance with IFRS 9, NN Bank applies an expected credit loss approach to determine the provision for loan losses. Certain aspects of the determination of expected loan losses require significant judgement of management, such as the definition of significant increase in credit risk and the definition of default, the determination of the probability of default using migration matrices, the application of macro-economic scenarios and estimating the recoverable amount to determine the 'Loss Given Default'.

Due to the significance of loans secured by mortgages and the related estimation uncertainty, we consider the estimation uncertainty around the valuation of mortgage loans a key audit matter.

Our response

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

Our procedures over internal controls focused on controls around the accuracy of mortgage loan and collateral data, and the process for identifying increases in credit risk, such as arrears and the management thereof, and included an assessment of the relevant General IT Controls of the systems involved.

Independent auditor's report Continued

In our substantive procedures:

- we recalculated the 'Probability of Default', 'Loss Given Default' and 'Exposure at Default' for a sample of mortgage loans, and determined that the provision is calculated as the product of these elements. As the models used for the determination of the loan loss provision for mortgages were identical to year-end 2019, no new validation reports have been inspected. The existing validation reports have been issued by an independent department within NN Group. In our audit we assessed whether the models are still 'fit-for-purpose' and considered the need for post model adjustments to accurately capture credit risk developments;
- we tested the accuracy and completeness of the data used for the calculations. As part of that, we tested whether the source data could be reconciled with the data captured in risks systems and the general ledger.
- we inspected for a selection of loans from the mortgage portfolio whether the data administered could be reconciled to source documentation. Important data to determine the provision for loan losses includes the collateral value and the income of the mortgage client;
- we performed procedures on the non-performing and forbearance classification of mortgage loans, in respect of the staging of loans, and therefore inspected for a selection of loans whether their classification is in line with source documentation. In our procedures with regard to the stage classification we also assessed the treatment of payment holidays granted in response to the Covid-19 pandemic;
- we assessed whether the macro-economic scenarios used in the determination of the provision for loan losses are a fair reflection of the macro-economic data and forecasts (GDP, unemployment and house price index) as at 31 December 2020; and
- we assessed whether the disclosures appropriately address the uncertainty that exists when determining the expected credit losses, including the impact of applying different macro-economic scenarios, and whether the disclosure of the key judgements and assumptions made was sufficiently clear. This was in particular relevant given the changed conditions and increased estimation uncertainty resulting from the Covid-19 pandemic.

Our observation

Based on our procedures performed, we conclude that the expected credit losses for the portfolio of loans secured by mortgages as determined by NN Bank is within an acceptable range and that NN Bank adequately disclosed information on the estimation uncertainty in note 1, note 6 and note 39 to the annual accounts. To further increase the robustness of the expected credit loss models used, we have made recommendations to management to enhance the documentation of data lineage, (historical) data quality and to further strengthen the model development and model validation process.

Independent auditor's report Continued

Reliability and continuity of electronic data processing

Description

NN Bank and its financial reporting process are highly dependent on the reliability and the continuity of information technology due to the significant number of transactions that are processed on a daily basis. An adequate IT infrastructure ensures the reliability and continuity of the Company's business processes and the accuracy of financial reporting.

As the reliability and continuity of IT systems may have an impact on automated data processing and given the pervasive nature of the IT general control environment, we consider this a key audit matter.

Our response

- We obtained an understanding of the IT organisation and developments in the IT infrastructure to determine how it impacts the Company's processes.
- We assessed the impact of changes to the IT environment during the year, either from ongoing internal process optimisation initiatives or in order to meet external reporting requirements.
- We tested the design, implementation and operating effectiveness of General IT Controls related to user access management and change management across applications, databases and operating systems.
- In some areas where we had observations in terms of the effectiveness of internal controls, we performed additional procedures over the remedial control actions taken by management on access and change management for the related systems.
- We tested application controls over automated data processing, data feeds and interfaces when relevant for financial reporting.
- We assessed the reliability and continuity of automated data processing only to the extent necessary within the scope of the audit of the annual accounts.
- We inquired with management on their initiatives and processes to address cybercrime.

Our observation

Based on the testing of General IT Controls, we obtained sufficient and appropriate audit evidence to support our IT-driven audit approach.

The results of the procedures performed regarding user access management and change management, including the testing of remedial control actions, were satisfactory in relation to our audit. Based on the procedures performed, we noted points for improvement in these areas that we have shared with the Management Board and the Supervisory Board.

Independent auditor's report Continued

Report on the other information included in the annual report

In addition to the annual accounts and our independent auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the annual accounts and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the annual accounts.

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

Report on other legal and regulatory requirements

Engagement

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

We have been reappointed by the General Meeting of Shareholders on 29 May 2019 to continue to serve as NN Bank's external auditor for the financial years 2020 up to and including 2022.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Services rendered

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

Independent auditor's report Continued

Description of responsibilities regarding the annual accounts

Responsibilities of the Management Board and the Supervisory Board for the annual accounts

The Management Board is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

Our responsibilities for the audit of the annual accounts

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the annual accounts is located at the website of the 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 25 March 2021

KPMG Accountants N.V.

B.M. Herngreen RA

Appropriation of result

The result is appropriated pursuant to article 21 of the NN Bank Articles of Association, the relevant stipulations of which state that the General Meeting, having heard the advice of the Management Board and the Supervisory Board, shall determine the appropriation of result. Reference is made to Note 17 'Equity' of the Consolidated annual accounts, for the proposed appropriation of result, and the proposed dividend payment.

Contact and legal information

Contact us

Nationale-Nederlanden Bank N.V.
Prinses Beatrixlaan 35-37,
2595 AK The Hague

PO Box 90504, 2509 LM The Hague
The Netherlands
Telephone +31 70 37 81887
Internet: www.nn.nl
Commercial Register number 52605884

Nationale-Nederlanden Bank N.V. is part of NN Group N.V.

Disclaimer

Small differences are possible in the tables due to rounding.

Certain of the statements in this 2020 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Bank's core markets, (2) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which NN Bank operates, on NN Bank's business and operations and on NN Bank's employees, customers and counterparties, (3) changes in performance of financial markets, including developing markets, (4) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit and capital markets generally, (6) changes affecting interest rate levels, (7) changes affecting currency exchange rates, (8) changes in investor and customer behaviour, (9) changes in general competitive factors, (10) changes in laws and regulations and the interpretation and application thereof, (11) changes in the policies and actions of governments and/or regulatory authorities, (12) conclusions with regard to accounting assumptions and methodologies, (13) changes in ownership that could affect the future availability to NN Bank of net operating loss, net capital and built-in loss carry forwards, (14) changes in credit and financial strength ratings, (15) NN Bank's ability to achieve its strategy, including projected operational synergies, (16) operational risks, such as system disruptions or failures, breaches of security, cyber-attacks, human error, or inadequate controls including in respect of third parties with which we do business, (17) the inability to retain key personnel, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Bank and/or related to NN Bank.

Any forward-looking statements made by or on behalf of NN Bank in this Annual Report speak only as of the date they are made, and NN Bank assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

This document does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities.