NIBC

NIBC BANK N.V.
ANNUAL REPORT 2019

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AT A GLANCE

WHO WE ARE

OUR HERITAGE

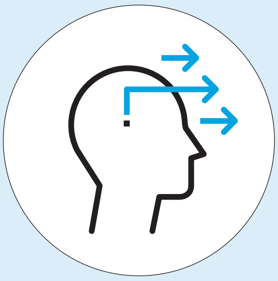
NIBC is a publicly listed company on the Amsterdam Stock Exchange (NIBC.AS) and was founded in 1945 to finance the visionary entrepreneurs who helped rebuild the Netherlands after World War II. Over time, we evolved into an enterprising bank offering financing, advisory and co-investing solutions to our clients. Following the 2008 crisis, we reinvented ourselves: being flexible and agile, with a 'THINK YES' mentality to match our clients' can-do attitude. Since then NIBC has reached many milestones with the launch of NIBC Direct, and the acquisition of Gallinat Bank in Germany. We took steps into the fintech space by obtaining minority stakes in Ebury and OakNorth. Together with our institutional partners, we are expanding our originate-to-manage propositions, developing and optimising our position in the financial ecosystem. We have continued to build on our entrepreneurial DNA to become the company that we are today: best suited to help our clients at their decisive moments. Now and in the future.

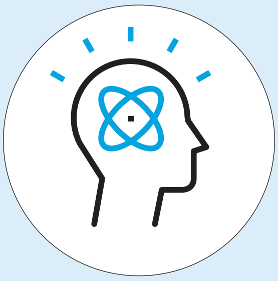
OUR PURPOSE

Making a difference
at decisive moments

OUR VALUES

Our strategy is to create a sustainable franchise for the future by focusing on our greatest strengths. Our strategy is based on our three values. We are:





Professional
Our in-depth sector knowledge, expert solutions and tailored risk and portfolio management are the foundation of our success. We are firmly focused on the future, and work hard to anticipate trends and the impact they could have on our clients and their needs.

Entrepreneurial
We are a sound and enterprising bank focused on decisive moments in our clients' business and in life. Our clients require a bank that can respond to their needs in an agile way. We cultivate what we call the 'THINK YES' mentality.

Inventive
We provide bespoke solutions and encourage our people to think creatively to meet clients' needs. Structuring is part of our DNA. Our inventiveness ensures we can adapt to our fast-changing world and seize opportunities.

WHAT WE DO

OUR BUSINESS MODEL

We serve a corporate and retail client franchise, with a differentiated approach, bringing bespoke financial solutions to clients in chosen sectors and with a continuous focus on optimising the offering to our clients in line with the strategic objectives of the bank. We are client-oriented, present at their decisive moments. We offer a broad and relevant product suite for these entrepreneurial clients.

CORPORATE CLIENT OFFERING

- Focus on mid-market corporate clients
- Focus on specific sectors and product solutions, ranging from advice and structuring to financing and investing
- Growth engines originating more granular exposures in niche markets

EUR 9.4 billion client assets

Typical ticket size: EUR 1 - 50 million

RETAIL CLIENT OFFERING

- Mortgages ranging from owner-occupied to buy-to-let
- Mortgage origination for institutional investors
- Online savings

EUR 9.8 billion client assets

Typical ticket size: EUR 0.1 - 2.5 million

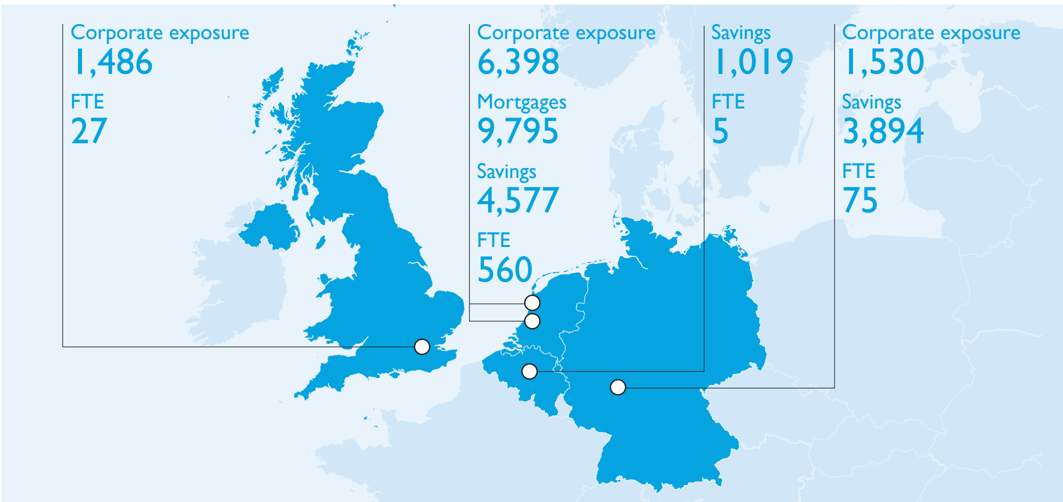
TREASURY & ASSET LIABILITY MANAGEMENT

RISK MANAGEMENT / CORPORATE CENTRE

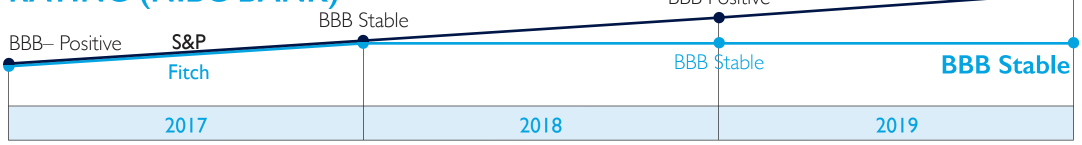
OUR MARKETS

Focus on north-western Europe

in EUR millions

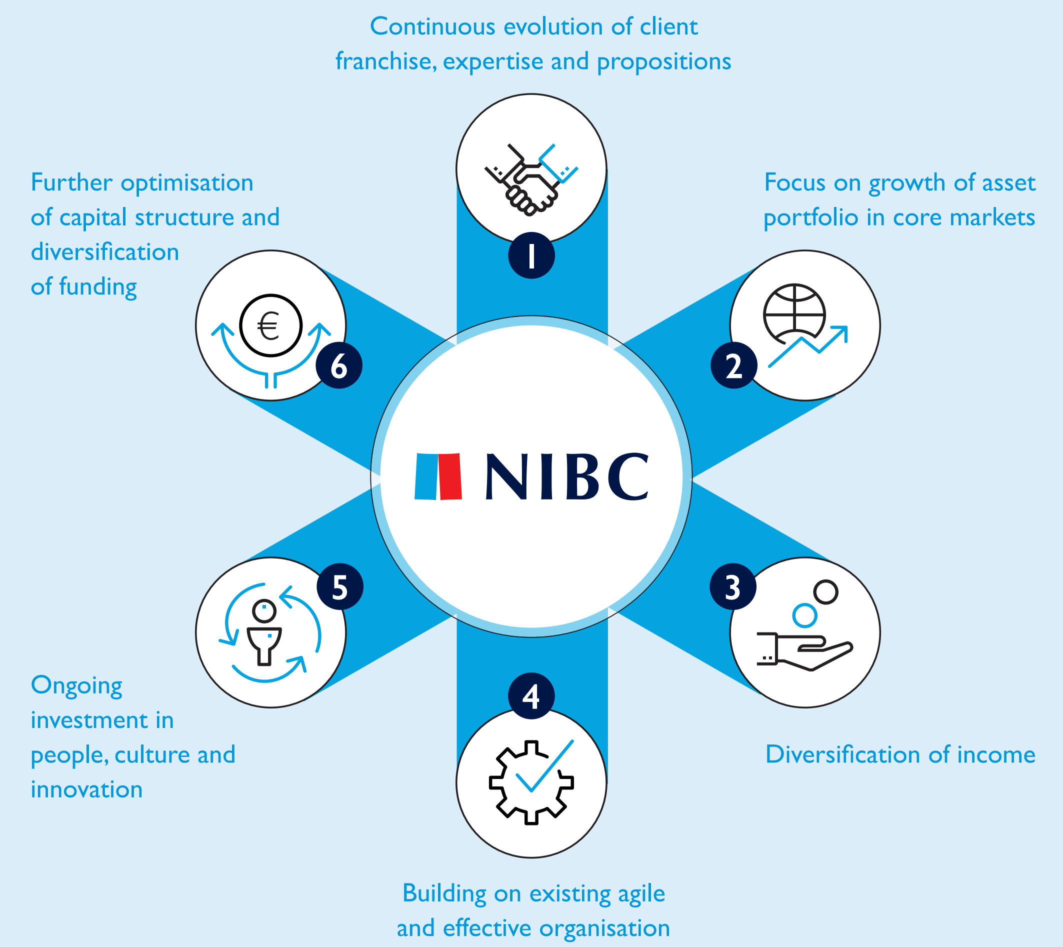


RATING (NIBC BANK)



OUR KEY STRATEGIC PRIORITIES

We continue to drive profitable growth through our differentiated market approach. We focus on building client relationships in profitable niches and (sub)sectors in north-western Europe, where we can leverage our local expertise, while maintaining a lean organisation with disciplined cost control. We aim to make a difference for our corporate and retail clients at their most decisive moments – today and tomorrow. We have made clear choices to advance that mission, which are summarised in our six strategic priorities for growth.



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

NON-FINANCIAL HIGHLIGHTS

Corporate lending NPS score

2019

+47%

2018: +63%   2017: +64%

NIBC Direct customer survey score

2019

7.9

2018: 7.7   2017: 7.9

Sustainability ratings

2019

Oekom

C+ /Prime

Sustainalytics

22

RepRisk

AA

MSCI

AA

Screening corporate loans

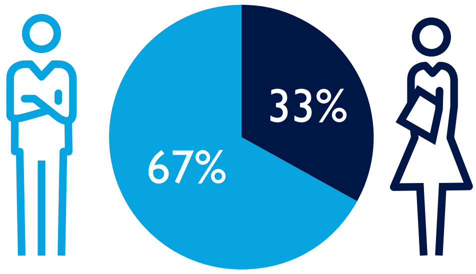
2019

100%

2018: 100%   2017: 100%

Male/female ratio

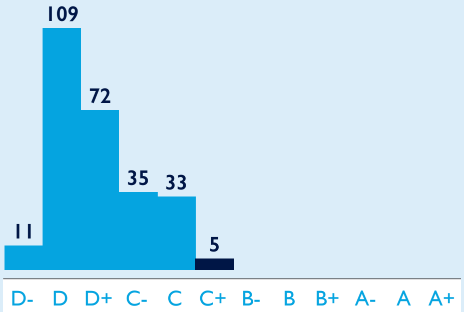
2019



2018: 68% / 32%   2017: 69% / 31%

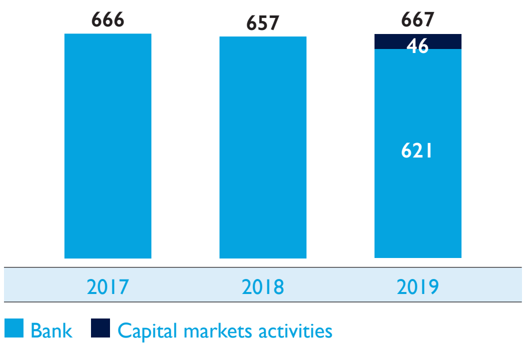
Distribution of Oekom rating

252 companies in the industry



Number of employees

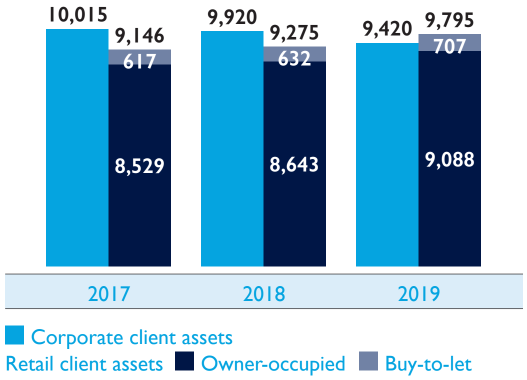
(FTEs)



FINANCIAL HIGHLIGHTS[1]

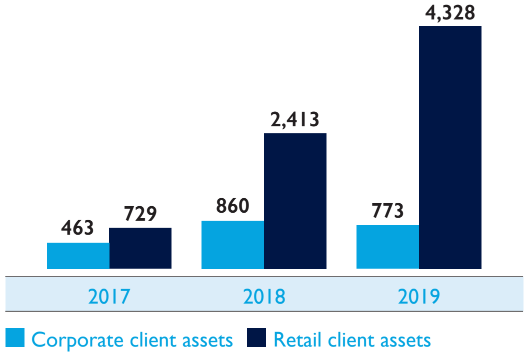
Client exposures

in EUR millions

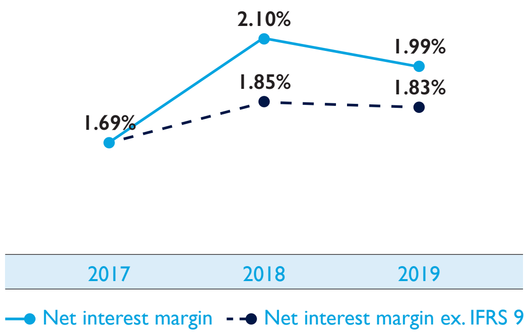


Originate-to-manage assets

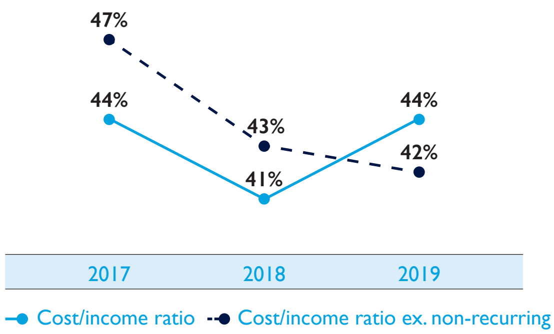
in EUR millions



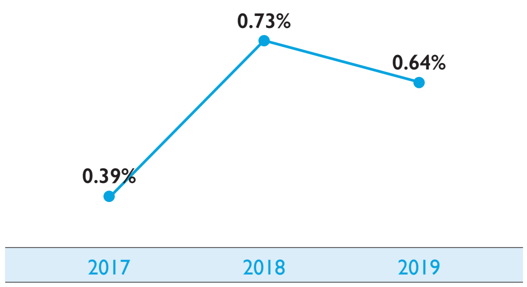
Net interest margin



Cost/income ratio

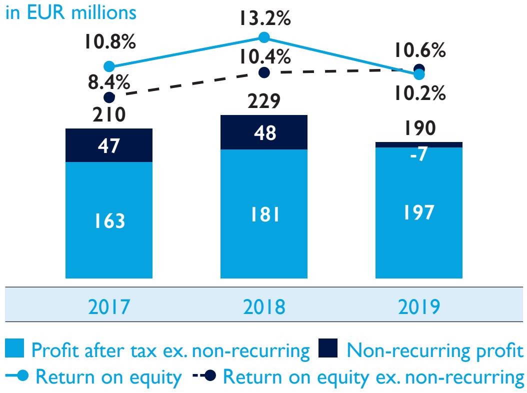


Cost of risk

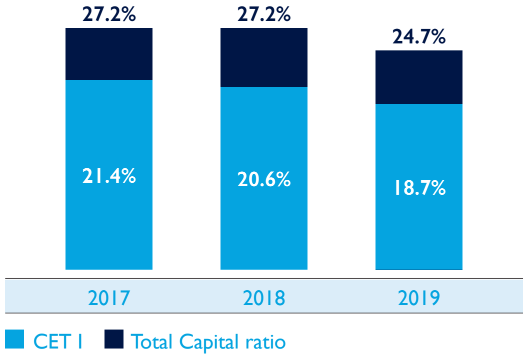


Profit after tax attributable to shareholders and return on equity

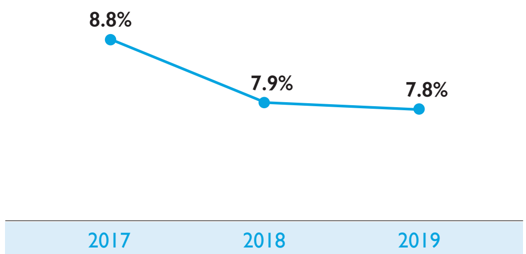
in EUR millions



Solvency ratios



Leverage ratio



[1] 2017 figures are based on IAS 39, 2018 and 2019 figures are based on IFRS 9.

NIBC ADDS VALUE FOR ITS RETAIL CLIENTS AND ITS INVESTORS WITH ORIGINATE-TO-MANAGE MORTGAGES

By originating mortgages NIBC is able to serve two types of clients at the same time: retail clients and investors. When a mortgage loan-offer is made to the retail client, it is already determined whether the mortgage loan is on the balance sheet of the investor or NIBC. NIBC Direct is a lender of record and has the relationship with the retail client. For originate-to-manage mortgages and own book mortgages the processes, services and underwriting criteria are uniform, so for a retail client the experience is identical. This results in alignment of interest between Investors and NIBC. At the same time the investor can choose a tailor-made mortgage portfolio that matches their appetite. In addition NIBC offers balance sheet support to optimise our tailor-made offering to investors. With experience in originating mortgages and managing risks of our own mortgage portfolio, NIBC has extensive knowledge which is shared with the investors.

> “ OTM adds value to our retail clients and our investors. For retail clients NIBC direct is able to offer a broad range of mortgage products with the full bandwidth of interest fixed periods due to the appetite of investors. For investors we offer the possibility to invest in Dutch mortgages with the unique selling point mentioned before and without having the operational hassle. ”

Frits van der Scheer, Managing Director OTM at NIBC Bank

KEY FIGURES

KEY FIGURES

Earnings

	IFRS 9 2019	IFRS 9 ex. non-recurring 2019	IFRS 9 2018	IFRS 9 ex. non-recurring 2018
Operating income	524	524	550	513
Operating expenses	229	220	224	218
Profit after tax	202	209	241	193
Profit after tax attributable to shareholders	190	197	229	181
Cost/income ratio[1]	44%	42%	41%	43%
Net interest margin[1]	1.99%	1.99%	2.10%	2.10%
Return on equity[1]	10.2%	10.6%	13.2%	10.4%
Return on assets	0.87%	0.91%	1.04%	0.83%
Dividend pay-out ratio[1/2]	100%	100%	100%	
Dividend per share[2]	3.04	3.04	3.65	

1 Items are Alternative Performance Measures (APM). The calculations of those items are explained in the APM section
2 Ratios based on full year dividend pay-out proposal

Portfolio

	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Corporate client assets (drawn & undrawn)			
Commercial Real Estate	1,578	1,309	1,345
Energy	735	841	869
Financial Sponsors & Leveraged Finance	1,042	1,353	1,586
Fintech & Structured Finance	1,310	1,028	864
Infrastructure	1,729	1,621	1,743
Mid Market Corporates	1,458	1,490	1,389
Shipping	1,011	1,370	1,297
Total corporate loans (drawn & undrawn)	**8,862**	**9,012**	**9,093**
Lease receivables	35	453	360
Investment loans	214	240	220
Equity investments	303	215	343
Total corporate client assets (drawn & undrawn)	**9,414**	**9,920**	**10,015**
Corporate client assets (drawn & undrawn) per region			
Netherlands	4,408	4,592	4,415
Germany	1,536	1,978	2,161
United Kingdom	1,486	1,588	1,737
Other	1,990	1,762	1,702
Total corporate client assets (drawn & undrawn)	**9,420**	**9,920**	**10,015**
Retail client assets			
Owner-occupied mortgage loans – Netherlands	9,069	8,614	8,476
Buy-to-Let mortgage loans	707	632	617
Owner-occupied mortgage loans – Germany (closed book)	19	29	53
Total retail client assets	**9,795**	**9,275**	**9,146**
Originate-to-Manage assets			

	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Corporate client assets	773	860	463
Retail client assets	4,328	2,413	729
Total Originate-to-Manage assets	**5,101**	**3,273**	**1,192**
Retail client savings			
Netherlands	4,577	3,909	3,871
Germany	3,894	4,072	4,407
Belgium	1,019	940	1,029
Total retail client savings	**9,490**	**8,921**	**9,307**
Asset quality			
Cost of risk[1]	0.64%	0.73%	0.39%
Impairment ratio[1/2]	0.28%	0.37%	0.30%
Impairment coverage ratio[1/2]	33%	31%	40%
NPL ratio[1/2]	2.5%	2.8%	2.8%
Top-20 exposure / Common Equity Tier 1	88%	70%	62%
Exposure corporate arrears > 90 days	1.2%	1.0%	1.6%
Exposure residential mortgage loans arrears > 90 days	0.1%	0.2%	0.5%
Loan to value Dutch residential mortgage loans	68%	72%	75%
Loan to value BTL mortgage loans	52%	52%	57%

1 Items are Alternative Performance Measures (APM). The calculations of those items are explained in the APM section
2 Ratios for comparative years have changed. Please see the Alternative Performance Measures section in this report for an explanation of the changes

Solvency information

	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Equity attributable to shareholders of the company	1,865	1,911	2,059
AT1 and Subordinated liabilities	484	479	483
Group capital base	2,349	2,390	2,544
Common Equity Tier 1 capital	1,605	1,594	1,827
Balance sheet total	22,407	21,717	22,209
Risk-weighted assets	8,597	7,723	8,546
Common Equity Tier 1 ratio	18.7%	20.6%	21.4%
Tier 1 ratio	21.0%	23.2%	23.7%
Total Capital ratio	24.7%	27.2%	27.2%
Leverage ratio	7.8%	7.9%	8.8%

Funding & liquidity

	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
LCR	222%	241%	196%
NSFR	121%	123%	117%
Loan-to-deposit ratio[1]	157%	154%	150%
Asset encumbrance ratio	28%	26%	26%
Retail savings / total funding	43%	42%	44%
Secured funding / total funding	23%	21%	19%
ESF / total funding	5%	7%	6%

1 Items are Alternative Performance Measures (APM). The calculations of those items are explained in the APM section

Non-financial key figures

	2019	2018	2017
NPS score Corporate Lending clients	+47%	+63%	+64%
NIBC Direct customer survey score	7.9	7.7	7.9
% of new corporate loans screened against sustainability policy	100%	100%	100%
Number of new corporate clients with increased sustainability risk assessment	10	25	23
Fines or sanctions for non-compliance with laws and regulations	0	1	1
Total number of FTEs end of financial period	667	657	666
Male / female ratio	67%/33%	68%/32%	69%/31%
Male / female ratio top management	85%/15%	85%/15%	88%/12%
Training expenses per employee (EUR)	3,504	3,206	2,377
Absenteeism (trend total)	2.0%	2.1%	2.2%
Employee turnover (employees started)	20.6%	16.9%	14.5%
Employee turnover (employees left)	18.6%	18.4%	19.8%

LETTER FROM THE CEO

Dear reader,

Driven by our entrepreneurial culture, 2019 has proven to be another strong year for NIBC. On the backdrop of increasing global uncertainty on both a geopolitical and macro-economic level, we continued to rebalance and de-risk our portfolios, whilst remaining focused on growth and new initiatives. Supported by our core values of being Professional, Entrepreneurial and Inventive, we again are meeting all of our medium-term objectives, and continue to deliver upon our promises.

Our capital position remains strong, including the 30% increase in RWA's on our corporate loan portfolios following the *Internal Model Investigation* **(IMI)** outcome in August of 2019. We continue to be well positioned for Basel IV before mitigation actions. The solvency ratios at year end continue to be comfortably above our SREP levels and provide us with sufficient buffers to comply with Basel IV regulations, as also reflected by our leverage ratio of 7.1% at year-end 2019.

By meeting all our medium-term objectives with return on equity (ROE) of 11.4% and a strong capital position shown by a CET1 ratio of 17.1%, and underpinned by the overall strong performance over 2019, we propose a final dividend of EUR 0.53 per share, totalling to a full dividend for 2019 of EUR 0.78 per share.

Looking at the world around us, 2019 has also been a year in which the banking industry continued to face many challenges. With a low-for-longer interest environment now a reality, and negative interest on retail savings slowly being introduced amongst European banks, the banking industry is reshaping its form. As NIBC, we are able to react quickly to these outside challenges and adapt our business proposition. And in that, we don't shy away from making clear decisions. Recently we announced the sharpened focus within our corporate client offering as well as the closing down of our Markets business (fixed income, debt capital markets, equity capital markets). Further challenges come from the regulatory side, ranging from capital related issues such as IMI to compliance related issues such as SIRA, KYC and AML. NIBC is well in control and as our business model, as opposed to universal banks, does not provide for current accounts, we are less vulnerable to these regulatory issues. Nevertheless, the cost to comply and uncertainty as to future developments in regulatory requirements is inevitably casting its shadow to the license to operate for banks in general.

NIBC benefitted from the Dutch economy that remained solid throughout the year. Nevertheless, the uncertainty on a global level with Brexit becoming a reality at the end of January 2020, trade wars glooming and the increasing effects related to the outbreak of the corona virus, the fears for a turn of the economic cycle continue to grow. At the core of our strategy is our ability to re-balance and reinvent our business. By continuously adapting to the changing environment, we have significantly reduced corporate client exposures by more than EUR 750 million in 2019, mainly in the more cyclical sectors like Energy, Leveraged Finance, and Shipping, whilst growing in more granular portfolios, such as Receivables Finance and Leasing. In total, the corporate lending portfolio decreased only by approximately EUR 150 million as we continue to prudently originate and follow our clients through the cycle by supporting them in their growth ambitions.

Our ambition for growth thus remains unchanged, as we continue to expand our 'originate-to-manage' activities both on the retail and corporate side of the business. Consequently, we continuously create room for new initiatives that have higher margins and sufficient growth potential in combination with scalability and supported by data driven technology. We are positive about the partnerships with Fintechs in which we have invested, like iwoca, Finleap, and Ebury. In a broader context, our equity positions again proved to be a natural balance against the low-for-longer environment. Various revaluations as well as some favorable (potential) exits were again positive drivers of our investment income. Last but not least, we signed a contract with OakNorth following the pilot that ran last year, in which we use their platform for our client review process.

Although we are not a market share player and continue to aim for 'margin over volume', we clearly see that our dual track strategy, originating for both our own balance sheet and for our Originate-M-Manage (OTM) partners, has led to increased volumes in the retail client side, underpinning our ability to originate in the current environment. Within the mortgage offering a new label LOT, positioned as a mortgage with a particular focus on supporting sustainability, was recently introduced to further accelerate our OTM offering.

Other proud initiatives include the recent launch of OIMIO, providing small commercial real estate financing in the Netherlands and the first fully ESG-compliant CLO that we launched in the fourth quarter.

Looking at the business volumes in 2019, origination continued to be strong on the retail client side, with total origination of EUR 3.7 billion. Our mortgage portfolio for own book grew by EUR 0.5 billion (+6%) to EUR 9.8 billion and the Originate-to-Manage (OTM) portfolio grew by almost EUR 1.9 billion (+79%) to EUR 4.3 billion. Total OTM-mandates increased to almost EUR 6.5 billion by securing additional contracts with new institutional investors, allowing us to offer the entire suite of tenors to our clients as well as attract new clients. The Buy-to-Let market in the Netherlands remains to develop favorably as reflected in an 12% increase of our portfolio to EUR 0.7 billion in 2019.

On the corporate client side, despite significant reductions in some of the more cyclical sectors, overall volume was relatively stable in 2019, highlighting our ability to rebalance, de-risk, reinvent and steer our business. Origination margins are unfortunately still under pressure, and combined with the focus on quality instead of quantity, overall margin of the book decreased slightly.

From a governance perspective, 2019 was also the year that Wim van den Goorbergh stepped down as Chairman of the Supervisory Board to be succeeded by Dick Sluimers. I am grateful for Wim's leadership and thoughtful guidance and thank him for his contribution and support over the many past years. At the EGM at the end of August 2019, Jeroen Kremers was appointed as a new Member of the Supervisory Board.

On 14 February 2020, our parent company NIBC Holding N.V. announced to be in discussions on a possible cash offer by Blackstone. On 25 February they announced to have formally taken the next step in signing the Merger Protocol, details of which can be found in the separate press release available through our website. With Blackstone, NIBC will be equipped to even further improve on its success and I look forward to drive long-term sustainable growth in this new chapter for NIBC.

I am proud that we are again delivering on our promises. Despite uncertainty and challenges in the markets around us, I remain confident about our future and I look forward to engage with our potential new shareholder Blackstone. Strengthened by our Think-Yes mentality, we are able to continuously adapt ourselves to the demanding markets and increasing requirements. For that, I am grateful to all our employees, for their never-failing commitment to be there for our clients at their decisive moments, for their flexibility in these turbulent times, and their continued focus to build new profitable growth well into the future.

Herman Dijkhuizen	**Saskia Hovers**	**Michel Kant**	**Caroline Oosterbaan**	**Reinout van Riel**	**Paulus de Wilt**
Chief Financial Officer Vice-Chairman of the Board	Member Executive Committee	Member Executive Committee	Member Executive Committee	Chief Risk Officer Member of the Board	Chief Executive Officer Chairman of the Board

NIBC INVESTS IN LNG FILLING STATION OPERATOR ROLANDE

NIBC's Mezzanine & Equity Partners and Rotterdam Port Fund have jointly acquired a majority interest in Rolande, the developer and operator of LNG (Liquid Natural Gas) filling stations. Rolande, market leader in the Netherlands, was founded in 2005 and is helping logistics service providers make the switch to LNG as a fuel by building a European network of LNG filling stations. Former majority shareholder IVECO Schouten retained a significant interest in Rolande. The transaction was completed on 26 July 2019.

> "We are pleased to support the growth plans of the innovative company Rolande together with the Rotterdam Port Fund. By enabling the international roll-out of the network of LNG filling stations, we can contribute to the transformation to a more sustainable and cleaner future for the transport sector."

Brigitte van der Maarel, Head of NIBC Mezzanine & Equity Partners

REPORT OF THE MANAGING BOARD

REPORT OF THE MANAGING BOARD

The current chapter, together with the Corporate Governance chapter and the In Control Report, are considered part of the Report of the Managing Board, as referred to in Part 9 of Book 2 of the Dutch Civil Code.

GENERAL DEVELOPMENTS

NIBC has always been a speciality financier that has found ways to adapt to changing circumstances. This capability to change is one of the core strengths of the bank. It is in the company's DNA to continuously explore new opportunities, develop new products and find new pockets of growth, especially in underserved parts of the market. This is a capital strength in the uncertain, changing environment that we see now, both at the global macro-economic and international level and, specifically, in the banking industry.

The 2019 economic growth has weakened in north-western Europe while still displaying robust fundamentals. In the Netherlands, economic growth remained solid and unemployment has continued its downward trend. Growth in Germany, on the other hand, experienced a more significant slowdown with the 2019 growth rate of 0.6%. Nonetheless, economic forecasts predict that German growth should pick up in 2020 and return to a level closer to that of 2018 at 1.5%.

On a global level, overall risks persisted at a substantial level. Geopolitical tensions increased compared to last year, affecting the volatility of financial markets. From the global macro-economic perspective, negative surprises to economic activity in some emerging countries led to downward adjustments of global growth forecasts; evidencing late-cycle tendencies. In the year to come, the tensions are not expected to be subdued and late-cycle tendencies should become more tangible. Consequently, growth in advanced economies, including the Euro area, is expected to remain subdued, reflecting lowered external demand and a moderate pace of productivity growth. Besides, the outbreak of the corona virus in China could have a negative impact on global growth, in 2020. Given the global exposure of its economy, the Netherlands might suffer from this slowdown. Conversely, the risk of a no-deal Brexit has been contained and some positive news regarding commercial opposition between the United States and China somewhat limit the risk of escalation. This offsets the increased risks linked to geopolitical tensions and the global macroeconomic situation. Yet, we note that both factors continue to have elements of unpredictability that can lead to an immediate increase of the risk at any given moment in time. With the balance of risks remaining skewed to the downside, markets continue to be volatile and challenging in the year to come.

Beyond risks emanating from the global environment, the banking industry is currently faced with specific challenges. The continued low-for-longer interest rates extend ahead and result in a liquidity abundance in both capital and lending markets, leading to pressure on prices, and, in turn, on profitability. At the same time, competition increases with regulatory developments leading to lowered entry barriers (e.g. open access to customer financial data), the banking industry appears bound to be remodelled not only by fintech start-ups becoming increasingly active, but also by the big technology companies finding their way to the financial services sector. Consequently, the banking ecosystem evolves at a swift pace, with the dissemination of online banking appetite and usage, even in corporate banking. Concurrently, maintaining the licence to operate, with the continuous development of regulatory standards and increasing capital requirements on the path to Basel IV, bears higher costs and induces the need for acute choices. All the more so as regulatory pressure continues to expand in the area of non-financial risk management. This specifically means increased demands in fields such as client due diligence - mainly for *Know Your Customer* (**KYC**) and *Anti-Money Laundering* (**AML**) policies, data privacy and transaction reporting. These demands require continuous investments in the bank's processes, including IT. However, given that we do not provide payment services either to retail customers or to corporate clients, the risks and the associated efforts to mitigate these are lower for us than they might be for banks who do offer such payment services.

VISION AND STRATEGY

About NIBC

NIBC was established in 1945 to finance the visionary entrepreneurs who helped rebuild the Netherlands after World War II. Over time, we evolved to be an enterprising bank offering financing, advisory and co-investing to our clients. Following the 2008 financial crisis, we reinvented ourselves, focusing on being flexible and agile. We have reached many milestones since, with the launch of NIBC Direct and the acquisition of Gallinat Bank AG in Germany. More recently, our steps into the fintech space by acquiring minority stakes in Ebury, Finleap and OakNorth have been additional major milestones. Together with institutional partners, we are expanding our Originate-to-Manage proposition, optimising our position in the financial ecosystem.

Throughout our history, we have continued to build on our entrepreneurial DNA and have continuously adapted to market circumstances and the needs of our clients, gradually shaping the bank that we are today; best suited to help our clients at their decisive moments. Now and in the future. We continue to build a sustainable franchise for the future, so we can continue to fulfil our purpose.

Purpose and corporate values

Our purpose is to create a sustainable franchise for the future, so we can continue to make a difference for our clients by focusing on their most decisive moments in business and in life.

As a bank built for entrepreneurs, we are committed to cultivate our 'Think YES' mentality by being flexible and agile and by matching our clients' can-do attitude. This enables us to address the continously high requirements from the outside world (e.g. regulators). Our everyday decisions and actions are guided by three corporate values, with which we aim to differentiate ourselves in the market:

1. **Professional**: Our in-depth sector knowledge, expert financial solutions and tailored risk and portfolio management are the foundation of our success.
2. **Entrepreneurial**: We are a sound and enterprising bank focused on decisive moments in our clients' business and in life. Our clients require a bank that can respond to their needs in an agile way.
3. **Inventive**: We provide bespoke solutions and encourage our people to think creatively to meet clients' financial needs. Structuring is part of our DNA.

Our place in the financial ecosystem

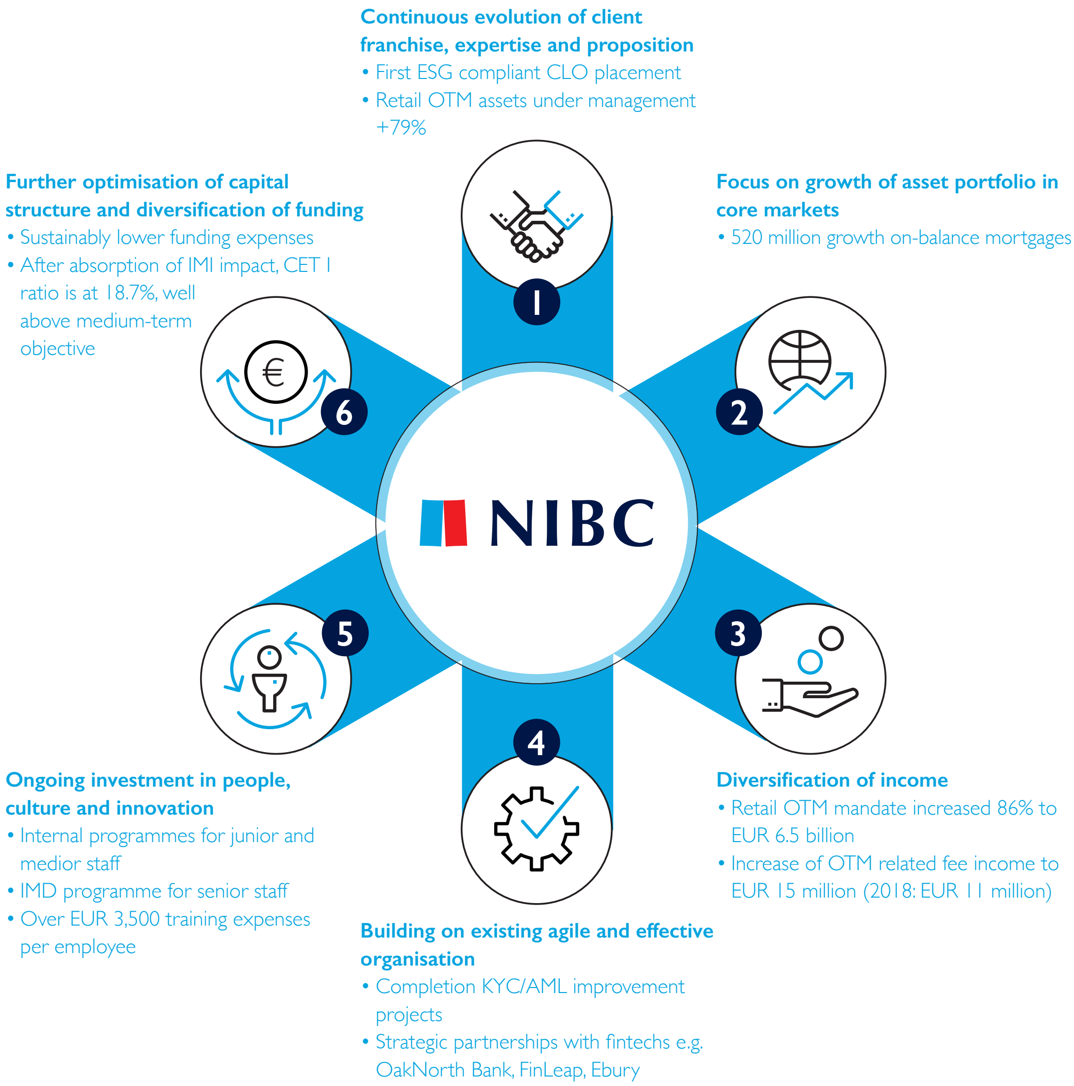
NIBC is a medium-sized bank active in north-western Europe, more specifically in the Netherlands, Germany, the UK, Belgium and the Nordics. We operate in this particular geographical area because we know these markets and believe in their economic foundations. As a fully regulated bank we have the professional mindset and capabilities that make us well positioned to partner with large financial institutions, while also having the agility to cooperate with small and innovative fintechs. By exploring both directions we continuously work on further positioning the bank. within the financial ecosystem.

Fintech start-ups are bringing innovative solutions to specific financial service products and often seek cooperation with incumbent financial institutions because they lack the scale and regulatory expertise to independently challenge the financial services industry. We recognise the impact financial technology companies have on our industry and we are seeking cooperation with selected companies as demonstrated by our partnerships to optimise our credit review process (e.g. OakNorth). This is evidenced by our Originate-to-Manage mortgage product where we have a strategic partnership with several large financial institutions.

Strategic priorities

Faced with the environment outlined in the general development section, composed of growing economic uncertainty and specific challenges in the banking industry, we continuously evaluate how the markets in which we operate develop, and focus on those initiatives that fit our franchise and our risk appetite.

We have identified six strategic priorities that describe our identity and the way we operate.



We differentiate ourselves by setting a clear focus, both geographical and operational. We are active in sectors and markets we know best, with products that can make a difference for our clients.

Our corporate client offering consists of the full range of products such as financial structuring, collateralised lending, corporate lending, advisory, mezzanine and equity. Since 2019 the corporate client segment is organised along a number of product market combinations, focused on origination, execution and portfolio management of its core products based on specific client needs. We aim to further rebalance activities and exposure, as we become more active in high growth areas acting as a growth enabler for our clients. Our portfolios revolve around two main themes: Sustainability & Transformation and Growth & Innovation. These two themes provide us with a strong basis to increase focus and fully utilise our core competence of developing solutions for complex financial questions in specific underserved market segments, together with our clients.

In our retail offering we offer mortgages through intermediairies and operate a succesful deposit-taking platform. The mortgages offering also includes products that serve clients in underserved market segments such as Buy-to-Let and mortgages for self-employed clients. Our mortgage products include an *Originate-to-Manage* (**OTM**) proposition in which we partner with institutional investors such as AXA Investment Management. Through the various products, we are able to fully utilise our existing agile and effective organisation, which includes making optimal use of third party service providers who process mortgage loans. The Originate-to-Manage proposition within the retail offering also supports increasing diversification of income and expanding our product offering to institutional investors.

We continuously manage the composition of our funding by making use of a diverse range of funding sources, including retail savings and wholesale funding. One of our strengths has always been a strong capital position, providing flexibility to support further growth either organically or inorganically, or to support shareholder returns.

NIBC is managed by an experienced team that has the professional, entrepreneurial and inventive mindset that distinguishes NIBC in the financial ecosystem.

Medium-term objectives

With the execution of its strategy, NIBC aims to deliver on the following targets:

	Medium-term objectives	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Return on equity	>10-12%	10.2%	13.2%	10.8%
Cost/income ratio	<45%	44%	41%	44%
CET 1 ratio[1]	>14%	18.7%	20.6%	21.4%
Rating Bank	BBB+	BBB+	BBB	BBB
Annualised dividend pay-out ratio	>50%	100%	100%	45%

1 As from 2019, non-eligible profits attributable to the shareholders are no longer added to regulatory capital.

During 2019, S&P has upgraded NIBC's credit rating to BBB+ with a stable outlook. The upgrade reflects NIBC's ability to preserve its robust capitalisation and successful progress to build up its loss-absorbion capacity.

The way forward

Our long-term strategy translates into aiming to have the agility to continuously assess our portfolio in order to ensure resilience and sustainable profitability. Especially in the late-cycle developments and changing banking environment we aim to expand in a limited number of growth engines, while focusing on initiatives that adhere to the following principles: display the potential of gaining a meaningful market share in a specific niche; include the potential of digital and data driven scalability; and be granular to allow for higher spreads and returns. The newly announced small CRE initiative OIMIO in combination with the partnership with OakNorth allows us to provide real value to our clients and help them in smaller lending market. These initiatives will add to the granularity of our portfolio, which will enhance our risk profile in line with our risk appetite for smaller exposures. Choosing to expand in a limited number of growth engines, in turn, translates into attrition in some sectors or subsectors. In line with this strategy, we chose to discontinue our capital markets activities, as announced on 15 January, 2020. After a close evaluation of our portfolio, we deemed these activities not to be scalable enough due to rapidly changing regulatory environment and market circumstances.

On the corporate client side the general strategy translates into a focus on increasing granularity in our portfolio, developing new partnerships and expanding our Originate-to-Manage model to new asset classes within the corporate client offering. Thus, in line with the strategy principles to embrace technologically advanced partners within our ecosystem we aim at further expanding our collaborations with fintechs.

In our retail client offering, we aim to increase the current Originate-to-Manage mandate and further diversify the proposition. The Buy-to-Let portfolio is expected to grow beyond EUR 0.9 billion in the next years. In the long term it is our goal to consistently achieve a total mortgage origination of EUR 5 billion on a yearly basis (2019: EUR 3.7 billion). In 2020 we will therefore continue our effort to further develop our proposition and product offering. As a first step in 2020 we have launched 'Lot' as a new mortgage label which will have its own mandate, starting with an external mandate of EUR 1 billion, increasing our total mandate to EUR 7.5 billion as per publication date of the 2019 Annual Report.

Next to growing these businesses, we will continue the rebalancing of our exposures in selected cyclical sectors. The Shipping, Leveraged Finance and Energy portfolios have already been significantly reduced in the last two years and we are ahead of our guidance given at CMU. NIBC willl continue to rebalance portfolios in the coming years and will incorporate any changes in circumstances as they develop. For example the Shipping portfolio is expected to grow in 2020 after we have evaluated our current exposures in Shipping and how that relates to both our risk appetite and strong capital position. We have concluded that there is room for some growth in this specific client segment.

FINANCIAL REVIEW

Overview

NIBC continues to deliver on its promises by reporting a strong result over 2019. On the back of this performance, NIBC has been able to meet all of its medium-term objectives, including an upgrade of its credit rating to BBB+ by Standard & Poor's. In 2019, NIBC focused on the execution of its rebalancing strategy, as announced during the Capital Markets Update at the end of 2018. This strategy means an increased focus on those niches, in which NIBC can add value to its clients by offering the right financial solutions at their decisive moments. It also implies a reduction of our efforts in areas where it is not so clear that NIBC can play this decisive role, leading to reduced exposures in selected portfolios. With these results, NIBC has ensured it is a well capitalised bank with increasingly more granular exposures, enabling it to execute the selected strategy.

The following section provides an overview of the performance and main developments of 2019, after which the 2019 financial performance and financial positions are discussed in detail, followed by a review of the bank's solvency.

in EUR millions	IFRS 9 2019	IFRS 9 ex. non-recurring 2019	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	2019 vs. 2018
Net interest income	417	417	432	432	-3%
Net fee and commission income	40	40	51	51	-22%
Investment income	60	60	74	37	-19%
Other income	7	7	(7)	(7)	
Operating income	**524**	**524**	**550**	**513**	**-5%**
Personnel expenses	114	107	105	99	9%
Other operating expenses	95	94	99	99	-4%
Depreciation and amortisation	5	5	5	5	0%
Regulatory charges and levies	15	15	15	15	0%
Operating expenses	**229**	**221**	**224**	**218**	**2%**
Net operating income	**295**	**303**	**326**	**295**	**-10%**
Credit loss expense / (recovery)	49	49	54	54	-9%
Tax	44	46	31	48	42%
Profit after tax	**202**	**209**	**241**	**193**	**-16%**
Profit attributable to non-controlling shareholders	12	12	12	12	0%
Profit after tax attributable to shareholders of the company	**190**	**197**	**229**	**181**	**-17%**

	IFRS 9 2019	IFRS 9 ex. non-recurring 2019	IFRS 9 2018	IFRS 9 ex. non-recurring 2018
Earnings				
Return on equity	10.2%	10.6%	13.2%	10.4%
Net interest margin	1.99%	1.99%	2.10%	2.10%
Cost/income ratio[1]	44%	42%	41%	43%

1 Cost/income ratio including non-recurring items.

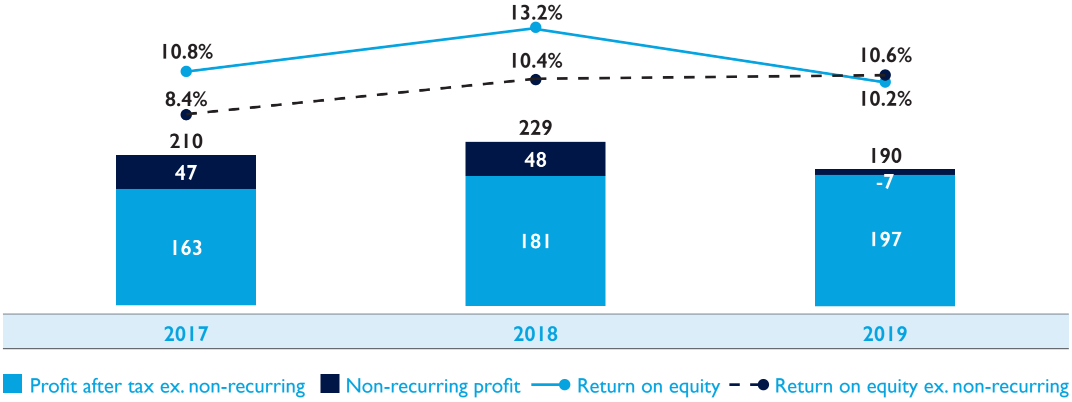
	IFRS 9 2019	IFRS 9 2018
Fully loaded solvency ratios		
CET 1 ratio	18.7%	20.6%
Total capital ratio	24.7%	27.2%
Risk-weighted assets	8,597	7,723
Liquidity ratios		
LCR	222%	241%
NSFR	121%	123%
Other ratios		
Cost of risk	0.64%	0.73%
Loan to deposit ratio	157%	154%
Asset encumbrance ratio	28%	26%
Rating		
S&P rating and outlook	BBB+ / Stable	BBB / Positive
Moody's rating and outlook	Baa1/Positive	Baa1 / Stable
Fitch rating and outlook	BBB / Stable	BBB / Stable

Profitability

Overal 2019 profitability, measured as return on equity, meets our medium term objective, as it reached 10.2% (2018: 13.2%). The decrease in profitability is mainly related to the non-recurring items. Excluding non-recurring items, profitability slightly increased to 10.6%. In absolute terms net profit attributable to shareholders decreased in 2019 to EUR 190 million, compared to EUR 229 million in 2018. Adjusted for non-recurring items, net profit attributable to shareholders increased to EUR 197 million (2018: 181 million). Another factor influencing the return on equity is the equity base, which increased by EUR 118 million at 1 January 2019 compared to 1 January 2018. This has a negative impact on the 2019 ROE of 0.8%-point.

Profit after tax attributable to shareholders and return on equity

in EUR millions



Main changes in 2019 affecting our financial results

In 2019, the corporate client offering focused on the rebalancing of its portfolio in line with NIBC's strategy around two themes, Sustainability & Transformation and Growth & Innovation, as decribed in the Vision & Strategy chapter. The rebalancing is reflected in the composition of our corporate portfolio. As per 31 December 2019, the total corporate client exposure decreased by EUR 0.5 billion in 2019 on the back of our rebalancing efforts. We have actively reduced our Energy and Financial Sponsors & Leveraged Finance and Shipping portfolios, in line with the strategy disclosed in the 2018 Annual Report.

Within the retail client offering, we have further increased our *Originate-to-Manage* (**OTM**) mandates in 2019. This resulted in total mandates of EUR 6.5 billion at year-end. Alongside our partnership with AXA we have also engaged with other institutional investors. Total mortgage loan origination volumes reached a record level of EUR 3.7 billion, of which EUR 2.0 billion relates to the OTM mandates. EUR 1.5 billion relates to owner-occupied of own book and EUR 0.2 billion *Buy-to-Let* (**BtL**) for own book.

In 2019 NIBC has been notified by *De Nederlandsche Bank* (**DNB**) on the outcome of the *internal model investigation* (**IMI**) as part of ongoing supervision by DNB. The IMI has resulted in 30% additional RWAs for our corporate loan portfolios. This had a negative impact of -2.9%-point on our CET 1 ratio at the time of the notification. As the composition and size of our portfolio changes the effect will change. However, as per Q3 2019 we consider the additional RWA requirement to be part of the regular prudential requirements and therefore will not calculate the effect separately for each reporting date. Additionally, on 15 October 2019 DNB published a press release announcing the intention to implement a minimum floor requirement on the risk weighting for the portfolio of non-NHG residential mortgages under the IRB model. As a result of this measurement our pro-forma CET 1 ratio per year-end 2019 would decrease with 1.8%-points to 16.9%. Due to our strong capitalisation we are well positioned to absorb the impact of these regulatory changes without affecting our ability to pay out dividend, in line with our dividend policy. Furthermore, this is in line with the guidance given on the impact of Basel IV.

Financial Performance

In 2019 NIBC has shown strong results which is reflected in a return on equity which is in line with our medium term objectives. Net interest income, excluding the IFRS 9 impact amounting to approximately EUR 34 million in 2019, remained stable. On the other hand funding costs have slightly decreased. Additionally we have managed to keep our cost/income ratio at a stable level despite additional costs relating to strategic changes within the company, the transition to our IT oursourcing partner and several regulatory projects relating to KYC, AML and other (non-) financial risk requirements.

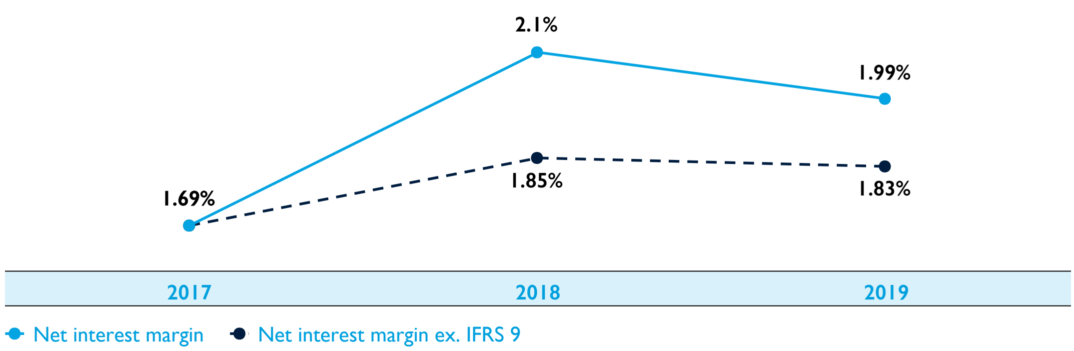
Operating income

In 2019 operating income decreased by EUR 26 million to EUR 524 million (2018: EUR 550 million) including non-recurring items in 2018. Excluding non-recurring items operating income increased by EUR 11 million (2018: EUR 513 million).

Net interest income

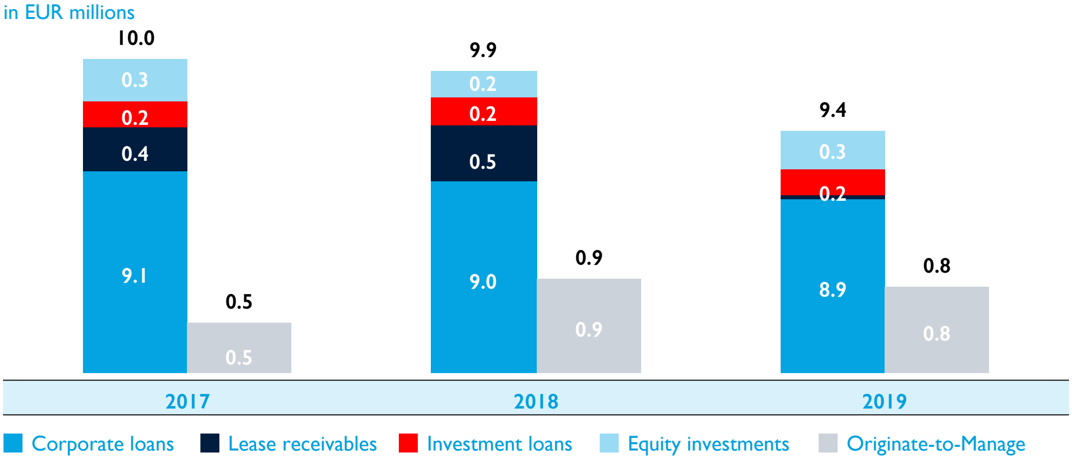
In 2019, net interest income decreased by EUR 15 million to EUR 417 million. NIBC further reduced the effective funding spread from 0.73% to 0.71%. Net interest margin slightly decreased to 1.99%, reflecting the diminishing IFRS 9 pull-to-par effect on net interest income. In 2019 the IFRS 9 related pull-to-par effect decreased to EUR 34 million (from approximately EUR 50 million in 2018). Excluding the IFRS 9 effect on net interest income, the net interest margin remained stable at 1.83% (2018: 1.85%).

Net interest margin

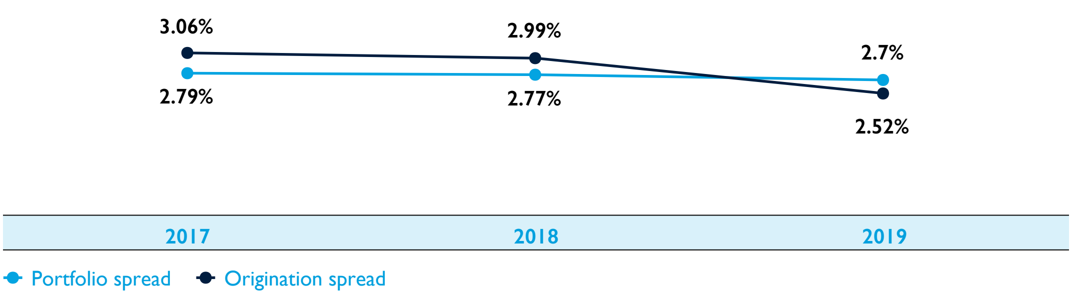


On the corporate client side, the lending margin decreased by 7 basis points to 2.70%, and the volume of interest generating corporate client assets (drawn and undrawn) decreased to EUR 9.1 billion (2018: EUR 9.7 billion). EUR 450 million (2018: EUR 400 million) of the decrease relates to the reclass of the loan to Beequip from corporate client assets to treasury. The net interest income related to corporate bank activities decreased to EUR 185 million (2018: EUR 202 million).

Corporate client assets



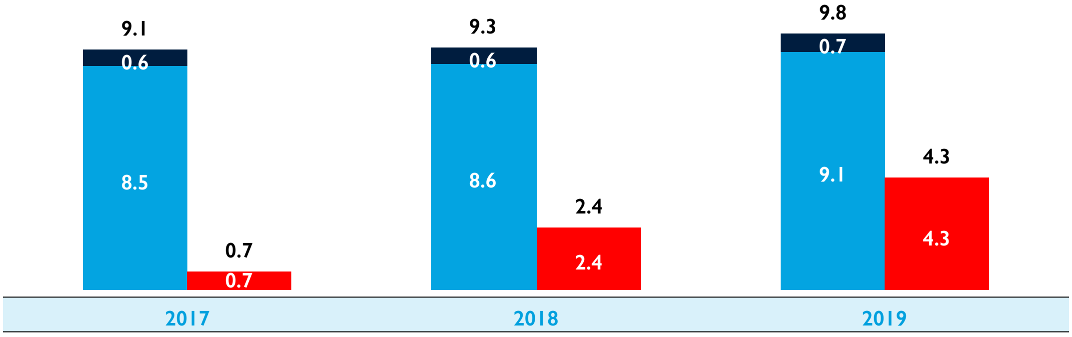
Corporate loan portfolio spreads above base



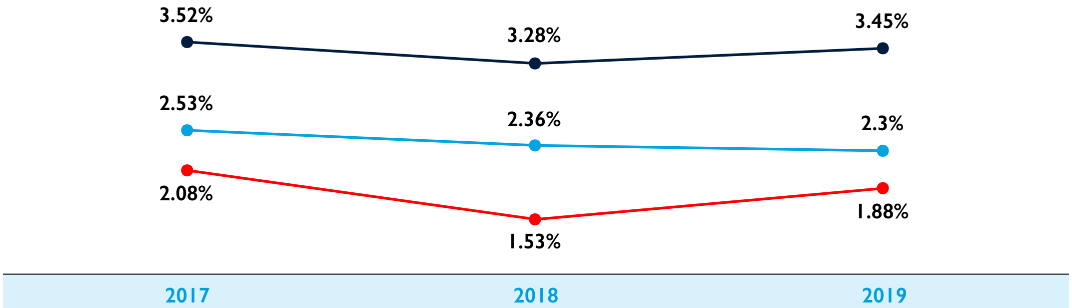
Interest income for our retail client offering grew from EUR 130 million in 2018 to EUR 137 million in 2019. In our retail client offering the net volume of mortgage loans (including netting of savings values and excluding fair value amounts) increased by EUR 520 million to a total of EUR 9.8 billion. The margin on own book mortgages decreased from 2.36% to 2.30%, reflecting a decrease in the margin on newly originated mortgage loans compared to those that are re- and prepaid. We continue to see elevated levels of prepayment as a result of the current low interest rate environment and increased competition in the Dutch mortgage market. As the bank focusses on originating the shorter tenors for its own book, this also increases downward pressure on the portfolio spread. Originating shorter tenor mortgages for our own book further contributed to the reduction of the spread on the mortgage loan book. Furthermore, we have adjusted our appetite to originate more loan-to-value mortgages at the lower end of the loan-to-value spectrum, as is also reflected in a lower average *Loan-to-Indexed-Market Value* (**LTIMV**) as disclosed in note 55-25. This also contributes to a lower spread as well as a better collateralised mortgage loan portfolio and lower expected credit losses on a portfolio level.

Retail client assets

in EUR millions



Retail assets spreads above base



1 Please note that the methodology to measure the portfolio spread has been adjusted in 2018. It now excludes the effects of savings balances. For comparison, prior period spreads have been adjusted accordingly

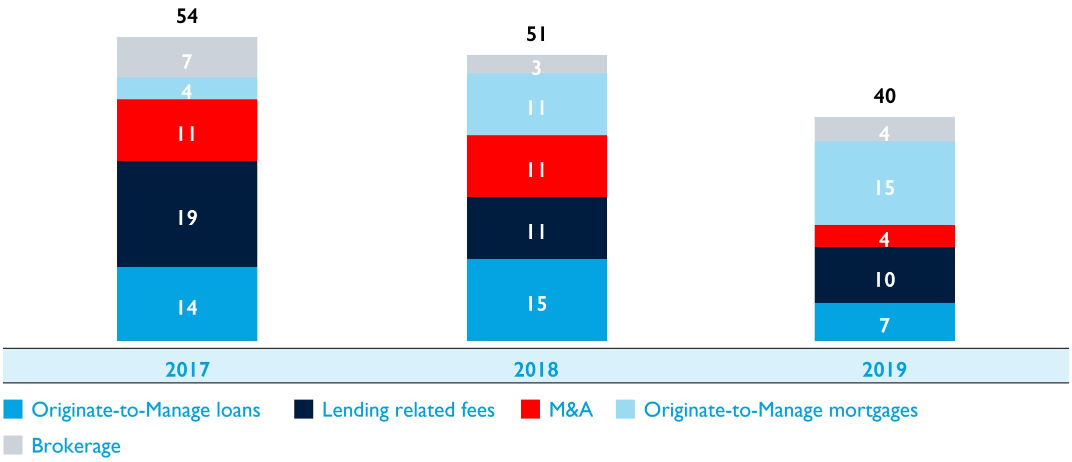
Net fee and commission income

In 2019 Originate-to-Manage fees displayed strong growth in line with the continued growth of the assets under management. On the other hand, due to the sale of a significant part of our fund investments in 2018, corporate Originate-to-Manage fees decreased to EUR 7 million in 2019, reflecting a fee at a normalised level going forward.

- Fee income from the Originate-to-Manage mortgage offering increased from EUR 11 million in 2018 to EUR 15 million in 2019. During 2019, NIBC successfully increased the mandates from institutional investment partners to a level of EUR 6.5 billion. Assets under management at year-end 2019 are EUR 4.3 billion (2018: EUR 2.4 billion).
- In line with our expectations Originate-to-Manage fees relating to corporate loans decreased in 2019 to EUR 7 million following the decrease of NIBC's fund management activities related to NEIF.
- M&A related fees declined in 2019 compared to 2018 by EUR 7 million, reflecting the exceptionally high 2018 fees relating to a single transaction with significant fee income.
- During 2019 lending related fee income has remained stable at EUR 10 million.
- Fee income related to NIBC capital markets activities has been stable during 2019 at around EUR 4 million. Following the discontinuation of our capital markets activities early 2020, brokerage fees will no longer continue in 2020.

Net fee and commission income

in EUR millions



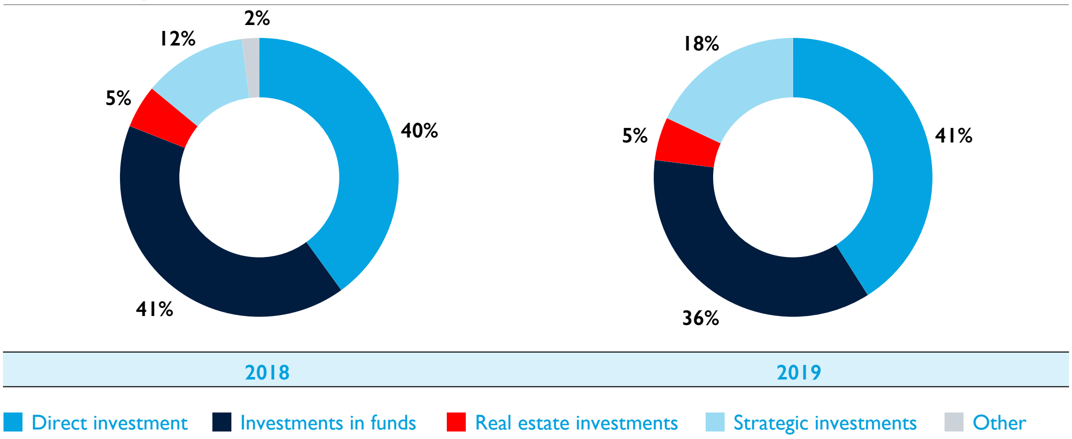
Investment income

In 2019 investment income remained at a relatively high level for the third consecutive year. Reflecting the positive market circumstances for private equity investments. Positive developments in the equity markets let to an increase of the equity portfolio by 41% to EUR 303 million at year-end 2019, primarily driven by revaluations and several new investments.

The equity investment portfolio of EUR 303 million at year-end 2019 can be categorised in four types of investments.

- EUR 123 million relates to direct investments from transactions executed with corporate clients which results in EUR 25 million of investment income in 2019;
- EUR 109 million relates to investments in equity funds in which NIBC is *general partner* (**GP**), co-founder, cornerstone investor or a combination of these roles. In 2019 investment income in these funds amounted to EUR 10 million;
- EUR 54 million relates to NIBC's strategic investments in the fintech space. These investments mainly reflect NIBC's stakes in Ebury, FinLeap, iwoca and OakNorth. In 2019, investment income from these investments amounted to EUR 22 million;
- EUR 15 million relates to NIBC's real estate investments. Investment income in 2019 amounted to EUR 3 million.

Investment portfolio



Other income

Other income, which includes various components, comes at EUR 7 million (2018: loss of EUR 7 million). Below is a breakdown of these components.

- Net trading income equals EUR 5 million (2018: loss of EUR 1 million).
- Net gains or losses from assets and liabilities at fair value through profit or loss were EUR 1 million (2018: loss of EUR 6 million). This result is mainly related to the results of NIBC's hedging activities as far as they are not fully offset by adjustments following the application of hedge accounting.
- A loss of EUR 1 million (2018: loss of EUR 2 million) is reported under net gains or losses on derecognition of financial assets measured at amortised cost following the sale of loans at a price lower than the carrying value at the time of sale.
- Other income of EUR 2 million remained stable compared to 2018.

Operating expenses

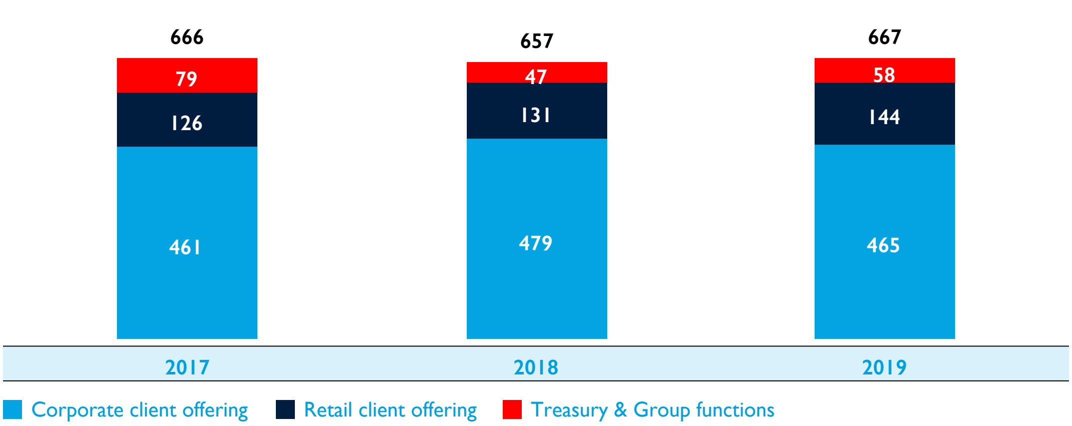
Total operating expenses are impacted by the continued investments we make in our organisation to address increasing regulatory requirements relating to *Know Your Customer* (**KYC**), *Anti-Money Laundering* (**AML**) and the follow-up of the *internal model investigation* (**IMI**), as well as the transition of our IT infastructure to Cegeka in 2019. Taking into account the duration of some of these projects, project related costs will remain at an elevated level in the coming period.

On 15 January 2020, NIBC published a press release announcing the discontinuation of the capital markets activities (e.g. Fixed Income, DCM and ECM). The provision related to the restructuring amounts to EUR 9 million. The discontinuation of our capital markets activities is reflected in our operating expenses. Personnel expenses include EUR 7 million one-off costs relating to severance payments. Other operating costs include EUR 2 million, mainly related to software licenses and data vendor contracts. Given the material impact of these items, the 2019 results are presented both including and excluding these non-recurring costs.

Personnel expenses

In 2019, the number of FTEs increased, primarily caused by the increase of Fte's in retail and the investment in internal change capacity. Mainly as a consequence of the growth in the number of employees, personnel expenses increased by EUR 9 million. Personnel expenses include a EUR 7 million in one-off costs relating to the discontinuation of NIBC's capital markets activities. As 2018 also included one-off personnel costs, the development of personnel expenses excluding non-recurring results shows a comparable pattern.

FTE development (year-end)



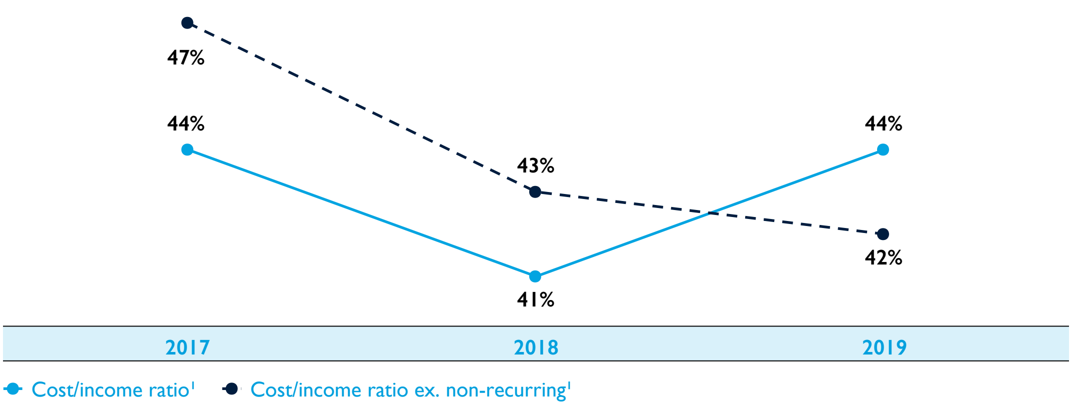
Other operating expenses

In 2019, other operating expenses decreased by EUR 4 million compared to 2018, partly due to a decrease in costs related to the IT retransition which has been finalised in the second half year of 2019 and partly due to lower advisor costs 2018 including additional expenses related to the IPO expenses. Excluding non-recurring items other operating expenses decreased to EUR 94 million (2018: EUR 99 million).

The developments of income and expenses result in a cost/income ratio of 44%, within ithe range of the medium-term objective of a cost/income ratio below 45%, despite additional costs for the exit of capital market activities amounting to EUR 9 million. Excluding non-recurring items the cost/income ratio is 42%.

Cost/income ratio

in %



1 Cost/income ratio including non-recurring items.

Credit loss expenses

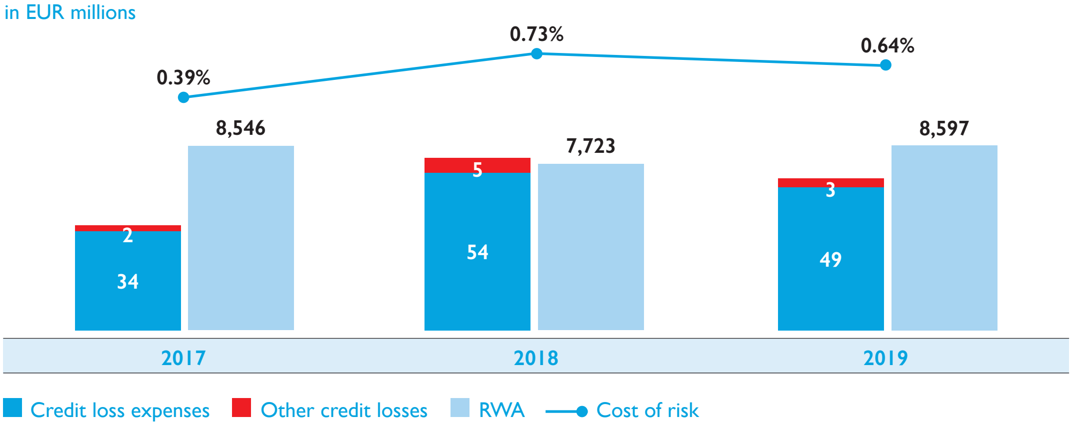
The credit loss expense in 2019 decreased to EUR 49 million (2018: EUR 54 million). The decrease is primarily driven by lower credit loss expenses in the corporate loan portfolio, amounting to EUR 53 million (2018: EUR 62 million). Although credit losses in the corporate loan portfolio are still considered elevated, concentrated in the Leveraged Finance and Energy portfolios. The overall development displays, on average, the stable credit quality of the performing corporate loan portfolio.

The mortgage portfolio has shown a strong credit performance on the back of a strong housing market in the Netherlands and low unemployment rates. Based on these developments, probabilities of default and loss given default levels have continued to decrease in 2019. Furthermore, we observed lower arrears and higher cure rates in our mortgage loan portfolio. These elements resulted in an ECL recovery for the mortgage portfolio amounting to EUR 4 million in 2019 (2018: EUR 8 million).

For 2019, the absolute cost of risk is within our through-the-cycle guidance, i.e. within the range of EUR 45 to 55 million. The relative cost of risk decreased to 0.64% compared to a 2018 level of 0.73%. This decrease is caused both by the decrease in credit loss expenses and by the increase in RWAs, mainly due to the 30% regulatory add-on to our corporate loans following the internal model investigation outcome.

Credit losses and RWA

in EUR millions



Tax

Tax expense in 2019 amounts to EUR 44 million, implying an effective tax rate of 17.9%. This is below the Dutch corporate tax rate of 25%, primarily driven by investment income being tax exempt under Dutch tax law.

In 2018 there was a significant impact related to the introduction of IFRS 9 leading to EUR 256 million reduction of shareholder's equity. With respect to the tax treatment of this impact NIBC will adopt the industry standard, which is currently reflected in the tax position. The agreement with tax authorities has not yet been formalised and is expected to cover the period 2018-2021.

In 2019 German tax authorities completed a regular audit on the tax position of NIBC Bank Deutschland AG as part of the four-year cycle. The primary focus in the audit was on transfer pricing and has led to no material findings.

Profit attributable to non-controlling shareholders

Our AT1 instrument amounting to EUR 200 million with a 6% coupon and a 7 years non-call results in an annual interest expense of EUR 12 million. Under IFRS, the AT1 instrument is classified as equity. The interest paid on this AT1 instrument is accounted for as profit attributable to non-controlling shareholders, but classified as interest expense for tax purposes. As of 2019, the interest paid on the AT1 instrument is no longer eligible for tax deduction, following a change in tax law.

Profit after tax attributable to the shareholder

NIBC's profit after tax attributable to the shareholder of the company amounts to a total of EUR 190 million, compared to EUR 229 million in 2018.

Dividend policy

The policy of NIBC Bank N.V. is to have a 100% dividend pay-out ratio to its unique shareholder, NIBC Holding B.V..

Balance sheet

Throughout 2019 assets remained at a stable level, however the composition of the loan portfolio changed in nature as a result of the continued rebalancing of our corporate loan portfolio. Our balance sheet reflects the strategic choices to sharpen our focus on growing in granular portfolios which are technologically enabled. As a result credit quality of our assets improved. Furthermore, in 2019, we continued to diversify our funding mix at a lower average spread.

Assets

in EUR millions	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Cash and banks	2,653	2,624	2,565
Loans	7,778	7,865	7,871
Lease receivables	25	53	60
Mortgage loans	10,045	9,451	9,332
Debt investments	1,056	865	913
Equity investments	274	199	330
Derivatives	482	579	1,021
All other assets	95	80	117
Total assets	**22,407**	**21,716**	**22,209**

Liabilities and equity

in EUR millions	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Retail funding	9,490	8,922	9,307
Funding from securitised mortgage loans	391	447	267
Covered bonds	3,003	2,510	2,008
ESF	1,191	1,522	1,350
All other senior funding	5,644	5,596	5,751
Tier 1 and subordinated funding	284	278	283
Derivatives	225	210	863
All other liabilities	112	120	119
Total liabilities	**20,342**	**19,605**	**19,947**
Equity attributable to shareholders of the company	1,865	1,911	2,059
Capital securities (non-controlling interest)	200	200	203
Equity attributable to non-controlling interests		-	
Total liabilities and shareholders equity	**22,407**	**21,716**	**22,209**

Assets

Total assets increased to EUR 22.4 billion (2018: 21.7 billion), in which total client assets increased to EUR 18.0 billion, up from 17.3 billion in 2018. During 2019 client assets increased by EUR 0.7 billion, mainly due to an increase in the mortgage loan portfolio and equity investments.

In our corporate client offering, we further executed the rebalancing strategy announced in 2018, within which we are de-risking our balance sheet and focus on growth engines within selected portfolios. This is reflected in the assets with a reduction of EUR 0.4 billion in the Energy and Financial Sponsors & Leveraged Finance portfolios, leading to a level of total corporate client exposures at EUR 9.4 billion. The total volume of corporate loans origination in 2019 was impacted by choices made not to pursue growth in several portfolios. At the same time, much effort has gone into the resolve of KYC/CDD related projects, primarily executed by our own staff. This resulted in a total origination of EUR 3.0 billion, which compares to EUR 3.6 billion of origination in 2018.

With regards to our retail client offering we continued building on our dual-track strategy of originating mortgage loans for own book as well as originating mortgage loans for the Originate-to-Manage proposition. In 2019, origination amounted to EUR 3.7 billion of mortgage loans (2018: EUR 3.4 billion), of which EUR 2.0 billion (2018: EUR 1.8 billion) related to Originate-to-Manage mandates and the remainder was originated for own book. This increase in origination results in total mortgage loans under management of EUR 14.1 billion (2018: EUR 11.7 billion), of which EUR 9.8 billion of own book mortgages. Buy-to-Let mortgage loans increased to EUR 0.7 billion from EUR 0.6 billion in 2018.

Asset quality

In 2019 we managed to further reduce the expected loss on our performing portfolio. On our corporate loan portfolio the expected loss decreased to 30 bps, down from 31 bps at year-end 2018. In the retail client offering the expected loss decreased as well by 2 bps to 7 bps at year-end 2019. Our total impaired exposure decreased from EUR 446 million to EUR 419 million at year-end 2019, mainly as a result of a reduction of impaired exposures in Energy and Leveraged Finance. 31% of the total impaired exposures have been provisioned.

As of 1 January 2018 credit losses are recognised based on an expected credit loss model. Within this model 3 stages are identified based on the credit quality of the asset. The following table shows the ECL stage classification of our on-balance assets.

ECL Staging

31 December 2019		Stage 1	Stage 2	Stage 3	POCI	Total
Amortised cost	Loans	6755	684	137	60	7,636
	Lease receivables	4		21		25
	Mortgage loans	9,915	119	10		10,044
	Debt investments	10				10
Fair Value through OCI	Debt investments	951	3			954
Total		**17,635**	**806**	**168**	**60**	**18,669**

31 December 2018		Stage 1	Stage 2	Stage 3	POCI	Total
Amortised cost	Loans	6,586	849	249	33	7,717
	Lease receivables	53				53
	Mortgage loans	9,351	83	17		9,451
	Debt investments					
Fair Value through OCI	Debt investments	784	4			788
Total		**16,774**	**936**	**266**	**33**	**18,009**

	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Impairment coverage ratio	33%	31%	40%
Top-20 exposure / Common Equity Tier 1	88%	70%	62%

In line with our purpose, we supported our client Reggeborgh at a decisive moment by entering into an agreement in the second half of 2019 to provide financing to the company for a bid on the outstanding shares of VolkerWessels. This commitment has led to the increase of the top-20 exposure / CET 1 ratio. Given the short tenor of the financing, this increase will be short-lived.

Funding and liquidity

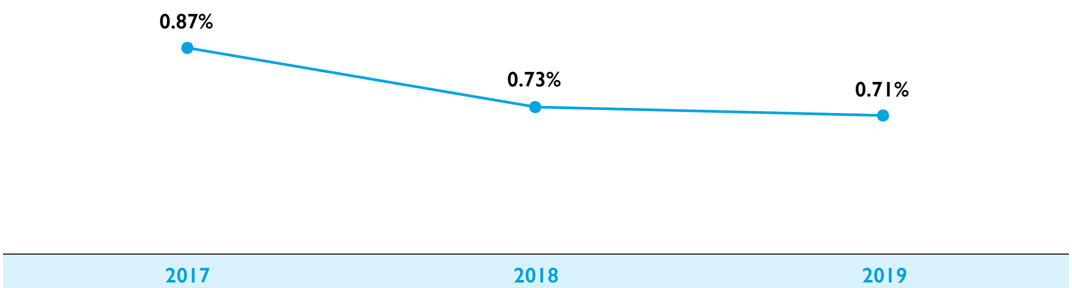
We actively manage the composition of our funding profile and further enhanced the diversification of our funding instruments, especially by the issuance of EUR 300 million senior non-preferred debt to comply with the amounts needed for our MREL target.

- The volume of retail savings increased by more than 6% to EUR 9.5 billion. The mix within retail funding between on demand and term deposits has been managed towards more on demand savings. At the end of 2019 64% of the retail savings consisted of on demand deposits, compared to 61% at the end of 2018.

- In the wholesale funding market we raised approximately EUR 2.2 billion in 2019, the most notable transactions include:
  - in March 2019, a EUR 500 million 8-year public covered bond was issued;
  - in April 2019, a EUR 300 million 5-year public senior non-preferred (unsecured) bond was issued;
  - in July 2019, a EUR 500 million 6-year public senior preferred (unsecured) bond was issued;
  - in October 2019, a EUR 500 million 10-year public covered bond was issued.
- In addition, EUR 375 million senior (preferred) funding was privately placed in different formats, with various maturities and in various currencies.
- Institutional deposits under the German *einlagensicherungsfonds* (**ESF**) guarantee scheme decreased to EUR 1.2 billion.

Active management of NIBC's funding profile, making use of the available instruments, combined with the S&P upgrade to BBB+ following the senior non-preferred issuance and the positive developments in the wholesale market in general have led to a further decrease in the average funding spread. The funding spread above base decreased by 2 basis points to 0.71% in 2019 compared to 2018

Funding spread above base

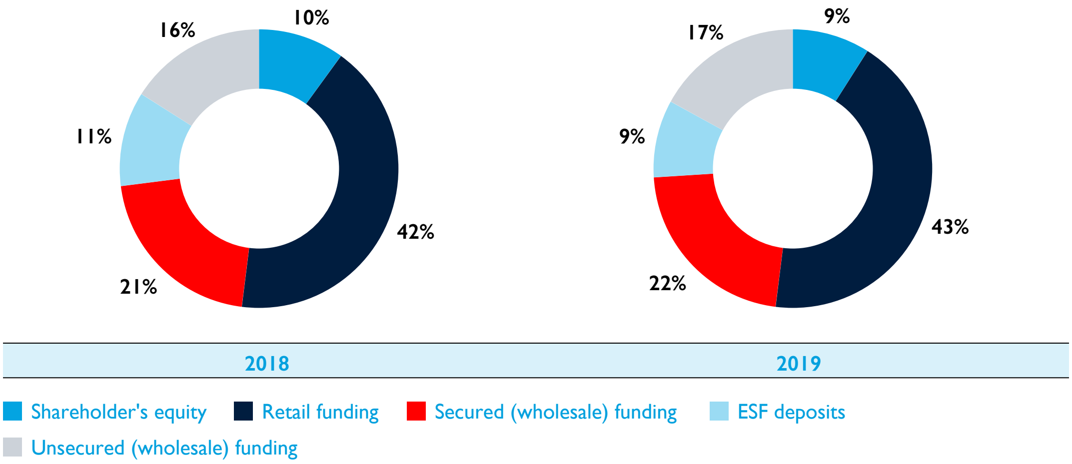


With these additions, NIBC has been able to actively manage the maturity profile of its wholesale funding portfolio as illustrated below, ensuring that we have no major spikes in our redemption scheme.

Maturing funding

in EUR billion	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	≥2030
Covered bonds	-	-	0.5	-	-	-	0.5	0.5	1.0	-	-
Other secured funding	0.8	0.5	0.1	0.3	-	-	-	-	0.1	0.1	0.1
Senior unsecured	0.7	0.2	0.5	0.9	0.3	0.6	-	-	-	0.1	0.1
Subordinated	-	-	-	-	-	-	-	-	-	0.3	0.3
Total:	**1.5**	**0.7**	**1.1**	**1.2**	**0.3**	**0.6**	**0.5**	**0.5**	**1.1**	**0.5**	**0.5**

Funding composition



Liquidity ratios remain strong, in line with the conservative approach to liquidity management. The loan-to-deposit ratio equals 157%, well-placed within the target range of 140%-160%. Asset encumbrance slightly increased to 28% (2018 : 26%), within our appetite of a ratio below 30%.

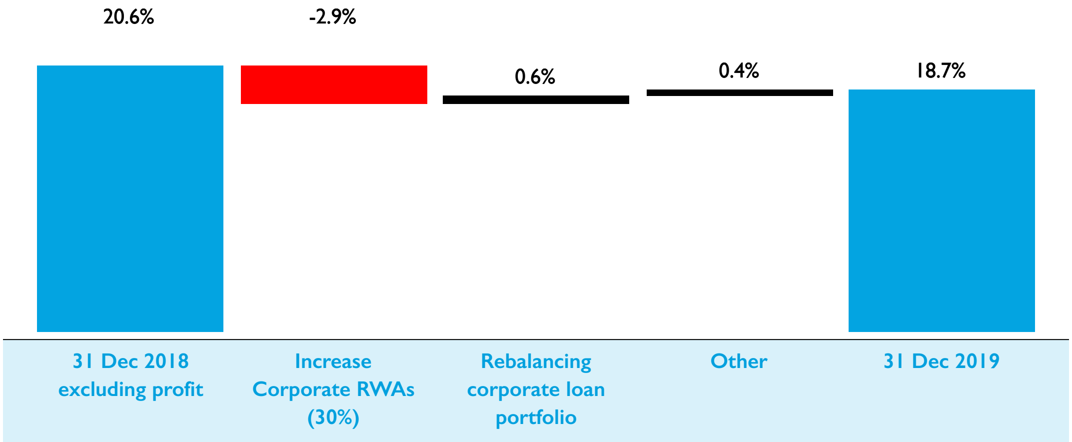
	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
LCR	222%	241%	196%
NSFR	121%	123%	117%
Loan-to-deposit ratio	157%	154%	150%
Asset encumbrance ratio	28%	26%	26%

Solvency

In 2019 the development of our capital ratios was characterised by regulatory changes, resulting in a 30% RWA add-on for the corporate loan portfolio as of 8 August, 2019 and the announcement of a capital floor in the mortgage portfolio effective as per late 2020. Our best estimates indicate that based on the current interpretations, the impact will be approximately 1.8%-point on CET 1 ratio. More importantly, the impact is in line with the guidance given on Basel IV impact on the retail portfolio. As we are well capitalised, we are able to absorb all these developments.

CET 1 development

In 2019 the CET 1 ratio decreased by 1.9%-point to 18.7%. Resulting from the *internal model investigation* (**IMI**) findings, *Risk-Weighted Assets* (**RWAs**) for the corporate loan portfolio has increased with 30%, resulting in a CET 1 ratio decrease of 2.9%-point. NIBC actively rebalanced the corporate loan portfolio, resulting in a total RWA decrease of EUR 320 million, which has a positive impact of 0.6%-point.

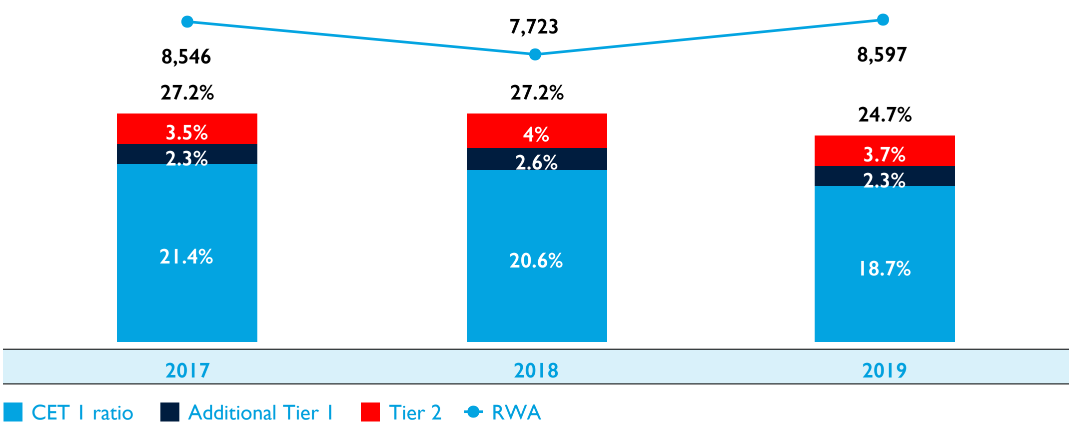


Internal Model Investigation
As disclosed in a press release on 26 June 2019, NIBC has been notified by *De Nederlandsche Bank* (**DNB**) on the final outcome of an *internal model investigation* (**IMI**) as part of ongoing supervision by DNB. The IMI, which was performed on the basis of the *European central bank* (**ECB**) *Targeted Review of Internal Models* (**TRIM**) framework, has resulted in 30% additional RWAs for our corporate loan portfolios for which internal models are used, resulting in a 2.9%-point decrease of our CET 1 ratio upon implementation of the add-on.

The IMI has also resulted in observations related to our internal model and data quality governance. In order to resolve these observations, NIBC has drafted a remediation plan which it is currently executing.

Capital treatment of (interim) profits
To align with regulatory treatment of (interim) profits, NIBC has adjusted the reported solvency ratios with effect from 2019. They continue to be based on the full implementation of CRR (fully loaded), but no longer include (interim) profits for which the company has not yet received approval to add to eligible capital. Profits are added to regulatory capital after attribution to retained earnings or after NIBC has received the required approval to add interim results to regulatory capital. As from 2019, the reported ratios have been adjusted accordingly. This adjustment has no implications for NIBC's dividend policy. With a 100% dividend pay-out ratio this also does not have any impact on NIBC Bank's capital ratio's.

Solvency ratios



SREP requirements

Our solvency levels are well above the minimum required levels as set by DNB in the SREP. The *maximum distributable amount* (**MDA**) is determined by comparing actual solvency levels to the minimum SREP requirements. Solvency ratios have to exceed the SREP requirements to allow distribution of dividends. To prevent limitations in distributions, the MDA which consists of the amount of CET 1 above the SREP requirement divided by the combined buffers (CCB and CCyB), must be above 100%. The present ratios provide sufficient room to execute NIBC's dividend policy.

Various jurisdictions relevant to NIBC have introduced or increased a *Countercyclical Capital Buffer* ratio (**CCyB**) requirement through 2019, resulting in a requirement of 0.2% on 1 January 2020 (2019 : 0,1%). The CCyB of 1% in the UK is the main driver of this requirement.

	1 January 2020			1 January 2019		
	CET 1	Tier 1	Total capital	CET 1	Tier 1	Total capital
Pillar 1	4.5%	6.0%	8.0%	4.5%	6.0%	8.0%
Pillar II	3.3%	3.3%	3.3%	3.5%	3.5%	3.5%
Subtotal	**7.8%**	**9.3%**	**11.3%**	**8.0%**	**9.5%**	**11.5%**
Capital Conservation Buffer (CCB)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Countercyclical Capital Buffer (CCyB)	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
SREP requirement	**10.5%**[1]	**12.0%**	**14.0%**	**10.6%**	**12.1%**	**14.1%**
Pillar II guidance		*not disclosed*			*not disclosed*	
Actual						
NIBC Bank transition	18.7%	21.4%	24.7%	20.6%	23.9%	27.2%
NIBC Bank fully loaded	18.7%	21.0%	24.7%	20.6%	23.2%	27.2%
Fully loaded capital	1,605	1,805	2,122	1,594	1,794	2,103
Risk weighted assets	8,597	8,597	8,597	7,723	7,723	7,723

1 As per the date of 8 August, 2019, the SREP requirement was 10,4% as per that date the CCyB was 0,1% lower.

Our unweighted solvency position calculated by the leverage ratio equals 7.8%, comfortably above the minimum requirements and in line with 2018 (7.9%).

Basel IV

An agreement was reached on the finalisation of the Basel III reforms ("Basel IV") in December 2017. While certain elements still require more clarification, based on our current assessment and interpretation of the Basel IV Standards, we expect the impact to be in a range of 15%–25% of RWAs by 2027, compared to the RWAs as determined per the end of 2019.

The estimated Basel IV impact is lower than previous estimations as the current reported RWAs already include the impact of the IMI-related measures. The IMI impact can be viewed as a material step towards Basel IV. This is based on the assumption that NIBC will successfully implement the required improvements in its model landscape. This does not take into account possible management actions, nor potential changes to Pillar 2 requirements. This also assumes the current portfolio to be the same in 2027, as well as RWAs based on the current economic environment.

On 15 October 2019 DNB published a press release announcing the intention to implement a minimum floor requirement on the risk weighting for the portfolio of non-NHG residential mortgages under the IRB model. DNB assessed that systemic risk increased due to the continued rise in house prices, resulting in signs of overvaluation. DNB intents to implement the minimum floor in the autumn of 2020 for a two-year period. The pro-forma impact of the minimum floor on the CET

1 ratio as per year-end 2019 is a decrease of 1.8%-points, consequently reducing the remaining expected RWA impact of Basel IV to 10% - 15%.

An uncertainty for banks is that the Basel IV Standards will have to be incorporated into legislation within the European Union. The EU legislative process may take up to several years. During this process of transposition in EU and national law, adjustments may be implemented. We aim to meet the final requirements early in the phase-in period while we continue to execute our client-focused strategy.

Resolution

Under the *Bank Recovery and Resolution Directive* (**BRRD**), resolution authorities are required to assess whether – in case of a bank's failure – the resolution objectives are best achieved by winding down the bank under normal insolvency proceedings or resolving it. If it is the latter, a preferred resolution strategy is developed, including the use of appropriate resolution tools and powers as described in the BRRD.

For NIBC, the relevant resolution authority has stated the preferred resolution strategy to be single point of entry at NIBC Bank level with the following approach: "*The use of the sale of business tool (SOB), the share-deal version, is considered the preferred approach for a resolution of NIBC Bank. Following the write down and conversion of capital instruments, this could be used in combination with a bail-in depending on the level of losses in resolution. The use of the bail-in tool is considered as a variant strategy*".

In line with the preferred resolution strategy, a non-binding MREL requirement has been communicated to NIBC. The MREL requirement has been established to ensure that banks in the European Union have sufficient own funds and eligible liabilities to absorb losses in the case of a potential bank failure. This indicative non-binding MREL requirement is in line with our expectations, and consistent with our funding and capital plans.

With the sucessful senior non-preferred bond issuance of EUR 300 million in April 2019, we have taken a major step towards our MREL requirement. We observe that after Brexit and without additional measures taken by the EU, some of NIBC's Tier 2 instruments, issued under UK regulation, may no longer comply. We also note that the legal regime will change in December 2020 and that regulatory clarifications may still follow after this date. In this context, NIBC remains confident it will be able to meet the MREL requirement.

Following the execution of the merger of the NIBC Bank Deutschland AG with NIBC Bank NV (refer to Recent developments) regulatory supervision of NIBC on resolution will be transfered from the SRB to the NRA department within DNB. The reason is that NIBC will no longer be a 'cross border group'. As of now we do not know whether or to what extent this change may lead to a different view on, or an adjustment to, the indicative non-binding MREL-requirement.

NIBC INTRODUCES FIRST OF ITS KIND DUTCH SAAS FINANCING FOR SOFTWARE COMPANY BETTY BLOCKS

NIBC supports leading provider of a no-code platform Betty Blocks with Software-as-a-Service (SaaS) Financing. The financing solution which is offered by NIBC is a first of its kind in the Dutch software market. With this unique product, NIBC is able to support Betty Blocks in its phase of rapid growth. NIBC developed a unique and inventive financing structure that especially fits fast growing and scale-up businesses that offer cloud software based on a subscription business model. In the absence of tangible assets, SaaS Financing provides an alternative for traditional equity investments and general corporate lending. Funding is provided directly based on the recurring revenue under a structure benefiting both Betty Blocks and its clients.

> “ Betty Blocks is fast growing and is internationally recognised as a leader in its field. With our continued expansion, we benefit from a funding solution that is both secure and provides flexibility to invest in further growth. We appreciate the in-depth knowledge of the IT industry of NIBC. With its unique SaaS financing solution we are able to better facilitate our marketing strategy and international expansion. The structure also provides us with a sustainable solution to finance future growth on an ongoing basis and remain in control over our business. ”

Tim Obdam, CEO at Betty Blocks

BUSINESS REVIEW

BUSINESS REVIEW

Corporate client offering

Our corporate client offering consists of providing our clients senior debt, mezzanine and equity financing, advisory and some capital markets products. With this offering, we focus on serving medium-sized clients in selected sectors in north-western Europe with the purpose to enable them to achieve their goals. We distinguish ourselves with tailor-made financing solutions and the ability to execute transactions swiftly at the decisive moments for our clients. Since 2019 the corporate client segment is organised around two themes Sustainability & Transformation and Growth & Innovation, focused on origination, execution and portfolio management of its core products and specific client needs. Clients are served from our offices in The Hague, Amsterdam, Frankfurt and London.

As decribed in our Vision and Strategy paragraph we are facing several challenges. These can be summarised as the 'low-for-longer' interest environment, (adverse) late-cycle trends, and increasing requirements to retain our licence to operate. In order to address these challenges, we focus on our long-term strategy as a speciality financier, favouring margin over volume, and being agile to adapt to changing circumstances. In practice, this means we need to focus on initiatives that have sufficient growth potential in combination with scalability, supported by data driven technology. In the execution of our strategy, we incorporate key themes relevant to our clients, society and our business model. From an external perspective these themes include technological advancements, innovation, platformisation, the energy transformation, sustainability, consumer empowerment and ageing. As drivers of future performance we will focus on further rebalancing selected activities and corresponding exposures, income diversification, digital transformation, and continued customer centricity towards corporate clients, SMEs and institutional investors.

In response to the 'low-for-longer' interest environment, we continued to actively manage our equity investments, indirect client transactions, portfolios as well as focusing on fintechs. Our selection process includes an evaluation of the ability to include these fintech companies in an environment in which we can learn from each other by acquiring best practices and enhance growth using new technologies and insights. Current revaluations of several equity investments show that we have been successful in carefully selecting these partners.

In 2019 we have further solidified our partnership with OakNorth by entering into a 5-year contract with the next generation credit platform, that will enable NIBC to incorporate most of its corporate loan portfolio onto the platform. These partnership is focused on the underserved market segment of small/medium-sized business lending. It is a scalable, technology enabled, growth initiative.

Early 2020 we have developed a new small *Commercial Real Estate* (**CRE**) initiative called OIMIO that will provide CRE loans in the range of EUR 1 million to EUR 10 million in the Dutch market. We acknowledged that this market is predominantly served by a small number of financing parties, who are heavily exposed in this segment and as a result are reducing their exposures. The Dutch real estate market is part of the core expertise of NIBC and the smaller loan segment is complementary to our existing product offering. Together with our partner OakNorth and by applying enhanced efficiencies in the small CRE lending process, we aim to offer a new standard in customer relationship and experience, where we put client experience first and make technology a driving supporting factor.

In order to be successful in all these initiatives, we need to focus on opportunities with sufficient client demand and scalability potential. Not all of the required volume has to be on the bank's balance sheet. By extending the Originate-to-Manage model to asset classes within the corporate client offering we enhance volume potential and increase our fee income potential. In 2019 we closed our first mandate with an institutional investor in a new Originate-to-Manage asset class proposition. Going forward we aim to expand this mandate and our partner base amongst other institutional investors.

We have evaluated our current propositions against criteria deemed imperative for succes in the future: growth potential in combination with technology enabled scalability. We dedicate the resources needed to make the new initiatives successfull, knowing that the first years are always a period of investments. In turn, we choose to reduce our involvement is other activities. As a consequence we have decided to discontinue our capital markets activities as communicated in the press release dated 15 January 2020. Capital markets activities have been transformed significantly in recent years, however the capital markets business has proven to be insufficiently scalable within NIBC's business model. This activity requires a larger scale given the regulatory and investments in IT necessary. Taking into account the focus on initiatives that are scalable from a growth perspective and technology enabled it has been decided to discontinue the capital markets proposition, amongst others the Debt Capital Markets, Equity Capital Markets and Fixed Income activities. We will continue to refine our focus and make further adjustments to our propositions if necessary in order to continuously pursue underserved markets in which smaller tickets sizes are attainable and associated higher spreads achievable, in line with our risk appetite.

In 2019 many of our colleagues as well as our clients have made it possible to successfully address the *Know Your Customer* (**KYC**) and *systemic integrity risk analysis* (**SIRA**) findings from the regulator. We are grateful for the commitment of both our staff and clients in their respective roles during these processes, which ws instrumental to address these relatively swift. We recognise that this process has required efforts from our clients during the past year and that it may have lowered their client experience with NIBC. Consequently, our corporate lending NPS score has gone down to 47%from 63% in 2018. Now that the process has been completed we are focusing on the core of our business: helping our clients with solutions to complex financial questions at their decisive moments.

Corporate portfolios

The portfolios revolve around two main themes, Sustainability & Transformation and Growth & Innovation. These themes provide us with a strong basis to increase focus and fully utilise our core competence of finding bespoke solutions for complex financial questions in specific underserved markets.

Sustainability and Transformation

These teams focus on more traditional parts of the market, Mid Market Corporates, Shipping, Energy, Commercial Real Estate and Infrastructure. Within *Commercial Real Estate* (**CRE**) we shifted from large single client exposures towards *e.g.* more short-term development financing, resulting in an increasingly diversified portfolio. Our next step in this perspective is to develop our small Commercial Real Estate initiative OIMO, as discussed above. Within our Infrastructure portfolio we used to finance traditional infrastructure objects with long maturities. While we continue to serve our clients and help them throughout their business cycle, we are shifting towards digital infrastructure projects such as financing data centres and glass fibre networks, with relatively shorter tenors compared to the traditional infrastructure portfolio. The Energy and the Shipping portfolios have been actively managed in 2019, with a focus strong on de-risking the exposures in those portfolios.

With our corporate lending product we focus on mid-market companies predominantly active in the sectors Food & Agri and Manufacturing in the Netherlands and Germany. We offer solutions to enable our clients' growth and development, which often evolve around a decisive moment. The low-for-longer interest environment and increased competition lead to continued pressure on margins, limiting the ability to differentiate ourselves. Therefore, we pro-actively adjust our commercial strategies and focus depending on these market circumstances.

Growth and Innovation

Within this theme the focus is on Fintech & Structured Finance, Financial Sponsors & Leveraged Finance, Mezzanine & Equity and Corporate Finance & Capital Markets. NIBC's Fintech & Structured Finance team supports financial technology companies through structured finance solutions, corporate loans and a combination of debt & equity advisory and mergers & acquisitions advisory services. The team also finances financial institutions such as leasing companies. In the fintech sector, we also see opportunities to help our clients with our receivables financing solutions, at times enhanced with minority equity stakes. We seek mutually beneficial relationships where we benefit from the technological knowledge of our fintech client while we provide our financial knowledge and solutions. In 2019 the team has successfully increased the portfolio to EUR 1.3 billion (2018: EUR 1.0 billion) showcasing our ability to increase our presence in this highly competitive growth market.

The Financial Sponsors & Leveraged Finance offering provides solutions for all stages of a management buy-out, generating investment opportunities, innovative ideas and financing solutions to enable growth for our financial sponsor and portfolio company clients. In 2019 we continued to rebalance and de-risk the Financial Sponsors & Leveraged Finance portfolio. The ability to execute this decision is reflected in the orderly decrease of the portfolio from EUR 1.6 billion as at year-end 2017 to EUR 1.0 billion at year-end 2019 (2018: EUR 1.3 billion). Within the Leveraged Finance portfolio we continue to observe a relatively high level of impairments.

In our Mezzanine & Equity Solutions we focus on growth and succession financing, providing subordinated debt and minority equity solutions. Often this goes hand-in-hand with senior financing solutions, such that we provide a total solution. Also for these products, we are looking for granular direct investments and lending solutions rather than large investments in investment funds.

For more than 15 years, *collateralised loan obligation* funds (**CLO**) have been part of our product offering. 2019 has marked the launch of North Westerly VI, the first CLO that is fully compliant with explicitly defined *environmental, social and governance* (**ESG**) criteria. The ESG criteria prevent the fund from investing in controversial sectors such as coal power and mining, extreme fossil fuels, weapons and firearms, tobacco, gambling, amongst others. Transparency is provided through detailed investor reports and analysis, which includes reporting the portfolio composition from an ESG criteria perspective on a quarterly basis. NIBC is proud to be the first bank to issue such a fully ESG compliant CLO as illustrated by our continued committment to develop innovative sustainable banking products. The CLO settled on 8 January 2020 with a notional of EUR 410 million.

Performance
Income statement corporate client offering

in EUR millions	IFRS 9 2019	IFRS 9 2018
Net interest income	185	202
Net fee and commission income	25	40
Investment income	60	74
Other income	5	(4)
Operating income	**274**	**312**
Other operating expenses	112	119
Regulatory charges and levies	-	-
Operating expenses	**112**	**119**
Net operating income	**162**	**193**
Credit loss expense / (recovery)	53	62
Profit before tax	**109**	**131**
Tax	13	15
Profit after tax	**96**	**116**

On the back of rebalancing several portfolios, both increasing and decreasing exposures, net interest income was strong in 2019 and in line with prior year net interest income. Despite challenging circumstances related to the low interest environment and liquidity abundance leading to additional pressure on interest margins we have been able to keep net interest income relatively stable.

Investment income of this seasoned portfolio was EUR 60 million (2018: EUR 74 million). The result is primarily related to positive revaluations of investments and related to realised results (EUR 16 million). In 2018 we observed the successful exits from investment in funds NEIF and MBF IB, leading to realised results of EUR 32 million and EUR 15 million respectively. The result of the investment portfolio reflects the positive climate for private equity on the back of the low interest environment..

Credit loss expenses are impacted by stage 3 credit losses mainly related to exposures in cyclical sectors, which confirms our strategy to de-risk these portfolios. We will continue to evaluate the risk profile of our portfolios against our risk appetite. Despite our de-risking efforts, we do not expect cost-of-risk levels to materially decrease on short-notice.

Total corporate loan origination in 2019 amounted to EUR 3.0 billion, compared to EUR 3.7 billion in 2018. As prepayments remain at an elevated level, close to our total origination, the corporate loan book decreased from EUR 9.0 billion to EUR 8.9 billion. The equity investment portfolio increased to EUR 303 million (2018: EUR 215 million), EUR 53 million is the result of investments and EUR 63 million is related to positive revaluation adjustments and distributions. These increases were off-set by EUR 32 million in divestments, of which EUR 27 million related to fund investments. The loan facility to Beequip is no longer part of the corporate client assets, but was transfered to Treasury on 1 January 2019. As a result total corporate client assets decreased to EUR 9.4 billion (2018: EUR 9.9 billion).

Retail client offering

NIBC offers mortgage loans, Buy-to-Let mortgage loans and saving products to its retail clients. With transparent pricing and conditions, these products help our clients executing or preparing for their decisive moments. We do not provide general banking services such as payment solutions or current accounts, allowing us to focus on products with which we can stand out. Retail client offering is active in the Netherlands, Germany and Belgium.

The retail client offering is also facing the challenges as discussed in Vision and Strategy. This can be summarised as the low-for-longer interest environment, (adverse) late-cycle trends and increasing requirements to comply with our licence to operate. In order to address those challenges we need to focus on initiatives that have sufficient growth potential in combination with scalability, supported by data driven technology.

In February 2020, NIBC has introduced a new mortgage label 'Lot Hypotheken', which is set up specifically to further expand our Originate-to-Manage mortgage proposition. This way NIBC increases its ability to serve a broader range of clients, intermediaries and institutional investors. Lot Hypotheken supports sustainability, offers competitive interest rates and aims to outperform on processes. Lot Hypotheken will start originating NHG mortgages. On top Lot Hypotheken offers an attractive sustainability loan part for retail clients to realise energy savings measures. This new label will be positioned independently from our NIBC Direct mortgages label and will operate under the licence of NIBC Bank N.V. This new initiative fits our ambition to diversify our income and to grow our asset portfolio which will generate additional fees.

Mortgages

NIBC only offers mortgage loans in the Netherlands. NIBC Direct mortgage loans are offered via independent intermediaries throughout the Netherlands. The mortgage servicing and back office activities are outsourced to a third party. With this operational set-up of our mortgage business, we have created an efficient and scalable business process. We continuously reflect on developments and the options that our operational set-up provides. With NIBC Direct we created a one-stop-shop for intermediaries by supplying a full product range from niche products to price competitive long-term interest rates mortgage loans. For clients of NIBC Vastgoed hypotheek (Buy-to-Let) we increased our service level by offering the possibility to do business directly.

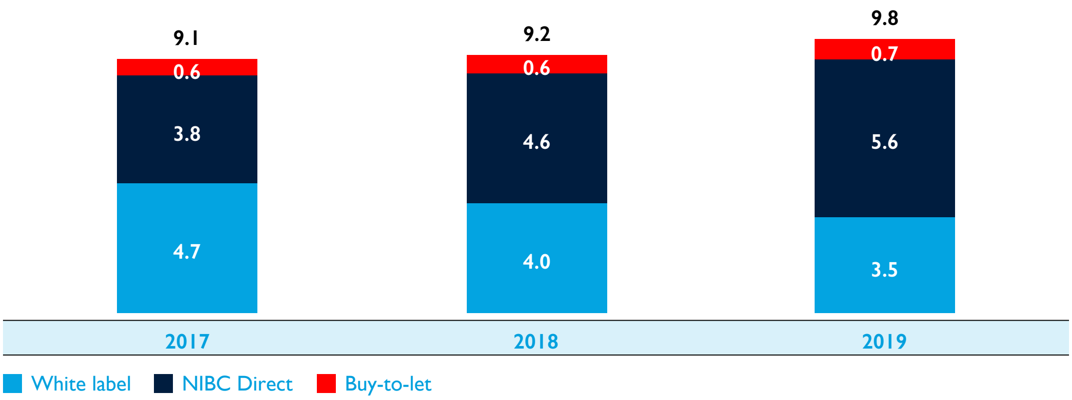
Our multi-track mortgage loans strategy has continued to be successful, originating mortgage loans for own balance sheet and for third-party (institutional) investors. As a result, our mortgage origination volumes further increased. In total, origination volumes have increased to EUR 3.7 billion in 2019 (2018: EUR 3.4 billion). EUR 2.0 billion of the originated mortgage loans are originated for the Originate-to-Manage proposition.

We consider it imperative that customers with an interest-only mortgages are aware of the characteristics of their mortgage loan. Since the start of 2019, we approached specific segments of our clients and offered them a personal interview to talk about their personal financial situation. NIBC believes it is essential that a mortgage loan remains affordable in the future and that residual debts are prevented where possible and therefore we actively participate in the sector-wide initiative 'Aflossingsblij'. Active mortgage loan servicing is and will remain an important part of our service to customers.

Mortgages for own book

The Dutch housing market price index continues to increase leading to further improvement of the credit quality of the mortgage portfolio. This has resulted in a decrease of the arrears amount to EUR 11 million (2018: EUR 19 million). With a continued low interest rate environment also the number of mortgages renewals has remained high. We continued to focus on the more profitable segments of the mortgage market, outside of the NHG market and within niches like self-employed, expats and Buy-to-Let. Market circumstances continue to be competitive, however are more focused on service rather than price sensitivity in this segment. As a result in 2019 we have invested in improving our onboarding processes. This has increased the ease and speed of doing business with NIBC Direct. The volume of owner-occupied mortgage loans recognised on the balance sheet of NIBC increased to EUR 9.1 billion in 2019 (2018: EUR 8.6 billion). In 2019, origination for own book amounted to EUR 1.5 billion (2018: EUR 1.6 billion) and re- and prepayments were stable at EUR 1.1 billion (2018: EUR 1.1 billion). Origination for Buy-to-Let increased to EUR 0.2 billion, leading to a total portfolio of EUR 0.7 billion as at year-end 2019.

Mortgage loan development



Originate-to-Manage mortgages

Together with our institutional partners, we have successfully grown the OTM mortgage propostion. There are a number of unique selling points for our Originate-to-Manage proposition. The mortgage loans we originate for OTM carry the NIBC Direct brand, the client has a contractual relationship with NIBC and the OTM mortgage follows exactly the same (application) process as mortgage loans for own book. Furthermore, the institutional investor has flexibility in determining what type of mortgage exposures are included in its portfolio. The investor can for example choose the length of the fixed interest term on the mortgages and whether or not the mortgage is covered by the *Dutch mortgage guarantee scheme* (**NHG**). Next to this, NIBC can offer balance sheet support. The institutional investors usually favour long duration mortgage loans. There are, however, cases where the client needs short-term bridge financing. NIBC, with its balance sheet, can offer bridge financing to the client, while the mortgage is transferred to our partner as soon as the loan is originated. Further, the experience of NIBC in mortgage origination and in managing mortgage loan portfolios allows us to successfully execute our role as a strategic partner to institutional investors.

An essential element of the OTM product is that NIBC has transferred all economic risks related to the OTM mortgage loans. The loans are immediately sold to the strategic partner once a loan offer is accepted by a client and distributed. Therefore, the OTM product does not result in on-balance positions and consequently does not lead to additional credit risk. NIBC's income on the OTM mortgage activity comes from the fees it receives for services provided to the investors.

In the OTM offering, we have several strategic partnerships, with whom we currently have a total mandate to originate a portfolio of EUR 6.5 billion mortgage loans. At year-end 2019, the total portfolio amounted to EUR 4.3 billion (2018: EUR 2.4 billion). As discussed above, NIBC has launched the new label 'Lot Hypotheken' to further build its *Originate-to-Manage* (**OTM**) franchise, leading to an increase of our OTM mandates by EUR 1 billion.

Savings

The retail savings products are an important pillar in the funding strategy of NIBC. NIBC's savings products are offered exclusively via our online channel in the Netherlands, Germany and Belgium.

Active management of in- and outflow of deposits resulted in an increase of the total retail savings deposits in 2019 to EUR 9.5 billion (2018: EUR 8.9 billion), which fits within the bank's funding appetite. Within the savings portfolio, the share of on-demand deposits increased from 61% in 2018 to 64% in 2019. We continue to evaluate our funding mix as a whole and possibilities to further develop and employ the retail savings offer within NIBC's funding mix.

Performance

Profit after tax for the retail client offering slightly improved compared to 2018, benefitting from increasing fee income from the OTM offering and increased net interest income.

Income statement retail client offering

in EUR millions	IFRS 9 2019	IFRS 9 2018
Net interest income	137	130
Net fee and commission income	15	11
Investment income	-	0
Other income	-	-
Operating income	**152**	**141**
Other operating expenses	59	54
Regulatory charges and levies	10	9
Operating expenses	**69**	**63**
Net operating income	**83**	**78**
Credit loss expense / (recovery)	(4)	(8)
Profit before tax	**87**	**85**
Tax	22	22
Profit after tax	**65**	**63**

The total mortgage loan book increased to EUR 9.8 billion as a result of EUR 1.7 billion of origination for own book in 2019. Despite a year-on-year increase in origination spreads for both Buy-to-Let and owner occupied mortgage loans the spread on the mortgage loans portfolio decreased by 6 basis points to 2.30%. The decrease of the portfolio spread was caused by an increased share in origination of short-term fixed rate mortgages, and lower *loan-to-value* (**LtV**) levels on our mortgage portfolio. Further, we observed increased competition in the mortgage market, creating downward pressure on mortgage rates.

Net fee and commission income for the retail client offering fully reflects income from the Originate-to-Manage business. The OTM proposition is one of the growth drivers in the income statement. As both the amount of origination and the total originated portfolio increased substantially, fee income from this product increased by 36%.

Regulatory charges include the annual levy related to the *Deposit Guarantee Scheme* (**DGS**). In 2019, our increasing market share in new deposits increased the levy increased to EUR 10 million (2018: EUR 9 million).

The improved state of the Dutch housing market resulted in lower LtVs on mortgage loans, and consequently reduced risks in our mortgage book. On the back of the quality profile improvement, credit loss recoveries in 2019 amounted to EUR 4 million. At year end the total impairment balance amounts to EUR 3 million (2018: EUR 7million)[1].

Treasury & Group functions

The net interest income impact from the pull-to-par effect related to IFRS 9 is attributed to Treasury & Group functions. Total net interest income from this IFRS 9 related effect amounts to approximately EUR 34 million (2018: approximately EUR 50 million). The effective funding spread marginally decreased from 0.73% to 0.71% in 2019, leading to an increase of net interest income.

The annual resolution levy of EUR 4.6 million in line with previous periods.

In 2018 the EUR 17 million tax benefit related to tax losses carried forward from losses in 2010 and 2011 was recognised in this segment. In 2019 a tax benefit amounting to EUR 4 million was recognised in the income statement as a result of the revaluation of the Dutch deferred tax asset, following the adjustment of the future corporate income tax rate, enacted in the second half of 2019.

Income statement Treasury & Group functions

in EUR millions	IFRS 9 2019	IFRS 9 2018
Net interest income	95	101
Net fee and commission income	-	0
Investment income	-	0
Other income	2	(4)
Operating income	**97**	**97**
Other operating expenses	43	36
Regulatory charges and levies	5	6
Operating expenses	**48**	**41**
Net operating income	**49**	**55**
Credit loss expense / (recovery)	-	(1)
Profit before tax	**49**	**56**
Tax	9	(6)
Profit after tax	**40**	**62**

1 See Note 25/2019

NIBC SUPPORTS SCOTTISH FINTECH LENDINGCROWD

Together with Scottish Investment Bank, NIBC made funding available for the Scottish fintech lending platform LendingCrowd. The funding will be made available as business loans to small and medium businesses across Scotland and the rest of Britain. LendingCrowd fulfils the increasing demand for small business finance via its leading edge proprietary online platform, which provides SMEs with a decision on the same day and access to the funds within 10 days.

> “There are many small businesses crying out for finance and the funding from Scottish Investment Bank and NIBC, coupled with our strong retail investor base, will allow LendingCrowd to help even more companies fulfil their ambitions.”

Stuart Lunn, founder and CEO of LendingCrowd

RISK MANAGEMENT

RISK MANAGEMENT

Risk management has an integral role in facilitating NIBC's desired growth strategy while carefully managing and monitoring risks in an structured and efficient manner. In the corporate offering, intense contact with origination and portfolio management as well as in-depth portfolio and client knowledge assist in safeguarding the portfolio. In the retail offering, risk is managed through simple and transparent products and an experienced arrears management team aimed at preventing foreclosures. We mainly pursue credit and investment risk; lowering our interest rate, currency, liquidity and operational risks while ensuring solid capital and liquidity positions. These are integral aspects of the corporate and retail platform. Our risk appetite defines the scope and boundaries we are comfortable with, while our risk management framework provides us with a structured approach for managing the various risks on a daily basis. It is indispensable that sound risk management is rooted in our culture, as it is the responsibility of all our people to service our clients over the long term in the way that they expect us to do, and in relationships based on trust, transparency and reliability.

The origination philosophy is centred around the client relationship, understanding the client's cash flow and the availability of collateral. In our corporate client offering we apply an integrated approach to managing credit risk by focusing on risk-adjusted returns. We assess whether a new opportunity fits our risk appetite, and evaluate commercial and compliance matters prior to engaging with any particular client. In this process we consider credit risk and financial market risk as part of the decision process and conduct risk assessments prior to making the final lending decision. The ultimate decision is dependent on our comfort with the specific client. The *Restructuring & Distressed Assets* (**RDA**) department is highly experienced, and typically engaged at an early stage of client financial distress to maximise the probability of a successful work-out and to limit potential losses. In our retail client offering we apply a conservative approach to new products and use programme lending for regular mortgage loans. In addition, sophisticated tools are used to model credit risk, such as internally developed methodologies under the *advanced internal rating-based* (**AIRB**) approach.

Our business actively supports mid-sized corporates and new ventures at their decisive moments. For retail clients we also aim to support them at their decisive moments, e.g. when buying a house. To be successful, it is vital that we have the room to be inventive in our approach. Hence it is the nature of our business to investigate alternative solutions and facilitate exceptions to the standard in order to service our clients efficiently. To manage the risks associated to this approach, we benchmark all potential transactions against our risk appetite .

NIBC has the advantage of its medium scale and the close proximity and collaboration there is between colleagues and the close interaction with its client base. This provides a setting in which a quick and efficient multidisciplinary approach can be taken in areas of risk management. We therefore have the capacity to keep moving forward as a business while we continue to comply with evolving regulatory requirements.

Developments in risk management

Despite a declining economic climate with lower GDP growth expectations and global uncertainties stemming from geopolitical and economic tensions, NIBC continued to improve its risk controls while facilitating desired growth including new business ventures. Overall performance is ahead of expectations where we remain well within our risk appetite with more than sufficient buffers (e.g. capital and liquidity) in place. Under NIBC's stress testing framework capital ratios remain adequate.

Within the financial industry we continue to observe the risks in the Leveraged Finance and Energy markets where NIBC has successfully reduced both portfolios ahead of targets. We remain aware of our position in the market and take a careful approach to areas where we see increased levels of risk while we continue to spot new opportunities in terms of products and markets. The deliberate decrease in certain areas is absorbed by growth in other higher margin segments and the portfolio continues to develop in the targeted direction.

Throughout 2019 we have continued to manage the asset quality of our lending book and an important aspect is the rebalancing of our portfolios, aimed at higher granularity of exposures and smaller portfolios in certain sectors and products. Although impairments are still at an elevated level, driven by credit losses on a small number of individual clients within Leveraged Finance, and Energy we see the first effects in the underlying portfolios with lower overall non-performing exposures.

The fintech landscape has an increasingly important role in the economy where NIBC continues to grow in this area with both financing granular portfolios of receivables and making strategic investments in promising fintechs (e.g. Ebury, Iwoca, OakNorth) based on a standard set of criteria. A skilled second line of defence adds value in the transaction process where risks are sufficiently observed and addressed accordingly.

Risk Management had an active role in growing business areas such as Originate-to-Manage, where the balance between risk/return remains an important theme. Risk management is involved early in discussions on transactions and markets to ensure we operate within our risk appetite. For existing ventures Risk Management facilitates growth through constant dialogue and sound-boarding providing necessary resources and support as needed while further embedding analysis and monitoring within NIBC.

In the light of the global reform of interest rate benchmarks, NIBC established an IBOR Transition programme in early 2019. The programme is a cross-departmental effort between Corporate Client Offering, Retail Client Offering, Treasury, IT, Operations, Finance, Risk, Legal and Compliance. NIBC closely follows market and regulatory developments and takes actions that are in line with these developments. During 2019, NIBC duly responded to the IBOR Transition information request from AFM and DNB. We believe that NIBC is aligned with market practices, based upon the general feedback published by the regulators.

Pressure from the regulatory environment remains elevated; however, NIBC has been able to strengthen its control framework within this backdrop and absorb the many regulatory requests and on-site investigations. These spanned across a number of topics including but not limited to DNB Credit Underwriting Standards, DNB onsite Internal Governance and Risk Management, *Internal Model Investigiation* (**IMI)** follow-up, IRRBB follow-up, SIRA follow-up (Project Care), market risk, Quantitative Impact Studies, IBOR transition, Climate Risk Data Survey, and Brexit Survey. Non-financial risks, including know your customer and anti-money laundering, have received increased attention and focus within the organisation on both the corporate and retail client offerings where process and procedures are constantly improved to align with regulatory requirements. NIBC's smaller size allows for efficient internal insight and oversight and we have a constructive dialogue with our regulators. Ongoing projects such as model improvements are on track and fully supported by the Managing and Supervisory Boards.

Further work is being done on upcoming regulations such as Basel IV and the introduction of the Non-Performing Exposure prudential backstop. With respect to the latter, NIBC is aware of the potential impact where both our capital and the return on impacted transactions can absorb the changes. Recent DNB draft requirements for residential mortgages, ahead of Basel IV, are already part of the product offering and new ventures are conservatively initiated under the standardised approach for capital requirements. Lastly, the outcome of the IMI has led to an increase in the RWAs for the corporate loan portfolios. NIBC has a project team in place to implement additional measures to address the observatoins raised by the regulator in its IMI report.

Risk governance

The overarching principles regarding risk management are laid down in our risk management framework. The ultimate purpose is to enable ourselves to properly assess in a timely manner whether our activities fit within our risk appetite and to provide insight into how we address opportunities and challenges that various types of risk present.

Three lines of defence model

Our operations are structured along the three lines of defence risk management model. This implies that the first line of defence is within the commercial business units. They are accountable and responsible for day-to-day risk management activities such as managing each individual exposure on the balance sheet, with the exception of distressed assets at the corporate bank. These assets are managed by the RDA department which is part of the risk management organisation. The management and responsibility of the first line of defence lies with the non-statutory members of the *Executive Committee* (**ExCo**).

Our second line of defence lies within the Risk, Legal, Compliance and CSR departments. These departments monitor and evaluate risks versus the risk appetite framework. The second line of defence has an active advisory role in particular transactions and proposals. The CRO is head of the second line.

The third line of defence is the *Internal Audit* (**IA**) department. This department provides objective and independent assurance on the operations within the first and second lines of defence. IA helps to accomplish our objectives by evaluating and improving the effectiveness of risk management, control and governance. IA reports directly to the CEO and the *Audit Committee* (**AC**).

NIBC will focus on further development of the three lines of defence model to address modern ways of cooperation, such as outsourcing contracts and managed services. These developments require new arrangements to clearly assign responsibilities to the different parties involved in the related processes.

Client privacy and data security

When confidential or personal information belongs to a client and is entrusted to NIBC we handle it with the utmost care. Cybercrime and loss of data more generally is a risk for NIBC as well as for all of our financial sector peers. In 2019 we carried out a large number of tests, continuously assessing our information security and data protection measures, as part of our efforts to strengthen NIBC's cyber security.

We have policies in place that require staff to ensure that we do not leave confidential or personal data unattended such as a clear desk policy, information security policies, and additional security controls. We facilitate the use of secure communication channels wherever possible and require staff to adhere to security considerations for sensitive or confidential information. Third parties may not use our equipment, software or databases unless authorised. Our approach is detailed in our Corporate Information Security Policy and our Data Protection Policy. We have a Record Keeping Policy in place to ensure we adhere to legal requirements with respect to the retention of data.

We investigate every data breach incident made known to us: of these, during 2019 we assessed approximately 15% as meeting the criteria to be reported to our data protection regulators. Whilst none of these incidents were assessed as leading to a high risk for clients and no legal consequences were identified, we take all data breaches – not just those which are reportable externally – very seriously. We analyse each one for lessons to be learned and take appropriate follow-up actions. Often these are in the nature of reinforcing employee awareness of the need for constant attention to protecting client confidentiality and privacy, and we carry out ad hoc training where necessary to supplement our regular awareness programme, which is mandatory for all employees.

Anti-fraud and anti-corruption

All staff receive mandatory training on NIBC's Code of Conduct as well as on related compliance policies such as anti-corruption, anti-money laundering and anti-bribery. These awareness and learning initiatives demonstrate NIBC's ongoing commitment towards good corporate governance and to uphold the ten principles of the *United Nations Global Compact* (**UNGC**).

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

Our anti-fraud framework emphasises prevention and timely detection. All staff are responsible for the prevention, detection and deterrence of fraud. We familiarise ourselves with the types of improprieties that might occur within our area of responsibility, and are alert to any indication of irregularity. We always report actual or suspected fraud or misconduct, after which a special investigation is launched, if appropriate. If fraud is established, action will be taken against violators.

Climate Risk

NIBC has a risk management approach in place with regard to ESG risks, including climate risk. This is supported by clear oversight, a robust sustainability risk management framework and increasing disclosures in support of our commitments, recognised standards, and regulatory requirements. These aspects are described in the Sustainability section of this Annual Report.

Climate risk and certain other sustainability risks are increasingly becoming financial risks, while in the past these were seen primarily as non-financial and reputational risks. For NIBC, we currently assess physical climate risk to be a medium- to long-term financial risk for our corporate and retail clients. We have not yet seen significant impacts on corporate clients' own operations and only occasional disruptions in corporate client supply chains. These have been the result of extreme weather events, such as flooding, drought or dangerous storms due to rising global temperatures. Looking ahead, it is likely these types of events will occur more frequently, reach additional regions and more visibly impact the supply chains of our clients. These changes increase the risk of other environmental impacts such as loss of biodiversity and habitat. At the same time our clients are increasingly aware of these risks and are developing climate adaption strategies to make their supply chains and processes more climate resilient.

There are no indications of material climate impacts on NIBC's retail clients to date. A long-term physical risk is related to water levels relative to homes in the Netherlands. This may result in damage to wooden pilings used as foundations or may be in the form of floods. If this risk materialises, the impacts will be regional and/or national, likely impacting the portfolios of all mortgage loan providers including NIBC.

Transitional climate risks related to our portfolios are increasing and may materialise in the medium- to long-term. An example is political risk surrounding climate policy. This aspect is influenced by the short-termism inherent in political cycles and differences in views. This is increasing the likelihood of large-scale social unrest during the transition and the potential for widespread job losses if comprehensive national plans are not developed. Environmental regulation is being weakened in certain countries, leading to variations in standards applied to different parts of any global supply chain. In the long-term, retail clients may be impacted by socially-related climate impacts such as net reduction of income due to increased costs or job loss.

To strengthen climate risk management, NIBC has developed innovative new tools to help identify and assess the materiality of physical and transitional climate risks. We anticipate that these may lead to additional insights and help us to quantify these risks. We are engaged with peer banks, regulators and other stakeholders to share views and exchange best practices. Furthermore we have continued our efforts to raise employee awareness about climate risk and other environmental and human rights risks. Climate risk related to NIBC's own operations are viewed to be less significant due to steps that we have taken and continue to take as part of our climate mitigation efforts. Energy efficiency improvements and our scope 1, 2 and 3 emissions are reported in NIBC's Sustainability Report.

Risk appetite framework

Our strategy towards risk management is translated into the risk appetite framework. This framework is based on six pillars:

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

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

In the risk appetite framework these six pillars are further specified into specific business statements. Each quarter the relevant committees and the Managing Board review whether our quantitative and qualitative performance is in line with the risk appetite.

Roles and responsibilities

NIBC has several committees in place with specific authorities and decision-making power with respect to risk management:

- **Engagement committee (EC):** Responsible for decision-making with regard to client engagement and conflicts of interest including an assessment of the potential integrity risks when engaging with a client.
- **Transaction committee (TC):** The transaction committee has decision-making power with regards to credit transactions, assessment of credit proposals and the monitoring of credit related risks. The TC approves and monitors all transaction proposals which cause NIBC to assume credit risk. Further, the TC decides on impairments and write-offs and reviews all individual transactions at least annually.

- **Investment committee (IC):** The IC is the delegated authority to decide on equity, mezzanine, subordinated, and other equity related financial products. The IC assesses new investment proposals and periodically determines the valuation of our equity portfolio.
- **Strategic investment committee (SIC):**The SIC has decision-making power on equity, mezzanine debt, subordinated debt and senior debt granted to strategic participations and/or strategic investments.
- **Risk management committee (RMC):** The RMC decides on policies, measurement methods, monitoring, and controlling of all risk types. The role of the RMC is to safeguard our risk appetite by monitoring all risks we are exposed to, thereby looking backwards as well as forwards.
- **Asset & liability committee (ALCO):** The ALCO monitors and controls capital ratios, liquidity, earnings and market risk. As ALCO is responsible for liquidity, they also decide on funding plans and large funding transactions.

Risk profile

Our business is organised in such a way that we place great emphasis on who the client is. Second, we base our lending decisions on cash flows as this is what ultimately repays our loans. And third, we are primarily a collateralised lender and this is an important determinant in reducing the risk profile of the bank. We have a preference to finance well-collateralised products such as receivables and mortgage loans on real estate.

In order to reduce the risk profile we have to look beyond our lending activities. One of the non-lending activities relates to minority equity participations in clients and investment funds. In 2019 the equity investment portfolio increased from EUR 215 million to EUR 303 million. Positive revaluation as well as new transactions have led to the increase. On the new investment side we have focused on smaller exposures, increasing granularity of the equity investment portfolio.

In 2019 the risk profile of the performing corporate loan portfolio showed some signs of improvement, as the expected loss of the performing portfolio decreased and the corporate exposure in arrears decreased to 1.2% (2018: 2.7%). Origination with lower expected credit loss than the existing portfolio has contributed to this reduction. On the other hand, the watchlist of corporate loan exposures increased to EUR 302 million (2018: EUR 261 million), indicating that there is also pressure oncertain clients from the uncertain economic climate. New impairments mostly relate to the Energy sector and Leverged Finance products which continue to experience pressure, displaying risk characteristics that are less in line with our risk appetite. Within the Shipping portfolio the amount of non-performing loans decreased in 2019. Shipping assets are well collateralised and therefore impairments are relatively limited.

The sectors and products above remain challenging, and consistent with our rebalancing strategy we decided to decrease exposures to Energy, Shipping and Leveraged Finance. In 2019 this has resulted in a significant decrease in exposure for all three areas. Growth in the corporate client portfolio comes from more granular offerings such as receivables financing and lease receivables, which is in line with the strategy to increase granularity of NIBC's exposures.

The housing market in the Netherlands has continued to improve in 2019. This is reflected in the performing mortgage loan portfolio by a decrease of the expected loss from 9 bps to 7bps. In 2019 shorter tenor mortgage loan origination has also added to the rebalancing of our risk profile within the retail portfolio. Shorter tenors also provide repricing power, more flexibility and lower liquidity risk.

Overview of risk types

NIBC is exposed to a wide range of risks. We distinguish the following: credit risk, investment risk, interest rate risk, market risk, liquidity risk and operational risk. Our risk management policy is aimed at seeking an acceptable level of credit and investment risk, while minimising the other risk types. The risk appetite framework is set up to accommodate decision making.

The following table displays a breakdown of our exposures and the types of risk associated with that exposure. The amounts include both drawn and undrawn amounts. In the remainder of the section we will elaborate on the various risk types and the way these are managed.

in EUR millions	Main risk types	2019	2018
Corporate / investment loans		9,496	9,652
Corporate loans	Credit risk	9,282	9,413
Investment loans	Credit risk	214	240
Lease receivables	Credit risk	35	52
Mortgage loans	Credit risk	9,883	9,275
Equity investments	Investment risk	303	215
Debt investments		848	825
Debt from financial institutions and corporate entities	Credit risk / Market risk	334	248
Securitisations	Credit risk / Market risk	514	577
Cash management	Credit risk	2,485	2,601
Derivatives[1]	Credit risk / Market risk	482	579
Funding	Liquidity risk	22,374	21,550
Capital (Incl. Tier-2 as per Basel III)	Capital Adequacy risk	1,816	1,716

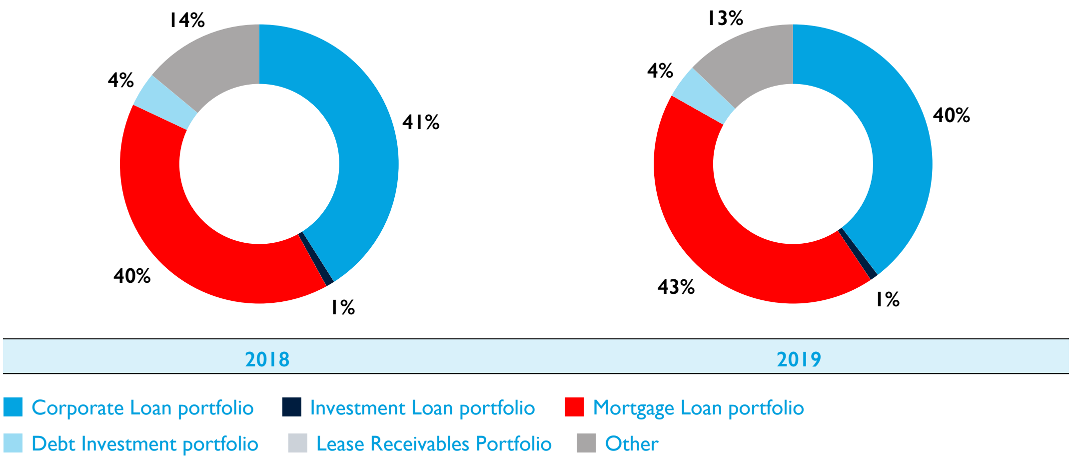
1 Based on a combination of netting and positive replacement values.

Credit risk

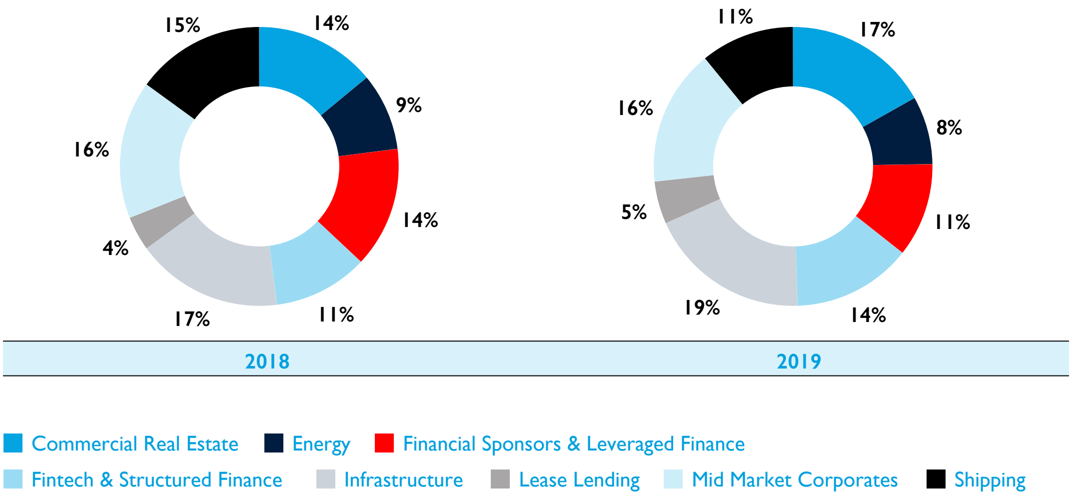
Credit risk is one of the risks inherent to our business model. By lending to our clients we are exposed to the risk of the counterparty not being able to repay the loan. We continuously monitor our clients' financial performance and take remedial action if we believe the risk of a client defaulting on their obligation has increased.

We mitigate credit risk by placing emphasis on the collateral pledged to us in the transactions we do. In case a client defaults on its obligation, the option to collect and sell the collateral can be exercised as a last resort, thereby significantly reducing the amount of non-recoverable assets.

Credit risk exposure



Corporate loan portfolio per sector

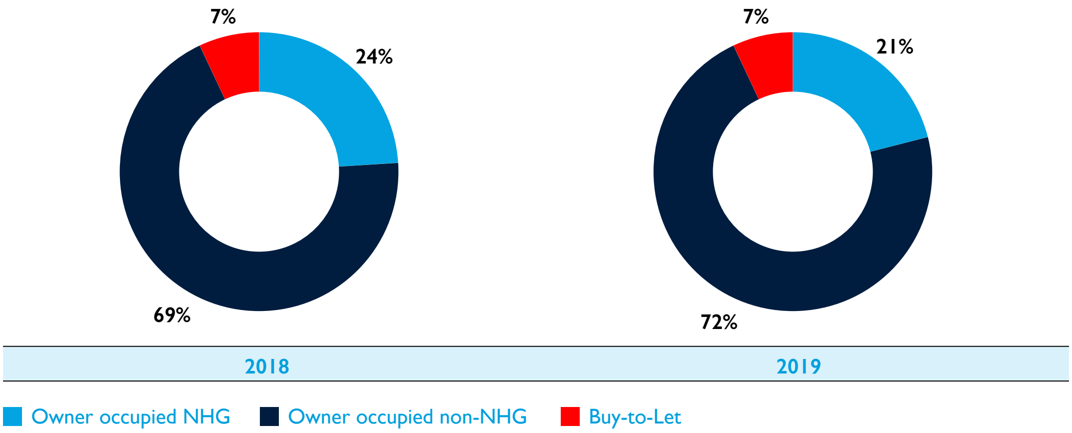


As indicated in previous paragraphs, we have seen a changing balance between the risks and rewards in the Energy and Leveraged Finance sectors. As a consequence we have deliberately chosen to be more conservative and reduce our exposures in these sectors as well as in Shipping. We seek to grow in granular products such as receivable financing which is demonstrated by the increase in this area as well as in lease receivables.

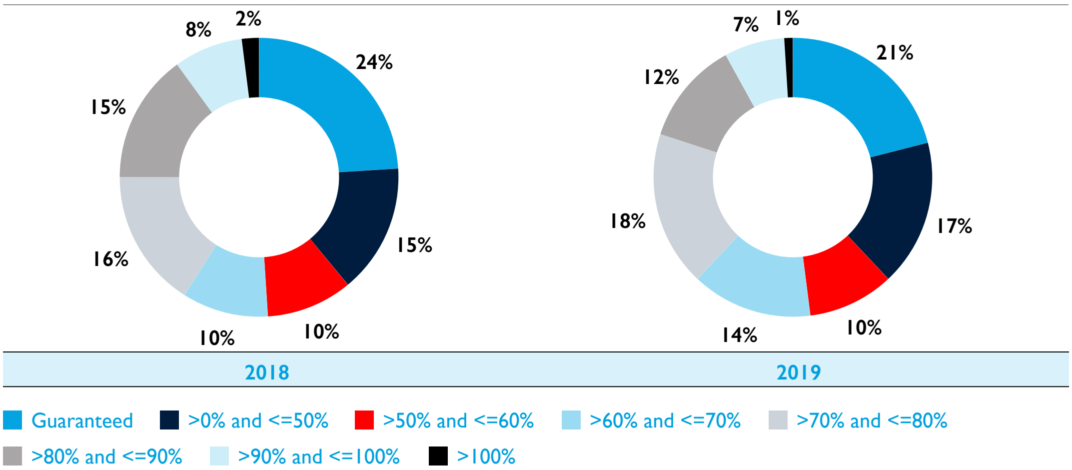
In the corporate client offering we mainly engage with clients rated a 5 or 6 on the internal credit risk scale, which corresponds to a BB and B rating in external rating agencies' scales. This translates to a probability of default ranging between 0.61% and 4.77%. As the exposures are concentrated in the sub-investment grade category, we emphasise the collateral pledged to us. Collateral can take several forms, such as receivables and leases, but also mortgages on real estate and vessels. As a result, our *loss given default* (**LGD**) on corporate loans is typically in the range of 10% to 25%.

The Dutch housing market showed a continued strong performance in 2019, which is evidenced in the low credit losses in the portfolio. In the retail client offering, where we offer mortgage loans to our clients, three different types of mortgages are distinguished from a risk perspective: owner-occupied mortgage loans with NHG, owner-occupied mortgage loans without NHG, and Buy-to-Let mortgage loans. NHG refers to the Dutch mortgage guarantee scheme that ensures that the lender is largely compensated for post-foreclosure losses on mortgage loans, except for risk-sharing of 10%. A good indicator of the riskiness of a mortgage loan is the loan-to-value ratio. The Dutch housing market has displayed considerable improvements over the past years, causing loan-to-value ratios in our mortgage loan portfolio to further decrease.

Mortgage loan portfolio per product type



Mortgage loan portfolio per loan-to-value bucket



Development of credit quality

In determining the credit quality of the loan book we look at four measures indicating an increased risk level. We differentiate between the following measures:

- Forborne exposure: defined by the *European Banking Authority* (**EBA**). A client is considered to be forborne if the client is facing financial difficulties and NIBC has granted a concession over and beyond market practice to the borrower;
- Non-performing exposure: is defined in line with the EBA. A client is considered non-performing if that client is in default, or if a performing forborne facility under probation is extended additional forbearance measures, or becomes more than 30 days past-due;
- Defaulted exposure: as defined by the CRR / CRD IV definition. A counterparty is considered to be in default when credit review leads to the conclusion that the probability of default is 100%;
- Impaired exposure: defined by the *International Financial Reporting Standards* (**IFRS**) accounting standard. Facilities are considered to be impaired if the *Transaction Committee* (**TC**) decides on an impairment amount for that facility.

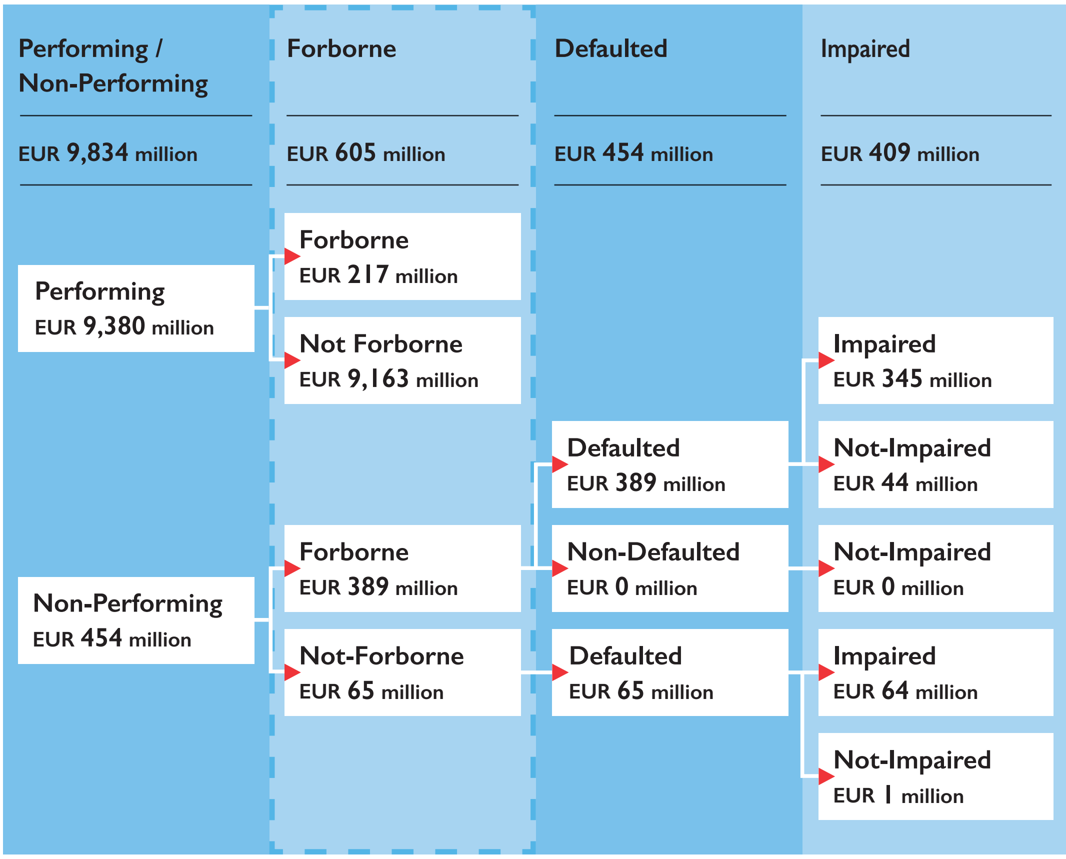
Due to our medium size, we are able to oversee the portfolio and have thorough knowledge of the specific situations our clients are in. This positions us well to identify potential threats at an early stage, enabling us to intensify contact with the client. If the situation persists and the credit quality of a client begins to weaken, the client is placed on our watch list. From this moment onwards we start to closely monitor the developments at the client with the goal to work with our client to resolve credit issues early and to avoid further deterioration. The watch list consists of exposures that show an increased level of riskiness but are not managed by the RDA department. The reduction of credit risk becomes the main priority once an exposure is transferred to the watch list. For watch list items we require a quarterly review if the exposure exceeds EUR 10 million and a semi-annual review if the exposure is smaller than EUR 10 million. If the situation at the client deteriorates further and the probability of default significantly increases, the file is transferred to RDA where several options for minimising losses are drafted. Following review the best alternatie is executed.

In the retail client offering we are exposed to credit risk through mortgage loans. Clients receive transparent and clear conditions on these products. In case a client faces financial distress resulting in arrears, the file is transferred to our in-house arrears management team. Subsequently we will contact the client to determine the source of the financial distress and to make a plan to prevent foreclosure. As a client-focused bank it is in our culture to cooperate with clients to prevent foreclosure.

	2019					2018				
in EUR millions	Corporate exposure	Lease exposure	Retail exposure	Total exposure		Corporate exposure	Lease exposure	Retail exposure	Total exposure	
Defaulted exposure	423	30	10	464	2.4%	480	0	20	500	2.6%
Impaired exposure	378	30	10	419	2.2%	429	0	17	446	2.3%
Non-performing exposure	423	30	10	464	2.4%	503	0	20	523	2.8%
Forborne exposure	575	0	29	604	3.1%	685	0	50	735	3.9%

in EUR millions	2019			2018		
	Non-performing exposure	Impaired exposure	Impairment coverage ratio[1]	Non-performing exposure	Impaired exposure	Impairment coverage ratio[1]
Corporate client exposures:						
Commercial Real Estate	65	65	28%	65	65	33%
Energy	140	136	24%	114	114	33%
Financial Sponsors & Leveraged Finance	69	69	56%	95	95	46%
Fintech & Structured Finance	2	2	89%	2	2	67%
Infrastructure	40	5	12%	57	11	13%
Mezzanine Equity Partners	25	25	27%	33	29	29%
Mid Market Corporates	24	18	71%	26	2	100%
Shipping	58	58	28%	111	111	20%
Total corporate client exposures	**423**	**378**	**34%**	**503**	**429**	**32%**
Lease exposures						
Leases	30	30	33%	0	0	0%
Total Lease exposures	**30**	**30**	**33%**	**0**	**0**	**0%**
Retail client exposures						
Mortgage loans	10	10	16%	20	17	9%
Buy-to-let mortgages						
Total retail client exposures	**10**	**10**	**16%**	**20**	**17**	**9%**
Total exposures	**464**	**419**	**33%**	**523**	**446**	**31%**

1 Impairment coverage ratio includes IFRS 9 Stage 3 assets only.



The decrease in non-performing exposures is due to the rebalancing of portfolios as well as write-offs, predominantly in Leveraged Finance.

Investment risk

For NIBC, investment risk arises when taking equity positions in other companies and the risk is that the value of the investment deteriorates. Within our equity portfolio we distinguish between direct and indirect investments. Direct investments are equity exposures with which NIBC has directly invested in one of its clients, whereas indirect investments are exposures to investment funds.

The equity portfolio demonstrated solid performance in 2019. For new business we aim for smaller direct investments in our clients, preferably through offering a combination of senior and mezzanine lending, combined with an equity participation.

Breakdown of equity investments per region

in EUR millions	2019	2018
The Netherlands	149	119
Germany	46	41
United Kingdom	65	26
The rest of Europe	22	4
North America	21	25
Total	**303**	**215**

Breakdown of equity investments per type

in EUR millions	2019	2018
Direct		
Strategic	54	24
Client	100	61
Other	36	25
Indirect		
Strategic	30	30
Fund	84	75
Total	**303**	**215**

Interest rate risk in the banking book

Interest rate risk in the Banking book (**IRRBB**) is the risk of losses from interest rate sensitive positions in non-trading activities due to movements in interest rates. Interest rate movements can have an impact on cash flows and present values. NIBC has a framework in place which keeps track of interest related risks in our economic value and our earnings. To monitor the impact on economic value, *basis point value* (**BPV**) and *value at risk* (**VaR**) are calculated on a daily basis. To assess the impact on net interest income NIBC uses *earnings at risk* (**EaR**) by calculating the 12-months earnings impact of an instantaneous 100 bps and gradual 200 bps upward or downward shift in interest rates per currency. At the end of 2019 the 100 bps EaR amounted to EUR 10 million (2018: EUR 13 million). Next to this, NIBC uses several dynamic analyses by modelling the development of its balance sheet in line with the business plan, taking into account refinancing and reinvestments.

In principle NIBC hedges all interest positions to 3-month EURIBOR/LIBOR by entering into plain vanilla swaps. During 2018, NIBC further optimised its interest hedging structure. This resulted in more efficient use of on-balance sheet hedging and a lower hedging swap exposure. Only a certain part of the interest bearing assets related to our non-interest bearing capital is unhedged. This is identified as the strategic mismatch exposure.

The European *Benchmark Regulation* (**BMR**) which will come into force in 2020 has an impact on the risk-free rate, currently EONIA and EURIBOR. EONIA will be replaced by *European Short Term Rate* (**ESTER**) and there may be a change in the determination of EURIBOR/LIBOR, or a complete replacement. The transition towards these new rates requires adjustments in ISDA agreements, loan documentation, risk management models, interest rate risk hedging and hedge accounting. NIBC has set up an IBOR transition programme to investigate the impact and implement the required changes.

Market risk

Market risk is the risk of loss as a result of changes in market variables, including interest rates, exchange rates and share prices, as well as other variables that are not directly observable, such as volatilities and correlations.

The overall market risk in NIBC's trading book is limited, as is also exhibited by the amount of Basel III / Pillar I regulatory capital required for this activity, which only comprises 1.1% of the total regulatory capital. In the trading book, excluding NIBC's capital market activities (Fixed Income, DCM and ECM), NIBC takes short-term positions in the EUR, GBP and USD yield curves. The limits for the trading book are moderate and are monitored on a daily basis and reported to the Asset and Liability Committee on a monthly basis. NIBC's policy is not to take any active currency positions. When currency positions exceed small facilitating limits, NIBC's policy is to enter into hedging transactions. NIBC's overall open foreign currency position was EUR 23.6 million as at 31 December 2019.

The predominant market risk drivers for NIBC are interest rate risk (in the trading book only) and credit spread risk (in both the trading and banking book). The capital requirement for market risk is based on internal models for the trading book, excluding NIBC's capital market activities, and on the Standardised Approach for NIBC's capital market activities. The capital requirement for the overall foreign currency position of the bank is calculated in accordance with the Standardised Approach.

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

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

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

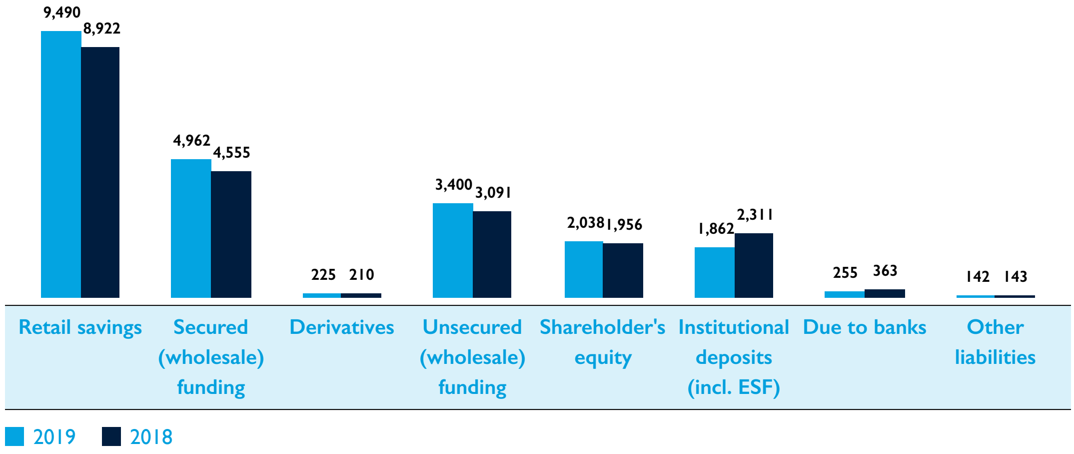
Liquidity risk

The risk of not being able to meet obligations as they become due is called liquidity risk. The aim is to maintain a comfortable liquidity position to enable ourselves to fund new client assets, as well as to repay our liabilities when they become due. Managing the maturity of both assets and liabilities is key in successful liquidity risk management and we maintain sufficient liquidity buffers to meet our obligations in a potential stress scenario.

The responsibility for managing liquidity risk lies with the ALCO. Liquidity requirement forecasts from the corporate and retail client businesses, combined with the associated liquidity forecasts and several stress scenarios are presented to ALCO every two weeks.

he management of liquidity risk entails that we have a diverse source of funding types, so we can tap into any of the various funding markets when we require new funding. When a certain funding source suddenly becomes unavailable or unattractive for NIBC, we have alternative sources available to attract the required funding.

During 2019 we continued to actively manage the funding mix and tenor. The amount of secured funding increased due to new issuances.



Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes or systems, from human error, fraud, or external events. Operational risk includes legal risk and compliance risk. NIBC also includes reputational risk; however, strategic risks are not included. Reputational risk is defined as the potential risk arising from negative perception on the part of NIBC's stakeholders.

NIBC strives for a 'no surprises' operating environment by, effectively managing operational risk across all its business lines, banking activities and countries in a transparent and consistent way. Operational risk management is embedded in day-to-day processes. Every NIBC business unit and international office has an operational risk management 'Champion'. These employees assess their department's activities for potential operational risks, monitor the control mechanisms to mitigate, avoid, transfer or accept these risks and coordinate ways of resolving loss-making events. They promote awareness for operational risks within their departments.

Regulators and society remain increasingly interested in operational risk factors and what banks do to prevent any wrongdoing. Increased attention is placed on *Client Due Diligence* (**CDD**), *Know Your Customer* (**KYC**), *Anti-Money Laundering* (**AML**) and *Counter Terrorist Financing* (**CTF**) measures.

Capital adequacy

The most important ratio to assess our capital position is the CET 1 ratio. Related to this measure are the Tier 1 and Total Capital ratios. These ratios are calculated based on CRR / CRD IV regulations.

In 2019, the development of our capital ratios was characterised by regulatory changes. the primary impact resulted from the IML effectively a 30% RWA add-on for the corporate loan portfolio as of Q3 2019. On the contrary, rebalancing of our corporate loan portfolio resulted in a decrease of RWAs by EUR 320 million. Further details on the development of our CET 1 ratio are described in the section Financial Review.

To align with regulatory treatment of interim profits NIBC has adjusted the reporting solvency ratios with effect from 2019. consequently, the 2018 comparative figures include no non-eligible profits as the full year profits were distributed to the shareholder of the company.

Operational risk RWAs are determined by a 3-year moving average of operating income. As operating income increased over the past years, so did the RWAs related to operational risk.

	2019	2018
Capital ratios (in %)[1]		
Common Equity Tier 1 ratio	18.7%	20.6%
Tier 1 ratio	21.0%	23.2%
Total Capital ratio	24.7%	27.2%
Risk-weighted assets (in EUR millions)		
Credit risk	7,501	6,552
Market risk	97	230
Operational risk	969	891
Credit value adjustment	29	49
Total RWA	**8,597**	**7,723**

1 As from 2019, non-eligible profits attributable to the shareholders are no longer added to regulatory capital.

Economic capital

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

FOCUS ON DEVELOPMENT FOR EMPLOYEES OF NIBC

At NIBC, our people make the difference at our clients' most decisive moments. Therefore we value the development of our employees. We offer several development tools and educational programmes. A great example of someone who is able to develop rapidly within NIBC is Eva Kool.

> "NIBC has supported me throughout my career by offering me a variety of learning opportunities. I started working for NIBC almost six years ago after having been selected for NIBC's Talent Programme, which was a strong kick-start of my career within the bank. I was then given the opportunity to switch to a different team within NIBC's Corporate Bank and participated in the Dare2Develop programme 2018-2019, NIBC's mid-career programme for talented professionals. This programme supported me in making sure that I balance my energy and authentically use my skills and competencies. The cherry on the cake is that I had the honour of being nominated for the 'Young Talent Award 2019', an award of Stichting Topvrouw van het Jaar."

Eva Kool, Vice President MMC at NIBC Bank

OUR PEOPLE

OUR PEOPLE

At NIBC we strongly believe that our people represent our three core competences, entrepreneurial, professional and inventive, towards the outside stakeholders. For serving our clients our people are our key assets. Consequently, NIBC continuously invests in the development of its people to enable them to grow in order to make a difference at decisive moments for its clients. This contiuous development of employees' capabilities and commitment is pivotal. Our corporate values – professional, entrepreneurial and inventive - are the cornerstone for NIBC's organisation and culture and therefore a recurring theme in our people's development. Three major classifications that give an insight into our people-oriented activities and employee related benefits, *i.e.* facts, figures and measurements; employer branding and new developments; developing people based on our values.

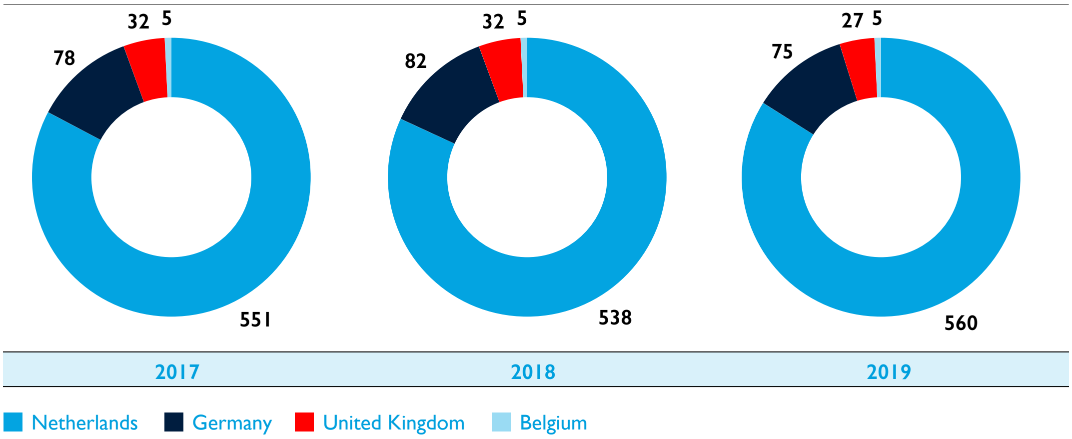
By doing so we link our external promise to our internal culture and capacity to adapt to change and deliver. Our 'Think YES' campaign is mirrored internally, where we think in opportunities for our people, supporting their development and well-being.

Facts, Figures and Measurements

Employee count

NIBC Holding total FTE at 31 December 2019 was 667 (2018: 657). The headcount increased slightly to 696 employees, from 683 in 2018.

FTEs per country



	2019	2018	2017
Male / female ratio	67%/33%	68%/32%	73%/27%
Male / female ratio top management	85%/15%	85%/15%	91%/9%
Training expenses per employee (EUR)	3,504	3,206	2,070
Absenteeism (trend total)	2.0%	2.1%	2.4%
Employee turnover (employees started)	20.6%	16.9%	24.3%

Employee experience

Measuring our employee experience again in 2019, we set out an Employee Experience Survey to gain insights into how our employees rate our culture, our leadership and their work experience by measuring the levels of engagement and commitment in our organisation. The four pillars of this survey are Engagement, Commitment, Employership and Leadership.

The survey is in line with NIBC's effort to build a positive and open culture in which we recognise employees by celebrating their success and sharing feedback. Each manager leading a team with more than five employee responses received a feedback report. Managers and employees jointly discussed the outcomes of the Employee Experience Survey to develop an action plan.

The overall conclusion of this survey is that in general employees find NIBC a good organisation to work for and our employees are proud to work for NIBC.

High participation of 81% (2018: 79%) in the survey provided solid insights, which led to the identification of the organisation's strengths and opportunities. The proportion of committed employees (commitment refers to the connection our employees feel towards our organisation) is 75% (2018: 73%) which is a positive result but also leaves room for improvement.

Our focus on leadership, e.g. through courses, coaching and round-tables on themes regarding management and leadership, has led to a very good score of 80% (2018: 76%), outperforming the Financial Services benchmark of 74%. Another important organisational performance indicator, employership, which gives an indication of whether we enable employees to perform optimally, scored a satisfactory 72% (2018: 72%). The level of engagement in the financial sector (engagement is the degree to which employees get inspiration from their work) is significantly lower than in other sectors. In our view this is one of the most critical success factors going forward. We therefore aim to increase our current score of 35% (2018: 38%). To realise this we will continue to pay attention to working efficiently, communication and perceived workload. We continue to raise awareness and understanding of health and wellness issues amongst our employees to keep on boosting their vitality and productivity. Furthermore we continue to invest in the development of our employees by offering them feedback, coaching and training, development programmes and e-learnings.

Absenteeism & vitality
Recognising the importance of a healthy workforce, we are very happy to continue a very low absenteeism rate of 2.0 % in 2019 (2018: 2.1%).

To support and enhance the health and vitality of our people we offered a variety of programmes and initiatives to enable a healthy lifestyle and work attitude. Our NIBC Vitality team offered a lot of triggers that made employees more aware on three vitality pillars: physical health, mental health and nutrition.

We participated with 70 teams in the Virgin Global Challenge focusing on vitality, through awareness, exercise, nutrition and work-life balance. The Challenge combined attention to lifestyle with an internal competition, which created a positive atmosphere within NIBC. In 2019 we announced that we will participate in this Challenge again in early 2020, for which 52 teams of 7 participants subscribed. Apart from this challenge, we participated in a variety of sporting events, such as the 110km Gerrie Knetemann Classic and organised our own bootcamp and grand slam tennis tournament.

Throughout the year we have also created awareness on the impact of food on health, by means of offering new and healthy menus in our restaurant, supplied by a newly contracted caterer. Employees were also invited to a reading on the effects of wholesome food.

Other initiatives that we took to support our health are a renewed focus on Acitivity Based Working, offering a flexible approach to the way we work in our physical offices, optimally using our digital workplace and recognising the behaviour that supports this way of working.

Furthermore, we offered training courses focusing on mindfulness, reducing stress and building on resilience, and alternative ways of using our brainpower.

With all these attractive initiatives, all employees have contributed to NIBC's low absenteeism rate.

Training spent
In 2019 we spent over EUR 3,500 (2018: over EUR 3,200) per employee on training and educational programmes. This is close to the top quartile when benchmarked with financial services, and close to the top decile compared to general industries. The amount is slightly higher than in 2018 and includes a personal development budget of EUR 2,000 over 2018 and 2019 that enabled and motivated all staff to develop themselves beyond their current job and tasks. Moreover, these investments increase both the professional capabilities and competences of our people as well as their employability.

Inhouse courses
Using our own training facilities, we have offered over 25 inhouse courses, either facilitated by internal or external trainers. We see an increased drive and willingness with our own employees who are subject matter experts to teach and share knowledge. Popular topics facilitated by NIBC colleagues are introductions to financial expertise of specific teams, swaps, excel, data management, learning & development, lean foundation and social media training.

Employer Branding & new developments

Employer branding is increasingly important in labour markets that quickly change. Where we need employees that live up to our NIBC values we feel that the presentation of our employer brand is crucial. Therefore we focus on 'Banking on Trust', diversity and our core HR base.

Banking on Trust
Core of our employer brand is that at NIBC we are mindful of our responsibility towards helping build and maintain trust in the financial services industry. We believe trust is the foundation on which the sector must be based, and we have consistently looked to make it the basis of our company's culture. To support this aim, we have continued to run our Banking on Trust programme and made concerted efforts through our focus on sustainable culture and behaviour. Each month the Managing Board takes the Bankers' Oath from all new employees, thereby emphasising the importance of trust in our behaviour.

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

Diversity & Inclusiveness
We believe that diversity is critical to our ability to succeed and achieve sustainable success. We are committed to creating a stimulating work environment for people from all backgrounds, that is open to different ways of thinking. In 2019, we continued to pay close attention to all elements of our diversity goals.

Diversity across age segments showed balance in 2019. Twenty-on percent of our employees were under 30 years of age (2018: 19%) and 23% of employees were age 50 or older (2018: 23%).

The gender diversity for our organisation slightly increased with 33% female staff (2018: 32%). Senior management remained stable in gender diversity to 15% (2018: 15%). We are fully committed to further continue our efforts and structural attention for inclusiveness and gender diversity.

We realise that improving diversity ratios is a long-term process and we will continue to strive to meet our ambitions. We have a Diversity Committee in place which is tasked with researching our current behaviours and recommending ways to achieve a more inclusive environment at NIBC. One of the key priorities for the committee in 2019 was creating awareness and supporting our diversity goals.

Actions to enhance gender diversity by the Diversity Committee in 2019 were focused on increasing awareness on the topic of diversity, decreasing (gender) bias in recruitment and facilitate equal development opportunities.

1. To increase awareness on (gender) diversity, multiple events were organised, e.g. Ladies Lunch, live interview with 'Topvrouw van het Jaar 2018' Eugenie van Wiechen, Young Talent of the Year 2019 and celebration of International Women's Day.
2. We took steps to increase diversity across the company through our recruitment processes by focusing on female candidates on our recruitment short lists.
3. Moreover, diversity in general, and the male-female balance specifically, are explicitly considered in our talent programmes and performance management. To address gender imbalances specifically, we have introduced engagements, like mentorships and dedicated workshops and programmes, aimed at retaining and further developing talented female employees. We have a partnership with 'Talent to the Top' and some of our talented women have participated in 'Cross Organisation Mentoring' and 'Boardroom coaching'.
4. Advised by the Diversity Committee the Executive Committee adopted diversity targets regarding staff inflow, outflow and career development. In the longer term will lead to realisation of the overall target to have a minimum of 30% females at all function levels and within each BU. In this light the ambition going forward is amongst others to have 30% of all promotions to be female, to have 50% females in our Analyst Talent Programme.

Increasing diversity among senior managers was a key focus area in 2019. Our objective is at least one third of our Supervisory Board and Managing Board members to be female. NIBC's Executive Committee meets this objective. NIBC is aware that it falls short of this goal with respect to the Managing Board (nil on a total of three) and the overall senior positions (director level and higher), where the percentage remained the same as last year at 15% (2018: 15%). With regard to the Supervisory Board, the ratio of 29% is close to our objective.

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

Human capital

NIBC invests significantly in human capital, developing its people personally and professionally, and providing a stimulating work environment that values diversity and treats everyone with respect. NIBC has zero tolerance for all forms of discrimination with respect to employment and occupation including verbal, physical and sexual harassment. Furthermore, we have systems and processes in place to actively manage and stimulate equal compensation.

We comply with to national employment legislation in the countries in which we are active and make use of best practices. Respecting and protecting human rights and embracing diversity are embedded in our Code of Conduct.

In this light, we are very proud that NIBC's Eva Kool was a nominee in the Young Talent category of the 2019 Women of the Year awards (Topvrouw van het Jaar). Twenty-five candidates from leading Dutch corporates were nominated under the theme of 'empowering young female talent'. These awards help to promote cultural change and raise awareness for corporate gender diversity.

To learn of other organisations we participated in the cross company 'Boardroom Coaching' programme of 'Talent to the Top'. The purpose of this programme is to match top executive coaches with high potential women in participating organisations.

Another talent event that we participated in was the Dutch 'HR Talent of the Year Award, where Charlotte Mercadié won the third audience prize.

Recruitment & new channels

Managing our employer brand means that we increasingly focus on being entrepreneurial and using social media, our own network and gamification to enhance our exposure to the labour market. Our own 'ambassador colleagues' are supported in introducing new employees to NIBC. Recruitment efforts have continued to include engagement with selected student associations, for which we organised several in-house days and attended various recruitment events. Targeted in-house recruitment events, such as a 'Ladies' Lunch', help us to create more diversity in our organisation. Since learning and development is pivotal within NIBC, we continued to give working students opportunities in our organisation.

Works Council

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

Since 2014, NIBC has opted not to be part of the collective labour agreement for banking institutions in the Netherlands. Therefore, the Council – as the representative of all NIBC's employees on the payroll in the Netherlands – became senior management's direct interlocutor for negotiations in this important area. In 2019, the negotiations have led to revisions in the employee benefit scheme.

The Council advised on two intended board decisions in 2019: on the IT reorganisation ('IT Refocus') and on new agreements regarding insurance for partial disability. The Council approved three board proposals: adjustments to the Staff Manual based on the new labour agreement, new pension regulation and the smoking ban for NIBC buildings and terrain.

Given the challenges facing NIBC and the banking sector, the Council remains focused on the employability of NIBC's staff and on NIBC's competitive position as an attractive employer. This was reflected in the Council's position with respect to reorganisations, diversity and labour agreements. The Council actively monitors employee engagement and other metrics (e.g. absence ratios) in order to gauge the effect of increasing workload. This may be caused by competitive pressure, the effect of reorganisations and increased activity levels of NIBC in 2019. The Council has also been actively involved with multiple other developments such as mobility policies and employability while also maintaining regular contact with the Works Councils of other Dutch banks and financial institutions in order to exchange best practices.

Pensions and benefits

NIBC uses a modern set of employee benefits, which are flexible and well aligned with the realities of our business. An important aspect is the discretionary approach to compensation and benefits, which takes into account a range of considerations, including KPIs and country-wide benchmarks. This enables us to reward our talented staff well and to retain them.

Similarly, our pension plan is a *collective-defined contribution* (**CDC**) scheme for salaries up to EUR 107,593, ensuring that pension costs have become predictable. For 2018-2020 the contribution for NIBC is determined at 26.2% and the contribution of the employee at 4.2%, whilst the gross contribution by NIBC for pensions above the fiscal maximum is set at 25% for all ages.

Developing our people based on our values

'We enable people to grow in order to make a difference'

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

NIBC Introduction Programme

The NIBC Introduction Programme was organised on a regular basis in 2019 to enhance the onboarding of new employees. Besides presentations on the strategy of the bank and on various parts of organisation, special attention was paid to the importance of our corporate values, the NIBC3. All new employees have taken the Bankers' Oath.

NIBC Academy

We have a solid training and learning offering in the NIBC Academy, our virtual centre for continuous training and learning, enabling us to offer development in a more customised and effective way. It ran a total of 25 modular courses in 2019, some of these in our own training facilities. The Academy's approach is to empower employees to take responsibility for their own development, through a range of channels, including on-demand online workshops and classroom courses. Staff can also create their own learning initiatives (both virtually and physically) as a result of which we also offer training courses that are offered by employees who are subject matter experts.

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

Other examples of NIBC's efforts to support its staff to continuously develop are the following.

- To build on our basic financial and lending skills, in 2019 we offered a number of professional training courses such as Financial & Cashflow Analysis and a Fitch Credit Course.
- Rebalancing our training offer means that we also focus on training stress and resilience, for which we set up various training opportunities.
- The Management Development Programme and the 'Coach-in-1-Day' training courses have continued to help develop employees' personal and management skills.
- A total of 23 participants completed our dedicated Talent Programme in 2019. This Talent Programme for young bankers has been designed to appeal to a new generation of bankers. The modular and flexible approach is continuously tailored to the needs and demands of new generations.
- A group of 21 talented employees participated in the Orchestrating Winning Performance programme of IMD in Lausanne. In this energetic programme they gained the newest insights on various business and management topics.
- A formal mentor programme was launched in which NIBC mentors were trained and matched with employees who subscribed for a mentor.
- Learning & Development workshops were organised for various target groups to have a dialogue on the NIBC learning philosophy and offering.
- All new joiners are offered a short training course on their 'Insights Discovery' personal profile to make an early start with their personal development.
- Short-term rotation initiatives called 'Flying Goalies' were very popular. This initiative represents our entrepreneurial spirit as the initiative evolved from talents themselves, and offers opportunities to talent who wish to step in projects at decisive moments.

Young NIBC

The Young NIBC network is focused on connecting younger NIBC staff to each other and the bank. Young NIBC identifies their needs and facilitates matching events, with a focus on learning about NIBC's organisation and culture and creating a professional network. One of the Young NIBC activities in 2019 was a visit to a client in Cologne, a company in the beverage industry. Over 30 of our young colleagues learned about their way of working and how to apply this at NIBC.

With Sustainability being a leading topic, Young NIBC members continued their work in collaboration with Stichting Vitalis. With Vitalis, Young NIBC executed the outcome of the 2018 CSR challenge by giving children on the Vitalis waiting list a pen pal. Young NIBC also participated in an 'NL Doet' event and created presents for children. NL Doet is an organisation that hosts do-good events to which groups of volunteers can subscribe. Participants feel that it is a fun and accessible way to positively contribute to society.

In December, Young NIBC invited all NIBC colleagues to participate in a Christmas Box Packaging Event at the 'Voedselbank' in Rotterdam. For the second year in row a lot of colleagues participated in this very energetic and positive event that focused on helping those in need.

Apart from this, Young NIBC hosted the 'Young Financials The Hague' network in May. Over 100 youngsters from financial organisations in The Hague visited our office for this thematic event ' Young and Old in the Workplace'.

NIBC BRINGS THE FIRST CLO FULLY COMPLIANT WITH ESG BEST PRACTICES

NIBC is the first to successfully issue a collaterised loan obligation fund (CLO) compliant with the best practices of ESG (environmental, social and governance) investing. NIBC's North Westerly VI B.V. of EUR 410 million was placed via MUFG Securities EMEA. With this fully ESG compliant CLO, NIBC further builds upon its ambition to be a corporate sustainability leader and to have an entrepreneurial and inventive approach in how we do business in today's rapidly changing markets. Sustainability is fully embedded in NIBC's business strategy and decision making and we help our clients to face today's sustainability challenges, to innovate and grow, and to tap the most promising opportunities in their markets.

> “The CLO applies ESG criteria for socially responsible investments which prevents the fund from investing in controversial sectors (such as coal power and mining, extreme fossil fuels, weapons and firearms, tobacco, gambling, among others) and adheres to NIBC's robust sustainability framework and policies. NIBC ensures this through pre-investment screening, borrower/transaction due diligence, NIBC's internal assessments, monitoring and review processes. We provide transparency through detailed investor reporting and analysis: the CLO will report the portfolio composition from an ESG perspective to its investors quarterly.”

Herman Guelovani, Head of Credit Management at NIBC Bank

SUSTAINABILITY

SUSTAINABILITY

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

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

Our day-to-day business decisions and interactions with clients are guided by established principles and policies set out in our Code of Conduct, Business Principles, Corporate Values, Compliance Framework and Sustainability Framework. These documents are available on our website. For many years, we have steadily developed our sustainability agenda in close consultation with our stakeholders.

Reporting principles

The 2019 NIBC Annual Report has been drafted in accordance with the Dutch Decree disclosure on non-financial information (Besluit bekendmaking niet-financiele informatie), which came into effect on 24 March 2017 as part of the transposition into Dutch law of the EU Non-Financial Reporting Directive (2014/95/EU, OJEU 201 330).

This report has been prepared in accordance with the GRI Standards: Core option. Our GRI Content Index and a materiality assessment can be found on the NIBC Annual Report website. Those elements concerning *Taskforce for Climate-related Financial Disclosures* (**TCFD**) reporting are summarised in this Annual Report, whereas additional details and indicators are available in our Sustainability Report.

Sustainable business

Sustainability is a part of NIBC's core business strategy. We aim to create environmental and social value as well as financial value at decisive moments for our clients and our stakeholders. While we manage our sustainability and climate risks, we are also taking steps to pursue sustainable business opportunities.

During 2019, NIBC pursued a new Sustainable Finance Framework to support corporate and retail clients in their sustainability ambitions and create new opportunities. Through this Framework NIBC can develop innovative green, social and sustainable financing solutions to enable access to sustainable finance.

The Framework was developed based on leading guidelines such as the ICMA Green Loan Principles and Social Loan Principles and with a view towards the upcoming EU Green Taxonomy. As a signatory of UN Global Compact, we also aligned eligibility criteria with the principles of UNGC and mapped expected impacts to the underlying targets of the UN Sustainable Development Goals. NIBC has engaged a specialist third party provider to review and assess the Framework. The review will be completed during Q1 2020.

NIBC has prioritised several *Sustainable Development Goals* (**SDGs**) as part of our business strategy. This is based both on internal reflections as well as on discussions with clients and other stakeholders. These SDGs include Responsible Consumption and Production (SDG12), Economic Growth (SDG8), Industry & Innovation (SDG9), Sustainable Communities (SDG11), and Clean Energy (SDG7). By focusing on these SDGs, we believe we will also contribute towards several other goals including Good Health (SDG3), Gender Equality (SDG5) and Climate Action (SDG13) among others.

Importantly, these goals are linked to potential opportunities within our corporate and retail businesses. During 2019, all employees within our corporate bank took part in a 'Sustainable Future' initiative. The goal of the initiative was to increase awareness of each of the 17 SDGs. Sessions were also held with each team to provide training on relevant human rights and environmental issues and to deepen the alignment of business strategy to the goals.

How we manage sustainability

Our governance revolves around a system of checks and balances which ensures stakeholder views are taken into account in our decision-making processes. NIBC's Managing Board is ultimately responsible for all sustainability matters. ExCo members discuss and advise on sustainability strategy, targets, planning and budget. The ExCo is also responsible for policies that impact NIBC's culture and ethics, such as the Code of Conduct. Any significant updates to the sustainability framework and underlying policies are reviewed and approved by NIBC's Risk Management Committee.

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

Sustainability Officer

The NIBC Sustainability agenda is led by a dedicated full-time senior sustainability officer who is responsible for catalysing sustainability and corporate social responsibility within the organisation. The officer is part of the RLCC strategic business unit and a member of the RLCC senior leadership team.

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

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

All new employees of NIBC Bank are informed of our approach to sustainability as part of introduction sessions. These sessions include reflections on current topics in the world around us such as climate risks, modern slavery, money laundering, whistleblowing and ethical business conduct.

Core standards

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

The framework and its policies are based on internationally recognised conventions, standards and best practices. Our approach to certain sectors and activities is further elaborated in our sustainability sector policies. These standards provide the overarching principles and standards that form the basis for NIBC to consider its engagement with clients across different industries.

During 2019 we reviewed all of our sustainability policies, updating where necessary to reflect improvements, best practices and relevant societal developments. Policy updates reflected ongoing dialogue and regular consultation with our stakeholders, for example dialogue with PAX, an Utrecht-based civil society organisation, informed updates to NIBC's weapons and human rights policies. Discussions with representatives of Milieudefensie have led to clarifications which have improved NIBC's environmental policy and sector sustainability policies.

Due diligence and monitoring

NIBC's policies commit us to performing ESG due diligence and assessments of relevant and material environmental risks, climate risks, human rights risks and governance risks for all corporate clients and transactions. We aim to cover 100% of our new corporate loans. In our Non-Financial Key Figures, we have reported that ESG due diligence and assessments were performed by NIBC for 100% of new corporate loans, an indicator that we are living up to this commitment.

New products and significant changes to existing products are assessed for potential human rights and environmental risks. Retail sustainability risks are managed at a portfolio level. Suppliers are required to meet our human rights, environment and anti-corruption standards and are evaluated as part of NIBC's *Know Your Supplier* (**KYS**) due diligence process.

Additional testing is performed from time to time to ensure our high standards are maintained. For example during 2019, we tested for the presence of gender bias in our retail mortgage product offering. No evidence of gender discrimination was found across the scenarios that were tested.

During 2019 NIBC's Innovation Lab developed experimental new tools which may help to further strengthen our due diligence and monitoring of environmental risks and human rights risks of corporate clients and suppliers. Input was received from leading civil society organisations. These developments may also lead to new insights or additional sustainability performance indicators which may be published in future reports.

Importantly the innovative techniques used in these experimentations related to sustainability may lead to other innovations in other areas and activities within NIBC, thereby ultimately benefiting customers, investors and other stakeholders.

Risks and Outcomes

NIBC recognises our corporate responsibility to respect the environment, protect biodiversity, and take action to mitigate climate change in support of the Paris Climate Agreement and SDG13 Climate Action. Our long-term objective is to achieve these targets in our operations and financings ahead of the national deadlines.

Climate change, biodiversity loss, and water scarcity are signs of unprecedented pressure on the environment and the planet's ecological limits. NIBC is committed to preserving natural capital by reducing negative impacts on biodiversity and the environment by facilitating the transition towards more responsible business practices.

The urgency and scale of global impacts necessitate that NIBC contributes to a meaningful and substantial reduction in emissions by 2030. In practice, this means supporting business and communities to transform, particularly in the way that they source and consume. It also means that we must continue to take steps in our own operations. Innovation and the energy transition are two themes which we see across our business lines.

NIBC supports its clients in their transition towards more sustainable business and protecting natural capital. The main long-term climate risks for NIBC are likely to be physical risks related to flooding and drought due to rising global temperatures. These changes increase the risk of other environmental impacts such as loss of biodiversity and habitat.

Transitional climate risks such as political risk surrounding climate policy and the risk of societal disruptions are increasing in the short to medium term. For example, recent large-scale protests have been organised on the Malieveld in the Hague and in other locations. Our retail and corporate clients face technology risks as existing technologies will need to be replaced with more efficient ones, processes will need to be redesigned and fossil-fuel lock-ins removed. Additional detail in regard to physical and transitional climate risks are reported in the Risk Management section.

Our climate adaption strategy is to curb potential climate, biodiversity and other environmental risks through client and transaction due diligence, stakeholder engagement and by supporting companies in their transition toward more sustainable business. For example, NIBC's Commercial Real Estate team is supporting entrepreneurial companies which develop near 'energy neutral' buildings (Bijna Energie Neutral Gebouw, 'BENG'), pushing further innovation in energy efficiency. This approach also contributes to national and European objectives to increase resource efficiency of real estate in line with commitments under the Paris Climate Agreement.

By comparison the risk of negative impacts on the climate from NIBC's own operations are less significant due in part to steps that we have taken and continue to take as part of our climate mitigation efforts. Since 2010, we have measured our direct emissions, realised substantial reductions and compensated for any remaining direct emissions. NIBC's current certified gold standard carbon offset programme with Climate Neutral Group extends through 2020. These offsets make NIBC carbon neutral in regard to the direct emissions from our own operations. The offsets support emission reductions in Africa, ensure clean water for these local communities, promote gender equality and social development of women.

NIBC believes that respect for human rights is a basic responsibility, towards our own employees, as well as towards those people who are affected directly or indirectly by our actions. NIBC endorses human rights as formulated in the Universal Declaration of Human Rights, ILO core conventions and the *UN Guiding Principles for Business and Human Rights* (**UNGPs**).

New guidance for responsible business conduct in corporate lending was published in November by the OECD. NIBC has published an overview aligned with the UNGP Reporting Framework in our Sustainability Report. Human rights due diligence is integrated into our sustainability due diligence and monitoring processes for financings, investments, and product development to identify, mitigate and manage potential salient adverse human rights risks.

Performance

NIBC publishes indicators in this Annual Report that include the Non-Financial Key Figures which are published at the beginning of this report. Additional figures are published in relevant sections throughout this report. For example, human resource indicators are published in the Our People chapter, Executive Remuneration is reported in the Remuneration Chapter. Sustainability performance indicators such as NIBC's scope 1, 2 and 3 emissions are reported in our Sustainability Report. Additional information across a range of environmental, social and governance aspects is also included in that report.

Further disclosures are published in the Sustainability section of our website. Our GRI Content Index provides a structure framework and guide to help stakeholders to find relevant sustainability content across our many disclosures. NIBC's 2019 capital markets updates, led by NIBC's ExCo and business unit heads, provided insights into our sustainability performance to institutional investors, retail investors, rating agencies and clients.

No severe adverse human rights incidents related to NIBC's financings, own operations, and supply chain were reported in 2019. The main salient human rights risks for NIBC are labour conditions and worker safety in corporate client supply chains. NIBC manages these risks through stakeholder engagement, client and transaction due diligence and by raising awareness with corporate clients. Full transparency into supply chains is an ongoing challenge for mid-market corporate businesses but is gradually improving.

During 2019, no severe adverse environmental incidents related to NIBC's financings, own operations or supply chain were reported. At the same time, we recognise that physical and transitional climate risks are present and impacts will continue to become more visible in future years.

We manage our direct impact on the environment through an environmental management programme. One-hundred percent of electricity used in NIBC's facilities is sourced from renewable energy, achieving our target Renovations completed in past years at our headquarters in The Hague delivered increased efficiency and reduced energy-related carbon emissions. This is contributing to our goal of reducing our direct emissions and is visible in the performance indicators reported in our Sustainability Report. Our geothermal system in our Hague office allows NIBC to heat and cool using water, thereby reducing our reliance on gas from fossil fuels and improving our energy efficiency.

Access to certain energy efficiency and emissions data is a constraint for NIBC and peer financial institutions. Most existing sources available to financial institutions for their financed portfolios are estimates. We will continue to encourage providers to improve public access to detailed data in order to further develop our insights. New reported standards are regularly proposed, a signal that existing sustainability accounting and reporting methodologies will continue to evolve over the coming years.

Stakeholder engagement and materiality

NIBC recognises our responsibilities towards stakeholders, regularly engages with them and considers their interests in our day-to-day decisions and activities. Engaging with stakeholders in a proactive way and on a continuous basis is central to our strategy and ambition to achieve sustainable growth.

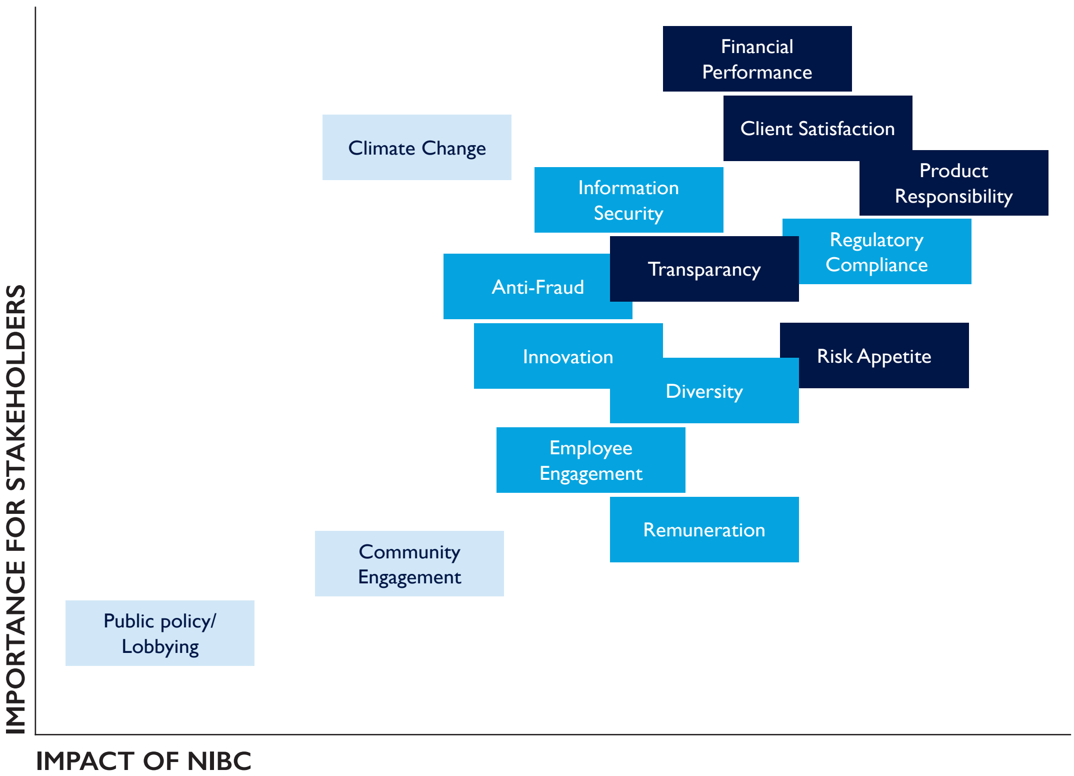
We define stakeholders as any group or individual affected directly or indirectly by our activities. We have identified our main stakeholders to include clients, institutional investors, shareholders, regulators, employees and civil society organisations. We actively seek these connections to the world around us to ensure we reflect on our business, understand our impact and to continue to innovate .

Our engagement with these groups takes place via different channels that range from ongoing dialogue to direct requests for feedback. To ensure our long-term success, we acknowledge the need to strike a careful balance between the interests of all our stakeholders.

The views of NIBC's stakeholders are continuing to evolve, influenced by the world around us. There is a rising expectation that financial and non-financial aspects need to be in balance. At the same time, our stakeholders expect NIBC first and foremost to be a financially healthy company with strong risk management which protects the integrity of the financial system. They also expect that we strongly consider environmental concerns, human rights risks and good governance in our own operations and in our financings and investments.

Materiality analysis 2019

The analysis was conducted in preparation of this report and the results are compiled and reported visually in this chapter. For 2019, our stakeholder consultation was performed across a range of stakeholder groups representing our clients, investors, regulators, civil society and employees. Based on their input, we compiled and ranked each material topic on a scale of 1 to 10 (1 = least important; 10 = most important).



Themes: Client Focus Culture & integrity The world around us

We used this opportunity to ask for more specific feedback in regard to diverse issues such as financial results, climate risk, ethics, diversity, data privacy and others. They were also invited to add material topics of their own. The location of each topic within the graph represents the sum of their responses.

The four most material aspects for stakeholders were financial performance, client satisfaction, climate change and product responsibility.

Financial performance was of high importance to our stakeholders. The financial landscape is changing rapidly, influenced by low interest rates, increased regulatory scrutiny, and the emergence of fintechs. Stakeholders have expressed the importance that they place on NIBC focusing on its financial targets, maintaining its cost efficiency, building financial resilience and delivering on its promises. Our financial performance and indicators are reported in the Key Figures of this Annual Report.

Client satisfaction was seen by stakeholders as very material. They believe that high client satisfaction is an indicator of the strength of our franchise. The primary measurements of client satisfaction used by NIBC are NPS score for corporate banking and the client satisfaction survey results for NIBC Direct. We also closely monitor feedback received across all communication channels. During 2019, our Non-Financial Key Figures in this Annual Report show that client satisfaction decreased slightly. We believe that this may have been in part related to the intensity of KYC and related due diligence activities.

Climate change increased in importance to our stakeholders during 2019. External keyholders and NIBC employees alike signalled increased concerns about climate change and its impacts. They appreciated NIBC's efforts in reducing its fossil fuel exposure and see NIBC as having a role in influencing corporate clients to adapt to the energy transition. During 2019 regulators formalised and expressed their view of climate risks as financial risks. A number of employees mentioned sustainability as a reason that they want to work at NIBC. This is reflected in the results of our Employee Engagement survey reported in the Our People section of this Report. NIBC reports indicators regarding its emissions, energy efficiency and environmental performance in its Sustainability Report.

Product responsibility and ethical conduct continued to be very important. Stakeholders view this as an areas of strength for NIBC. Our retail clients expressed appreciation for our online platform and clear terms and conditions. Investors liked NIBC's transparency , willingness to strengthen ESG standards and open the leveraged loan market for increased responsible investment. We recognise that the boundary for product responsibility is broad. It is closely connected with our code of conduct and duty of care towards clients. For example, our retail savings clients expect a safe online environment. All customers expect clear, understandable, and fair term and conditions. Retail and corporate clients expect privacy and protection of their information. NIBC reports the percentage of corporate loans screened for ESG and significant fines and sanctions as Non-Financial Key Figures in this Annual Report.

Information security and data privacy remained important to stakeholders. Our stakeholders have high awareness of data protection regulations such as GDPR. Statements on NIBC's website provide clarity to our customers. Within the Risk Management section of this Annual Report, we report on our efforts to manage these risks and the results.

Stakeholders also mentioned the importance of diversity. They appreciated NIBC's efforts to take action on diversity and improve gender equality. Having a diversity committee to oversee progress within the company, focus on improving gender equality, and improved diversity in senior management and in our Supervisory Board is seen as tangible and meaningful. During 2019, our Non-Financial Key Figures in this Annual Report show that gender diversity at NIBC modestly improved, continuing the progress made over the past few years. Additional indicators are disclosed in our Sustainability Report.

Examples of stakeholder engagement

North Westerly VI CLO

With institutional investors, we discussed financial, environmental and social objectives and shared value creation. One result of these discussions was the North Westerly VI CLO which NIBC launched in November. The emphasis on ESG and our approach on applying sustainability in the development of the CLO was guided by input from both investors and civil society organisations. During its launch in November, North Westerly VI was widely praised for pushing the envelope in regard to sustainability and opening the CLO asset class for responsible investment.

Equator Principles

NIBC is one of 101 financial institutions in 38 countries worldwide which have officially adopted the **Equator Principles** (*EPs*). The EPs are a risk management framework for determining, assessing and managing environmental and human rights risks in project finance transactions. The development and ratification process for *Equator Principles 4* (**EP4**) attracted high interest from civil society stakeholders, trade unions, national authorities and peer banks. Based on these engagements, NIBC advocated within the EPA to strengthen standards and more closely align with the UN Guiding Principles on Business and Human Rights, OECD Guidelines for MNEs, and the targets of the Paris Climate Agreement.

IRBC agreement for the Dutch banking sector

NIBC continued its commitment towards the International Responsible Business Conduct (IRBC) agreement for the Dutch banking sector. The initiative aimed to improve human rights practices related to project and corporate financings. During 2019, NIBC added language in its human rights policy to help ensure lawful activities of human rights defenders are well protected. We used the IRBC platform to share knowledge and engage with civil society organisations, authorities, clients, and financial sector peers. NIBC actively participated in working groups focused on knowledge sharing and enabling effective grievance and remedy mechanisms.

We engaged on human rights with business partners, clients, civil society organisations and employees. Attention was given to increasing transparency of corporate human rights commitments and practices with a view towards influencing long-term positive improvements. NIBC's commitment toward the IRBC Agreement and our Modern Slavery Statement were signed by members of our managing board.

Climate Accord

NIBC discussed carbon emissions targets, potential climate risks, and best practices in reporting with regulators, civil society organisations, peer banks and clients. NIBC's CEO engaged in these discussions and signed the Climate Accord alongside his peers from other Dutch financial institutions. We also joined the *Partnership for Carbon Accounting Financials* (**PCAF**) to further engage on emerging carbon accounting standards in the financial sector with our financial peers. This will also help to inform NIBC's own disclosures.

Responsible Shipping

NIBC continued to take a proactive role in addressing environmental and human rights issues in shipping value chains.

During 2019, we met with representatives of local trade unions from India and Bangladesh to listen to their views on priority areas in regard to human rights and environmental practices at shipbreaking yards. We met with civil society organisations to discuss access to yards and the challenges faced by human rights defenders. Separately we also met with inspectors of yards from Alang, India to encourage higher standards, increased cooperation with trade unions and improved access for civil society organisations. Based on these sessions, we can conclude that the efforts of NIBC and the nine other banks involved in RSRS are having a positive influence on the shipping value chain.

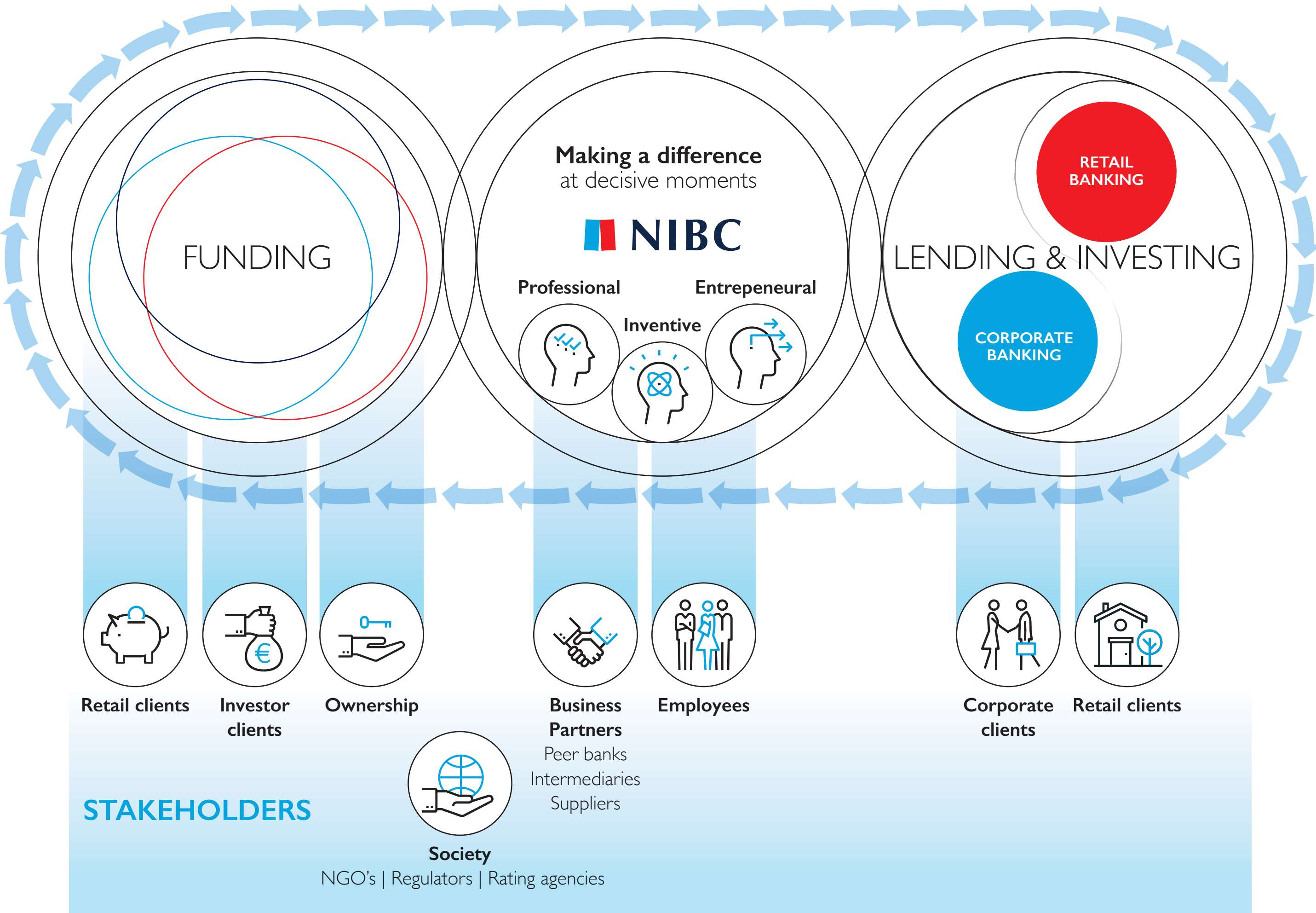
Since 2014, 100% of NIBC's new financings in shipping have included *Responsible Ship Recycling Standards* (**RSRS**), achieving our target. It is a significant achievement more than 90% of NIBC's shipping portfolio at year-end 2019 includes RSRS commitments.

NIBC's Value Chain

NIBC's 2019 Annual Report mainly contains information on most topics which are material to our stakeholders. As part of this process, we have evaluated NIBC's value chain, assessing the different areas of the value we create and the capital we control. This is done not only in terms of our products and services to our clients, but also in terms of the value we deliver to those who invest in us and provide funding.

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

Value flow



Our value creation model reflects the capitals of the Integrated Reporting Council. Materiality is used as a basic principle for reporting of the activities and impacts within our value chain. We operate in a services sector, therefore manufactured capital (*i.e.* buildings and other physical assets) and natural capital (natural resources as an input to our work) have less material relevance than they do in other sectors.

We create value by transforming capital inputs. These inputs include the professionalism and inventiveness (intellectual capital) of the people within NIBC, financial capital from investors and savings from retail customers, and services provided by our suppliers and outsourcing partners. We transform these inputs into value outputs so that they positively contribute to the resilient communities that we serve while staying within ecological limits.

A core societal benefit is that this capital is invested back into communities that we serve – directly to mid-sized family owned businesses in north-west Europe, the mortgages of retail customers and to SMEs through our fintech partnerships. This helps to contribute to financial resilience at different levels throughout these communities while delivering a good financial return for our investors.

Business Partners

NIBC's strategic business partners and suppliers are largely professional services organisations providing legal, audit, communications, technology, and other specialised services. These partners help NIBC to serve the needs of our stakeholders.

Technology services are provided by Cegeka. Our mortgage business back office is outsourced to Stater. Independent mortgage brokers are used in the origination of mortgages. Professional services are provided by parties such as EY which provides auditing services and KPMG which provides consultancy services. Cerrix provides a SAAS solution for operational risk management. During 2019 a partnership agreement was announced with Hutten to provide healthy, responsibly sourced catering services at NIBC's facilities in the Hague. Further business partners include Sopra, Fiducia, and Collectric among others. Our partners vary in size, but each provides their services from operating locations based in the same countries as NIBC.

Community Engagement

NIBC employees were active in a wide range of initiatives in our communities during 2019. In March, NIBC employees again conducted financial education classes during the Week van het Geld (Global Money Week), an initiative whereby bankers provide fun lessons about money to primary school children. Approximately 700 primary school children participated in this Bank voor de Klas programme with NIBC staff. ExCo members have represented us at the launching ceremeny and been among those from NIBC who have led classes with the children.

We donated food and dozens of NIBC employees packed holiday food parcels to support families which rely on the Dutch Foodbanks. Together with employees of other leading corporates such as Unilever, Mars, Shell, Dr Oetker and Upfield, a total of 35,136 holiday food parcels were prepared and distributed across the Netherlands.

In December, employees in The Hague supported Stichting Vitalis in what has become an annual holiday tradition at the bank. Vitalis is a professional non-profit organisation that supports vulnerable children so they can avoid intensive professional youth counselling programmes. NIBC employees provided personalised holiday gifts for about 150 children in a special Christmas event.

NIBC NGO Boulevard

In 2015, we launched the NIBC NGO Boulevard, a unique initiative that makes modern office space and professional facilities available to good causes. Civil society organisations in the NIBC NGO Boulevard include Maatschappelijke Alliantie, Missing Chapter, Stichting Vitalis, SDG Charter and Buddy Network. One focus area for all of these organisations and NIBC has been to contribute to Dutch efforts towards the SDGs through activities and initiatives. Our daily interactions, joint initiatives and workshops, and other activities have significantly increased awareness at NIBC staff of human rights and environmental risks and impacts.

In March 2019, NIBC hosted the launch of Alliantie Kinderarmoede Nederland (Alliance to end child poverty Netherlands) with Missing Chapter and Nederlands Centrum Jeugdgezondheid at our offices in the Hague. Our CFO spoke to the importance of reducing the risks to children and the importance of NIBC's commitment to human rights. The initiative aims to end child poverty in the Netherlands by 2030.

Throughout 2019, NIBC had the benefit of being inspired by these organisations since they share the same facilities with us. inspire us and help raise the awareness amongst NIBC's employees of societal challenges. Interaction with these civil society organisations has led to several joint initiatives on societal challenges such as financial education, circular economy, and mobility as part of NIBC's Talent Programme.

PERFORMANCE EVALUATION

In the following table, we measure NIBC's performance against the strategic priorities as described in the 2018 annual report.

STRATEGIC PRIORITIES	PERFORMANCE
Continuous evolution of our client franchise, expertise and proposition	+ The OTM proposition has been further diversified, leading to a significant increase of assets under management in Retail: +79% to EUR 4.3 billion. + Pricing and placement of first CLO fully compliant with ESG criteria. Proving NIBC to be at the forefront of developing innovative sustainable banking products and integrating ESG guidelines into our bespoke financing solutions. + Our customer satisfaction survey result for NIBC Direct is 7.9 (2018: 7.7). The current NPS is +47% (2018: +63%) for corporate clients, reflecting a negative effect of increased CDD efforts.
Focus on growth of asset portfolio in core markets	+ Rebalancing of corporate client portfolio. Decreasing cyclical sector exposures by EUR 0.8 billion. + Growth in on-balance mortgage portfolio by EUR 520 million. NIBC originated EUR 0.2 billion for the Buy-to-Let portfolio. Despite challenging market circumstances due to the nitrogen and PFAS issue.
Diversification of income	+/- In 2019, we have continued to focus on growing our OTM revenues, leading to EUR 15 million OTM-related fee income (2018: EUR 11 million).
Building on existing agile and effective organisation	+ Strengthened partnership with OakNorth by entering into a 5-year contract to on-board a large part of the loan portfolio onto the next generation credit platform. + Transition of IT infrastructure to Cegeka successfully completed. + Successful completion of KYC and AML improvement projects, primarily executed with internal staff.
Ongoing investment in people, culture and innovation	+ EUR 3,500 per employee spent on training and educational programmes (2018: EUR 3,200). + Second group of senior staff participated in IMD programme. + Reshaped our IT organisation with a new team to optimise collaboration with Cegeka and other oursourcing partners.

STRATEGIC PRIORITIES	PERFORMANCE
	+ Continuation of internal training programmes for junior and medior staff.
Further optimisation of capital structure and diversification of funding	+ Strong CET 1 ratio of 18.7%, fully absorbing the additional RWA requirement following the IMI report. Furthermore well positioned to fully absorb Basel IV impact. + Lower funding costs at 71bps (2018: 73bps). + Successful issue of EUR 300 million 5-year senior non-preferred debt. Important step towards MREL requirement.

As part of our IPO in 2018 we announced medium-term performance objectives. These objectives, underpinned by our six strategic growth priorities, as mentioned earlier in this annual report, are discussed in the Financial review section.

	Medium-term objectives	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Return on equity	>10-12%	10.2%	13.2%	10.8%
Cost/income ratio	<45%	44%	41%	44%
CET 1 ratio[1]	>14%	18.7%	20.6%	21.4%
Rating Bank	BBB+	BBB+	BBB	BBB
Annualised dividend pay-out ratio	>50%	100%	100%	45%

1 As from 2019, non-eligible profits attributable to the shareholders are no longer added to regulatory capital.

Based on the current state of affairs, the performance in 2019 in relation to both the strategic priorities and the medium-term objectives, preparation of the financial reporting on a going-concern basis is justified.

SWOT ANALYSIS

As part of our annual planning cycle, we assess NIBC's position in the market and the opportunities and challenges present while also reflecting on the strengths and weaknesses NIBC has.

STRENGTHS	WEAKNESSES
■ Proven capability to adapt to changing circumstances as a speciality financier. Continuously exploring new opportunities, developing new products and finding new pockets of growth in underserved part of the market; ■ Medium-size allows for flexibility to adapt to a changing world and grasp the opportunities this presents; ■ Employees who are professional, entrepreneurial, inventive; ■ Consistent cost/income ratio below 45%.	■ Limited market share reduces NIBC's ability to influence pricing, with a possible negative impact on net interest margin and net fee income; ■ No direct access to USD funding and dependency on cross-currency swaps.

OPPORTUNITIES	THREATS
■ Strong capital base and capital generation capabilities, enabling us to grow and absorb the anticipated Basel IV impact; ■ Expand Originate-to-Manage model to additional asset classes, enhancing earning potential and increase fee income; ■ Create an ecosystem where flexibility and speed of fintechs, in combination with the resources, reliability and financial backing of a regulated institution.	■ Prolonged low interest rate environment resulting in abundance of liquidity and increased mispricing risk; ■ Permanently invest in our licence to operate, including Anti-Money Laudering, Know Your Customer and other regulatory related requirements such as Basel IV; ■ Upcoming turn of the economic cycle, signs of a slow down across the world; ■ An increasingly challenging labour market impacting NIBC's effort to recruit new talent.

Recent developments

NIBC operates in an environment that is characterised by continuous change. This section highlights several developments and the relevance for NIBC's operations.

Conditional agreement on public offer parent company NIBC Holding N.V.

On 25 February 2020, NIBC Holding N.V. and *The Blackstone Group International Partners LLP* (together with its affiliates, as the context requires, '**Blackstone**') announced that an entity owned by Blackstone, have reached a conditional agreement on a recommended all-cash public offer for all issued and outstanding shares in the capital of NIBC Holding N.V., not held by *J.C. Flowers & Co* (**JCF**) and *Reggeborgh Invest B.V.* (**Reggeborgh**) at an offer price of EUR 9.85 (cum dividend) per share in cash.

The Offer is supported by NIBC Holding's two largest shareholders, JCF and Reggeborgh, representing 60.6% and 14.7% of the Shares respectively and 75.3% in aggregate. Each has irrevocably agreed to sell their full shareholdings in NIBC Holding in separate private transactions with the Offeror at fixed prices per Share (cum dividend) of EUR 8.93 per Share for JCF and EUR 9.65 per Share for Reggeborgh, conditional upon the Offer being declared unconditional. All prices are expressed cum dividend, including the final dividend for the 2019 financial year. The Managing Board and Supervisory Board of NIBC Holding unanimously and thereby fully support the transaction and recommend the offer for acceptance to the shareholders of NIBC Holding subject to completion of the works council consultation procedure.

On 18 February, 2020 NIBC received inquiries from Vereniging van Effectenbezitters (VEB) concerning NIBC Holding N.V.'s share price developments and associated trading volumes in relation to the announced firm proposal from Blackstone on 14 February, 2020.

Intended merger NIBC Bank N.V. and NIBC Bank Deutchland AG
In 2014, NIBC acquired Gallinat Bank in Germany. Important driver for this acquisition was its full membership with the *einlagensicherungsfonds* (**ESF**). This membership gave NIBC Bank Deutschland AG access to the German deposits market for corporate clients and institutional investors. As per January 2020 the terms and conditions of the ESF funding are changed. As a result the ESF funding no longer meets the needs of NIBC Bank Deutschland AG adequately as this will be only short term funding up to 18 months. As a result, a key reason for having NIBC Bank Deutschland AG as a separate legal entity will disappear. NIBC is currently also looking into further simplifying its organisation to be more agile and more flexible to adapt to the ongoing market challenges. A legal merger between NIBC Bank N.V. and NIBC Bank Deutschland AG will decrease the regulatory pressure and complexity of the organisation since the current regulatory requirements towards BaFin will decrease substantially. For these reasons NIBC intends to merge NIBC Bank Deutschland AG into NIBC Bank N.V..

EURIBOR-based mortgages
In 2017 NIBC acquired a portfolio of mortgages including a number of EURIBOR-based mortgages. These types of mortgages are currently subject to individual and class action claims towards a financial institution located in the Netherlands. Claimants have been contesting the contractual right of the mortgage lender to unilaterally adjust the interest margin of the mortgage, and therefore violating its duty of care towards the customer. The risks related to this legal issue were taken into account at the time of acquisition of this mortgage portfolio and factored into the consideration paid. Recently, the Supreme Court found in favour of the financial institution and referred the case back to the Court of Appeal of Amsterdam. NIBC is monitoring the developments closely and has notified the relevant clients that it will apply the outcome of these court proceedings to the EURIBOR-based loans acquired by NIBC. Recently, a settlement has been agreed between the parties to that litigation. NIBC is currently examining that settlement with a view to deciding next steps towards its own affected clients, given such settlement and therefore absence of a final court outcome.

Brexit
With a branch office located in London and various activities carried out in the UK on a cross-border basis from the Netherlands and Germany, NIBC is exposed to the continuing uncertainty surrounding the future relationship between the UK and the EU. To the extent NIBC carries out regulated activities in (and into) the UK, it does so on the basis of its Dutch and/or German licences, as passported to the UK, and continues to do so during the implementation period which is due to run until the end of 2020. NIBC has notified its regulators of its intention to enter into the UK's *Temporary Permissions Regime* (**TPR**), which regime acts as a backstop once the passporting regime falls away at the end of the implementation period. By entering into the TPR, NIBC will be able to continue operating in the UK within the scope of its current permissions after the end of the implementation period, whilst seeking authorisation from the UK regulators to continue to do so in the longer term. NIBC is in parallel making preparations to submit such authorisation application, and is in dialogue with the UK's Financial Conduct Authority and with the DNB in relation to such

matters. In addition, certain contractual and reporting arrangements have been reviewed and amended and/or replaced, where necessary, to ensure continuity.

Brexit and the different potential outcomes of the negotiations due to take place between the UK and the EU during the implementation period may negatively impact the macro economic climate in Europe. The impact that this may have on our clients and consequently on NIBC's positions remains difficult to assess.

Long-term value creation

With its purpose and strategic priorities in mind, NIBC is continuously evaluating its position within the financial ecosystem and calibrating its short-term action plans with its long-term strategy. With the direct interaction between the Managing Board and the Executive Committee, NIBC ensures the connection between its strategy planning process and stakeholder engagement processes, so that the interests of different stakeholders are actively included in the decision-making process. The choices are translated into a 5-year strategic plan, including a capital and funding plan. This strategic plan also takes the challenges the industry faces into account. The low-for-longer interest environment, the increased regulatory demands and requirements related to our license to operate and permanently changing demands from other stakeholders as well as adverse effects from a potential turn of the cycle. This plan and the impact on NIBC going forward are extensively discussed in the Supervisory Board. In the current environment, these processes have led to amongst others, a focus on actively rebalancing our portfolios, the development of our OTM proposition, investments in *Customer Due Diligence* (**CDD**) processes and procedures and various reporting processes.

With this approach, NIBC is actively steering on long-term value creation, to the benefit of all stakeholders.

NIBC FINANCES PURCHASE AND DEVELOPMENT OF FORMER V&D BUILDING IN GRONINGEN

MWPO is a real estate developer that focuses on striking buildings and iconic hotspots at top locations to create housing programmes and innovative working, hospitality and retail concepts. Like the building of the former V&D department store located on the impressive location Grote Markt in Groningen. MWPO has ambitious plans with the building that has been largely vacant since the bankruptcy of V&D. However, it will be given a new lease of life with offices, a restaurant (LaPlace) and a Jumbo super market. This boosts the liveliness of the city centre. NIBC was able to add value to provide the client with a loan, tailored to the building and envisioned plans. NIBC has a strong track record with these type of (inner-city) redevelopment projects. By utilising these assets, NIBC was able to collaborate in an efficient and professional way. The construction started at the end of 2019. And one year later, the first tenants and visitors are expected to be able to enter the renovated building that will be renamed 'Het Groot Handelshuis'.

> "With the support of NIBC we are able to realise our ambitions to redevelop one of the best locations in the city of Groningen. We appreciate the quick turn around and expert advice of NIBC."

Kristiaan Capelle, Director at MWPO

REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board is pleased with the strong performance over the year 2019, with the management consistently meeting or exceeding medium term objectives. It was also NIBC's first full financial year as listed company. NIBC continued its strategy of a focused approach to selected market niches in the dynamic mid-sized segment. Hereby NIBC further strengthened its franchise and expanded its offering to clients. NIBC's profit after tax attributable to the shareholder amounted EUR 190 million (2018: EUR 229 million). Excluding non-recurring items the profit improved from EUR 181 million to EUR 197 million.

Although management recognises a number of challenges for the future (the low-interest environment, (adverse) late-cycle trends and increasing requirements related to our licence to operate), the Supervisory Board notes, at the same time, with satisfaction that NIBC continues to prove it has the agility to continuously reinvent and adapt itself. The rebalancing of the Corporate Loan portfolios that started in 2018 continued in 2019, resulting in de-risking of the balance sheet and freeing up capital for new initiatives. Also the strong growth of the Originate-to-Manage mortgages in the retail offering continued in 2019. The partnership with OakNorth was a major milestone in 2019.

Our most important stakeholder, the customer, continues to value our efforts to serve his or her interests. Due to increased attention for corporate loan Client Due Diligence and Know Your Customer documentation, which by some clients was perceived as bureaucratic and an administrative burden, this year's NPS for corporate clients decreased to 47% (2018: + 63%). Our NIBC Direct Customer Survey was 7.9 in 2019 (2018: 7.7). The success of a mid-sized niche market bank and retail offering like NIBC stands or falls with an excellent customer experience. Therefore, the Supervisory Board pays close attention to these metrics.

Corporate client offering

Initially a lending house for mostly medium-sized family businesses, NIBC corporate client offering has transformed into a broad range, mid-market bank that is equipped to deliver on the entire credit side of the client's balance sheet. NIBC's corporate client offering primarily achieves this by leveraging its expertise in key (sub)sectors where it can add the greatest value through its tailored solutions and services. NIBC's corporate client offering continued its gradual shift in client groups, with a strong focus on building more granular portfolios e.g. in receivable finance and leasing. It focuses on mid-sized and often family-owned companies in the Netherlands, Germany and the UK. Due to the growing product range it increasingly attracts other highly relevant client groups: private equity funds and parties, institutional investors, financial sponsors and large corporate clients. The origination and refinancing volumes of EUR 3.0 billion were a bit lower than last year (2018: EUR 3.7 billion) as a result of conscious decisions not to pursue opportunities in selected portfolios. Additionally a large internal effort has been made to successfully complete KYC/CDD related projects.

Influenced by the changing market environment it was announced in January 2020 that NIBC had decided to discontinue its capital markets activities (i.e. Fixed Income, DCM and ECM). Within corporate client offering further streamlining is envisaged by centralising all portfolio management activities. In the course of 2020 a merger between NIBC Bank Deutschland AG and NIBC Bank NV should lead to further efficiency and a decrease in regulatory burden.

Retail client offering

In 2019, total mortgage origination volume increased to EUR 3.7 billion (2018: EUR 3.4 billion), of which EUR 2.0 billion relates to Originate-to-Manage. These Originate-to-Manage mortgage loans are originated for institutional investors, among which AXA Investment Managers. We were able to increase the mandates with AXA Investment Managers and other institutional investors to EUR 6.5 billion as at end 2019. Consequently, retail client offering is strongly increasing its client base as well as creating a new fee revenue stream. Total mortgage loans for own book increased by more than 6% to EUR 9.8 billion. In 2019, the preparations were started for the launch of a new mortgage label, Lot, which will originate mortgage loans for two new Dutch Originate-to-Manage partners.

On the savings side, the Supervisory Board is pleased that the franchise value of the NIBC Direct brand continues to be strong.

Medium-term targets and dividend

The Supervisory Board is proud that NIBC also in 2019 delivered upon its promises to meet the medium-term targets as set early 2018. The proposed total dividend of EUR 190 million, reflecting a pay-out ratio of 100%.

Executive Committee

In 2019, the *Executive Committee* (**ExCo**) comprised the three Managing Board members together with Saskia Hovers (Corporate clients Sustainability & Transformation), Michel Kant (Retail clients) and Caroline Oosterbaan (Corporate clients Growth & Innovation).

The non-statutory members of the Executive Committee attended all regular meetings of the Supervisory Board. Through these meetings, in addition to the regular informal contacts, the Supervisory Board stays closely tuned with all developments throughout the focus areas of the individual ExCo members.

As part of the annual evaluation of the Managing Board/ExCo, team building and further strengthening team spirit were observed as attention points. Additional effort will be put into this topic in 2020.

Composition of the Supervisory Board

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

As at 31 December 2019, the Supervisory Board comprised two female and five male members of various nationalities. Four members are independent members that meet the independence criteria laid out in the Dutch Corporate Governance Code. The other three are representatives of NIBC's majority shareholder.

As per 31 December 2019

Name	Year of birth	Nationality	Member since	End of term	Committee memberships[1]
Mr. D.M. Sluimers *(Chairman)*[2]	1953	Dutch	2016	2020	AC, RPCC, RNC, RPTC
Ms. A.G.Z. Kemna *(Vice-Chair)*[2]	1957	Dutch	2018	2022	AC, RPCC, RPTC
Mr. R.L. Carrión	1952	American	2017	2022	RPCC
Mr. M.J. Christner	1972	German	2011	2021	AC
Mr. J.C. Flowers	1957	American	2012	2021	-
Mr. J.J.M. Kremers[2]	1958	Dutch	2019	2023	AC, RPCC, RNC, RPTC
Ms. S.M. Zijderveld[2]	1969	Dutch	2018	2022	RNC, RPTC

1 AC - Audit Committee; RNC – Remuneration and Nominating Committee; RPCC – Risk Policy and Compliance Committee; RPTC – Related Party Transaction Committee.
2 Meets the independence criteria of the Dutch Corporate Governance Code.

Changes in 2019

Mr. W.M. van den Goorbergh stepped down as chair of NIBC's Supervisory Board at the Annual General Meeting of 26 April 2019. Mr. W.M. van den Goorbergh has been member of NIBC's Supervisory Board for 14 years of which 9 years as Chair. The Managing Board is grateful to Mr. W.M. van den Goorbergh and all he has done for NIBC over the past 14 years. With his calm and conscientious leadership of the Supervisory Board, he reconciled the interests of NIBC's shareholders, clients and employees - also in challenging times. He never hesitated to share his views and advice and NIBC benefitted from his longstanding experience in banking and in corporate governance. The Supervisory Board and the company are very thankful for his tremendous contribution.

Mr. M.J. Christner was reappointed in April 2019 by the AGM for two years.

Mr J.J.M. Kremers was appointed to the NIBC Supervisory Board by the Extraordinary General Meeting of Shareholders held on 29 August 2019. Mr. J.J.M. Kremers became chair of the Audit Committee as well as member of the *Risk Policy & Compliance Committee* (**RPCC**) and the *Remuneration and Nominating Committee* (**RNC**).

Diversity and succession

Based on the succession planning as performed in 2018, the Remuneration and Nominating Committee of the Supervisory Board discussed succession planning for the near future in two of its meetings in 2019. The Supervisory Board is pleased with its current composition and that of its committees, as changes always bring new perspectives and the changes in 2019 contributed to diversity especially in terms of skills. In the case of a vacancy, the regular policy is applied in which an Executive Search firm is asked to provide a shortlist with at least 50% female candidates, although final selection is ultimately based on the suitability for a specific position.

Additional functions

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

Since the Dutch Act on Management and Supervision came into force on 1 January 2013, we have been monitoring the number of supervisory functions held by our Supervisory Board members. The profile for the Supervisory Board and their relevant ancillary positions can be found at the end of this chapter and on our website.

Meetings of the Supervisory Board

The Supervisory Board met on seven regular occasions in 2019. This included three regular two-day meetings in February, August and November and two regular one-day meetings in June and December. An additional one-day meeting in June was held at which the Supervisory Board and the Executive Committee discussed NIBC's current and future strategy, and the way the company can meet its objectives in order to provide long-term value creation for all stakeholders. All members of the Supervisory Board participated in all regular meetings in 2019.

Name	SB (7)[1]	AC (5)[1]	RPCC (4)[1]	RNC (5)[1]	RPTC (2)[1]
D.M. Sluimers	100%	100%	100%	100%	100%
A.G.Z. Kemna	100%	80%	100%		100%
R.L. Carrion	100%		100%		
M. Christner	100%	100%			
J.C. Flowers	100%				
J.J.M. Kremers	100%	100%	100%	100%	50%
S.M. Zijderveld	100%			100%	100%
W.M. van den Goorbergh	100%	100%	100%		

1 Number of meetings.

Six additional calls were held during the year. Topics of these additional calls included the *internal model investigation* (**IMI**) by DNB, the increase in RWAs for our corporate loan portfolio. Furthermore the strategic direction of NIBC in general was discussed as well as more specifically the recent discussion with the Blackstone Group. Four members were absent from one of the additional calls held during the year, and one call was among the independent members of the Supervisory Board only.

The members of the Managing Board attended all regular meetings of the Supervisory Board, except for one member who was absent during one meeting. Additionally, two members of the Supervisory Board attended two consultation meetings between the Chief Executive Officer and the Works Council. The SB members nominated by the Works Council had three additional informal meetings with the Works Council without management being present.

During the meetings held in 2019 the Supervisory Board paid special attention to the strategic direction of the bank for the coming five years, also taking into account the period as from 2022, when the Basel IV regulation will start to be phased in. The focus in this five year business plan is on freeing up capital and deploying that for new initiatives thereby creating long-term value for all stakeholders.

In addition discussions took place on different (strategic) topics such as the Corporate and Retail client offering, risk management, the IT Move project, the capital and funding plan, remuneration and the increased regulatory requirements, also in relation to Know Your Customer, the impact of the IMI by DNB and the follow-up actions and reporting. The 2019 quarterly and interim results were discussed as well as the proposed dividend pay-out and the budget for 2020.

The Supervisory Board also continued its *permanent education* (**PE**) programme. Specific attention was given to the current legal framework and expected future developments in Anti-Money Laundering and Terrorist Financing. Attention was paid to the impact of the internal model investigation on the Risk Weighted Assets of NIBC and the responsibilities of the Supervisory Board and Managing Board in a potential change of ownership situation.

On 5 March 2019, J.C. Flowers & Company decided to float an additional approximately 13% of its share in the parent company, NIBC Holding N.V., in an accelerated book building. This was a standalone decision made by the majority shareholder of NIBC Holding N.V..

Apart from the mentioned transaction, there were no transactions in the year in which the members of the Supervisory Board had a conflict of interest.

The financial statements and the findings of the external auditor were discussed in the external auditor's presence.

The four Supervisory Board committees

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

Audit Committee

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

The AC met on four regular occasions in 2019 (February, June, August and November) in presence of the Managing Board. in January 2019, an additional meeting was held in which the Management Letter 2018 was discussed. By mutual agreement the external auditor was present at all meetings of the AC in 2019. The AC held a private meeting with the external auditor without the members of the Managing Board being present.

The chairman of the AC prepared the meetings in advance by having meetings and calls with NIBC's CFO, the head of Finance and the head of Internal Audit as well as with the external auditor. In between meetings, NIBC also actively shared relevant information with the chairman.

In 2019, the AC extensively reviewed NIBC's quarterly financial highlights, interim and annual financial reports and relevant press releases. It discussed the draft reports of the external auditor, including its Audit Results Report, Audit Planning and Management Letter, before the reports were discussed in the Supervisory Board meeting.

The AC had in depth discussions about NIBC's financial performance, including the development of the bank's net profit, business growth and the development of spreads and cost/income ratio. Furthermore, the AC reviewed NIBC's capital and funding profile, and the development of related solvency and liquidity ratios. The AC was informed specifically on the retransition of the IT infrastructure and the related IT governance. Next to this, the AC received updates on project Care, which focused on improving corporate loan Client Due Diligence and Know Your Customer.

Specific topics discussed with the auditor dealt with loan loss provisioning, NIBC's change agenda, new developments and their impact on financial figures and key control testing. The status of the IT transition (IT Move) was discussed during all AC meetings. The Management Letter 2019 was discussed in the November meeting. Main topics in the Management Letter are the IT environment including the transition to a new external provider, the current state of the IT-landscape with respect to access management and the internal control environment, governance on outsourcing arrangements and key control testing. Also compliance was mentioned in the Management Letter where anti-money laundering and customer due diligence are the main areas. Furthermore model governance and validation were discussed.

Next to the regular topics mentioned before, the AC also discussed and has taken notice of management views and arguments on the deferred tax position, budget 2020, forecast and capital plan 2019-2022, dividend policy and the main topics discussed in the Disclosure Committee. The external auditor also reported on its independence towards the AC which was further discussed by the AC. The AC annually assesses NIBC's compliance with the Dutch Corporate Governance Code and reports thereon towards the Supervisory Board.

The AC took note of and discussed NIBC's consultations with DNB. As part of the yearly cycle, the AC discussed the main observations made by DNB in its annual SREP letter and the impact on the business/capital positions of the bank. The AC considered the on-site examinations conducted by DNB, including the onsite inspections of NIBC's Corporate Probability on Default Model and NIBC's Internal Governance and Risk Management.

The AC discussed the annual plan and quarterly reports of Internal Audit, and evaluated the functioning of Internal Audit. The AC specifically took note of the (timely remediation of) Measures of Improvement, reported by DNB, the external auditor and internal audit. Both the internal and external auditor reported on the quality and effectiveness of governance, internal control and risk management.

Risk Policy & Compliance Committee
The *Risk Policy & Compliance Committee* (**RPCC**) assists the Supervisory Board in overseeing NIBC's risk appetite, risk profile and risk policy. It prepares matters in these areas for decision in the Supervisory Board by presenting proposals and recommendations on credit, market, investment, liquidity, operational and compliance/regulatory risks, and any other material (non-) financial risks to which NIBC is exposed. The RPCC met four times in 2019 in the presence of the members of the Managing Board.

During 2019, the RPCC extensively discussed NIBC's assets, liquidity and funding, stress tests and risk profile. The increasing regulatory demands including market sentiment and onsite investigations by regulators were frequent topics on the agenda of the RPCC where NIBC's customers, associated regulatory requirements and the ways that NIBC control the potential risks remained important themes.

In 2019, non-financial risks such as Know Your Customer and anti-money laundering were very prominent and in the second half of the year the DNB Internal Model Investigation results and remediation planning were thoroughly discussed. The RPCC continued to focus on the operational risk profile and in-control environment, including, amongst others, specific risks such as information security, new product approvals, compliance and regulatory risk. The committee also reviewed the risk assessments of new business initiatives, evaluated how risk awareness is embedded in NIBC's organisation, as well as its own functioning.

NIBC's long-term objectives, including the attainment and retention of a BBB+ credit rating which was received in May 2019 as well as updates to the risk appetite framework, involving new metrics and revised limits, remained on the agenda. Strategic planning, including the reduction of certain portfolios was a recurring subject, as was the potential Basel IV impact.

Besides risk appetite and the quarterly reporting on the subjects received by the committee, the RPCC discussed in all of its meetings segments of NIBC's corporate and retail credit portfolios, including appropriate risk measurement parameters for portfolio performance, the bank's distressed portfolio, as well as specific distressed exposures. Other topics the RPCC regularly reviewed included NIBC's market risk reports, liquidity risk reports and risks of the macroeconomic environment, such as the availability of foreign currency funding and the impact of Brexit.

Further, on the non-financial risk side, the RPCC reviewed NIBC's franchise as reflected in the experience of its customers, the relation with the regulators, the views of the rating agencies and regularly reviewed and discussed regulatory, societal and market developments and their impact on NIBC, such as systematic integrity risk analysis, Basel IV, sustainability, block chain, Euribor residential mortgage loans and interbank benchmarks.

The RPCC paid attention to the ongoing examinations at financial institutions in general concerning systemic integrity risks as well as the SIRA on-site follow-up, the IMI follow-up and the DNB onsite on Governance & Risk Management. The RPCC is also actively discussing the implementation of relevant laws and regulations such as GDPR.

Remuneration and Nominating Committee

The *Remuneration and Nominating Committee* (**RNC**) advises the Supervisory Board on the remuneration of the members of the Supervisory Board, the Managing Board and certain other senior managers. In addition, it provides the Supervisory Board with proposals for appointments and reappointments to the Supervisory Board, its committees and the Managing Board. In April 2019, Mr. W.M. van den Goorbergh, member of the RNC, resigned at the end of his term. Mr. J.J.M. Kremers was appointed in August 2019 as member of the Supervisory Board and chair of the AC.

The RNC also assesses the performance of the members of the Managing Board and the Supervisory Board and has at least annual meetings with the individual MB members on their performance and team work. Please refer to the Remuneration Report for further detail.

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

In 2019, the RNC held five regular meetings, all in the presence of NIBC's head of Human Resources and, in appropriate cases, of NIBC's CEO. Additionally, the chair, on behalf of the RNC, attended a meeting of the control functions.
The RNC discussed the regular subjects regarding remuneration, risk and audit assessments, governance and variable income as well as the suitability policy and, based on the evaluation of the composition of the Supervisory Board and its committees the requirements for the Supervisory Board and its committees.

In 2019, it was concluded in the yearly self-assessment that the SB members are satisfied with the functioning of the SB. Points of attention are succession planning, the organisation and culture and permanent education. To follow up on these attention points it was decided that minutes of all committee meetings will be actively shared with all SB members whilst the SB members also have a standing invitation to attend the committee meetings and that for permanent education an annual calendar will be set up.

The chair of the Remuneration and Nominating Committee prepared the meetings of the RNC in advance by having meetings/calls with the head of Human Resources and where appropriate the CEO.

Remuneration management

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

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

In line with the Remuneration Policy the RNC received information for a hybrid benchmark peer group reflecting the labour market of NIBC as well as a benchmark regarding post-employment benefits. Given the specific circumstances and legislation for the (Dutch) financial institutions, more specifically for banks, the Remuneration and Nominating Committee decided to also use a benchmark of the Dutch banks.

Based on this information the Remuneration and Nominating Committee proposed to the Supervisory Board to put a system in place that determines the annual adjustment of salaries of the CEO and Members of the Managing Board. In the 2020 renewal of the Managing Board remuneration policy this system will be included in the new proposed policy to the AGM.

For the Supervisory Board the new remuneration policy was put forward and adopted by the AGM in 2019, including the (same as MB) methodology that determines the annual adjustment of the annual fee of the members of the Supervisory Board.

In 2018, the RNC started discussions with regards to the abolishment of variable income for the Managing Board and developed scenarios for conversion of a part of the variable income in the base salary. These discussions were concluded in 2019. A proposal will be made to the AGM to abolish variable income for the Managing Board as of 1 January 2020 and convert part of it into base salary; the proposed approach is the same as that is used for the vast majority of eligible NIBC-employees in the Netherlands.

In 2019, it was concluded in the yearly self assessment that the SB members are satisfied with the functioning of the SB. Points of attention are succession planning, the organisation and culture and permanent education. To follow up on this attention points it was decided that minutes of all committee meetings will be actively shared with all SB members whilst the SB members also have a standing invitation to attend the committee meetings and that for permanent education an annual calendar will be set up.

The chair of the Remuneration and Nominating Committee prepared the meetings of the RNC in advance by having meetings/calls with the head of Human Resources and where appropriate the CEO.

Succession management

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

The RNC also extensively discussed the succession management regarding the Supervisory Board. On its proposal the Supervisory Board decided to nominate Mr. J.J.M. Kremers as member of the Supervisory Board.

Related Party Transactions Committee

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

In two RPTC meetings held in September and October, the RPTC discussed and approved the financing and M&A advisory transactions of Reggeborgh in the envisaged public offer for VolkerWessels.

Financial statements

The company and consolidated financial statements have been drawn up by the Managing Board and audited by Ernst & Young Accountants LLP, who issued an unqualified opinion dated 25 February 2020. The Supervisory Board recommends that shareholders adopt the 2019 Financial Statements at the Annual General Meeting of shareholders on 17 April 2020. The Supervisory Board also recommends that the Annual General Meeting of shareholders discharge the Managing Board and Supervisory Board for their respective management and supervision during the financial year 2019.

The Supervisory Board would like to express its gratitude to all stakeholders who helped to make 2019 the success it was, most notably to our over 700 highly professional, entrepreneurial and inventive employees. Thanks to their skills, expertise, agility and dedication NIBC could achieve these great results.

The Hague, 25 February 2020

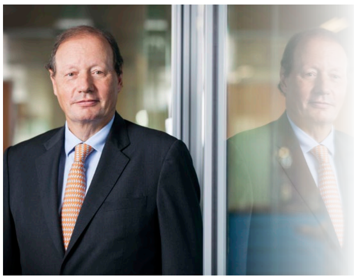
Supervisory Board

Mr. D.M. Sluimers, *Chairman*
Ms. A.G.Z. Kemna, *Vice-Chairman*
Mr. R.L. Carrión
Mr. M.J. Christner
Mr. J.C. Flowers
Mr J.J.M. Kremers
Ms. S.M. Zijderveld

PERSONAL DETAILS OF THE SUPERVISORY BOARD

Mr. D.M. Sluimers, Chair (1953)

Chair of the Related Party Transactions Committee, member of the Audit Committee, member of the Risk Policy & Compliance Committee, member of the Remuneration & Nominating Committee



Current principal position	None
Other positions:	Member of the supervisory board at Akzo Nobel N.V.; chair of the supervisory board of Euronext Paris; member of the board of directors at FWD Group Limited and member of the advisory board of Spencer Stuart Executive Search
Nationality	Dutch
First appointment	2016
Current term expires	2020

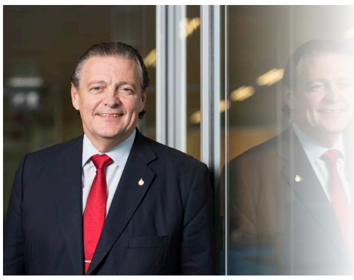
Ms. A.G.Z. Kemna, Vice-chair (1957)

Chair of the Risk Policy & Compliance Committee, member of the Audit Committee, member of the Related Party Transactions Committee

Current principal position	None
Other positions:	Non-executive director and member of the Audit Committee of AXA Group; non-executive director of AXA IM; member of the supervisory board of FrieslandCampina
Nationality	Dutch
First appointment	2018
Current term expires	2022

Mr. R.L. Carrión (1952)

Member of the Risk Policy & Compliance Committee



Current principal position	Chairman of the Board of Popular, Inc
Other positions:	Operating partner at J.C. Flowers & Co; chairman of Vall Banc S.A.U.; member of the board of directors of First Bank; member of the International Olympic Committee and trustee and president of Banco Popular Foundation
Nationality	American
First appointment	2017
Current term expires	2022

Mr. M.J. Christner (1972)

Member of the Audit Committee

Current principal position	Head of Business Development and Financial Institutions Group at Hamburg Commercial Bank
Other positions:	Member of supervisory board of LUNIS Vermögensmanagement AG
Nationality	German
First appointment	2011
Current term expires	2021

Mr. J.C. Flowers (1957)

Current principal position	Chief executive officer and managing director at J.C. Flowers & Co
Other positions:	Member of the supervisory board of Hamburg Commercial Bank
Nationality	American
First appointment	2012
Current term expires	2021

Mr. J.J.M. Kremers (1958)

Chair of the Audit Committee, member of the Risk Policy & Compliance Committee, member of the Remuneration & Nominating Committee, member of the Related Party Transactions Committee

Current principal position	None
Other positions:	Chair of the supervisory boards of Robeco and Uber Payments BV and member of the supervisory boards of Nederlandse Spoorwegen and Stimuleringsfonds Volkshuisvesting Nederlandse gemeenten
Nationality	Dutch
First appointment	2019
Current term expires	2023

Ms. S.M. Zijderveld (1969)

Chair of the Remuneration & Nominating Committee, member of the Related Party Transactions Committee

Current principal position	None
Other positions:	Board member of the National 4 and 5 May Committee and Amsterdam Concert Hall Fund
Nationality	Dutch
First appointment	2018
Current term expires	2022

CORPORATE GOVERNANCE

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

This chapter contains some highlights of our governance structure in 2019. The structures and processes we have developed provide an effective basis for making and implementing decisions across our organisation, with its hierarchical and functional reporting lines.

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

Two-tier board structure

NIBC Bank N.V., has voluntarily adopted a two-tier board structure. It has been agreed in the charter of the Supervisory Board that the composition of the Supervisory Board of NIBC Bank N.V. will be identical to the composition of the Supervisory Board of parent company NIBC Holding N.V.

As a result, NIBC maintains a two-tier board structure consisting of a Managing Board and a Supervisory Board. The Managing Board is responsible for the day-to-day management, which includes, among other things, formulating NIBC's strategy, policies and setting and achieving NIBC's objectives. The Supervisory Board supervises and advises the Managing Board. It is the Board's priority to protect the interests of the company and all its stakeholders, rather than the interests of any particular stakeholder.

Managing Board

In 2019, NIBC had three Managing Board members. These members have thorough and in-depth knowledge of the financial sector in general and the banking sector in particular.

For the composition of the Managing Board as per 31 December 2019, refer to the following table:

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

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

In case of a vacancy in the Managing Board, the regular policy is applied and the Executive Search team is asked to provide a shortlist with at least 50% female candidates, although final selection is ultimately based on the suitability for the position. At the level of the Executive Committee, NIBC meets the diversity requirements (see below). NIBC will also continue to strive for a good gender balance at Managing Board level.

Executive Committee

As at 1 January 2017 an Executive Committee was formed consisting of the three Managing Board members and three non-statutory members representing commercial roles. The Executive Committee consists of two female members and four male members. The Managing Board and the Executive Committee, which meet weekly, represent and balance the interests of all stakeholders. The non-statutory Executive Committee members participate in the discussions in meetings, but are not entitled to a vote.

In 2019, there were no transactions in which the members of the Managing Board or the members of the Executive Committee had a conflict of interest. More information about the Managing Board and the Executive Committee, including short biographies, can be found on our website.

Managing Board Germany
NIBC Bank Deutschland AG is a full subsidiary of NIBC Bank N.V. At 31 December 2019, the Vorstand (Managing Board) of NIBC Bank Deutschland AG comprised Mr. V.C. Ruitenberg and Mr. J.B. Spanjersberg. Mr. T.A. Rasser stepped down from the Vorstand as at August 2019 and subsequently Mr. V.C. Ruitenberg was appointed CEO of NIBC Bank Deutschland AG. Members of the Aufsichtsrat (Supervisory Board) of NIBC Bank Deutschland AG are Mr. H.H.J. Dijkhuizen, Ms. S.M. Hovers and Mr. P. Zippro.

Supervisory Board
On 31 December 2019, the Supervisory Board of NIBC consisted of seven members with extensive and international expertise in fields such as banking and finance, corporate governance and corporate management.

On 26 April 2019, Mr. W.M. van den Goorbergh, the chair of the Supervisory Board, resigned from NIBC's Supervisory Board as per the end of his term. He was succeeded as at the same date by Mr. D.M. Sluimers.

On 29 August 2019, Mr. J.J.M. Kremers was appointed as Supervisory Board member and chair of the Audit Committee.

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

Dutch Corporate Governance Code
NIBC supports and actively applies the principles of the Dutch Corporate Governance Code. This Code was revised in December 2016 and consequently implemented by NIBC.

NIBC partly deviates from one of the best practices and principles as laid out in the Code:

NIBC does not comply with best practice provision 2.1.7 (iii), which requires that there is at most one supervisory board member who can be considered to be affiliated with a shareholder, or group of affiliated shareholders, who holds more than 10% of the shares in a company. Four out of seven members of NIBC's Supervisory Board qualify as formally independent. The other three members are formally not independent, because they are representatives of the major shareholder (61%) of the parent company. This principle in the Dutch Corporate Governance Code deviates from the policy of the Dutch central bank (DNB) that came into force in 2012. DNB's policy is that at least 50% of the members of a Supervisory Board should be formally independent. NIBC complies with the DNB policy.

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

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

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

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

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

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

Capital structure

NIBC Bank's authorised share capital amounts to 183,597,500 shares. On 31 December 2019, a total of 62,586,794 ordinary shares were issued, all of them owned by the parent company, NIBC Holding.

REMUNERATION REPORT

The Supervisory Board reviewed and amended NIBC's remuneration policy in 2019. The review took into account all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code; the Dutch Banking Code; the *DNB Principles on Sound Remuneration Policies* (**DNB principles**), EBA Guidelines on Sound Remuneration; and CRD IV and the Dutch remuneration legislation for financial services companies (*Wet beloningsbeleid financiële onderneming*, **Wbfo**).

NIBC's remuneration policy and Managing Board remuneration for 2019 are outlined in this chapter. An overview of the remuneration of other staff and the Supervisory Board is also presented. Please see our website for further information about the remuneration policy.

To avoid unnecessary duplication, we refer to notes 9 and 54 and of the Consolidated Financial Statements in this Annual Report for all relevant tables. These are considered to be an integral part of this Remuneration Report.

Remuneration principles

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

Managing Board remuneration in 2019

In order to determine appropriate market levels of remuneration for the Managing Board, the Supervisory Board has identified a hybrid benchmark peer group, consisting of all AEX and AMX (both Euronext) listed companies. Given the specific circumstances and legislation for the (Dutch) financial institutions, more specifically for banks, the Supervisory Board decided to also use a benchmark of the Dutch banks. The composition of these peer groups reflects the labour market in which NIBC competes for talent. As such, it is an objective measure not based on individual data points selected by NIBC.

Throughout the cycle, total compensation for the CEO and members of the Managing Board is targeted just below the median of their peers in the peer group, based on benchmark data provided by external independent compensation consultants and publicly available information. The positioning just below the median of the peer group is in line with the Dutch Banking Code.

Base salaries

In 2019, the base salary for the CEO was EUR 845,708 gross per year (2018: EUR 825.000). The base salary for the two other members of the Managing Board was EUR 615,060 gross per year (2018: EUR 600.000). Base salaries are paid in 12 equal monthly payments. The base salaries of the CEO and the members of the Managing Board increased by 2.51%. This increase was based on the three-year average merit increase for all employees within NIBC and is in line with the targeted positioning.

Variable compensation

According to the remuneration policy, the variable income component in 2019 for the Managing Board is set at 15% of base salary at target achievement with a maximum of 20% of the base salary. Based on the medium-term objectives specific targets were set: financial targets 25% (profit, operating income, expenses and impairments), business growth 25% (net growth and growth agenda), Franchise People & Clients 15% (engagement, and NPS), Operational Control 25% (client integrity) and personal target 10% (e.g. governance and stakeholder management).

The performance of the Managing Board was reviewed by the RNC in relation to the accomplishment of the medium term objectives. The Supervisory Board used its discretionary power to award the maximum variable compensation given the performance of the Managing Board on the set targets (close to stretch level), on the one hand and achievements on the medium-term objectives, on the other hand. Over 2019 the following incentive compensations of base salary were granted: *Chief Executive Officer* (**CEO**) 20%, *Chief Financial Officer* (**CFO**) 20% and *Chief Risk Officer* (**CRO**) 20%.

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

Retention package 2019 - Executive Committee

In 2019, in the preparation for the IPO various stakeholders (potential investors, selling shareholder who also remained a shareholder, supervisory board, but also e.g. regulators) deemed retention of the Executive Committee necessary, as the stakeholders would like to ensure stability at the highest level before, during and after the IPO. The retention package was designed in such a way that those interests are safeguarded and in line with applicable legislation and regulations. In the context of the IPO the Dutch Central Bank (DNB) has given its consent to the award of the retention package within the meaning of article 1:122 of the FMSA and in accordance with the procedure of article 94 (1)(g) under (ii) of CRD IV. Shareholders of NIBC approved the retention package. The retention package consisted of two parts, the first (60%) subject to continued employment until the date of the IPO (23 March 2018) and the second (40%) subject to continued employment until the first anniversary of the IPO (23 March 2019). Both parts are subject to the rules on deferral and retention (lock-up period). The retention packages for the Executive Committee amounted to 180% of the annual base salary for the Members of the Managing Boards and to 165% of the annual base salary for the non-statutory members of the Executive Committee, which is consistent with the applicable legislation as mentioned above. The pay-out of the retention packages will be subject to the regular requirements on pay-out to Identified Staff, hence an ex-post risk analysis will be conducted prior to vesting and deferral will be applied, in line with RBB 2017 and the EBA guidelines. Moreover a lock-up of five years, following the Dutch Corporate Governance Code, is applicable and is also applied to the non-statutory members of the Executive Committee

Pension

The CEO and other Managing Board members participate in the NIBC pension plan, in line with the arrangements available to all other employees. In 2019, the pension plan consisted of a) a *collective defined-contribution pension arrangement* (**CDC arrangement**) up to a pensionable salary of EUR 107,593 maximum salary, and; b) an additional (gross) contribution up to their respective base salaries. The retirement age for the CEO and members of the Managing Board was 68 in 2019. There are no contractual early retirement provisions.

For the CDC arrangement NIBC pays a standard flat-rate contribution of 26.2 % into the pension fund (for the Managing Board as well as for all other employees). All employees are required to make a personal contribution of 4.2% of their pensionable salary in the CDC arrangement. The gross contribution by NIBC for pensions above the fiscal maximum is set at 25%.

Other key benefits
The CEO and members of the Managing Board are entitled to a company car up to a certain price limit or, if they prefer, the equivalent value of the lease car limit as a gross cash allowance. The CEO is entitled to the use of a permanent chauffeur from the chauffeurs' pool whilst the other members of the Managing Board are entitled to the use of a chauffeur from the pool for business purposes only unless otherwise agreed by the Supervisory Board.

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

The total amount of remuneration per individual Board Member split out in the separate components is shown below:

2019	Base salary	Variable compensation	Pension	Other key benefits	Total
P.A.M. de Wilt	845,708	169,142	222,047	47,418	1,284,315
H.H.J. Dijkhuizen	615,060	123,012	162,849	47,818	948,739
R.D.J. van Riel	615,060	123,012	161,677	40,218	939,967

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

Any severance payment is limited to 12 months' base salary and will not be awarded if the agreement with the member of the Managing Board is terminated early at the initiative of the member of the Managing Board, or in the event of seriously culpable or negligent behaviour on the part of the member of the Managing Board.

Amendments in 2020
The Supervisory Board reviews the base salary level regularly and may decide to adjust it. In 2019, the RNC of the Supervisory Board thoroughly reviewed the Managing Board remuneration. Hereby it took into account all relevant benchmarks, such as the hybrid benchmark peer group in the relevant environment for NIBC, as well as a benchmark regarding the post-employment benefits. The benchmark of Dutch banks was also explicitly included in the assessment, in view of the recent developments with regard to salary and variable income. Based on this information the Supervisory Board will present to the Annual General Meeting two proposals. The first proposal is to confirm a system that determines the annual adjustment of salaries on 1 January 2020 of the Members of the Managing Board based on the three year average merit increase of all employees within NIBC, as has been applied in 2019. Based on this methodology the annual adjustment of salaries on 1 January 2020 will be 2,83%.

The second proposal is to abolish Variable Income for the Members of the Managing Board and to convert a part of this into the base salary. In order to take a pro-active approach to the increasing regulatory and social pressure on variable composition it is proposed to convert the three-year average bonus (2017-2019) for 68% into the base salary on 1 January 2020. The same conversion rate also applies to the majority of the bonus eligible employees of NIBC in the Netherlands for bonuses up to 20%. In line with the Banking Code the Supervisory Board performed a stakeholder analysis with regard to the proposals.

Other staff remuneration

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

Total compensation funding

Each year, based on a proposal by the Managing Board, the Supervisory Board decides, at its discretion, on the overall amount of money available for total compensation, the amount of money available for variable compensation and the specific forms in which variable compensation may be awarded. The 2019 compensation ratio (total compensation costs as percentage of operating income) was 21.8%.

Variable compensation

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

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

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

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

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

For employees with a scale contract (in the Netherlands) it has been agreed upon with the Works Council that they will receive a fixed amount of EUR 1,250 over 2019, which qualifies as variable compensation.

Special situations

Only in exceptional cases and only in the first year of employment the Managing Board can offer sign-on or guaranteed minimum bonuses to new employees as well as retention bonuses to existing employees. In the unlikely event that these bonuses amount to more than 100% of the base salary of the individual employee concerned, procedures will be followed in accordance with the regulations; the maximum ratio between fixed and variable remuneration will be respected.

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

Supervisory Board remuneration in 2019

The Supervisory Board remuneration policy 2019 has been approved by the Annual General Meeting in 2019. The new Supervisory Board remuneration policy has a system is in place that determines the annual adjustment of fees on 1 January of a year for the Supervisory Board based on the three-year average merit increase for all employees within NIBC. The increase on 1 January 2019 was 2.51%. The chair of the Supervisory Board is entitled to an annual fee of EUR 76,883 (2018: EUR 75,000), the vice-chair of the Supervisory Board is entitled to an annual fee of EUR 61,506 (2018: EUR 60,000) and the other members of the Supervisory Board are entitled to an annual fee of EUR 51,255 (2018: EUR 50,000).

In addition, all chairs of the AC, RPCC and RNC of the Supervisory Board are entitled to an annual fee of EUR 15,377 (2018: 15,000). Members of the AC and members of the RPCC are entitled to an annual fee of EUR 10,251 (2018: EUR 10,000). The members of the RNC are entitled to an annual fee of EUR 7,688 (2018: EUR 7,500). The members of the RPTC are entitled to an annual fee of nil (2018: nil). The 2018 Supervisory Board remuneration was equal to 2017.

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

Amendments Supervisory Remuneration in 2020

Based on the remuneration policy of the Supervisory Board the annual adjustment of fees as at 1 January 2020 is 2.83%.

Remuneration governance

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

The Supervisory Board discussed the performance and remuneration of Identified Staff, as well as the performance and remuneration of control functions. The Supervisory Board also discussed the highest proposed variable compensations in 2019. Scenario analyses were conducted by Risk Management to assess the possible outcomes of the variable remuneration components on an individual and collective basis. The internal annual report 'Harrewijn' is discussed in the RNC as well as with the Works Council. This report provides information on the composition and development of compensation and benefits of its employees. Amongst others the report covers an internal pay ratio analysis.

In line with the Dutch Corporate Governance Code, NIBC discloses the relevant elements related to the internal pay ratios. In 2019, the base salary pay ratio of the CEO (EUR 845,788) compared to the base salary of a member of the Managing Board (EUR 615,060) was 1.4. In 2019, the base salary pay ratio of the CEO and the Managing Board members (EUR 691,969) compared to the base salary of the non-statutory members of the Executive committee (EUR 350,000) was 2.0. In 2019, the base salary pay ratio of the CEO (EUR 845,788) compared to the median full-time base salary of all employees (EUR 74.000) was 11.4 (2018: 10.6).

Adjustments

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

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

Conclusion

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

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

Disclosure on Dutch remuneration legislation for financial services companies

The total amount of variable income granted in 2019, with respect to the performance over 2018, amounts to EUR 8,1 million. This grant consists of (direct and deferred) cash and (vested and unvested) share based instruments. In 2019, one employee was awarded a total compensation of more than EUR 1 million (in 2018: six employees).

Disclosure on Share Holders Rights Directive (SRDII)

With regard to the remuneration of every Managing Board member a comparison of the annual changes in the remuneration over two book years (since IPO in 2018), the development of the company performance and the average (full-time) remuneration of employees need to be disclosed based on the SRDII.

	Remarks	2019 vs 2018	2018 vs 2017	Information
P.A.M. de Wilt	Base + variable compensation	2.50%	3.10%	Excl. one-off retention package 2018
H.H.J. Dijkhuizen	Base + variable compensation	2.50%	9.10%	Excl. one-off retention package 2018
R.D.J. van Riel	Base + variable compensation	2.50%	9.10%	Excl. one-off retention package 2018
Average increase of base salary on a full time equivalent basis of employees				
Employees	Base + variable compensation	2.50%	2.80%	

	Medium-term objectives	IFRS 9 2019	IFRS 9 2018	IAS 39 2017
Return on equity	>10-12%	10.2%	13.2%	10.8%
Cost/income ratio	<45%	44%	41%	44%
CET 1 ratio[1]	>14%	18.7%	20.6%	21.4%
Rating Bank	BBB+	BBB+	BBB	BBB
Annualised dividend pay-out ratio	>50%	100%	100%	45%

1 As from 2019, non-eligible profits attributable to the shareholders are no longer added to regulatory capital.

IN CONTROL REPORT

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

Risk management and control

In discharging its responsibility regarding internal risk management and control systems, the Managing Board acknowledges that in the normal course of business, shortcomings in processes and procedures arise. The Managing Board has made an assessment of the effectiveness of NIBC's internal control and risk management systems. Following identification of any shortcomings, mitigating controls are performed to determine that no material weaknesses or major control deficiencies remain. Based on this assessment and to the best of its knowledge, the Managing Board states that:

- the Report of the Managing Board in the Annual Report 2019 of NIBC provides a fair overview of and insight into the effectiveness as well as shortcomings of the internal risk management and control systems;
- NIBC's internal risk management and control systems provide reasonable assurance that NIBC's Annual Report 2019 does not contain any errors of material importance. To address identified weaknesses, additional mitigating controls have been performed where necessary;
- there is a reasonable expectation that NIBC Holding N.V. will be able to continue in operation and meet its liabilities for at least twelve months, as evidenced by the details included in 'performance evaluation', therefore, it is appropriate to adopt the going concern basis in preparing the financial statements;
- there are no material risks or uncertainties that could reasonably be expected to have a material adverse effect on the continuity of NIBC Holding N.V.'s enterprise in the coming twelve months.

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

In view of the above, the Managing Board of NIBC believes it is in compliance with the requirements of best practice provision 1.2 of the Dutch Corporate Governance Code.

Responsibility statement

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

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

The Hague, 25 February 2020

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

NIBC SUPPORTS SERVERFARM WITH A SENIOR SECURED TERM LOAN FACILITY TO ACQUIRE 5NINES GLOBAL HOLDINGS

ServerFarm is a US-headquartered data centre and IT operator aiming to expand its operations in Europe. The company currently owns and manages a data centre portfolio globally in more than 30 countries and it has a sound track record with a strong client base. 5NINES Global Holdings is a UK-based data centre infrastructure service company active in Europe and the US with strong growth potential. With the aim of expanding their presence in Europe, ServerFarm required a banking partner with extensive knowledge of the European data centre sector. Having built a strong relationship over the past four years, NIBC was selected to support ServerFarm pursue their strategic growth objectives. NIBC has experience and an extensive network in the digital infrastructure industry. With in-depth sector knowledge NIBC is able to understand these clients and move swiftly.

> “The expertise and experience in digital infrastructure investment and financing of the NIBC team enabled us to make progress quickly. We are excited to follow our growth strategy with the support of NIBC.”

Arun Shenoy, ServerFarm

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

for the years ended 31 December

in EUR millions	note	2019	2018
Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income	2	585	590
Interest income from financial instruments measured at fair value through profit or loss	2	9	13
Interest expense from financial instruments measured at amortised cost	2	168	161
Interest expense from financial instruments measured at fair value through profit or loss	2	9	10
Net interest income		**417**	**432**
Fee income	3	40	51
Fee expense	3	-	-
Net fee income		**40**	**51**
Investment income	4	60	74
Net trading income	5	5	(1)
Net gains or (losses) from assets and liabilities at fair value through profit or loss	6	1	(6)
Net gains or (losses) on derecognition of financial assets measured at amortised cost	7	(1)	(2)
Other operating income	8	2	2
Operating income		**524**	**550**
Personnel expenses and share-based payments	9	114	113
Other operating expenses	10	95	91
Depreciation and amortisation	11	5	5
Regulatory charges and levies	12	15	15
Operating expenses		**229**	**224**
Credit loss expenses / (recovery)	13	49	54
Profit before tax		**246**	**272**
Tax	14	44	31
Profit after tax		**202**	**241**
Attributable to:			
Shareholders of the company		190	229
Holders of capital securities (non-controlling interest)		12	12
Other non-controlling interests		-	-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the years ended 31 December

in EUR millions	note	2019 Before tax	2019 Tax charge/ (credit)	2019 After tax	2018 Before tax	2018 Tax charge/ (credit)	2018 After tax
Profit for the year		**246**	**44**	**202**	**272**	**31**	**241**
Other comprehensive income:							
Items that will not be reclassified to profit or loss							
Revaluation of property and equipment	29	8	2	6	-	-	-
Movement in the fair value of own credit risk of financial liabilities designated at fair value through profit or loss	43	(9)	-	(9)	27	(17)	44
Items that may be reclassified subsequently to profit or loss							
Net result of hedging instruments	43	(5)	(1)	(4)	(14)	(4)	(10)
Financial assets measured at fair value through other comprehensive income							
Movement in revaluation for debt investments at FVOCI		6	1	5	(6)	(1)	(5)
Total other comprehensive income		**-**	**2**	**(2)**	**7**	**(22)**	**29**
Total comprehensive income		**246**	**46**	**200**	**279**	**9**	**270**
Total comprehensive income attributable to:							
Shareholders of the company	43	234	46	188	267	9	258
Holders of capital securities (non-controlling interest)	44	12	-	12	12	-	12
Total comprehensive income		**246**	**46**	**200**	**279**	**9**	**270**

CONSOLIDATED BALANCE SHEET

as at 31 December

in EUR millions	note	2019	2018
Cash and balances with central banks	15	1,965	2,056
Due from other banks	16	688	568
Financial assets at fair value through profit or loss (including trading):			
Debt investments	17	91	77
Equity investments (including investments in associates)	18	253	187
Loans	19	142	148
Derivative financial instruments	20	482	579
Financial assets at fair value through other comprehensive income:			
Debt investments	21	954	788
Financial assets at amortised cost:			
Debt investments	22	10	-
Loans	23	7,636	7,717
Lease receivables	24	25	53
Mortgage loans	25	9,637	8,990
Securitised mortgage loans	26	407	461
Other:			
Investment property	27	23	-
Investments in associates and joint ventures (equity method)	28	21	12
Property and equipment (including right-of-use assets)	29	39	44
Current tax assets	30	5	2
Deferred tax assets	31	10	8
Other assets	32	19	26
Total assets		**22,407**	**21,716**

Please refer to the accounting policies for the transition effect as per 1 January 2019 to IFRS 16.

as at 31 December

in EUR millions	note	2019	2018
Due to other banks	33	1,403	1,511
Deposits from customers	34	11,397	11,267
Financial liabilities at fair value through profit or loss (including trading):			
Own debt securities in issue	35	39	39
Debt securities in issue structured	36	184	282
Derivative financial instruments	20	225	210
Current tax liabilities	30	-	1
Deferred tax liabilities	31	12	7
Provisions	37	15	5
Accruals, deferred income and other liabilities	38	86	107
Debt securities in issue at amortised cost:			
Own debt securities in issue	39	6,305	5,451
Debt securities in issue related to securitised mortgages	40	392	447
Subordinated liabilities :			
Fair value through profit or loss	41	167	162
Amortised cost	42	117	116
Total liabilities		**20,342**	**19,605**
Equity:			
Share capital	43	80	80
Share premium	43	238	238
Revaluation reserves	43	120	122
Retained profit	43	1,427	1,471
Equity attributable to the equity holders		**1,865**	**1,911**
Capital securities (non-controlling interests)	44	200	200
Total equity		**2,065**	**2,111**
Total liabilities and equity		**22,407**	**21,716**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to:						
in EUR millions	note	Share capital	Share premium	Revaluation reserves	Retained profit	Equity of the company	Capital securities	Total equity
Balance at 1 January 2019 before the adoption of IFRS16		**80**	**238**	**122**	**1,471**	**1,911**	**200**	**2,111**
Effect of adoption of IFRS16		-	-	-	(1)	(1)	-	(1)
Balance at 1 January 2019 after the adoption of IFRS16		**80**	**238**	**122**	**1,470**	**1,910**	**200**	**2,110**
Total comprehensive income for the period ended 31 December 2019		-	-	(2)	190	188	12	200
Transfer of realised depreciation revalued property and equipment		-	-	(1)	1	-	-	-
Adjustment deferred tax asset due to higher corporate income tax rate in 2021 and onwards then originally expected		-	-	-	1	1	-	1
Other		-	-	1	-	1	-	1
Distributions:								
Paid coupon on capital securities		-	-	-	-	-	(12)	(12)
Dividend paid during the year	43	-	-	-	(235)	(235)	-	(235)
Balance at 31 December 2019		**80**	**238**	**120**	**1,427**	**1,865**	**200**	**2,065**

in EUR millions	note	Attributable to: Share capital	Share premium	Revaluation reserves	Retained profit	Equity of the company	Capital securities	Total equity
Balance at 1 January 2018[1]		**80**	**238**	**93**	**1,395**	**1,806**	**200**	**2,006**
Total comprehensive income for the period ended 31 December 2018		-	-	29	229	258	12	270
Transfer of realised depreciation revalued property and equipment	29	-	-	(1)	1	-	-	-
Adjustment deferred tax asset due to lower corporate income tax rate in 2020 and onwards		-	-	-	(8)	(8)	-	(8)
Other		-	-	1	(5)	(4)	-	(4)
Distributions:								
Paid coupon on capital securities	44	-	-	-	(1)	(1)	(12)	(13)
Dividend paid during the year	43	-	-	-	(140)	(140)	-	(140)
Balance at 31 December 2018		**80**	**238**	**122**	**1,471**	**1,911**	**200**	**2,111**

1 The balances at 1 January 2018 include the effects of the IFRS 9 'Financial Instruments' adoption as per 1 January 2018.

Available distributable amount as at 31 December

in EUR millions	2019	2018
Equity attributable to the equity holder	1,865	1,911
Share capital	(80)	(80)
Within retained earnings	-	-
Revaluation reserves	(34)	(29)
Legal reserves profit participation	(1)	(1)
Legal reserves	**(35)**	**(30)**
	1,750	**1,801**

See note 43 Equity for more detailed information

CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR millions	note	2019	2018
Operating activities:			
Profit before tax for the year		246	272
Tax[1]		(44)	(31)
Profit after tax for the year		**202**	**241**
Adjustments for non-cash items:			
Depreciation, amortisation and credit loss expenses	11/13	47	60
Changes in employee benefits	37	(1)	-
Share in result of associates and joint ventures	28	(5)	-
Taxation paid			
Changes in operating assets and liabilities:			
Derivative financial instruments	20	112	(211)
Operating assets[2]		(755)	247
Operating liabilities (including deposits from customers)[3]		75	(647)
Cash flows from operating activities		**(325)**	**(310)**
Investing activities:			
Acquisition of subsidiaries, associated and joint ventures	28	(4)	(5)
Disposal of subsidiaries, associates and joint ventures	18/28	-	1
Acquisition of property and equipment	29	(10)	(3)
Repayments of financial assets	412	47	(63)
Cash flows from investing activities		**33**	**(70)**
Financing activities:			
Proceeds from the issuance of own debt securities	39/35	2,202	2,348
Repayment of issued own debt securities	39/35	(1,436)	(1,288)
Proceeds from the issuance of subordinated liabilities	42/41	3	-
Repayment of issued subordinated liabilities	42/41	4	(11)
Proceeds from the issuance of debt securities structured	36	5	5
Repayment of issued debt securities structured	36	(100)	(343)
Proceeds from the issuance of debt securities related to securitised mortgages	40	-	447
Final and interim distribution	43	(235)	(66)
Proceeds from capital securities (net of issuance costs)	44	(12)	(7)
Cash flows from financing activities		**431**	**1,085**

1 Tax paid in 2019 amounts to EUR 5 million (2018: EUR 2 million).
2 Includes all assets except for derivatives, investment property, property and equipment, assets under investing activities and intangible assets. The cashflow is primarily explained by mortgage loans (note 25: EUR -643 million), debt investments at FVOCI (note 21: EUR -158 million) and equity investments at FVtPL (note 18: EUR -118 million) partly offset by loans AC (note 23: EUR 155 million).
3 Includes all liabilities excluding derivatives and consists mainly of due to other banks (note 33: EUR -108 million) and deposits from customers (note 34: EUR 130 million).

in EUR millions	note	2019	2018
Cash and cash equivalents at 1 January		**2,309**	**1,779**
Net foreign exchange difference		(68)	92
Net increase/(decrease) in cash and cash equivalents		66	438
Cash and cash equivalents at 31 December		**2,307**	**2,309**
Reconciliation of cash and cash equivalents:			
Cash and balances with central banks (maturity three months or less)	15	1,806	1,896
Due from other banks (maturity three months or less)	16	501	413
		2,307	**2,309**
Supplementary disclosure of operating cash flow information:			
Interest paid		178	171
Interest received		594	603

ACCOUNTING POLICIES

Authorisation of consolidated financial statements

The consolidated financial statements of *NIBC Bank N.V.* for the year ended 31 December 2018 were authorised for issue by the Supervisory Board and Managing Board on 25 February 2020. NIBC Bank N.V. is a public liability company, incorporated under Dutch law on 31 October 1945, and registered at Carnegieplein 4, 2517 KJ The Hague, the Netherlands (Chamber of Commerce number 27032036). NIBC Bank N.V. is a wholly-owned subsidiary of NIBC Holding N.V.

NIBC Bank N.V. together with its subsidiaries (**NIBC** or **the group**), provides a broad range of financial services to corporate- and retail clients. Refer to the Segment report in these financial statements and the Report of the Managing Board in this Annual Report for detail.

Summary of significant accounting policies

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

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared under a historical cost basis, except for:

- Financial assets and liabilities (including derivative instruments, equity investments (including investments in associates) and certain classes of (investment) property measured at fair value through profit or loss (**FVtPL**);
- Financial assets held for both collecting contractual cash flows and sale measured at fair value through other comprehensive income (**FVOCI**);
- Assets held for sale measured at fair value less cost to sell.

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

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

Reclassification land and buildings from Property and equipment to Investment property on 1 January 2019

Until year end 2018 NIBC's land and buildings were valued at fair value through equity. On 1 January 2019 part of the land and buildings were reclassified from Property & Equipment to Investment Property, based on the actual change in its use (i.e. a transfer of a significant part to the available-for-rental status). Just before this reclassification land and buildings were revalued as of 1 January 2019 based on independent external appraisal. The difference with the carrying amount arising from revaluation of land and buildings are credited to other reserves in shareholders equity. The revaluation reserve relating to the reclassified land and buildings to Investment Property for an amount of EUR 7 million has been frozen as at 1 January 2019.

Changes in accounting policies in 2019

Changes in IFRS-EU

New standards and amendments to standards become effective at the date specified by IFRS-EU, but may allow companies to opt for an earlier application date. In 2019, the following standards or amendments to existing standards issued by the *International Accounting Standards Board* (**IASB)**, and relevant for NIBC, were implemented:

Accounting standard/ amendment/interpretation	IASB effective date	Endorsed by EU	Early adopted by NIBC	Impact for NIBC
IFRS 16 Leases	1 January, 2019	Yes	-	See below for comments
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January, 2019	Yes	-	See below for comments
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January, 2019	Yes	1 January, 2018	Low
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January, 2019	Yes	-	See below for comments

IFRS 16 Leases

NIBC adopted IFRS 16 using the modified retrospective approach with the cumulative effect recognized in retained earnings on 1 January 2019. Under this standard no distinction is drawn between operating and finance leases for lessees, and requires lessees to recognize leases on the balance sheet reflecting a right to use an asset for a period of time and the associated lease liability for payments.

Refer to the following sections in these accounting policies;

- 'leases' accounting policy, and
- transition impact IFRS 16 as described in this section,

for full detail how IFRS 16 changed NIBC's accounting policies concerning leases and the transition approach and impact as per 1 January 2019.

Transition impact IFRS 16

At the date of initial application, NIBC applied the practical expedient to apply the standard to contracts that were previously identified as leases applying IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'.

NIBC also applied the practical expedients for;

- short-term leases,
- low value assets.

Lease payments for assets falling under these practical expedients are recognised directly in operating expenses. The total lease expenses for these assets are separately disclosed in the notes.

The transition impact of the modified retrospective approach of IFRS 16 on the consolidated balance sheet of NIBC as per 1 January 2019 is presented in the following table.

in EUR millions	1 January 2019 Carrying amount IFRS 16
Right of use assets	5
Lease liability	6
Retained earnings	(1)

The measurement on a lease by lease basis for the right of use assets at transition, is its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using NIBC's incremental borrowing rate at the date of initial application.

The impact of the IFRS 16 adoption on the basic and diluted earnings per share as per transition date and reporting date is nil.

The lease liability as per transition date does not differ materially with the commitments for lease components of the domestic and foreign offices under IAS 17 as per 31 December 2018, discounted using the incremental borrowing rate at the transition date.

The weighted average incremental borrowing rate applied to the lease liabilities recognised in the consolidated balance sheet at the date of initial application is 2%.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
Effective from 1 January 2019, NIBC applied the amendments to IAS 28, 'Long-term Interests in Associates and Joint Ventures' retrospectively with the cumulative effect (if any) recognized in retained earnings on 1 January 2019.

Losses recognised using the equity method in excess of the NIBC's investment in ordinary shares are, in accordance with the amendments, applied to other long-term interests of NIBC in the associate or joint venture in reverse order of their respective seniority. These other long-term interests are items for which settlement is neither planned nor likely to occur in the foreseeable future, including e.g. preference shares and long-term receivables or loans, but excluding trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. If the associate or joint venture subsequently reports profits, NIBC resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

As per 1 January 2019, NIBC did not have such long term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The adoption of the amendment did not impact the consolidated financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle
This cycle contains amendments to the following standards:

IFRS	Subject of amendment
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
IAS 12 Income Taxes	The amendment clarifies that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.
IAS 23 Borrowing Costs	The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments do not have significant impact on NIBC's consolidated financial statements.

Upcoming changes after 2019

Below standards and amendments to existing standards, published prior to 31 December 2019, were not early adopted by NIBC but will be applied in future years. Note that only the amendments to IFRSs that are relevant for NIBC are discussed below.

New and/or amended standards endorsed but not yet effective

Accounting standard/ amendment/ interpretation	IASB effective date	Impact for NIBC
Amendments to IAS 1 and IAS 8: Definition of Material The amendments clarify the definition of material and make IFRSs more consistent.	1 January, 2020	Low
Amendments to References to the Conceptual Framework in IFRS Standards The revised conceptual framework includes comprehensive changes in e.g. definitions, recognition criteria and clarifies some important concepts.	1 January, 2020	Low
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.	1 January, 2020	See below for comments

The endorsed upcoming amendments are not expected to have a material effect on the consolidated financial statements.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7, not early adopted)

NIBC applies hedging and hedge accounting on fixed rate assets and liabilities. The IBOR reform can potentially impact the hedging process and the effectiveness of the hedge accounting process at moment of the implementation, which is expected during the year 2020. The impact of the IBOR reform on hedging and hedge accounting is considered low.

For hedge accounting to be applied, future cash flows should be assessed to be highly probable. The IASB Board has issued an amendment to IAS39 which states that the IBOR reform has no impact on the highly probable assumption of future cash flows and therefore the hedge accounting process can be continued on the same basis. There is no impact prospectively.

The current hedge accounting model uses the EUR-EONIA marked to market curve which will be replaced in 2020. The hedged position of the bonds in this portfolio amounts to EUR 172 million as per 31 December 2019.

The retrospective assessment of the hedge accounting relationship is potentially impacted. The current issued amendment ensures that impact can only occur at time of implementation. Since NIBC discontinues and reassigns hedge accounting relationships on a monthly basis, the reform will not interrupt the standing process. The impact of the IBOR reform at time of implementation is expected to be low.

New and/or amended standards not yet endorsed

Accounting standard/ amendment/ interpretation	IASB effective date	Impact for NIBC
Amendment to IFRS 3 Business Combinations Revision of the definition of a business.	1 January, 2020	Under investigation
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	1 January, 2020	Under investigation

The not yet endorsed upcoming amendments are not expected to have a material effect on the consolidated financial statements.

Basis of consolidation

The consolidated financial statements are comprised of the financial statements of NIBC and its subsidiaries as at and for the years ended 31 December 2019 and 2018.

Subsidiaries

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

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

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

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

- another investor has the power over more than half of the voting rights by virtue of an agreement with the group; or
- another investor has the power to govern the financial and operating policies of the investee under a statute or an agreement; or

- another investor has the power to appoint or remove the majority of the members of the board of directors or equivalent governing body and the investee is controlled by that board or body; or
- another investor has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of that entity is by this board or body.

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

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

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

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

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

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

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

Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

Investment in associates and joint ventures
Associates are all entities over which the group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:
- Representation in the board of directors;
- Participation in the policymaking process;
- Interchange of managerial personnel.

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

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

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

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

Unrealised gains and losses resulting from transactions between the group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

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

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

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

Segment reporting

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

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

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

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

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

Financial instruments

Recognition and classification and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which NIBC commits to purchase or sell the asset.

On initial recognition, financial assets are classified as measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVtPL).

A debt instrument is measured at AC if it meets both of the following conditions:

- it is held within a business model that has an objective to hold financial assets to collect contractual cash flows;
- the contractual terms of the financial asset result in cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

A debt instrument is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset result in cash flows that are SPPI.

Equity instruments are accounted for at FVtPL. Other financial assets, not specifically mentioned above, are measured at FVtPL and consist of held for trading assets, assets mandatorily measured on a fair value basis and derivatives.

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

Business model assessment
NIBC determines the nature of the business model, for example if the objective is to hold the financial asset and collect the contractual cash flows, by considering the way in which the financial assets are managed to achieve a particular business objective as determined by management.

Financial assets that are held for trading or managed on a fair value basis are measured at FVtPL insofar as the associated business model is neither to hold the financial assets to collect contractual cash flows nor to hold to collect contractual cash flows and sell.

NIBC mainly originates loans to hold to maturity and in some cases (e.g. in underwriting) to sell or sub-participate to other parties, resulting in a transfer of substantially all the risks and rewards, and derecognition of the loan or portions of it. NIBC considers the activities of lending to hold and lending to sell or sub-participate as two separate business models, with financial assets within the former considered to be within a business model that has an objective to hold the assets to collect contractual cash flows, and those within the latter included in a trading portfolio.

Loans originated under originate to manage contracts for third parties are not recognised by NIBC after completion of their transfer.

NIBC decides to determine its business models at the combination of product and sector level, e.g., corporate loan facilities in the different sectors or residential mortgages in the Netherlands.

Contractual cash flow characteristics
In assessing whether the contractual cash flows are SPPI, NIBC considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument, which could affect whether the instrument is considered to meet the SPPI criteria.

The contractual provisions will pass the SPPI test as long as the interest/provisions reflects consideration for the time value of money, for the credit risk associated with the instrument during the term of the instrument and for other basic lending risks and costs, as well as profit.

A prepayment option which substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract, would result in contractual cash flows that are SPPI on the principal amount outstanding. This means that prepayment amounts will still meet the SPPI criteria even if it includes what is deemed reasonable and market conform for early compensation.

All financial instruments are initially measured at fair value. In the case of financial instruments subsequently measured at AC or FVOCI, the initial fair value is adjusted for directly attributable transaction costs.

After initial recognition, NIBC classifies measures and presents its financial assets and financial liabilities in accordance with IFRS 9 as described in the table on the following pages.

Financial assets classification	Significant items included	Measurement and presentation
Measured at AC	A debt financial asset is measured at AC if: o it is held in a business model that has an objective to hold assets to collect contractual cash flows; o the contractual terms give rise to cash flows that are SPPI. This classification includes: o cash and balances at central banks; o due from other banks; o corporate loans; o mortgage loans own book; o securitised mortgage loans; o fee and lease receivables.	Measured at AC using the effective interest rate (EIR) method less allowances for expected credit losses (ECL) The following items are recognised in the income statement: o Interest income; o ECL and reversals; o Foreign exchange translation gains and losses. Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments – when it is probable that NIBC will enter into a specific lending relationship – are deferred and amortised over the life of the loan using the EIR method. When the financial asset at AC is derecognised, the gain or loss is recognised in the income statement, under line item 'net gains or (losses) on derecognition of financial assets measured at amortised cost'

Financial assets classification		Significant items included	Measurement and presentation
Measured at FVOCI	Debt Instruments measured at FVOCI	A debt financial asset is measured at FVOCI if: o it is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets; o the contractual terms give rise to cash flows that are SPPI. This classification includes debt securities from legacy portfolios for which the contractual cash flows meet the SPPI conditions, and debt securities held as high-quality liquid assets (HQLA).	Measured at fair value with unrealised gains and losses reported in OCI, net of applicable income taxes, until such investments are derecognised (when sold, collected or otherwise disposed). Upon derecognition, any accumulated balances in OCI are reclassified to the income statement and reported within Investment income. The following items are recognised in the income statement: o Interest income; o ECL and reversals; o Foreign exchange translation gains and losses. The amounts recognised in the income statement are determined on the same basis as for financial assets measured at AC.
Measured at FVtPL	Held for trading	Financial assets held for trading include: o all derivatives with a positive replacement value; o other financial assets acquired principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.	Measured at fair value with changes recognised in profit or loss. Upfront (closing) fees on financial assets measured at FVtPL are recognised in the income statement within Net fee income. Interest income from financial assets measured at FVtPL is included in Net interest income. Back-ended fees or other gains and or losses than above mentioned on financial assets (not held for trading) mandatory measured at FVtPL are recognised in the income statement within Net gains or (losses) from assets and liabilities at FVtPL.
	Mandatorily measured at FVtPL – Other	A financial asset is mandatorily measured at FVtPL if: o it is not held in a business model whose objective is to hold assets to collect contractual cash flows or to hold them to collect contractual cash flows and sell, and / or o the contractual terms give rise to cash flows that are not SPPI; and / or o it is not held for trading.	Back-ended fees or other gains or losses than above mentioned on financial assets held for trading mandatory measured at FVtPL are recognised in the income statement within Net trading income. The presentation of fair value changes on derivatives that are designated and effective as hedging instruments depends on the type of hedge relationship (refer to 'Derivative financial instruments and hedging' in this 'Accounting Policies' section). Financial assets held for trading and other financial assets mandatorily measured at FVtPL are presented under Financial assets at FVtPL.

Financial liabilities classification		Significant items included	Measurement and presentation
Measured at AC		The main classes of financial liabilities at AC include amounts o due to other banks; o deposits from (corporate and retail) customers; o own debt securities in issue under the European Medium Term Note programme; o Covered Bonds and debt securities in issue related to securitised mortgages.	Measured at AC using the EIR method. Upfront fees and direct costs relating to the issuance or origination of the liability are deferred and amortised over the life of the liability using the EIR method.
Measured at FVtPL	Held for trading	Financial liabilities held for trading include derivatives with a negative replacement value (including certain loan commitments) except those that are designated and effective hedging instruments	Measurement of financial liabilities classified at FVtPL follows the same principles as for financial assets classified at FVtPL, except that the movement in the fair value of the financial liability that is attributable to changes in NIBC's own credit risk is presented in OCI.
	Designated at FVtPL	The financial liabilities designated at FVtPL relate to the following balance sheet items: o own debt securities in issue; o own debt securities in issue structured; o subordinated liabilities (at FVtPL).	Financial liabilities measured at FVtPL are presented as Financial liabilities at fair value (including trading) and Subordinated financial liabilities at fair value. The presentation of fair value changes on derivatives differs depending on the type of hedge relationship (refer to 'Derivative financial instruments and hedging' in this 'Accounting Policies' section).

Derecognition, restructured and modified financial assets

When a counterparty is in financial difficulties or where default has already occurred, NIBC may restructure financial assets by providing concessions that would otherwise not be considered and that are outside of NIBC's normal risk appetite, such as preferential interest rates, extension of maturity and subordination. When a credit restructuring takes place, each case is considered individually and the counterparty is classified as defaulted until the loan is collected or written off, non-preferential conditions are granted that supersede the preferential conditions, or until the counterparty has recovered and the preferential conditions no longer exceed NIBC's risk appetite.

Concessions granted when there is no evidence of financial difficulties, or where changes to terms and conditions are within NIBC's usual risk appetite, are not considered to be a credit restructuring.

Modifications represent contract amendments that result in an alteration of future contractual cash flows and that can occur within NIBC's normal risk appetite or as part of a credit restructuring where a counterparty is in financial difficulties.

NIBC derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised in the income statement. If the new discounted present value is at least 10% different and greater than EUR 1 million from the original financial assets carrying value, NIBC considers the modification as substantial. Qualitative thresholds to decide whether a modification is substantial are change in currency or change in counterparty. Where the modification does not result in a derecognition, any difference between the modified contractual cash flows discounted at the original EIR and the existing gross carrying value of a financial asset is recognised in profit or loss as a modification gain or loss. Further, the subsequent SICR assessment is made by comparing the risk of default at the reporting date based on the modified contractual terms of the financial asset with the risk of default at initial recognition based on the original, unmodified contractual terms of the financial asset.

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) NIBC transfers substantially all the risks and rewards of ownership, or (ii) NIBC neither transfers nor retains substantially all the risks and rewards of ownership and NIBC has not retained control.

Fair value estimation
IFRS 13 requires for financial instruments and non-financial instruments that are measured at fair value in the balance sheet disclosure of each class of financial assets and liabilities within a three-level hierarchy, referring to the respective basis of fair value measurement as follows:
- Level 1 financial instruments - Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 financial instruments - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- Level 3 financial instruments - Inputs that are not based on observable market data (unobservable inputs).

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

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

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

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

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

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

See note 45 for an analysis of the fair values of financial instruments and further details as to how they are measured.

Recognition of day one profit or loss

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

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

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

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

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

Assets for which fair value approximates carrying amount

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

Fixed-rate financial instruments

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

See note 45 for the fair values of NIBC's financial instruments that are not carried at fair value in the balance sheet.

Offsetting

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

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

Collateral

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

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

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

Derivative financial instruments and hedging

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

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

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

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

Hedge accounting

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

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

NIBC discontinues hedge accounting prospectively when:

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

Fair value hedge

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

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

Portfolio fair value hedge

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

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

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

Micro fair value hedge

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

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

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

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

Cash flow hedge

Cash flow hedge accounting is applied to hedge the variability arising on expected future cash flows due to interest rate risk on loans at amortised cost with floating interest rates. As interest rates fluctuate, the future cash flows on these instruments also fluctuate. NIBC uses interest rate swaps to hedge the risk of such cash flow fluctuations. Cash flow hedges are always on portfolio level.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income as net result of hedging instruments. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement in net income from assets and liabilities at fair value through profit or loss.

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

Hedge effectiveness testing

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

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

Hedge ineffectiveness is recognised in the income statement in net income from assets and liabilities at fair value through profit or loss.

Sale and repurchase transactions

Securities sold subject to repurchase agreements (**Repos**) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks or other deposits as appropriate.

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

Expected credit losses (ECL)

NIBC recognises loss allowances for ECL on the following financial instruments that are not measured at FVtPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued;
- loan commitments issued.

No impairment loss is recognised on equity investments because they are classified at FVtPL.

Recognition of expected credit losses

ECL represents the difference between contractual cash flows and the actual cash flows NIBC expects to receive, discounted at the EIR. For loan commitments and other credit facilities in scope of ECL, expected cash shortfalls are determined by considering expected future drawdowns during the contractual life of the instruments.

ECL are recognised on the following basis:

- A maximum 12-month ECL are recognised from initial recognition, reflecting the portion of lifetime cash shortfalls that would result if a default occurs in the 12 months after the reporting date, weighted by the risk of a default occurring. Instruments in this category are referred to as instruments in stage 1. For instruments with a remaining maturity of less than 12 months, ECL are determined for this shorter period;
- Lifetime ECL are recognised if a significant increase in credit risk (**SICR**) is detected subsequent to the instrument's initial recognition, reflecting lifetime cash shortfalls that would result from all possible default events over the expected life of a financial instrument, weighted by the risk of a

default occurring. Instruments in this category are referred to as instruments in stage 2. The moment SICR is no longer observed, the instrument moves back to stage 1.
- Lifetime ECL are also recognised for credit-impaired financial instruments, referred to as instruments in stage 3. The IFRS 9 determination of whether an instrument is credit-impaired is based on the occurrence of one or more loss events with lifetime ECL derived by estimating expected cash flows based on a chosen recovery strategy with additional consideration given to forward-looking economic scenarios. Credit-impaired exposures may include positions for which no loss has occurred or no allowance has been recognised, because they are expected to be fully recoverable through the collateral held. For clarity and alignment the definition of credit-impaired, stage 3 and defaulted were fully aligned. So a defaulted loan is by definition considered credit-impaired in the Capital Requirements Regulation in combination with further guidance and clarification on this definition provided by European Banking Authority.
- Changes in lifetime ECL since initial recognition are also recognised for assets that are purchased or originated credit impaired financial assets (**POCI**). POCI are initially recognised at fair value with interest income subsequently being recognised based on a credit-adjusted EIR. POCI include financial instruments that are newly recognised following a substantial restructuring and remain a separate ECL-category until maturity.

NIBC applies the low credit risk exemption for part of the debt investments, being the liquidity portfolio. NIBC considers a debt investment to have low credit risk when their credit risk rating is equivalent to the definition of 'investment grade'.

NIBC has a portfolio of lease receivables. NIBC elected to apply the general, not the simplified, ECL approach for lease receivables.

ECL are recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at AC on the balance sheet. For financial assets measured at FVOCI, the carrying value is not reduced, but an accumulated amount is recognised in OCI.

For off-balance sheet financial instruments and other credit lines not recognised (i.e. related to undrawn positions), provisions for ECL are reported in **Provisions**. ECL are recognised within the income statement in **Credit loss expense / recovery.**

Default and credit impairment
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:
1. NIBC considers that the obligor is unlikely to pay its credit obligations in full, without recourse by NIBC to actions such as realising security (if held).
2. The obligor is past due more than 90 days on any material credit obligation to the Group.

An instrument is classified as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
1. significant financial difficulty of the issuer or the client;
2. a breach of contract, such as a default or past due event;
3. NIBC, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the client a concession(s) that NIBC would not otherwise consider;
4. it is becoming probable that the client will enter bankruptcy or other financial reorganisation;
5. the disappearance of an active market for that financial asset because of financial difficulties; or

6. the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Once a financial asset is classified as defaulted / credit-impaired (except POCIs), it remains as such unless all past due amounts have been rectified, additional payments have been made on time, the position is not classified as credit-restructured, and there is general evidence of credit recovery.

Interest revenue on financial assets that are not credit impaired (i.e., in stages 1 and 2) is calculated by applying the effective interest rate to the gross carrying amount of the asset. Once a financial asset is credit impaired, interest revenue is calculated by applying the effective interest rate to the amortised cost of the financial asset, i.e., the gross carrying amount less the expected credit losses. If a financial asset 'cures', so that it is transferred back to stage 2 or stage 1, interest revenue is again recognised based on the gross carrying amount. The adjustment required to bring the loss allowance to the amount required is presented as a Credit loss recovery in the consolidated income statement instead of under Net interest income.

Write-off

A write-off is made when all or part of a financial asset is deemed uncollectible or forgiven (e.g. in cases of bankruptcy or distressed restructuring). Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses. Recoveries, in part or in full, of amounts previously written off are credited to *Credit loss expense / recovery*. Write-offs and partial write-offs represent derecognition / partial derecognition events.

Measurement of ECL

NIBC calculates ECL's based on three probability-weighted scenarios (baseline, upturn and downturn) to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to NIBC in accordance with the contract and the cash flows that NIBC expects to receive.

The 12-month ECL (**12M-ECL**) and the Lifetime ECL (**LT-ECL**) represent the expected credit losses that result from all possible default events over the next 12 months and the expected remaining life of the instrument respectively. 12M-ECL and LT-ECL are calculated as a probability weighted-average over the three macroeconomic scenarios and are based on the unbiased and point-in-time estimates of Probability of Default (PIT-PD), Loss Given Default (PIT-LGD) and Exposure at Default (PIT-EAD).

Credit losses and reversals are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The measurement of the ECL is summarised as follows:

ECL	Measurement
Stage 1	The 12M-ECL is calculated as the portion of LT-ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months or a shorter period if applicable after the reporting date. NIBC calculates the 12M-ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
Stage 2	When a loan has shown a SICR since origination, NIBC records an allowance for the LT-ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but ECL calculations are summed over the lifetime of the instrument. The expected cash shortfalls

	are discounted by an approximation to the original EIR. The EIR calculation for the corporate exposures comprises of the current base rate plus an add-on. This rate is fixed to discount the cash-flows over the remaining life of the loan until its legal maturity. This rate applies to all financial instruments, including undrawn loan commitments and financial guarantees. The EIR calculation for retail mortgage loans is based on the current coupon rate. The rate is fixed over the remaining life of the loan until its contractual maturity date.
Stage 3	For loans considered credit-impaired, NIBC recognises the LT-ECL, based on facility level individual cash flow estimates determined by Restructuring & Distressed Assets (RDA). RDA applies at least three scenarios (unless it is 100% impaired) and assigns probabilities to each of these scenarios. Focus is on recovery of the client, while in parallel an enforcement strategy, a loan trade or sale of the company are considered as alternative scenarios. The method is conceptually similar to that for Stage 2 assets, but requires an individual assessment. For the purpose of impairment calculation, the EIR is approximated by the sum of the applicable swap curve plus the original contractual margin.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. NIBC only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.
Loan commitments and letters of credit	When estimating LT-ECLs for undrawn loan commitments, NIBC estimates the expected portion of the loan commitment that will be drawn down over its contractual life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments relating to revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For fully undrawn loan commitments and letters of credit, the ECL is recognised within *Provisions*.
Financial guarantee contracts	NIBC's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, NIBC estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within *Provisions*.

Both 12M-ECL and LT-ECL are calculated on an individual basis.

Movements of the financial instruments between the different stages due to changed credit risk profiles are disclosed in the movement schedules in the notes to these consolidated financial statements. Movements between changes or credit loss allowances, caused by eventual changes in the models or in the input parameters used, are disclosed as separate items in these movement schedules.

Scenarios and scenario weights

The determination of the probability weighted ECL requires evaluating a range of relevant future economic conditions. To accommodate this requirement, NIBC uses three different macroeconomic scenarios in the ECL calculation: a baseline, an upturn and a downturn scenario. Each scenario is represented by a specific scenario narrative, scenario probability and a set of macroeconomic factors. A weight is computed for each scenario by using a probabilistic econometric model that considers recent information as well as several decades of historical data. The determined weights constitute the probabilities that the respective macroeconomic developments will occur. The scenarios, including the narratives, the macroeconomic forecasts and the scenario weights, are further discussed, challenged and potentially refined by a team of NIBC-internal experts. The baseline scenario is aligned to the economic and market assumptions used for NIBC business planning purposes.

Economic scenarios and weights applied

ECL scenario	**Assigned weights in %**
Upturn	30.0
Baseline	32.5
Downturn	37.5

Macro-economic and other factors

The range of macroeconomic, market and other factors that is modelled as part of the scenario determination is wide, and historical information is used to support the identification of the key factors. As the forecast horizon increases, the availability of information decreases and judgment increases. The macroeconomic forecast has an influence on PDs only during the first 5 years. During years 6-10 the model applies reversion to the mean (i.e. the Point-in-Time (PiT) PD converges with the Through-the-Cycle (TTC) PD) and after year 11 the PDs are influenced only by the TTC matrix. The forward-looking macroeconomic assumptions used in the ECL calculation are derived from Moody's Data Buffet. NIBC has identified different segments to allow for specific risks and forecasts to be incorporated in the macroeconomic scenarios. The segments include:

- Corporate General;
- Corporate Offshore Energy;
- Corporate Shipping; and
- Retail.

The following table discloses the macro-economic variables for the period 2019-2021 used in the ECL calculation:

Macro-economic variables in percentages for the period 2019-2021	**Baseline**	**Downturn**	**Upturn**
NL House Price Index (y-o-y change)	6.72%	6.38%	6.95%
DE House Price Index (y-o-y change)	6.78%	6.28%	7.62%
NL GDP (y-o-y change)	1.65%	0.96%	2.07%
GB GDP (y-o-y change)	1.20%	0.48%	2.14%
DE GDP (y-o-y change)	0.99%	0.44%	1.72%
EU GDP (y-o-y change)	1.44%	0.75%	2.04%
Crude Oil WTI ($ per barrel)	60.16	59.29	63.14

Scenarios and weights are updated semi-annually and submitted for approval to the *Asset & Liability Committee* (**ALCO**) of NIBC.

ECL Measurement period

The maximum period for which the ECL are determined is the contractual life of a financial instrument unless NIBC has the legal right to call it earlier. For revolving facilities the ECL are measured over the period NIBC is exposed to credit risk.

Significant increase in credit risk (SICR)

Financial instruments subject to ECL are monitored on an ongoing basis which includes an assessment whether SICR has occurred. The assessment criteria include both quantitative and qualitative factors. Qualitative factors are forbearance measures, Watch List and/or managed by RDA and the quantitative factor is increase in PD since initial recognition.

The following table discloses the SICR triggers for the three major asset classes subject to ECL determination ('Yes' refers to the trigger being present, and 'RMS' refers to the Rating Monitoring System):

SICR trigger	Corporate loans	Residential mortgage loans	Debt investments
Significant change in lifetime PD since initial recognition	Yes, threshold is a number of notches downgrade (between 1 and 7 notches downgrade depending on the rating at initial recognition).	Yes, threshold is an increase of 30% of lifetime PD.	Yes, based on 3 notch change in external rating, to a rating below Investment Grade (<BBB-).
Facility is forborne	Yes	Yes	Yes
Client is on the Watch List or Trigger List (Debt Investments)	As determined in RMS by applying Watch List triggers.	n/a	Individually assessed, apply trigger criteria.
Client is transferred to RDA (not yet defaulted)	Yes, determined by managing department in RMS.	n/a	n/a
Facility is 30 days past due (unless rebutted)	Yes, indirectly as it is a Watch List trigger. Materiality threshold is set at 1% of the exposure with a minimum of € 500.	Yes (1 month arrear)	Yes
Fraud indicator	Yes, indirectly as it is a Watch List trigger.	Yes	n/a

The following table discloses the SICR trigger for Corporate loans following significant change in lifetime PD since initial recognition. The PD rating corporate loans are scaled over 22 notches.

PD Rating Corporate Loans	SICR Trigger determined by number of notches downgrade	Remark
1	-7	
2+	-6	
2	-5	
2-	-4	
3+ to and including 4	-3	
4- to and including 6-	-2	
7+ to and including 7-	-1	
8	not applicable	a downgrade will lead to a default rating and per definition to stage 3
9 and 10	not applicable	rating 9 and 10 are per definition stage 3

As soon as the payment in arrear has been resolved or settled and no other impairment trigger is applicable, the borrower can become non-defaulted again after a probation period of at least three months in case all arrears have been cured by payments. However, if the defaults are resolved by agreeing an amendment (restructuring) a longer probation period applies of at least one year. The forbearance probation period is two years.

Impairment of non-financial assets

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

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

There were no impairments on non-financial assets in the years 2019 and 2018.

Intangible assets

Goodwill

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

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

Trademarks and licences

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

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

Customer relationships

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

Impairment of intangible assets

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

Tangible assets

Property (land and buildings) and equipment

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

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

Increases in the carrying amount arising from revaluation of land and buildings are credited to other reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Depreciation
Buildings	30 - 50 years
Machinery	4 - 10 years
Furniture, fittings and equipment	3 - 10 years
Right-of-use assets: Offices	5 - 20 years
Assets under operating leases	1 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes or sale in the ordinary course of business.

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in the income statement.

Where the group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gains or (losses) from assets and liabilities at fair value through profit or loss.

Leases

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts that contain both lease components and non-lease components, such as a maintenance services, NIBC allocates the consideration payable on the basis of the relative stand-alone prices, which are estimated if observable prices are not readily available.

A group company is the lessee

Upon lease commencement NIBC recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, comprising:

- the amount of the initial measurement of the lease liability,
- lease payments made at or before the commencement date of the lease contract, less lease incentives received;
- initial direct costs; and
- an estimate of costs to be incurred by NIBC in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. NIBC incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, NIBC uses its incremental borrowing rate.

NIBC classifies the right-of-use assets as part of "Property and Equipment", and subsequently applies

- the impairment requirements from IAS 36, and
- the depreciation requirements from IAS 16.

The lease liability is subsequently remeasured to reflect changes in:

- the lease term (using a revised discount rate);
- the assessment of a purchase option (using a revised discount rate);
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); or
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The remeasurements are treated as adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are to be treated as separate leases.

The right-of-use assets are presented within the note 'Property and equipment', and the lease liabilities are presented within the note 'Accruals, deferred income and other liabilities'.

NIBC applies the following practical expedients;

- short-term leases (no right-of-use assets and lease liabilities are recognised for lease terms of 12 months or less at commencement date),
- low value assets (this includes, leases for which the underlying assets have a value lower or equal to EUR 5,000; leases leading to recognition of a Right-of-Use asset lower or equal to EUR 10,000; leases of similar underlying assets (like e.g. printers) leading to a total Right-of-Use asset of lower or equal to EUR 50,000, or leases of a group of assets whereby the costs and benefits of RoU asset recognition do not justify the reporting requirements).

Lease payments for assets falling under these practical expedients are recognised directly in operating expenses. The total lease expenses for these assets are separately disclosed in the notes.

A group company is the lessor
NIBC classifies each lease as an operating lease or a finance lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

NIBC's subsidiary Beequip B.V. primarily focuses on finance leases of used equipment, mainly for small and medium enterprises in the sectors infrastructure, earth-moving construction and logistics sector.

When assets are held subject to an operating lease, the assets are included in assets held under operating leases under property and equipment.

Rental income from operating leases from portfolio of German Residential and Commercial property managed by NIBC is recognised in other operating income on a straight line basis over the lease term net of discounts and other deductions.

Financial guarantees

In the ordinary course of business, NIBC issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received and subsequently measured at the higher of the amount of the loss allowance; and the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15. Any increase in the liability relating to financial guarantees is recorded in the income statement in credit loss expenses. The premium received is recognised in the income statement in fee and commission income on a straight line basis over the life of the guarantee.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks and net credit balances on current accounts with other banks.

Cash balances are measured at face value while bank balances are measured at cost.

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

When an operation is classified as a discontinued operation, if material, the comparative income statement and cash flow statement are represented as if the operation had been discontinued from the start of the comparative period.

Provisions

Provisions contains:

- ECL allowances for off-balance sheet financial instruments;
- Restructuring and/or reorganisation provisions;
- Employee benefits;
- Other provisions.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be remote.

Provisions are measured at the present value of the expected required expenditure to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Provisions are presented under other liabilities.

Contingent liabilities, if applicable, are not recognised in the financial statements but are disclosed, unless they are remote.

ECL allowances for off-balance sheet financial instruments
For off-balance sheet financial instruments and other credit lines not recognised (i.e. related to undrawn positions), provisions for ECL are reported in Provisions. ECL are recognised within the income statement in Credit loss expense / recovery.

Restructuring and/or reorganisation provisions
Provisions for restructuring costs and legal claims are recognised when:

- The group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation;
- The amount has been reliably estimated.

A constructive obligation to restructure arises only when the group has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken;
- when the plan will be implemented; and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The group does not recognise provisions for projected future operating losses.

Employee benefits
Pension benefits
NIBC operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to NIBC by the employees and is recorded as an expense under personnel expenses and share-based payments. Unpaid contributions are recorded as a liability. NIBC does not operate a defined benefit plan.

Termination benefits
NIBC recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured

based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Share-based compensation
NIBC operates both equity-settled and cash-settled share-based compensation plans.

Equity-settled transactions
The group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the group. The fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares or options granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions;
- Excluding the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, NIBC revises its estimates of the number of shares or options that are expected to vest based on the non-market vesting conditions. NIBC recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied. Similarly, awards of equity instruments with non-vesting conditions are treated as vesting if all vesting conditions that are not market conditions are met, irrespective of whether the non-vesting conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised in personnel expenses is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either NIBC or the counterparty are not met.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Cash-settled transactions
For the cash-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of share-based compensation is recognised as a liability. The liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in the income statement in personnel expenses. The social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Profit-sharing and bonus plans

A liability is recognised for cash-settled bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to our shareholder after certain adjustments. NIBC recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Accruals, deferred income and other liabilities

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholder's equity (other comprehensive income), in which case it is recognised in shareholder's equity (other comprehensive income).

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates (and laws) enacted or substantially enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when NIBC intends to settle on a net basis and a legal right of offset exists.

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NIBC's principal temporary differences arise from the revaluation of certain financial assets and liabilities including derivative contracts, the depreciation of property and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to the fair value remeasurement of available for sale investments and cash flow hedges, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred gain or loss is recognised in the income statement.

Equity

Share capital
Shares are classified as equity when there is not a contractual obligation to transfer cash or other financial assets.

Capital securities
As there is no formal obligation to (re)pay the principal or to pay a dividend the capital securities are recognised as equity and dividends paid on capital securities are recognised directly in equity.

Issue costs of shares and capital securities
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and capital securities
Dividends on ordinary shares and capital securities are recognised as a liability in the period that the obligation for payment has been established, being in the period in which they are approved by the shareholder.

Revenue recognition
As detailed in the sub-sections below, NIBC recognises the revenue on financial instruments in:
- net interest income;
- investment income;
- net trading income;
- net gains or (losses) from assets and liabilities at FVtPL;
- net gains or (losses) on derecognition of financial assets measured at AC

in accordance with IFRS 9 Financial Instruments.

In accordance with IFRS 16 Leases, revenue from finance lease contracts are included in interest income and revenue from operating lease contracts in other operating income.

NIBC recognises revenue in relation to:
- net fee income;
- other operating income,

in accordance with IFRS 15 Revenue from Contracts with Customers, when (or as) a performance obligation is satisfied by transferring a promised service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of NIBC's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within NIBC.

Net interest income
Interest income and expense from financial instruments measured at AC and FVOCI are recognised in the income statement applying the EIR method. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the AC of a financial liability, based on estimated future cash flows that take into account all contractual cash flows. However, when a financial asset becomes credit-impaired after initial

recognition, interest income is determined by applying EIR to the net carrying amount of the instrument. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the AC of the instrument.

Penalty interest is directly recognised under interest income in case of early redemption ((partly) derecognition of the related financial instrument). Penalty interest is directly recognised under interest income in case of an interest reset.

Interest income from financial assets measured at FVtPL is recognised applying the contractual interest rates. Deviations between the contractual interest rates and the prevailing market rates of interest for a similar instrument (e.g. caused by performance related fees) are recognised in *Net gains or (losses) from assets and liabilities at FVtPL*.

Interest income on financial instruments measured at AC and financial assets measured at FVOCI are presented separately within *Interest income from financial instruments measured at AC and FVOCI and Interest expense from financial instruments measured at AC,* with interest on financial instruments at FVtPL presented in *Interest income (or expense) from financial instruments measured at FVtPL*.

Net fee income

NIBC earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories:

- fees earned from services that are provided over a certain period of time, such as (originate to manage) asset or investment management,
- fees earned from point in time services such as underwriting and brokerage fees, structuring – and advisory fees, and performance linked fees from investment management activities.

Over time services

Fees earned from services that are provided over a certain period of time are recognised ratably over the service period provided the fees are not contingent on successfully meeting specified performance criteria that are beyond the control of NIBC (see measurement below).

Costs to fulfil over time services are recorded in the income statement immediately because such services are considered to be a series of services that are substantially the same from day to day and have the same pattern of transfer.

Point in time services

Fees earned from providing transaction-type services are recognised when the service has been completed provided such fees are not highly probable subject to refund or another contingency beyond the control of NIBC.

Measurement

Fee income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts, performance bonuses and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur. NIBC estimates an amount of variable consideration by using the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract).

In the following table the recognition of revenue under IFRS 15 per main fee revenue earned by NIBC is listed.

Fee revenue	Timing of satisfaction of performance obligation	Measuring progress toward complete satisfaction of a performance obligation
Investment management fees – Originate to manage asset management fees	The performance obligation is satisfied over time. The customer simultaneously receives and consumes the benefits proved by NIBC's performance as it performs.	Straight line over time as the service is provided.
Underwriting fees - Loan syndication fees	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Advisory fees	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Brokerage fees	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Structuring fees not IFRS 9 related such as setting up or advising in SPV structures	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Performance linked fees from asset or investment management activities	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.

Presentation of fee income and expense

Fee income and expense are presented gross on the face of the income statement.

Investment income

Investment income includes the following income items:

Gains less losses from financial assets

Realised gains or losses from debt investments previously recognised in other comprehensive income, and gains or losses from associates and equity investments at fair value through profit or loss and impairment losses on equity investments are recognised in the income statement as gains less losses from financial assets.

Dividend income

Dividends are recognised in the income statement when NIBC's right to receive payment is established.

Share in result of associates (equity method)

Share in result of associates includes gains and losses related to investments in associates (equity method).

Net trading income

Net trading income comprises:

- all gains and losses from financial assets held for trading, as well as
- realised gains and losses on financial liabilities held for trading, and
- foreign exchange gains and losses.

Net gains or (losses) from assets and liabilities at FVtPL.

Net gains or (losses) from assets and liabilities at FVtPL comprises

- all gains and losses from financial assets and financial liabilities measured at fair value through profit or loss,
- excluding those presented under
  - investment income,
  - net trading income, and
  - other comprehensive income (the results from movements in the fair value of financial liabilities that are attributable to changes in NIBC Holding's own credit risk).

Net gain or (losses) on derecognition of financial assets measured at AC

The line item Net gain or (losses) on derecognition of *financial* assets measured at AC includes the differences between the carrying value just before derecognition and total consideration received at the sale of a financial asset measured at AC.

Rental income

The group manages a portfolio of German Residential and Commercial Property. Rental income from operating leases from the German Residential and Commercial Property is recognised in income on a straight line basis over the lease term net of discounts and other deductions.

Statement of cash flows

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents that became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operating activities, including banking activities, investment activities and financing activities.
Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investing activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in and sales of subsidiaries and associates, property, plant and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures.

Fiduciary activities

NIBC acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets are excluded from these financial statements as they are not assets of the group. Related fee and commission income arising thereon is recognised under fee and commission income.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

NIBC Holding makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and judgements are principally made in the following areas:

- Fair value of certain financial instruments;
- Expected credit losses of financial instruments not measured at FVtPL;
- Income taxes, and
- Consolidation of structured entities.

Fair value of certain financial instruments

The fair value of financial instruments is determined based on quoted market prices in an active market or, where no active market exists, by using valuation techniques. In cases where valuation techniques are used, the fair values are estimated from market observable data, if available, or by using models. Where market-observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those who prepared them. All models are reviewed prior to use and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent possible, models use only observable data; however, in areas such as applicable credit spreads (both own credit spread and counterparty credit spreads), volatilities and correlations may require management to estimate inputs.

Changes in assumptions could affect the reported fair value of financial instruments. For the identification of assumptions used in the determination of fair value of financial instruments and for estimated sensitivity information for level 3 financial instruments, except for own liabilities (see note 45).

Own liabilities designated at fair value through profit or loss

At 31 December 2019, the fair value of these liabilities was estimated to be EUR 390 million (31 December 2018: EUR 483 million). This portfolio is designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:

- Financial liabilities at fair value through profit or loss: Own debt securities in issue;
- Financial liabilities at fair value through profit or loss: Debt securities in issue structured;
- Financial liabilities at fair value through profit or loss: Subordinated liabilities.

The portion of fair value changes on these liabilities designated at fair value through profit or loss during 2019 attributable to the movement in credit spreads as reported in notes 35, 36 and 41 reflects gross amounts, excluding pull-to-par and model refinement effects.

The bank estimates its own credit risk from market observable data such as NIBC senior unsecured issues, NIBC subordinated issues and secondary prices for its traded debt.

The valuation of all the above classes of financial liabilities designated at fair value through profit or loss is sensitive to the estimated credit spread used to discount future expected cash flows.

A 10 basis point change in the weighted average credit spread used to discount future expected cash flows would change the fair value of these own financial liabilities at 31 December 2019 by EUR 2 million (31 December 2018: EUR 2 million).

Valuation of corporate derivatives (credit valuation adjustment and debit valuation adjustment)

Credit Valuation Adjustments & Debit Valuation Adjustments (**CVAs and DVAs**) are incorporated into derivative valuations to reflect the risk of default of respectively the counterparty and NIBC. In essence, CVA represents an estimate of the discounted expected loss on an *Over The Counter* (**OTC**) derivative during the lifetime of a contract. DVA represents the estimate of the discounted expected loss from the counterparty's perspective. Both CVA and DVAs are applied to all OTC derivative contracts, except those that benefit from a strong collateral agreement where cash collateral is regularly exchanged, mitigating credit risk.

Fair value of equity investments

The group estimates the fair value of its equity investments using valuation models, and it applies the valuation principles set forth by the International Private Equity and Venture Capital Valuation Guidelines to the extent that these are consistent with IFRS 9.

On 31 December 2019, the fair value of this portfolio, reported as equity investments (including investments in associates) at fair value through profit or loss was estimated to be EUR 253 million (31 December 2018: EUR 187 million).

For the determination of the fair value of equity investments and for estimated sensitivity to key assumptions in the valuation, see note 45.

Expected credit losses (ECL) of financial instruments not measured at FVtPL

The calculation of ECL requires management to apply significant judgment and make estimates and assumptions that involve significant uncertainty at the time they are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. Reference is made to the corresponding notes for the nature and carrying amounts of the ECL of financial instruments not measured at FVtPL.

Determination of a significant increase of credit risk (SICR)

IFRS 9 does not include a definition of what constitutes SICR. NIBC assesses whether an SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment. More stringent criteria could significantly increase the number of instruments migrating to stage 2.

Scenarios, scenario weights and macroeconomic factors

ECL reflect an unbiased and probability-weighted amount, which NIBC determines by evaluating a range of possible outcomes. Management selects forward-looking scenarios and judges the suitability of respective weights to be applied. Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL.

The macroeconomic projections in the baseline scenario are the most important determinant of the final ECL amount. The combined impact of MES, applied to the corporate loan and mortgage loan portfolios, on the ECL is limited (1% of Stage 1 and Stage 2 ECL).

ECL measurement period

Lifetime ECL are determined based upon the contractual maturity of the transaction (other than revolving facilities), which significantly affects ECL. The ECL calculation is therefore sensitive to any extension of contractual maturities triggered by business decisions, customer behaviour or an increased number of stage 2 positions.

Modelling and management adjustments

A number of complex models have been developed or modified to calculate ECL. Internal counterparty rating changes, new or revised models and data may significantly affect ECL. Management adjustments, based on counterparty details, can be applicable to resolve technical issues in the processing of stage 1 and stage 2 ECL. The models are governed by NIBC's risk department, which aims to ensure independent verification.

Changes to the assumptions in the models are subject to approval by the *Risk Management Committee* (**RMC**) or ALCO of NIBC.

The following table presents the sensitivity of the loan portfolio to the different scenarios for ECL stages 1 and 2.

Scenario	Macro-economic variables	percentages/ price for the period 2019-2021	Unweighted ECL stages 1 and 2 (EUR mln)	Assigned weigths in %	Reported ECL stages 1 and 2 (EUR mln)
	NL House Price Index (y-o-y change)	6.95%			
	DE House Price Index (y-o-y change)	7.62%			
	NL GDP (y-o-y change)	2.07%			
Upside	GB GDP (y-o-y change)	2.14%	24	30.0%	
	DE GDP (y-o-y change)	1.72%			
	EU GDP (y-o-y change)	2.04%			
	Crude Oil WTI ($ per barrel)	63.14			
	NL House Price Index (y-o-y change)	6.72%			
	DE House Price Index (y-o-y change)	6.78%			
	NL GDP (y-o-y change)	1.65%			
Baseline	GB GDP (y-o-y change)	1.20%	26	32.5%	27
	DE GDP (y-o-y change)	0.99%			
	EU GDP (y-o-y change)	1.44%			
	Crude Oil WTI ($ per barrel)	60.16			
	NL House Price Index (y-o-y change)	6.38%			
	DE House Price Index (y-o-y change)	6.28%			
	NL GDP (y-o-y change)	0.96%			
Downside	GB GDP (y-o-y change)	0.48%	28	37.5%	
	DE GDP (y-o-y change)	0.44%			
	EU GDP (y-o-y change)	0.75%			
	Crude Oil WTI ($ per barrel)	59.29			

NIBC measures stage 3 ECL on an individual facility level based upon a weighted average of three scenarios using a baseline, an upside and a downside scenario. The forecasted cash flows for each scenario are estimated by the Restructuring & Distressed Assets (RDA) department. Accordingly, the assumptions applied are based upon an assessment of individual facilities by our internal experts and no collective credit risk model is applied. The ECL 3 is sensitive to the application of these assumptions.

The following table presents the sensitivity of the mortgage portfolio to the different scenarios for ECL stages 1 and 2.

Scenario	Macro-economic variables	percentages/ price for the period 2019-2021	Unweighted ECL stages 1 and 2 (EUR mln)	Assigned weigths in %	Reported ECL stages 1 and 2 (EUR mln)
Upside	NL House Price Index (y-o-y change)	6.95%	1	30.0%	
	DE House Price Index (y-o-y change)	7.62%			
Baseline	NL House Price Index (y-o-y change)	6.72%	1	32.5%	1
	DE House Price Index (y-o-y change)	6.78%			
Downside	NL House Price Index (y-o-y change)	6.38%	2	37.5%	
	DE House Price Index (y-o-y change)	6.28%			

Income taxes

Deferred tax assets are included only if it is probable that taxable profits will be realised in the near future against which these temporary differences can be offset. When determining future taxable profits, estimates are used since these are subject to uncertainty.

On 31 December 2019 there was a realistic expectation that sufficient taxable profits would be generated within the applicable periods for the recognised deferred tax asset based on internal (medium term) forecasts. The terms to maturity of the Dutch carry forward losses year-end 2019 varies between up to 6 years (EUR 82 million) and up to 8 years (EUR 168 million).

Consolidation of structured entities

The consolidation of structured entities is a critical estimate that requires judgement and is described in note 53.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Segment report

Segment information is presented in these consolidated financial statements on the same basis as used for internal management reporting within NIBC. Segment reporting puts forth a presentation of the segment results based on management reporting methods and a reconciliation between the results of the operating segments and the consolidated financial statements. The Managing Board is the Group's chief operating decision-maker.

Operating segments

The operating segments are as follows:

Corporate client offering

Corporate client offering provides advice and debt, mezzanine and equity financing solutions to mid-sized companies and entrepreneurs in the Netherlands, Germany and the UK. Sectors in which NIBC is specialised are: Financial Sponsors, Fintech, Infrastructure, Life Sciences, Food Mobility and Manufacturing, Offshore Energy, Commercial Real Estate, Technology and Shipping.

Retail client offering

Retail client offering offers savings products and mortgages to consumers who are seeking to actively manage their financial objectives. Savings products are offered in the Netherlands, Germany and Belgium, and mortgages are offered in the Netherlands. We also offer brokerage services in Germany under our label 'NIBC Direct.'

Treasury and Group Functions

Treasury and Group functions includes the bank's treasury function, asset and liability management, risk management and the bank's Corporate Centre which includes HR & Corporate Communications, Internal Audit, Legal & Compliance, Sustainability, Operations & Facilities, Technology, and Finance, Tax & Strategy. A substantial part of the operating expenses as well as the full time equivalents of Group Functions are allocated to corporate and retail client offering.

No operating segments have been aggregated to form the above-mentioned segments. Transfer prices between operating segments are at an arm's length basis in a manner similar to transactions with third parties.

Certain financial assets and liabilities are not allocated to Corporate client offering and Retail client offering as they are managed on a group basis. These financial assets and liabilities are held within the segment Treasury and Group functions and mainly comprise cash, debt investments, derivative assets and liabilities as well as majority of the holding's funding. As the assets of Corporate client offering and Retail client offering are largely funded internally with transfer pricing, the majority of NIBC's external funding is held within Treasury and Group functions.

Inter-segment income and expenses are eliminated on consolidation level.

Reconciliation with consolidated income statement

The accounting policies of the segments are the same as those described in our Accounting Policies section.
NIBC operates in four geographical locations namely the Netherlands, Germany, the UK and Belgium. The income and expenses incurred at each location are disclosed in a separate table.

The following table presents the Segment report comprising to the consolidated results under IFRS for the years ended 31 December 2019 and 31 December 2018.

	For the year ended 31 December 2019			
in EUR millions	Corporate client offering	Retail client offering	Treasury & Group functions	Total (consolidated financial statements)
Net interest income	185	137	95	417
Net fee income	25	15	-	40
Investment income	60	-	-	60
Net trading income	5	-	-	5
Net gains or (losses) from assets and liabilities at fair value through profit or loss	1	-	-	1
Net gains or (losses) on derecognition of financial assets measured at amortised cost	(1)	-	-	(1)
Other operating income	-	-	2	2
Operating income	**274**	**152**	**97**	**524**
Other operating expenses[1]	112	59	43	214
Regulatory charges and levies	-	10	5	15
Operating expenses	**112**	**69**	**48**	**229**
Credit loss expense / (recovery)	53	(4)	-	49
Profit before tax	**109**	**87**	**49**	**246**
Tax	13	22	9	44
Profit after tax	**96**	**65**	**40**	**202**
Attributable to:				
Shareholders of the company				190
Holders of capital securities (non-controlling interests)				12
Total FTEs	465	144	58	667
EC Usage (start of the year)	759	266	245	1,270
Available capital (start of the year)				1,858
ROE (SBU based on EC Usage)	12.5%	24.6%		14.3%
ROE (on available capital)				10.2%
Cost/income ratio	41%	45%		44%
Segment assets	7,593	9,795	5,019	22,407
Return on assets	1.2%	0.7%		0.9%
Risk-weighted assets	6,811	1,204	582	8,597

1 Other operating expenses includes all operating expenses except regulatory charges and levies.

Income and expenses per country

	For the year ended 31 December 2019				
in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
Operating income	437	71	7	9	524
Operating expenses	186	33	7	3	229
Credit loss expense / (recovery)	25	24	-	-	49
Profit before tax	**226**	**14**	**-**	**6**	**246**
Tax	41	2	1	-	44
Profit after tax	**185**	**12**	**(1)**	**6**	**202**
FTEs	486	121	52	8	667

Operating income per sector per country

	For the year ended 31 December 2019				
in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
Corporate Client Offering					
Commercial Real Estate	29	-	-	-	29
Energy	13	-	-	-	13
Financial Sponsors & Leveraged Finance	20	15	2	-	37
Fintech & Structured Finance	13	10	-	-	23
Infrastructure	20	5	-	-	25
Mezzanine & Equity Partners	75	-	-	-	75
Mid Market Corporates	19	8	-	-	27
Shipping	28	-	-	-	28
Other Corporate Client Offering	16	1	-	-	17
Retail Client Offering	115	28	-	9	152
Treasury	89	4	5	-	98
	437	**71**	**7**	**9**	**524**

Net fee income per sector

	For the year ended 31 December 2019				
in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
Corporate Client Offering					
Commercial Real Estate	1	-	-	-	1
Energy	-	-	-	-	-
Financial Sponsors & Leveraged Finance	1	-	2	-	3
Fintech & Structured Finance	3	1	-	-	4
Infrastructure	1	-	-	-	1
Mezzanine & Equity Partners	2	-	-	-	2
Mid Market Corporates	1	-	-	-	1
Shipping	1	-	-	-	1
Other Corporate Client Offering	11	1	-	-	12
Retail Client Offering	15	-	-	-	15
Treasury	-	-	-	-	-
	36	**2**	**2**	**-**	**40**

	For the year ended 31 December 2018			
in EUR millions	Corporate client offering	Retail client offering	Treasury & Group functions	Total (consolidated financial statements)
Net interest income	202	130	101	432
Net fee income	40	11	-	51
Investment income	74	-	-	74
Net trading income	(6)	-	5	(1)
Net gains or (losses) from assets and liabilities at fair value through profit or loss	4	-	(10)	(6)
Net gains or (losses) on derecognition of financial assets measured at amortised cost	(2)	-	-	(2)
Other operating income	-	-	1	2
Operating income	**312**	**141**	**97**	**550**
Other operating expenses[1]	119	54	36	209
Regulatory charges and levies	-	9	6	15
Operating expenses	**119**	**63**	**41**	**224**
Credit loss expense / (recovery)	62	(8)	(1)	54
Profit before tax	**131**	**85**	**56**	**272**
Tax	15	22	(6)	31
Profit after tax	**116**	**63**	**62**	**241**
Attributable to:				
Shareholders of the company				229
Holders of capital securities (non-controlling interests)				12
Other non-controlling interests				-
Total FTEs	479	131	47	657
EC Usage (start of the year)	914	206	227	1,347
Available capital (start of the year)				1,738
ROE (SBU based on EC Usage)	12.7%	30.8%	29.3%	17.0%
ROE (on available capital)				13.2%
Cost/income ratio	38%	45%		41%
Segment assets	8,073	9,274	4,369	21,716
Return on assets	1.4%	0.7%	1.4%	1.1%
Risk-weighted assets	5,758	1,248	718	7,723

1 Other operating expenses includes all operating expenses except regulatory charges and levies.

Income and expenses per country

in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
	For the year ended 31 December 2018				
Operating income	450	76	15	9	550
Operating expenses	166	39	16	3	224
Credit loss expense / (recovery)	41	15	(2)	-	54
Profit before tax	**243**	**22**	**1**	**6**	**272**
Tax	27	3	1	-	31
Profit after tax	**221**	**19**	**1**	**6**	**241**
FTEs	538	82	32	5	657

Operating income per sector per country

in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
	For the year ended 31 December 2018				
Corporate Client Offering					
Commercial Real Estate	40	-	-	-	40
Energy	16	-	-	-	16
Financial Sponsors & Leveraged Finance	31	14	1	-	46
Fintech & Structured Finance	8	10	-	-	18
Infrastructure	13	5	4	-	22
Mezzanine & Equity Partners	65	-	5	-	70
Mid Market Corporates	11	5	-	-	16
Shipping	21	-	-	-	21
Other Corporate Client Offering	55	7	-	-	62
Retail Client Offering	104	29	-	9	142
Treasury	86	6	5	-	97
	450	**76**	**15**	**9**	**550**

Net fee income per sector

in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
	For the year ended 31 December 2018				
Corporate Client Offering					
Commercial Real Estate	2	-	-	-	2
Energy	1	-	-	-	1
Financial Sponsors & Leveraged Finance	2	-	1	-	3
Fintech & Structured Finance	2	2	-	-	4
Infrastructure	-	-	1	-	1
Mezzanine & Equity Partners	10	1	1	-	12
Mid Market Corporates	1	-	-	-	1
Shipping	-	-	-	-	-
Other Corporate Client Offering	13	3	-	-	16
Retail Client Offering	11	-	-	-	11
Treasury	-	-	-	-	-
	42	**6**	**3**	**-**	**51**

2 Net interest income

in EUR millions	2019	2018
Interest and similar income:		
Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income	585	590
Interest income from financial instruments measured at fair value through profit or loss	9	13
	594	**603**
Interest expense and similar charges:		
Interest expense from financial instruments measured at amortised cost	168	161
Interest expense from financial instruments measured at fair value through profit or loss	9	10
	177	**171**
	417	**432**

The development in 2019 net interest income compared to 2018 decreased with EUR 15 million to a level of EUR 417 million. The developments in the NIBC's segments are as follows:

- Net interest income of the Corporate client segment decreased by EUR 17 million to EUR 185 million, following only a minor decrease in the drawn portfolio. This result reflects NIBC's effort to rebalance the portfolio, in which reduction of exposure in specific sub portfolios is offset by growth in other, targeted product market combinations;
- In the Retail client segment, net interest income increased with EUR 7 million to EUR 137 million. This increase follows from the portfolio growth and hedge accounting, offset for a part by the decreased portfolio spread;
- The Treasury & Group functions report net interest income of EUR 95 million, an decrease of EUR 6 million.

Interest income includes negative interest from liabilities for an amount of EUR 21 million (2018: EUR 28 million).

For the year ended 31 December 2019, interest expense related to deposits from customers amounted to EUR 74 million (31 December 2018: EUR 88 million).

Interest expense includes negative interest from financial assets for an amount of EUR 48 million (2018: EUR 76 million).

3 Net fee income

in EUR millions	2019	2018
Fee income per segment and major service lines:		
Corporate client offering		
Investment management fees	7	15
Lending related fees	11	11
M&A fees	4	11
Brokerage fees	3	3
Fee income Corporate client offering	**25**	**40**
Retail client offering		
Originate-to-Manage	15	11
Fee income Retail client offering	**15**	**11**
Total fee income (from contracts with customers)	**40**	**51**
Fee expense:		
Other non-interest related fees	-	-
	-	**-**
	40	**51**

The decline of investment management fees from EUR 15 million in 2018 to EUR 7 million in 2019 was a result of lower performance fees for NIBC's fund management activities, due to the sale of a significant part of our fund investments end 2018.

In 2018, the M&A fees included a single deal of EUR 7 million relating the purchache of HSH Nordbank.

The increase in the originate-to-manage fees in the Retail client offering is the result of an increase in the originate-to-manage portfolio.

4 Investment income

in EUR millions	2019	2018
Share in result of associates and joint ventures accounted for using the equity method	5	-
Equity investments (fair value through profit or loss):		
Gains less losses from associates	21	75
Gains less losses from other equity investments	34	(1)
	60	**74**

Gains less losses from associates decreased from EUR 75 million to EUR 21 million, following the sale of two large portfolios of *NIBC European Infrastructure Fund* (**NEIF**), in 2018.

The increase in gains less losses from other equity investments from EUR 1 million loss to EUR 34 million gain is mainly caused by a positive revaluation in one of our Fintech investments.

5 Net trading income

in EUR millions	2019	2018
Financial instruments mandatory measured at fair value through profit or loss:		
Debt investments held for trading	1	(3)
Other assets and liabilities held for trading	4	3
Other net trading income	-	(1)
	5	**(1)**

Results in net trading income relate to trading assets and liabilities, and the associated fair value movements. The fair value movements are influenced by changes in market conditions, such as stock prices, interest rates and currency exchange rates.

6 Net gains or (losses) from assets and liabilities at fair value through profit or loss

in EUR millions	2019	2018
Financial instruments		
Financial instruments mandatory at fair value through profit or loss other than those included in net trading income:		
Debt securities	1	1
Derivatives held for hedge accounting		
Fair value hedges of interest rate risk	(7)	(6)
Cash flow hedges of interest rate risk	(1)	-
Interest rate instruments (economic hedge)	3	(1)
Loans	1	(5)
Other:		
Foreign exchange	4	5
	1	**(6)**

Fair value hedges of interest risk rate increased from a loss of EUR 6 million in 2018 to a loss of EUR 7 million in 2019 and can be attributed to a gain of EUR 129 million on the hedged items (2018: gain of EUR 21 million) and a loss of EUR 136 million on the hedging instruments (2018: loss of EUR 27 million).

Interest rate instruments (economic hedge) resulted in a gain of EUR 3 million (2018: a loss of EUR 1 million), mainly related to CVA adjustments and the Cross currency swaps.

Debt securities report a gain of EUR 1 million, related to repurchased securities (2018: EUR 1 million).

Loans report a gain of EUR 1 million, which includes EUR 9 million positive revaluations and EUR 8 negative revaluations, related to several corporate loans recorded at fair value.

Currency revaluations have led to a gain of EUR 4 million (2018: gain of EUR 5 million) on foreign exchange.

7 Net gains or (losses) on derecognition of financial assets measured at amortised cost

in EUR millions	2019	2018
Loans	(1)	(2)
	(1)	**(2)**

8 Other operating income

in EUR millions	2019	2018
Other operating income	2	2
	2	**2**

9 Personnel expenses and share-based payments

in EUR millions	2019	2018
Salaries[1]	78	80
Severance payments	7	-
Variable compensation:		
Cash bonuses	6	5
Share-based and deferred bonuses including expenses relating to previous years' grants	1	3
One-off retention package	1	5
Pension and other post-retirement charges:		
Defined-contribution plan	13	13
Other post-retirement charges/(releases) including own contributions of employees	(1)	(2)
Social security charges	8	8
Other staff expenses	2	1
	114	**113**

1 NIBC decided to reclassify costs of external advisors not yet considered as temporary staff - in 2018 amounting to approximately EUR 9 million - as part of salaries as from 2019. Therefore the comparable figures 2018 were changed accordingly

FTEs

The number of FTEs increased from 657 at 31 December 2018 to 667 at 31 December 2019. The average employed number of FTEs increased from 658 in 2018 to 659 in 2019. The number of FTEs employed outside of the Netherlands decreased from 119 at 31 December 2018 to 107 at 31 December 2019.

Salaries

Salaries in 2019 includes an amount of EUR 2.5 million for a one-off expense due to various staff changes in the organisational structure during 2019 (2018: EUR 4.3 million).

Severance payments

The decision to dismantle NIBC's capital markets activities will result in a reduction of 49 employees. The positive advise from the Work Council has been received on this restructuring in the beginning of 2020. NIBC's Social Protocol 2019, which specifies the redundancy compensation package, is applicable for all redundant employees. The total staff reduction costs provided for in this regard in 2019 amounts to EUR 7.3 million.

Variable compensation

The variable compensation in cash charged to the income statement increased in 2019 by EUR 1.0 million. The total amount of variable income paid in 2019, with respect to the performance over 2018, amounts to EUR 7.9 million. The decrease in variable compensation paid in 2019 in comparison with the amount paid in 2018 is due to the one-off retention package in April 2018 granted to members of the *Executive Committee* (**ExCo**). In 2019, partly as a consequence of the second tranche of the granted one-off retention package, three employees were awarded a total compensation of more than EUR 1 million (2018: six employees, as a consequence of the first tranche of the granted one-off retention package).

As per 23 March 2018, the date of the initial public offering of NIBC, a one-off retention package of in total EUR 5.4 million (gross) was granted to the six members of the ExCo. The net amount after income tax was invested in *Common Depositary Receipts* (**CDRs**) by the ExCo-members with a standard lock-up period of five years on 23 March 2018 (first tranche of 60%) and 23 March 2019 (second tranche of 40%) respectively. The first tranche has been unconditionally awarded to the ExCo members on the IPO date. The second tranche was unconditionally awarded to the ExCo-members on 23 March 2019.

As a consequence of the standard lock-up period of five years the ExCo-members are entitled to a fiscal discount of 18,5% of the share price at the investment date, i.e. on 23 March 2018 and on 23 March 2019 respectively. The one-off retention package related total fiscal discount that will be carried by NIBC amounts to EUR 0.6 million. The total expenses related to this one-off retention package amounts to EUR 0.6 million in 2019 (2018: 5.1 million).

Information on the pension charges is included in note 37 Provisions.

Information on the remuneration of the members of the Statutory Board and Supervisory Board can be found in note 54.

Expenses related to Statutory Board and Supervisory Board Remuneration

in EUR	2019	2018
The breakdown of the total remuneration of the Statutory Board is as follows:[1]		
Cash compensation (base salary)	2,075,828	2,025,000
Short-term incentive compensation (cash bonus)	124,550	121,500
Short-term incentive compensation (phantom share units)	124,550	121,500
One-off retention package	383,384	3,461,383
Vesting of prior years short-term deferred share awards compensation[2]	153,211	134,118
Pension costs	546,574	533,287
Other remuneration elements	135,454	267,642
	3,543,551	**6,664,430**

1 Statutory Board is equal to Managing Board.
2 Expensed through the income statement in the current year, related to remuneration in prior year(s).

As at 31 December 2019, current members of the Statutory Board held 349,237 *Common Depositary Receipts* (**CDRs**) (31 December 2018: 241,490). At the end of 2019 and 2018 the current members did not held any *Conditional Common Depositary Receipts* (**CCDRs**) nor any *Conditional Restricted Depositary Receipts* (**CRDRs**).

in EUR	2019	2018
Total remuneration of the Supervisory Board is as follows:		
Annual fixed fees, committee fees	491,195	535,833
Value added tax liable on Supervisory Board remuneration	66,555	53,945
	557,750	**589,778**

Components of variable compensation - NIBC Choice

NIBC Choice is NIBC's share-based and deferred compensation plan and governs all variable compensation components in the form of equity, equity-related and deferred cash compensation. In addition to this, variable compensation can consist of a discretionary short-term cash bonus. NIBC Choice is only open to management and employees and includes conditions relating to termination of employment or certain corporate events, such as restructurings, affecting the rights that would otherwise accrue to them.

The following table gives an overview of the different existing NIBC Choice instruments and their main characteristics:

NIBC Choice instrument	Share based	Equity/Cash-settled	Vesting conditions
Current outstanding instruments			
Common Depositary Receipt (CDR)	Yes	Equity-settled	None
CDRs awarded under one-off retention package ExCo	Yes	Equity-settled	1 year vesting
CDRs under Depositary Receipt Purchase Plan 2018 and 2019 (DRPP)	Yes	Equity-settled	None
Phantom Share Unit (PSU)	Yes	Cash-settled	None
Restricted Phantom Share Unit (RPSU)	Yes	Cash-settled	3 years pro rata vesting
Deferred cash	No	Cash-settled	3 years pro rata vesting
Former outstanding instruments			
Conditional Common Depositary Receipt (CCDR)	Yes	Equity-settled	None
Conditional Restricted Depositary Receipt (CRDR)	Yes	Equity-settled	4 years pro rata vesting

Depositary receipts

The *Depositary Receipts* (**DRs**), consisting of CDRs and RDRs, are issued by *Stichting Administratiekantoor NIBC* (**the Foundation**) in accordance with its relevant conditions of administration (administratievoorwaarden). Prior to the IPO the conditions of administration have been slightly adjusted to declare a generic lock-up period of six months for holders of DRs. The generic lock-up period of six months ended on 23 September 2018 (i.e. six months after the IPO).

The Foundation issues a DR for each ordinary share it holds in NIBC. The Foundation exercises the voting rights in respect of each of these ordinary shares at its own discretion, unless holders of DRs request a power of attorney from the Foundation to vote in respect of our ordinary shares, except for DRs obtained under the one-off retention package (ExCo) not entitled to the dividends and other distributions declared payable in respect of the underlying ordinary share.

Under the conditions of administration, the holders of DRs have pre-emption rights similar to other shareholders of NIBC, subject to the Foundation having been given pre-emptive rights. Consequently, when given these pre-emptive rights, the Foundation will exercise the pre-emption rights attached to the ordinary shares underlying the DRs if these holders so elect.

In 2009 a co-investment programme was introduced for Statutory Board members. Under this programme Statutory Board members were granted matching shares (CRDRs), subject to a four-year vesting period, on a net after-tax basis representing a 1:1 match to their personal investment in CDRs at that time. These matching shares will become fully unconditional and vest immediately upon change of control of NIBC. In December 2017 it was proposed by the Statutory Board and subsequently approved by the Remuneration and Nominating Committee and Supervisory Board to change the Plan Rules Variable Compensation (NIBC Choice) in order to allow delivery of DRs for outstanding CCDRs in lieu of the occurrence of a change of control of NIBC. Furthermore it was decided that all unvested CRDRs outstanding at 1 January 2018 vested immediately (accelerated vesting) into CCDRs. This applied to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members. Following this change of the Plan Rules 317,200 (net after tax basis) outstanding CCDRs were released into CDRs in January 2018.

As of 1 January 2015 a short-term variable income component at target of 15% of base salary (with a maximum of 20%) is applicable for Statutory Board members. The variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in PSUs and 20% in RPSUs.

One-off retention package ExCo members

On 23 March 2018, the date of the IPO, NIBC granted a retention package of DRs to the members of the ExCo. For Statutory Board members of the ExCo, the monetary value of the retention package was set at 180 per cent of their fixed annual gross salary. At that time the fixed annual gross salary was EUR 825,000 for the CEO and EUR 600,000 for each of the CFO and CRO, therefore the gross monetary value of the retention package was EUR 1,485,000 for the CEO and EUR 1,080,000 for each of the CFO and CRO. For non-statutory members of the ExCo, the monetary value of the retention package was set at 165 per cent of their fixed annual gross salary. The fixed annual gross salary for each of the non-statutory members of the ExCo was EUR 350,000 and therefore the gross monetary value of the retention package was EUR 577,500.

Under the one-off retention package, DRs were granted and will be vested for dividend eligibility in accordance with a predifined vesting schedule.

The number of DRs is calculated by converting the gross monetary amount of the retention package into the number of DRs corresponding to ordinary shares at the initial offering price of EUR 8.75. The number of DRs issued pursuant to the retention package awarded at the first anniversary of the IPO date was calculated by converting the gross monetary amount of the retention package into the number of DRs corresponding to the ordinary shares at the listed share price at 23 March 2019 of EUR 8.01. In addition, for a period of five years from the date of award, being either the IPO date or the first anniversary thereof, the members of the ExCo may not dispose of any DRs received pursuant to the retention package. The lock-up period cannot be waived and the retention package arrangement does not provide for any circumstances which may result in automatic waiver of the lock-up period. Following the expiry of the applicable lock-up period, the ExCo member (i) may request the Foundation to convert the DRs into ordinary shares and transfer the ordinary shares to a third party investment account; or (iii) may offer all or part of their entire holding of DRs for sale to the Foundation against cancellation of such DRs with the sale being settled in cash and the value of the cash payments being calculated by multiplying the number of DRs cancelled by the price of one ordinary share on Euronext Amsterdam as at the date of cancellation. After the lock-up period of five years, the underlying shares of the DRs will be delivered by the STAK to the personal securities accounts of the ExCo members or the underlying shares of the DRs will be sold on the stock exchange on behalf of the respective ExCo member.

The retention package is subject to the holdback and claw back provisions as set out in the remuneration policy of NIBC and as set out in article 2:135 of the Dutch Civil Code and article 1:126 and 1:127 of the Dutch Financial Supervision Act.

Depositary Receipts Purchase Plan (DRPP)

In view of the IPO at 23 March 2018 and at the first anniversary of the IPO in 2019 (for practical reasons set at 1 April 2019), all employees of NIBC (for 2018 including members of Statutory Board and other members of the Executive Committee) were offered an opportunity to participate in the DRPP to purchase CDRs in the company.

The ExCo and staff members of NIBC are entitled to a tax discount between 5.5 per cent and 18.5 per cent on the initial offering price at 23 March 2018 and the listed share price at 1 April 2019, corresponding with a lock-up period for disposal between one and five years. The related tax expense of EUR 0.1 million (2018: EUR 1.0 million) is borne by NIBC.

Phantom Share Units (PSUs) and Restricted Phantom Share Units (RPSUs)
The short-term compensation in share-related awards consists of PSUs and/or RPSUs. RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. All PSUs and RPSUs are subject to a one-year retention period as measured from the date of vesting. For the Statutory Board the lock-up period of the equity-linked instruments is five years. The RPSUs and PSUs have similar characteristics as the CRDR, such as eligibility for dividend and a value which is tied to movements in the net asset value of NIBC Holding, however RPSUs are not eligible for dividend. After the IPO the fair value is based on the listed share price of NIBC Holding. This short-term compensation can be converted into cash immediately after the retention period and therefore is recognised as cash-settled.

Share plans

Common Depositary Receipts

	Depositary Receipt (in numbers)		Fair value at balance sheet date (in EUR)	
	2019	2018	**2019**	2018
Balance at 1 January	**872,750**	**2,083,120**		
CDRs converted from CCDRs	-	317,200		
Sold CDRs on date of IPO	-	(1,649,976)		
Investments from own funds under DRPP 2019 and 2018	19,765	419,582		
Granted (one-off retention package, 1st tranche)	-	217,395		
Granted (one-off retention package, 2 nd tranche)	158,960	-		
Decertification CDRs in ordinary shares[1]	(43,604)	(514,571)		
Balance at 31 December	**1,007,871**	**872,750**	**7.52**	**8.31**
Of which relates to investment from own funds at 31 December	**395,743**	**419,582**		

1 (Former) employees of NIBC requested in 2019 and 2018 to transfer underlying ordinary shares of CDRs, not subject to any lock-up, to their own securities account.

Since the IPO at 23 March 2018 the fair value of CDRs is equal to the listed share price of NIBC Holding. The fair value at balance sheet date was EUR 7.52 (2018: EUR 8.31).

Conditional Common Depositary Receipts (CCDRs) and Conditional Restricted Depositary Receipts (CRDRs)
At year-end 2019 and 2018, no CCDRs and CRDRs are outstanding to current Statutory Board members.

In 2017 it was decided that all unvested CRDRs outstanding at 1 January 2018 will vest immediately (accelerated vesting) into CCDRs. This applied to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members.

According to the change of the Plan Rules in 2017, 317,200 (net after tax basis) outstanding CCDRs were released into CDRs in January 2018 of which 70,788 were held by current Statutory Board members.

	Conditional Common Depositary Receipts (in numbers)		Weighted average fair value at grant date (in EUR)	
	2019	2018	**2019**	2018
Changes in conditional common depositary receipts:				
Balance at 1 January	**-**	**287,905**	**-**	**9.06**
Vesting of one-off matching shares awarded in 2012 and 2014 on investment from own funds		14,138		8.28
Vesting of cancellation LTI arrangement in 2014		7,116		8.60
CCDRs from dividend compensation		8,041		10.32
CCDRs converted to CDRs		(317,200)		10.32
Balance at 31 December	**-**	**-**	**-**	**-**

	Conditional Restricted Depositary Receipts (in numbers)		Weighted average fair value at grant date (in EUR)	
	2019	2018	**2019**	2018
Changes in conditional restricted depositary receipts:				
Balance at 1 January	**-**	**21,254**	**-**	**8.39**
Vested into CCDRs		(21,254)		8.38
Balance at 31 December	**-**	**-**	**-**	**-**

Phantom Share Units

As at year-end 2019, 319,634 (2018: 330,511) PSUs had been issued to employees. The total outstanding position is cash-settled.

	Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2019[1]	2018	**2019**	2018
Changes in phantom share units:				
Balance at 1 January	**330,511**	**256,765**	**8.94**	**9.03**
Granted	96,922	144,387	7.52	8.31
Vesting of RPSUs	73,072	57,478	8.20	8.36
Exercised	(180,870)	(128,119)	8.16	8.15
Balance at 31 December	**319,635**	**330,511**	**8.78**	**8.94**

1 The number of (restricted) phantom share units of 2019 is calculated based upon the listed share price at 31 december 2019 (EUR 7.52). The number of (restricted) phantom share units that will be finally granted will be based upon the listed share price at 1 April 2020.

Since the IPO at 23 March 2018 the fair value of CDRs is equal to the listed share price of NIBC Holding. The fair value at balance sheet date was EUR 7.52 (2018: EUR 8.31).

Restricted Phantom Share Units
As at year end 2019, 248,432 (2018: 245,612) RPSUs had been issued to employees. The total outstanding position is cash-settled.

	Restricted Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2019[1]	2018	2019	2018
Changes in restricted phantom share units:				
Balance at 1 January	**245,612**	**206,150**	**9.02**	**9.14**
Granted	84,530	118,177	7.52	8.31
Vesting of RPSUs	(73,072)	(57,478)	8.20	8.36
Exercised	-	-	-	-
Forfeited	(8,638)	(21,237)	8.10	8.09
Balance at 31 December	**248,432**	**245,612**	**8.78**	**9.02**

1 The number of (restricted) phantom share units of 2019 is calculated based upon the listed share price at 31 december 2019 (EUR 7.52). The number of (restricted) phantom share units that will be finally granted will be based upon the listed share price at 1 April 2020.

Since the IPO at 23 March 2018 the fair value of (R)PSUs is equal to the share price of NIBC Holding. The fair value at balance sheet date was EUR 7.52 (2018: EUR 8.31).

Result recognition
With respect to all instruments relating to NIBC Choice (CDRs, CCDRs, CRDRs, PSUs, RPSUs and deferred cash), an amount of EUR 2 million was expensed through personnel expenses in 2019 (2018: EUR 8 million), of which nil (2018: EUR 2 million) refers to cash-settled instruments (deferred cash and vested PSUs) and EUR 2 million (2018: EUR 6 million) to equity-settled instruments (including fiscal discount borne by NIBC related to one-off retention package granted to the ExCo members in 2018 and the DRPP 2019 and 2018).

With respect to the cash-settled instruments (PSUs, RPSUs and deferred cash), the amount expensed during the vesting period through the income statement is based on the number of instruments originally granted outstanding at balance sheet date, their fair value at balance sheet date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period. The liability in the balance sheet with respect to cash-settled instruments is EUR 5 million (2018: EUR 5 million).

With respect to the equity-settled instruments (CDRs), the amount expensed during the vesting period through the income statement is based on the number of instruments granted outstanding at balance sheet date, their fair value at grant date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period. The liability in the balance sheet relating to the cumulative expenses with respect to equity-settled instruments is nil (2018: EUR 2 million).

The current account position with NIBC Holding includes a receivable related to the capital contribution paid to NIBC Bank in relation to the granted equity settled NIBC Holding's share-based instruments (NIBC Choice) by NIBC Holding. The share-based expenses are borne by NIBC Bank and the after payroll tax amounts were paid to the Foundation with subsequent delivery of CDRs and/or RDRs by the Foundation to the employees.

10 Other operating expenses

in EUR millions	2019	2018
Other operating expenses		
Building-, housing and services expenses	4	5
Car-, travel- and accommodation expenses	3	5
Project expenses and consultants[1]	17	23
Control and supervision	4	3
Corporate brand, brochures, (re-)presentation expenses	2	3
Other employee expenses	5	5
ICT expenses	28	16
Communication expenses	2	2
Data expenses	7	5
Process outsourcing	18	17
Other general expenses	(1)	3
Short-term lease expenses	1	-
Low-value assets lease expenses	1	-
Fees of auditors	4	4
	95	**91**

1 NIBC decided to reclassify costs of external advisors not yet considered as temporary staff - in 2018 amounting to approximately EUR 8 million - as part of salaries as from 2019. Therefore the comparable figures 2018 were changed accordingly.

The expenses relating to short-term leases include the expenses relating to leases with a lease term of twelve months or less.

ICT expenses are higher in 2019 due to transition related costs to the third-party outsourcing partner. In 2018 the project expenses and consultants included expenses related to Mifid II .

Fees of auditors 2019

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of auditors:				
Audit of financial statements NIBC	2,621	-	-	2,621
Audit of financial statements Subsidiaries	607	18	59	684
Other audit-related services NIBC	130	-	-	130
Other audit-related services Subsidiaries	-	-	126	126
Other non-audit related services NIBC	40	-	53	93
	3,398	**30**	**272**	**3,700**

Feesof auditors 2018

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of auditors:				
Audit of financial statements NIBC	2,500	-	-	2,500
Audit of financial statements Subsidiaries	524	361	95	980
Other audit-related services NIBC	103	-	2	105
Other audit-related services Subsidiaries	-	-	121	121
Other non-audit related services NIBC	-	-	37	37
	3,127	**361**	**255**	**3,743**

The fees listed above relate to the procedures applied to NIBC and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1(1) of the Dutch Audit Firms Supervision Act (Dutch acronym: Wta), as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

11 Depreciation and amortisation

in EUR millions	2019	2018
Property and equipment (in own use)	5	5
	5	**5**

12 Regulatory charges and levies

in EUR millions	2019	2018
Resolution levy	5	5
Deposit Guarantee Scheme	10	10
	15	**15**

13 Credit loss expenses / (recovery)

Financial assets

in EUR millions	2019	2018
Financial assets at amortised cost/fair value through other comprehensive income:		
Debt investments (see note 22)	-	(1)
Loans (see note 23)	43	63
Lease receivables (see note 24)	10	-
Mortgage loans (see note 25)	(4)	(9)
Other	-	1
Total for on-balance sheet financial assets (in scope of ECL requirements)	**49**	**54**
Off-balance sheet financial instruments and credit lines:		
Committed facilities with respect to mortgage loans (see note 25)	(1)	1
Irrevocable loan commitments (see note 37)	1	(1)
Total for off-balance sheet financial assets (in scope of ECL requirements)	**-**	**-**
	49	**54**

14 Tax

in EUR millions	2019	2018
Current tax	58	48
Deferred tax	(14)	(17)
	44	**31**

Further information on deferred tax is presented in note 31. The actual tax charge on NIBC's profit before tax differs from the theoretical amount that would arise using the basic tax rate, as follows:

in EUR millions	2019	2018
Tax reconciliation:		
Profit before tax	**246**	**272**
Tax calculated at the nominal Dutch corporate tax rate of 25.0% (2018: 25.0%)	58	68
Impact of income not subject to tax	(14)	(21)
Effect of different tax rates other countries	-	1
Actualisation including true-ups and revaluations	-	(17)
	44	**31**

The impact of income not subject to tax mainly relates to income from equity investments and investments in associates and joint ventures, in which NIBC has a stake of more than 5%, being income that is tax exempt under Dutch tax law.

This results in an effective tax rate of 17.8% for the year ended 31 December 2019 (for the year ended 31 December 2018: 11.3%).

NIBC Holding N.V. is the parent company of NIBC Bank N.V., NIBC Investments N.V. and NIBC Investment Management N.V., which are all part of the same fiscal entity.

15 Cash and balances with central banks

in EUR millions	2019	2018
Cash and balances with central banks (amortised cost)	1,965	2,056
	1,965	**2,056**
Cash and balances with central banks can be categorised as follows:		
Receivable on demand	1,806	1,896
Not receivable on demand	159	160
	1,965	**2,056**
Legal maturity analysis of cash and balances with central banks not receivable on demand:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	8	8
Longer than five years	-	-
Assets with central banks due to mandatory reserve deposits	151	152
	159	**160**

Cash and balances with central banks included EUR 1,632 million on the current account balance held with Dutch Central Bank (2018: EUR 1,502 million).

Balances held with central banks are interest-bearing.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of the underlying assets.

The total credit loss allowance for cash and balances with central banks is limited to stage 1, and amounts to nil (2018: nil).

16 Due from other banks

in EUR millions	2019	2018
Current accounts	497	413
Deposits with other banks	191	155
	688	**568**
Due from other banks can be categorised as follows:		
Receivable on demand	501	413
Cash collateral placements posted under CSA agreements	187	155
Not receivable on demand	-	-
	688	**568**

There were no subordinated loans outstanding due from other banks in 2019 and 2018.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of the underlying assets.

The total credit loss allowance for due from other banks is limited to stage 1, and amounts to nil (2018: nil).

17 Debt investments (fair value through profit or loss, including trading)

in EUR millions	2019	2018
Held for trading (mandatory fair value through profit or loss)	91	77
	91	**77**

The maximum exposure to credit risk for this financial asset amounts to EUR 91 million as per 31 December 2019 (2018: EUR 77 million).

18 Equity investments (fair value through profit or loss, including investments in associates)

in EUR millions	2019	2018
Investments in associates	128	92
Other equity investments	124	93
Long position in listed and actively traded equities	1	2
	253	**187**

in EUR millions	2019	2018
Movement schedule of investments in associates:		
Balance at 1 January	**92**	**246**
Additions	27	9
Disposals	(12)	(238)
Changes in fair value	21	75
Balance at 31 December	**128**	**92**
Movement schedule of other equity investments:		
Balance at 1 January	**93**	**75**
Additions	13	41
Disposals	(18)	(22)
Changes in fair value	34	(2)
Other (including exchange rate differences)	2	1
Balance at 31 December	**124**	**93**
Movement schedule of long position in listed and actively traded equities:		
Balance at 1 January	**2**	**2**
Additions	64	114
Disposals	(66)	(113)
Other (including exchange rate differences)	1	(1)
Balance at 31 December	**1**	**2**

At the end of 2019 and 2018, all investments in associates and other equity instruments were unlisted. Other disclosure requirements for associates are presented in note 52 Principal subsidiaries and associates.

Long positions in listed and actively traded equities consist of trading positions. Additions and disposals relate to trading activities at NIBC Markets.

19 Loans (fair value through profit or loss)

in EUR millions	2019	2018
Loans	142	148
	142	**148**
Legal maturity analysis of loans:		
Three months or less	4	1
Longer than three months but not longer than one year	20	31
Longer than one year but not longer than five years	96	93
Longer than five years	22	23
	142	**148**
Movement schedule of loans:		
Balance at 1 January	**148**	**99**
Additions	43	101
Disposals	(51)	(46)
Changes in fair value	1	(6)
Other (including exchange rate differences)	1	-
Balance at 31 December	**142**	**148**

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

The cumulative change in fair value included in the balance sheet amount (at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 20 million (2018: loss of EUR 21 million).

The portion of fair value changes in 2019 included in the balance sheet amount (at fair value through profit or loss) as at 31 December 2019 relating to the movement in credit spreads amounted to nil (2018: nil).

The maximum credit risk for this portfolio exposure including undrawn credit facilities amounted to EUR 188 million (2018: EUR 187 million).

The maximum exposure to credit risk without taking account of any collateral or other credit enhancement for this financial asset amounts to EUR 188 million as per 31 December 2019 (2018: EUR 187 million). This credit risk exposure is mitigated by the collateral held as security and other credit enhancements on these assets, for which the fair value amounts as per 31 December 2019 to EUR 142 million (2018: EUR 148 million).

The most significant types of collateral securing these loans are tangible assets, such as real estate, vessels, rigs and equipment.

20 Derivative financial instruments (fair value through profit or loss)

in EUR millions	2019	2018
Derivative financial assets:		
Derivative financial assets used for hedge accounting	6	14
Derivative financial assets - other	476	565
	482	**579**
Derivative financial liabilities:		
Derivative financial liabilities used for hedge accounting	4	6
Derivative financial liabilities - other	221	204
	225	**210**

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39. The derivatives financial assets and liabilities in the category 'other' are classified as held for trading.

Derivative financial assets used for hedge accouting are *settled to market* (**STM**). Derivative financial assets other are *Over The Counter* (**OTC**).

The derivatives consist of:
- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions;
- Limited money market trading.

Economically all these derivatives, with the exception of the limited money market trading and client-driven transactions, are used to hedge interest rate or FX risk. The limited money market trading is controlled by a facilitating VAR limit of EUR 2.25 million. For further details see note 57 Market risk (Key risk statistics Trading portfolio excluding NIBC Markets).

Derivatives used for hedging are asigned in a hedge accounting relationship and can be ineffective. Sources of ineffectiveness are the behaviour of the curve shift, the volatility of the basis spread over the curve and the distribution of cash flows of assets and liabilities compared to the hedging derivatives.

Derivative financial instruments used for hedge accounting

Hedge accounting - fair value hedges

The following table provides information about the hedging instruments included in the derivative financial instruments line items of NIBC's consolidated balance sheet.

	Carrying amount at 31 December 2019		Carrying amount at 31 December 2018	
in EUR millions	Assets	Liabilities	Assets	Liabilities
Micro fair value hedges:				
Interest rate swaps	4	-	5	-
	4	**-**	**5**	**-**
Portfolio fair value hedges:				
Interest rate swaps	2	4	9	6
	2	**4**	**9**	**6**

In the following table, NIBC sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the years.

		Carrying amount of hedged items at 31 December 2019		Accumulated amount of fair value adjustments on the hedged items at 31 December 2019	
in EUR millions	Hedged items	Assets	Liabilities	Assets	Liabilities
Micro fair value hedges:					
Micro fair value hedge of plain vanilla funding	Own debt securities in issue at AC	-	314	-	8
Micro fair value hedge of Liquidity portfolio debt investments	Debt investments at FVOCI	56	-	-	-
		56	**314**	**-**	**8**
Portfolio fair value hedges:					
Portfolio fair value hedge of loans	Loans at AC	52	-	7	-
Portfolio fair value hedge of plain vanilla funding	Own debt securities in issue at AC	-	53	-	11
Portfolio fair value hedge of assets and liabilities	Deposits from customers and Mortgage loans	1,898	1,704	184	12
		1,950	**1,757**	**191**	**23**
		2,006	**2,071**	**191**	**31**

in EUR millions	Hedged items	Carrying amount of hedged items at 31 December 2018		Accumulated amount of fair value adjustments on the hedged items at 31 December 2019	
		Assets	Liabilities	Assets	Liabilities
Micro fair value hedges:					
Micro fair value hedge of plain vanilla funding	Own debt securities in issue at AC	-	1,823	-	7
Micro fair value hedge of Liquidity portfolio debt investments	Debt investments at FVOCI	56	-	-	-
		56	**1,823**	**-**	**7**
Portfolio fair value hedges:					
Portfolio fair value hedge of loans	Loans at AC	54	-	7	-
Portfolio fair value hedge of plain vanilla funding	Own debt securities in issue at AC	-	70	-	12
Portfolio fair value hedge of assets and liabilities	Deposits from customers and Mortgage loans	1,793	333	43	(2)
		1,847	**403**	**50**	**10**
		1,903	**2,226**	**50**	**17**

The following table sets out the changes in the fair value of the hedged items and hedging instruments in the current year, used as the basis for recognising ineffectiveness.

in EUR millions	Gains/(losses) attributable to the hedged risk at 31 December 2019		Hedge ineffectiveness at 31 December 2019	Gains/(losses) attributable to the hedged risk at 31 December 2018		Hedge ineffectiveness at 31 December 2018
Hedged items (hedge instruments)	Hedged items	Hedging instruments		Hedged items	Hedging instruments	
Micro fair value hedge relationships hedging liabilities:						
Micro fair value hedge of plain vanilla funding (interest rate swaps)	(1)	3	2	(15)	11	(4)
	(1)	**3**	**2**	**(15)**	**11**	**(4)**
Total micro fair value hedge	**(1)**	**3**	**2**	**(15)**	**11**	**(4)**

in EUR millions	Gains/(losses) attributable to the hedged risk at 31 December 2019		Hedge ineffectiveness at 31 December 2019	Gains/(losses) attributable to the hedged risk at 31 December 2018		Hedge ineffectiveness at 31 December 2018
Hedged items (hedge instruments)	Hedged items	Hedging instruments		Hedged items	Hedging instruments	
Portfolio fair value hedges hedging assets:						
Portfolio fair value hedge of assets (interest rate swaps)	156	(147)	9	42	(35)	7
	156	**(147)**	**9**	**42**	**(35)**	**7**
Portfolio fair value hedges hedging liabilities:						
Portfolio fair value hedge of plain vanilla funding (interest rate swaps)	-	-	-	1	(1)	-
Portfolio fair value hedge of liabilities (interest rate swaps)	(12)	12	-	(1)	1	-
	(12)	**12**	**-**	**-**	**-**	**-**
Total portfolio fair value hedge	**144**	**(135)**	**9**	**42**	**(35)**	**7**

Hedge accounting - cash flow hedges

The following table sets out the outcome of NIBC's hedging strategy, in particular, the notional and the carrying amounts of the derivatives NIBC uses as hedging instruments and the their changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Hedge accounting - cash flow hedges at 31 December 2019

	Carrying value[1]		Changes in fair value of hedging instruments used for measuring hedge ineffectiveness			Reclassified into income statement as	
			In total	Effective portion	Hedge ineffectiveness		
in EUR millions	Assets	Liabilities		Recognised in OCI	Recognised in the income statement in gains or (losses) from assets and liabilities at FVtPL	Interest expense calculated using the effective interest method	Gains or (losses) from assets and liabilities at FVtPL
Cash flow hedges:							
Interest rate swaps	-	-	-	3	(3)	-	1
	-	**-**	**-**	**3**	**(3)**	**-**	**1**

1 The underlying hedged item of the cash flow hedges are corporate loans.

Hedge accounting - cash flow hedges at 31 December 2018

	Carrying value[1]		Changes in fair value of hedging instruments used for measuring hedge ineffectiveness			Reclassified into income statement as	
			In total	Effective portion	Hedge ineffectiveness		
in EUR millions	Assets	Liabilities		Recognised in OCI	Recognised in the income statement in gains or (losses) from assets and liabilities at FVtPL	Interest expense calculated using the effective interest method	Gains or (losses) from assets and liabilities at FVtPL
Cash flow hedges:							
Interest rate swaps	-	-	3	(2)	(1)	-	-
	-	**-**	**3**	**(2)**	**(1)**	**-**	**-**

1 The underlying hedged item of the cash flow hedges are corporate loans.

in EUR millions	Change in fair value of hedged item in the year 2019 used for ineffective-ness measure-ment	Cash flow hedge reserve at 31 December 2019: Conti-nuing hedges	Cash flow hedge reserve at 31 December 2019: Disconti-nued hedges	Change in fair value of hedged item in the year 2018 used for ineffective-ness measure-ment	Cash flow hedge reserve at 31 December 2018: Conti-nuing hedges	Cash flow hedge reserve at 31 December 2018: Disconti-nued hedges
Cash flow hedges:						
Floating rate notes	(3)	(9)	(12)	2	(7)	(19)
	(3)	**(9)**	**(12)**	**2**	**(7)**	**(19)**

Hedge accounting impact on equity

in EUR millions	2019	2018
Opening balance cash flow hedging reserve as at 1 January	**(26)**	**(40)**
Cash flow hedges:		
Effective portion of changes in fair value arising from:		
Cross currency interest rate swaps	-	-
Interest rate swaps	(3)	2
Net amount reclassified to profit or loss into		
Other interest expense	6	9
Gains or (losses) from assets and liabilities at FVtPL	2	3
Closing balance cash flow hedging reserve as at 31 December	**(21)**	**(26)**

At year end 2019 the cash flow hedge reserve consists of an amount of EUR 9 million (2018: EUR 7 million) relating to continuing hedges and an amount of EUR 12 million (2018: EUR 19 million) to hedging relationships for which hedge accounting is no longer applied.

Derivative financial instruments used for hedge accounting at 31 December 2019

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Carrying value: Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Average fixed rate	-	0%	1%	1%		
Interest rate swaps	-	23	3,602	3,625	2	4
	-	**23**	**3,619**	**3,642**	**6**	**4**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Average fixed rate	-	-	2%	2%		
Interest rate swaps	-	-	141	141	-	-
	-	**-**	**141**	**141**	**-**	**-**
Total derivatives used for hedge accounting	**-**	**23**	**3,760**	**3,783**	**6**	**4**

Derivative financial instruments used for hedge accounting at 31 December 2018

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Carrying value: Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Average fixed rate	-	2%	1%	1%		
Interest rate swaps	-	1,021	4,165	5,186	14	6
	-	**1,021**	**4,165**	**5,186**	**14**	**6**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Average fixed rate	-	-	2%	2%		
Interest rate swaps	-	-	156	156	-	-
	-	**-**	**156**	**156**	**-**	**-**
Total derivatives used for hedge accounting	**-**	**1,021**	**4,321**	**5,342**	**14**	**6**

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is 7 years (2018: six years).

Derivative financial instruments - other at 31 December 2019

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Carrying value: Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps[1]	911	2,843	12,853	16,607	439	66
Interest rate options (purchase)	-	67	623	690	1	-
Interest rate options (sale)	-	69	572	641	-	1
	911	**2,979**	**14,048**	**17,938**	**440**	**67**
Currency derivatives						
OTC products:						
Interest currency rate swaps	210	898	987	2,095	3	114
Currency/cross-currency swaps	241	-	-	241	2	5
	451	**898**	**987**	**2,336**	**5**	**119**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default swaps (guarantees given)	-	-	4	4	-	1
Credit default swaps (guarantees received)	-	-	40	40	-	34
Other swaps	-	-	-	-	31	-
	-	**-**	**44**	**44**	**31**	**35**
Total derivatives - other	**1,362**	**3,877**	**15,079**	**20,318**	**476**	**221**

1 The relatively significant notional amount of these derivatives can largely be explained conform past practice, when it used to be more beneficial to hedge interest rate risk by entering into a new swap position rather than to unwind existing swaps.

Derivative financial instruments - other at 31 December 2018

in EUR millions	Notional amount with remaining life of Less than three months	Between three months and one year	More than one year	Total	Carrying value Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps[1]	965	3,451	15,564	19,980	464	100
Interest rate options (purchase)	100	116	896	1,112	1	-
Interest rate options (sale)	100	38	853	991	-	-
	1,165	**3,605**	**17,313**	**22,083**	**465**	**100**
Currency derivatives						
OTC products:						
Interest currency rate swaps	264	770	1,616	2,650	68	66
Currency/cross-currency swaps	100	-	-	100	1	2
	364	**770**	**1,616**	**2,750**	**69**	**68**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default swaps (guarantees received)	-	-	4	4	-	1
Other swaps	-	-	40	40	31	35
	-	**-**	**44**	**44**	**31**	**36**
Total derivatives - other	**1,529**	**4,375**	**18,973**	**24,877**	**565**	**204**

1 The relatively significant notional amount of these derivatives can largely be explained conform past practice, when it used to be more beneficial to hedge interest rate risk by entering into a new swap position rather than to unwind existing swaps.

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is five years (2018: five years).

Fair value hedges of interest rate risk

The following table discloses the fair value of the swaps designated in fair value hedging relationships:

in EUR millions	2019	2018
Fair value pay - fixed swaps (hedging assets) | assets	-	-
Fair value pay - fixed swaps (hedging assets) | liabilities	(4)	(6)
	(4)	**(6)**
Fair value pay - floating swaps (hedging liabilities) | assets	5	14
Fair value pay - floating swaps (hedging liabilities) | liabilities	-	-
	5	**14**

Portfolio fair value hedge of plain vanilla funding

According to NIBC 's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by the *Asset & Liability Committee* (**ALCO**). Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2019 was nil (2018: EUR 7 million debit). The losses on the hedging instruments were nil (2018: loss of EUR 1 million). The gains on the hedged items attributable to the hedged risk were nil (2018: gain of EUR 1 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Portfolio fair value hedge of Assets & Liabilities
According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate asset and liability activities such as mortgages and retail deposits above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on these primarily fixed rate mortgages and retail deposits. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the assets and liabilities with a contractual duration longer than three months and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2019 was EUR 3 million credit (2018: EUR 1 million debit). The losses on the hedging instruments were EUR 137 million (2018: loss of EUR 34 million). The gains on the hedged items attributable to the hedged risk were EUR 144 million (2018: gain of EUR 41 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness and pipeline hedging. The pipeline consists of mortgage loans offered to customers but not yet have been accepted.

Micro fair value hedge of plain vanilla funding
According to NIBC 's hedging policy, NIBC should not be exposed to interest rate and foreign exchange risk from its fixed rate plain vanilla funding activities above certain limits prescribed by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2019 was EUR 4 million debit (2018: EUR 5 million debit). The gains on the hedging instruments were EUR 2 million (2018: gain of EUR 11 million). The losses on the hedged items attributable to the hedged risk were EUR 1 million (2018: loss of EUR 15 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Portfolio fair value hedge of loans
According to NIBC's hedging policy, NIBC should not be exposed to interest rate risk from its corporate loan activities above certain limits as set by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising from these fixed rate loans. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate loan and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these hedge relationships at 31 December 2019 was nil (2018: EUR 5 million credit). Gains on the hedging instruments were EUR 2 million (2018: gain of EUR 1 million). The losses on the hedged items attributable to the hedged risk were nil (2018: nil). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Micro fair value hedge accounting of the Liquidity portfolio debt investments
According to NIBC's hedging policy, NIBC should not be exposed to fair value interest rate risk from its fixed rate debt investments held in the Liquidity portfolios above certain limits prescribed by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate debt investments. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate debt investments and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2019 was nil. (2018: nil). The losses on the hedging instruments were nil (2018: nil). The gains on the hedged items attributable to the hedged risk were nil (2018: nil). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Cash flow hedges
NIBC has classified a large part of its corporate loans as loans and receivables at amortised cost. Therefore, variability in the cash flows of the floating rate corporate loans is accounted for in future periods, when the coupons are recorded in the income statement on an amortised cost basis. Interest rate swaps are used to hedge the floating cash flows of its floating corporate loans. These swaps are reported at fair value through profit or loss. This accounting mismatch creates volatility in the income statement of NIBC. Therefore NIBC applies hedge accounting on these positions. Hedge accounting is applied to all swaps that are used to hedge the cash flow risk of the floating corporate loans by defining a macro cash flow hedge relationship with the floating corporate loans.

The variability in interest cash flows arising on floating rate corporate loans is hedged on a portfolio basis with interest rate swaps that receive fixed and pay floating (generally one, three and six months floating rates). The highly probable cash flows being hedged relate both to the highly probable cash flows on outstanding corporate loans and to the future reinvestment of these cash flows. NIBC does not hedge the variability of future cash flows of corporate loans arising from changes in credit spreads.

Interest rate swaps with a net fair value of nil (2018: nil) were designated in a cash flow hedge relationship. The cash flow on the hedged item will be reported in income over the next six years. In 2019 the ineffectiveness recognised in the income statement that arose from cash flow hedges was a loss of EUR 3 million (2018: loss of EUR 1 million).

Some macro cash flow hedging relationships ceased to exist during 2019 and therefore the related cumulative hedge adjustment as from that date, is being amortised over the remaining contractual maturity of the hedged item.

The amount that was recognised in equity for the year 2019 was EUR 3 million credit (2018: EUR 2 million debit). The amount that was transferred from equity to the income statement in 2019 was a loss of EUR 6 million net of tax (2018: gain of EUR 12 million).

21 Debt investments (fair value through other comprehensive income)

in EUR millions	2019	2018
Debt investments	954	788
	954	**788**

For 2019, all debt investments are non-government, except for EUR 81 million (2018: EUR 39 million).

in EUR millions	2019	2018
Listed	954	775
Unlisted	-	13
	954	**788**
Legal maturity analysis of debt investments:		
Three months or less	15	19
Longer than three months but not longer than one year	133	75
Longer than one year but not longer than five years	709	645
Longer than five years	97	49
	954	**788**

The debt investments (FVOCI) relate to the liquidity portfolio for which the low credit risk exemption is applied.

There are no contractual amounts outstanding on debt investments that have been written off and are still subject to enforcement activity for 2019 and 2018.

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are in explained in note 55 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2019
Internal rating grade:					
Investment	951	-	-	-	951
Sub-investment	-	3	-	-	3
Sub-investment (highly vulnerable)	-	-	-	-	-
Default	-	-	-	-	-
	951	**3**	**-**	**-**	**954**

	Stage 1	Stage 2	Stage 3		
in EUR millions	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of carrying value debt investments:					
Balance at 1 January	**784**	**4**	**-**	**-**	**788**
New financial assets originated or purchased	388	-	-	-	388
Financial assets that have been derecognised	(229)	(1)	-	-	(230)
Changes in fair value	6	-	-	-	6
Foreign exchange and other movements	2	-	-	-	2
Balance at 31 December	**951**	**3**	**-**	**-**	**954**

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2018
Internal rating grade:					
Investment	784	-	-	-	784
Sub-investment (highly vulnerable)	-	4	-	-	4
	784	**4**	**-**	**-**	**788**

	Stage 1	Stage 2	Stage 3		
in EUR millions	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of carrying value debt investments:					
Balance at 1 January	**660**	**4**	**-**	**-**	**664**
New financial assets originated or purchased	391	-	-	-	391
Financial assets that have been derecognised	(263)	-	-	-	(263)
Changes in fair value	(6)	-	-	-	(6)
Foreign exchange and other movements	2	-	-	-	2
Balance at 31 December	**784**	**4**	**-**	**-**	**788**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of credit loss allowances on debt investments:					
Balance at 1 January	**1**	**-**	**-**	**-**	**1**
Movements with impact on credit loss allowances of financial assets in the income statement					
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognised	(1)	-	-	-	(1)
Movements with impact on credit loss allowances of financial assets in the income statement	**(1)**	**-**	**-**	**-**	**(1)**
Balance at 31 December	**-**	**-**	**-**	**-**	**-**

22 Debt investments (amortised cost)

in EUR millions	2019	2018
Debt investments	10	-
	10	**-**
Listed	10	-
Unlisted	-	-
	10	**-**
Legal maturity analysis of debt investments:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	-
Longer than five years	10	-
	10	**-**

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are explained in note 55 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2019
Internal rating grade:					
Investment	10	-	-	-	10
Sub-investment	-	-	-	-	-
Sub-investment (highly vulnerable)	-	-	-	-	-
Default	-	-	-	-	-
	10	**-**	**-**	**-**	**10**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of carrying value debt investments:					
Balance at 1 January	**-**	**-**	**-**	**-**	**-**
New financial assets originated or purchased	10	-	-	-	10
Financial assets that have been derecognised	-	-	-	-	-
Changes in fair value	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December	**10**	**-**	**-**	**-**	**10**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of carrying value debt investments:					
Balance at 1 January					**163**
Financial assets that have been derecognised	(163)	-	-	-	(163)
Balance at 31 December 2018	**-**	**-**	**-**	**-**	**-**

There are no contractual amounts outstanding on debt investments that were written off and are still subject to enforcement activity for 2019 and 2018.

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of credit loss allowances on debt investments:					
Balance at 1 January					**20**
Effect of adoption IFRS 9 - reclassification					(20)
Balance at 31 December	**-**	**-**	**-**	**-**	**-**

The maximum credit risk exposure including undrawn credit facilities arising on debt investments at amortised cost amounted to rounded nil (2018: nil).

23 Loans (amortised cost)

in EUR millions	2019	2018
Loans	7,003	7,052
Loans with group companies	633	665
	7,636	**7,717**
Legal maturity analysis of loans:		
Three months or less	464	526
Longer than three months but not longer than one year	925	634
Longer than one year but not longer than five years	4,727	4,831
Longer than five years	1,520	1,726
	7,636	**7,717**

The legal maturity analysis is based upon the earliest contractual cash flows best represents the short and long term nature of the cash flows. The contractual maturity may be extended over a longer period. The expected prepayments within the coming twelve months varies in the range between 9% and 21% of the outstanding exposure.

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are explained in note 55 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2019
Internal rating grade of loans:					
Investment	1,778	-	-	-	1,778
Sub-investment	4,703	683	-	-	5,386
Default	-	-	137	60	197
Unrated	274	1	-	-	275
	6,755	**684**	**137**	**60**	**7,636**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of carrying value loans:					
Balance at 1 January	**6,586**	**849**	**249**	**33**	**7,717**
Reclassification to lease receivables	-	-	-	-	-
New financial assets originated or purchased	2,333	62	3	45	2,443
Financial assets that have been derecognised	(2,197)	(264)	(184)	(3)	(2,648)
Write-offs	-	-	59	-	59
Recoveries of amounts previously written off	-	-	2	-	2
Net remeasurement of loss allowance	3	(2)	(27)	(10)	(36)
Foreign exchange and other movements	94	9	1	(5)	99
Transfers:					-
Transfer from stage 1 to stage 2	(555)	550	-	-	(5)
Transfer from stage 1 to stage 3	-	-	-	-	-
Transfer from stage 2 to stage 1	491	(486)	-	-	5
Transfer from stage 2 to stage 3	-	(73)	73	-	-
Transfer from stage 3 to stage 1	-	-	-	-	-
Transfer from stage 3 to stage 2	-	39	(39)		-
Balance at 31 December	**6,755**	**684**	**137**	**60**	**7,636**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of credit loss allowances on loans:					
Balance at 1 January	**9**	**16**	**113**	**25**	**163**
Movements with no impact on credit loss allowances of financial assets in the income statement					
Transfers:					
Transfer from stage 2 to stage 3	-	(4)	4	-	-
Write-offs	-	-	(59)	-	(59)
Unwind of discount due to passage of time stage 3 within interest income	-	-	(5)	(1)	(6)
Foreign exchange and other movements	-	-	5	6	11
Movements with no impact on credit loss allowances of financial assets in the income statement	**-**	**(4)**	**(55)**	**5**	**(54)**
Movements with impact on credit loss allowances of financial assets in the income statement					
New financial assets originated or purchased	3	3	-	-	6
Financial assets that have been derecognised	(1)	(2)	(1)	-	(4)
Recoveries of amounts previously written off	-	-	(2)	-	(2)
Net remeasurement of loss allowance	(2)	2	28	10	38
Changes in model assumption and methodologies	-	-	-	-	-
Unwind of discount due to passage of time stage 1 and stage 2	-	-	4	1	5
Transfers:					
Transfer from stage 1 to stage 2	(4)	9	-	-	5
Transfer from stage 2 to stage 1	4	(9)	-	-	(5)
Movements with impact on credit loss allowances of financial assets in the income statement	**-**	**3**	**29**	**11**	**43**
Balance at 31 December	**9**	**15**	**87**	**41**	**152**

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2018
Internal rating grade of loans:					
Investment	1,152	-	-	-	1,152
Sub-investment	4,847	794	-	-	5,641
Default	-	-	245	33	278
Default grade (bankruptcy filing)	-	-	4	-	4
Unrated	587	55	-	-	642
	6,586	**849**	**249**	**33**	**7,717**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of carrying value loans:					
Balance at 1 January	**6,391**	**1,114**	**194**	**34**	**7,733**
Reclassification to lease receivables	-	-	-	-	-
New financial assets originated or purchased	2,631	61	7	3	2,702
Financial assets that have been derecognised	(2,286)	(355)	(147)	(5)	(2,793)
Write-offs	-	1	39	8	48
Net remeasurement of loss allowance	1	(9)	(36)	(4)	(48)
Foreign exchange and other movements	53	21	6	(3)	77
Transfers:					-
Transfer from stage 1 to stage 2	(449)	446	-	-	(3)
Transfer from stage 1 to stage 3	(17)	-	17	-	-
Transfer from stage 2 to stage 1	262	(261)	-	-	1
Transfer from stage 2 to stage 3	-	(233)	233	-	-
Transfer from stage 3 to stage 2	-	64	(64)	-	-
Balance at 31 December	**6,586**	**849**	**249**	**33**	**7,717**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of credit loss allowances on loans:					
Balance at 1 January	**9**	**16**	**99**	**26**	**150**
Movements with no impact on credit loss allowances of financial assets in the income statement					
Transfers:					
Transfer from stage 2 to stage 3	-	(12)	12	-	-
Write-offs	-	-	(39)	(8)	(47)
Unwind of discount due to passage of time stage 3 within interest income	-	-	(8)	(2)	(10)
Foreign exchange and other movements	-	-	4	3	7
Movements with no impact on credit loss allowances of financial assets in the income statement	**-**	**(12)**	**(31)**	**(7)**	**(50)**
Movements with impact on credit loss allowances of financial assets in the income statement					
New financial assets originated or purchased	5	2	-	-	7
Financial assets that have been derecognised	(3)	(1)	-	-	(4)
Net remeasurement of loss allowance	(1)	9	36	4	48
Changes in model assumption and methodologies	-	-	-	-	-
Unwind of discount due to passage of time stage 1 and stage 2	-	-	9	2	11
Transfers:					
Transfer from stage 1 to stage 2	(2)	5	-	-	3
Transfer from stage 2 to stage 1	1	(3)	-	-	(2)
Movements with impact on credit loss allowances of financial assets in the income statement	**-**	**12**	**45**	**6**	**63**
Balance at 31 December	**9**	**16**	**113**	**25**	**163**

There are no contractual amounts outstanding on loans that were written off and are still subject to enforcement activity for 2019 and 2018.

The maximum credit risk exposure including undrawn credit facilities arising on loans at amortised cost amounted to EUR 9,352 million (2018: EUR 9,275 million).

The total amount of subordinated loans in this item amounted to EUR 159 million in 2019 (2018: EUR 146 million).

As per 31 December 2019, EUR 21 million (2018: EUR 21 million) was guaranteed by the Dutch State.

24 Lease receivables (amortised cost)

in EUR millions	2019	2018
Lease receivables	25	53
	25	**53**
Legal maturity analysis of gross investment in lease receivables:		
Three months or less	22	36
Longer than three months but not longer than one year	2	12
Longer than one year but not longer than five years	1	5
Longer than five years	-	-
	25	**53**
Unearned future finance income on finance leases	-	-
Net investment in finance leases	**25**	**53**
Legal maturity analysis of net investment in lease receivables:		
Three months or less	22	36
Longer than three months but not longer than one year	2	12
Longer than one year but not longer than five years	1	5
Longer than five years	-	-
	25	**53**

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are explained in note 55 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2019
Internal rating grade of lease receivables:					
Investment	-	-	-	-	-
Sub-investment	-	-	-	-	-
Sub-investment (highly vulnerable)	-	-	-	-	-
Default	-	-	-	-	-
Unrated	4	-	21	-	25
	4	**-**	**21**	**-**	**25**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of carrying value on lease receivables:					
Balance at 1 January	**53**	**-**	**-**	**-**	**53**
Financial assets that have been derecognised	(28)	-	-	-	(28)
Transfers:					
Transfer from stage 1 to stage 3	(21)	-	21	-	-
Balance at 31 December	**4**	**-**	**21**	**-**	**25**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of credit loss allowances on lease receivables:					
Balance at 1 January	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowances of financial assets in the income statement					
New financial assets originated or purchased	-	-	-	-	-
Transfers:					
Transfer from stage 1 to stage 3	-	-	10	-	10
Movements with impact on credit loss allowances of financial assets in the income statement	**-**	**-**	**10**	**-**	**10**
Balance at 31 December	**-**	**-**	**10**	**-**	**10**

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2018
`					
Internal rating grade of lease receivables:					
Investment	-	-	-	-	-
Sub-investment	-	-	-	-	-
Sub-investment (highly vulnerable)	-	-	-	-	-
Default	-	-	-	-	-
Unrated	53	-	-	-	53
	53	**-**	**-**	**-**	**53**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of carrying value on lease receivables:					
Balance at 1 January	**89**	**-**	**-**	**-**	**89**
Reclassification from loans	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognised	(36)	-	-	-	(36)
Balance at 31 December	**53**	**-**	**-**	**-**	**53**

As per 31 December 2019 the credit loss allowances on lease receivables amount to EUR 10 million (2018: nil), and relate to assets within ECL stage 3.

25 Mortgage loans (amortised cost)

in EUR millions	2019	2018
Owner occupied mortgage loans	8,932	8,358
Buy-to-Let mortgage loans	705	632
	9,637	**8,990**
Legal maturity analysis of mortgage loans:		
Three months or less	12	18
Longer than three months but not longer than one year	18	23
Longer than one year but not longer than five years	141	114
Longer than five years	9,466	8,835
	9,637	**8,990**

NIBC believes that the legal maturity analysis based upon the earliest contractual cash flows best represents the term nature of the cash flows. The contractual maturity may be extended over a longer period. The expected prepayments within the coming twelve months varies in the range between 7% and 15% of the outstanding exposure.

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are explained in note 57 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2019
`					
Probability of default:					
<= 1%	9,428	53	1	-	9,482
1%> <=2%	39	1	-	-	40
2%> <=5%	19	9	-	-	28
5%> <100%	23	48	-	-	71
100%	-	7	9	-	16
	9,509	**118**	**10**	**-**	**9,637**

	Stage 1	Stage 2	Stage 3		
in EUR millions	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of carrying value mortgage loans:					
Balance at 1 January	**8,891**	**82**	**17**	**-**	**8,990**
New financial assets originated or purchased (including transfers from consolidated SPEs)	1,693	-	-	-	1,693
Financial assets that have been derecognised (sale and/or redemption)	(1,026)	(14)	(7)	-	(1,047)
Net remeasurement of loss allowance	4	-	(2)	-	2
Transfers:					
Transfer from stage 1 to stage 2	(68)	68	-	-	-
Transfer from stage 1 to stage 3	(7)	-	6	-	(1)
Transfer from stage 2 to stage 1	18	(18)	-	-	-
Transfer from stage 2 to stage 3	-	(2)	2	-	-
Transfer from stage 3 to stage 1	4	-	(4)	-	-
Transfer from stage 3 to stage 2	-	2	(2)	-	-
Balance at 31 December	**9,509**	**118**	**10**	**-**	**9,637**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of credit loss allowances on mortgage loans:					
Balance at 1 January	**5**	**1**	**1**	**-**	**7**
Movements with no impact on credit loss allowances of financial assets in the income statement					
Transfers:					
Transfer from stage 3 to stage 1	1	-	(1)	-	-
Transfer from stage 3 to stage 2	-	1	(1)	-	-
Movements with no impact on credit loss allowances of financial assets in the income statement	**1**	**1**	**(2)**	**-**	**-**
Movements with impact on credit loss allowances of financial assets in the income statement					
New financial assets originated or purchased	1	-	-	-	1
Financial assets that have been derecognised (sale and/or redemption)	(3)	-	-	-	(3)
Net remeasurement of loss allowance	(4)	(1)	3	-	(2)
Transfers:					
Transfer from stage 2 to stage 1	1	(1)	-	-	-
Movements with impact on credit loss allowances of financial assets in the income statement	**(5)**	**(2)**	**3**	**-**	**(4)**
Balance at 31 December	**1**	**-**	**2**	**-**	**3**

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2018
`					
Probability of default:					
<= 1%	8,786	43	-	-	8,829
1%> <=2%	34	-	-	-	34
2%> <=5%	17	2	-	-	19
5%> <100%	54	27	-	-	81
100%	-	10	17	-	27
	8,891	**82**	**17**	**-**	**8,990**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of carrying value mortgage loans:					
Balance at 1 January	**8,541**	**99**	**31**	**-**	**8,671**
New financial assets originated or purchased (including transfers from consolidated SPEs)	2,003	10	1	-	2,014
Financial assets that have been derecognised (sale and/or redemption)	(1,667)	(24)	(11)	-	(1,702)
Net remeasurement of loss allowance	8	-	(1)	-	7
Transfers:					
Transfer from stage 1 to stage 2	(22)	21	-	-	(1)
Transfer from stage 1 to stage 3	(5)	-	6	-	1
Transfer from stage 2 to stage 1	24	(24)	-	-	-
Transfer from stage 2 to stage 3	-	(1)	1	-	-
Transfer from stage 3 to stage 1	9	-	(9)	-	-
Transfer from stage 3 to stage 2	-	1	(1)	-	-
Balance at 31 December	**8,891**	**82**	**17**	**-**	**8,990**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of credit loss allowances on mortgage loans:					
Balance at 1 January	**6**	**2**	**7**	**-**	**15**
Movements with no impact on credit loss allowances of financial assets in the income statement					
Transfers:					
Transfer from stage 2 to stage 3	-	(2)	2	-	-
Transfer from stage 3 to stage 1	4	-	(4)	-	-
Transfer from stage 3 to stage 2	-	3	(3)	-	-
Movements with no impact on credit loss allowances of financial assets in the income statement	**4**	**1**	**(5)**	**-**	**-**
Movements with impact on credit loss allowances of financial assets in the income statement					
New financial assets originated or purchased	4	-	-	-	4
Financial assets that have been derecognised (sale and/or redemption)	(3)	-	(1)	-	(4)
Net remeasurement of loss allowance	(8)	-	-	-	(8)
Transfers:					
Transfer from stage 1 to stage 2	(1)	1	-	-	-
Transfer from stage 2 to stage 1	3	(3)	-	-	-
Movements with impact on credit loss allowances of financial assets in the income statement	**(5)**	**(2)**	**(1)**	**-**	**(8)**
Balance at 31 December	**5**	**1**	**1**	**-**	**7**

Relating to committed facilities with respect to mortgage loans a release of EUR 1 million has been recognised in 2019 (2018: a credit loss of EUR 1 million).

The contractual amount outstanding on mortgage loans that were written off and are still subject to enforcement activity amounts to EUR 42 million (2018: EUR 46 million).

The maximum credit exposure including committed but undrawn facilities was EUR 9,965 million at 31 December 2019 (31 December 2018: EUR 9,743 million).

26 Securitised mortgage loans (amortised cost)

in EUR millions	2019	2018
Securitised mortgage loans	407	461
	407	**461**
Legal maturity analysis of securitised mortgage loans:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	-
Longer than five years	407	461
	407	**461**

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's use of probability of default and year-end stage classification.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2019
`					
Probability of default:					
<= 1%	404	1	-	-	405
1%> <=2%	-	-	-	-	-
2%> <=5%	1	-	-	-	1
5%> <100%	1	-	-	-	1
100%	-	-	-	-	-
	406	**1**	**-**	**-**	**407**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of carrying value securitised mortgage loans:					
Balance at 1 January	**460**	**1**	**-**	**-**	**461**
New financial assets originated or purchased (including transfers from consolidated SPEs)	-	-	-	-	-
Financial assets that have been derecognised (sale and/or redemption)	(54)	-	-	-	(54)
Balance at 31 December	**406**	**1**	**-**	**-**	**407**

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total 2018
Probability of default:					
<= 1%	459	1	-	-	460
1%> <=2%	-	-	-	-	-
2%> <=5%	-	-	-	-	-
5%> <100%	1	-	-	-	1
100%	-	-	-	-	-
	460	**1**	**-**	**-**	**461**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of carrying value securitised mortgage loans:					
Balance at 1 January	**314**	**2**	**1**	**-**	**317**
New financial assets originated or purchased (including transfers from consolidated SPEs)	521	-	-	-	521
Financial assets that have been derecognised (sale and/or redemption)	(375)	(1)	(1)	-	(377)
Transfers:					
Transfer from stage 1 to stage 2	(1)	1	-	-	-
Transfer from stage 1 to stage 3	(1)	-	1	-	-
Transfer from stage 2 to stage 1	1	(1)	-	-	-
Transfer from stage 3 to stage 1	1	-	(1)	-	-
Balance at 31 December	**460**	**1**	**-**	**-**	**461**

In 2019 and 2018 no expected credit losses were recognised.

27 Investment property

in EUR millions	2019	2018
Investment property	23	-
	23	**-**
Movement schedule of investment property:		
Balance at 1 January	**-**	**-**
Reclassification from property and equipment	20	-
Additions	2	-
Disposals	-	-
Changes in fair value	1	-
Balance at 31 December	**23**	**-**

The rental income from investment property amount EUR 1 million in 2019.

28 Investments in associates and joint ventures (equity method)

in EUR millions	2019	2018
Investments in associates	16	9
Investments In joint ventures	5	3
	21	**12**
Movement schedule of investments in associates:		
Balance at 1 January	**9**	**7**
Purchases and additional payments	4	3
Disposals	-	(1)
Share in result	3	-
Balance at 31 December	**16**	**9**
Movement schedule of joint ventures:		
Balance at 1 January	**3**	**3**
Purchases and additional payments	-	-
Disposals	-	-
Share in result	2	-
Balance at 31 December	**5**	**3**

At the end of 2019 and 2018, all investments in associates and joint ventures were unlisted.

The cumulative impairment losses amounted to nil for 2019 and 2018.

Other disclosure requirements for associates which are equity accounted are included in note 54 Principal subsidiaries and associates.

29 Property and equipment

in EUR millions	2019	2018
Land and buildings	30	42
Other fixed assets	3	2
Right-of-use assets	6	-
	39	**44**

in EUR millions	2019	2018
Movement schedule of land and buildings:		
Balance at 1 January	**42**	**41**
Reclassification to investment property	(20)	-
Additions	2	4
Revaluation	8	-
Depreciation	(2)	(3)
Balance at 31 December	**30**	**42**
Gross carrying amount	95	105
Accumulated depreciation	(65)	(63)
	30	**42**
Movement schedule of revaluation surplus:		
Balance at 1 January	**10**	**11**
Revaluation	8	-
Depreciation	(1)	(1)
Balance at 31 December	**17**	**10**
Movement schedule of other fixed assets:		
Balance at 1 January	**2**	**3**
Additions	3	1
Revaluation	-	-
Depreciation	(2)	(2)
Balance at 31 December	**3**	**2**
Gross carrying amount	29	28
Accumulated depreciation	(26)	(26)
Accumulated impairments	-	-
	3	**2**

in EUR millions	2019	2018
Right-of-use assets:[1]		
Rented offices	6	-
	6	**-**
Movement schedule of right-of-use asset: offices:		
Balance at 1 January	**-**	**-**
Effect of adoption of IFRS 16 per 1 January 2019	4	-
Restated balance at 1 January 2019 after the adoption of IFRS 16	**4**	**-**
Additions	3	-
Depreciation	(1)	-
Balance at 31 December	**6**	**-**

1 The right-of-use assets reflect the rental of NIBC's offices in London, Frankfurt, Brussels and Amsterdam.

NIBC's land and buildings in own use were revalued as of 31 December 2019 based on an external appraisal.

Buildings in use by NIBC are insured for EUR 88 million (2018: EUR 81 million). Other fixed assets are insured for EUR 25 million (2018: EUR 24 million).

Refer to note 38 Accruals, deferred income and other liabilities for the lease liabilities corresponding to the right-of-use assets.

Refer to note 10 Other operating expenses, for expenses related to short-term leases and lease expenses for low-value assets, for which no right-of-use assets were recognised.

The fair value of the property, plant and equipment does not materially deviates from the carrying amount.

30 Current tax

in EUR millions	2019	2018
Current tax assets	5	2
Current tax liabilities	-	1

Current tax will be settled within 12 months.

31 Deferred tax

in EUR millions	2019	2018
Deferred tax assets	10	8
Deferred tax liabilities	12	7
	(2)	**1**
Amounts of deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:		
Debt investments	-	1
Tax losses carried forward	10	8
	10	**9**
Amounts of deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction:		
Debt investments	1	-
Cash flow hedges	5	6
Property and equipment	1	-
Temporary tax differences	5	2
	12	**8**
	(2)	**1**

in EUR millions	2019	2018
Gross movement on the deferred income tax account may be summarised as follows:		
Balance at 1 January	**1**	**4**
Debt investments:		
Fair value remeasurement charged/(credited) to revaluation reserve	(2)	(8)
Equity investments:		
Fair value remeasurement charged/(credited) to revaluation reserve	-	1
Cash flow hedges:		
Fair value remeasurement charged/(credited) to hedging reserve	1	4
Property and equipment (reported at fair value):		
Fair value remeasurement charged/(credited) to revaluation reserve	(1)	-
Temporary tax differences:		
IFRS - HGB deferred tax	(3)	(1)
Tax losses carried forward	2	1
Balance at 31 December	**(2)**	**1**

Deferred tax assets and liabilities are measured for all temporary differences using the liability method.

Deferred tax assets recognised in respect of carry forward losses can only be utilized if taxable profits are realised in the future. To measure deferred tax assets, NIBC takes a management best estimate regarding future compensation of carry forward losses. On 31 December 2019 there was a realistic expectation that sufficient taxable profits would be generated within the applicable periods for the recognised deferred tax asset based on internal (medium term) forecasts.

32 Other assets

in EUR millions	2019	2018
Accrued interest	-	2
Pending settlements	9	10
Other accruals and receivables	10	14
	19	**26**

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of its related assets.

Pending settlements are related to brokerage activities. These transitory amounts are settled within 3 days.

33 Due to other banks

in EUR millions	2019	2018
Due to other banks	269	372
Due to central banks	1,134	1,139
	1,403	**1,511**
Due to other banks:		
Payable on demand	1	-
Not payable on demand	1,402	1,511
	1,403	**1,511**
Legal maturity analysis of due to other banks not payable on demand:		
Three months or less	69	137
Longer than three months but not longer than one year	780	46
Longer than one year but not longer than five years	500	1,241
Longer than five years	53	87
	1,402	**1,511**

Interest is recognised in interest expense from financial instruments measured at amortised cost on an effective interest basis.

At 31 December 2019, an amount of EUR 61 million (2018: EUR 123 million) relates to cash collateral received from third parties.

Amounts drawn under Targeted Longer Term Refinancing Operation (TLTRO II) equal EUR 1,134 million (2018: EUR 1,139 million). The maturity of TLTRO II is partially due in 1 year with EUR 691 million. The remaining of EUR 443 million will be due in 2 years. Interest payments will be settled in arrears. The collateral for the TLTRO-program consists of DNB eligible debt investments and securitised mortgage loans. The interest rate, which is fixed for the entire maturity of the TLTRO II, was set in June 2018.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature.

34 Deposits from customers

in EUR millions	2019	2018
Retail deposits	9,756	9,128
Institutional/corporate deposits	1,641	2,139
	11,397	**11,267**
Deposits from customers:		
On demand	6,401	5,709
Term deposits	4,996	5,558
	11,397	**11,267**
Legal maturity analysis of term deposits:		
Three months or less	793	821
Longer than three months but not longer than one year	1,786	2,317
Longer than one year but not longer than five years	1,472	1,713
Longer than five years	945	707
	4,996	**5,558**

Interest is recognised in interest expense from financial instruments measured at amortised cost on an effective interest basis.

The total amount of savings value with respect to mortgage loans in this item amounted to EUR 161 million in 2019 (2018: EUR 175 million).

35 Own debt securities in issue (designated at fair value through profit or loss)

in EUR millions	2019	2018
Bonds and notes issued	39	39
	39	**39**
Legal maturity analysis of own debt securities in issue:		
Three months or less	39	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	39
Longer than five years	-	-
	39	**39**
Movement schedule of own debt securities in issue:		
Balance at 1 January	**39**	**38**
Additions	1	2
Changes in fair value	(1)	(1)
Balance at 31 December	**39**	**39**

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated by results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 39 million at 31 December 2019 (31 December 2018: EUR 37 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to nil (2018: loss of EUR 1 million) and the change for the current year amounts to nil recognised in other comprehensive income (2018: nil).

EUR 1 million relates to cash inflow items included in the consolidated statement of cash flows.

36 Debt securities in issue structured (designated at fair value through profit or loss)

in EUR millions	2019	2018
Bonds and notes issued	184	282
	184	**282**
Legal maturity analysis of debt securities in issue structured:		
Three months or less	-	-
Longer than three months but not longer than one year	4	5
Longer than one year but not longer than five years	70	62
Longer than five years	110	215
	184	**282**
Movement schedule of debt securities in issue structured:		
Balance at 1 January	**282**	**616**
Additions	-	5
Disposals	(105)	(352)
Changes in fair value	5	9
Other (including exchange rate differences)	2	4
Balance at 31 December	**184**	**282**

The disposals of debt securities in issue designated at fair value through profit or loss for 2019 include redemptions at the scheduled maturity date to an amount of EUR 5 million (2018: EUR 21 million) and repurchases of debt securities before the legal maturity date to an amount of EUR 100 million (2018: EUR 331 million).

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 212 million at 31 December 2019 (2018: EUR 323 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 5 million and the change for the current year is a loss of EUR 5 million recognised in other comprehensive income (31 December 2018: gain of EUR 15 million). See note 45.7 for further information with respect to own credit risk.

EUR 105 million relates to cash outflow items and EUR 2 million relates to net foreign exchange differences included in the consolidated statement of cash flows.

37 Provisions

in EUR millions	2019	2018
ECL allowances for off-balance sheet financial instruments	3	2
Restructuring provisions	9	-
Other provisions	1	-
Employee benefits	2	3
	15	**5**

The recognised restructuring provision covers the costs of dismantling the NIBC Markets activities in 2020 that has been formally announced. Implementation of the restructuring plan will be effected in the first half of 2020.

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2019
Movement schedule of credit loss allowances on provisions:					
Balance at 1 January	**1**	**1**	**-**	**-**	**2**
Movement schedule of ECL allowances for off-balance sheet financial instruments in the income statement					
New committed off-balance balance sheet financial instruments	1	-	-	-	1
Net remeasurement of loss allowance	(1)	1	-	-	-
Transfers:					
Transfer from stage 1 to stage 2	-	1	-	-	1
Transfer from stage 2 to stage 1	-	(1)	-	-	(1)
	-	**1**	**-**	**-**	**1**
Balance at 31 December	**1**	**2**	**-**	**-**	**3**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	Total 2018
Movement schedule of credit loss allowances on provisions:					
Balance at 1 January	1	2	-	-	3
Movement schedule of ECL allowances for off-balance sheet financial instruments in the income statement					
New committed off-balance balance sheet financial instruments	1	-	-	-	1
Off-balance sheet financial instruments that have been derecognised	(1)	(1)	-	-	(2)
Net remeasurement of loss allowance	-	(1)	-	-	(1)
Transfers:					
Transfer from stage 1 to stage 2	-	1	-	-	1
	-	**(1)**	**-**	**-**	**(1)**
Balance at 31 December	**1**	**1**	**-**	**-**	**2**

in EUR millions	2019	2018
Movement schedule of employee benefits:		
Balance at 1 January	**3**	**3**
Releases	(1)	-
Balance at 31 December	**2**	**3**

Employee benefit obligations of EUR 2 million at 31 December 2019 are related to payments to be made in respect of other leave obligations (2018: EUR 3 million).

in EUR millions	2019	2018
The amounts of pension charges recognised in personnel expenses in the income statement were as follows:		
Collective Defined Contribution plans		
Employer's contribution	13	13
Participants' contributions	(1)	(2)
	12	**11**

Employer's contributions in 2019 includes EUR 2 million (2018: EUR 2 million) intended to compensate for the pension gap that arose as a result of changed tax rules that became effective as of 1 January 2015.

Obligations and expense under pension plans

A collective defined-contribution plan (CDC-plan) is a pension plan under which NIBC each year pays a fixed percentage of the salaries of the members into the scheme. The size of the fund on retirement will be determined by how much was contributed to the scheme and the investment return achieved.

For defined-contribution plans, NIBC pays contributions directly into the member's scheme. NIBC has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The CDC-plan is based on an average salary plan. The retirement age is set at 68 years as per 1 January 2018. The contribution payable by participants in the CDC-plan is maximised at 4% per annum. Under the CDC-plan the annual pension contributions are calculated according to a fixed contribution calculation mechanism. The annual pension contribution of NIBC is maximised at 26% of the pensionable salary (salary minus a social security deductible). By paying the agreed fixed annual contribution NIBC Holding is released from all its obligations.

38 Accruals, deferred income and other liabilities

in EUR millions	2019	2018
Payables	36	63
Lease liabilities[1]	7	-
Other accruals (including earn-out commitments)	25	30
Pending settlements	9	3
Taxes and social securities	9	11
	86	**107**
Legal maturity analysis of lease liabilities:		
Three months or less	-	-
Longer than three months but not longer than one year	1	-
Longer than one year but not longer than five years	4	-
Longer than five years	2	-
	7	**-**
Movement schedule of lease liabilities:		
Balance at 1 January	**-**	**-**
Effect of adoption of IFRS 16 per 1 January 2019	5	-
Restated balance at 1 January 2019 after the adoption of IFRS 16	**5**	**-**
Additions	3	-
Repayments	(1)	-
Balance at 31 December	**7**	**-**

1 Refer to note 29 Property and equipment for the right-of-use assets corresponding to the lease liabilities.

For the year 2019, there are no variable lease payments included in the measurement of the lease liabilities (2018: not applicable).

For the year ended 31 December 2019, interest expense on lease liabilities amounted to rounded nil (2018: not applicable). Interest expense on lease liabilities is recognised within interest expense from financial instruments measured at amortised cost (refer to note 2 Net interest income).

In the consolidated statement of cash flows:

1. Cash payments for the principal portion of the lease liability are classified within financing activities;
2. Cash payments for the interest portion of the lease liability are, part of interest paid, classified as operating activities.

All contractual payments are included in the calculation of the lease liabilities, however:
- there are no amounts expected to be payable by NIBC under residual value guarantees, and
- no purchase options are expected to to be exercised, and
- no payments of penalties for terminating the lease are included.

There are no restrictions or covenants applicable on the lease liabilities.

Pending settlements are related to the brokerage activities and settled within 3 days.

Taxes and social securities relate to EUR 2 million VAT (2018: EUR 2 million), EUR 3 million payroll tax (2018: EUR 3 million) and EUR 4 million withholding tax (2018: EUR 6 million).

39 Own debt securities in issue (amortised cost)

in EUR millions	2019	2018
Bonds and notes issued	6,305	5,451
	6,305	**5,451**
Legal maturity analysis of own debt securities in issue:		
Three months or less	204	-
Longer than three months but not longer than one year	365	1,262
Longer than one year but not longer than five years	2,317	2,266
Longer than five years	3,419	1,923
	6,305	**5,451**
Movement schedule of own debt securities in issue:		
Balance at 1 January	**5,451**	**4,392**
Additions	2,202	2,347
Disposals	(1,381)	(1,288)
Other (including exchange rate differences)	33	-
Balance at 31 December	**6,305**	**5,451**

In 2019 NIBC issued two EUR 500 million covered bond transactions (eight and ten year). Additionally, an EUR 300 million fixed rate senior unsecured transaction with a maturity of five year and an EUR 500 million fixed rate senior unsecured transaction with a maturity of six year. The total additions also include a EUR 3 million increase of the cumulative hedge adjustment (full year 2018: increase of EUR 16 million).

The disposals of own debt securities in issue at amortised cost for 2019 include redemptions at the scheduled maturity date and repurchases to an amount of EUR 1,298 million (2018: EUR 1,168 million) and temporary buyback of positions for EUR 83 million (2018: EUR 120 million).

EUR 2,202 million relates to cash inflow items, EUR 1,381 million relates to cash outflow items and EUR 33 million relates to net foreign exchange differences included in the consolidated statement of cash flows.

40 Debt securities in issue related to securitised mortgages (amortised cost)

in EUR millions	2019	2018
Bonds and notes issued	392	447
	392	**447**
Legal maturity analysis of debt securities in issue related to securitised mortgage loans:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	-
Longer than five years	392	447
	392	**447**
Movement schedule of debt securities in issue related to securitised mortgage loans:		
Balance at 1 January	**447**	**267**
Additions	-	447
Matured / redeemed	(55)	(267)
Other (including exchange rate differences)	-	-
Balance at 31 December	**392**	**447**

The disposals of own debt securities at amortised cost for 2019 include repayments of debt securities before the legal maturity date to an amount of EUR 55 million (2018: EUR 267 million).

41 Subordinated liabilities (designated at fair value through profit or loss)

in EUR millions	2019	2018
Non-qualifying as grandfathered additional Tier 1 capital	57	53
Subordinated loans other	110	109
	167	**162**
Legal maturity analysis of subordinated liabilities:		
One year or less	-	-
Longer than one year but not longer than five years	-	-
Longer than five years but not longer than ten years	-	-
Longer than ten years	167	162
	167	**162**
Movement schedule of subordinated liabilities:		
Balance at 1 January	**162**	**167**
Additions	2	2
Matured / redeemed	-	-
Changes in fair value	2	(11)
Other (including exchange rate differences)	1	4
Balance at 31 December	**167**	**162**

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated with results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 260 million at 31 December 2019 (2018: EUR 257 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 100 million (31 December 2018: loss of EUR 102 million) and the change for the current year is a gain of EUR 3 million recognised in other comprehensive income (31 December 2018: gain of EUR 12 million). See note 45.7 for further information with respect to own credit risk.

All of the above loans are subordinated to the other liabilities of NIBC Holding. The non-qualifying as grandfathered additional Tier 1 capital consists of perpetual securities and may be redeemed by NIBC Holding only with the prior approval of the DNB.

Interest expense of EUR 8 million was recognised on subordinated liabilities during the year 2019 (2018: EUR 11 million). In 2019 and 2018, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

NIBC has not had any defaults of principal, interest or redemption amounts on its liabilities during 2019 or 2018.

EUR 2 million relates to cash inflow and EUR 1 million relates to foreign currency differences included in the consolidated statement of cash flows.

42 Subordinated liabilities (amortised cost)

in EUR millions	2019	2018
Subordinated loans other	117	116
	117	**116**
Legal maturity analysis of subordinated liabilities:		
One year or less	-	-
Longer than one year but not longer than five years	-	-
Longer than five years but not longer than ten years	63	63
Longer than ten years	54	53
	117	**116**
Movement schedule of subordinated liabilities:		
Balance at 1 January	**116**	**115**
Additions	-	-
Matured / redeemed	-	(2)
Other (including exchange rate differences)	1	3
Balance at 31 December	**117**	**116**

All of the above loans are subordinated to the other liabilities of NIBC. As a result of CRR/CRDIV requirements regarding additional Tier 1 capital instruments. Non-qualifying subordinated loans amount to EUR 54 million (2018: EUR 53 million). Interest expense of EUR 5 million was recognised on subordinated liabilities during the year of 2019 (2018: EUR 5 million).

EUR 1 million related to foreign exchange differences included in the consolidated statement of cash flows.

43 Equity

The ultimate company is NIBC Holding N.V., a listed company incorporated in the Netherlands.

in EUR millions	2019	2018
Equity attributable to the equity holder:		
Share capital	80	80
Share premium	238	238
Revaluation reserves		
Revaluation reserve - hedging revaluations	16	20
Revaluation reserve - debt investments	3	(2)
Revaluation reserve - property	14	8
Revaluation reserve - own credit risk	87	96
Retained profit	1,427	1,471
	1,865	**1,911**

Share capital

The share capital is fully paid-up.

	2019	2018	2019	2018
	Numbers x 1,000		in EUR millions	
Authorised share capital	183,598	183,598	215	215
Unissued share capital	121,011	121,011	135	135
Issued share capital A shares	**62,587**	**62,587**	**80**	**80**
	Numbers x 1,000		in EUR millions	
The number and total amounts of authorised shares:				
Class A ordinary shares	110,938	110,938	142	142
Class B, C, D, E1 and E3 preference shares	72,600	72,600	73	73
Class E4 preference shares	60	60	-	-
	183,598	**183,598**	**215**	**215**
			In EUR	
Classes and par values of authorised shares:				
Class A ordinary shares			1.28	1.28
Class B, C, D, E1 and E3 preference shares			1.00	1.00
Class E4 preference shares			5.00	5.00

Share premium

This reserve comprises the difference between the par value of NIBC shares and the total amount received for issued shares. The share premium reserve is credited for equity-related expenses and is also used for issued shares.

Revaluation reserves

Revaluation reserve - hedging revaluation

This reserve comprises the portion of the gains or losses on hedging instruments in a cash flow hedge that is determined to be an effective hedge (net of tax).

Revaluation reserve - debt investments

This reserve comprises changes in fair value of debt investments (net of tax).

Revaluation reserve - property

This reserve comprises changes in fair value of land and buildings (net of tax).

Revaluation reserve - own credit risk

This reserve includes the cumulative changes in the fair value of the financial liabilities designated as at FVtPL that are attributable to changes in the credit risk of these liabilities other than those recognised in profit or loss (net of tax).

Retained profit

Retained profit reflects accumulated earnings less dividends paid to shareholders and transfers from share premium.

Dividend restrictions

NIBC and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividend or otherwise to the parent company.

Changes in share premium and revaluation reserves in 2019

in EUR millions	Share premium	Hedging revaluation	Debt investments	Property[1]	Own credit risk	Total
Balance at 1 January 2019	**238**	**20**	**(2)**	**8**	**96**	**360**
Net result on hedging instruments	-	(4)	-	-	-	(4)
Revaluation/remeasurement (net of tax)	-	-	5	6	(9)	2
Total recognised directly through other comprehensive income in equity during the year	**-**	**(4)**	**5**	**6**	**(9)**	**(2)**
Transfer to retained earnings	-		-	-	-	-
Balance at 31 December 2019	**238**	**16**	**3**	**14**	**87**	**358**

1 Part of the revaluation reserve relates to reclassified property and equipment with the available for rental status to investment property. The revaluation reserve relating to this reclassification on 1 January 2019 to an amount of EUR 7 million has been frozen.

Changes in share premium and revaluation reserves in 2018

in EUR millions	Share premium	Hedging revaluation	Debt investments	Property	Own credit risk	Total
Balance at 1 January 2018	**238**	**30**	**3**	**8**	**52**	**331**
Net result on hedging instruments	-	(10)	-	-	-	(10)
Revaluation/remeasurement (net of tax)	-	-	(5)	-	44	39
Total recognised directly through other comprehensive income in equity	**-**	**(10)**	**(5)**	**-**	**44**	**29**
Transfer to retained earnings	-	-	-	-	-	5
Balance at 31 December 2018	**238**	**20**	**(2)**	**8**	**96**	**360**

Information on NIBC's solvency ratios is included in the risk management section of this Annual Report.

44 Capital securities

in EUR millions	2019	2018
Capital securities issued by NIBC	200	200
	200	**200**
Movement schedule of capital securities issued by NIBC:		
Balance at 1 January	**200**	**200**
Profit attributable to holders of capital securities	12	12
Paid coupon on capital securities	(12)	(12)
Balance at 31 December	**200**	**200**

The capital securities are perpetual and have no expiry date. The distribution on the Capital Securities issued in September 2017 is as follows: the coupon is 6% per year and is made payable every six months in arrears as of the issue date (29 September 2017), for the first time on 29 March 2018. The capital securities are perpetual and first redeemable on 29 September 2026. As of 29 September 2026, and subject to capital securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5 year euro swap rate +5.564 %. Any payments including coupon payments are fully discretionary.

The principal amount of the capital securities will be written down if the CET1 ratio of NIBC falls below 5.125%. Following such reduction, the principal amount may, at NIBC's discretion, be written-up to the original principal amount if certain conditions are met. In addition, the capital securities may be subject to a permanent write-down or conversion into equity in circumstances where the competent resolution authority would determine that NIBC has reached the point of non-viability or the occurrence of a bail-in.

45 Fair value of financial instruments

This note describes the fair value measurement of both financial and non-financial instruments and is structured as follows:

45.1 Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as follows:

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

45.2 Valuation governance

NIBC's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of NIBC including the Risk and Finance functions. Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions.

45.3 Financial instruments by fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

Fair value of financial instruments at 31 December 2019

in EUR millions	Level 1	Level 2	Level 3	2019
Financial assets at fair value through profit or loss (including trading):				
Debt investments	16	73	2	91
Equity investments (including investments in associates)	2	-	251	253
Loans	-	108	34	142
Derivative financial assets	-	482	-	482
	18	**663**	**287**	**968**
Financial assets at fair value through other comprehensive income:				
Debt investments	820	134	-	954
	820	**134**	**-**	**954**
	838	**797**	**287**	**1,922**

in EUR millions	Level 1	Level 2	Level 3	2019
Financial liabilities at fair value through profit or loss (including trading):				
Own debt securities in issue	-	39	-	39
Debt securities in issue structured	-	184	-	184
Derivative financial liabilities	-	225	-	225
Subordinated liabilities	-	167	-	167
	-	**615**	**-**	**615**

Fair value of financial instruments at 31 December 2018

in EUR millions	Level 1	Level 2	Level 3	2018
Financial assets at fair value through profit or loss (including trading):				
Debt investments	-	75	2	77
Equity investments (including investments in associates)	3	-	184	187
Loans	-	99	49	148
Derivative financial assets	-	579	-	579
	3	**753**	**235**	**991**
Financial assets at fair value through other comprehensive income:				
Debt investments	779	9	-	788
	779	**9**	**-**	**788**
	782	**762**	**235**	**1,779**

in EUR millions	Level 1	Level 2	Level 3	2018
Financial liabilities at fair value through profit or loss (including trading):				
Own debt securities in issue	-	39	-	39
Debt securities in issue structured	-	282	-	282
Derivative financial liabilities	-	210	-	210
Subordinated liabilities	-	162	-	162
	-	**693**	**-**	**693**

45.4 Valuation techniques

The following is a description of the determination of fair value for financial instruments that are recorded at fair value using either quoted prices or valuation techniques. These incorporate NIBC's interpretation of valuation assumptions (qualitative) that a market participant would consider when valuing the instruments.

Financial assets at fair value through profit or loss

Debt investments - level 1

For the determination of fair value at 31 December 2019, NIBC used market-observable prices. NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

Equity investments - level 1

The level 1 portfolio consists of unadjusted, quoted prices for assets in an active market. The assets have been valued at the market's closing price of 31 December 2019.

Debt investments - level 2

For the determination of fair value at 31 December 2019, NIBC applied market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

Loans - level 2 and 3

In an active market environment, these assets are marked-to-market by applying market bid quotes observed on the secondary market. The quotes received from other banks or brokers and applied in the marked-to-market process are calibrated to actual market trades whenever possible.

In certain instances, where the market is inactive, a discounted cash flow model is used based on various assumptions including market interest rates, market credit spread levels and assumptions regarding market liquidity, where relevant. Additional pricing reference points have been obtained by collecting spreads using primary transactions that are comparable with the relevant loans.

Derivatives financial assets and liabilities (held for trading and used for hedging) - level 2

Derivative products valued using a valuation technique with market-observable inputs are mainly interest rate swaps, currency swaps, credit default swaps and foreign exchange contracts. The most frequently applied valuation techniques include swap models using present value calculations. The models incorporate various inputs including foreign exchange rates, credit spread levels and interest rate curves. Credit derivative valuation models also require input as to the estimated probability of default and recovery value.

Debt investments - level 3

For the level 3 debt investments, NIBC uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

Equity investments (including investments in associates) - level 3

The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process.

The fair value of equity investments is established by applying capitalisation multiples to maintainable earnings. Maintainable earnings are estimated based on the normalised last twelve months' EBITDA. Capitalisation multiples are derived from the enterprise value and the normalised last twelve months EBITDA. On each reporting date, the capitalisation multiple of each equity investment is compared against those derived from the publicly available enterprise value and earnings information of traded peers, where these can be identified. Peer capitalisation multiples are normalised for factors such as differences in regional and economic environment, time lags in earnings information and one-off gains and losses.

The resulting enterprise value is adjusted for net debt, non-controlling interests, illiquidity and management incentive plans to arrive at the fair value of the equity.

Financial assets at fair value through other comprehensive income

Debt investments - level 1

For the determination of fair value at 31 December 2019, NIBC used market-observable prices (including broker quotes). NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

Debt investments - level 2

For the determination of fair value at 31 December 2019, NIBC used market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

Financial liabilities at fair value through profit or loss (including trading)

Own liabilities designated at fair value through profit or loss - level 2

This portfolio was designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:

- Own debt securities in issue (financial liabilities at fair value through profit or loss);
- Debt securities in issue structured (financial liabilities at fair value through profit or loss);
- Subordinated liabilities (financial liabilities at fair value through profit or loss).

Debt securities in issue structured consist of notes issued with embedded derivatives that are tailored to specific investors' needs. The return on these notes is dependent upon the level of certain underlying equity, interest rate, currency, credit, commodity or inflation-linked indices. The embedded derivative within each note issued is fully hedged on a back-to-back basis, such that effectively synthetic floating rate funding is created. Because of this economic hedge, the income statement is not sensitive to fluctuations in the price of these indices.

In the case of debt securities in issue structured and subordinated liabilities, the fair value of the notes issued and the back-to-back hedging swaps is determined using valuation models developed by a third party employing Monte Carlo simulation, lattice valuations or closed formulas, depending on the type of embedded derivative. These models use market-observable inputs (e.g. interest rates, equity prices) for valuation of these structures.

For each class of own financial liabilities at fair value through profit or loss, the expected cash flows are discounted to present value using interbank zero-coupon rates. The resulting fair value is adjusted for movements in the credit spread applicable to NIBC issued funding.

45.5 Valuation adjustments and other inputs and considerations

Credit and debit valuation adjustments

NIBC calculates CVA/DVA (as defined in Critical accounting estimates and judgements) on a counterparty basis over the entire life of the exposure.

Bid-offer

NIBC's pricing models initially calculate mid-market prices, which are subsequently adjusted to reflect bid-offer spreads (the difference between prices quoted for sales and purchases). NIBC Markets pricing models use bid prices. As of the 31st December 2019, NIBC is able to retrieve only bid prices from our independent sources. Thus, a mid-bid adjustment is not relevant anymore.

Day-1 profit

A Day-1 profit, representing the difference between the transaction price and the fair value output of internal models, is recognised when the inputs to the valuation models are observable data market data.

45.6 Impact of valuation adjustments

The following table shows the amount recorded in the income statement:

in EUR millions	2019	2018
Type of adjustment		
Credit value adjustment / Debit value adjustment	-	-
Totally Risk related	**-**	**-**
Bid-offer adjustment	-	(1)
Day-1 profit (see the following table)	12	7
	12	**6**

The following table shows the movement in the aggregate profit not recognised when financial instruments were initially recognised (Day-1 profit), because of the use of valuation techniques for which not all the inputs were market observable data.

in EUR millions	2019	2018
Movement schedule of day-1 profit		
Balance at 1 January	**7**	**-**
Deferral of profit on new transactions	-	-
Recognised in the income statement during the period:		
Subsequent recognition due to amortisation	5	7
Derecognition of the instruments	-	-
Exchange differences	-	-
Balance at 31 December	**12**	**7**

45.7 Own credit adjustments on financial liabilities designated at fair value

Changes in the fair value of financial liabilities designated at fair value through profit or loss related to own credit are recognised in other comprehensive income and presented in the statement of comprehensive income. The following table summarises the effects of own credit adjustments related to financial liabilities designated at fair value. Life-to-date amounts reflect the cumulative unrealised change since initial recognition.

in EUR millions	2019	2018
	Included in OCI	
Recognised during the period (before tax):		
Unrealised gain/(loss)	(9)	27
	(9)	**27**
Unrealised life-to-date gain/(loss)	87	96
	87	**96**

45.8 Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 fair value measurements.

Transfers between levels are reviewed semi-annually at the end of the reporting period.

45.9 Movements in level 3 financial instruments measured at fair value

In 2019 no debt investments at fair value through profit or loss have been transferred from level 2 to level 3. The level 3 classification in the fair value hierarchy better reflected the underlying valuation methodology.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value:

in EUR millions	At 1 January 2019	Amounts recognised in the income statement	Purchases/ Additions	Sales	Settle-ments/ Disposals	Transfers into level 3	At 31 December 2019
Financial assets at fair value through profit or loss (including trading):							
Debt investments	2	1	-	-	(1)	-	2
Equity investments (including investments in associates)	184	57	40	-	(30)	-	251
Loans	49	2	13	(8)	(22)	-	34
	235	**60**	**53**	**(8)**	**(53)**	**-**	**287**

in EUR millions	At 1 January 2018	Amounts recognised in the income statement	Purchases/ Additions	Sales	Settle-ments/ Disposals	Transfers into level 3	At 31 December 2018
Financial assets at fair value through profit or loss (including trading):							
Debt investments	1	1	-	-	(2)	2	2
Equity investments (including investments in associates)	320	74	50	-	(260)	-	184
Loans	-	(6)	-	-	-	55	49
	321	**69**	**50**	**-**	**(262)**	**57**	**235**

Total gains or losses on level 3 financial instruments in the previous table are presented in the income statement and other comprehensive income as follows:

	For the years ended							
	31 December 2019				31 December 2018			
in EUR millions	Net trading income	Net gains or (losses) from assets and liabilities at fair value through profit or loss	Invest-ment income	Total	Net trading income	Net gains or (losses) from assets and liabilities at fair value through profit or loss	Invest-ment income	Total
Financial assets at fair value through profit or loss (including trading):								
Debt investments	1	-	-	1	1	-	-	1
Equity investments (including investments in associates)	-	-	57	57	-	-	74	74
Loans	-	2	-	2	-	(6)	-	(6)
	1	**2**	**57**	**60**	**1**	**(6)**	**74**	**69**

The amount in total gains or losses presented in the income statement for the period relating to the assets and liabilities held in level 3 until the end of the reporting period is given in the following table:

	For the years ended			
	31 December 2019		31 December 2018	
in EUR millions	Held at balance sheet date	Derecognised during the period	Held at balance sheet date	Derecognised during the period
Financial assets at fair value through profit or loss (including trading):				
Debt investments	-	1	-	1
Equity investments (including investments in associates)	57	-	72	2
Loans	2	-	(6)	-
	59	**1**	**66**	**3**

Recognition of unrealised gains and losses in level 3

Amounts recognised in the profit and loss account relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the profit and loss account as follows:

	For the years ended					
	31 December 2019			31 December 2018		
in EUR millions	Net gains or (losses) from assets and liabilities at fair value through profit or loss	Invest-ment income	Total	Net gains or (losses) from assets and liabilities at fair value through profit or loss	Invest-ment income	Total
Financial assets at fair value through profit or loss (including trading):						
Debt investments	-	-	-	-	-	-
Equity investments (including investments in associates)	-	41	41	-	-	-
Loans	2	-	2	(6)	-	(6)
	2	**41**	**43**	**(6)**	**-**	**(6)**

45.10 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table provides a summary of the valuation techniques, key unobservable inputs and the lower and upper range of such unobservable inputs, by type of level 3 asset/liability. The lower and upper range mentioned in the overview represent the lowest and highest variance of the respective valuation input as actually used in the valuation of the different financial instruments. Amounts and percentages stated are unweighted. The range could change from period to period subject to market movements and change in level 3 position. Lower and upper bounds reflect the variability of level 3 positions and their underlying valuation inputs in the portfolio, but do not adequately reflect their level of valuation uncertainty. For valuation uncertainty assessment, please refer to following section 45.11 Sensitivity of fair value measurements to changes in observable market data.

Given the wide range of diverse investments and the correspondingly large differences in prices, NIBC does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

	31 December 2019		31 December 2018	
in EUR millions	Fair value of level 3 assets	Fair value of level 3 liabilities	Fair value of level 3 assets	Fair value of level 3 liabilities
Financial assets at fair value through profit or loss (including trading):				
Debt investments	2	-	2	-
Equity investments (including investments in associates)	251	-	184	-
Loans	34	-	49	-
	287	**-**	**235**	**-**

Non-listed equity investments
Level 3 equity securities mainly include corporate investments, fund investments and other equity securities which are not traded in active markets. In the absence of an active market, fair values are estimated on the analysis of fund manager reports, company's financial position and other factors.

Discount spreads
Discount spread is the spread above a market interest rate, based on Euribor, which is used to discount the projected cash flows. The discount spread is derived from residential mortgage market quotes of lenders in the Dutch residential mortgage market after deduction of relevant upfront costs.

Expected sales prices underlying assets
The fair value of the loans available for sale is highly dependent on the projected sales prices of the underlying assets. The lower level assumes actual sales prices of 75% of the projected sales prices the higher level assumes actual salesprices of 125%.

Price
For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay the estimated yield.

45.11 Sensitivity of fair value measurements to changes in observable market data

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

	For the years ended			
	31 December 2019		31 December 2018	
in EUR millions	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets at fair value through profit or loss (including trading):				
Debt investments	2	-	2	-
Equity investments (including investments in associates)	251	13	184	9
Loans	34	2	49	3

In order to determine the reasonably possible alternative assumptions, NIBC adjusted key unobservable valuation technique inputs as follows:

- For the debt investments, NIBC adjusted the weighted average calculated model price by 100 basis points as a reasonably possible alternative outcome. The primary unobservable input in the calculated model price is the applicable credit spread;
- For equity investments, the material unobservable input parameters, such as capitalisation multiple, that are applied to the maintainable earnings to determine fair value are adjusted by 5%;
- For loans, the sensitivity in unobservable input parameters, such as the change in discount factor due to macro economic developments, company specific risk profile and yield offer vs. demand in sector is determined as 5%.

In 2019, there were no significant changes in the business or economic circumstances that affect the fair value of the NIBC's financial assets and liabilities and there were no reclassifications of financial assets.

45.12 Fair value information on financial instruments not measured at fair value

The following table presents the carrying values and estimated fair values of financial assets and liabilities, excluding financial instruments which are carried at fair value on a recurring basis:

	Fair value information at 31 December 2019				
in EUR millions	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at amortised cost:					
Debt investments	-	10	-	10	11
Loans	-	7,636	-	7,636	7,563
Lease receivables	-	25	-	25	25
Mortgage loans	-	-	9,637	9,637	9,964
Securitised mortgage loans	-	-	407	407	434
Financial liabilities at amortised cost:					
Own debt securities in issue	-	6,305	-	6,305	6,701
Debt securities in issue related to securitised mortgages and lease receivables	-	-	392	392	395
Subordinated liabilities	-	117	-	117	151

	Fair value information at 31 December 2018				
in EUR millions	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at amortised cost:					
Loans	-	7,717	-	7,717	7,638
Lease receivables	-	53	-	53	53
Mortgage loans	-	-	8,990	8,990	9,379
Securitised mortgage loans	-	-	461	461	495
Financial liabilities at amortised cost:					
Own debt securities in issue	-	5,451	-	5,451	5,721
Debt securities in issue related to securitised mortgages and lease receivables	-	-	447	447	446
Subordinated liabilities	-	116	-	116	154

The fair value disclosed for the mortgage loans is based on the retail spread. The retail spread in turn is determined by comparing mortgage quotes of Dutch mortgage lenders to the risk free curve and subsequently deducting the appropriate upfront costs.

NIBC determines the fair value of mortgage loans (both those it holds in part of its own warehouse and those it has securitised) by using a valuation model developed by NIBC. This model discounts expected cash flows to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the costs and the risks of the assets. Subsequently NIBC calculates a discount spread via a top-down approach.

The top-down approach derives a discount spread by taking into account the mortgage rates of newly originated loans in the consumer market. The offered mortgage rate is determined by collecting mortgage rates from other professional lenders sorted by product, loan-to-value class and the fixed-rate period. The discount spread is derived by comparing the offered mortgage rate to the market interest rates taking into account various upfront costs embedded in the offered mortgage rate. Where deemed necessary, surcharges are added to reflect the illiquidity of certain sub-portfolios.

Financial instruments for which carrying value approximates fair value

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These financial instruments include cash and balances with central banks, due from other banks, due to other banks, deposits from customers and other financial liabilities. These financial instruments are not included in the previous table.

45.13 Non-financial assets valued at fair value

Until year end 2018 NIBC's land and buildings were valued at fair value through equity (31 December 2018: carrying amount EUR 42 million). On 1 January 2019 part of the land and buildings were reclassified from property and equipment to investment property, based on the actual change in its use (i.e. a transfer of a significant part to the available-for-rental status). Just before this reclassification land and buildings were revalued as of 1 January 2019 based on independent external appraisal.

NIBC's land and buildings (for-own-use) are valued at fair value through equity, the carrying amount (level 3) at 31 December 2019 is EUR 30 million.

NIBC's investment property (available-for-rental) are valued at fair value through profit or loss, the carrying amount (level 3) at 31 December 2019 is EUR 23 million. The fair value of the right-of-use assets does not materially deviate from the carrying amount.

46 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	At 31 December 2019					
				Related amounts not set off in the balance sheet		
in EUR millions	Gross amount of recognised financial assets	Gross amount of recognised financial assets set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments collateral	Cash collateral paid	Net amount
Assets:						
Derivative financial assets	482	-	482	-	61	421
	482	**-**	**482**	**-**	**61**	**421**

	At 31 December 2019					
				Related amounts not set off in the balance sheet		
in EUR millions	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Financial instruments collateral	Cash collateral received	Net amount
Liabilities:						
Derivative financial liabilities	225	-	225	-	186	39
	225	**-**	**225**	**-**	**186**	**39**

	At 31 December 2018					
				Related amounts not set off in the balance sheet		
in EUR millions	Gross amount of recognised financial assets	Gross amount of recognised financial assets set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments collateral	Cash collateral paid	Net amount
Assets:						
Derivative financial assets	579	-	579	-	123	456
	579	**-**	**579**	**-**	**123**	**456**

	At 31 December 2018					
				Related amounts not set off in the balance sheet		
in EUR millions	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Financial instruments collateral	Cash collateral received	Net amount
Liabilities						
Derivative financial liabilities	210	-	210	-	155	55
	210	**-**	**210**	**-**	**155**	**55**

Related amounts which cannot be set off in the balance sheet position are amounts which are part of ISDA netting agreements. The related amounts are reported on the asset side and the liability side of the balance sheet as the ISDA agreements do not meet all requirements for offsetting in IAS 32.

47 Repurchase and resale agreements and transferred financial assets

NIBC has a programme to borrow and lend securities and to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos'). The securities lent or sold under agreements to repurchase are transferred to a third party and NIBC receives cash, or other financial assets in exchange. The counterparty is allowed to sell or repledge those securities lent or sold under repurchase agreements in the absence of default by NIBC, but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under terms based on the applicable ISDA Collateral Guidelines. If the securities increase or decrease in value, NIBC may in certain circumstances, require, or be required, to pay additional cash collateral. NIBC has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly NIBC may sell or repledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by NIBC, which instead records a separate asset for the cash collateral given.

NIBC conducts these transactions under terms agreed in Global Master Repurchase Agreements. As per year-end 2019 NIBC did not have any repurchase and resale agreement related positions as described in this note (2018: nil).

Transferred financial assets

This disclosure provides insight into the relationship between these transferred financial assets and associated financial liabilities in order to understand which risks NIBC is exposed to when the assets are transferred.

If transferred financial assets continue to be recognised on the balance sheet, NIBC is still exposed to changes in the fair value of the assets.

Transferred financial assets that are not derecognised in their entirety

The following table shows transferred financial assets that are not derecognised in their entirety:

in EUR millions	2019 RMBS programme Securitised mortgage loans (AC)	2019 Covered Bond programme Mortgage loans own book (AC)	2018 RMBS programme Securitised mortgage loans (AC)	2018 Covered Bond programme Mortgage loans own book (AC)
Securitisations:				
Carrying amount transferred assets	407	3,661	461	3,171
Carrying amount associated liabilities	391	998	447	1,500
Fair value of assets	407	3,824	461	3,333
Fair value of associated liabilities	395	1,023	446	1,504
Net position	**12**	**2,801**	**15**	**1,829**

RMBS programme
NIBC uses securitisations as a source of funding whereby the *Structured Entity* (**SE**) issues debt securities. Pursuant to a securitisation transaction utilising true sale mechanics, NIBC transfers the title of the assets to SEs. When the cash flows are transferred to investors in the notes issued by consolidated securitisation vehicles, the assets (residential mortgage loans) are considered to be transferred.

The Covered Bond programme
Under NIBC's Covered Bond programme, notes are issued by NIBC from its own balance sheet. Bond holders are protected from suffering a loss even in the event that NIBC defaults because at the point the notes were issued, NIBC also transferred the legal title of a portfolio of mortgages to a SE to act as collateral for the covered bond investors. From a legal perspective, the SE guarantees the repayment of the Covered Bonds. The title transfer of the mortgages has been achieved by NIBC providing an inter-company loan on the same terms and conditions as the external bonds to the SE. The SE used the proceeds to purchase the mortgage portfolio. The net result is that the SE retains the legal title, but proceeds from the mortgages are passed through the intercompany loan to the covered bond holders. NIBC consolidates the SE on the basis that, in addition to having power as the sole owner, NIBC also is entitled to substantial variable returns through the over-collateralised portion of the sold mortgages.

Continuing involvement in transferred financial assets that are derecognised in their entirety
NIBC does not have any material transferred assets that are derecognised in their entirety, but where NIBC has continuing involvement.

48 Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers related to mortgages at fixed-interest rates or fixed spreads are hedged with interest rate swaps recorded at fair value. These commitments are designated upon initial recognition at fair value through profit or loss.

NIBC provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. In the following table, it is assumed that amounts are fully advanced.

The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

in EUR millions	2019	2018
Contract amount:		
Committed facilities with respect to corporate loan financing	1,662	1,704
Committed facilities with respect to mortgage loans	267	503
Capital commitments with respect to equity investments	29	20
Guarantees granted (including guarantees related to assets held for sale)	69	56
Irrevocable letters of credit	70	64
	2,097	**2,347**

Refer to note 37 Provisions for the ECL-allowances on off-balance sheet financial instrument positions.

in EUR millions	2019	2018
Remaining legal maturity analysis of issued financial guarantees & commitments loans:		
One year or less	316	561
Longer than one year but not longer than five years	335	157
Longer than five years but not longer than ten years	1,170	1355
Longer than ten years	276	274
	2,097	**2,347**

The following tables show the credit quality and the maximum exposure to credit risk on financial guarantees and irrevocable letters of credit based on the NIBC's internal credit rating system and year-end stage classification.

Outstanding exposure - Guarantees granted & Irrevocable letters of credit

in EUR millions	Stage 1	Stage 2	Stage 3	Total 2019
`				
Internal rating grade:				
Investment	-	-	-	-
Sub-investment	62	11	-	73
Default	-	-	36	36
Unrated	27	3	-	30
	89	**14**	**36**	**139**

An analysis of changes in the outstanding exposures - financial guarantees and letters of credit and the corresponding ECLs is, as follows:

in EUR millions	Stage 1	Stage 2	Stage 3	Total 2018
Internal rating grade:				
Investment	3	-	-	3
Sub-investment	97	18	-	115
Default	-	-	2	2
Unrated	-	-	-	-
	100	**18**	**2**	**120**

in EUR millions	Stage 1	Stage 2	Stage 3	Total 2019
Outstanding as at 1 January 2019	**100**	**18**	**2**	**120**
New exposures	21	-	-	21
Exposures derecognised of matured/lapsed	-	(3)	-	(3)
Transfers:				
Transfers from stage 1 to stage 2	(49)	49	-	-
Transfers from stage 2 to stage 1	15	(15)	-	-
Transfers from stage 2 to stage 3	-	(36)	36	-
Transfers from stage 3 to stage 2	-	2	(2)	-
Foreign exchange adjustments	2	(1)	-	1
At 31 December 2019	**89**	**14**	**36**	**139**

in EUR millions	Stage 1	Stage 2	Stage 3	Total 2018
Outstanding as at 1 January 2018	**63**	**25**	**3**	**91**
New exposures	30	-	-	30
Exposures derecognised of matured/lapsed	-	(1)	(1)	(2)
Transfers:				
Transfers from stage 1 to stage 2	(1)	1	-	-
Transfers from stage 2 to stage 1	7	(7)	-	-
Foreign exchange adjustments	1	-	-	1
At 31 December 2018	**100**	**18**	**2**	**120**

The following tables show the credit quality and the maximum exposure to credit risk on other undrawn commitments based on the NIBC's internal credit rating system and year-end stage classification.

Oustanding exposure - Other undrawn commitments

in EUR millions	Stage 1	Stage 2	Stage 3	POCI	Fair value	Total 2019
Internal rating grade:						
Investment	409	-	-	-	-	409
Sub-investment	1,122	71	-	-	31	1,224
Default	-	-	2	4	-	6
Default grade (bankruptcy filing)	-	-	-	-	-	-
Unrated	20	1	-	-	2	23
	1,551	**72**	**2**	**4**	**33**	**1,662**

in EUR millions	Stage 1	Stage 2	Stage 3	POCI	Fair value	Total 2018
`						
Internal rating grade:						
Investment	210	-	-	-	-	210
Sub-investment	1,372	52	-	-	40	1,464
Default	-	-	1	-	-	1
Default grade (bankruptcy filing)	-	-	-	-	-	-
Unrated	-	29	-	-	-	29
	1,582	**81**	**1**	**-**	**40**	**1,704**

An analysis of changes in the outstanding exposures - other undrawn commitments and the corresponding ECLs is, as follows:

in EUR millions	Stage 1	Stage 2	Stage 3	POCI	Fair value	Total 2019
`						
Outstanding as at 1 January 2019	**1,582**	**81**	**1**	**-**	**40**	**1,704**
New exposures	-	-	-	4	-	4
Exposures derecognised or matured/lapsed	(35)	(15)	(2)	-	(7)	(59)
Transfers:						
Transfers from stage 1 to stage 2	(78)	78	-	-	-	-
Transfers from stage 2 to stage 1	69	(69)	-	-	-	-
Transfers from stage 2 to stage 3	-	(1)	1	-	-	-
Foreign exchange adjustments	13	(2)	2	-	-	13
At 31 December 2019	**1,551**	**72**	**2**	**4**	**33**	**1,662**

in EUR millions	Stage 1	Stage 2	Stage 3	POCI	Fair value	Total 2018
`						
Outstanding as at 1 January 2018	**1,430**	**81**	**1**	**-**	**21**	**1,533**
New exposures	150	-	-	-	19	169
Exposures derecognised or matured/lapsed	-	(29)	(1)	-	-	(30)
Transfers:						
Transfers from stage 1 to stage 2	(38)	67	-	-	-	29
Transfers from stage 2 to stage 1	38	(38)	-	-	-	-
Foreign exchange adjustments	2	-	1	-	-	3
At 31 December 2018	**1,582**	**81**	**1**	**-**	**40**	**1,704**

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 55 Credit risk.

Contingent liabilities related to income tax

The European Commission has addressed questions related to the Dutch Government about article 29a of the Dutch Corporate Income Tax Code. If the European Commission would decide to start a formal investigation and ultimately would conclude that this is a case of state aid, NIBC may have to repay tax benefits it enjoyed on the coupon payments. Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. In this context NIBC issued Capital Securities in September 2017, amounting EUR 200 million at a fixed interest rate of 6%. The contingent liability related to this matter started at the (fully discretionary) first coupon payment date (March 2018).

Article 29a has been abolished as of January 1, 2019. This limits any state aid exposure to coupon payments made during the time period September 2017 up to and including December 2018.

Claims, investigations, litigation or other proceedings or actions may have a material adverse effect on NIBC's business, results of operations, financial condition and prospects.

NIBC is involved in a number of proceedings and settlement negotiations with customers, counterparties, current or former employees or others arising in the ordinary course of business. Proceedings may relate to, for example, alleged violations of NIBC's duty of care (*zorgplicht*) vis-a-vis its (former) customers, the provision of allegedly inadequate investment advice or the provision of allegedly inadequate services. Negative publicity associated with certain sales practices, compensation payable in respect of such issues or regulatory changes resulting from such issues could have a material adverse effect on NIBC's reputation, business, results of operations, financial condition and prospects. Dutch financial services providers are increasingly exposed to collective claims from groups of customers or consumer organisations seeking damages for an unspecified or indeterminate amount or involving unprecedented legal claims in respect of assumed mis-selling or other violations of law or customer rights.

While NIBC has made considerable investment in reviewing and assessing historic sales and "know your customer' practices and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historic sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated. Assessments of the likelihood of claims arising from former activities are often difficult to accurately assess, due to the difficulties in applying more recent standards or court judgements to past practices. Furthermore many individual transactions are heavily fact-specific and the likelihood of applicability to more transactions of a court decision received on one particular transaction, is difficult to predict until a claim actually materialises and is elaborated. Changes in customer protection regulations and in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might also influence client expectations. One example of past practice that is currently being subjected to a review of the correctness of such behaviour relates to EURIBOR-based mortgages. In 2017 NIBC acquired a portfolio of mortgages and, as part of such acquisition, took over a number of such EURIBOR-based mortgages. Such types of mortgages are currently the subject of individual and class action claims towards another financial institution within the Netherlands. The claimants have been contesting the contractual right of such mortgage lender to have adjusted the margin and alleged that the mortgage lender violated its duty of care towards the relevant customers. Recently, the Supreme Court found in favour of such financial institution and referred the case back to the Court of Appeal of Amsterdam. Given the similarity of the facts to the EURIBOR-based mortgages within the portfolio acquired by NIBC, NIBC is monitoring such developments and has notified the relevant clients that it will apply the outcome of these court proceedings to the EURIBOR-based loans acquired by NIBC. The risks related to this legal issue were taken into account at the time of acquisition of this mortgage portfolio and factored into the consideration paid by NIBC at the time. Recently, a settlement has been agreed between the parties to that litigation. NIBC is currently examining that settlement with a view to deciding next steps towards its own affected clients, given such settlement and therefore absence of a final court outcome.

On 18 February, 2020 NIBC received inquiries from Vereniging van Effectenbezitters (VEB) concerning NIBC Holding N.V.'s share price developments and associated trading volumes in relation to the announced firm proposal from Blackstone on 14 February, 2020.

It is difficult for NIBC to predict the outcome of many of the pending or future claims, regulatory proceedings and other adversarial proceedings. The costs and staffing capacity required to defend against future actions may be significant. Counterparties in these proceedings may also seek publicity, over which NIBC will have no control, and this publicity could lead to reputational harm to NIBC and potentially decrease customer acceptance of NIBC's services, regardless of whether the allegations are valid or whether NIBC is ultimately found liable. In addition, NIBC's provisions for defending these claims may not be sufficient.

On the basis of legal advice and taking into consideration the facts known at present, NIBC is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on its consolidated financial position and consolidated results.

49 Assets transferred or pledged as collateral

in EUR millions	2019	2018
Assets have been pledged as collateral in respect of the following liabilities and contingent liabilities:		
Liabilities		
Due to other banks/Own debt securities in issue	4,202	3,732
Debt securities in issue related to securitised loans and mortgages	760	823
Derivative financial liabilities	169	112
	5,131	**4,667**
Details of the carrying amounts of assets pledged as collateral:		
Assets pledged		
Debt investments/Mortgage loans own book	5,105	4,525
Securitised loans and mortgages	927	864
Cash collateral (due from other banks)	203	155
	6,235	**5,544**

As part of NIBC's funding and credit risk mitigation activities, the cash flows of selected financial assets are transferred or pledged to third parties. Furthermore, NIBC pledges assets as collateral for derivative transactions. Substantially all financial assets included in these transactions are Mortgage loans, other loan portfolios, debt investments and cash collateral. The extent of NIBC's continuing involvement in these financial assets varies by transaction.

The asset encumbrance ratio (encumbered assets and total collateral received re-used divided by total assets and total collateral re-used) at year end 2019 was 28% (2018: 26%).

50 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of customers. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to these assets, as it does not guarantee these investments.

in EUR millions	2019	2018
Assets held and managed by NIBC on behalf of customers	5,091	3,311
	5,091	**3,311**

Assets under management consist of the following activities:

- NIBC Leveraged Finance Markets (LFM) manages external investors' funds invested in sub-investment grade secured and unsecured debt. LFM focuses predominantly on European leveraged loans, infrastructure debt and high yield bonds;
- NIBC Infrastructure and Renewables manages external investors' funds invested in Infrastructure debt mainly located in the United Kingdom;
- The NIBC European Infrastructure Fund was established for institutional clients, and in addition acts directly for pension fund investors, assisting them with the acquisition and on-going management of infrastructure investments. Core sectors, reflecting the expertise and experience of the NIBC team, include PPP projects, waste management projects, energy storage and distribution assets and renewable energy projects in the wind, solar and waste-to-energy sectors;
- Under Originate-to-manage mandates, NIBC's retail client offering manages external investors' funds invested in Dutch mortgages;

Refer to note 3 Net fee income for related investment management and originate-to-manage fee income.

NIBC's sustainability policy framework, including applicable sector policies, is also applicable to the investments made under these programmes.

For more information please see our website.

51 Related party transactions

In the normal course of business, NIBC enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NIBC include, amongst others, its subsidiaries, associates and key management personnel. The transactions were made at an arm's length price. Transactions between NIBC and its subsidiaries meet the definition of related party transactions. However, as all of these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

Transactions with NIBC's parent company

in EUR millions	2019	2018
Transactions involving NIBC's shareholder:		
Assets	170	275
Liabilities	-	-
Off-balance sheet commitments	-	-
Income received	1	1
Expenses paid	-	-

Transactions with other entities controlled by the parent company

in EUR millions	2019	2018
Transactions involving NIBC's shareholder:		
Assets	463	390
Liabilities	(28)	(34)
Off-balance sheet commitments	6	29
Income received	6	13
Expenses paid	-	-

All intended deals with related parties, including the JC Flowers Fund IV related to the majority shareholder of NIBC, are (pre)discussed in the Related Party Transaction Committee. The transactions with JC Flowers Fund IV are at arm's length.

In November 2019, NIBC supported Reggeborgh in the envisaged public offer for VolkerWessels. NIBC acted as financial advisor to the shareholders of Reggeborgh and provided the debt financing in which Reggeborgh has the ability to draw down debt for an amount of EUR 200 million (EUR 75 million drawn as per 31 December 2019).

In 2015, NIBC made a commitment of USD 10 million to 'Flowers Fund IV'and in 2016 NIBC made an additional commitment of USD 5 million to 'Flowers Fund III' bringing the total commitment in this fund to USD 15 million. Both funds are managed by an affiliate of J.C. Flowers & Co.

At 2 November 2018 NIBC committed to a co-investment of EUR 30 million in HSH Nordbank along with the 'Flowers Fund IV'. NIBC's exposure to HSH Nordbank is EUR 30 million. Due to the existing relationship with the J.C. Flowers Funds a waiver has been obtained for certain fees.

In 2018, EUR 7 million fee related to the purchase of HSH Nordbank by a consortium led by J.C. Flowers Funds, where NIBC acted as the M&A advisor for the buyer has been received.

Transactions with other entities controlled by NIBC's shareholders

In 2019 and 2018 there were no transactions between NIBC and other entities controlled by NIBC's shareholders.

Transactions related to associates and joint ventures

in EUR millions	2019	2018
Transactions related to associates:		
Assets	151	104
Liabilities	-	-
Off-balance sheet commitments	52	38
Income received	9	6
Expenses paid	-	-

Assets, liabilities, commitments and income related to associates result from transactions which are executed as part of the normal banking business. Summarised financial information for the group's investments in associates and joint ventures is set out in note 52 Principal subsidiaries and associates.

Key management personnel investments

NIBC's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of NIBC (directly or indirectly). Key management personnel of NIBC consist of the ExCo members (including Statutory Board members).

Details of the remuneration of the Statutory Board members and Supervisory Board members are disclosed in note 54. For details of the holdings of Statutory Board members and other staff in NIBC Choice instruments reference is made to note 9 Personnel expenses and share-based payments.

Other transactions with key management personnel and related parties

In 2018 key management personnel (ExCo members) were granted CDRs under the one-off retention package and some of them personally invested at the IPO date in CDRs under the DRPP (for further details see note 54).

Details of the remuneration of the Statutory Board members and Supervisory Board members are disclosed in note 54. For details of the holdings of Statutory Board members in NIBC Choice instruments reference is also made to note 54.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation (i.e. ExCo, including the Statutory Board).

Compensation of ExCo members over the year 2019

	Short term incentive compensation					
in EUR	Base salary	Cash bonus	Deferred cash	Pension related short term allowance[1]	Other remuneration elements	Total short term incentive compen-sation
Current Statutory Board (3)	2,075,828	124,550	83,033	438,577	135,454	2,857,442
Current Executive Board members, not Statutory board (3)	1,050,000	94,500	63,000	182,120	92,826	1,482,446
	3,125,828	**219,050**	**146,033**	**620,697**	**228,280**	**4,339,888**

1 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 107,593.

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments One-off retention package	Share based payments[1] (Restricted) Phantom Share Units	Total
Current Statutory Board (3)	107,997	-	207,583	3,173,021
Current Executive Board members, not Statutory board (3)	91,670	-	157,500	1,731,616
	199,667	**-**	**365,083**	**4,904,637**

1 Phantom share units.

Compensation of ExCo members over the year 2018

	Short term incentive compensation					
in EUR	Base salary	Cash bonus	Deferred cash	Pension related short term allowance[1]	Other remuneration elements	Total short term incentive compen-sation
Current Statutory Board (3)	2,025,000	121,500	81,000	427,664	156,448	2,811,611
Current Executive Board members, not Statutory board (3)	1,050,000	94,500	63,000	183,914	94,164	1,485,578
	3,075,000	**216,000**	**144,000**	**611,577**	**250,612**	**4,297,189**

1 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 105,075.

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments One-off retention package	Share based payments[1] (Restricted) Phantom Share Units	Total
Current Statutory Board (3)	105,623	3,645,000	202,500	6,764,735
Current Executive Board members, not Statutory board (3)	98,253	1,732,500	157,500	3,473,831
	203,877	**5,377,500**	**360,000**	**10,238,566**

1 Phantom share units.

Holdings of NIBC Choice instruments and NIBC Ordinary Shares of ExCo members at 31 December 2019

	Number of phantom share units	Number of restricted phantom share units	Number of CDRs granted under the one-off retention package (vested)	Number of CDRs granted under the one-off retention package (unvested)	Number of CDRs acquired via the DRPP	Number of ordinary shares (own investments before and after the IPO date)
Current Statutory Board (3)	80,214	30,170	131,514	123,590	94,133	669,826
Current Executive Board members, not Statutory board (3)	30,342	23,029	62,511	58,740	33,332	-
	110,557	**53,198**	**194,025**	**182,330**	**127,465**	**669,826**

Holdings of NIBC Choice instruments and NIBC Shares of ExCo members at 31 December 2018

	Number of phantom share units	Number of restricted phantom share units	Number of CDRs granted under the one-off retention package (vested)	Number of CDRs granted under the one-off retention package (unvested)	Number of CDRs acquired via the DRPP	Number of ordinary shares (own investments before and after the IPO date)[1]
Current Statutory Board (3)	55,711	26,739	58,944	88,413	94,133	652,626
Current Executive Board members, not Statutory board (3)	27,708	20,799	28,017	42,021	33,332	-
	83,419	**47,539**	**86,961**	**130,434**	**127,465**	**652,626**

1 For the acquisition of ordinary shares NIBC Holding by Statutory Board members loans were provided by the Shareholders of NIBC Holding.

Statutory Board member	Loans provided by shareholders of NIBC Holding N.V.	Number of shares
	in EUR	
P.A.M. de Wilt (CEO)	1,200,000	258,140
H.H.J. Dijkhuizen (CFO)	800,000	172,093
R.D.J. van Riel (CRO)	800,000	172,093
	2,800,000	**602,326**

Loans provided by shareholders NIBC Holding N.V.

- The loans provided by shareholders of NIBC Holding N.V. are bearing interest at 5 per cent, including the premium of the put options. The term of the loans is five years;
- The ordinary shares have been pledged to the providers of the loans;
- The voting rights of the ordinary shares have been transferred to the providers of the loans;
- The management participants have a put option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date;
- The providers of the loans have a call option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date;
- Any future transactions in shares will be executed at fair value.

The ordinary shares purchased cannot be sold for five years, except in the situation of a change of control of NIBC Holding N.V. In that case the loans including capitalised and accrued interest must be repaid. If a member of the Statutory Board ceases employment during the five year period, the ordinary shares may not be sold.

NIBC Holding N.V. ordinary shares held by Supervisory Board Members

Supervisory board members are permitted to hold NIBC Holding N.V. ordinary shares as a long term investment. The table below shows the holdings by members of the Supervisory Board at 31 December 2019 and 31 December 2018 respectively.

	Number of ordinary shares	
Supervisory Board member	**2019**	**2018**
M. Christner	20,000	10,000
	20,000	**10,000**

Ordinary shares held by Supervisory Board members are only disclosed for the period for which they have been part of the Supervisory Board.

Mr. J.C. Flowers is a beneficial owner of certain interests of some of the vehicles which are shareholders of NIBC.

52 Principal subsidiaries and associates

Information on principal subsidiaries

Composition of NIBC

NIBC consists of 45 (2018: 42) consolidated entities, including 11 (2018: 11) consolidated structured entities (for further details see note 53). 34 (2018: 31) of the entities controlled by NIBC are directly or indirectly held by NIBC at 100% of the ownership interests (share of capital). Third parties also hold ownership interests in 11 (2018: 11) of the consolidated entities (non-controlling interests).

Accounting for investment in subsidiaries

In the company financial statements of NIBC, investments in subsidiaries are stated at net asset value.

Principal subsidiaries

NIBC's principal subsidiaries are set out in the following table. This includes those subsidiaries that are most significant in the context of NIBC's business, results or financial position.

	Principal place of business	Country	Nature of relationship	Percentage of voting rights held
Subsidiaries of NIBC Bank N.V.:				
NIBC Bank Deutschland AG	Frankfurt	Germany	Banking	100%
Parnib Holding N.V.	The Hague	Netherlands	Financing	100%
Counting House B.V.	The Hague	Netherlands	Financing	100%
B.V. NIBC Mortgage-Backed Assets	The Hague	Netherlands	Financing	100%
NIBC Principal Investments B.V.	The Hague	Netherlands	Financing	100%
NIBC Financing N.V.	The Hague	Netherlands	Financing	100%

Significant judgements and assumptions used to determine the scope of the consolidation

Determining whether NIBC has control of an entity is generally straightforward, based on ownership of the majority of the voting rights. However, in certain instances this determination will involve significant judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgement may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether NIBC, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

There is also often considerable judgement involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, NIBC may conclude that the managers of the structured entity are acting as its agent and therefore NIBC will consolidate the structured entity.

An interest in equity voting rights exceeding 50% (or in certain circumstances large minority shareholding) would typically indicate that NIBC has control of an entity. However certain entities are excluded from consolidation because NIBC does not have exposure to their variable returns and/or are managed by external parties and consequently are not controlled by NIBC. Where appropriate, interests relating to these entities are included in note 53 Structured entities.

See the basis of consolidation section of the Accounting policies for further information on other factors affecting consolidation of an entity.

Significant restrictions to access or use NIBC's assets

Legal, contractual or regulatory requirements as well as protective rights of non-controlling interests might restrict the ability of NIBC to access and transfer assets freely to or from other entities within NIBC and to settle liabilities of NIBC.

Since NIBC did not have any material non-controlling interests at the balance sheet date, any protective rights associated with these did not give rise to significant restrictions.

Restrictions impacting NIBC's ability to use assets:

- NIBC has pledged assets to collateralise its obligations under repurchase agreements, securities financing transactions, collateralised loan obligations and for margining purposes of OTC derivative liabilities;
- The assets of consolidated structured entities are held for the benefit of the parties that have bought the notes issued by these entities;
- Regulatory and central bank requirements or local corporate legislation may restrict NIBC's ability to transfer assets to or from other entities within NIBC in certain jurisdictions.

Carrying amounts of restricted assets

	At 31 December 2019		At 31 December 2018	
in EUR millions	Assets	Restricted assets	Assets	Restricted assets
Cash and balances with central banks	1,965	122	2,056	124
Due from other banks	688	602	568	449
Financial assets at fair value through profit or loss (including trading):				
Debt investments	91	-	77	-
Equity investments (including Investments in associates)	253	107	187	102
Loans	142	-	148	-
Financial assets at fair value through other comprehensive income:				
Debt investments	954	-	788	-
Financial assets at amortised cost:				
Debt investments	10	-	-	-
Loans	7,636	764	7,770	715
Lease receivables	25	-	53	-
Mortgages own book	9,637	6,844	8,990	6,394
Securitised mortgage loans	407	407	461	461
Other:				
Investments in associates and joint ventures (equity method)	21	13	12	10
	21,829	**8,859**	**21,110**	**8,255**

The previous table excludes assets which are solely subject to restrictions in terms of their transferability within NIBC, caused by e.g. local lending requirements or similar regulatory restrictions. Regulatory minimum liquidity requirements are also excluded from the table. NIBC identifies the volume of liquidity reserves in excess of local stress liquidity outflows. The aggregate amount of such liquidity reserves that are considered restricted for this purpose is EUR 122 million and EUR 124 million as per 31 December 2019 and 2018, respectively.

A list of participating interests and companies for which a statement of liability have been issued has been filed at the Chamber of Commerce in The Hague.

Information on associates

NIBC holds interests in 21 (2018: 26) associates.Three associates are considered to be material to NIBC, based on the carrying value of the investment and NIBC's income from these investees. There are no joint arrangements which are considered individually significant.

Accounting classification and carrying value

in EUR millions	2019	2018
Investments in associates (fair value through profit or loss)	128	92
Investments in associates and joint ventures (equity method)	21	12
	149	**104**

Significant associates

NIBC's interests in significant associates are classified as associates fair value through profit or loss and are all unlisted.

The following tables illustrate the summarised financial information of NIBC's investments in associates material to NIBC.

	Principal place of business	Country	Nature of relationship	Percentage of voting rights held
Name of the associate:				
GCF II	The Hague	Netherlands	Investment company	11%
Arles I B.V.	Vianen	Netherlands	Hotel	38%
Finco Fuel Benelux B.V.	Dordrecht	Netherlands	Oil company	30%

The amounts shown in the following table are of the investees, not just NIBC's share for the year ended 31 December 2019. These associates are highly leveraged by equity.

in EUR millions	Assets	Liabilities	Operating income	Other comprehensive income	Total comprehensive income[1]
GCF II	98	2	18	-	18
Arles I B.V.	197	167	10	-	10
Finco Fuel Benelux B.V.	113	94	3		3

1 The figures are based on the latest publicity available financial information of the investee.

NIBC received no dividends from above significant associates in 2019 and 2018.

Investments in associates and joint ventures (equity method)

NIBC's investments in associates and joint ventures (equity method) are EUR 21 million for the year ended 31 December 2019 (31 December 2018: EUR 12 million).

Associates

in EUR millions	2019	2018
Profit or loss from continuing operations	1	3
Other comprehensive income/(loss)	-	-
	1	**3**

in EUR millions	2019	2018
Aggregated amount of NIBC's share of profit/(loss) from continuing operations	5	-
Aggregated amount of NIBC's share of post-tax profit/(loss) from discontinued operations	-	-
Aggregated amount of NIBC's share of other comprehensive income	-	-
	5	**-**

Unrecognised share of the losses of individually immaterial associates was nil in 2019 and 2018.

Other information on associates

NIBC's associates are subject to statutory requirements such that they cannot make remittances of dividends or make loan repayments to NIBC without agreement from the external parties.

NIBC's share of contingent liabilities or capital commitments of its associates and joint ventures was nil in 2019 and 2018.

53 Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities.

The principal use of structured entities is to provide clients with access to specific portfolios of assets and to provide market liquidity for clients through securitising financial assets. Structured entities may be established as corporations, trusts or partnerships. Structured entities generally finance the purchase of assets by issuing notes that are collateralised by and/or indexed to the assets held by the structured entities. The notes issued by structured entities may include tranches with varying levels of subordination.

Structured entities are consolidated when the substance of the relationship between NIBC and the structured entities indicate that the structured entities are controlled by NIBC, as pointed out in the Accounting policies section Basis of consolidation. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

Consolidated structured entities

Nature, purpose and extent of NIBC's interests in consolidated structured entities

Securitisation vehicles

NIBC primarily has contractual arrangements for securitisation vehicles which may require it to provide financial support. NIBC uses securitisation as a source of financing and a means of risk transfer. At 31 December 2019, there was an outstanding junior loan commitment of EUR 12 million (2018: nil) to these entities.

Financial support provided or to be provided to consolidated structured entities

Financial support provided or to be provided to consolidated structured entities NIBC has not provided any non-contractual financial support during 2019 and 2018 and does not anticipate providing non-contractual support to consolidated structured entities in the future.

Unconsolidated structured entities

Nature, purpose and extent of NIBC's interests in unconsolidated structured entities

The structured entities covered by this section are not consolidated since NIBC does not has control them through voting rights, contract, funding agreements and/or other means. The extent of NIBC's interests in unconsolidated structured entities will vary depending on the type of structured entity. Examples of interests in unconsolidated structured entities include debt or equity investments, liquidity facilities and guarantees in which NIBC is absorbing variability of returns from the structured entities.

Securitisation vehicles

NIBC establishes securitisation vehicles which purchase diversified pools of assets, including fixed-income securities, corporate loans, and asset-backed securities (predominantly commercial, residential and mortgage-backed assets). The securitisation vehicles fund these purchases by issuing multiple tranches of notes.

Third-party fund entities

NIBC provides funding to structured entities that hold a variety of assets. These entities may take the form of funding entities, trusts and private investment companies. The funding is collateralised by the asset in the structured entities. NIBC's involvement involves predominantly equity investments.

Income derived from involvement with unconsolidated structured entities

NIBC earns management fees and, occasionally, performance-based fees for its investment management services in relation to funds. Interest income is recognised on the funding provided to structured entities. Movements in the value of different types of notes held by NIBC in structured entities are recognised in net trading income.

Maximum exposure to unconsolidated structured entities

The maximum exposure to loss is determined by considering the nature of the interest in the unconsolidated structured entity. The maximum exposure for loans and trading instruments is reflected in their carrying amounts in the consolidated balance sheet. The maximum exposure for off-balance sheet instruments such as guarantees, liquidity facilities and loan commitments under IFRS 12, as interpreted by NIBC, is reflected by the notional amounts. Such amounts do not reflect the economic risks faced by NIBC because they do not take into account the effects of collateral or hedges nor the probability of such losses being incurred.

At 31 December 2019 off-balance sheet instruments amounts to EUR 29 million (2018: EUR 20 million). There were no derivatives linked to structured unconsolidated entities.

Size of structured entities

NIBC provides a different measure for the size of structured entities depending on their type. The following measures have been considered as appropriate indicators for evaluating the size of structured entities:

- Securitisations – notional of notes in issue when NIBC derives its interests through notes its holds and notional of derivatives when NIBC's interests is in the form of derivatives; and
- Third party fund entities – total assets in entities. For third party fund entities, size information is based on the latest available investor reports and financial statements.

Summary of interests in unconsolidated structured entities

The following table shows, by type of unconsolidated structured entity, the carrying amounts of NIBC's interests recognised in the consolidated statement of financial position as well as the maximum exposure to loss resulting from these interests. It also provides an indication of the size of the structured entities. The carrying amounts presented in the following table do not reflect the maximum exposure to loss because the mitigating effects of collateral and hedges are not taken into consideration.

in EUR millions	Securitisations	Third party fund entities	2019
Financial assets at fair value through profit or loss (including trading):			
Equity investments (including investments in associates)	-	82	82
Financial assets at fair value through other comprehensive income:			
Debt investments	278	-	278
Equity investments	-	-	-
Financial assets at amortised cost:			
Debt investments	-	-	-
Loans	-	1	1
Total assets	**278**	**83**	**361**
Off-balance sheet exposure	-	29	29
Total maximum exposure to loss	**278**	**112**	**390**
Size of structured entities	17,148	59,141	76,289

in EUR millions	Securitisations	Third party fund entities	2018
Financial assets at fair value through profit or loss (including trading):			
Equity investments (including investments in associates)	-	85	85
Financial assets at fair value through other comprehensive income:			
Debt investments	221	-	221
Equity investments	-	-	-
Financial assets at amortised cost:			
Debt investments	-	-	-
Loans	-	1	1
Total assets	**221**	**86**	**307**
Off-balance sheet exposure	-	-	-
Total maximum exposure to loss	**221**	**86**	**307**
Size of structured entities	13,547	61,139	74,686

Loans of EUR 1 million (2018: EUR 1 million) consist of investments in securitisation tranches and financing to third party fund entities. NIBC's financing to third party fund entities is collateralised by the assets in those structured entities.

No debt investments are collateralised by the assets contained in these entities.

Equity investments of EUR 112 million (2018: EUR 105 million) primarily consist of investments in associates of EUR 30 million, EUR 14 million and EUR 13 million in JCF IV Coinvest Neptun I L.P., J.C. Flowers IV LP and Outward VC Fund LLP C.V. respectively.

Exposure to losses

NIBC's exposure to losses related to securitisations depends on the level of subordination of the interest which indicates the extent to which other parties are obliged to absorb credit losses before NIBC. This is summarised in the following table. There is no significant level of subordination relating to third-party funding.

in EUR millions	Subordinated interests	Mezzanine interests	Senior interests	Most senior interests	2019
Securitisations:					
I) Maximum exposure to loss	-	-	-	278	278
II) Potential losses held by other investors	35	235	1,114	15,487	16,871

in EUR millions	Subordinated interests	Mezzanine interests	Senior interests	Most senior interests	2018
Securitisations:					
I) Maximum exposure to loss	-	-	-	221	221
II) Potential losses held by other investors	-	244	924	12,159	13,327

Income from interests in unconsolidated structured entities

The following table presents NIBC's total income received from its interests in unconsolidated structured entities:

in EUR millions	Securitisations	Third party entities	2019
Net income unconsolidated structured entities:			
Net interest income	-	-	-
Net fee and commission income	-	1	1
Investment income	-	10	10
	-	**11**	**11**

in EUR millions	Securitisations	Third party entities	2018
Net income unconsolidated structured entities:			
Net interest income	-	-	-
Net fee and commission income	-	9	9
Investment income	-	58	58
	-	**67**	**67**

Financial support provided or to be provided to unconsolidated structured entities

NIBC has not provided any non-contractual financial support during the period and does not intend to provide non-contractual support to unconsolidated structured entities in the future.

Sponsored unconsolidated structured entities

As a sponsor, NIBC is involved in the legal structure and marketing of the entity and supports the entity in different ways, namely:

- transferring assets to the entities; and
- providing operational support to ensure the entity's continued operation.

NIBC is also deemed a sponsor for a structured entity if market participants would reasonably associate the entity with NIBC. Additionally, the use of the NIBC name for the structured entity indicates that NIBC has acted as a sponsor.

Income from sponsored unconsolidated structured entities in which NIBC did not hold an interest as per 31 December 2019 comprised to nil (31 December 2018: nil) interest earned from bonds recognised within interest income.

Assets transferred to unconsolidated sponsored structured entities
The carrying amounts of assets transferred to unconsolidated sponsored structured entities during the period were nil.

54 Remuneration of the Statutory Board members and Supervisory Board members

Remuneration of the Statutory Board members

The Supervisory Board reviewed and amended NIBC's Remuneration Policy in 2019. The review took account of all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the DNB Principles on Sound Remuneration Policies (DNB Principles), including additional DNB guidance on the implementation of the DNB Principles and the Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices (CEBS Guidelines) and CRD IV and the Dutch remuneration legislation for Financial Service Companies (Wet beloning Financiële ondernemingen - Wbfo).

Regular annual remuneration
In 2019, the average number of members of the Statutory Board appointed under the articles of association was 3 (2018: 3). For the total regular annual remuneration costs (including pension costs) for members of the Statutory Board, appointed under the articles of association, reference is made to note 9 Personnel expenses and share-based payments. During 2019 no changes occurred in the Statutory Board.

Base salary and short-term incentive compensation (cash bonus)
In 2019, the base salary for the Chairman and for members of the Statutory Board increased both by 2.51% (the average wage increase in March 2019 of the entire staff base).
Since 1 January 2015, the Statutory Board is entitled to a short-term variable income component at target of 15% of base salary (with a maximum of 20%).The variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in Phantom Share Units and 20% in Restricted Phantom Share Units.

Over 2019 the following incentive compensation of base salary was granted: The Chief Executive Officer 20%, The Chief Financial Officer 20% and the Chief Risk Officer 20%.

The compensation awards per member of the Statutory Board at 31 December 2019

in EUR	Short term (incentive) compensation					
	Base salary	Cash bonus	Granted Deferred cash[1]	Pension related short term allowance[2]	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	845,708	50,742	33,828	184,634	47,418	1,162,330
Mr. Herman Dijkhuizen	615,060	36,904	24,602	126,972	47,818	851,356
Mr. Reinout van Riel	615,060	36,904	24,602	126,972	40,218	843,756
	2,075,828	**124,550**	**83,033**	**438,577**	**135,454**	**2,857,442**

1 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.
2 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 107,593

in EUR	Long term (incentive) compensation	Share based payments	Share based payments	Share based payments	
	Post employment contribution	One-off retention package	Phantom Share Units	Restricted Phantom Share Units[1]	Total
Mr. Paulus de Wilt	37,414	-	50,742	33,828	1,284,315
Mr. Herman Dijkhuizen	35,878	-	36,904	24,602	948,739
Mr. Reinout van Riel	34,706	-	36,904	24,602	939,967
	107,997	**-**	**124,550**	**83,033**	**3,173,021**

1 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.

The compensation awards per member of the Statutory Board at 31 December 2018

in EUR	Short term (incentive) compensation					
	Base salary	Cash bonus	Deferred cash[1]	Pension related short term allowance[2]	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	825,000	49,500	33,000	180,055	55,424	1,142,979
Mr. Herman Dijkhuizen	600,000	36,000	24,000	123,805	54,312	838,116
Mr. Reinout van Riel	600,000	36,000	24,000	123,805	46,712	830,517
	2,025,000	**121,500**	**81,000**	**427,664**	**156,448**	**2,811,611**

1 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.
2 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 105,075.

	Long term (incentive) compensation	Share based payments	Share based payments	Share based payments	
in EUR	Post employment contribution	One-off retention package	Phantom Share Units	Restricted Phantom Share Units[1]	Total
Mr. Paulus de Wilt	36,497	1,485,000	49,500	33,000	2,746,975
Mr. Herman Dijkhuizen	35,303	1,080,000	36,000	24,000	2,013,419
Mr. Reinout van Riel	33,824	1,080,000	36,000	24,000	2,004,340
	105,623	**3,645,000**	**121,500**	**81,000**	**6,764,735**

1 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.

The short term compensation share related awards ((restricted) phantom share units) per member of the Statutory Board

	Number of phantom share units		Number of restricted phantom share units	
	2019[1]	2018	2019[1]	2018
Mr. Paulus de Wilt	6,748	5,957	4,498	3,971
Mr. Herman Dijkhuizen	4,907	4,332	3,272	2,888
Mr. Reinout van Riel	4,907	4,332	3,272	2,888
	16,562	**14,621**	**11,042**	**9,747**

1 The number of (restricted) phantom share units of 2019 is calculated based upon the listed share price at 31 december 2019 (EUR 7.52). The number of (restricted) phantom share units that will be finally granted will be based upon the listed share price at 1 April 2020.

The following information reconciles the compensation granted and the related expenses in the income statement for Statutory Board members as disclosed in note 9. Under the current remuneration structure, rewards are paid out over a number of years, or in case of shares, deferred cash and RPSUs, vest over a number of years.

Remuneration expenses per member of the Statutory Board over 2019

	Short term (incentive) compensation					
in EUR	Base salary	Cash bonus	Deferred cash	Pension related short term allowance	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	845,708	50,742	31,568	184,634	47,418	1,160,070
Mr. Herman Dijkhuizen	615,060	36,904	22,274	126,972	47,818	849,027
Mr. Reinout van Riel	615,060	36,904	22,764	126,972	40,218	841,917
	2,075,828	**124,550**	**76,606**	**438,577**	**135,454**	**2,851,014**

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments One-off retention package	Share based payments Phantom Share Units	Share based payments Restricted Phantom Share Units	Total
Mr. Paulus de Wilt	37,414	156,194	50,742	31,568	1,435,988
Mr. Herman Dijkhuizen	35,878	113,595	36,904	22,273	1,057,677
Mr. Reinout van Riel	34,706	113,595	36,904	22,764	1,049,886
	107,997	**383,384**	**124,550**	**76,606**	**3,543,551**

Remuneration expenses per member of the Statutory Board at 31 December 2018

	Short term (incentive) compensation					
in EUR	Base salary	Cash bonus	Deferred cash	Pension related short term allowance	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	825,000	49,500	28,515	180,055	119,800	1,202,869
Mr. Herman Dijkhuizen	600,000	36,000	19,433	123,805	101,131	880,369
Mr. Reinout van Riel	600,000	36,000	19,111	123,805	46,712	825,628
	2,025,000	**121,500**	**67,059**	**427,664**	**267,642**	**2,908,865**

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments One-off retention package	Share based payments Phantom Share Units	Share based payments Restricted Phantom Share Units	Total
Mr. Paulus de Wilt	36,497	1,410,193	49,500	28,515	2,727,573
Mr. Herman Dijkhuizen	35,303	1,025,595	36,000	19,433	1,996,699
Mr. Reinout van Riel	33,824	1,025,595	36,000	19,112	1,940,158
	105,623	**3,461,383**	**121,500**	**67,059**	**6,664,430**

Remuneration of the Supervisory Board members

The remuneration of the (former) Supervisory Board members relates to their position within NIBC Holding and NIBC Bank.

in EUR	2019 Before tax	2019 Value Added Tax	2019 Incl. tax	2018 Before tax	2018 Value Added Tax	2018 Incl. tax
Members:						
Mr. W.M. van den Goorbergh[1]	35,024	7,355	42,379	102,500	21,525	124,025
Mr. M.J. Christner	61,506	-	61,506	60,000	-	60,000
Mr. J.C. Flowers	51,255	-	51,255	50,000	-	50,000
Mr. J.J.M. Kremers[2]	28,190	5,920	34,110	-	-	-
Mr. A. de Jong	-	-	-	62,292	0	62,292
Mr. D.M. Sluimers[3]	101,656	21,348	123,004	87,500	18,375	105,875
Ms. K.M.C.Z. Steel	-	-	-	46,667	0	46,667
Mr. A.H.A. Veenhof	-	-	-	16,250	3,412	19,662
Mr. R.L. Carrión	61,506	-	61,506	60,000	-	60,000
Ms. A.G.Z. Kemna[4]	85,426	17,939	103,365	26,250	5,513	31,763
Ms. S.M. Zijderveld	66,632	13,993	80,625	24,375	5,119	29,494
Total remuneration	**491,195**	**66,555**	**557,750**	**535,833**	**53,945**	**589,778**

1 Mr. W.M. van den Goorbergh stepped down at the end of his term on 30 April 2019. He was chair of the SB and RPTC and member of the AC, RPCC and RNC.
2 Mr. J.J.M. Kremers was appointed as a member of the Supervisory Board as from September 2019. As of this date he was appointed as chair of the AC. He also joined the RPCC, RNC and RPTC as a member.
3 Mr. D.M. Sluimers was appointed as chair of the SB as of May 2019 (before he was vice chair) and chair of the RPTC.
4 Ms. A.G.Z. Kemna was appointed as vice chair of the SB as of May 2019 (before she was a member).

The remuneration of the Supervisory Board members consists of annual fixed fees and committee fees. As at 31 December 2019 and 31 December 2018, no loans, advance payments or guarantees had been provided by the company to Supervisory Board members.

Depositary receipts

Common Depositary Receipts

The following tables show the holdings by current members of the Statutory Board:

Number of common depositary receipts (investment under DRPP/co-investment programme)	2019	2018
Mr. Paulus de Wilt	54,498	54,498
Mr. Herman Dijkhuizen	39,635	39,635
Total number of common depositary receipts (investment from own funds)	**94,133**	**94,133**

Number of common depositary receipts (one-off retention package, 1st and 2nd tranche)	2019	2018
Mr. Paulus de Wilt	103,932	60,035
Mr. Herman Dijkhuizen	75,586	43,661
Mr. Reinout van Riel	75,586	43,661
Total number of common depositary receipts (one-off retention package)	**255,104**	**147,357**

The previuos table shows the numbers of CDRs, following the first and second tranche of the one-off retention package granted in view of the IPO at 23 March 2018. The CDRs related to the first tranche of the one-off retention package were unconditionally awarded on 23 March 2018, the CDRs related to the second tranche of the one-off retention package were unconditionally awarded on 23 March 2019.

Co-investment programme

As a result of personal investments by the Statutory Board members in 2012 and 2014 matching shares were granted to the Statutory Board members in 2012 and 2014, in the form of CRDRs with an after-tax value equal to the value of the personal investment made.

This offer was made to and accepted by Mr. Dijkhuizen and Mr. de Wilt when they joined the Statutory Board.

The matching shares were subject to four-year vesting with one quarter vesting each year on 1 January, but they will immediately vest upon a change of control of NIBC Holding N.V. in which case they (i) will become fully unconditional and (ii) be legally transferred.

In December 2017 it was decided that all unvested CRDR outstanding at 1 January 2018 will vest immediately (accelerated vesting) into CCDRs. The accelerated vesting applied to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members. According to the change of the Plan Rules in 2017, the 70,788 outstanding CCDRs of certain Statutory Board members were released into 70,788 CDRs in January 2018.

(Restricted) Phantom Share Units

Phantom Share Units

In 2010, an equity-linked reward instrument is part of the *Short-Term Incentive* (**STI**) plan. The short-term compensation in share-related awards consists of *Phantom Share Units* (**PSUs**) and/or *Restricted Phantom Share Units* (**RPSUs**). RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. The PSUs, whether vested or restricted, held by the members of the Statutory Board are subject to a five-year retention period as measured from the date of vesting. This short-term compensation can be converted into cash immediately after the retention period.

The following table shows the holdings by members of the Statutory Board:

Number of phantom share units	2019	2018
Mr. Paulus de Wilt	34,914	24,632
Mr. Herman Dijkhuizen	24,197	16,898
Mr. Reinout van Riel	21,103	14,181
Total number of phantom share units	**80,214**	**55,711**

Restricted Phantom Share Units

The following table shows the holdings by members of the Statutory Board:

Number of restricted phantom share units	2019	2018
Mr. Paulus de Wilt	12,306	11,208
Mr. Herman Dijkhuizen	8,800	7,822
Mr. Reinout van Riel	9,064	7,709
Total number of restricted phantom share units	**30,170**	**26,739**

55 Credit risk

This section includes all financial assets subject to credit risk. Non-credit obligations fall under other risk types, such as market risk, and equity is subject to investment risk. Figures may not always add up due to rounding. The following portfolios that contain credit risk have been identified:

- Corporate/Investment Loans;
- Lease receivables;
- Mortgage loans;
- Debt Investments;
- Cash Management;
- Derivatives.

57-1 Credit risk exposure breakdown per portfolio

In EUR millions	2019	2018
Corporate/investment loans	9,496	9,652
Corporate loans	9,282	9,413
Investment loans	214	240
Lease receivables	35	52
Mortgage loans	9,883	9,275
Debt investments	848	826
Debt from financial institutions and corporate entities	334	248
Securitisations	514	577
Cash management	2,498	2,601
Derivatives	483	578
Total	**23,243**	**22,984**

Table 57-1 presents the maximum credit risk exposure per portfolio, without taking collateral or any other credit risk reduction into consideration. For all portfolios except derivatives, this is generally the total commitment of NIBC, which also includes off-balance sheet commitments such as guarantees and undrawn credit lines.

The figures in table 57-1 are not directly comparable to the figures on the balance sheet. Mortgage loans are recognised on the balance sheet under mortgage loans own book and securitised mortgage loans. Debt investments (securitisations) differ from the figure on the balance sheet due to off-balance sheet exposures as disclosed in the Risk Management notes.

NIBC employs an internally-developed methodology under the *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of corporate and retail counterparties. The AIRB methodology for corporate counterparties was approved by NIBC's regulatory authority, the DNB, in 2008. In 2019, NIBC received an increase for RWAs on corporate exposures from the DNB pending approval of eventual additional measures to address the model observations raised by DNB in its Internal Model Investigation report. Furthermore, in 2019 NIBC reverted, with approval from the DNB, back to the Standardised Approach (SA) for bank counterparties. This was done in light of the new regulations under Basel III.

Corporate loans

Corporate loan distribution

Contrary to previous years, the tables in the Credit risk - Corporate loans note now contain both the corporate loans and the investment loans in one section to better follow NIBC's internal business operations. NIBC steers its business on internal Product Market Combination classification, however it can be mapped to the industry sectors of NACE classification, if necessary. For comparability purposes portfolio breakdown based on NACE codes is also provided in a separate document published on NIBC's annual report website. The change from a sector and activity view towards a combined Product Market Combination was implemented on 1 January 2019. The 2018 amounts have been adjusted to the portfolio structure as well to provide comparable numbers. The investment loans can be found in the portfolio: Mezzanine Equity Partners.

Tables 55-2 and 55-3 display a breakdown of the Corporate Loan portfolio among regions and portfolio, at year-end 2019 and 2018. The Corporate Loan portfolio decreased by EUR 156 million in 2019 to EUR 9,496 million mainly due to exposure decreases in the portfolios: Shipping, Financial Sponsors and Leveraged Finance and Energy. The decreases in the geographic region were mainly in Germany and United Kingdom. The relative weight of NIBC's core growth market the Netherlands increased, as well as the share of 'The rest of Europe'. The corporate loan portfolio in the Netherlands increased to 49% of the total exposure at 31 December 2019 (31 December 2018: 46%).

55-2 Corporate loan exposure per portfolio and region, 31 December 2019

in %	Commercial Real Estate	Energy	Financial Sponsors & Leveraged Finance	Fintech & Structured Finance	Infra-structure	Lease Lending	Mezzanine Equity Partners	Mid Market Cor-porates	Shipping	Total	Total (in EUR millions)
The Netherlands	16	1	5	4	4	4	2	10	2	49	4,678
Germany	1	-	4	4	3	-	0	4	0	15	1,450
United Kingdom	-	1	1	1	10	-	0	1	1	15	1,422
The rest of Europe	0	3	1	4	2	-	-	0	4	14	1,322
Asia / Pacific	-	1	-	-	-	-	-	-	1	2	185
North America	-	1	-	-	-	-	-	-	2	3	263
Other	-	1	-	-	-	-	-	1	1	2	178
Total	**17**	**8**	**11**	**14**	**18**	**4**	**2**	**15**	**11**	**100**	**9,496**
Total (in EUR millions)	**1,578**	**735**	**1,042**	**1,310**	**1,729**	**420**	**214**	**1,458**	**1,011**		**9,496**
Expected Recovery[1]	**1,412**	**619**	**750**	**1,178**	**1,517**	**420**	**132**	**1,205**	**927**		**8,160**

1 Including the financial effect of collateral.

55-3 Corporate loan exposure per portfolio and region, 31 December 2018

in %	Commercial Real Estate	Energy	Financial Sponsors & Leveraged Finance	Fintech & Structured Finance	Infra-structure	Lease Lending	Mezzanine Equity Partners	Mid Market Cor-porates	Shipping	Total	Total (in EUR millions)
The Netherlands	13	1	6	4	3	4	2	10	3	46	4,473
Germany	1	-	5	5	4	-	0	4	1	20	1,885
United Kingdom	-	2	2	1	9	-	0	1	2	16	1,562
The rest of Europe	0	3	1	1	1	-	0	0	5	10	987
Asia / Pacific	-	1	-	-	-	-	-	-	1	2	235
North America	-	1	-	-	-	-	-	-	2	3	300
Other	-	1	-	-	-	-	-	1	1	2	211
Total	**14**	**9**	**14**	**11**	**17**	**4**	**2**	**15**	**14**	**100**	**9,652**
Total (in EUR millions)	**1,309**	**841**	**1,353**	**1,028**	**1,621**	**401**	**240**	**1,490**	**1,370**		**9,652**
Expected Recovery[1]	**1,151**	**704**	**992**	**919**	**1,412**	**351**	**143**	**1,245**	**1,277**		**8,193**

1 Including the financial effect of collateral.

CRR/CRD IV and credit approval process

NIBC employs an internally-developed methodology under AIRB approach for quantifying the credit quality of its Corporate Loan portfolio. In line with CRR/CRD IV regulations, the methodology consists of three elements:

- CCR, reflecting the through-the-cycly PD of the borrower. The default definition is in line with the CRR/CRD IV definition[2]
- LGD, defined as an anticipated loss in the event of default and under an economic downturn assumption, which takes into account the presence and the value of collateral;
- EAD, which is the amount that is expected to be outstanding at the moment a counterparty defaults.

The CRR/CRD IV PDs, LGDs and EADs that are calculated through NIBC's internal models are used for the calculation of *expected loss* (**EL**) and *regulatory capital* (**RC**). *Economic capital* (**EC**), *risk-adjusted return on capital* (**RAROC**), limit setting and stress testing are additional areas which make use of these parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar 1. PDs, LGDs and EADs are also used in the CRR/CRD IV solvency report to the regulator.

Annual backtests of the internal rating framework are carried out to assess the quality and the performance of the models. The internal CCRs and LGDs are also benchmarked periodically with the scales of external rating agencies.

NIBC enforces strict separation of responsibilities with respect to its internal rating methodologies and rating process, model development, model validation and internal audit. The roles and responsibilities of each department involved are explicitly set out in internal policies and manuals, also in conformity with the stipulations of CRR/CRD IV on model governance.

2 According to the CRR/CRD IV definition, a default is determined at the borrower level. A default is indicated by using a 9 or 10 rating in NIBC's internal rating scale. A default is considered to have occurred with respect to a particular obligor when either or both of the two following events have taken place: i) the bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realising security (if held); ii) the obligor is past due more than 90 days on any material credit obligation to the banking group.

IFRS9 for expected credit loss determination

In order to calculate the *Expected Credit Losses* (**ECL**), NIBC has transformed the CRDIV/CRR PD/LGD/EAD to unbiased and point-in-time best-estimates by applying probability-weighted forward-looking scenarios for relevant macroeconomic factors. The ECL consists of three elements:

- Point-in-time PD of the borrower, which is an estimate of the default rate over any specified horizon based on the current state of the credit cycle and the anticipated macroeconomic scenarios.
- Point-in-time LGD, defined as the unbiased loss estimate at a future default date, which takes into account the presence and the value of collateral;
- Point-in-Time EAD, which is the estimation of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments and prepayments of principal and interest, and expected drawdowns on undrawn committed facilities.

Credit approval process

All approvals of individual credit proposals are granted after risk management has made a credit risk assessment and has analysed proposals by taking into consideration, among others, aggregate limits set per country, per industry segment, and per individual counterparty. The total one obligor exposure and related exposure are also taken into account. Individual credit and transaction proposals are then approved in the *Transaction Committee* (**TC**). Proposals, credit reviews and amendments of smaller scale can be approved outside the TC by risk management. All counterparties and, subsequently, all facilities, are reviewed at least once a year.

Credit ratings

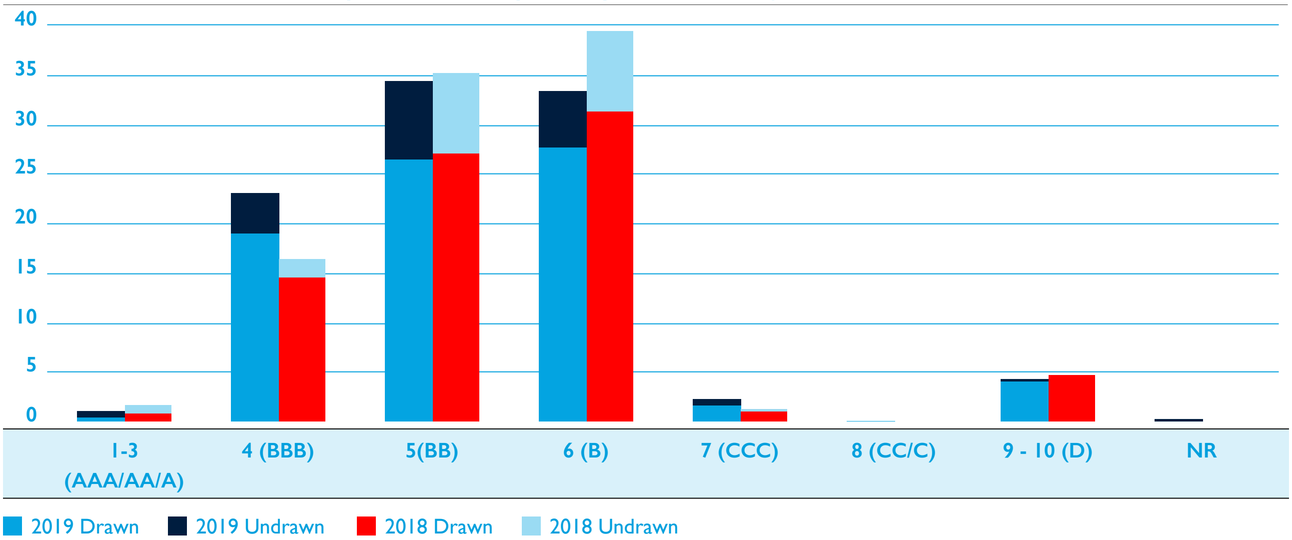
NIBC uses an internal through-the-cycle CCR rating scale which consists of 10 grades (1-10) and a total of 22 notches. This internal rating table relates to the tables in note 21 and note 23 showing the credit quality and the maximum exposure to credit risk. The CCRs 9 and 10 are assigned to counterparties that have already defaulted and therefore carry a PD of 100%.

	Internal rating grade				Equivalent rating scale of Standard & Poor's	
Internal rating description	**from**	**to**	**Low PD%**	**High PD%**	**from**	**to**
Investment grade	1	4-	0.00%	0.425%		
Sub-investment grade	5+	8-	0.425%	100%		
Default grade	9	9				
Default grade (bankruptcy filing)	10	10				

The weighted average CCR of the non-defaulted clients remained stable during 2019 to 6+ with an average PD of 2.1% at 31 December 2019 (31 December 2018: 1.8%). The credit quality in terms of CCRs remained concentrated in the sub-investment grade categories 5 and 6 (BB and B categories in external rating agencies' scales).

Graph 55-4 shows the distribution of the drawn and undrawn corporate loan exposure per CCR. The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters in parentheses refer to the equivalent rating scale of Standard & Poor's. NR stands for not ratable, which was a negligible portion of the corporate loans (0.6% at 31 December 2019; 0.1% at 31 December 2018). NR is assigned to entities for which NIBC's corporate rating tools were not suitable at the time of rating.

55-4 Drawn and undrawn corporate loan exposure per CCR rating

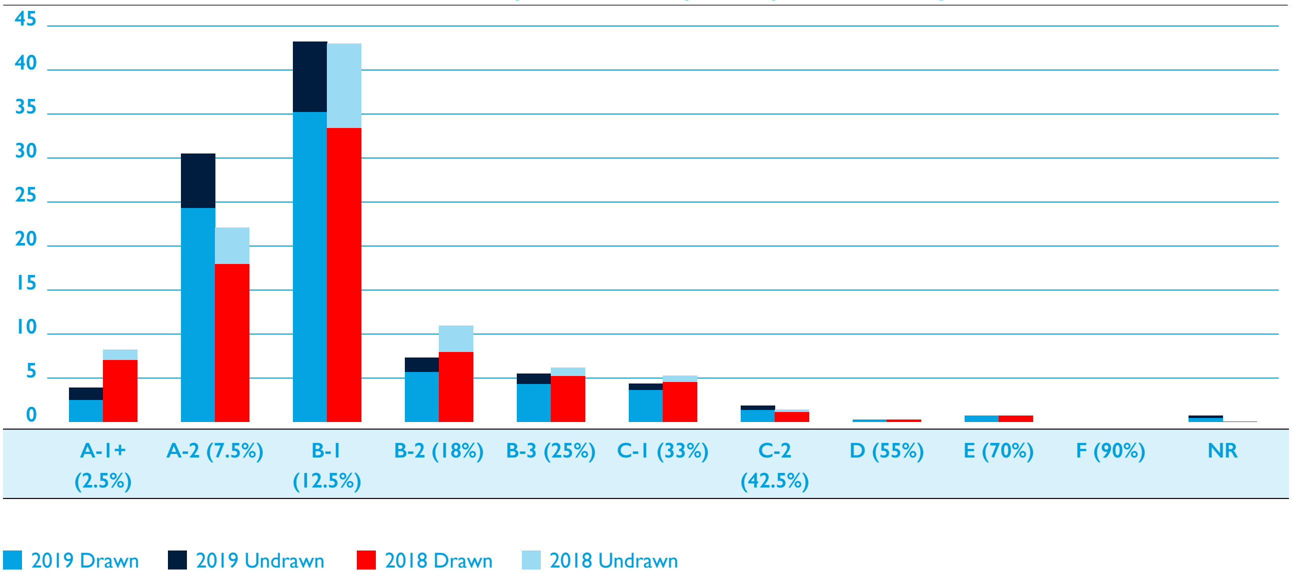


Collateral and LGD

NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations. LGD ratings are facility-specific. The weighted average LGD remained stable at B-1 grade with improved average LGD of 13.8% at 31 December 2019 (31 December 2018: 14.4%). The weighted average LGD is calculated for non-defaulted loans and is weighted by exposure. Nearly all facilities within NIBC have some form of collateralisation, resulting in LGDs concentrated (at inception) in those LGD categories which correspond to high recoveries in the range of 80% and 90%.

Graph 55-5 shows the distribution of drawn and undrawn corporate loan exposures per LGD. The letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers in parentheses refer to the loss percentage assigned to each LGD rating. NR was negligible (1.0% of corporate loans at 31 December 2019; 0.1% at 31 December 2018).

55-5 Drawn and undrawn non-defaulted corporate loan exposure per LGD rating



Note that the corporate loan exposure of graph 55-5 refers to non-defaulted exposure as the LGD is a measure of anticipated loss for facilities of a non-defaulted counterparty.

The most significant types of collateral securing the loan and derivative portfolios are tangible assets, such as real estate, vessels, rigs and equipment. Exposures in the shipping and offshore energy sectors are primarily secured by moveable assets such as vessels and drilling vessels. The commercial real estate portfolio is primarily collateralised by mortgages on financed properties. The fair value of collateral affects the LGD and therefore indirectly affects the calculation of the ECL and is generally assessed at inception and periodically re-assessed thereafter. Collateral value on a going concern basis is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. Realisable collateral value is determined as collateral value after haircuts for factors such as business cycle, location, asset construction status or guarantor counterparty rating. For example, loan-to-value ratios are regularly tested and vessels are appraised semi-annually by external parties. Other commercial exposures are, to a large extent, collateralised by assets such as inventory, debtors, lease and other receivables and third-party credit protection (e.g. guarantees).

Arrears

The total arrears in the Corporate Loan portfolio to the total outstanding increased to 0.7% at 31 December 2019 (31 December 2018: 0.9%). An overview of the amounts in arrear per arrear bucket is provided in tables 55-6 and 55-7. The exposure amounts refer to drawn and undrawn amounts of those facilities with an arrear. The "% of On-balance" in the table 55-6 and 55-7 refers to drawn amounts only. The amounts in arrear are the actual amounts overdue at 31 December 2019 and 31 December 2018. The column labelled 'Impairment Amount' includes stage 3 assets as well as *Purchased Originated Credit Impaired* (**POCI**) assets currently in stage 3 (31 December 2019: EUR 128 million, 31 December 2018: EUR 138 million). Tables 55-11 and 55-12 provide more information on impairment amount

55-6 Corporate loan amounts in arrear, 31 December 2019

	Exposure						Amount in arrear		
in EUR millions	Total	% of Exposure	Stage 3 ECL	Stage 1 and Stage 2 ECL	POCI	FVtPL	Total	% of On-balance	Impairment amount[1]
Age of payment in arrear									
1 - 5 days	19	0.2%	-	19	-	-	1	0.0%	-
6 - 30 days	40	0.4%	-	40	-	-	1	0.0%	
31 - 60 days	-	0.0%	-	-	-	-	1	0.0%	-
61 - 90 days	0	0.0%	-	0	-	-	0	0.0%	
Subtotal less than 90 days	**59**	**0.6%**	**0**	**59**	**0**	**0**	**3**	**0.0%**	**0**
Over 90 days	123	1.3%	118	-	4	-	54	0.7%	60
No payment in arrear	9,315	98.1%	150	8,870	106	189		0.0%	68
Total	**9,496**	**100.0%**	**268**	**8,929**	**110**	**189**	**57**	**0.7%**	**128**

1 Impairment amount includes Stage 3 assets as well as Stage 3 assets classified as POCI

55-7 Corporate loan amounts in arrear, 31 December 2018

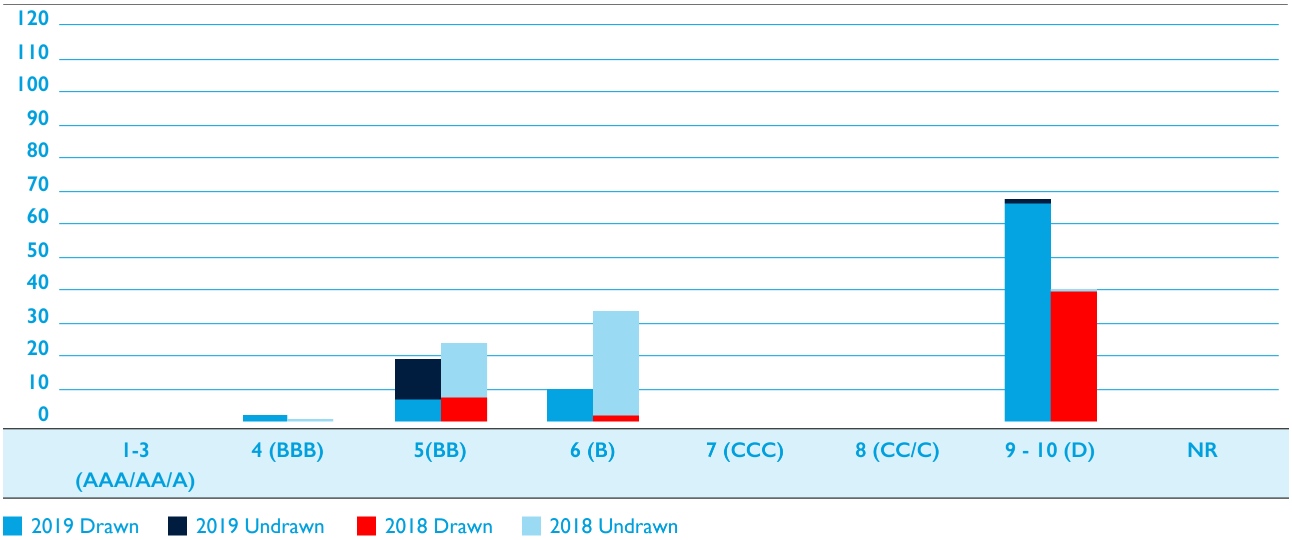
in EUR millions	Exposure						Amount in arrear		
	Total	% of Exposure	Stage 3 ECL	Stage 1 and Stage 2 ECL	POCI	FVtPL	Total	% of On-balance	Impairment amount[1]
Age of payment in arrear									
1 - 5 days	222	2.3%	46	176	-	-	4	0.1%	13
6 - 30 days	49	0.5%	-	47	-	3	30	0.4%	-
31 - 60 days	23	0.2%	20	4	-	-	16	0.2%	1
61 - 90 days	0	0.0%	-	0	-	-	0	0.0%	-
Subtotal less than 90 days	**294**	**3.0%**	**65**	**226**	**0**	**3**	**51**	**0.7%**	**14**
Over 90 days	92	1.0%	72	4	3	13	21	0.3%	31
No payment in arrear	9,266	96.0%	235	8,796	56	178		0.0%	93
Total	**9,652**	**100.0%**	**372**	**9,026**	**59**	**194**	**72**	**0.9%**	**138**

1 Impairment amount includes Stage 3 assets as well as Stage 3 assets classified as POCI

NIBC applies a threshold for determining whether a loan carries a non-material arrear. If the total of the sum of all individual arrears on facility level is lower than 1% of the loan amount outstanding and EUR 500, and the oldest due date of individual counterparty is less than 90 days, then the arrear is considered insignificant. If arrears fall within the threshold, the exposure is placed on the 'no payment in arrear' line on tables 55-6 and 55-7. The application of this threshold does not influence the total arrears, which amounted to EUR 57 million at 31 December 2019 (31 December 2018: EUR 72 million).

Graph 55-8 displays the rating distribution of the exposure amounts (expressed as the sum of drawn and undrawn amounts) of all loans with an amount in arrears. The total exposure amount at 31 December 2019 was EUR 182 million (31 December 2018: EUR 387 million) and the total drawn amount at 31 December 2019 was EUR 158 million (31 December 2018: EUR 196 million).

55-8 Distribution of drawn and undrawn amounts with an arrear per rating category



Forbearance and non-performing Corporate Loans

NIBC considers a client to be forborne if:
1. NIBC considers the obligor to be in financial difficulties, and
2. NIBC grants a concession to the obligor

Financial difficulties are defined as a debtor facing or about to face difficulties meeting financial obligations. Concession refers to one of the following (per facility):
- Modification of terms or conditions of a troubled facility to allow sufficient debt service capacity (that would not be granted if the obligor were not in financial difficulties);
- (partial) Refinancing of a troubled facility (that would not be granted without financial difficulties).

An obligor is considered non-performing if one or more of the following criteria are applicable:
- Material exposures are more than 90 days past due;
- The obligor is unlikely to pay its credit obligations in full, without realisation of collateral;
- A performing forborne facility under probation is extended additional forbearance measures or becomes more than 30 days past due.

The first two criteria are the same as the default criteria and therefore a defaulted obligor is always non-performing as well.

Tables 55-9 and 55-10 provide the total forborne outstanding in the corporate and investment loan portfolio per portfolio and per region as at 31 December 2019. The forborne outstanding is divided in performing and non-performing outstanding. NIBC considers a client non-performing if that client is in default, or if a performing forborne facility under probation is extended additional forbearance measures, or becomes more than 30 days past due. At the end of December 2019, EUR 65 million non-performing outstanding was not forborne. Comparable figures for 2018 can be seen in tables 55-11 and 55-12.

Table 55-9 Forborne exposure per portfolio, 31 December 2019

	Exposure			
In EUR millions	Non-performing	Performing	Total Exposure	Impairment amount[1]
Commercial Real Estate	65	64	129	18
Energy	90	70	160	27
Financial Sponsors & Leveraged Finance	69	7	75	39
Fintech & Structured Finance	-	-	-	-
Infrastructure	40	-	40	1
Lease Lending	-	-	-	-
Mezzanine Equity Partners	25	22	48	7
Mid Market Corporates	11	24	35	4
Shipping	58	30	88	16
Total	**358**	**217**	**575**	**112**

1 The impairment amount contains the ECL Stage 3 amounts and the ECL stage 3 amounts of assets classified as POCI.

Table 55-10 Forborne exposure per region, 31 December 2019

	Exposure			
In EUR millions	Non-performing	Performing	Total Exposure	Impairment amount[1]
The Netherlands	77	128	204	20
Germany	169	-	169	57
United Kingdom	26	-	26	8
The rest of Europe	61	65	126	11
Asia / Pacific	11	-	11	10
North America	-	-	-	-
Other	14	24	38	7
Total	**358**	**217**	**575**	**112**

1 The impairment amount contains the ECL Stage 3 amounts and the ECL stage 3 amounts of assets classified as POCI.

Table 55-11 Forborne exposure per portfolio, 31 December 2018

	Exposure			
In EUR millions	Non-performing	Performing	Total Exposure	Impairment amount[1]
Commercial Real Estate	65	46	111	21
Energy	69	69	137	15
Financial Sponsors & Leveraged Finance	75	33	109	28
Fintech & Structured Finance	-	-	-	-
Infrastructure	57	5	62	1
Lease Lending	-	-	-	-
Mezzanine Equity Partners	19	18	38	4
Mid Market Corporates	26	28	54	2
Shipping	109	66	174	21
Total	**420**	**265**	**685**	**93**

1 The impairment amount contains the ECL Stage 3 amounts and the ECL stage 3 amounts of assets classified as POCI.

Table 55-12 Forborne exposure per region, 31 December 2018

	Exposure			
In EUR millions	Non-performing	Performing	Total Exposure	Impairment amount[1]
The Netherlands	143	105	248	25
Germany	158	64	222	36
United Kingdom	33	-	33	13
The rest of Europe	76	72	148	15
Asia / Pacific	10	-	10	5
North America	-	-	-	-
Other	-	24	24	-
Total	**420**	**265**	**685**	**93**

1 The impairment amount contains the ECL Stage 3 amounts and the ECL stage 3 amounts of assets classified as POCI.

IFRS 9 impairments of forborne facilities amounted to EUR 112 million at 31 December 2019, which represented 19.4% of the total forborne balances. The total impairments of the corporate and investment loan portfolio amounted to EUR 128 million at 31 December 2019, which represented 1.4% of the total Corporate Loan portfolio of EUR 9.5 billion.

The following table provides an overview of the total forborne facilities with ECL amounts under three stages:

Table 55-13 Forborne exposure per ECL stages

	2019			2018		
In EUR millions	Exposure amount	Expected credit loss	Write-offs	Exposure amount	Expected credit loss	Write-offs
Stage 1						
Commercial Real Estate	64	0		-	-	
Energy	-	-		-	-	
Financial Sponsors & Leveraged Finance	-	-		21	0	
Fintech & Structured Finance	-	-		-	-	
Infrastructure	-	-		-	-	
Lease Lending	-	-		-	-	
Mezzanine Equity Partners	0	-		-	-	
Mid Market Corporates	14	0		5	0	
Shipping	-	-		24	0	
Total stage 1	**78**	**0**	**-**	**49**	**0**	
Stage 2						
Commercial Real Estate	-	-		46	1	
Energy	70	2		69	2	
Financial Sponsors & Leveraged Finance	7	0		12	0	
Fintech & Structured Finance	-	-		-	-	
Infrastructure	-	-		5	0	
Lease Lending	-	-		-	-	
Mezzanine Equity Partners	22	1		18	0	
Mid Market Corporates	10	0		43	1	
Shipping	30	0		42	0	
Total stage 2	**138**	**3**	**-**	**236**	**4**	
Stage 3						
Commercial Real Estate	24	10	-	25	10	17
Energy	86	27	-	69	15	-
Financial Sponsors & Leveraged Finance	22	16	-	75	28	10
Fintech & Structured Finance	-	-	-	-	-	-
Infrastructure	5	1	-	11	1	-
Lease Lending	-	-	-	-	-	-
Mezzanine Equity Partners	21	5	0	19	4	-
Mid Market Corporates	6	4	1	2	2	1
Shipping	41	9	2	95	12	-
Total stage 3	**204**	**71**	**3**	**297**	**73**	**28**
Total of stages 1, 2 and 3						
Commercial Real Estate	88	10	-	71	11	17
Energy	155	29	-	137	17	-
Financial Sponsors & Leveraged Finance	29	16	-	109	28	10
Fintech & Structured Finance	-	-	-	-	-	-
Infrastructure	5	1	-	16	2	-
Lease Lending	-	-	-	-	-	-
Mezzanine Equity Partners	43	6	0	38	4	-
Mid Market Corporates	30	4	1	50	3	1
Shipping	71	9	2	161	13	-
Total stages 1, 2 and 3	**421**	**74**	**3**	**582**	**78**	**28**
Other loans						
POCI	110	41		53	19	
FVtPL	44			50		
Total amounts	**575**	**115**	**3**	**685**	**97**	**28**

Expected credit losses amounts

With the exception of purchased or originated credit impaired financial assets, ECL is determined under the following three stages:

- Stage 1 – For newly originated loans and loans with no significant increase in their credit risk, the ECL is determined on a 12-month horizon;
- Stage 2 – For loans with a *significant increase in credit risk* (**SICR**), ECL is determined on a (remaining) lifetime basis. The assessment of SICR incorporates forward-looking information and is performed on a regular basis at an obligor level.
- Stage 3 - For defaulted and credit-impaired loans, the ECL is determined on a (remaining) lifetime basis and based on facility-specific cash flow scenarios. The loss amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If collateral is present, then the present value of the future cash flows reflects the foreclosure of collateral. More information on the method impairments are calculated is included in the Accounting Policies section.

NIBC determines a default on a borrower level, whereas the credit-impaired definition is applied at facility level. When a default occurs, the entire exposure and outstanding amount of the borrower are classified as defaulted. If, however, stage 3 expected credit loss amount is taken on a facility, only the exposure amount of that particular facility is classified as credit-impaired.

In 2019, the total write-offs (EUR 57 million) increased compared to 2018 (EUR 48 million), mainly in Financial Sponsors and Leveraged Finance and Energytors. The stock of impairments (related to stage 3 assets including stage 3 assets classified as POCI) decreased and amounted to EUR 128 million at year-end 2019 (year-end 2018: EUR 138 million).

Tables 55-14 and 55-15 display an overview of IFRS 9 stage 1, stage 2 and stage 3 ECL amounts at 31 December 2019 and 31 December 2018, subdivided in portfolios and regions, respectively. The column labelled 'Exposure' includes both drawn and undrawn amounts.

55-14 Expected credit losses per portfolio

In EUR millions	2019 Exposure amount	2019 Expected credit loss	2019 Write-offs	2018 Exposure amount	2018 Expected credit loss	2018 Write-offs
Stage 1						
Commercial Real Estate	1,362	1		1,109	1	
Energy	404	1		512	1	
Financial Sponsors & Leveraged Finance	759	3		1,068	4	
Fintech & Structured Finance	1,194	1		976	1	
Infrastructure	1,615	1		1,518	1	
Lease Lending	420	-		401	-	
Mezzanine Equity Partners	138	1		119	1	
Mid Market Corporates	1,341	1		1,371	1	
Shipping	911	1		1,070	1	
Total stage 1	**8,145**	**10**	**-**	**8,144**	**11**	
Stage 2						
Commercial Real Estate	33	0		46	1	
Energy	191	3		215	3	
Financial Sponsors & Leveraged Finance	214	9		185	6	
Fintech & Structured Finance	114	0		50	0	
Infrastructure	73	2		31	1	
Lease Lending	-	-		-	-	
Mezzanine Equity Partners	30	1		59	1	
Mid Market Corporates	88	2		107	2	
Shipping	42	1		190	1	
Total stage 2	**784**	**16**	**-**	**882**	**16**	
Stage 3						
Commercial Real Estate	24	10	0	25	10	18
Energy	135	33	21	114	38	19
Financial Sponsors & Leveraged Finance	22	16	33	98	44	10
Fintech & Structured Finance	2	2	-	2	1	-
Infrastructure	5	1	0	11	1	-
Lease Lending	-	-	-	-	-	-
Mezzanine Equity Partners	21	5	0	25	4	0
Mid Market Corporates	18	13	1	2	2	1
Shipping	41	9	2	95	12	-
Total stage 3	**268**	**88**	**57**	**372**	**113**	**48**
Total of stages 1, 2 and 3						
Commercial Real Estate	1,420	11	0	1,181	12	18
Energy	730	36	21	841	42	19
Financial Sponsors & Leveraged Finance	994	27	33	1,351	54	10
Fintech & Structured Finance	1,310	3	-	1,028	3	-
Infrastructure	1,693	3	0	1,560	4	-
Lease Lending	420	-	-	401	-	-
Mezzanine Equity Partners	190	7	0	203	7	0
Mid Market Corporates	1,447	16	1	1,480	5	1
Shipping	994	11	2	1,355	14	-
Total stages 1, 2 and 3	**9,197**	**114**	**57**	**9,399**	**140**	**48**
Other loans						
POCI	110	41		59	25	
FVtPL	189			194		
Total amounts	**9,496**	**155**	**57**	**9,652**	**165**	**48**

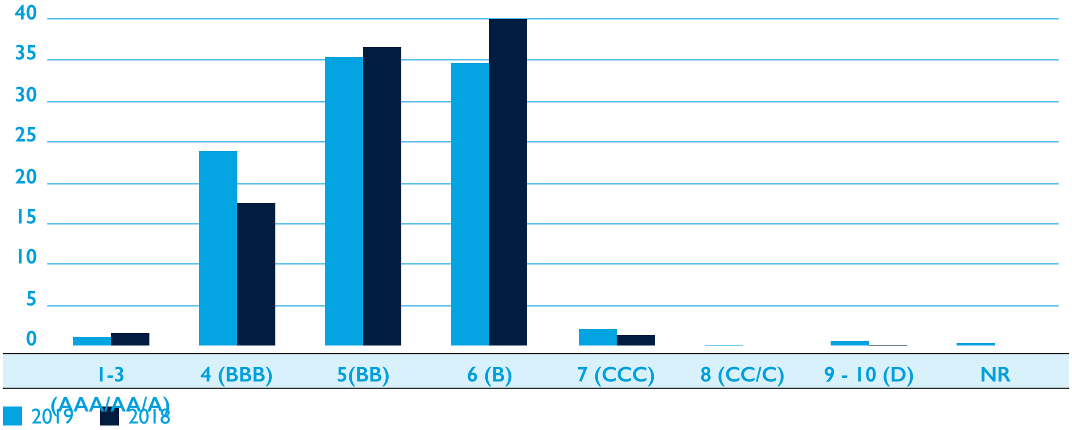
55-15 Expected credit losses per region

	2019			2018		
in EUR millions	Exposure amount	Expected credit loss	Write-offs	Exposure amount	Expected credit loss	Write-offs
Stage 1						
The Netherlands	4,195	5		3,897	6	
Germany	1,044	2		1,551	3	
United Kingdom	1,280	1		1,356	1	
The rest of Europe	1,118	1		694	1	
Asia / Pacific	148	0		194	0	
North America	227	0		283	0	
Other	132	0		169	0	
Total stage 1	**8,145**	**10**	**-**	**8,144**	**11**	
Stage 2						
The Netherlands	249	5		306	6	
Germany	233	4		167	2	
United Kingdom	115	4		147	4	
The rest of Europe	128	2		173	2	
Asia / Pacific	26	0		30	0	
North America	-	-		18	0	
Other	32	1		42	2	
Total stage 2	**784**	**16**	**-**	**882**	**16**	**-**
Stage 3						
The Netherlands	80	27	14	124	25	2
Germany	48	27	0	79	27	19
United Kingdom	5	1	21	38	20	8
The rest of Europe	76	16	22	121	38	-
Asia / Pacific	10	10	-	10	5	10
North America	36	1	-	-	-	0
Other	14	7	-	-	-	9
Total stage 3	**268**	**88**	**57**	**372**	**113**	**48**
Total of stages 1, 2 and 3						
The Netherlands	4,525	37	14	4,327	36	2
Germany	1,326	33	0	1,797	31	19
United Kingdom	1,401	6	21	1,541	25	8
The rest of Europe	1,322	19	22	987	40	-
Asia / Pacific	184	10	-	235	5	10
North America	263	1	-	300	0	0
Other	178	8	-	211	2	9
Total stages 1, 2 and 3	**9,197**	**114**	**57**	**9,399**	**140**	**48**
Other loans						
POCI	110	41		59	25	
FVtPL	189			194		
Total amounts	**9,496**	**155**	**57**	**9,652**	**165**	**48**

Corporate loans without impairments or arrears

At 31 December 2019, the size of the corporate loan exposure carrying stage 1 and stage 2 credit losses equalled EUR 8,929 million or 94.0% of the total Corporate Loan portfolio (31 December 2018: EUR 9,026 million or 93.5%). Graph 55-16 displays the distribution of exposure amounts without (stage 3) impairments or arrears, at 31 December 2019 and 31 December 2018. Of this exposure 94.8% is rated in CCR categories 4, 5 and 6 (BBB, BB and B categories in external rating agencies' scales). NR represents a negligible part of the portfolio (31 December 2019: 0.6% of all loans without stage 3 credit losses or amounts in arrear; 31 December 2018: 0.1%).

55-16 Distribution of exposure amount without impairments or arrears per rating category



Country risk

Country risk is the risk that an entity defaults due to political, social, economical or financial turmoil in its applicable jurisdiction(s). Country risk can potentially be an important cause of increased counterparty default risk since a large number of individual debtors could default at the same time. NIBC did not experience any counterparty defaults from this risk in 2019.

Lease receivables

The main part of the lease receivable exposure is related one single counterparty with an exposure of EUR 30 million (2018: EUR 32 million). This exposure is 100% defaulted, non-performing and impaired. The remainder of EUR 4 million relates to a obtained leasing portfolio as a result of the acquisition of Gallinat-Bank AG in Germany (2018: EUR 21 million).

Mortgage loans

The composition of the Mortgage loan portfolio at year-end 2019 and at year-end 2018 is displayed in table 55-22. The credit risk exposure is equal to the exposures in note 25, note 26 and the mortgage savings values in note 37.

55-22 Breakdown of Mortgage loan portfolio

in EUR millions	2019	2018
Dutch Own Book portfolio	9,457	8,786
Dutch Securitised portfolio	407	461
German Own Book portfolio	19	29
Total[1]	**9,883**	**9,275**

1 The collateral value related to NIBC's mortgage portfolio amounts to EUR 17.2 bln (EUR 16.4 bln Own book, EUR 0.7 bln Securitised and EUR 42 mln for Germany)

Dutch Mortgage loan portfolio

The Dutch Mortgage loan portfolio largely consists of owner occupied mortgages. These contain NIBC Direct loans originated by business partners since 2013, as well as white label mortgage loans that were also originated by business partners till 2009 or acquired through third parties. Buy-to-Let (NIBC Vastgoed Hypotheek) mortgages for investors were started in January 2015. This niche currently comprises approximately 7% of the total mortgage portfolio. Servicing and administration of the mortgage portfolio is outsourced to third-party servicers. Acceptance and special servicing is performed in-house.

At 31 December 2019, 21% of the Mortgage loan portfolio (31 December 2018: 24%) had a *Dutch government guarantee* (**NHG guarantee**) in accordance with the general terms and conditions set by the *Stichting Waarborgfonds Eigen Woningen* (**WEW** , Social Housing Guarantee Fund).

A part of the Dutch Mortgage loan portfolio has been securitised to obtain external funding. NIBC generally retains the junior notes As a result the securitisation programmes are consolidated on NIBC's balance sheet. The total amount of the retained positions at 31 December 2019 was EUR 31.4 million (31 December 2018: EUR 33.6 million).

Risk governance Dutch mortgage loans

In order to control the credit risk in the origination of residential mortgage loans, an acceptance policy framework was formulated to screen residential mortgage applications. Acceptance depends on the following underwriting criteria:

- Conformity with the Code of Conduct on Mortgage Credits of the Dutch Bankers Association where applicable;
- A check of an applicant's credit history with the Dutch National Credit Register (*Bureau Krediet Registratie* or **BKR**), a central credit agency used by financial institutions in the Netherlands, which records five years of financial commitments and negative credit events;
- Mortgage loans are secured by first-ranking mortgage rights;
- Other criteria, such as type of property, maximum *Loan-To-Market Value* (**LTMV**), maximum *Loan-to-Income* (**LTI**) and minimum *Debt Service Coverage Ratio* (**DSCR**);
- Underwriting criteria for mortgages with an NHG guarantee are set in accordance with the general terms and conditions set by the WEW. The WEW finances itself by a one-off up-front charge to the borrower as a percentage of the principal amount of the mortgage loan. The NHG guarantee covers losses on the outstanding principal, accrued unpaid interest, and disposal costs, caused by foreclosure.

In 2019, the following amendments were implemented:

- The maximum NHG guaranteed loan amount increased to EUR 290 thousand.
- Maximum Loan-to-Value decreased to 100% in 2018 for owner occupied mortgages. For Buy-to-Let mortgages, maximum LTMV in rented state is currently 75% (in 2018 at 70%) (not regulated by law).

Management of loans in arrears Dutch mortgage loans

In order to control the credit risk in the Dutch Mortgage loan portfolio, NIBC has established procedures to manage all loan amounts in arrears. All amounts in arrears are managed in-house. This ensures a dedicated team focused on preventing and minimising credit losses. The Special Servicing Mortgages team is responsible for arrears, client retention, foreclosures, collecting remaining debts and visiting clients and properties that serve as collateral.

The special servicing at NIBC is focused on intensive contact with its mortgage clients and tailor-made solutions. When amounts in arrears occur, the borrower receives a letter after the first day of arrears. Within one week, the client is contacted by phone. Depending on the outcome of these contacts, a customer-specific approach is formulated on a case-by-case basis. Customer visits are made if arrears reach two months. In case of defaults, the Special Servicing team has to submit the file to the Arrears Management Committee for approval of the strategy to be followed. The Arrears Management Committee includes members from Risk Management, Operations, Portfolio Management and the Special Servicing team. NIBC bids for own foreclosed properties at auctions to ensure the proceeds are at arm's length. If needed, NIBC acquires these properties.

NIBC has introduced a programme where vulnerable customers that may face potential future financial difficulties are approached pro-actively with the intention of identifying and resolving difficulties before actual arrears arise.

Table 55-23 shows the arrears overview of the total Dutch Mortgage loan portfolio at 31 December 2019 and 31 December 2018. Overall, the notional amount in arrears decreased compared to year end 2018 while the portfolio volume has grown with 7%.

55-23 Arrears overview, Dutch Mortgage loan portfolio

	Arrears allocation		IFRS 9 Stage 3 ECL		IFRS 9 Stage 1 and Stage 2 ECL	
in EUR millions	2019	2018	2019	2018	2019	2018
No payment in arrear	9,753	9,121	0.8	4.4	9,752	9,117
0-30 days	83	79	0.0	0.7	83	78
31-60 days	13	19	0.2	0.2	13	19
61-90 days	6	9	0.1	0.1	6	9
Over 90 days	10	19	1.6	1.2	8	17
Total	**9,864**	**9,247**	**2.7**	**6.6**	**9,862**	**9,240**

Forbearance Dutch mortgage loans

NIBC has developed a forbearance policy for mortgage clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. The forbearance policy is defined, formalised and implemented in the standard working routines and processes and is similar to the policy applied for the corporate loan portfolio.

NIBC has been providing a forbearance program to its mortgagers who are experiencing financial difficulties since May 2013. The Client Retention team of the Special Servicing department has the responsibility of assessing the nature and the expected duration of a client's financial distress, and will determine necessity of providing forbearance measures to that client and the conditions that should apply. The team considers forbearance solutions for clients who do not fully meet their financial obligations to NIBC. Forbearance solutions are also submitted to the Arrears Management Committee for further approval. At 31 December 2018, EUR 50 million was forborne of which EUR 35 million was performing and EUR 16 million non-performing. At 31 December 2019, EUR 29 million was reported as forborne of which EUR 22 million was performing and EUR 7 million non-performing.

Risk measurement Dutch mortgage loans

NIBC's rating methodology for residential mortgage loans has been used for determining regulatory capital requirements since 2008. The calculation of PD, LGD and EAD for owner- occupied mortgages is performed by an internally-developed CRR/CRD IV AIRB model (for Buy-to-Let mortgages, Basel standardised approach for credit risk is used).

The PD estimates are dependent on a variety of factors, of which the key factors are debt- to-income and loan-to-value ratios. Minor factors that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0-100%.

The validation of these estimates is performed on historical data and is carried out annually. For the PD, the estimates are back tested against realised defaults and realised losses. In this way, it is ensured that the model functions correctly in a changing economic environment. Moreover, NIBC is closely following recent regulatory proposals regarding the adjusted capital requirements under standardised approach and introducing of capital floors also known as Basel IV.

Table 55-24 shows the PD distribution of the Dutch Mortgage loan portfolio at 31 December 2019 and 31 December 2018. A PD of 100% means that a borrower is close to or more than 90 days in arrears.

55-24 PD allocation of Dutch mortgage loans

	Own book Dutch mortgages loans		Securitised Dutch mortgage loans	
in %	2019	2018	2019	2018
Probability of default				
<= 1%	98.3	98.1	99.6	99.7
1%> <=2%	0.5	0.4	-	-
2%> <=5%	0.3	0.2	0.1	0.1
5%> <100%	0.8	1.0	0.3	0.2
100%	0.2	0.3	-	-
Total[1]	**100**	**100**	**100**	**100**

1 Excludes Buy-to-Let Vastgoed Investerings Hypotheek

Impairment amounts or Expected Credit Losses (ECL) are calculated on individual residential mortgage loans.

For ECL for mortgages the staging can be summarised as follows:
- Stage 1 – For newly originated loans and loans with no significant increase in their credit risk, the ECL is determined on a 12-month horizon;
- Stage 2 – For loans with a significant increase in credit risk (SICR), ECL is determined on a lifetime basis.
- Stage 3 - For defaulted loans the ECL is determined on a lifetime basis and based on facility-specific cash flow scenarios. The expected loss is measured as the difference between the exposure at default and the sale proceeds of the collateral through private sale or auction.

Taking into account probability weighted scenarios for the forward looking macro economy, the ECL per individual mortgage loan consists of three risk parameters:
- Point-in-time PD of the borrower, which is an estimate of the default rate over any specified horizon based on the current state of the credit cycle and the anticipated macroeconomic scenarios.
- Point-in-time LGD, defined as the unbiased loss estimate at a future default date, which takes into account the presence and the value of collateral;

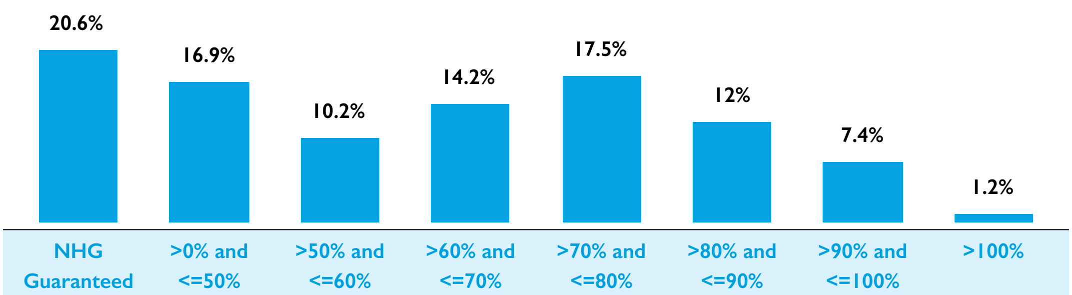
- Point-in-Time EAD, which is the estimation of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments and prepayments of principal and interest and arrears

Risk mitigation and collateral management Dutch mortgage loans
Credit losses are mitigated in a number of ways:
- The underlying property is pledged as collateral;
- 20% of the Dutch own book portfolio and 31% of the securitised portfolio are covered by the NHG programme;
- For the part of the Dutch portfolio that has been securitised, credit losses higher than the retained positions, excess spread and reserve accounts are attributable to investors in the securitisation programmes.

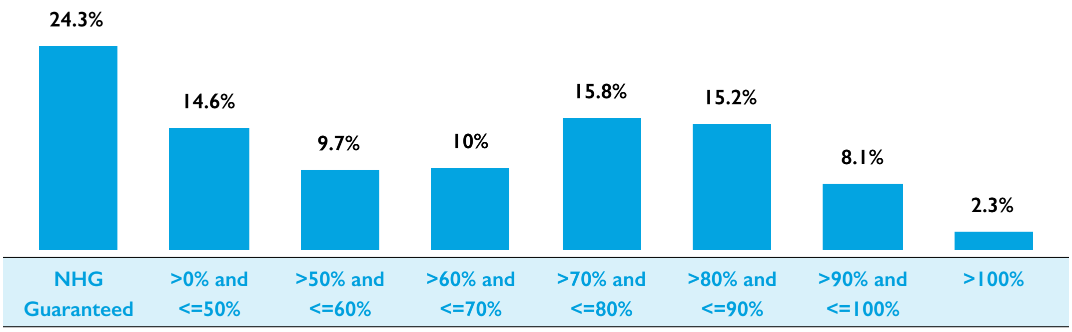
For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings, life insurance and investment deposits may also serve as additional collateral.

An indicator for potential losses, taking into account indexation of house prices and seasoning, is the *Loan-to-Indexed-Market-Value* (**LTIMV**). The indexation is made by using the CBS/Kadaster index, which is based on market observables. The Kadaster (national property register) is a public government register of real estate and their vested rights (e.g. ownership and mortgages). This register contains transaction data as well as CBS (Statistics Netherlands) data, which are used to construct a pricing index. Graphs 55-25 and 55-26 show a breakdown of the LTIMV for the total Dutch Mortgage loan portfolio at 31 December 2019 and 31 December 2018. The average seasoning of the total portfolio is approximately 7 years, 1% of the total portfolio has an LTIMV above 100%. For the remainder of the portfolio, the indexed collateral value is less than or equal to the nominal loan balance outstanding or is a NHG guaranteed mortgage.

55-25 LTIMV of Dutch Mortgage loan portfolio (EUR9,864 million), 31 December 2019



55-26 LTIMV of Dutch Mortgage loan portfolio (EUR 9,247 million), 31 December 2018



German Mortgage loan portfolio

The German Mortgage loan portfolio amounted to EUR 19 million at 31 December 2019 (31 December 2018: EUR 29 million). The collateral value of this portfolio amounted to EUR 42 million at 31 December 2019 (31 December 2018: EUR 57 million). The majority of this portfolio was acquired from third parties via two portfolio purchases. The purchased portfolios contain highly seasoned loans with low LTMV.

As is the case in the Netherlands, the underlying property is the primary collateral for the granted mortgage loan. The majority of mortgage loans in Germany contain an annuity debt profile, leading to a lower outstanding balance during the lifetime of the loan.

Debt investments

NIBC defines credit risk in debt investments as issuer risk, which is the credit risk of losing the principal amount on products such as bonds. Issuer risk is calculated based on the book value.

Risk monitoring and measurement

Risk is controlled by setting single issuer limits and, in some cases, programme limits. All single issuer limits are approved by the TC or by delegated authority to the *Financial Markets Credit Risk* (**FMCR**) department. Apart from single issuer limits, risk is also monitored by assessing credit spread risk. Both sensitivity analysis (*basis point values,* **BPV**s) and *Value at Risk* (**VaR**) numbers are used[3].

Note 57 on Market Risk contains more information on these variables.

In the remainder of this section, the exposure has been divided into the following two sub-portfolios:
- Debt from financial institutions, corporate entities and sovereigns;
- Securitisations.

Debt from financial institutions and corporate entities

NIBC invests in debt (bonds) issued by financial institutions and corporate entities. The size of this sub-portfolio increased in the course of 2019 to EUR 334 million at 31 December 2019 (31 December 2018: EUR 248 million). Of the total exposure, 40% (31 December 2018: 39%) were covered bonds. The remaining 60% (31 December 2018: 61%) was senior unsecured debt.

In 2014, NIBC began to use internal ratings to assess the creditworthiness of a financial institution. In general debt investments are rated more conservative by NIBC than by the external rating agencies.

3 Sensitivity Analysis for NIBC Markets is accounted for in Note57 Market Risk

As of 31 December 2019 NIBC has reverted back to the Standardised Approach for these counterparties.

The amount of EUR 334 million at 31 December 2019 represents the maximum credit risk exposure, without taking into account the presence of any collateral that could be repossessed in case of default. The portfolio did not contain any credit default swap exposures.

55-27 Debt of financial institutions and corporate entities, 31 December 2019

In EUR millions	AAA	AA	A	BBB	BB	<BB	NR	Total[1]
Financial institutions	129	21	72	20	-	-	-	243
Corporate entities	-	-	-	-	10	-	-	10
Sovereigns	75	6	-	-	-	-	-	81
Total	**204**	**27**	**72**	**20**	**10**	**-**	**-**	**334**

1 Source ratings: external ratings for financial institutions and internal ratings for corporate entities.

55-28 Debt of financial institutions and corporate entities, 31 December 2018

In EUR millions	AAA	AA	A	BBB	BB	<BB	NR	Total[1]
Financial institutions	145	-	51	14	-	-	-	210
Corporate entities	-	-	-	-	-	-	-	-
Sovereigns	22	17	-	-	-	-	-	39
Total	**166**	**17**	**51**	**14**	**-**	**-**	**-**	**248**

1 Source ratings: internal rating model (excluding sovereigns), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1.

At both 31 December 2019 and 31 December 2018, the portfolio of debt from financial institutions and corporate entities had no credit losses and contained no arrears.

Securitisations

NIBC has been an active participant on the securitisation market in the past decade, both as an originator and investor in securitisations.

Tables 55-29 and 55-30 present an overview of NIBC's total securitisation exposure resulting from its activities as investor in securitisations. The exposure relating to NIBC's activities as an originator can be split into exposures related to consolidated and non-consolidated securitisations. If a securitisation programme is consolidated on NIBC's balance sheet, the exposure to the underlying collateral is excluded from the securitisation exposure and included in the total exposures presented in note 55 on credit risk in the corporate loans or mortgage loans sections. NIBC's total exposure as an originator to consolidated securitisations was EUR 199 million at 31 December 2019 (31 December 2018: EUR 215 million).

NIBC distinguishes two Securitisation sub-portfolios: the portfolio of Western European Securitisations and the Liquidity Investments portfolio.

NIBC's total securitisation exposure (investor and non-consolidated originator) decreased to EUR 514 million at 31 December 2019 (31 December 2018: EUR 577 million), mainly due to an decrease of the Liquidity portfolio.

The portfolio of investments in Western European securitisations contains NIBC's investor securitisations in Western Europe as well as all investments in NIBC's own non-consolidated securitisations. All investments in NIBC's own securitisations are subject to approval from both Risk Management and Finance. The total amount of the portfolio of investments in Western Europe decreased to EUR 59 million at 31 December 2019 (31 December 2018: EUR 65 million). The Liquidity Investments portfolio was set up to invest part of NIBC's excess liquidity in the securitisation market. Investments are in majority AAA rated RMBS transactions backed by Dutch collateral or European ABS and are eligible to be pledged as collateral with the *European Central Bank* (**ECB**). Apart from the strict mandate, each investment is pre-approved by FMCR. Exposure in this portfolio decreased to EUR 451 million at 31 December 2019 (31 December 2018: EUR 512 million). The underlying assets in the collateral pools of NIBC's securitisation investments comprise Dutch residential mortgage loans (NL-RMBS AAA Liquidity Portfolio) and French and German car loans and credit card receivables (EU-ABS AAA Liquidity Portfolio).

55-29 Exposure to securitised products, 31 December 2019

Book value, in EUR millions	AAA	AA	A	BBB	BB	<BB	Total[1]
EU - ABS	-	-	-	-	-	1	1
EU - CDO	-	-	-	-	-	27	27
EU - CMBS	-	-	-	-	-	3	3
EU - RMBS	2	4	20	-	-	3	29
Total Western European securitisations	**2**	**4**	**20**	**-**	**-**	**33**	**59**
NL - RMBS AAA Liquidity portfolio	385	-	6	-	-	-	390
EU- ABS AAA Liquidity portfolio	64	-	-	-	-	-	64
Total securitisation exposure	**451**	**4**	**26**	**-**	**-**	**33**	**514**

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

55-30 Exposure to securitised products, 31 December 2018

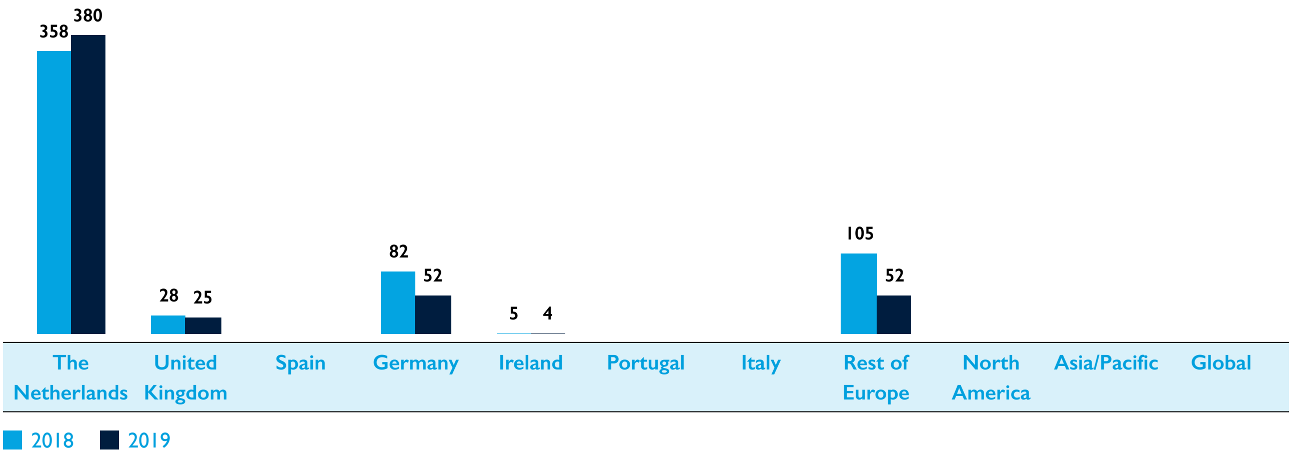
Book value, in EUR millions	AAA	AA	A	BBB	BB	<BB	Total[1]
EU - ABS	-	-	-	-	-	1	1
EU - CDO	-	-	-	-	-	29	29
EU - CMBS	-	-	-	-	-	4	4
EU - RMBS	2	4	22	-	-	3	32
Total Western European securitisations	**2**	**4**	**22**	**-**	**-**	**37**	**65**
NL - RMBS AAA Liquidity portfolio	383	-	3	-	-	-	386
EU- ABS AAA Liquidity portfolio	126	-	-	-	-	-	126
Total securitisation exposure	**511**	**4**	**26**	**-**	**-**	**37**	**577**

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

Geographic distribution of securitisations

Graph 55-31 presents the distribution of the Securitisations portfolio by geographic region at 31 December 2019 and 31 December 2018. NIBC allocates exposure to a region based on the geographic location in which the cash flows are generated. The geographic distribution illustrates that the majority of these assets are located in Western Europe, mainly in the Netherlands (74%), Germany (10%) and the United Kingdom (5%). NIBC's exposure in Ireland, Italy, Spain and Portugal is limited and had decreased to EUR4 million at 31 December 2019 (31 December 2018: EUR 5 million). Approximately 94% of this exposure is investment grade exposure. NIBC had no exposure in Greece at 31 December 2019 or 2018.

55-31 Distribution of securitisations per region, 31 December 2019 (EUR 577 million) and 31 December 2018 (EUR 498 million)



Expected credit losses on securitisations

The majority of the Securitisations portfolio is reported at amortised cost or fair value for accounting purposes and the respective assets are subject to a quarterly credit-impaired analysis. Expected credit losses related to stage 3 are taken when the expected future cashflows are insufficient to meet the payment obligatons. The stock of stage 3 credit losses decreased to below EUR 0.1 million at 31 December 2019 (31 December 2018: EUR 0.5 million).

Table 55-32 presents the rating breakdown of securitisation exposure that did not carry stage 3 credit losses.

55-32 Distribution of securitisation exposure without impairments per rating category, 31 December 2019

Book value, in EUR millions	AAA	AA	A	BBB	BB	<BB	Total[1]
Securitisation exposure without impairments	451	4	26	-	-	32	512

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

55-33 Distribution of securitisation exposure without impairments per rating category, 31 December 2018

Book value, in EUR millions	AAA	AA	A	BBB	BB	<BB	Total[1]
Securitisation exposure without impairments	511	4	23	-	-	29	566

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

Cash management

NIBC is exposed to credit risk as a result of cash management activities. In 2019, NIBC's risk management framework for cash management continued its conservative approach, taking into account the vulnerable financial markets.

Risk monitoring and measurement

NIBC places its excess cash with the DNB/Dutch State Treasury Agency and with a selected number of investment-grade financial institutions. A monitoring process is in place within the FMCR department for the approved financial institutions. Cash management exposures can be collateralised through reverse repo transactions or unsecured through interbank deposits and current accounts.

Correspondent banking and third-party account providers

Apart from the exposure in cash management, NIBC holds foreign currency accounts at correspondent banks and also utilises third-party account providers for internal securitisations.

Exposures

At 31 December 2019, NIBC's total cash amounted EUR 2,485 million (31 December 2018: EUR 2,601 million). EUR1,945 million of the cash was held at DNB, Deutsche Bundesbank, and the central bank in Belgium, EUR 506 million at financial institutions and EUR 14 million at corporate entities (securitisation-related liquidity facilities).

55-34 Cash, 31 December 2019

In EUR millions	AAA	AA	A	≤BBB	Total[1]
Cash and balances with central banks	1,945	20	-	-	1,965
Financial institutions	-	41	479	-	519
Corporate entities	4	-	10	-	14
Total	**1,949**	**60**	**489**	**-**	**2,498**

1 Source ratings: external ratings for financial institutions and internal ratings for corporate entities.

55-35 Cash, 31 December 2018

In EUR millions	AAA	AA	A	≤BBB	Total[1]
Cash and balances with central banks	2,161	-	-	-	2,161
Due to banks				8	8
Financial institutions	-	-	431	1	432
Corporate entities	-	-	-	-	-
Total	**2,161**	**-**	**431**	**9**	**2,601**

1 Source ratings: internal rating model (excluding Cash and balances with central banks), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

At year-end 2019, EUR 191 million cash collateral has been excluded from the cash management exposure (year-end 2018: EUR 155 million) as this amount is restricted cash that relates to derivatives with a negative fair value. At both 31 December 2019 and 31 December 2018, this portfolio carried no impairments and no arrears.

Credit risk in derivatives

Credit risk in derivatives is the risk of having to replace the counterparty in derivative contracts. NIBC's credit risk in derivatives can be split into exposures to financial institutions and corporate entities. NIBC's policy is to minimise this risk. NIBC only enters into OTC contracts with central clearing counterparties and financial institutions that are investment grade or with corporate entities where the exposure is secured by some form of collateral.

Risk monitoring and measurement

Credit risk in derivatives is based on the marked-to-market value and *Potential Future Exposure* (**PFE**) of the derivative. The PFE reflects a potential future change in marked-to- market value during the remaining lifetime of the derivative contract. For financial institutions, separate limits for credit risk are in place, based on the external rating. For corporate clients, NIBC enters into a derivative transaction as part of its overall relationship with the client. The credit approval process for these derivatives is closely linked with the credit approval process of the loan. Limit-setting proposals for both financial institutions and corporate counterparties are reviewed in the TC. For financial institutions, collateral postings under a CSA are taken into account. In 2019 NIBC offsetted assets and liabilities with central clearing members. Derivatives with the same characteristics, being counterparty, maturity bucket and currency are netted. In 2019, EUR 2 million of NIBC's derivative portfolio including netting, but excluding collateral and PFE has been centrally cleared. For corporate counterparties, both the loan and derivative are treated as a single package whereby the derivative often benefits from the security/ collateral supporting the loan exposure.

Exposures

Tables 55-36 and 55-37 display NIBC exposures from credit risk in derivatives allocated across the rating class of the underlying counterparty. Exposure is the sum of the positive marked-to-market value of derivative contracts, excluding the effect of netting and collateral exchange. The total derivative exposure excluding netting and collateral decreased in 2019 to EUR 483 million at 31 December 2019 (31 December 2018: EUR 578 million).

55-36 Derivative exposure excluding netting and collateral, 31 December 2019

In EUR millions	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR	Total[1]
Financial institutions	-	34	57	4	-	-	-	-	-	-	-	95
Corporate entities	16	-	1	262	89	7	10	-	2	-	-	387
Total	**16**	**34**	**58**	**266**	**89**	**7**	**10**	**-**	**2**	**-**	**-**	**483**

1 Source ratings: external ratings for financial institutions and internal ratings for corporate entities.

55-37 Derivative exposure excluding netting and collateral, 31 December 2018

In EUR millions	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR	Total[1]
Financial institutions	-	24	119	43	-	-	-	-	-	-	-	186
Corporate entities	17	-	1	247	49	62	4	-	-	11	1	392
Total	**17**	**24**	**120**	**290**	**49**	**62**	**4**	**-**	**-**	**11**	**1**	**578**

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

Collateral

To the extent possible, NIBC attempts to limit credit risk arising from derivatives. NIBC enters into bilateral collateral agreements with financial institutions to mitigate credit risk in OTC derivatives by means of CSAs. Positive marked-to-market values can be netted with negative marked-to-market values and the remaining exposure is mitigated through bilateral collateral settlements (as in tables 55-38 and 55-39). Accepted collateral is mainly cash collateral, which is usually exchanged on a daily basis. The primary counterparties in these CSAs are large international banks with ratings of A or higher. NIBC generally carries out daily cash collateral exchanges to account for changes in the market value of the contracts included in the CSA.

Terms and conditions of these CSAs are in line with general *International Swaps and Derivatives Association* (**ISDA**) credit support documents. Collateral from CSAs significantly decreases the credit exposure on derivatives, as presented in table 59-38 at 31 December 2019 and in table 55-39 at December 2018.

55-38 Derivative exposure including netting and collateral, 31 December 2019

In EUR millions	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR	Total[1]
Financial institutions	-	5	27	4	-	-	-	-	-	-	-	36
Corporate entities	16	-	1	250	89	7	10	-	2	-	-	375
Total	**16**	**5**	**28**	**254**	**89**	**7**	**10**	**-**	**2**	**-**	**-**	**411**

1 Source ratings: external ratings for financial institutions and internal ratings for corporate entities.

55-39 Derivative exposure including netting and collateral, 31 December 2018

In EUR millions	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR	Total[1]
Financial institutions	-	2	39	5	-	-	-	-	-	-	-	46
Corporate entities	17	-	1	238	49	62	4	-	-	11	1	382
Total	**17**	**2**	**39**	**243**	**49**	**62**	**4**	**-**	**-**	**11**	**1**	**428**

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

Valuation of corporate derivatives (credit and debt value adjustments)
CVA and DVA are incorporated into derivative valuations to reflect the risk of default of the counterparty as well as the own default risk of NIBC. The adjustments are applied to all OTC derivative contracts, except for those that benefit from a solid collateral agreement where cash collateral is regularly exchanged, mitigating the credit risk. In practice, this means that CVA and DVA are only applied to OTC derivative contracts that generate credit risk on corporate (i.e. non-financial) counterparties.

Arrears

NIBC applies a threshold for determining whether a derivative carries a non-material arrear. The criteria for this threshold are the same as for the portfolio of corporate loans. If amounts in arrear fall below the threshold (EUR 100,000), they are considered insignificant and are therefore excluded. The application of the threshold does not influence the total arrears for 2019 and 2018.

Table 55-40 displays an overview of the arrears for corporate derivatives at 31 December 2019 and 31 December 2018 as well as the exposures (marked-to-market values) these arrears refer to. There were no amounts in arrear for derivatives with financial institutions. As shown in Table 55-40, at 31 December 2019, no marked-to-market exposure in arrear (31 December 2018: no marked-to-market exposure in arrear).

55-40 Arrears overview, corporate derivative exposure

	2019		2018	
in EUR millions	Exposure (MtM)[1]	Amount in arrear	Exposure (MtM)[1]	Amount in arrear
Age of payment in arrear				
1 - 5 days	-	-	-	-
6 - 30 days	-	-	-	-
31 - 60 days	-	-	-	-
61 - 90 days	-	-	-	-
Subtotal less than 90 days	**-**	**-**	**-**	**-**
Over 90 days	-	-	-	-
No payment in arrear	377	-	382	-
Total	**377**	**-**	**382**	**-**

1 MtM: Marked-to-Market value.

56 Interest rate risk in the Banking book

NIBC defines *interest rate risk in the Banking book* (**IRRBB**) as the risk of losses from interest rate sensitive positions in non-trading activities due to movements in interest rates. Interest rate risk is measured both from an economic value perspective and an earnings perspective. The first perspective considers the impact on the market value, while the latter considers the impact on the net interest income.

NIBC's banking book consists of:
- Corporate treasury
- Commercial Treasury
- Corporate banking
- Retail banking

Risk appetite

The risk appetite for IRRBB from an economic value perspective is measured by the modified duration of equity and equal to 5 (with a tolerance of 7.5), while the risk appetite from an earnings perspective is measured by the impact on 1Y earnings and equal to EUR 18 million (assuming a shift in interest rates of 100 bps).

Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest BPV and interest VaR measures are calculated on a daily basis and reviewed by the Market Risk department:
- Interest BPV measures the sensitivity of the market value to an instantaneous change of one basis point in each time bucket of the interest rate curve. The BPV as displayed in the tables represents the sensitivity of the market value to a one-basis-point, parallel upward shift of the underlying curve;
- The interest VaR measures the threshold value, which daily marked-to-market losses with a confidence level of 99% will not exceed, based on four years of historical data for daily changes in interest rates. These daily changes are superimposed on the current market rates. The VaR is calculated by means of full valuation to take non-linearity into account.

In measuring BPV and VaR for the Banking book the (credit) spreads have been excluded from cashflows and discounting, in line with EBA guidelines. This change in calculation was gradually implemented during 2019.
From the earnings perspective changes in interest rates occur both instantaneously and gradually over time. The combination of static and dynamic (changes to the current portfolio composition) analyses are used. The dynamic analysis allows the integration of the business strategy in the earnings, by aligning the development of the balance sheet with the business plan, taking into account both refinancing and reinvestments. Earnings at risk (EaR) is calculated by means of the following measure:
- 12 months earnings impact due to a 200 bps gradual upwards or downwards interest rate shock per currency

EaR as displayed in the tables represents the 200 bps gradual upwards measure.

The interest rate risk analysis is complemented by a set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on the above measures, both those from the economic value perspective and from an earnings perspective. The limits and utilisation are reported to the ALCO once every month. Any major breach of IRRBB limits is reported to the CRO immediately.

Interest rate risk

Interest rate risk in the Banking book
Interest rate risk in the Banking book from an economic value perspective is mainly present in the Mismatch book.

NIBC accepts a certain economic value risk exposure in the Mismatch book. We call this our strategic mismatch exposure.

The Mismatch book exclusively contains swaps in EUR and GBP as these are, next to USD, the major currencies in which also lending activities take place.The Mismatch book contained no USD position in 2019. At year-end of 2019 the total notional position is EUR 463 million, with 70% of the mismatch position held in EUR and 30% in GBP. Duration based the relative positions would be 78% in EUR and 22% in GBP.

The Mortgage loan book consists of:
- The White Label portfolio which has a size of 3.7 billion EUR at year-end 2019 with EUR 20 million in Germany.
- The NIBC Direct portfolio, which has a size of EUR 6.2 billion .

The mortgage loan portfolios are accounted on amortised cost and notional hedging is applied to hedge the interest rate risk.

The Corporate Treasury book contains mainly the funding activities of NIBC and the corporate loan books. The Liquidity portfolio, Collateral portfolio and Debt Investments portfolio are part of the Banking Book and consist mainly of investments in financial institutions and securitisations.

Tables 56-1 and 56-2 illustrate in EUR the *interest rate sensitivity* (**BPV**) for EUR, USD and GBP in the Mismatch and remaining Banking book at year-end 2019 and 2018. For other currencies, the interest rate risk is minimal.The Earnings perspective number are the result of applying a gradual 200 bps upward shift

56-1 Interest rate statistics Banking book, 31 December 2019

	Economic value perspective (BPV)			Earnings perspective (EaR)		
in EUR thousands	Mismatch	Other	Total	Mismatch	Other	Total
EUR	(137)	24	(112)	(2,542)	11,577	9,035
USD	-	(5)	(5)	-	554	554
GBP	(39)	(6)	(46)	(944)	(1,105)	(2,049)
Other	-	-	-	-	294	294
Total	**(176)**	**13**	**(163)**	**(3,486)**	**11,320**	**7,834**

56-2 Interest rate statistics Banking book, 31 December 2018

	Economic value perspective (BPV)			Earnings perspective (EaR)		
in EUR thousands	Mismatch	Other	Total	Mismatch	Other	Total
EUR	(166)	437	271	(2,798)	16,643	13,845
USD	-	(6)	(6)	-	(192)	(192)
GBP	(51)	6	(45)	(1,031)	(1,257)	(2,288)
Other	-	-	-	-	973	973
Total	**(217)**	**437**	**220**	**(3,830)**	**16,167**	**12,338**

From the economic value perspective more detailed statistics with respect to the Mismatch book are presented in the following table.

56-3 Interest rate statistics Mismatch book

	2019		2018	
in EUR thousands	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max[1]	(219)	1,223	(261)	1,753
Average	(200)	1,045	(235)	1,520
Min[2]	(176)	813	(158)	1,033
Year-end	**(176)**	**814**	**(217)**	**1,225**

1 Max: value farthest from zero
2 Min: value closest to zero

In the following table the interest BPV statistics of the Banking Book, split in Banking Book and Banking Book excluding Mismatch are presented. As stated earlier the methodology used for calculation of BPV and VaR was changed during the year, (credit) spreads were excluded from the calculation, in line with EBA guidelines. Therefore, in table 56-4, averages for categories Banking Book and Banking Book excluding Mismatch differ from year-end figures. If the spreads would have been included then the BPV for these categories would be 430 EUR thousand and 606 EUR thousand respectively.

56-4 Interest rate BPV statistics Banking book

in EUR thousands	2019 Banking Book	2019 Banking Book excluding Mismatch	2018 Banking Book	2018 Banking Book excluding Mismatch
Max[1]	528	713	339	564
Average	335	536	154	388
Min[2]	191	398	(7)	3
Year-end	**(164)**	**12**	**220**	**436**

1 Max: value farthest from zero
2 Min: value closest to zero

57 Market risk

NIBC defines market risk as:

- the risk of losses in the Trading book arising from adverse movements in market rates and;
- the risk of losses in the Banking Book from NIBC's credit spread risk position;
- the risk of losses in both the banking and trading book from adverse movements in currencies with respect to the Euro.

The predominant market risk drivers for NIBC Holding are interest rate risk and credit spread risk .

In Money Markets & Trading, NIBC takes short-term positions in the EUR, GBP and USD yield curves. This book also contains interest rate risk related to derivative transactions of NIBC's clients. All positions within NIBC Markets are part of the Trading book. The Trading book of NIBC Markets contains bonds and a relatively small equity portfolio in those equities, for which NIBC markets is liquidity provider.

Risk appetite

The risk appetite for market risk is moderate. For all market risk types limits are set and monitored on a daily basis.

Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest and credit spread BPV and interest and credit spread and equity VaR measures are calculated on a daily basis and reviewed by the Market Risk department. VaR is calculated using 4 years of historical data and a confidence level of 99%.

The market risk analysis is complemented by a set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on the above measures. The limits and utilisation are reported to the ALCO once every month. Any major breach of market risk limits is reported to the CRO immediately.

Interest rate risk, credit spread risk and equity risk

Money Markets & Trading contains plain vanilla interest rate derivatives only. Figures per year-end 2019 versus 2018 are displayed below.

57-1 Interest rate statistics Trading book NIBC excluding NIBC Markets

	2019		2018	
in EUR thousands	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max[1]	44	316	(107)	411
Average	(7)	94	(72)	189
Min[2]	0	48	(10)	81
Year-end	**(12)**	**88**	**(18)**	**82**

1 Max: value farthest from zero
2 Min: value closest to zero

The Trading book of NIBC Markets consists of bonds and equities. The bonds in the Trading book of NIBC Markets are subject to both interest rate risk and credit spread risk. The equities of the Trading Book of NIBC Markets are related to the function of liquidity provider, which NIBC Markets has for a number of Dutch small and midcap equities. Year-end 2019 and 2018 figures are displayed in the following table.

57-2 Interest rate & credit spread risk statistics Trading book NIBC Markets

	2019			2018		
in EUR thousands	Interest BPV	Credit spread BPV	VaR	Interest BPV	Credit spread BPV	VaR
NIBC Markets	(20)	(57)	364	(21)	(38)	258

The VaR in this table includes both interest rate risk and credit spread risk.

The year-end 2019 equity VaR of NIBC Markets is 43 thousand EUR while in 2018 equity VaR was 78 thousand EUR per end of year.

NIBC's Banking book has credit spread risk mainly in the Liquidity portfolio, Collateral portfolio, the Structured Credits portfolio and the fair value mortgages portfolio. Year-end 2019 credit spread risk figures versus 2018 are displayed below.

57-3 Credit spread risk statistics Banking book

	2019		2018	
in EUR thousands	Credit spread BPV	Credit spread VaR	Credit spread BPV	Credit spread VaR
Liquidity / Collateral	(218)	1,997	(200)	1,202
Structured Credits	(37)	1,015	(36)	755

Currency risk

NIBC manages its overall currency position based on the currency positions in the monthly balance sheets. The main exposures in foreign currencies for NIBC are USD, GBP and JPY. NIBC uses matched funding and other measures to apply its policy of not taking any currency positions. Any currency position which does show at month end is caused by movements in the fair value of assets or liabilities or interest income in foreign currencies and is hedged by entering into FX spot transactions. The total open foreign currency position, by nominal amount, was EUR 23.6 million at year-end 2019. This currency position is the position prior to hedging, which is always done shortly after month-end. Regulatory capital for currency risk is equal to1.9 million EUR per end of 2019.

Furthermore, the impact of a *reasonably possible* yearly change (in absolute terms) of EUR against other currencies was calculated. Per end of 2019 the impact of these reasonably possible changes is as follows for NIBC Holding (only currencies with the larger exposures are displayed).

61-4 Currency risk analysis

	2019		2018	
Currency	Change in currency in %	Impact income statement in EUR million	Change in currency in %	Impact income statement in EUR million
USD	+08	-0.1	+08	0.6
GBP	+14	-2.5	+14	0.2
JPY	+09	0.0	+09	0.1
CHF	+09	0.0	+09	0.0

The sum of the absolute values of the impact for all currencies is equal to around EUR 2.8 million.

58 Liquidity risk

NIBC defines liquidity risk as the inability of NIBC to fund its assets and meet its obligations as they become due, at acceptable cost.

Maintaining a sound liquidity and funding profile is one of NIBC's most important risk management objectives. NIBC analyses its funding profile by mapping all assets and liabilities into time buckets that correspond to their maturities. Based on projections prepared by the business units and reviewed by Risk Management, and the current asset and liability maturity profiles, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position.

Assumptions

One of the stress scenarios, the market-wide stress test, assumes a world-wide liquidity shortage in which no new market funding can be attracted by NIBC. Furthermore, it is assumed that assets cannot be sold, but that they can only be made liquid by making them eligible for collateralised and ECB funding. In addition, the following assumptions are made:

- In order to maintain NIBC's business franchise, it is assumed that new corporate loan production continues at a level where the current books are maintained constant;
- Conservative assumptions with respect to for example collateral cash outflows (payments from CSAs) and drawdowns of undrawn commitments are made; and
- A one notch downgrade is assumed.

The projection of NIBC's liquidity in this way is necessarily a subjective process and requires management to make assumptions about, for example, the fair value of eligible collateral and potential outflow of cash collateral placed by NIBC with derivative counterparties.

In light of these projections, NIBC is confident that sufficient liquidity is available to meet maturing obligations over the next 12 months.

Maturity calendar consolidated balance sheet

The following tables present the cash flows payable by NIBC in respect of non-derivative financial liabilities relevant for liquidity risk by the remaining contractual maturities at 31 December. The amounts disclosed in the tables for the non-derivative financial liabilities are contractual future undiscounted cash flows. Financial liabilities at fair value through profit or loss are therefore restated to future nominal amounts. The financial assets relevant for managing liquidity risk are based on the fair value (discounted cash flows) for those assets which are classified at FVOCI.

The differences between the table and the stress scenario are caused mainly by the following items that are included in the stress scenario analysis but not in the maturity calendar of the consolidated balance sheet:

- New asset production;
- Collateralised funding capacity of internal securitisations and individual bonds; and
- Conservative assumptions with respect to possible cash outflows (e.g. CSA collateral, callable funding).

58.1 Liquidity maturity calendar, 31 December 2019

in EUR millions	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
Liabilities (undiscounted future cash flows)							
Due to other banks	-	34	673	789	505	-	2,001
Deposits from customers	-	6,296	769	1,736	2,079	317	11,197
Financial liabilities at fair value through profit or loss (including trading) :							
Own debt securities in issue	-	-	37	-	-	-	37
Debt securities in issue structured	-	-	-	-	42	63	105
Deferred tax	-	-	-	-	12	-	12
Provisions	-	-	-	-	-	2	2
Accruals, deferred income and other liabilities	-	-	-	86	-	-	86
Financial liabilities at amortised cost:							
Own debt securities in issue	-	-	370	1,081	2,737	3,210	7,398
Debt securities in issue related to securitised mortgages and lease receivables	-	-	-	-	-	391	391
Subordinated liabilities;							
Fair value through profit or loss	-	-	-	-	-	116	116
Amortised cost	-	-	-	-	-	296	296
Total liabilities (excluding derivatives and interest cash flows	**-**	**6,330**	**1,849**	**3,692**	**5,375**	**4,395**	**21,641**
Total assets relevant for managing liquidity risk at fair value (excluding derivatives and interest cash flows)	**619**	**2,458**	**517**	**1,117**	**5,682**	**11,522**	**21,915**

58.2 Liquidity maturity calendar, 31 December 2018

in EUR millions	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
Liabilities (undiscounted future cash flows)							
Due to other banks	-	92	13	45	1,248	2	1,400
Deposits from customers	-	5,645	997	2,314	1,708	447	11,111
Financial liabilities at fair value through profit or loss (including trading) :							
Own debt securities in issue	-	-	-	-	37	-	37
Debt securities in issue structured	-	-	-	5	46	362	413
Liabilities held for sale	13	-	-	-	-	-	13
Deferred tax	-	-	-	-	7	-	7
Provisions	-	-	-	-	-	3	3
Accruals, deferred income and other liabilities	-	-	-	116	-	-	116
Financial liabilities at amortised cost:							
Own debt securities in issue	-	-	-	1,249	2,243	1,543	5,035
Debt securities in issue related to securitised mortgages and lease receivables	-	-	-	-	-	447	447
Subordinated liabilities:							
Fair value through profit or loss	-	-	-	-	-	336	336
Amortised cost	-	-	-	-	-	215	215
Total liabilities (excluding derivatives and interest cash flows	**13**	**5,737**	**1,010**	**3,729**	**5,289**	**3,355**	**19,133**
Total assets relevant for managing liquidity risk at fair value (excluding derivatives and interest cash flows)	**511**	**2,468**	**281**	**855**	**5,699**	**11,049**	**20,863**

58.3 Liquidity maturity calendar of derivatives, 31 December 2019

Liquidity maturity calendar derivatives

The following tables present the derivative financial instruments that will be settled on a net basis into relevant maturity classes based on the contractual maturity date at 31 December 2019 and 2018. The amounts disclosed in the tables are the contractual undiscounted cash flows.

in EUR millions	Less than three months	Between three months and one year	One to five years	Five years or more	Total
Derivatives held for trading:					
Interest rate derivatives (net settled)					
Inflow	284	979	1,342	472	3,077
Outflow	(291)	(1,027)	(1,332)	(515)	(3,165)
Credit derivatives					
Inflow	-	-	-	1	1
Outflow	-	-	-	-	-
Derivatives used for hedging:					
Interest rate derivatives (net settled)					
Inflow	-	46	105	-	151
Outflow	(2)	(45)	(103)	(1)	(151)
FX forwards					
Inflow	1,087	-	-	-	1,087
Outflow	(1,092)	-	-	-	(1,092)
Total inflow	**1,371**	**1,025**	**1,447**	**473**	**4,316**
Total outflow	**(1,385)**	**(1,072)**	**(1,435)**	**(516)**	**(4,408)**

58.4 Liquidity maturity calendar of derivatives, 31 December 2018

in EUR millions	Less than three months	Between three months and one year	One to five years	Five years or more	Total
Derivatives held for trading:					
Interest rate derivatives (net settled)					
Inflow	345	826	2,059	610	3,840
Outflow	(340)	(780)	(1,971)	(571)	(3,662)
Credit derivatives					
Inflow	-	-	-	1	1
Outflow	-	-	-	-	-
Derivatives used for hedging:					
Interest rate derivatives (net settled)					
Inflow	1	104	105	-	210
Outflow	(1)	(114)	(116)	(1)	(232)
FX forwards					
Inflow	1,002	33	-	-	1,035
Outflow	(1,004)	(33)	-	-	(1,037)
Total inflow	**1,348**	**963**	**2,164**	**611**	**5,086**
Total outflow	**(1,345)**	**(927)**	**(2,087)**	**(572)**	**(4,931)**

58.5 Liquidity maturity calendar off-balance sheet, 31 December 2019

Liquidity maturity calendar off-balance sheet
The following table shows the contractual maturity of NIBC's contingent liabilities and commitments.

Each undrawn loan or capital commitment is included in the time band containing the earliest date it can be drawn down.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

in EUR millions	Less than three months	Between three months and one year	One to five years	Five years or more	Total
Contract amount:					
Committed facilities with respect to corporate loan financing	1,662	-	-	-	1,662
Committed facilities with respect to residential mortgages financing	267	-	-	-	267
Capital commitments	29	-	-	-	29
Guarantees granted	69	-	-	-	69
Irrevocable letters of credit	70	-	-	-	70
	2,097	**-**	**-**	**-**	**2,097**

58.6 Liquidity maturity calendar off-balance sheet, 31 December 2018

in EUR millions	Less than three months	Between three months and one year	One to five years	Five years or more	Total
Contract amount:					
Committed facilities with respect to corporate loan financing	1,704	-	-	-	1,704
Committed facilities with respect to residential mortgages financing	503	-	-	-	503
Capital commitments	20	-	-	-	20
Guarantees granted	56	-	-	-	56
Irrevocable letters of credit	64	-	-	-	64
	2,347	**-**	**-**	**-**	**2,347**

59 Capital management

Overview
It is NIBC's policy to maintain a strong capital base, to meet regulatory capital requirements at all times and to support the development of its business by allocating capital efficiently. Allocation of capital to the business is based on an EC approach. EC is the amount of capital which NIBC allocates as a buffer against potential losses from business activities, based upon its assessment of risks. The EC that NIBC allocates to each business is based on the assessment of risk of its activities. It differs from the CRR/CRD IV capital requirements, i.e. regulatory capital, as in certain cases NIBC assesses the

specific risk characteristics of its business activities in a different way than the CRR/CRD IV method. Total regulatory capital however, in combination with a minimum benchmark Tier 1 ratio, does form a limit to the maximum amount of EC that can be allocated to the business.

Comparing the risk-based EC of each business to its profit delivers a RAROC for each business. EC and RAROC are key tools in NIBC's capital allocation and usage process, assisting in allocating Own Funds as efficiently as possible, based on expectations of both risks and return. Usage of EC is assessed once every two weeks in the ALCO. The ALCO resets the maximum allocation level of EC to and within each business, taking into account business expectations, NIBC's desired risk profile and the regulatory requirements.

Methodology

NIBC uses the business model of each activity as the basis for determining the EC. If the business model of an activity is trading, distribution or investing for a limited period, a market risk approach based upon VaR and scaled to a one-year horizon is used to calculate the EC usage. A business model based on 'buy-to-hold' or investing to maturity leads to a credit risk approach being applied, based upon estimations of PD and LGD. Add-ons for operational risk and country risk are also calculated. Furthermore, NIBC allocates EC for business risk, reputation risk and model risk on a group-wide level.

The EC approach differs from the CRR/CRD IV approach in which only the trading books are assigned a market risk approach. In the CRR/CRD IV framework, activities that are not trading but have a business model based on distribution or investment for a limited period are often assigned a credit risk approach, following CRR/CRD IV regulations or regulatory industry practice, whereas in the EC framework NIBC applies a market risk approach similar to that of the trading activities. Risks and EC are monitored accordingly.

The main differences between the EC capital and CRR/CRD IV framework come from the Residential Mortgage portfolio, the Securitisations portfolio and NIBC's interest rate mismatch position. EC is determined by a market risk approach for these activities. The CRR/CRD IV approach is either a credit risk approach (mortgage loans and securitisations) or is not part of the CRR/CRD IV Pillar 1 at all (mismatch position).

Capital allocation

NIBC allocates EC to all its business activities in the form of limits set by the ALCO and calculates the amount of EC usage of each business based on the risk of its activities:

- For the Corporate Loan portfolio, NIBC calculates EC usage by means of a credit risk approach largely based upon the CRR regulatory capital formula and an add-on for concentration risk;
- For the Debt Investments and Trading portfolios, the Residential Mortgage portfolio and the interest rate mismatch position, NIBC uses a market risk approach to determine EC usage. EC usage for these portfolios is calculated using VaR, calculated with four years of historical data and scaled to a one-year horizon;
- For the Investment loans, NIBC calculates EC usage by applying a credit approach based upon the CRR regulatory capital formula. NIBC uses fixed percentages for the equity investments.

CRR/CRD IV regulatory capital

The objective of CRR/CRD IV is to enhance the capital adequacy of the banking industry by making it more responsive to risk. CRR/CRD IV is structured on three pillars:

- Pillar 1 describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;

- Pillar 2 describes the additional *supervisory review and evaluation process* (**SREP**), where regulators analyse the *internal capital adequacy assessment process* (**ICAAP**) of the individual banks. Since the end of 2011, Dutch Central Bank also analyses the *internal liquidity adequacy assessment process* (**ILAAP**);
- In Pillar 3 the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

Under CRR/CRD IV and subject to approval from the regulator, banks have the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'.

For credit risk, NIBC adopted the AIRB approach as further specified in CRR/CRD IV for its corporate and retail mortgage exposure class. NIBC started using the AIRB approach at 1 January 2008. The residue of exposures is measured on the standardised approach.

For market risk, NIBC adopted an internal model VaR approach.

For measuring operational risk, NIBC adopted the standardised approach, which is based on prescribed business-line activities.

The basis for Pillar 2 is NIBC's ICAAP, which is NIBC's self-assessment of risks sufficiently captured by Pillar 1, i.e. the link between NIBC's risk profile, its risk management and risk mitigation, and NIBC's capital planning.

Under Pillar 3, NIBC publishes its regulatory disclosures regarding its capital structure, capital adequacy, liquidity risk, risk management objectives/policies and risk-weighted assets each year. The Pillar 3 disclosures are published on the same date as the Annual Report on our website.

The following table displays the composition of regulatory capital as at 31 December 2019 and 31 December 2018. As from 2019, non-eligible profits attributable to the shareholders are no longer added to regulatory capital. The regulatory capital is based on the CRR/CRD IV scope of consolidation, calculated for NIBC consolidated on a fully loaded base including the eligible profit after tax of the year. Only the profit after tax over the first half year of 2019 is eligible to be included in the Common Equity Tier 1 after receiving permission of DNB. NIBC complies with the CRR/CRD IV capital requirements as per 31 December 2019, which formally requires a minimum Common Equity Tier 1 ratio (including capital buffer) of 10.5%, a minimum Tier 1 ratio (including capital buffer) of 12.0% and a minimum Total Capital ratio (including capital buffer) of 14.0%.

in EUR millions	2019	2018
Tier 1:		
Called-up share capital	80	80
Share premium	237	237
Eligible reserves	1,547	1,680
Profit after tax not included in CET 1 capital	(109)	(241)
Regulatory adjustments	(150)	(162)
Common equity Tier 1 capital	**1,605**	**1,594**
Additional Tier 1 capital	200	200
Total Tier 1 capital	**1,805**	**1,794**
Tier 2:		
Qualifying subordinated liabilities	317	309
Total Tier 2 capital	**317**	**309**
Total BIS capital	**2,122**	**2,103**

COMPANY FINANCIAL STATEMENTS

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COMPANY INCOME STATEMENT

for the years ended 31 December

in EUR millions	note	2019	2018
Interest and similar income	1	567	613
Interest expense and similar charges	1	295	321
Net interest income		**272**	**292**
Fee income	2	29	33
Fee expense	2	-	-
Net fee income		**29**	**33**
Income from equity investments	14	(2)	5
Income from interests in group companies	16	152	150
Income from group companies and (other) equity investments		**150**	**155**
Results from financial transactions	3	(1)	(4)
Total operating income		**450**	**476**
Personnel expenses	4	102	101
Depreciation and amortisation	5	4	4
Other operating expenses	6	90	69
Credit loss expenses / (recovery)	7	31	43
Regulatory charges and levies	8	13	14
Total operating expenses		**240**	**231**
Profit from ordinary operations before tax		**210**	**245**
Tax	9	8	4
Profit after tax		**202**	**241**

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the years ended 31 December

	2019			2018		
in EUR millions	Before tax	Tax charge/ (credit)	After tax	Before tax	Tax charge/ (credit)	After tax
Profit for the year	**210**	**8**	**202**	**245**	**4**	**241**
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Remeasurements of defined-benefit plans	-	-	-	-	-	-
Revaluation of property and equipment	8	2	6	-	-	-
Revaluation of own credit risk reserve	(9)	-	(9)	27	(17)	44
Items that may be reclassified subsequently to profit or loss						
Net result on hedging instruments	(5)	(1)	(4)	(14)	(4)	(10)
Revaluation of equity investments	-	-	-	-	-	-
Revaluation of loans and advances to customers	-	-	-	-	-	-
Revaluation of interest-bearing securities	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income						
Revaluation of equity investments	-	-	-	-	-	-
Movement in revaluation for debt investments at FVOCI	6	1	5	(6)	(1)	(5)
Total other comprehensive income	**-**	**2**	**(2)**	**7**	**(22)**	**29**
Total comprehensive income	**210**	**10**	**200**	**252**	**(18)**	**270**
Total comprehensive income attributable to:						
Shareholder of the company	198	10	188	240	(18)	258
Holders of capital securities	12	-	12	12	-	12
Total comprehensive income	**210**	**10**	**200**	**252**	**(18)**	**270**

COMPANY BALANCE SHEET

before profit appropriation, as at 31 December

in EUR millions	note	2019	2018
Assets			
Cash and balances with central banks	10	1,790	1,660
Due from other banks	11	494	399
Interest-bearing securities	12	1,164	969
Loans and advances to customers	13	18,764	18,292
Equity investments	14	29	32
Derivative financial instruments	15	794	893
Interests in group companies	16	1,337	1,181
Investment property	17	14	-
Property and equipment	18	29	28
Other assets	19	29	31
Total assets		**24,444**	**23,485**
Liabilities and equity			
Due to other banks	20	1,566	1,609
Customer deposits and other fund on deposit	21	13,643	13,387
Debt securities in issue	22	6,528	5,773
Derivative financial instruments	15	287	261
Provisions	23	20	10
Other liabilities	24	51	56
Subordinated liabilities	25	284	278
Total liabilities		**22,379**	**21,374**
Equity			
Share capital	26	80	80
Share premium	26	238	238
Revaluation reserves	26	120	122
Retained earnings	26	1,225	1,230
Profit after tax for the year	26	202	241
Equity attributable to shareholder of the company		**1,865**	**1,911**
Capital securities	27	200	200
Total parent equity		**2,065**	**2,111**
Total liabilities and equity		**24,444**	**23,485**
Contingent liabilities	28	102	84
Irrevocable liabilities	28	1,519	1,537

COMPANY STATEMENT OF CHANGES IN EQUITY

	Attributable to:						
in EUR millions	Share capital	Share premium	Revaluation reserves	Retained earnings including net profit	Equity of the parent company	Capital securities	Total equity
Balance at 1 January 2019	**80**	**238**	**122**	**1,471**	**1,911**	**200**	**2,111**
Net profit for the year	-	-	-	190	190	12	202
Total comprehensive income for the period ended 31 December 2019	-	-	(2)	-	(2)	-	(2)
Transfer of realised depreciation revalued property and equipment	-	-	(1)	1	-	-	-
Adjustment deferred tax asset due to higher corporate income tax rate in 2021 and onwards then originally expected		-	-	1	1	-	1
Other	-	-	1	(1)	-	-	-
Distributions:							
Paid coupon on capital securities	-	-	-	-	-	(12)	(12)
Dividend paid during the year	-	-	-	(235)	(235)	-	(235)
Balance at 31 December 2019	**80**	**238**	**120**	**1,427**	**1,865**	**200**	**2,065**

in EUR millions	Share capital	Share premium	Revaluation reserves	Retained earnings including net profit	Equity of the parent company	Capital securities	Total equity
	Attributable to:						
Restated balance at 1 January 2018 after the adoption of IFRS 9	**80**	**238**	**93**	**1,395**	**1,806**	**200**	**2,006**
Net profit for the year	-	-	-	229	229	12	241
Total comprehensive income for the period ended 31 December 2018	-	-	29	-	29	-	29
Transfer of realised depreciation revalued property and equipment	-	-	(1)	1	-	-	-
Adjustment deferred tax asset due to lower corporate income tax rate in 2020 and onwards		-	-	(8)	(8)	-	(8)
Other	-	-	1	(6)	(5)	-	(5)
Distributions:							
Paid coupon on capital securities	-	-	-	-	-	(12)	(12)
Dividend paid during the year	-	-	-	(140)	(140)		(140)
Balance at 31 December 2018	**80**	**238**	**122**	**1,471**	**1,911**	**200**	**2,111**

in EUR millions	2019
Equity[1]	1,865
Share capital	(80)
Legal reserves	
Within retained earnings	-
Revaluation reserves	(34)
Legal reserves profit participation	(1)
	(35)
Available distribution amount	**1,750**

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

COMPANY ACCOUNTING POLICIES

Basis of preparation

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

The company financial statements have been prepared in accordance with the legal requirements for financial statements contained in Title 9 of Book 2 of the Netherlands Civil Code. NIBC applies the provisions in Section 362, paragraph 8, Title 9 of Book 2 of the Netherlands Civil Code that make it possible to prepare the company financial statements in accordance with the accounting policies (including those for the presentation of financial instruments as equity or liability) used in its consolidated financial statements.

The company financial statements are presented in euros rounded to the nearest million. The euro is the functional and presentation currency of NIBC .

Summary of significant accounting policies

Except as set forth below, the accounting policies applied in the company financial statements are the same as those for the consolidated financial statements.

Interests in group companies

Interests in group companies, as defined in the Subsidiaries section in the basis of consolidation in the notes to the consolidated financial statements, are measured at net asset value. Net asset value is determined by measuring the assets, provisions, liabilities and income based on the accounting policies used in the consolidated financial statements. The company's share of its group companies profits or losses is recognised in the income statement. The bank applies paragraph 107a of the Dutch Accounting Standard 100. Under this paragraph the bank eliminates the expected credit losses on loans to subsidiaries in the same line item.

If losses of group companies that are attributable to the company exceed the carrying amount of the interest in the group company (including separately presented goodwill, if any, and including other unsecured receivables), further losses are not recognised unless the company has incurred obligations or made payments on behalf of the group company to satisfy obligations of the group company. In such a situation, NIBC recognises a provision up to the extent of its obligation.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For a specification of segment information, please see note 1 of the consolidated financial statements.

1 Net interest income

Interest income consists of interest income on loans and advances to customers, interest-bearing securities and other interest and similar income.

Interest expense consists of interest expense on liabilities, whether or not embodied in debt securities, and derivatives, as well as commissions having an interest nature, penalty interest on early redemptions, premiums and discounts. Premiums and discounts on debts, whether or not embodied in debt securities, not stated at fair value are recognised using the effective interest method, together with the relevant interest expense.

in EUR millions	2019	2018
Interest and similar income:		
Interest from loans and advances to customers and interest-bearing securities - fair value through profit or loss	15	14
Interest from interest-bearing securities - fair value through profit or loss	-	-
Interest income from other assets	552	599
	567	**613**
Interest expense and similar charges:		
Interest expense from liabilities - fair value through profit or loss	8	10
Interest expense from other liabilities	287	311
	295	**321**
	272	**292**

Interest income from debt and other fixed-income instruments at fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

Interest income includes negative interest from liabilities for an amount of EUR 21 million (2018: EUR 28 million).

For the year ended 31 December 2019, interest expense related to deposits from customers amounted to EUR 74 million (31 December 2018: EUR 88 million).

Interest expense includes negative interest from financial assets for an amount of EUR 48 million (2018: EUR 76 million).

2 Net fee income

in EUR millions	2019	2018
Fee income of major service lines		
Investment management	5	9
Lending related fees	10	9
M&A fees	3	8
Originate-to-Manage	8	4
Brokerage fees	3	3
	29	**33**
Fee expense:		
Other non-interest related	-	-
	-	**-**
	29	**33**

3 Results from financial transactions

This item relates to gains and losses and fair value movements from financial transactions, other than related to financial fixed assets and neither related to interest income and similar income.

in EUR millions	2019	2018
Debt securities (designated at fair value through profit or loss)	1	-
Debt investments (fair value through profit or loss)	1	(3)
Mortgage loans own book and securitised mortgage loans	(1)	1
Loans (fair value through profit or loss)	(1)	1
Assets and liabilities held for trading	4	3
Cross currency swaps	2	-
Interest rate Instruments (derivatives)	(5)	(7)
Foreign exchange	3	7
Fair value hedges of interest rate risk	(5)	(5)
Other net trading income	-	(1)
	(1)	**(4)**

4 Personnel expenses

in EUR millions	2019	2018
Salaries[1]	71	72
Severance payments	7	-
Variable compensation		
Cash bonuses	5	4
Share-based and deferred bonuses including expenses relating to previous years' grants	1	3
One-off retention bonus package	1	5
Pension and other post-retirement charges		
Defined-contribution plan	13	13
Other post-retirement charges/(releases) including own contributions of employees	(2)	(2)
Social security charges	7	8
Other staff expenses	(1)	(2)
	102	**101**

1 NIBC decided to reclassify costs of external advisors not yet considered as temporary staff - in 2018 amounting to approximately EUR 9 million - as part of salaries as from 2019. Therefore the comparable figures 2018 were changed accordingly.

The number of FTEs increased from 589 at 31 December 2018 to 607 at 31 December 2019. The number of FTEs employed outside of the Netherlands decreased from 51 at 31 December 2018 to 47 at 31 December 2019.

5 Depreciation and amortisation

in EUR millions	2019	2018
Property and equipment	4	4
	4	**4**

6 Other operating expenses

in EUR millions	2019	2018
Other operating expenses		
Building-, housing and services expenses	5	6
Car-, travel- and accommodation expenses	3	4
Project expenses and consultants[1]	17	22
Control and supervision	4	3
Corporate brand, brochures, (re-)presentation expenses	3	3
General employee expenses	4	4
ICT expenses	28	15
Communication expenses	2	2
Data expenses	7	5
Process outsourcing	16	4
Other general expenses	(3)	(2)
Low-value assets lease expenses	1	-
Fees of auditors	3	3
	90	**69**

1 NIBC decided to reclassify costs of external advisors not yet considered as temporary staff - in 2018 amounting to approximately EUR 9 million - as part of salaries as from 2019. Therefore the comparable figures 2018 were changed accordingly.

Fees of auditors 2019

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of the external independent auditors can be categorised as follows:				
Audit of financial statements	2,725	-	-	2,725
Other audit-related services	-	130	8	138
Other non-audit related services	40	-	34	74
Tax services	-	-	31	31
	2,765	**130**	**73**	**2,968**

Fees of auditors 2018

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of the external independent auditors can be categorised as follows:				
Audit of financial statements	3,041	-	-	3,041
Other audit-related services	19	250	-	269
Other non-audit related services	-	-	-	-
Tax services	-	-	-	-
	3,060	**250**	**-**	**3,310**

The fees listed above relate to the procedures applied to NIBC and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1(1) of the Dutch Audit Firms Supervision Act (Dutch acronym: Wta), as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

These fees relate to the audit of the 2019 and 2018 annual reports, regardless of whether the work was performed during the financial year.

7 Credit loss expenses / (recovery)

This item relates to credit loss expenses / (recovery) of loans and advances to customers and banks, interest-bearing securities classified at amortised cost or at fair value through other comprehensive income. In addition it is also related to expected credit losses of off-balance sheet commitments.

Financial assets

in EUR millions	2019	2018
Credit loss expenses:		
Loans and advances to customers		
Loans classified at amortised cost	34	48
Mortgage loans own book classified at amortised cost	-	-
Recovery of credit losses:		
Loans and advances to customers		
Loans classified at amortised cost	(2)	(5)
Mortgage loans own book classified at amortised cost	(1)	-
	31	**43**

8 Regulatory charges and levies

in EUR millions	2019	2018
Resolution levy	4	5
Deposit Guarantee Scheme	9	9
	13	**14**

9 Tax

in EUR millions	2019	2018
Current tax	8	5
Deferred tax	-	(1)
	8	**4**

10 Cash and balances with central banks

This item consists of balances with De Nederlandsche Bank N.V. (the Dutch Central Bank) as well as balances with foreign central banks in countries where NIBC operates.

in EUR millions	2019	2018
Cash and balances with central banks	1,790	1,660
	1,790	**1,660**
Cash and balances with central banks can be categorised as follows:		
Receivable on demand	1,632	1,502
Not receivable on demand	158	158
	1,790	**1,660**
Legal maturity analysis of cash and balances with central banks not receivable on demand:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	8	8
Longer than five years	-	-
Assets with central banks due to mandatory reserve deposits	150	150
	158	**158**

Cash and balances with central banks included EUR 1,632 million on the current account balance held with Dutch Central Bank (2018: EUR 1,502 million).

Balances held with central banks are interest-bearing.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature.

11 Due from other banks

This item represents loans and advances to other banks, other than in the form of interest-bearing securities.

in EUR millions	2019	2018
Current accounts with other banks	77	96
Deposits with other banks	191	155
Due from group companies	226	148
	494	**399**
Due from other banks can be categorised as follows:		
Receivable on demand	303	244
Cash collateral placements posted under CSA agreements	191	155
Not receivable on demand	-	-
	494	**399**

There were no subordinated loans outstanding due from other banks in 2019 and 2018.

The fair value of this balance sheet item does not materially differ from its face value due to the short-term nature of the underlying assets and the credit quality of the counterparties.

No credit losses were recognised in 2019 and 2018 on the amounts due from other banks at amortised cost.

NIBC transacted several reverse repurchase transactions with third parties. The related disclosures are included in note 47 Repurchase and resale agreements and transferred financial assets of the consolidated financial statements.

12 Interest-bearing interests

The following table displays the IFRS accounting classification of interest bearing securities.

in EUR millions	2019	2018
Amortised cost	10	-
Fair value through other comprehensive income	955	786
Held for trading	199	183
	1,164	**969**

All interest-bearing securities are non-government, except for EUR 81 million, and are issued by third parties.

in EUR millions	2019	2018
Interest-bearing securities analysed by listing:		
Listed	1,056	955
Unlisted	108	14
	1,164	**969**
Legal maturity analysis of interest-bearing securities:		
Three months or less	153	20
Longer than three months but not longer than one year	735	77
Longer than one year but not longer than five years	139	686
Longer than five years	137	186
	1,164	**969**
Movement schedule of interest-bearing securities:		
Balance at 1 January	**969**	**1,004**
Additions	3,193	4,523
Disposals	(3,015)	(4,564)
Gains/(losses) from changes in fair value recognised in the income statement	11	1
Other (including exchange rate differences)	6	5
Balance at 31 December	**1,164**	**969**

There were no subordinated loans outstanding in interest-bearing interests in 2019 and 2018.

As at 31 December 2019, interest-bearing interests amounts from group companies of EUR 108 million (2018: EUR 106 million).

13 Loans and advances to customers

This item consists of loans and advances arising in the course of business operations, other than receivables from banks and interest-bearing securities.

in EUR millions	2019	2018
Amortised cost	5,591	5,468
Fair value through profit or loss	134	124
Group companies - amortised cost	13,039	12,700
	18,764	**18,292**
Legal maturity analysis of loans:		
On demand or undated	-	2,959
Three months or less	12,707	9,419
Longer than three months but not longer than one year	689	462
Longer than one year but not longer than five years	3,863	3,948
Longer than five years	1,505	1,504
	18,764	**18,292**
Movement schedule of loans:		
Balance at 1 January	**18,292**	**20,454**
Additions	2,164	2,061
Disposals	(1,975)	(4,304)
Other (including exchange rate differences)	283	81
Balance at 31 December	**18,764**	**18,292**
Movement schedule of credit loss allowances on loans:		
Balance at 1 January	**136**	**141**
Additional allowances	36	48
Write-offs / disposals	(59)	(45)
Amounts released	(5)	(4)
Unwinding of discount adjustment	(5)	(10)
Other (including exchange rate differences)	7	6
Balance at 31 December	**110**	**136**

The total amount of subordinated loans in this item amounted to EUR 84 million in 2019 (2018: EUR 68 million).

As a policy, NIBC does not provide loans to its key management personnel (see note 32).

14 Equity investments

in EUR millions	2019	2018
Fair value through profit or loss	29	32
	29	**32**
Movement schedule of equity investments:		
Balance at 1 January	**32**	**3**
Additions	64	143
Disposals (sales and/or capital repayments)	(65)	(119)
Impairments		-
Changes in fair value through income statement	(2)	5
Changes in fair value through equity	-	-
Balance at 31 December	**29**	**32**

The traded equity investments have a maturity shorter than twelve months and the other equity investments longer than twelve months.

15 Derivative financial instruments

in EUR millions	2019	2018
Derivative financial assets:		
Derivative financial assets used for hedge accounting	6	14
Derivative financial assets - other	788	879
	794	**893**
Derivative financial assets can be broken down as follows:		
Derivative with third parties	482	579
Derivative with group companies	312	314
	794	**893**
Derivative financial liabilities:		
Derivative financial liabilities used for hedge accounting	4	6
Derivative financial liabilities - other	283	255
	287	**261**
Derivative financial liabilities can be broken down as follows:		
Derivative with third parties	225	178
Derivative with group companies	62	83
	287	**261**

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39. The derivatives financial assets and liabilities in the category 'other' are classified as held for trading according to IAS 39.

Derivative financial assets used for hedge accouting are *settled to market* (**STM**). Derivative financial assets other are *Over The Counter* (**OTC**).

The derivatives consist of:

- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions;
- Limited money market trading.

Economically all these derivatives, with the exception of the limited proprietary trading .and client driven transactions, are used to hedge interest rate or FX risk. The limited proprietary trading is controlled by a small facilitating VaR limit of EUR 2.25 million. For further details see note 57 Market risk of the consolidated financial statements.

Derivatives used for hedging are asigned in a hedge accounting relationship and can be ineffective. Sources of ineffectiveness are the behaviour of the curve shift, the volatility of the basis spread over the curve and the distribution of cash flows of assets and liabilities compared to the hedging derivatives.

Derivative financial instruments used for hedge accounting at 31 December 2019

	Notional amount with remaining life of					
in EUR millions	Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Interest rate swaps	-	23	3,602	3,625	6	4
Interest currency rate swaps	-	-	17	17	-	-
	-	**23**	**3,619**	**3,642**	**6**	**4**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	-	-	141	141	-	-
	-	**-**	**141**	**141**	**-**	**-**
Total derivatives used for hedge accounting	**-**	**23**	**3,760**	**3,783**	**6**	**4**

Derivative financial instruments used for hedge accounting at 31 December 2018

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Interest rate swaps	-	1,021	4,165	5,186	14	6
Interest currency rate swaps	-	-	-	-	-	-
	-	**1,021**	**4,165**	**5,186**	**14**	**6**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	-	-	156	156	-	-
	-	**-**	**156**	**156**	**-**	**-**
Total derivatives used for hedge accounting	**-**	**1,021**	**4,321**	**5,342**	**14**	**6**

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is seven years (2018: six years).

Derivative financial instruments- other at 31 December 2019

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps	1,449	5,066	25,279	31,794	765	142
Interest rate options (purchase)	-	68	623	691	1	-
Interest rate options (sale)	-	69	572	641	-	1
	1,449	**5,203**	**26,474**	**33,126**	**766**	**143**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	209	898	987	2,094	3	114
Currency/cross-currency swaps	241	-	-	241	2	5
	450	**898**	**987**	**2,335**	**5**	**119**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default guarantees given	-	-	-	-	-	-
Credit default guarantees received	-	-	4	4	-	1
Other swaps	-	-	53	53	17	20
	-	**-**	**57**	**57**	**17**	**21**
Total derivatives - other	**1,899**	**6,101**	**27,518**	**35,518**	**788**	**283**

Derivative financial instruments- other at 31 December 2018

in EUR millions	Notional amount with remaining life of Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps	1,440	5,778	27,824	35,042	793	166
Interest rate options (purchase)	100	116	896	1,112	1	-
Interest rate options (sale)	100	38	853	991	-	-
	1,640	**5,932**	**29,573**	**37,145**	**794**	**166**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	264	770	1,616	2,650	68	66
Currency/cross-currency swaps	100	-	-	100	1	2
	364	**770**	**1,616**	**2,750**	**69**	**68**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default guarantees given	-	-	-	-	-	-
Credit default guarantees received	-	-	4	4	-	-
Other swaps	-	-	43	43	16	21
	-	**-**	**47**	**47**	**16**	**21**
Total derivatives - other	**2,004**	**6,702**	**31,236**	**39,942**	**879**	**255**

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is five years (2018: five years).

Fair value hedges of interest rate risk

The interest rate risk of financial assets with a fixed interest rate classified at available-for-sale or at amortised costs are hedged with interest rate swaps under which NIBC pays a fixed rate and receives floating rates. Fair value hedge accounting is applied to these hedge relationships.

Interest rate swaps under which NIBC pays a floating rate and receives a fixed rate are used in fair value hedges of fixed-interest rate liabilities (as far as not held for trading purposes or designated at fair value through profit or loss).

The following table discloses the fair value of the swaps designated in fair value hedging relationships:

in EUR millions	2019	2018
Fair value pay - fixed swaps (hedging assets) | assets	-	-
Fair value pay - fixed swaps (hedging assets) | liabilities	(4)	(6)
	(4)	**(6)**
Fair value pay - floating swaps (hedging liabilities) | assets	5	14
Fair value pay - floating swaps (hedging liabilities) | liabilities	-	-
	5	**14**

16 Interests in group companies

in EUR millions	2019	2018
Interests in group companies	1,337	1,181
	1,337	**1,181**
Movement schedule of interests in group companies:		
Balance at 1 January	**1,181**	**1,339**
Purchases and investments	-	-
Disposals	-	(42)
Revaluation	4	(5)
Results of group companies	152	150
Dividends received	-	(14)
IFRS 9 adoption	-	(247)
Other (including exchange rate differences)	-	-
Balance at 31 December	**1,337**	**1,181**

List of principal interests of NIBC

NIBC Bank Deutschland AG, Frankfurt	100%
Parnib Holding N.V., The Hague	100%
Counting House B.V., The Hague	100%
B.V. NIBC Mortgage Backed Assets, The Hague	100%
NIBC Principal Investments B.V., The Hague	100%
NIBC Financing N.V., The Hague	100%

17 Investment property

in EUR millions	2019	2018
Investment property	14	-
	14	**-**
Movement schedule of investment property:		
Balance at 1 January	**-**	**-**
Reclassification from property and equipment	12	-
Additions	2	-
Disposals	-	-
Changes in fair value	-	-
Balance at 31 December	**14**	**-**

The rental income from investment property amount EUR 1 million in 2019.

18 Property and equipment

in EUR millions	2019	2018
Land and buildings	20	27
Other fixed assets	3	1
Right-of-use assets	6	-
	29	**28**
Movement schedule of land and buildings:		
Balance at 1 January	**27**	**26**
Reclassification to investment property	(11)	
Additions	3	3
Revaluation	3	-
Depreciation	(2)	(2)
Impairments	-	-
Disposals	-	-
Balance at 31 December	**20**	**27**
Gross carrying amount	63	68
Accumulated depreciation	(43)	(41)
Accumulated impairments		
	20	**27**
Movement schedule of revaluation surplus:		
Balance at 1 January	**7**	**7**
Revaluation	3	-
Depreciation	(1)	-
Balance at 31 December	**9**	**7**
Movement schedule of other fixed assets:		
Balance at 1 January	**1**	**2**
Additions	-	-
Revaluation	3	-
Depreciation	(1)	(1)
Impairments	-	-
Disposals	-	-
Balance at 31 December	**3**	**1**
Gross carrying amount	27	26
Accumulated depreciation	(24)	(25)
Accumulated impairments	-	-
	3	**1**

in EUR millions	2019	2018
Right-of-use assets[1]		
Rented offices	6	-
	6	**-**
Movement schedule of right-of-use asset: offices		
Balance at 1 January	**-**	**-**
Effect of adoption of IFRS 16 per 1 January 2019	4	-
Restated balance at 1 January 2019 after the adoption of IFRS 16	**4**	**-**
Additions	3	-
Depreciation	(1)	-
Impairments	-	-
Disposals	-	-
Balance at 31 December	**6**	**-**

1 The right-of-use assets reflect the rental of NIBC's offices in London, Frankfurt, Brussels and Amsterdam.

Buildings in use by NIBC and the investment property are insured for EUR 88 million (2018: EUR 81 million).

There is no property and equipment pledged as security for liabilities.

There were no contractual commitments for the acquisition of property and equipment at 31 December 2019 and 31 December 2018.

NIBC's land and buildings in own use were revalued as of 31 December 2019 based on an external appraisal.

The fair value of the property and equipment does not materially deviate from the carrying amount.

19 Other assets

This item relates to goods and warehouse receipts, current and deferred tax assets and assets that cannot be classified under any other heading.

in EUR millions	2019	2018
Accrued interest	-	1
Current tax assets	4	2
Deferred tax assets	9	7
Accrued income and repayments	16	21
	29	**31**
Deferred tax assets	9	7
Deferred tax liabilities[1]	(6)	(5)
	3	**2**

1 Deferred tax liabilities are presented in note 23 Provisions.

in EUR millions	2019	2018
Deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:		
Debt investments	-	1
Tax losses carried forward	9	7
	9	**8**
Deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction:		
Debt investments	1	-
Cash flow hedges	5	6
	6	**6**
	3	**2**

in EUR millions	2019	2018
Gross movement on the deferred income tax account:		
Balance at 1 January	**2**	**6**
Debt investments (reported at fair value through other comprehensive income):		
Fair value remeasurement charged/(credited) to revaluation reserve	(2)	(8)
Cash flow hedges:		
Fair value remeasurement charged/(credited) to hedging reserve	2	4
Equity investments (reported at fair value through other comprehensive income):		
Fair value remeasurement charged/(credited) to hedging reserve	-	-
Property and equipment (reported at fair value):		
Fair value remeasurement (charged)/credited to revaluation reserve	(1)	-
Temporary tax differences		
IFRS - HGB deferred tax	-	1
Tax losses carried forward	2	(1)
Balance at 31 December	**3**	**2**

The deferred tax asset is recognised to the extent that taxable profit will be available against which the temporary difference can be utilised.

Deferred tax was calculated on all temporary differences under the liability method using a nominal Dutch corporate income tax rate of 25,0% for the year 2019 (2018: 25.0%) as the basis and taking into consideration a reduction of this rate to 21.7% as of the year 2021 where relevant.

20 Due to other banks

This item represents amounts owed to credit institutions, other than debt securities and subordinated debt, of which:

in EUR millions	2019	2018
Due to other banks	277	470
Due to central banks	1,289	1,139
	1,566	**1,609**
Due to other banks:		
Payable on demand	196	129
Note payable on demand	1,370	1,480
	1,566	**1,609**
Legal maturity analysis of due to other banks:		
Three months or less	285	281
Longer than three months but not longer than one year	740	21
Longer than one year but not longer than five years	487	1,219
Longer than five years	54	88
	1,566	**1,609**

Interest is recognised in interest expense and similar charges on an effective interest basis.

NIBC transacted several repurchase transactions with third parties. The related disclosures are included in note 47 Repurchase and resale agreements and transferred financial assets of the consolidated financial statements.

At 31 December 2019, an amount of EUR 61 million (2018: EUR 123 million) related to cash collateral received from third parties.

Amounts drawn under Targeted Longer Term Refinancing Operation (TLTRO II) equal EUR 1,134 million (2018: EUR 1,139 million). The maturity of TLTRO II is partially due in 1 year with EUR 691 million. The remaining of EUR 443 million will be due in 2 years. Interest payments will be settled in arrears. The collateral for the TLTRO-program consists of DNB eligible debt investments and securitised mortgage loans. The interest rate, which is fixed for the entire maturity of the TLTRO II, was set in June 2018.

21 Customer deposits and other funds on deposit

This item consists of amounts due to customers other than debt securities in issue.

in EUR millions	2019	2018
Customer deposits and other funds on deposit	13,643	13,387
	13,643	**13,387**
Customer deposits and other funds on deposit:		
Certificates of deposits	3,396	3,484
Due to customers	10,247	9,903
	13,643	**13,387**
Customer deposits and other funds on deposit:		
Payable on demand	9,585	8,794
Not payable on demand	4,058	4,593
	13,643	**13,387**
Legal maturity analysis of deposits from customers and other funds on deposit:		
Three months or less	10,250	9,502
Longer than three months but not longer than one year	1,572	1,990
Longer than one year but not longer than five years	1,371	1,550
Longer than five years	450	345
	13,643	**13,387**

Interest is recognised in interest expense and similar charges on an effective interest basis.

The balance sheet item included EUR 3,867 million (2018: EUR 3,356 million) in respect of deposits from customers to group companies.

The balance sheet item includes all non-subordinated liabilities other than debt securities and amounts owed to credit institutions.

22 Debt securities in issue

This item relates to non-subordinated bonds and other interest-bearing securities and fair value hedge accounting adjustments.

in EUR millions	2019	2018
Bonds and notes issued - amortised costs	6,271	5,416
Bonds and notes issued - through profit or loss	223	321
Fair value hedge adjustment on amortised cost bonds and notes issued	34	36
	6,528	**5,773**
Legal maturity analysis of debt securities in issue:		
Three months or less	243	-
Longer than three months but not longer than one year	369	1,267
Longer than one year but not longer than five years	2,387	2,366
Longer than five years	3,529	2,140
	6,528	**5,773**

23 Provisions

in EUR millions	2019	2018
ECL allowances for off-balance sheet financial instruments	2	2
Restructuring provisions	9	
Deferred tax liabilities[1]	6	5
Employee benefits	3	3
	20	**10**

1 Deferred tax assets and liabilities are disclosed in note 19 Other assets.

The recognised restructuring provision covers the costs of dismantling the NIBC Markets activities in 2020 that has been formally announced. Implementation of the restructuring plan will be effected in the first half of 2020.

24 Other liabilities

This item includes liabilities that cannot be classified under any other heading, such as liabilities for staff costs and taxes.

in EUR millions	2019	2018
Interest	-	-
Accruals	11	27
Current tax liabilities	5	2
Payables	35	27
	51	**56**

25 Subordinated liabilities

in EUR millions	2019	2018
Amortised cost	117	116
Designated at fair value through profit or loss	167	162
	284	**278**
Legal maturity analysis of subordinated liabilities at amortised cost:		
One year or less	-	-
Longer than one year but not longer than five years	-	-
Longer than five years but not longer than ten years	63	63
Longer than ten years	54	53
	117	**116**

The subordinated loans classified at amortised cost are subordinated to the senior debt of NIBC. With respect to the new CRR/CRDIV requirements regarding additional Tier 1 capital instruments, non-qualifying subordinated loans amounted to EUR 54 million (2018: EUR 53 million). Interest expense of EUR 5 million was recognised on subordinated liabilities during the year of 2019 (2018: EUR 5 million). In 2019 and 2018, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

The subordinated liabilities reflect three transactions (2018: three transactions), of which the largest three total EUR 117 million (2018 largest three: EUR 116 million).

Subordinated liabilities - designated at fair value through profit or loss

in EUR millions	2019	2018
Non-qualifying as grandfathered additional Tier 1 capital	-	-
Subordinated loans other	167	162
	167	**162**
Legal maturity analysis of subordinated liabilities designated at fair value through profit or loss:		
One year or less	-	-
Longer than one year but not longer than five years	-	-
Longer than five years but not longer than ten years	-	-
Longer than ten years	167	162
	167	**162**

The subordinated loans classified at fair value are subordinated to the senior debt of NIBC. The non-qualifying as grandfathered additional Tier 1 capital consists of perpetual securities and may be redeemed by NIBC only with the prior approval of the Dutch Central Bank. Interest expense of EUR 11 million was recognised on subordinated liabilities during the year 2019 (2018: EUR 11 million). In 2019 and 2018, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

The subordinated liabilities reflect five transactions (2018: six transactions), of which the largest three total EUR 118 million (2018 largest three: EUR 117 million).

26 Equity

The ultimate company is NIBC Holding N.V., a listed company incorporated in the Netherlands.

in EUR millions	2019	2018
Equity attributable to the shareholder		
Share capital	80	80
Share premium	238	238
Revaluation reserves		
Revaluation reserve - hedging instruments	16	20
Revaluation reserve - debt investments	3	(2)
Revaluation reserve - property	14	8
Revaluation reserve - own credit risk	87	96
Retained earnings including net profit	1,427	1,471
	1,865	**1,911**

Share capital

The share capital is fully paid-up.

	2019	2018	2019	2018
	Numbers x 1,000		in EUR millions	
Authorised share capital	183,598	183,598	215	215
Unissued share capital	121,011	121,011	135	135
Issued share capital A shares	**62,587**	**62,587**	**80**	**80**
	Numbers x 1,000		in EUR millions	
The number and total amounts of authorised shares:				
Class A ordinary shares	110,938	110,938	142	142
Class B, C, D, E1 and E3 preference shares	72,600	72,600	73	73
Class E4 preference shares	60	60	-	-
	183,598	**183,598**	**215**	**215**

in EUR	2019	2018
Classes and par values of authorised shares:		
Class A ordinary shares	1.28	1.28
Class B, C, D, E1 and E3 preference shares	1.00	1.00
Class E4 preference shares	5.00	5.00

Share premium

This reserve comprises the difference between the par value of NIBC shares and the total amount received for issued shares. The share premium reserve is credited for equity-related expenses and is also used for issued shares.

Revaluation reserves

Revaluation reserve - hedging revaluation

This reserve comprises the portion of the gains or losses on hedging instruments in a cash flow hedge that is determined to be an effective hedge (net of tax).

Revaluation reserve - debt investments
This reserve comprises changes in fair value of debt investments (net of tax).

Revaluation reserve - property
This reserve comprises changes in fair value of land and buildings (net of tax).

Revaluation reserve - own credit risk
This reserve includes the cumulative changes in the fair value of the financial liabilities designated as at FVtPL that are attributable to changes in the credit risk of these liabilities other than those recognised in profit or loss (net of tax).

Retained earnings

Retained earnings reflect accumulated earnings less dividends paid to shareholders and transfers from share premium.

Dividend restrictions
NIBC and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividend or otherwise to the parent company.

Changes in share premium and revaluation reserves 2019

		Revaluation reserves				
in EUR millions	Share premium	Hedging revaluation	Debt investments	Property	Own credit risk	Total
Balance at 1 January 2019	**238**	**20**	**(2)**	**8**	**96**	**360**
Net result on hedging instruments	-	(4)	-	-	-	(4)
Revaluation/remeasurement (net of tax)	-	-	5	6	(9)	2
Total recognised directly through other comprehensive income in equity	**238**	**16**	**3**	**14**	**87**	**358**
Transfer to retained earnings	-	-	-	-	-	-
Balance at 31 December 2019	**238**	**16**	**3**	**14**	**87**	**358**

Changes in share premium and revaluation reserves 2018

		Revaluation reserves				
in EUR millions	Share premium	Hedging revaluation	Debt investments	Property	Own credit risk	Total
Balance at 1 January 2018	**238**	**30**	**3**	**8**	**52**	**331**
Net result on hedging instruments	-	(10)	-	-	-	(10)
Revaluation/remeasurement (net of tax)	-	-	(5)	-	44	39
Total recognised directly through other comprehensive income in equity	**238**	**20**	**(2)**	**8**	**96**	**360**
Transfer to retained earnings	-	-	-	-	-	-
Balance at 31 December 2018	**238**	**20**	**(2)**	**8**	**96**	**360**

Information on NIBC's solvency ratios is included in the risk management section of this Annual Report.

Legal reserves

This concerns the reserve for unrealised fair value changes on certain non-listed trading assets, derivatives related to these non-listed trading assets and on associates at fair value through profit or loss .

The total legal reserves at 31 December 2019 amount to EUR 35 million, including a legal reserve result participations of EUR 1 million (31 December 2018: EUR 30 million, including a legal reserve result participations of EUR 1 million).

27 Capital securities

For a specification of the capital securities, see note 44 of the consolidated financial statements.

28 Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers related to mortgages at fixed-interest rates or fixed spreads are hedged with interest rate swaps recorded at fair value. These commitments are designated upon initial recognition at fair value through profit or loss.

NIBC provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. In the following table, it is assumed that amounts are fully advanced.

The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

in EUR millions	2019	2018
Contract amount		
Undrawn facilities and capital commitments	1,519	1,537
Guarantees and letters of credit	102	84
	1,621	**1,621**

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 48 of the consolidated financial statements.

Guarantees within the meaning of Section 403 Title 9 of Book 2, of the Netherlands Civil Code have been given on behalf of De Nationale Maatschappij voor Industriële Financieringen B.V., Parnib Holding N.V. and B.V. NIBC Mortgage Backed Assets. A complete list of the companies on behalf of which NIBC has given guarantees within the meaning of Section 403 Title 9 of Book 2, of the Netherlands Civil Code has been filed with the Chamber of Commerce in The Hague.

29 Other

NIBC is, together with other group companies and participating interests, a member of one fiscal entity NIBC Holding N.V. Besides NIBC Bank N.V. and NIBC Holding N.V., the principal other members are B.V. NIBC Mortgage Backed Assets, Parnib Holding N.V., Vredezicht 's-Gravenhage 110 B.V. and NIBC Principal Investments Mezzanine B.V.

30 Assets pledged as security

For a specification of the assets pledged as security, please see note 49 of the consolidated financial statements.

31 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of the customer. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2019, the total assets held by NIBC on behalf of customers were EUR 5,091 million (2018: EUR 3,311 million).

32 Related party transactions

For a specification of the related party transactions, see note 51 of the consolidated financial statements.

33 Principal subsidiaries and associates

For a specification of the principal subsidiaries and associates, see note 52 of the consolidated financial statements.

34 Financial risk management

See notes 55 to 58 of the consolidated financial statements, for NIBC's risk management policies.

35 Remuneration

For the remuneration of the Statutory Board members and Supervisory Board members, see notes 9 and 54 of the consolidated financial statements.

At 31 December 2019 and 31 December 2018, there were no receivables outstanding with current and former members of the Statutory Board and Supervisory Board.

36 Profit appropriation

in EUR millions	2019
Result available for distribution to holders of the company	202
	202
Final and interim dividend	190
Holders of capital securities	12
Transferred to retained earnings	-
	202

37 Subsequent events

On 25 February 2020 NIBC announced a final dividend with the full year results 2019 of EUR 0,53 per ordinary share.

Conditional agreement on public offer parent company NIBC Holding N.V.
On 25 February 2020, NIBC Holding N.V. and The Blackstone Group International Partners LLP (together with its affiliates, as the context requires, "Blackstone") announced that an entity owned by Blackstone, have reached a conditional agreement on a recommended all-cash public offer for all issued and outstanding shares in the capital of NIBC Holding N.V., not held by J.C. Flowers & Co (JCF) and Reggeborgh Invest B.V. (Reggeborgh) at an offer price of EUR 9.85 (cum dividend) per share in cash.

The Offer is supported by NIBC Holding's two largest shareholders, JCF and Reggeborgh, representing 60.6% and 14.7% of the Shares respectively and 75.3% in aggregate. Each has irrevocably agreed to sell their full shareholdings in NIBC Holding in separate private transactions with the Offeror at fixed prices per Share (cum dividend) of EUR 8.93 per Share for JCF and EUR 9.65 per Share for Reggeborgh, conditional upon the Offer being declared unconditional. All prices are expressed cum dividend, including the final dividend for the 2019 financial year. The Managing Board and Supervisory Board of NIBC Holding unanimously and thereby fully support the transaction and recommend the offer for acceptance to the shareholders of NIBC Holding subject to completion of the works council consultation procedure.

The Hague, 25 February 2020

Managing Board

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

Supervisory Board

Mr. D.M. Sluimers, *Chairman*
Ms. A.G.Z. Kemna, *Vice-Chairman*
Mr. R.L. Carrión
Mr. M.J. Christner
Mr. J.C. Flowers
Mr J.J.M. Kremers
Ms. S.M. Zijderveld

OTHER INFORMATION

Building a better working world

Independent auditor's report

To: the shareholders and Supervisory Board of NIBC Bank N.V.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements for the year ended 2019 of NIBC Bank N.V. (hereafter NIBC or NIBC Bank N.V.), based in 's Gravenhage. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2019
- The following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2019
- The company income statement 2019
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of NIBC Bank N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

Building a better working world

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Our understanding of the business

NIBC provides a broad range of financial services to retail and corporate clients. The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Materiality	€12 million (2018: €13 million)
Benchmark applied	5% of profit before taxation (2018: 5%)
Explanation	This benchmark is a generally accepted auditing practice and is widely used for listed entities. Based on our professional judgment regarding the common information needs of users of the financial statements, we believe that 5% of profit before taxation is an appropriate quantitative indicator of materiality.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 0.6 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks
In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal and compliance) and the Supervisory Board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in the "Summary of significant accounting policies"-section the financial statements. We have also used data analysis to identify and address high-risk journal entries.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations
We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Managing Board, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern
In order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting, we consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.
Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Building a better working world

Scope of the group audit

NIBC is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of NIBC Bank N.V. NIBC is structured in operating segments: Corporate client offering, Retail client offering and Treasury and Group Functions. Corporate client offering is focused on mid-sized companies and entrepreneurs in the Netherlands, Germany and the United Kingdom. Retail client savings products are offered in the Netherlands, Germany and Belgium, and mortgage loans are offered in the Netherlands.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We assigned a full scope to the banking activities in the Netherlands focusing of the four segments mentioned above which are managed centrally and audited by the group audit team. The component in Germany, focusing on the Corporate client offering, is audited by our German EY member firm. We have assigned a specific scope to the component. We sent detailed instruction to the component auditor, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. We have met the auditor and discussed the planning, risk assessment, procedures performed, findings and observations reported to us.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming, use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the banking industry. We included specialists in the areas of IT audit, forensics, treasury, tax, credit risk modelling and prudential reporting and have made use of our own experts in the areas of valuations of financial instruments and private equity.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

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

The key audit matter IFRS 9 adoption which was included in our last year's auditor's report, is not considered a key audit matter for this year as it related to a one off event.

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

<table>
<tr><th colspan="2">Estimation uncertainty with respect to impairment allowances for loans</th></tr>
<tr><td>Risk</td><td>At 31 December 2019, NIBC reported Loans (amortized cost) of €7,164 million and a provision of €152 million for expected credit losses. The timing and measurement of expected credit losses requires estimates and judgment in setting assumptions in respect of:
▶ Allocation of corporate loans to stages 1, 2 and 3;
▶ Accounting interpretations and modelling assumptions used to build the models to calculate the expected credit loss (ECL);
▶ Completeness and accuracy of data and inputs used to calculate the ECL;
▶ Inputs and assumptions used to estimate the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2;
▶ Measurement of individually assessed provisions, including the assessment of multiple recovery scenarios;
▶ Accuracy and adequacy of financial statement disclosures.

Due to the significance of the corporate loan portfolio and the related estimation uncertainty of expected credit losses, we consider the measurement of the provision for expected credit losses as a key audit matter. Refer to the "Summary of significant accounting policies" section, the "Critical accounting estimates and judgments" section, note 24 "Loans (amortized cost)" and note 59 "Credit risk" to the financial statements.</td></tr>
<tr><td>Our audit approach</td><td>We tested the design and where plausible the operating effectiveness of key controls across the processes relevant to the ECL. This included the allocation of assets into stages, model governance, data accuracy and completeness, credit monitoring, multiple economic scenarios, individual provisions, journal entries and disclosures.

We performed an overall assessment of the ECL provision levels by stage to determine if they are reasonable considering NIBC's portfolio, risk profile, credit risk management practices and macroeconomic environment. We considered trends in the economy and industries to which NIBC is exposed.

We challenged the criteria used to allocate corporate loans to stage 1, 2, or 3 in accordance with IFRS 9. We tested loans in stage 1,2 and 3 and verified whether they were allocated to the appropriate stage.</td></tr>
</table>

Estimation uncertainty with respect to impairment allowances for loans	
	With the support of our modelling specialists, we tested assumptions, inputs and formulas used in a sample of ECL models. This included the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models. Further, we assessed the selected macro-economic scenarios used with the support of our economic specialists. We examined a selection of loan exposures to assess the expected credit loss provision for stage 3 loans. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that are potentially more sensitive to developing economic and political trends such as leveraged finance, offshore energy and shipping. For selected loan exposures we recalculated individually assessed provisions and challenged the recovery scenarios and probability weights assigned. We assessed the completeness and accuracy of the disclosures for compliance with IFRS-EU.
Key observations	We are satisfied that expected credit loss provisions are reasonable and in compliance with IFRS 9. We concur with the related disclosures in the financial statements.
Reliability and continuity of the information technology and systems	
Risk	NIBC is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. NIBC continuously invests to further improve its IT environment and IT systems. In particular, significant management attention was paid to outsourcing of various IT services to third parties. We therefore consider this as a key audit matter.
Our audit approach	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure. We have tested the reliability and continuity of electronic data processing within the scope of the audit of the 2019 financial statements. For that purpose, we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting. A particular area of attention is related to logical access management, including access rights and segregation of duties. We evaluated the impact of changes during the year following the migration of applications to external service providers. We tested logical access rights to the extent relied upon for the audit of the consolidated financial statements. This resulted in the identification of certain control deficiencies with respect to access rights, change management processes and segregation of duties. We performed procedures over management's remediation activities and additional substantive audit procedures to mitigate the related audit risk.
Key observations	The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- At a Glance
- Key figures
- Letter from the CEO
- Report of the Managing Board
- Report of the Supervisory Board
- Corporate Governance
- Remuneration Report
- Risk Management
- In Control Report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 and Section 2:135b of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board report (consisting of Report of the Managing Board, Corporate Governance and the In Control Report) in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with Section 2:135b of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of NIBC Bank N.V. on 10 April 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:

- Regulatory reporting: We issued auditor's reports and reports of factual findings following the audit of the prudential statements prepared by management on behalf of the Dutch Central Bank, consisting of Financial Reporting (FinRep), Common Reporting (CoRep), Interest rate risk reporting and on behalf of the Autoriteit Financiële Markten (AFM) consisting of Asset Segregation reporting.

- Capital market transactions: We issued comfort letters and/or consent letters in relation to (updated) offering circulars, prospectuses and securities offerings or funding programs of NIBC.
- Service provider reports: We issued ISAE 3402 reports for Deposit Guarantee Scheme (DGS) provided by NIBC to the Dutch Central Bank.

Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit 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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.
The our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.
In this respect we also submit an additional report to the Audit Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 25 February 2020

Ernst & Young Accountants LLP

signed by N.Z.A. Ahmed-Karim

PROFIT APPROPRIATION

The provision and appropriation of the profit after tax is based upon the Articles of Association of 4 December 2018.

Distribution of profits pursuant to Article 41 and 42 of the Articles of Association shall be made following the adoption of the annual report, which shows that such distribution is allowed.

The General Meeting resolves whether dividends shall be paid on one or more series of the preference shares. If the General Meeting resolves to pay dividends on one or more series of the preference shares, to the extent possible, the dividend due to each of the holders of preference shares pursuant to Article 41 paragraph 3 and paragraph 4 shall be paid at times and dates established under Article 42 paragraph 2 under b.

ALTERNATIVE PERFORMANCE MEASURES

NIBC uses, throughout its financial publications, *alternative performance measures* (**APMs**) in addition to the figures that are prepared in accordance with the International Financial Reporting Standards (**IFRS**), *Capital Requirements Regulation* (**CRR**) and *Capital Requirements Directive* (**CRD IV**). NIBC uses APMs to provide additional information to investors and to enhance the understanding of the results. The APMs should be viewed as complementary to, rather than a substitute for, the figures determined according to IFRS, CRR and CRD IV. All measures that are covered by IFRS, CRR and CRD IV are not considered to be APMs.

NIBC uses the following APMs:
- Dividend payout ratio, %
- Cost/income ratio, %
- Return on equity, %
- Cost of risk, %
- Impairment ratio, %
- NPL ratio, %
- Impairment coverage ratio, %
- Loan-to-deposit ratio, %
- Net interest margin, %

Investors should consider that similarly titled APMs reported by other companies may be calculated differently. For that reason, the comparability of APMs across companies might be limited. In accordance with the guidelines of the *European Securities and Markets Authority* (**ESMA**), the following information is given in regards to the above mentioned alternative performance measures:
1. Definition of the APM;
2. Reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements.

NIBC's most recent financial publications at any time are available online at our website.

Dividend pay-out ratio

The dividend pay-out ratio is the fraction of net income for a period to be paid to NIBC's shareholders in dividends. It provides meaningful information on the portion of NIBC's profit that is distributed to its shareholders. The elements of the dividend pay-out ratio reconcile to the income statement of NIBC.

$$\textbf{Dividend pay-out ratio} = \frac{\textbf{Dividend pay-out}}{\textbf{Profit after tax}}$$

Dividend pay-out ratio	2019	2018	2017
Dividend pay-out 2019 (page 33 annual report NIBC Bank N.V.)	190		
Profit after tax 2019 (page 132 annual report NIBC Bank N.V.)	190		
Dividend pay-out ratio 2019 (%)	**100**		
Dividend pay-out 2018 (page 32 annual report NIBC Bank N.V.)		229	
Profit after tax attributable to the shareholders 2018 (page 106 annual report NIBC Bank N.V.)		229	
Dividend pay-out ratio 2018 (%)		**100**	
Dividend payout 2017 (page 33 annual report NIBC Bank N.V.)			96
Profit after tax attributable to the shareholders 2017 (page 108 annual report NIBC Bank N.V.)			210
Dividend payout ratio 2017			**45**

Cost/income ratio

The cost/income ratio displays operating expenses as a percentage of operating income. The concept provides meaningful information on NIBC's operating efficiency. Cost/income ratio is calculated as the ratio (i) operating expenses before special items and (ii) operating income before special items. The elements of the cost/income ratio reconcile to the income statement of NIBC.

$$\textbf{Cost/income ratio} = \frac{\textbf{Operating expenses}}{\textbf{Operating income}}$$

Cost/Income ratio	2019	2018	2017
Operating expenses 2019 (page 132 annual report NIBC Bank N.V.)	229		
Operating income 2019 (page 132 annual report NIBC Bank N.V.)	524		
Cost/income ratio 2019 (%)	**44**		
Operating expenses 2018 (page 106 annual report NIBC Bank N.V.)		224	
Operating income 2018 (page 106 annual report NIBC Bank N.V.)		550	
Cost/income ratio 2018 (%)		**41**	
Operating expenses 2017 (page 108 annual report NIBC Bank N.V.)			223
Operating income 2017 (page 108 annual report NIBC Bank N.V.)			512
Cost/income ratio 2017 (%)			**44**

Return on equity

Return on equity measures net profit in relation to the book value of shareholder's equity. It provides meaningful information on the performance of Issuer's business, as well as on NIBC's ability to generate income from the equity available to it. Return on equity is calculated as the ratio of (i) (annualised) net profit attributable to parent shareholder to (ii) post proposed dividend total shareholder's equity at the start of the financial year. All elements of the return on equity reconcile to NIBC's consolidated financial statement.

$$\textbf{Return on equity} = \frac{\textbf{Annualised net profit attributal to parent shareholder}}{\textbf{Post proposed dividend total shareholder's equity at start of the financial year}}$$

Return on equity[1]	2019	2018	2017
Net profit attributable to parent shareholder (page 132 annual report NIBC Bank N.V.)	190		
Total shareholder's equity at the start of financial year (page 136 annual report NIBC Bank N.V.)	1,858		
Return on equity 2019 (%)	**10.2**		
Net profit attributable to parent shareholder (page 106 annual report NIBC Bank N.V.)		229	
Total shareholder's equity at the start of financial year (page 110 annual report NIBC Bank N.V.)		1,740	
Return on equity 2018 (%)		**13.2**	
Net profit attributable to parent shareholder (page 108 annual report NIBC Bank N.V.)			210
Post proposed dividend total shareholder's equity at the start of financial year (page 112 annual report NIBC Bank N.V.)			1,944
Return on equity 2017 (%)			**10.8**

1 Total shareholder's equity was changed in Post proposed dividend total shareholder's equity in FY 2017 publication. This adjustment has no effect on prior year calculations

Return on assets

Return on assets measures the net profit in relation to the total outstanding assets as of the beginning of the financial year. It provides meaningful information on NIBC's ability to generate income from the available assets. Return on assets is calculated as the ratio of (i) annualised net profit attributable to parent shareholder to (ii) total assets at the beginning of the financial year. All elements of the return on assets reconcile to NIBC's consolidated financial statements.

$$\text{Return on assets} = \frac{\text{Annualised net profit attributable to parent shareholder}}{\text{Total assets at the beginning of the year}}$$

Return on assets[1]	2019	2018	2017
Net profit attributable to parent shareholder (page 132 annual report NIBC Bank N.V.)	190		
Total assets at the beginning of the financial year (page 134 annual report NIBC Bank N.V.)	21,716		
Return on assets 2019 (%)	**0.87**		
Net profit attributable to parent shareholder (page 106 annual report NIBC Bank N.V.)		217	
Total assets at the beginning of the financial year (page 108 annual report NIBC Bank N.V.)		21,884	
Return on assets 2018 (%)		**0.99**	
Net profit attributable to parent shareholder (page 108 annual report NIBC Bank N.V.)			213
Total assets at the beginning of the financial year (page 110 annual report NIBC Bank N.V.)			23,495
Return on assets 2017 (%)			**0.91**

1 Total shareholder's equity was changed in Post proposed dividend total shareholder's equity in FY 2017 publication. This adjustment has no effect on prior year calculations

Cost of risk

The cost of risk compares the total credit losses included in the income statement to the total risk weighted assets. This measure provides meaningful information on Issuer's performance in managing credit losses. The cost of risk is calculated as the ratio of (i) the sum of (annualised) impairments and the credit losses on the fair value mortgage loans and loans (as part of the net trading income) and to (ii) the total risk weighted assets averaged over the reporting period. With the exception of the credit losses on the fair value mortgage loans and loans, the elements of the cost of risk reconcile to our financial statements and regulatory reporting. The credit losses on the fair value mortgage loans are calculated in accordance with the applicable financial reporting framework and form part of the net trading income.

$$\text{Cost of Risk} = \frac{\text{Annualised impairments and the credit losses on fair value residential mortgages and loans (as part of net trading income)}}{\text{Average risk weighted assets (Basel III regulations)}}$$

Cost of risk	2019	2018	2017
Credit losses on AC loans (page 132 annual report NIBC Bank N.V.)	49		
Credit losses FVTPL loans	3		
Total credit losses	**52**		
Risk-weighted assets 2019 (page 13 annual report NIBC Bank N.V.)	8,597		
Risk-weighted assets 2018 (page 13 annual report NIBC Bank N.V.)	7,723		
Average risk-weighted assets 2019	**8,160**		
Cost of risk 2019 (%)	**0.64**		
Credit losses on AC loans (page 31 annual report NIBC Bank N.V.)		54	
Credit losses FVTPL loans		5	
Total credit losses		**59**	
Risk-weighted assets 2018 (page 10 annual report NIBC Bank N.V.)		7,723	
Risk-weighted assets 2017 (page 10 annual report NIBC Bank N.V.)		8,546	
Average risk-weighted assets 2018		**8,135**	
Cost of risk 2018 (%)		**0.72**	
Impairments (page 27 annual report NIBC Bank N.V.)			34
Credit losses FVTPL Mortgages (page 27 annual report NIBC Bank N.V.)			2
Total impairments and credit losses on fair value residential mortgages 2017			**36**
Risk-weighted assets 2017 (page 8 annual report NIBC Bank N.V.)			8,546
Risk-weighted assets 2016 (page 8 annual report NIBC Bank N.V.)			10,109
Average risk-weighted assets 2017			**9,328**
Cost of risk 2017 (%)			**0.38**

Impairment ratio

The impairment ratio compares impairments included in the income statement on corporate and retail loans to the carrying value of these loans. The measure provides meaningful information on NIBC's performance in managing credit losses arising from its business. The impairment ratio is calculated as the ratio of (i) the (annualised) impairment expenses to (ii) the average loans and mortgage loans. All elements of the impairment ratio reconcile to NIBC's income statement and the consolidated balance sheet.

$$\textbf{Impairment ratio} = \frac{\textbf{Annualised impairment expenses}}{\textbf{Average financial assets regarding loans and residential mortgages}}$$

Impairment ratio	2019	2018	2017
Credit losses on amortised cost loans and mortgage loans (page 132 annual report NIBC Bank N.V.)	49		
Average financial assets at amortised cost: loans (page 134 annual report NIBC Bank N.V.)[1]	7,716		
Average financial assets at amortised cost: mortgage loans (page 134 annual report NIBC Bank N.V.)[1]	9,748		
Average financial assets regarding loans and mortgage loans (total)	**17,463**		
Impairment ratio 2019 (%)	**0.28**		
Credit losses on amortised cost loans and mortgage loans (page 106 annual report NIBC Bank N.V.)		54	
Average financial assets at amortised cost: loans (page 108 annual report NIBC Bank N.V.)[1]		7,796	
Average financial assets at amortised cost: mortgage loans (page 108 annual report NIBC Bank N.V.)[1]		9,220	
Average financial assets regarding loans and mortgage loans (total)		**17,016**	
Impairment ratio 2018 (%)		**0.32**	
Impairments on amortised cost loans and mortgage loans			36
Average financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.)			8,009
Average financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.)			3,879
Average financial assets regarding loans and residential mortgages (total)			**11,888**
Impairment ratio 2017 (%)			**0.30**

1 Loans and residential mortgages are represented post IFRS 9 implementation

NPL ratio

The *non-performing loans* (**NPL**) ratio compares the non-performing exposure (as defined by the European Banking Authority) of corporate loans, retail loans and lease receivables to the total exposure of these loans. The measure provides meaningful information on the credit quality of NIBC's assets. The ratio is calculated by dividing the total of non-performing exposure for corporate loans, mortgage loans and lease receivables by the total exposure for corporate loans, mortgage loans and lease receivables. The elements of the NPL ratio reconcile to the consolidated financial statements and the regulatory reporting of NIBC.

$$\textbf{NPL ratio} = \frac{\textbf{Non performing exposure (corporate and residential mortgages)}}{\textbf{Total exposure (corporate loans and residential mortgages)}}$$

NPL ratio[1]	2019	2018	2017
Non performing exposure corporate loans 2019 (page 64 annual report NIBC Bank N.V.)	423		
Non performing exposure lease exposure 2019 (page 64 annual report NIBC Bank N.V.)	30		
Non performing exposure mortgage loans 2019 (page 64 annual report NIBC Bank N.V.)	10		
Non performing exposure 2019	**464**		
Total corporate loans drawn and undrawn 2019 (page 12 annual report NIBC Bank N.V.)	9076		
Total lease exposure (page 12 annual report NIBC Bank N.V.)	35		
Total retail client assets 2019 (page 12 annual report NIBC Bank N.V.)	9795		
Total exposure 2019	**18,906**		
NPL ratio 2019 (%)	**2.5**		
Non performing exposure corporate loans 2018 (page 57 Annual report NIBC Bank N.V.)		503	
Non performing exposure mortgage loans 2018 (page 57 Annual report NIBC Bank N.V.)		20	
Non performing exposure 2018		**523**	
Total corporate loans drawn and undrawn 2018 (page 10 Annual report NIBC Bank N.V.)		9,705	
Total retail client assets 2018 (page 10 Annual report NIBC Bank N.V.)		9,275	
Total exposure 2018		**18,980**	
NPL ratio 2018 (%)		**2.8**	
Non performing exposure corporate loans 2017 (page 96 Annual report NIBC Bank N.V.)			433
Non performing exposure mortgage loans 2017 (page 96 Annual report NIBC Bank N.V.)			89
Non performing exposure 2017			522
Total corporate loans drawn and undrawn 2017 (page 8 Annual report NIBC Bank N.V.)			9,612
Total retail client assets 2017 (page 8 Annual report NIBC Bank N.V.)			9,147
Total exposure 2017			**18,759**
NPL ratio 2017 (%)			**2.8**

1 Figures changed compared to the published figures H1 2017 due to the inclusion of investment management loans as part of corporate loans exposure.

Impairment coverage ratio

The impairment coverage ratio compares impaired amounts on corporate and retail exposures to the total corporate and retail exposures, providing meaningful information on the residual risk related to NIBC's impaired assets. The ratio is calculated by dividing the total impairments on corporate and retail loans by the total exposure of impaired corporate and retail loans. The elements of the impaired coverage ratio reconcile to NIBC's consolidated financial statements.

$$\text{Impairment coverage ratio} = \frac{\text{Total impairments on corporate and retail loans}}{\text{Total exposure of impaired corporate and retail loans}}$$

Impairment coverage ratio[1]	2019	2018	2017
Balance stage 3 credit losses on loans	140		
Total stage 3 credit impaired exposure 2019	418		
Impairment coverage ratio 2019 (%)	**33**		
Balance stage 3 credit losses on loans (page 181 annual report NIBC Bank N.V.)		139	
Total stage 3 credit impaired exposure 2018 (page 57 annual report NIBC Bank N.V.)		446	
Impairment coverage ratio 2018 (%)		**31**	
Balance impairment losses on loans (page 171 annual report NIBC Bank N.V.)			130
Total impaired exposure 2017 (page 97 annual report NIBC Bank N.V.)			321
Impairment coverage ratio 2017 (%)			**40**

1 Figures changed compared to the published figures H1 2017 due to the inclusion of investment management loans as part of corporate loans exposure.

Loan-to-deposit ratio

The loan-to-deposit ratio compares NIBC's loans to customers to its deposits from customers. It provides meaningful information on Issuer's funding and liquidity position. The loan-to-deposit ratio is calculated by dividing the total loans and mortgage loans by the deposits from customers. The elements of the loan-to-deposit ratio reconcile to NIBC's balance sheet.

$$\textbf{Loan to deposit ratio} = \frac{\textbf{Financial assets regarding loans and residential mortgages}}{\textbf{Deposits from customers}}$$

Loan to deposit ratio	2019	2018	2017
Financial assets at amortised cost: loans (page 134 annual report NIBC Bank N.V.)	7,661		
Financial assets at amortised cost: residential mortgages (page 134 annual report NIBC Bank N.V.)	9,637		
Financial assets at amortised cost: securitised residential mortgages (page 134 annual report NIBC Bank N.V.)	407		
Financial assets at fair value through profit or loss: loans (page 134 annual report NIBC Bank N.V.)	142		
Financial assets regarding loans and residential mortgages (total)	**17,848**		
Deposits from customers (page 135 annual report NIBC Bank N.V.)	**11,397**		
Loan to deposit ratio 2019 (%)	**157**		
Financial assets at amortised cost: loans (page 108 annual report NIBC Bank N.V.)		7,770	
Financial assets at amortised cost: residential mortgages (page 108 annual report NIBC Bank N.V.)		8,990	
Financial assets at available for sale: loans (page 108 annual report NIBC Bank N.V.)		461	
Financial assets at fair value through profit or loss: loans (page 108 annual report NIBC Bank N.V.)		148	
Financial assets regarding loans and residential mortgages (total)		**17,369**	
Deposits from customers (page 109 annual report NIBC Bank N.V.)		**11,267**	
Loan to deposit ratio 2018 (%)		**154**	
Financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.)			7,749
Financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.)			4,412
Financial assets at available for sale: loans (page 110 annual report NIBC Bank N.V.)			0
Financial assets at fair value through profit or loss: loans (page 110 annual report NIBC Bank N.V.)			181
Financial assets at fair value through profit or loss: residential mortgages own book (page 110 annual report NIBC Bank N.V.)			4,581
Financial assets at fair value through profit or loss: securitised residential mortgages (page 110 annual report NIBC Bank N.V.)			338
Financial assets regarding loans and residential mortgages (total)			**17,261**
Deposits from customers (page 111 annual report NIBC Bank N.V.)			**11,535**
Loan to deposit ratio 2017 (%)			**148**

Net interest margin

The net interest margin is a measure to display the difference between interest income and the amount of interest paid out to lenders, relative to the amount of interest-earning assets. It is similar to the gross margin (or gross profit margin) of non-financial companies and provides meaningful information on the contribution of Issuer's business to its operating income. It is calculated as the ratio of (i) the net interest income from the last 12 months and (ii) the 12 months moving average interest bearing assets. Interest bearing assets equal the total assets from the consolidated balance sheet excluding equity investments, derivatives, investments in associates, property, plant and equipment and other assets. The net interest income reconciles to the income statement of NIBC. The average interest bearing assets cannot be directly reconciled with the financial publications of NIBC as the monthly figures are not disclosed, however the monthly figures are prepared in accordance with the applicable financial reporting framework.

Since the denominator of the net interest margin calculation is subject to volatility in the balance, a moving average provides more reliable information on the underlying developments. The moving average however does not tie back to disclosed balances. For reference purposes, the following table shows the calculation method and the comparative outcome for 2017 when the net interest margin is calculated on ending balances instead of moving averages.

$$\textbf{Net interest margin} = \frac{\textbf{Sum net interest income last 12 Months}}{\textbf{12 Months average interest bearing assets}}$$

Net interest margin	2019	2018	2017
Sum interest income last 12 Months 2019 (page 132 annual report NIBC Bank N.V.)	417		
12 Month average interest bearing assets	20,916		
Net interest margin 2019 (%)	**1.99**		
Sum interest income last 12 Months 2018 (page 106 annual report NIBC Bank N.V.)		432	
12 Month average interest bearing assets		20,528	
Net interest margin 2018 (%)		**2.10**	
Net interest margin 2017 (%)			**1.69**

CORPORATE RESPONSIBILITY REPORTING SCOPE

This Annual Report is an integrated report. We have chosen to combine all our financial, economic, social and environmental information into one document because all these factors are integral to NIBC's strategy and operations. By providing this additional information we aim to increase transparency for all of our stakeholders and to allow them to make a more informed assessment of NIBC and how we are creating and sustaining value.

The non-financial key figures for this report were confirmed by the departments that are responsible for the data. The reported non-financial key figures were reviewed by Internal Audit. Internal Audit confirmed that nothing has come to the attention that causes them to believe that the reported non-financial key figures for NIBC Bank N.V. are inadequately presented, in all material respects, in accordance with the reporting criteria.

Scope

Unless specified otherwise, this report includes figures and information for NIBC Bank N.V. (including all international offices and wholly-owned subsidiaries established by NIBC for our business purposes).

NIBC is a signatory to the UN Global Compact. The NIBC Bank N.V. Annual Report contains details of our progress as regards the 10 Global Compact principles.

Criteria

The contents of this Annual Report and the selection of non-financial key figures are based on the following criteria:

- Assessment of materiality. We report on NIBC's strategy and the elements that we have identified as most relevant for us as a company and for our stakeholders. Please see our Materiality Assessment report and materiality matrix for an overview of these elements;
- Legal and regulatory requirements. For NIBC, the principal regulatory requirements are contained in the Dutch Corporate Governance Code, the Dutch Banking Code and the Dutch Decree on disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie), which came into effect on 24 March 2017 as part of the transposition into Dutch law of the EU Non-Financial Reporting Directive (2014/95/EU, OJEU 201 330). Please see the Corporate Governance[no target-node] sector for more details.

Accountability and reporting standards

NIBC follows the reporting criteria and guidelines of the latest Global Reporting Initiative (GRI) Standards. This report has been prepared in accordance with the GRI Standards: Core option. The GRI content index and glossary of definitions can be found in the appendices available on our website.

The methodology used for the calculation of indicators for 2019 is the same as for 2018 unless otherwise stated in the definitions for non-financial key figures.

Materiality Assessment

We engaged with our stakeholders to verify the focus of our sustainability strategy and materiality in reporting. This materiality assessment process and the outcomes are described here and form the basis for our Annual Report.

Stakeholder consultation confirmed the four most important aspects for stakeholders were financial performance, client satisfaction, climate change, and product responsibility. Given their importance to stakeholders, NIBC will focus on in these areas while continuing to prioritize our efforts across the other aspects which stakeholders found to be most material.

DEFINITIONS FOR THE NON-FINANCIAL KEY FIGURES

The following definitions have been used for the Non Financial Key Figures presented in NIBC's annual report.

NPS

Outcome of *Net Promoter Score* (**NPS**) survey with corporate lending and advisory clients, who executed a (lending) deal/deals with NIBC Corporate Banking during the reporting period, and for existing lending and advisory clients of NIBC.

Stakeholders view this as a material indicator of client satisfaction of our corporate lending and advisory clients as well as an indicator of stakeholder engagement.

The NPS methodology is a widely used methodology in which scores from 0 to 6 are classified as 'detractor', scores. 7 or 8 are classified as 'passive' and only those scores that are 9 or 10 are classified as 'promoters'. The result is calculated by the percentage of promoters minus the percentage of detractors, giving the NPS. The NPS can therefore range from -100% to +100%.

The NPS is measured over a 12 month period, from the 1st December to the 30th November each year. It takes place in four batches and each respondent weighs the same in the score. It is calculated over the corporate lending and advisory client base, where we are in direct contact with the client, excluding distressed asset clients, internal clients and certain legacy clients. In case of multiple deals for one client, the client is counted once. When the online survey is sent to multiple contact persons for a client, only the first response is included.

The total population of NIBC corporate clients in scope is 598 clients in the 12 month period. 400 clients fall within the definition described above and were surveyed, 122 responses were received. NIBC considers this to be representative of the total population. The online surveys are sent by a third party service provider, which transfers the raw results back to NIBC.

NIBC Direct Customer Satisfaction Score

The results of the latest, annual online *Customer Satisfaction Survey* (**CSS**) for the bank's retail clients, i.e. NIBC Direct Savings Netherlands (NL, including Mortgages), Belgium (BE) and Germany (GE, also including Brokerage clients), that was completed in the reporting period.

The digital surveys were conducted in November 2019 through a third party, using a random selection of NIBC's new and existing Dutch NIBC Direct Mortgage and Savings clients, Belgian NIBC Direct Savings clients and German NIBC Direct Savings and Brokerage clients. Clients were selected based amongst other criteria on country and product. The average scores per country and product are totaled and divided by the total number of clients in the population. In 2018 we used the same calculation method as in 2019.

2019 score per product: Netherlands Mortgages 8.0; Netherlands Savings 7.8; Germany Savings 7.8; Germany Brokerage 8.0; Belgium Savings 8.0

Stakeholders view this as a material indicator of client satisfaction of our retail clients as well as an indicator of stakeholder engagement.

The population of NIBC Direct Customer Satisfaction survey was approx. 310.000 clients in November 2019, of which 32479 have been surveyed (10,000 BE and GE and 12479 NL), and around 2.700 responses were received.. NIBC considers this to be representative for the population.

% of new Corporate loans screened against sustainability policy framework
New corporate deals which have been assessed for social and environmental risks during the reporting period. A deal may include one or more underlying facilities with different tenors as part of a deal or loan structure. Amendments to existing deals are excluded from this figure.

Stakeholders view this as a material indicator in regard to transparency. Sustainability impacts and good corporate governance are among the financial and non-financial aspects taken into consideration during NIBC's corporate client engagement and financing decision processes.

Screenings were performed by Corporate Banking account managers as part of NIBC's ongoing and mandatory due diligence process using a third party toolkit system.

Number of New clients/transactions with increased sustainability risk assessment
Number of new (potential) clients/transactions for which increased sustainability risks were identified using a third party toolkit assessment. This does not include monitoring of existing client files with sustainability risks nor clients for which a sustainability risk assessment has not (yet) been completed as the transaction is still in an early stage or was cancelled in an early stage.

Stakeholders view this as a material indicator of stakeholder engagement on potential sustainability issues.

In these situations, NIBC performs enhanced sustainability due diligence into potential material environmental, social, and governance aspects that are of potential concern.

Fines or sanctions for non-compliance with laws and regulations
Number of significant fines and number of non-monetary sanctions for non-compliance with laws and regulations. The definition is limited to fines from a regulator. This excludes any pending claims and/or litigation. Significant: values of fine > EUR 10.000 (in line with category 2 and 3 fines of AFM).

Stakeholders view this as a material indicator of regulatory compliance and corporate governance of NIBC's own operations and day-to-day business.

NIBC includes non-punitive fines agreed as part of settlement of regular tax audits within its interpretation of the definition for this indicator.

Number of FTE's end of year
Number of FTE's of NIBC worldwide at the end of the year. Only employees on NIBC's payroll and having an 'internal' position are accounted for. NIBC Bank N.V. includes all its international offices as well as NIBC Bank Deutschland AG, though excludes minor participations of the bank.

A *Full Time Equivalent* (**FTE**) represents, per employee, the total number of contract hours per week related to the maximum number of contract hours per week (e.g. 40 hours). This maximum can differ per NIBC office (depending on local guidelines) and kind of job contract.

Male/female ratio
Percentage of number of male and female for NIBC worldwide, at the end of the year.

The number of males and females is based upon headcount as reported from NIBC's human resources information management system at the end of the year.

Stakeholders view this metric as a material indicator for gender diversity in the company. NIBC supports all types of diversity and aspires to further diversify its workplace.

Male/female ratio top management

Percentage of number of male and female for NIBC worldwide, at the end of the year. Top management consists of management with corporate title 'Director' or 'Managing Director'.

Stakeholders view this metric as a material indicator for gender diversity of top management.

Training expenses per employee

Total of training and education expenses, incurred in the current year based on average headcount calculated by taking the headcount at the beginning and end of the year. For employees traveling for training, this includes travel costs and any related expenses.

Stakeholders view this metric as a material indicator of the bank's commitment to employee development and future employability.

Absenteeism

Absenteeism is the rolling average of the latest absenteeism percentage, annualized for NIBC's employees in The Netherlands. The absenteeism percentage is the number of workdays lost to absenteeism divided by the total number of available workdays, expressed as a percentage. In case of partial absenteeism, the absenteeism percentage only reflects the actual absenteeism (non-working hours). Maternity leave is not included in the figure.

Absenteeism rate may change as the year progresses due to previously unreported cases of absenteeism and/or confirmation of the employee's recovery.

Notifications of illness and recovery are submitted by NIBC to a 3rd party ARBO service organization. NIBC uses its 3rd party health & safety services organization to report on absenteeism figures. The absenteeism percentage relates to the absenteeism in the Netherlands only: absenteeism in Germany, Belgium and United Kingdom is not accounted for in this figure.

Employee turnover (employees started & left)

Employee turnover consists of inflow of new employees ('started') and outflow of existing employees ('left').

Started: The number of employees that joined NIBC worldwide throughout the current calendar year (hire date between 1-1-19 and 31-12-19), divided by total number of employees at the start of the year.

Left: The number of employees that left NIBC worldwide throughout the calendar year divided by the total number of employees at the start of the year.

Stakeholders view this metric as a material indicator of employee engagement of existing employees and further as an indicator of the bank's position as an attractive employer.

CONTACT INFORMATION

Our website, www.nibc.com, offers a wide range of information about NIBC, financial information, corporate information, corporate calendar, press releases and sustainability information. The information is available on our English, Dutch and German website. Financial information (annual reports, full-year and half-year results releases and trading updates) is available in English.
To receive press releases and other NIBC news, please subscribe to our e-mail service by sending an e-mail to info@nibc.com.

Questions and remarks

We invite all stakeholders to ask their questions and share their remarks.

- General questions and remarks can be addressed to Corporate Communications, telephone +31 70 342 56 25 / e-mail info@nibc.com;
- Questions and remarks related to investor relations can be addressed to Michèle Negen - Jacobusse, telephone +31 70 342 95 90 / e-mail michele.negen@nibc.com;
- Questions and remarks related to bond investments can be addressed to Debt Investor Relations, Toine Teulings, telephone +31 70 342 98 36 / e-mail toine.teulings@nibc.com;
- Questions and remarks related to CSR can be addressed to the CSR department, e-mail csr@nibc.com;
- You can find NIBC's complaints procedures here. For NIBC Direct in the Netherlands you can find our complaints procedures here, for NIBC Direct Germany here, and for NIBC Direct Belgium you can find our complaints procedure here (Dutch) or here (French).

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DISCLAIMER

Presentation of information

This annual report (**Annual Report**) of NIBC Bank N.V. (**NIBC**) has been prepared in accordance with *International Financial Reporting Standards as adopted by the European Union* (**IFRS-EU**) and with Title 9 of Book 2 of the Netherlands Civil Code.

Cautionary statement regarding forward-looking statements

Certain statements in this Annual Report are not historical facts and are 'forward-looking' statements that relate to, among other things, NIBC's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. These statements are based on NIBC's current view with respect to future events and financial performance. Words such as 'believe', 'anticipate', 'estimate', 'expect', 'intend', 'predict', 'project', 'could', 'may', 'will', 'plan', 'forecast', 'target' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve uncertainties and are subject to certain risks, including, but not limited to (i) general economic conditions, in particular in NIBC's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness (iii) performance of financial markets, including developing markets, (iv) interest rate levels, (v) credit spread levels, (vi) currency exchange rates, (vii) general competitive factors, (viii) general changes in the valuation of assets (ix) changes in law and regulations, including taxes (x) changes in policies of governments and/or regulatory authorities, (xi) the results of our strategy and investment policies and objectives, and (xii) the risks and uncertainties as addressed in this Annual Report, the occurrence of which could cause NIBC's actual results and/or performance to differ from those predicted in such forward-looking statements and from past results.

The forward-looking statements speak only as of the date hereof. NIBC does not undertake any obligation to update or revise forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise. Neither do NIBC nor any of its directors, officers or employees make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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ABBREVIATIONS

12M-ECL	12-month ECL
AC	Audit Committee
AC	Amortised Cost
AIRB	Advanced Internal Ratings Based
ALCO	Asset & Liability Committee
AML	Anti-money laundering
APM	Alternative Performance Measure
AT 1	Additional Tier 1
BMR	Benchmark Regulation
BPV	Basis Point Value
BRRD	Bank Recovery and Resolution Directive
BtL	But-to-let
CCDRs	Conditional Common Depositary Receipts
CCR	Counterparty Credit Rating
CCyB	Countercyclical Capital Buffer
CDC	Collective Defined Contribution
CDD	Client Due Dilligence
CDRs	Common Depositary Receipts
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1 ratio
CFO	Chief Financial Officer
CGUs	Cash-Generating Units
CRDRs	Conditional Restricted Depositary Receipts
CRE	Commercial Real Estate
CRO	Chief Risk Officer
CSA	Credit Support Annexes
CTF	Counter Terrorist Financing
CVAs and DVAs	Credit Valuation Adjustments & Debit Valuation Adjustments
DNB	Dutch Central Bank
DRs	Depositary Receipt
DTA	Deferred Tax Assets
EatR	Earnings at risk
EBA	European Banking Authority
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EC	Engagement Committee
EC	Economic Capital
ECB	European Central Bank
ECL	Expected Credit Loss
EL	Expected loss
EPS	Earnings per share
ESF	Einlagensicherungsfonds
ESG	Environmental, Social and Governance
ESTER	European Short Term Rate
ExCo	Executive Committee
FTEs	Full-Time Equivalents
FVtPL	Fair value through profit or loss
GRI	Global Reporting Initiative
IA	Internal Audit
IASB	International Accounting Standards Board
IBNR	Incurred But Not Reported
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IFRS 9	IFRS 9 'Financial instruments'
IFRS-EU	International Financial Reporting Standards as adopted by the European Union
ILAAP	Internal Liquidity Adequacy Assessment Process
IMI	Internal Model Investigation
IPO	Initial public offering
IRBC	International Responsible Business Conduct
IRRBB	Interest Rate Risk in the Banking book
ISDA	International Swaps and Derivatives Association
KYC	Know Your Customer
KYS	Know Your Supplier
LFM	Leveraged Finance Markets
LGD	Loss Given Default
LT-ECL	Lifetime ECL
LTI	Loan-to-Income
LTIMV	Loan-to-Indexed-Market-Value
LTMV	Loan-to-Market Value
LtV	Loan-to-value
M&A	Mergers and Acquisitions
MDA	Maximum Distributable Amount
MIFID II	The Markets in Financial Instruments Directive II
MREL	Minimum requirement for own funds and eligible liabilities
MtM	Marked-to-Market value
NACE	Statistical Classification of Economic Activities in the European Community
NEIF	NIBC European Infrastructure Fund I C.V.
NHG Guarantee	National Mortgage Guarantee
NIBC	NIBC Bank N.V.
NIBC Holding Funds	Funds set up and managed by NIBC
NPS	Net Promoter Score
OCI	Other Comprehensive Income
OTC	Over The Counter

OTM	Originate-to-Manage
PFE	Potential Future Exposure
PiT	Point-in-Time
POCI	Purchased or originated credit impaired assets
PSUs	Phantom Share Units
RAROC	Risk-adjusted return on capital
RC	Regulatory capital
RDA	Restructuring & Distressed Assets
Repos	Securities sold subject to repurchase agreements
Reverse repos	Securities purchased under agreements to resell
RMBS	Residential Mortgage-Backed Securities
RMC	Risk management committee
RNC	Remuneration and Nominating Committee
ROE	Return on equity
RPCC	Risk Policy & Compliance Committee
RPSUs	Restricted Phantom Share Units
RSRS	Responsible Ship Recycling Standards
RWA	Risk Weighted Assets
S&I	Shipping & Intermodal
S&P	Standard & Poor's
SA	Standarised Approach
SDGs	Sustainable development goals
SE	Structured Entity
SIC	Strategic investment committee
SICR	Significant increase in credit risk
SIRA	Systemic integrity risk analysis
SRB	Single Resolution Board
SREP	Supervisory review and evaluation process
STAK	Stichting Administratiekantoor
STI	Short-Term Incentive
STM	Settle-to-markets
TC	Transaction Committee
TCFD	Taskforce for Climate-related Financial Disclosures
The Foundation	NIBC Holding
TLTRO II	Targeted Longer Term Refinancing Operation
TMT&S	Telecom, Media, Technology & Services
TPR	Temporary Permissions Regime
TTC	Through-the-cycle
UNGC	United Nations Global Compact
VaR	Value at Risk
Wbfo	Wet beloning financiële ondernemingen
WEW	Stichting Waarborgfonds Eigen Woningen (Social Housing Guarantee Fund)